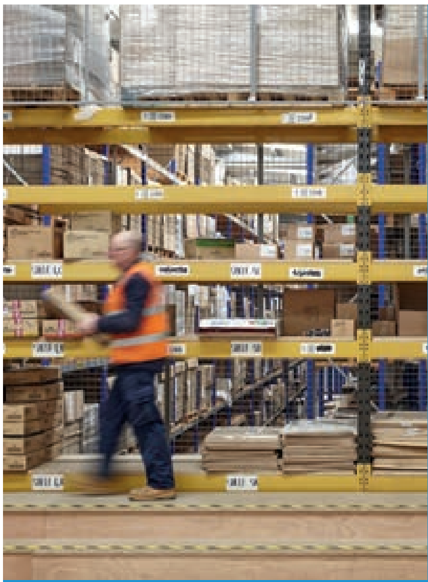

MACFARLANE GROUP

**Annual Report and Accounts 2020**

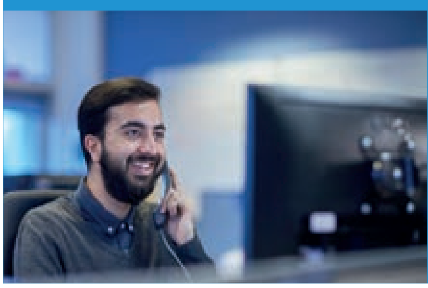
Creating value from innovative packaging solutions

# Contents





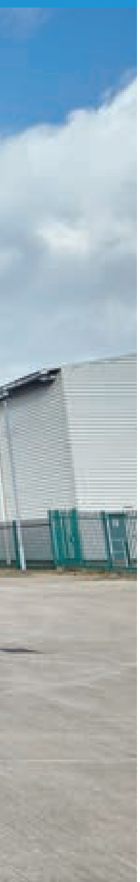




View our Annual Report and Accounts and other information about Macfarlane Group at
www.macfarlanegroup.com

# Financial highlights 2020

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



**Sales**

**£230.0m**

(2019* £225.2m)

**Profit before tax**

**£13.0m**

(2019* £11.9m)

**Operating profit (as % of sales)**

**6.2%**

(2019* 6.0%)

**Dividend**

**2.55p**

(2019 0.69p**)

**Sales growth**

**2.1%**

(2019* 3.7%)

**Gross margin**

**33.3%**

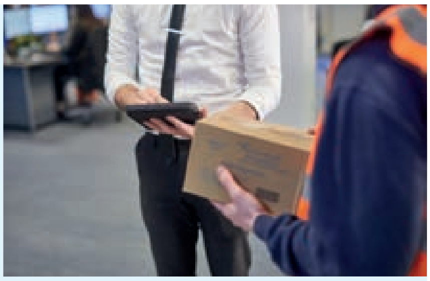
(2019* 32.0%)

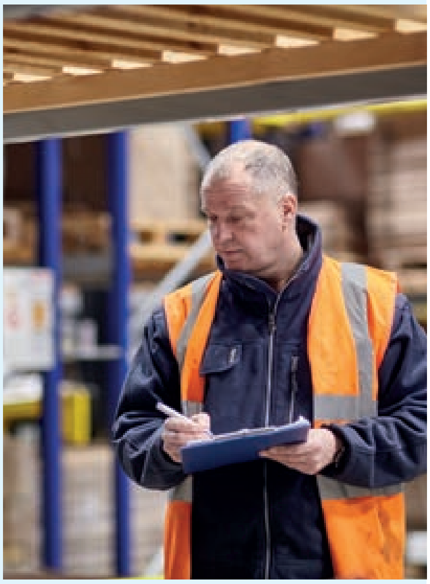
* Restatement resulting in a reduction in turnover and profit before tax of £0.2 million relating to backdated duty with details set out on pages 18, 76 and 77.

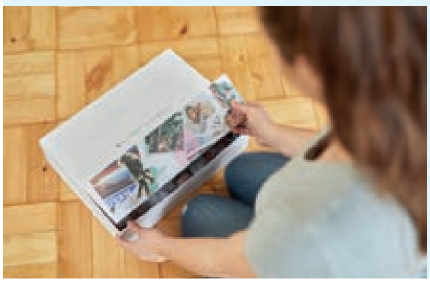
** 2019 final dividend of 1.76p was cancelled.

## Macfarlane Group – serving our customers

Headquartered in Glasgow, Macfarlane Group PLC employs over 900 people at 33 sites in the UK, one each in Ireland, Sweden and The Netherlands and services more than 20,000 customers in a wide range of sectors.





### Europe *

Sales **£10.2m**
No. of employees **27**
No. of vehicles **2**
No. of sites **3**
No. of customers **1,404**

### North *

Sales **£77.0m**
No. of employees **249**
No. of vehicles **37**
No. of sites **10**
No. of customers **4,343**

### Midlands *

Sales **£68.2m**
No. of employees **261**
No. of vehicles **47**
No. of sites **9**
No. of customers **3,530**

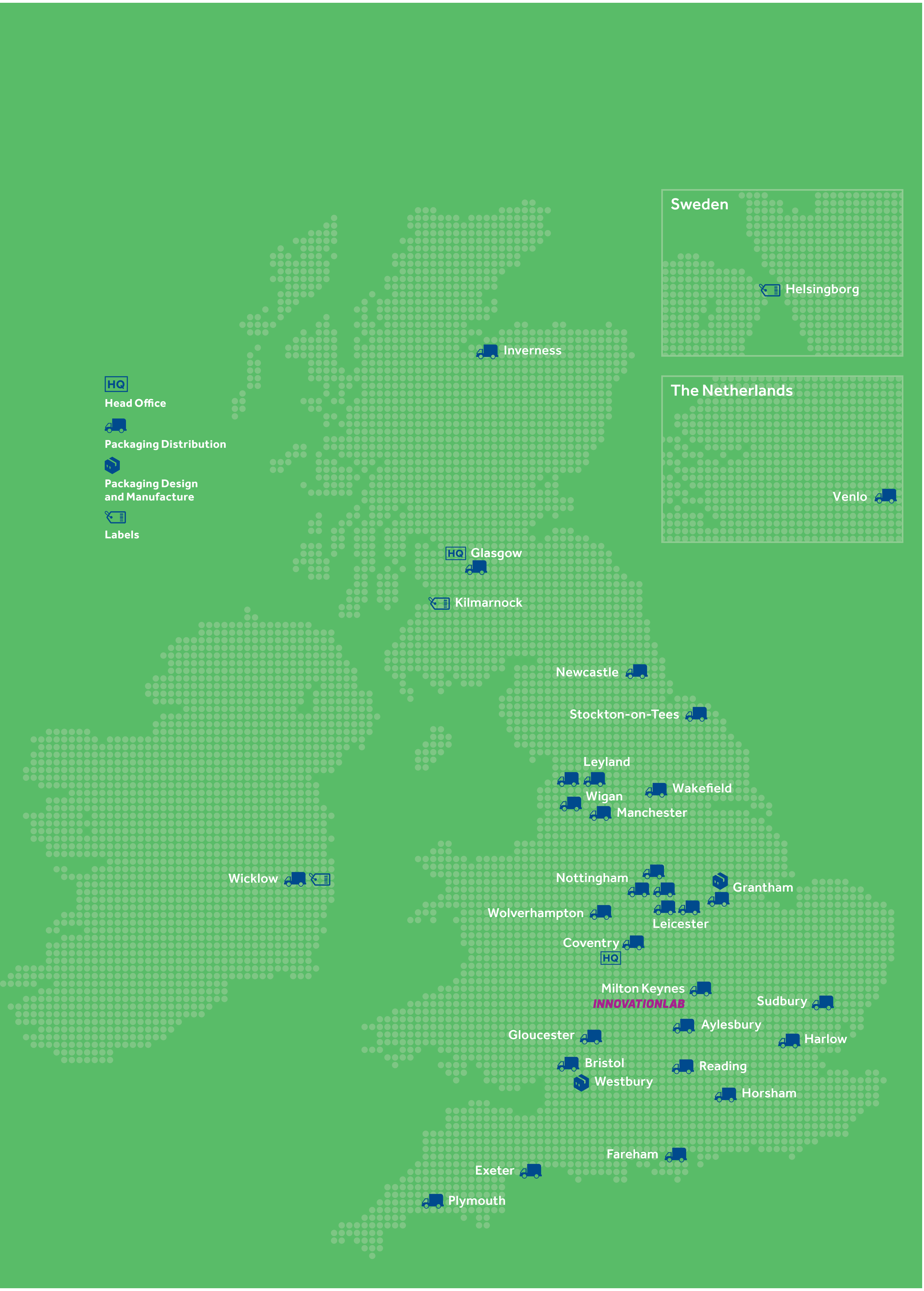
### South west *

Sales **£23.2m**
No. of employees **98**
No. of vehicles **18**
No. of sites **5**
No. of customers **1,470**

### South east *

Sales **£56.7m**
No. of employees **147**
No. of vehicles **31**
No. of sites **7**
No. of customers **9,537**

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


HQ
Head Office
Packaging Distribution
Packaging Design
and Manufacture
Labels
Sweden
Helsingborg
The Netherlands
Venlo
Inverness
HQ Glasgow
Kilmarnock
Newcastle
Stockton-on-Tees
Leyland
Wigan
Wakefield
Manchester
Wicklow
Nottingham
Grantham
Wolverhampton
Leicester
Coventry
HQ
Milton Keynes
INNOVATIONLAB
Sudbury
Aylesbury
Gloucester
Harlow
Bristol
Reading
Westbury
Horsham
Fareham
Exeter
Plymouth

Macfarlane Group PLC ('the Group') has performed well in 2020, achieving a resilient performance which, despite the challenging market conditions due to the impact of Covid-19 is ahead of our previous expectations.

The Board wishes to thank all of our people for their exceptional hard work and dedication, which ensured that we effectively supported our customers throughout 2020 in the most difficult circumstances.

**Stuart R. Paterson**
Chairman

**At the outset of the Covid-19 pandemic, we acted decisively and responsibly to ensure that we protected the interests of our employees as well as other key stakeholders and all our sites remained operational serving customers throughout the year.**

**The Group performance in 2020 is a testament to the quality and commitment of our people, the diversity of our customer base and our strong added value proposition.**

## Trading

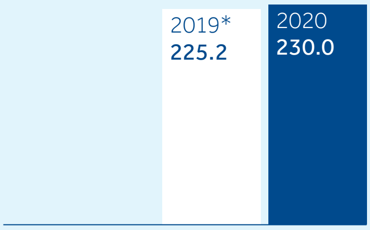
Macfarlane Group achieved a 2.1% increase in sales to £230.0 million in 2020, (2019: Restated* £225.2 million), with 2020 profit before tax increasing to £13.0 million (2019: Restated* £11.9 million), 9.6% ahead of 2019.

Packaging Distribution increased sales by 2.6% in 2020 to £201.7 million (2019: £196.7 million). Sales revenue from existing customers benefited from underlying strength in the e-commerce, household essentials and medical sectors partially offset by weaker demand from sectors most affected by Covid-19, namely automotive, aerospace, high street retail and hospitality. Sales also benefited from the 2019 acquisitions of Ecopac and Leyland Packaging, as well as the January 2020 acquisition of Armagrip.

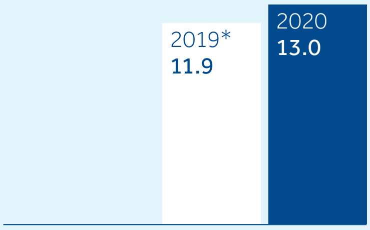
Gross margin in Packaging Distribution at 32.5% showed improvement on the prior year (2019: 31.1%) and reflected effective management of input price movements, customer mix changes and increased online activity. The growth in sales and margin was partially offset by an increase in bad debt and end of lease property provisions totalling £1.9 million which resulted in Packaging Distribution achieving a 12.8% increase in operating profit to £14.0 million (2019: £12.4 million).

Sales in Manufacturing Operations at £28.3 million (2019: Restated* £28.5 million) showed a 0.9% decrease

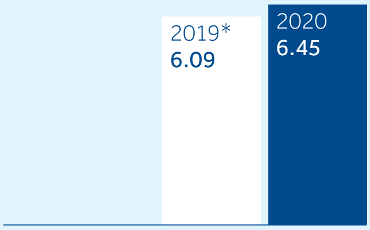
## Group performance




**Sales** (£m)




**Profit before tax** (£m)




**Basic earnings per share** (p)

on the previous year. Strong demand from the food, medical and household essentials sectors in the Labels business was more thanoffset by weaker demand from the aerospace and automotive sectors in the Packaging Design and Manufacture business. Operating profit in 2020 decreased to £0.4 million (2019: Restated* £1.1 million).

After net finance costs of £1.4 million (2019: £1.6 million), Group profit before tax totalled £13.0 million, £1.1 million ahead of 2019. Basic and diluted earnings per share were 6.45p (2019: Restated* 6.09p) and 6.42p (2019: Restated* 6.07p) respectively.

### Dividend

The Board is proposing a final dividend of 1.85 pence per share, amounting to a full year dividend of 2.55 pence per share, compared to the prior year dividend of 0.69 pence per share which was impacted by the cancellation of the proposed final dividend of 1.76 pence per share, as one of the key Covid-19 cash conservation measures. Subject to the approval of shareholders at the Annual General Meeting on Tuesday 11 May 2021, the final dividend will be paid on Thursday 3 June 2021 to those shareholders on the register at Friday 14 May 2021.

### Net bank debt

The Group's net bank borrowing at 31 December 2020 reduced to £0.5 million from £12.7 million at the previous year-end. The improved cash position has been achieved primarily through effective management of working capital. The full benefit of all government support and deferral programmes totalling £5.4 million was repaid during the year. Deferred considerations on the Ecopac and Leyland acquisitions in 2019 totalling £1.8 million were paid during 2020. The Group's bank facility of £30.0 million with Lloyds Banking Group has been extended until December 2025 and accommodates normal working capital requirements as well as supporting acquisition funding.

### Pension scheme

The Group's pension deficit at 31 December 2020 reduced to £1.5 million (2019: £6.5 million). Although the discount rate decreased, increasing the value of pension liabilities, this was offset by increases in the value of the scheme's holding in liability-driven investments and other investments.

The triennial valuation of the pension scheme on 1 May 2020 has now been concluded and the Group has agreed with the Scheme Trustees to reduce contributions from £3.1 million to £1.3 million per annum with effect from 1 May 2021. The recovery period for deficit contributions now runs until April 2024.

### Outlook

2021 has started well despite the ongoing impact of Covid-19. There are still significant uncertainties about the duration of disruption caused by lockdowns and the consequential impact on demand levels which means that 2021 will be another challenging year. However the Board is confident that, given the resilience seen in 2020, the strength of our business model and the commitment of our people, Macfarlane Group will progress in 2021 and is well positioned to benefit when the UK economy begins to recover.

**Stuart R. Paterson**
Chairman

25 February 2021

* Restatement resulting in a reduction in turnover and profit before tax of £0.2 million relating to backdated duty with details set out on pages 18, 76 and 77.

# Business model and strategy

## Our business model

### What we do
Macfarlane Group designs, manufactures and distributes protective packaging products and labels for business users across a range of sectors including e-commerce retail, logistics, medical, automotive, aerospace, electronics, high street retail, household essentials, food and hospitality. For reporting purposes, we split the Group into two segments, Macfarlane Packaging Distribution and Manufacturing Operations, comprising Macfarlane Design and Manufacture and Macfarlane Labels.

### Our customer profile
Protective packaging products are sold to customers in the UK and Ireland, with an increasing presence in Europe. Labels are sold to customers in the UK, mainland Europe and the USA.

### The role of Stock and Serve
The protective packaging business operates a Stock and Serve model from 25 Regional Distribution Centres (RDCs) and 3 satellite sites providing a UK national network to support customers on a local, regional and national basis.

**> 1,000**
**global suppliers of protective packaging**

**25**
**Regional Distribution Centres (RDCs)**

**> 20,000**
**customers throughout the UK**

### How our business generates value
Macfarlane is the UK market leader in the distribution of protective packaging products. We leverage our purchasing scale to cost-effectively source from over 1,000 suppliers, a comprehensive range of protective packaging products.

Added value for the customer is achieved as follows:

- By providing independent advice on the most cost-effective choice of product and packing processes via our unique Significant Six process.
- The sustainability of our product offering.
- By operating as a single-source supplier for these products on a Just In Time basis, with tailored stock management programmes and electronic trading capability.

Key benefits to customers are lower costs in the areas of packing, logistics and warehousing, reduced customer returns and product damage and enhanced brand presentation.

The manufacturing businesses utilise design, intellectual property and know-how to provide a bespoke service to support major industrial customers to cost-effectively protect their high-value products in storage and distribution and for FMCG customers to attractively display and accurately identify their products at the point of sale.

### The role for organic growth
Macfarlane Group's strategy is to grow its business organically by increasing the range of products supplied to existing customers and by winning new customers. New business generation is key to Macfarlane Group's organic growth and we have specialist teams, providing focus on specific target market sectors to win new customers. We then target acquisition growth through the purchase of high-quality businesses in the protective packaging market.

## Our strategy

We have followed a consistent strategy to create value for shareholders, operating in markets which offer above-average growth opportunities to develop business with existing customers and build relationships with new customers.

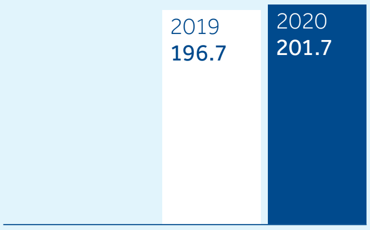
At the same time we improve the operational performance of the business by more effective sourcing and increasing the efficiency of our logistics and property portfolio. We then supplement this growth in the existing business by acquiring quality businesses.

Our objective is to achieve a pre-tax return on sales of between 5% and 7% (2020: 5.7%), with the following six key strategic priorities.

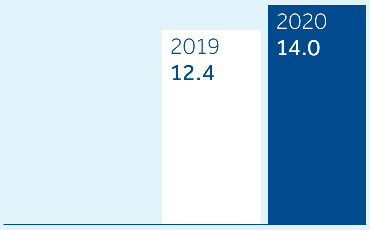
The key financial KPIs used in the Group are sales growth, gross margin, operating profit margin and profit before tax.

| Strategic priority | Progress in 2020 |
|---|---|
| **Sales** | |
| **Implement a segmental sales strategy to improve customer retention levels, increase product penetration and accelerate new business.** | The segmental sales approach has provided increased customer focus. Despite the issues caused by Covid-19, new business generated in Packaging Distribution was £11.3 million in 2020 (2019: £12.5 million).<br>Net Promoter Score (NPS) was 53 (2019: 50) reflecting the success of our strategy. |
| **Sectors** | |
| **Focus on key sectors with growth potential, particularly National Accounts, Third Party Logistics and E-Commerce Retail.** | The Macfarlane Innovation Lab continues to prove an effective tool to demonstrate the range of our capability to customers.<br>Retail sales in Packaging Distribution represent 28% of sales (2019: 23%), the majority of this being e-commerce retail customers. |
| **Gross margin** | |
| **Enhance gross margins through focus on higher added value products and more effective sourcing.** | Strategic and tactical purchasing programmes are in place to improve our sourcing capability in Packaging Distribution.<br>Gross margins within Manufacturing Operations have also increased during the year as we improved operational performance. |
| **Logistics** | |
| **Ensure operational effectiveness is maximised through efficiencies in logistics.** | Logistics costs in Packaging Distribution increased to 2.4% of sales (2019: 2.3%) primarily due to the impact of Covid-19. |
| **Infrastructure** | |
| **Optimising the costs associated with the physical infrastructure.** | Property costs in Packaging Distribution are 4.5% of sales (2019: 4.6%).<br>Our aim is to reduce the costs below 4.0% of sales. |
| **Acquisitions** | |
| **Supplement organic growth with at least two good quality acquisitions each year.** | We completed the Armagrip acquisition in January 2020. Given Covid-19, acquisition activity was put on hold but has now been re-activated. |

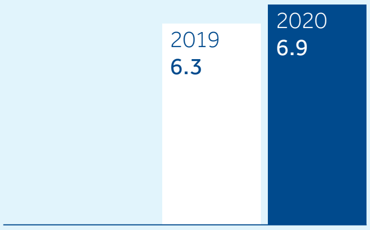
## Packaging Distribution performance




**Sales** (£m)




**Operating profit** (£m)




**Return on sales** (%)

**Macfarlane Packaging Distribution is the leading UK specialist distributor of protective packaging materials. Macfarlane operates a Stock and Serve supply model from 25 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 and regular monitoring of 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.

Macfarlane 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 the packing processes.

### 2020 trading

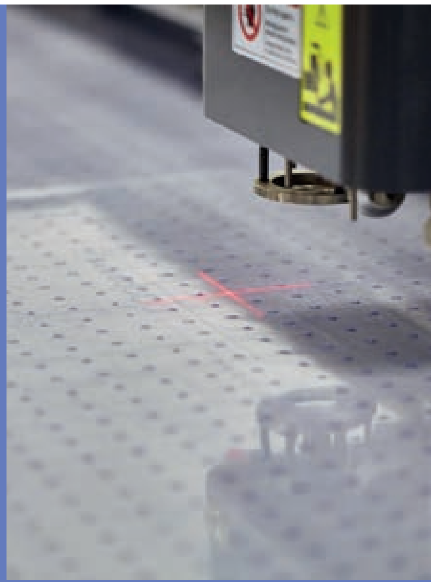
Packaging Distribution grew sales by 2.6% in 2020. Despite the challenges of Covid-19 existing business has remained resilient with strong demand in the e-commerce, household essentials and medical sectors offsetting weaker demand from customers in the automotive, aerospace, hospitality and high street retail sectors. Sales to retail companies in 2020 represents 28% of sales (2019: 23%).

Whilst new business growth has been more subdued due to limited engagement with potential customers through the Covid-19 lockdown period, new business generation of £11.3 million (2019: £12.5 million) was achieved. The impact of lockdowns meant a change in buying behaviour with increasing numbers of customers choosing to buy online through our **shop.macfarlanepackaging.com** website or through our Simplict-e electronic trading platform.

## Packaging Distribution

| | **2020 £000** | 2019 £000 | **2020 growth** |
|---|---|---|---|
| **Revenue** | **201,739** | 196,706 | **2.6%** |
| Cost of sales | **136,177** | 135,525 | |
| **Gross margin** | **65,562** | 61,181 | **7.2%** |
| Operating expenses | **51,574** | 48,775 | **5.7%** |
| **Operating profit** | **13,988** | 12,406 | **12.8%** |

# Our Innovation Lab

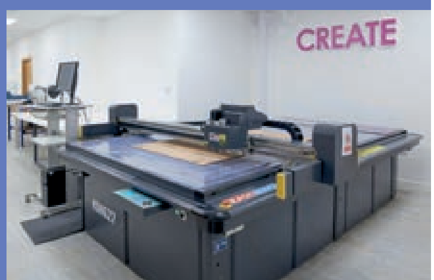


**Significant savings**
The ultimate purpose of the Innovation Lab is to optimise pack design and packaging operations and thereby reduce cost throughout the supply chain.

**Cutting edge technology**
Our state-of-the-art technology includes interactive touchscreens, digital printers and augmented reality solutions.

**Features and benefits**
These can range from customer experience, operational efficiencies and optimised, sustainable packaging solutions.

Located in Milton Keynes, the Innovation Lab is a purpose built space to create solutions for the most demanding packaging challenges.




# Chief Executive's review – Packaging Distribution
(continued)

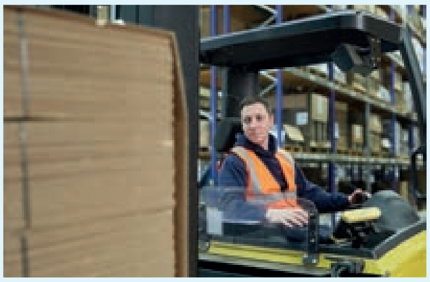
The gross margin in Packaging Distribution improved to 32.5%, (2019: 31.1%) through our effectiveness in managing input price changes, a more favourable customer mix and the growth in customers transacting online.

We continued to deliver the benefit from acquiring high quality packaging distribution businesses and in January 2020 we completed the acquisition of the packaging trade and assets of Armagrip. During 2020 the earn-out programmes for the 2019 acquisitions of Ecopac and Leyland were concluded, with both achieving close to maximum payments.

During 2020 we made steady progress in extending our service into Europe to support a number of our pan-European customers. A Macfarlane subsidiary company, Macfarlane Group BV, was set up in The Netherlands to service customers in the Benelux region and whilst still in the early stages, achieved sales of £1.1 million in 2020.

Overhead increases were primarily due to the impact of acquisitions (£1.3 million), bad debt costs (£1.0 million), end of lease dilapidations (£0.9 million) and some incremental Covid-19 costs.

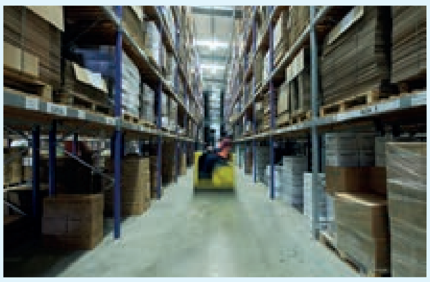
Packaging Distribution's operating profit at £14.0 million grew 12.8% vs 2019 reflecting a 6.9% (2019: 6.3%) return on sales.



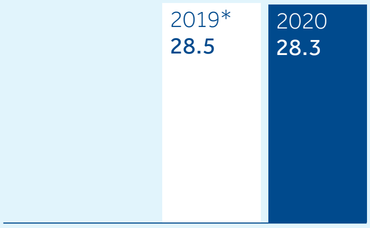
## Future plans

2021 plans are focused on continuing to grow sales and improving profitability through the following actions:

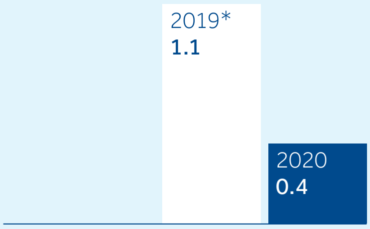
- Prioritise engagement with potential new customers in stable and growing sectors such as e-commerce, medical and third party logistics ('3PL');
- Invest in new technology to allow our sales teams to demonstrate our ability to add value for customers through ongoing implementation of our 'Significant Six' sales approach to optimise their 'Total Cost of Packaging' in both face-to-face and virtual environments;
- Extend the penetration of our web-based solutions and technologies to enable customers improved on line access to our full range of products and services;
- Accelerate the good progress we have made in our 'Follow the Customer' programme in Europe;
- 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 bad debt risk which has increased in the current economic environment; and
- Supplement organic growth through progressing further suitable quality acquisitions.



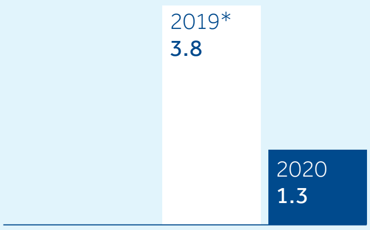
## Manufacturing Operations performance




**Sales** (£m)




**Operating profit** (£m)




**Return on sales** (%)

### Manufacturing Operations comprise our Packaging Design and Manufacture business and our Labels business.

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 primary raw materials are corrugate, timber and foam. The business operates from two manufacturing sites, in Grantham and Westbury, supplying both directly to customers and also through the national RDC network of the Packaging Distribution business.

Key market sectors are defence, aerospace, medical equipment, electronics and automotive. Our markets 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.

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.

### 2020 trading

2020 sales for Packaging Design and Manufacture were 20.2% below 2019 due to weak demand in the aerospace and automotive sectors. Given the weakness in sales, particularly in the aerospace sector, which is expected to continue for some time, actions were taken in the second half of 2020 to realign the cost base in order to return the business to profitability in 2021. As a result of the lower sales and the one-off impact of effecting these cost reductions, the business made a small loss in 2020.

Labels' sales increased by 10.6% in the year due to higher demand from existing customers in the food, household essentials and hygiene sectors. Overhead costs increased, due primarily to higher transportation costs servicing overseas customers in a Covid-19 environment. Profit in 2020 was marginally above 2019.

### Manufacturing Operations

| | **2020 £000** | Restated* 2019 £000 | **2020 growth** |
|---|---|---|---|
| **Revenue** | **28,290** | 28,540 | **(0.9%)** |
| Cost of sales | **17,306** | 17,731 | |
| **Gross margin** | **10,984** | 10,809 | **1.6%** |
| Operating expenses | **10,603** | 9,728 | **9.0%** |
| **Operating profit** | **381** | 1,081 | **(64.8%)** |

* Restatement resulting in a reduction in turnover and profit before tax of £0.2 million relating to backdated duty with details set out on pages 18, 76 and 77.

# Chief Executive's review – Manufacturing Operations
(continued)



### Future plans

Priorities for the Manufacturing Operations in 2021 are to:

- Re-focus the Design and Manufacture sales team on growth sectors, such as Medical and Defence;
- Prioritise new sales activity on our higher added-value bespoke composite pack product range;
- Continue to strengthen the relationship between our Design and Manufacture operations and our Packaging Distribution business to create both sales and cost synergies;
- Ensure the cost saving actions in 2020 return the Design and Manufacture business to profitability in 2021;
- Accelerate the Reseal-it growth momentum through improved geographic penetration, extending the product range and introducing Reseal-it to new product sectors; and
- Secure efficiency benefits from the additional labels printing capacity in our Kilmarnock site.



## Chief Executive's review – Group

### Group performance

| | Revenue 2020 £000 | Operating profit 2020 £000 | Restated* Revenue 2019 £000 | Restated* Operating profit 2019 £000 |
|---|---|---|---|---|
| **Segment** | | | | |
| Packaging Distribution | **201,739** | **13,988** | 196,706 | 12,406 |
| Manufacturing Operations | **28,290** | **381** | 28,540 | 1,081 |
| **Group total** | **230,029** | **14,369** | 225,246 | 13,487 |
| **Operating profit** | | **6.2%** | | 6.0% |

### 2021 trading

The Covid-19 pandemic had a significant impact on Macfarlane Group in 2020. We had to quickly introduce new working practices to protect the health, safety and wellbeing of our employees, continue to provide high levels of service to our customers and ensure the financial stability of the Group.

Many of our customers depend on our packaging to supply their essential goods and services to consumers, critical businesses and the NHS. Our effectiveness in maintaining supply to our customers reflects favourably on the quality and commitment of our people and the strength of our business model.

Despite the significant challenges the Group has faced, the financial performance in 2020 has been resilient with sales growth of 2.1% and an operating profit performance 6.5% ahead of 2019.

The impact of Covid-19 will remain for some time. However, Macfarlane Group has demonstrated its resilience in 2020 and is well positioned to benefit when the UK economy begins to recover. We have a strong financial position, a diverse customer base, added value customer propositions, a successful acquisition track record and experienced, high quality people.

### 2021 outlook

In 2021 we will continue to add value for our protective packaging customers through our Significant Six sales approach and support them to reduce cost in their packaging operations and achieve their sustainability objectives.

Our sales focus will be on sectors such as e-commerce, which have strong growth potential, and industrial sectors where we can add value through our sales approach and national network of RDCs. We will respond to customers looking to consolidate their purchasing through our European 'Follow the Customer' strategy.

In 2021, we plan to acquire further good quality protective packaging businesses, improve penetration of new products introduced by recent acquisitions, continue to develop our partnerships with strategic suppliers and invest in new technology to improve operational efficiency and sales effectiveness.

Macfarlane Group's businesses all have strong market positions with differentiated product and service offerings. We have a flexible business model and a clear strategic plan incorporating a range of actions, which are being effectively implemented. This has been reflected in consistent profit growth in the ten years to 2019 and in the most difficult circumstances profits have increased again in 2020.

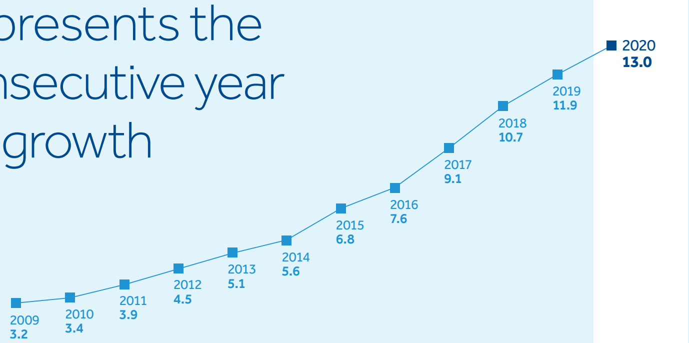
Our future performance is largely dependent on the successful execution of actions to grow sales, increase efficiencies and bring high-quality acquisitions into the Group. Despite the continuing challenges from the Covid-19 pandemic, our strategy and business model have proved resilient. We expect 2021 to be a year of progress for Macfarlane Group.

**Peter D. Atkinson**
Chief Executive

25 February 2021

### Profit before tax (£m)

2020 represents the 11th consecutive year of profit growth




* Restatement resulting in a reduction in turnover and profit before tax of £0.2 million relating to backdated duty with details set out pages 18, 76 and 77.

# Managing the Covid-19 pandemic ('Covid-19')

During March 2020 the UK Government issued guidance in response to Covid-19 which introduced a national lockdown and social distancing rules. Reduced activity in the UK economy and restrictions on personal behaviour continued during 2020 and still remain in place in February 2021.

The Group's response to Covid-19 has focused on:

- The safety and wellbeing of our people;
- Protecting our financial position; and
- Maintaining service to our customers.

The measures taken throughout the period are detailed below together with a summary of the ongoing impact on Macfarlane Group, its employees, customers and other stakeholders.

**Crisis management**

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

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

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

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

Specific initiatives included:

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

### Financial management

Financial modelling was completed in March 2020 which stress tested the Group's ability to survive a range of scenarios both short-term and long-term focusing on levels of customer demand and the resultant finance requirements.

Following this stress testing actions were taken to preserve cash and control costs. These actions included:

(a) furloughing employees, utilising the Coronavirus Job Retention Scheme ('CJRS');
(b) deferring VAT and PAYE payments in accordance with Government pronouncements;
(c) cancelling the 2019 final dividend of 1.76p per share;
(d) deferring all acquisition activity;
(e) eliminating non-essential capital and revenue spending;
(f) cancelling 2020 incentive schemes;
(g) Board members waiving 25% salary for six months; and
(h) engaging with all suppliers, including landlords and pension trustees to explore the Group's ability to defer payments.

Given the uncertainty throughout the economy, the Group withdrew profit guidance to the market in March 2020.

There was a strong focus by the finance teams on day to day management of working capital, including increased diligence over customer credit, the conversion of trade receivables and closely managing inventory levels in line with changing customer demand.

It became clear during the second quarter of 2020 that reductions in activity would not be as severe as had been initially modelled and that there would be no requirement for the Group to seek additional finance from our bank, government supported loan schemes, suppliers or shareholders.

At the end of 2020 our committed bank borrowing facility of £30 million was extended from June 2022 to December 2025 to provide greater financial certainty over a longer period.

### Customer impact

Customers we serve in the e-commerce retail, hygiene, household essentials, medical and food sectors demonstrated strong demand as they played a vital role in helping the country meet the challenge of Covid-19. However, customers in industrial sectors particularly aerospace and automotive were materially impacted by lockdown activity and demand levels reduced.

As the year progressed our strong customer sectors continued to perform well with recovery in some of the industrial sectors with businesses beginning to return to work as they implemented revised working protocols for their staff.

### Customer service

All our sites remained open and trading throughout 2020. Staffing levels were adjusted to service reduced demand, with social distancing and hygiene measures established to protect the health, safety and wellbeing of our staff and customers.

Our Covid-19 team reviewed and implemented the Group's procedures to re-open sites to employees who had previously worked from home. They ensured that all our employees could work in a Covid-19 safe environment including the provision of clear signage and barriers to manage social distancing, protective equipment, hand sanitising stations, temperature checking, regular cleaning and ongoing education.

All sites were risk assessed by our Health and Safety team and all external visits and assessments from the Health and Safety Executive validated that the measures taken throughout the Group were appropriate.

### Managing our people

Our front line employees including warehouse, production and delivery staff were encouraged and supported to operate as normal. At the start of the third quarter, payments of £250 were made to all operational staff who had worked on site throughout the second quarter of the year.

The majority of our office-based staff worked successfully from home in accordance with our home working protocols.

Our Human Resources team has enhanced the health and wellbeing support available to staff, particularly for those in vulnerable groups as well as those undertaking extended periods of home working. The team ensured that all employees whether working on site or at home received regular communications regarding the Group's response to Covid-19, regular care packages including supplies of hand sanitisers and face-coverings for staff and their families and for all employees on long-term furlough, one-to-one calls to ensure their wellbeing.

All 2020 Bonus Programmes were cancelled and a new incentive programme was introduced enabling employees to participate in a Performance Award Scheme which would reward based on the profitability of their respective business.

# Managing the Covid-19 pandemic ('Covid-19') (continued)

### Communication

The 2020 AGM was held virtually in line with Government guidelines with only Directors and Registrars attending on a virtual basis.

There has been regular dialogue with shareholders to keep them updated on key operational and financial issues.

Throughout 2020 ongoing updates were held by Executive Directors with the senior management and local management teams in order to communicate progress, the sharing of ideas and addressing any concerns about how the Group was responding to the pandemic.

All employees received frequent communications providing support and guidance throughout the year. In addition to our normal communication with customers, a regular letter gave them clarity on our service offering and key business developments.

A Covid-19 Hotline was established for any employee to have direct, confidential access if they had any concerns or required additional support regarding the impact of Covid-19.

A number of surveys were carried out with both customers and employees to ensure we were fully aware of issues, concerns and their priorities.

We maintained close contact with our key suppliers particularly in the final quarter of the year when volatile demand patterns created some stress within supply chains.

### Financial performance

Group sales reduced by 2.0% in the first half of 2020 compared to the same period in 2019 and net bank borrowings reduced by £11.9 million over the six month period to £0.8 million. We saw an increase in our bad debt experience in the second quarter.

On announcing the interim results on 27 August 2020, market guidance was restored and dividends to shareholders recommenced, with the declaration of an interim dividend of 0.70p per share which was paid in October 2020.

Following better than expected trading levels in the second quarter, CJRS monies received of £1.3 million were repaid in full and £4.1 million of deferred taxes were brought up to date. In total amounts equating to £5.4 million were repaid to HMRC by the end of August 2020.

During the third quarter Group sales increased by 4.7% compared to the same period in 2019 and Group bank debt was £1.0 million after the repayment of all CJRS monies and tax deferrals totalling £5.4 million. In the final quarter of 2020, Group sales increased by 6.9% compared to the same period in 2019 and Group debt was £0.5 million. Given the strong performance in the final quarter of the year, we were able to:

(a) make an advance payment on account in respect of the Performance Award Scheme;
(b) apply sums totalling £20k usually used for Christmas cards, calendars and diaries to charitable donations for Mind, Shelter and the Trussell Trust;
(c) recommence discussions with acquisition targets which were put on hold in March 2020;
(d) approve certain capital expenditure projects which will take effect in 2021; and
(e) repay sums waived from salaries by the Executive as instructed by the Remuneration Committee.

The full year 2020 performance resulted in sales of £230.0 million, a 2.1% increase compared to 2019 and PBT of £13.0 million compared to £11.9 million in 2019. Net bank debt at the end of 2020 was £0.5 million (2019: £12.7 million).

### 2021 and beyond

Covid-19 continues to have a significant impact across the world constraining day-to-day life and having wide-ranging impacts on our operations.

The key impacts of Covid-19 on our business are:

(a) There continues to be uncertainty about the duration of disruption, potential for further outbreaks and the consequential impact on demand levels caused by public health measures necessary to control the spread of the disease, including periods of lockdowns;
(b) The speed and extent to which the economy recovers will continue to create fluctuations in demand across our customer base. Some key market sectors may not fully recover for a significant period of time;
(c) The increased move from traditional high street retailing to online retailing is likely to become a more permanent shift in consumer demand patterns. The Group has seen a significant increase in business in 2020 from online retailers which has helped mitigate the reductions experienced by manufacturing and industrial customers;
(d) There has been an increase in customers placing their orders electronically both through our web-shop and our Simplicit.e electronic trading platform. We expect this trend to continue;
(e) The moves to accommodate increased reliance on remote working by employees and increased online activity;
(f) The health and wellbeing support available to staff has been enhanced, particularly for those in vulnerable groups;
(g) The need for a strong and continued focus on day to day management of working capital, including increased diligence over customer credit, the conversion of trade receivables and managing inventory levels in line with changing customer demand; and

(h) There may be delays and difficulties in sourcing inventory and raw materials due to the disruption of suppliers' production, particularly given the overlay of new trading arrangements with the EU from 2021.

The Covid-19 pandemic has affected a number of our principal risks highlighted in the tables on pages 20 to 23. We have therefore treated Covid-19 as an event impacting many of our existing risks, rather than as a separately defined new risk.

## Summary

The response by Macfarlane Group to the challenge of Covid-19 has been effective:

- Our people have been operating in safe conditions both in their workplace and when working from home. We have worked hard to ensure their health and wellbeing;
- The 2020 financial results for the Macfarlane Group show a resilient performance despite challenging conditions. Sales in 2020 increased by 2.1%. PBT increased by £1.1 million compared to 2019 and Group bank debt reduced by £12.2 million to £0.5 million; and
- All our sites remained operational and we have maintained our service to customers. Our Net Promoter Score ('NPS') in 2020 at 53 showed an improvement on 2019.

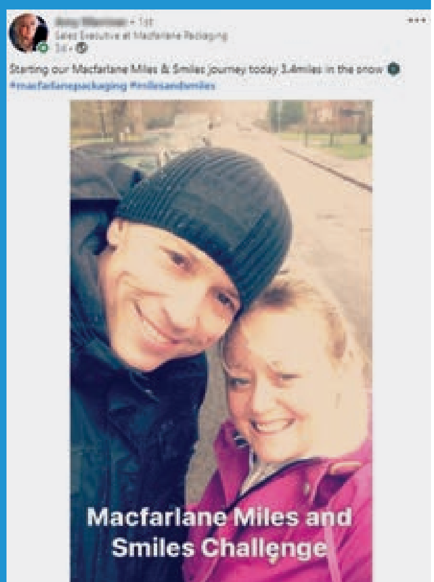
The impact of Covid-19 has been a real test for Macfarlane Group in 2020. The resilience in our performance reflects well on the strength of our business model, a well-diversified customer base operating across a wide range of industry sectors, a robust financial structure and the quality and commitment of our people.


Social distancing sign

Zoom call in progress

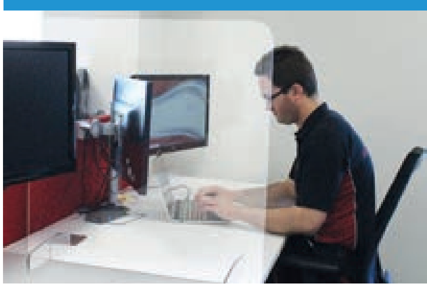


Employee family and friends poster competition




Miles and Smiles Challenge for charity

Covid -19 compliant desk screens



# Finance review

**2020 represents the Group's eleventh consecutive year of growth in its profit before tax.**

### Trading review

The Group saw growth in sales of 2.1% during 2020, mainly driven by Packaging Distribution, enhanced by profitable contributions from recent acquisitions in 2019 and early in 2020. Group sales are £230.0 million, an increase of £4.8 million from 2019 (Restated). Profit before tax for 2020 increased to £13.0 million, an increase of £1.1 million from that achieved in 2019 (Restated).

Each month our management reporting provides the information to review the productivity of all locations in the Packaging Distribution business using performance against benchmark metrics as a percentage of sales for gross margin, payroll and related employment costs, property costs, other overheads and net profit.

The resultant net profit by location is also compared to the original budget and prior year performance.

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

### Restatement due to prior period adjustments

As part of the Group's preparations to mitigate Brexit-related risks, the Group undertook an exercise to review duty and tariff arrangements for all imports and exports to and from all countries, both within and outwith the EU. This review, which was completed in December 2020, uncovered one product area in the Manufacturing Operations segment where the Group, in conjunction with its customers, had applied an incorrect duty code on certain exported items. It was confirmed that this error had originated in prior years. Working with the customers concerned, the Group agreed that the error should be rectified forthwith and all arrears of duty including interest, should be paid.

In addition to rectifying the specific error identified, the Group undertook a further review of all imports and exports to confirm that there was no risk of any similar instances. This was concluded satisfactorily, and no other such errors were identified.

The Group's share of the estimated value of £697,000 after tax has been fully provided for at 31 December 2020 (notes 18 and 21), with £534,000 recognised as a prior period adjustment being £143,000 deducted from 2019 sales, £19,000 added to interest, £31,000 deducted from the 2019 tax charge and £403,000 relating to earlier years recorded as a reduction in Retained earnings at 1 January 2019.

In addition, the Group has 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, £2,269,000 has been added to cash balances and bank borrowings respectively in 2019 and there has been no impact on the income statement or on net assets.

### Taxation

The tax charge for 2020 was £2.8 million on profit before tax of £13.0 million, a rate of 21.8%, above the prevailing rate of 19.0% mainly due to the effect on deferred tax of an adjustment in the long-term corporation tax rate from 17% to 19% during 2020 and acquisition costs not being deductible for tax purposes. This compared with a tax charge of £2.3 million on the restated 2019 profit before tax of £11.9 million, a tax rate of 19.1%.

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

### Earnings per share

Basic and diluted earnings per share amounted to 6.45p (2019: Restated 6.09p) and 6.42p (2019: Restated 6.07p) respectively, broadly reflective of the movement in profitability. The calculations take account of the dilution caused by the issue of LTIP awards.

### Dividends

A dividend of 0.70p per share was paid on 8 October 2020. A further dividend of 1.85p per share is subject to approval by shareholders at the AGM in May 2021 and is not included as a liability in these financial statements.

Dividend cover has been maintained at 2.5 times. The Group continues to balance the aim to pay an attractive level of dividend against the need to retain funds in the business to finance growth, make the agreed levels of pension fund deficit contributions, fund acquisitions and meet capital expenditure requirements.

### Cash flow and net bank debt

The Group's debt facility with Lloyds Banking Group PLC comprises a committed borrowing facility of up to £30.0 million secured over part of Macfarlane Group's trade receivables and at the start of 2021, the term of the facility was extended to 31 December 2025. The facility bears interest at normal commercial rates and carries standard financial covenants in relation to interest cover and levels of headroom over trade receivables. The Group has been in compliance with these covenants throughout 2020 and 2021 to date.

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

Group net bank borrowings were £0.5 million at 31 December 2020, a reduction of £12.2 million from 2019 as set out in note 22. The Group's cash generation continued to be strong enabling us to finance growth, make agreed levels of pension contributions, fund acquisitions and meet capital expenditure requirements. The Group spent £2.7 million on acquisitions in 2020 (2019: £6.2 million) and £0.8 million on capital expenditure in 2020 (2019: £2.6 million).

We will continue to invest where there are needs or opportunities to meet future growth plans. The Group will strive to ensure that in 2021, profit generation is, at the very minimum, matched by cash generation. The Group will remain prudent in its assessment of the likely returns from capital expenditure and potential acquisitions.

### Acquisitions

On 6 January 2020, the Company's subsidiary, Macfarlane Group UK Limited, acquired the business, goodwill and selected assets of the packaging distribution business of Armagrip Limited, based in County Durham for a consideration of £0.9 million. The net assets acquired amounted to £0.7 million.

Deferred consideration of £1.8 million was paid in 2020 in relation to the 2019 acquisitions of Carnweather Limited (the immediate parent of the trading company Ecopac (U.K.)) and Leyland Packaging Company (Lancs) Limited.

### Market capitalisation and share price movements

The number of shares in issue at 31 December 2020 was 157,812,000. At the year-end the Company's market capitalisation was £138.1 million, compared with £170.0 million last year. The share price at 31 December 2020 was 87.50p, compared with 107.75p at 31 December 2019. The range of transaction prices for Macfarlane Group shares during 2020 was 62.00p to 113.50p for each ordinary share of 25p.

### Financial instruments

The Group's principal financial instruments comprise bank borrowings, cash balances and other items, such as trade receivables and trade payables that arise directly from its operations as well as shareholders' equity and deferred consideration arising from acquisitions. The main purpose of these financial instruments is to provide finance for the Group's operations. It is the Group's policy that no speculative trading in financial instruments is undertaken. The main risks arising are liquidity risk and credit risk and the secondary risks are interest rate risk and currency risk. The policies for managing these risks, which have remained unchanged since the beginning of 2020 are set out in note 15 to the financial statements.

### Pension schemes

The Group's pension scheme deficit at 31 December 2020 was £1.5 million (2019: £6.5 million). This is sensitive to movements in bond yields, inflation, longevity assumptions and investment returns. The impact of these sensitivities is set out in note 24 to the financial statements.

The Board continues to make regular deficit reduction contributions each year to reduce the deficit. This, combined with careful stewardship of the investment portfolio by the Trustees, in conjunction with the Group, has helped match the investments with the scheme's liability profile.

Following the triennial actuarial valuation of the scheme at 1 May 2020, the Group agreed a new schedule of contributions with the Pension Scheme Trustees, which assumed a recovery plan period of 4 years. Annual contributions will reduce from the current level of £3.1 million to £1.3 million with effect from 1 May 2021.

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

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

### International Financial Reporting Standards and accounting policies

The Group continues to comply with all International Financial Reporting Standards adopted by the European Union.

### Going concern

The Directors, in their consideration of going concern, have reviewed the Group's cash flow forecasts and profit projections, which are based on the Directors' past experience and their assessment of the current market outlook for the business. The Group's business activities together with the factors likely to affect its future development, performance and financial position are set out in the Chairman's Statement and the Strategic Report on pages 4 to 35. Given the significant disruption and economic uncertainty caused by Covid-19, the Directors have extended their consideration of going concern with the review of additional scenario analysis as set out in the Viability Statement on page 27.

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

Ivor Gray

**Ivor Gray**
Finance Director
25 February 2021

# Principal risks and uncertainties

**The principal risks and uncertainties faced by the Group and the factors mitigating these risks are detailed on pages 20 to 23. The business continues to experience the impact of two significant events, the Covid-19 pandemic and Brexit. The Group's response to the risks and uncertainties created by both those events is set out below.**

### Response to the Covid-19 pandemic ('Covid-19')

The Group's response to Covid-19 has focused on the safety and wellbeing of our people, protecting our financial position and limiting the interruption of service to our customers.

Whilst we have not classified Covid-19 as a separate principal risk due to its pervasive effect across all of the principal risks and uncertainties shown below, specific uncertainties arising from the pandemic include:

- Fluctuations in demand across our customer base. Some key market sectors may not fully recover for a significant period of time;
- Potential deterioration in cash flow of reduced demand from customers and recoverability of trade receivables;
- Uncertainty about the duration of disruption, the potential for further outbreaks and the consequential impact on demand levels caused by continued public health measures necessary to control the spread of the disease, including periods of lockdowns;
- Delays and difficulties sourcing inventory and raw materials due to disruption of suppliers' production; and
- Uncertainty regarding the speed and extent to which the economy and in particular the key market sectors relevant to the Group's business and growth, recover.

Accordingly Covid-19 is built into our assessment of certain specific risks below.

### Response to Brexit

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

### Principal risks and uncertainties

The principal risks and uncertainties are detailed on pages 20 to 23. These risks are complemented by an overall governance framework including clear and delegated authorities, business performance monitoring and appropriate insurance cover for a wide range of potential risks. There is a dependence on good quality local management, which is supported by an investment in training and development and ongoing performance evaluation.

We continue to evolve our risk management processes to ensure they are robust, effective and integrated within our decision-making processes. Two additional risks have been highlighted in the current year partly as a consequence of the Covid-19 pandemic, on strategic changes to the market generally and the increasing potential for cyber-security attacks. We have also included a brief description of how we assess that each risk level has changed. For risks shown as the risk level is broadly similar between 2020 and 2019. If the risk is shown as the risk has increased or decreased respectively during 2020.

There are a number of other risks that we manage which are not considered key risks. In addition, the Group is subject to the impact of general economic conditions including any economic uncertainty, the competitive environment, compliance with legislation and risks associated with business continuity. These are mitigated in ways common to all businesses and not specific to Macfarlane Group.

| Risk description | Mitigating factors | Change in risk level |
| --- | --- | --- |
| **Strategic changes in the market (new risk in 2020)** | | |
| **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 has a well-diversified customer base giving protection from changes in specific industry sectors as well as a flexible business model and strong value proposition enabling it to meet the changing needs of customers.<br>• The Group strives to maintain high service levels for customers ensuring that customer needs are met, despite the reduction in contact during 2020.<br>• The Group continues to invest in electronic trading platforms, to further enhance its service offering.<br>• The Group maintains strong partnerships with key suppliers, to ensure that a broad range of products is available to customers to respond to their requirements including any changes in their environmental and sustainability concerns. | • The Group's supply chain in 2020 has proved resilient and robust despite the disruptive impact of Covid-19.<br>• In 2020 the Group experienced weaker demand from customers in aerospace, high street retail, automotive and a number of other industrial sectors. However, this has been offset by growth in the e-commerce and medical sectors. |
| **Raw material prices** | | |
| **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 works closely with its supplier and customer base to manage effectively the scale and timing of these price changes and any resultant impact on profit.<br>• Our IT systems monitor and measure effectiveness in these changes.<br>• Where possible, alternative supplier relationships are maintained to minimise supplier dependency.<br>• We work with customers to redesign packs and reduce packing cost to mitigate the impact of cost increases. | • Whilst gross margins have remained strong in 2020, with increased demand from internet retail, recovery of some sectors that have experienced reduced demand during Covid-19 and Brexit stock building, it is anticipated that the Group will experience inflationary pricing pressures in 2021, including increased administration costs for products sourced from the EU. |
| **Decentralised structure** | | |
| **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.** | • The Group ensures that our staff have the right working environment, information and sales tools to enable them to meet corporate objectives.<br>• A comprehensive management information system is maintained with key performance indicators monitored and actions taken when required.<br>• Significant investment has been made in 2020 and further investment is planned in 2021 to provide the technology to our employees to work remotely while enhancing the quality of communication with fellow employees, customers and suppliers. | • The implementation of our Covid-19 mitigations resulted in a high proportion of our employees working remotely, further increasing pressure on local decision-making.<br>• Virtual conferencing technology has enabled the Group to improve the quality, consistency and frequency of engagement with managers and employees. This has contributed to the speed and effectiveness of implementing key actions during 2020. |

# Principal risks and uncertainties
(continued)

| Risk description | Mitigating factors | Change in risk level |
|---|---|---|
| **Property** | | |
| **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 Group adopts a proactive approach to managing property costs and exposures.<br>• Where a site is non-operational the Group seeks to assign, sell or sub-lease the building to mitigate the financial impact.<br>• If this is not possible, rental voids are provided on vacant properties taking into consideration the likely period of vacancy and incentives to re-let. | • Our property consolidation strategy has continued during 2020 and work is ongoing to finalise exit costs on expiry for two long-term leases, which had been sub-let and known exits from existing operating sites. Provisions have been established to cover the anticipated exit costs (note 21).<br>• The Group currently has no vacant or sub-let properties. |
| **Cyber-security (new risk in 2020)** | | |
| **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 continually invests in its IT infrastructure to protect against cyber-security threats. This includes regular testing of IT Disaster Recovery Plans.<br>• We also engage the services of a cyber-security partner to perform regular penetration tests and assess potential vulnerabilities within our security arrangements.<br>• This is complemented by a program of cyber-security awareness training to ensure that all staff are aware of the potential threats caused by deliberate and unauthorised attempts to gain access to our systems and data. | • We have increased our reliance on remote working which increases the number of points from which attacks could originate.<br>• The frequency and sophistication of cyber-attacks generally has increased as a result of Covid-19. |
| **Financial liquidity, debt covenants and interest rates** | | |
| **The Group needs continuous access to funding to meet its trading obligations and to support organic growth and acquisitions. There is a risk that the Group may be unable to obtain funds and that such funds will only be available on unfavourable terms.**<br><br>**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's borrowing facility comprises a committed facility of £30 million with Lloyds Bank PLC, which finances our trading requirements and supports controlled expansion, providing a medium-term funding platform for growth.<br>• The Group regularly monitors net bank debt and forecast cash flows to ensure that it will be able to meet its financial obligations as they fall due.<br>• Compliance with covenants is monitored on a monthly basis and sensitivity analysis is applied to forecasts to assess the impact on covenant compliance. | • The Group has proved to be strongly cash generative in 2020 and has operated well within its existing bank facilities throughout the year.<br>• At the start of 2021, the £30 million committed facility with Lloyds Banking Group PLC was extended until December 2025. |

| Risk description | Mitigating factors | Change in risk level |
|---|---|---|
| **Working capital** | | |
| **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.** | • Credit risk is controlled by applying rigour to the management of trade receivables by our Credit Manager and the credit control team and is subject to additional scrutiny from the Group Finance Director.<br>• Inventory levels and order patterns are regularly reviewed and risks arising from holding bespoke stocks are managed by obtaining order cover from customers. | • The impact of Covid-19 resulted in increased bad debt write-offs in 2020 with some customers experiencing cash flow difficulties. The Expected Credit Loss allowance has been increased accordingly (note 14).<br>• Aged stock over 6 months old has increased reflecting the slower movement of older bespoke stocks particularly to customers experiencing reduced demand. Provisioning levels have been increased accordingly (note 13). |
| **Acquisitions** | | |
| **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.** | • The Group carefully reviews potential acquisition targets, ensuring that the focus is on high-quality businesses which complement the existing Group profile and provide opportunities for growth.<br>• Having completed a number of acquisitions in recent years, the Group has well-established due diligence and integration processes and procedures.<br>• The Group has a comprehensive management information system to enable effective monitoring of post-acquisition performance.<br>• Earn-out mechanisms also mitigate risk in the post-acquisition period.<br>• Goodwill and other intangible assets are tested annually for impairment with the results set out in note 10. | • The Group has made 12 acquisitions since 2014, including one in 2020, all of which continue to perform well. The Group has well-established due diligence and integration processes while only acquiring well established quality businesses which will perform well in the Group. |
| **Defined benefit pension scheme** | | |
| **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 deficit.** | • The scheme was closed to new members in 2002. Benefits for active members were amended by freezing pensionable salaries at April 2009 levels.<br>• A Pension Increase Exchange option is available to offer flexibility to new pensioners in the current level of pension benefits and the rate of future increases.<br>• The Group makes Deficit Reduction Contributions each year.<br>• The investment profile is regularly reviewed to ensure continued matching of investments with the scheme's liability profile. | • The IAS 19 valuation of the Group's defined benefit pension scheme as at 31 December 2020 estimated the scheme deficit to be £1.5 million, a decrease of £5.0 million during 2020.<br>• Deficit repair contributions will decrease from £3.1 million in 2020 to £1.3 million per annum from 1 May 2021 following the actuarial valuation at 1 May 2020. This reflects continued progress in reducing the deficit. |

# Stakeholder engagement

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

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

The Directors view the key Company stakeholders and means of engagement as shown in the table to the right.

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

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

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

| Stakeholder group | Principal methods of engagement |
|---|---|
| 1 Shareholders | Members of the Board normally engage with shareholders throughout the year at events such as the Annual General Meeting, the results roadshows and Capital Markets Days. Our Chairman also meets with major shareholders each year. Due to Covid-19 restrictions virtual meetings were held throughout 2020. These meetings gave shareholders a number of opportunities to raise concerns and, in particular understand the impact of Covid-19 on the Group. Presentations to Shareholders are also shared on the www.macfarlanegroup.com website. |
| 2 Employees | The Board normally holds at least four of its meetings at different Group locations and this provides the opportunity to engage with the local teams and hear their views on working in Macfarlane Group. Due to Covid-19 restrictions Board meetings from March 2020 (7 of 9 meetings in the year) onwards were held virtually and employee representatives were invited to those meetings to engage with the Board on issues affecting employees including Health & Safety, wellbeing, the impact of restructuring, rewards and incentives. In addition, Executive Board members have held monthly communication meetings with the management teams across the Group to provide an update on key issues and discuss any concerns. |
| 3 Pension Trustees | The Group Finance Director attends all Trustee Board meetings of the Macfarlane Group PLC Pension & Life Assurance Scheme (1974) and works with the Board of Trustees to ensure the pension is funded in line with UK pension legislation to meet our commitments to the 570 current and former employees who are members of this pension arrangement. |
| 4 Customers | Teams at all our locations interact with all our existing and potential customers, in the Local, Core and National customer groups on a daily basis to understand and fulfil the product and service requirements of our customers. The Chief Executive Officer has also sent regular communication to customers during 2020 to update them on our response to Covid-19 and reassure them of our support. |
| 5 Suppliers | Our procurement teams and employees at all our locations interact both with our strategic and all other suppliers on a daily basis to ensure that the supply chain is robust and that the trading relationships with suppliers continue to operate well. |
| 6 Our trading locations and the impact of our activities on the local environment | We operate from good quality facilities throughout the UK and deliver to customers using our own fleet of trucks, driven by our drivers. We act in a manner intended to recognise and reduce our impact on our local environments in terms of the types of product supplied, usage of energy and $CO_2$ emissions. |

### Response to Covid-19 1 2 3 4 5 6

The Board reviewed the Covid-19 response plan in the March 2020 and April 2020 meetings (outlined in the Covid-19 commentary on pages 14 to 17).

The Board received regular updates on progress in subsequent meetings from the Chief Executive, the Finance Director and the HR Director with particular focus on the health, safety and wellbeing of employees, service to customers and the Group's financial position.

The Board concluded as a result of the financial updates that there was no requirement to seek additional funding by increasing the available Bank facilities or by seeking additional equity from existing shareholders.

The Board approved the cancellation of the 2019 final dividend to shareholders in March 2020 as one of the initial Covid-19 cash conservation measures. At the same time the Board agreed with its broker to withdraw market guidance given the economic uncertainty at that stage.

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

Following resilient trading from March until August 2020, the Board agreed to re-instate market guidance and approve the recommencement of dividends in August 2020 by declaring a 2020 interim dividend for payment in October 2020.

The Board reviewed the proposals to restructure the teams in both the Packaging Distribution and Packaging Design & Manufacture activities which resulted in the redundancy of 62 employees to ensure it was a proportionate and necessary action. The Board also confirmed that employees were properly engaged in the process and this resulted in 54 of the redundancies in September and October 2020 being of a voluntary nature.

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

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

## Strategy and performance

### Strategy 1 2 4 5 6

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

The Board approved the acquisition in the Packaging Distribution business, concluding that the business acquired had a similar customer and business approach to Macfarlane and would be a good strategic fit, which could be readily absorbed into the existing network of Packaging Distribution sites.

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

### Performance 1 2 4 5

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

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

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

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

# Stakeholder engagement
(continued)

### Financing 1 2 3 5 6

The Board approves the terms and conditions attaching to the Group's major banking arrangement and receives a monthly report confirming compliance with bank covenants.

The Board formally approved the terms of the extension of the existing Bank facilities to December 2025.

The Board approves the payment of dividends to shareholders, taking into account distributable reserves and likely cash flows and the level of dividends relative to other financing requirements.

At the conclusion of each triennial actuarial valuation of the pension scheme deficit, the Board approves the contributions being proposed under the recovery plan for any deficit. The formal schedule of deficit reduction contributions, following the conclusion of the actuarial valuation at 1 May 2020 was agreed in February 2021.

The Board approves all location moves including property exits as well as the terms of new property arrangements. In 2020, the principal new arrangements related to new leases for the Fareham and Horsham RDCs and agreeing provisional terms for a new lease for the central administrative centre in Coventry. Each of these leases was for a period of ten years, albeit with break clauses available for exercise after five years. These are all accounted for as lease modifications.

The Board considers and approves any items of capital expenditure with a value in excess of £100k and contracts which commit the Group to annual operational expenditure in excess of £250k. During 2020 the major items approved were for a new printing press in our Labels business in Kilmarnock at a cost of £650k and investment in a new Customer Relationship Management system with a capital expenditure cost of £250k.

Major capital allocation decisions are a matter reserved for the Board.

### Risk 1 2 3 4 5 6

The Board reviews the Company's internal control framework ensuring regular updating of the Group and the business's risk registers. In 2020, two additional risks were added, partly as a response to the Covid-19 pandemic, one concerning strategic changes to the markets in which we operate and one concerning cyber-security.

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

The Board receives a Health and Safety status report at every meeting as well as an annual presentation from the Group's Health & Safety Manager, which covers the impact on our employees, our sites and our local environment. These reports were extended in 2020 to cover the Group's new procedures to ensure appropriate social distancing.

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

### Governance and legal requirements 1 2

The Board conducts an annual review of its effectiveness and the effectiveness of the Board Committees.

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

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

The Board reviews and satisfies itself with all other trading updates, including the AGM statement, the half-year report and trading update in the final quarter, as well as the periodic Covid-19 trading updates issued in 2020.

The Board accepted the Audit Committee's recommendation to re-appoint Deloitte LLP as external auditor in 2020.

### Culture and organisation 1 2

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

The Remuneration Committee reviews the remuneration packages for the Executive Directors and the Chief Executive's key reports each year.

The Board reviews annual pay increases for Executive Directors each year, ensuring these are consistent with the wider employee Group, ensuring that these are appropriate and consistent.

The Board approved the introduction of the Performance Award Scheme in the final quarter of 2020 following the cancellation of the existing reward schemes earlier in the year.

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

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

# Viability statement

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

To support this statement, the Board is required to consider the Group's current financial position, its strategy, the market outlook and its principal risks. The Board's assessment of the principal risks facing the Group and how these risks affect the Group's prospects are set out on pages 20 to 23. The review also includes consideration of how these risks could prevent the Group from achieving its strategic plan and the potential impact these risks could have on the Group's business model, future performance, solvency and liquidity over the next three years.

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

## Financial modelling and scenarios

The Group's existing bank facilities comprise a £30 million committed facility with Lloyds Banking Group, which is available until December 2025. The Group has performed well during 2020, despite a number of local, regional and national lockdowns as a consequence of the Covid-19 pandemic, which gives confidence in the strength of the underlying business model. The Directors have also considered the longer-term economic outlook for the UK, including the potential impact of a prolonged recession, given the uncertain economic environment. Given the current uncertainty of the economic outlook due to the Covid-19 pandemic, we have modelled a 'severe but plausible downside' scenario as described below. In forming conclusions, the Directors have also considered potential mitigating actions that the Group could take to preserve liquidity and ensure compliance with its financial covenants.

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

We have modelled a range of scenarios, including a central case, a downside scenario, a severe but plausible downside and a reverse stress test, over the three-year horizon. The 'severe but plausible downside' scenario is conservative in assuming compared to the central case revenue reductions of 5% and gross margin reductions at the rate of 2% in each of the three years, with no reduction in costs. Even under this scenario, and before reflecting any mitigating actions available to Group management, the Group would forecast compliance with all financial covenants throughout the period and would not require any additional sources of financing.

As a result of the uncertainties due to the Covid-19 pandemic, the Group has also modelled a reverse stress test scenario. This models the decline in sales that the Group would be able to absorb before breaching any financial covenants. Such a scenario, and the sequence of events that could lead to it, is considered to be remote, as it requires sales reductions of c.12.5% per annum between 2021 and 2023 compared to the central case before there is a breach in financial covenants in the period under review and is calculated before reflecting any mitigating actions.

Even in the severe but plausible scenario, Macfarlane Group is forecast to have sufficient liquidity to continue trading, comfortably meeting its financial covenants and operating within the level of its facilities for the foreseeable future. The reverse stress test modelling has shown that a c.24% reduction in sales in 2021 compared to 2020 could lead to a breach of covenants in the period under review. However, in this scenario, management would also be able to take mitigating actions similar to those outlined in our Covid-19 update on financial management on page 15.

## Conclusions

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

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

# Corporate responsibility

## Introduction

Macfarlane Group puts Corporate Responsibility ('CR') at the forefront of its business strategy. Only with sustainable growth – including reducing our carbon footprint and contributing to the lives of our employees and local communities – can the business continue to flourish. This includes providing our employees with a safe working environment where they can excel; as well as working closely with our customers and suppliers to improve the sustainability of their packaging products and processes. As the largest distributor of protective packaging in the UK, we are in a privileged position to improve sustainability through reducing waste, promoting recycling and providing our customers with a range of options to reduce their impact on the environment.

### How we manage CR

The Group has a dedicated CR committee, chaired by the HR Director. The committee meets quarterly and reports to the Board on its progress against agreed CR objectives during the year.

The key objectives of the CR Committee are:

- To improve the awareness of CR across the Group;
- To develop and implement action plans that support the CR strategy;
- To ensure that CR is an integral part of daily operational activities; and
- To monitor and report on CR performance using agreed key performance indicators.

Our approach can be split into the following categories, with the performance of each in 2020 set out below.

1. Our people, culture and the community
2. The environment
3. Our business, customers and products

## Our people, culture and the community

Macfarlane Group is committed to its people and we recognise our staff are our greatest asset, being critical to not only the growth of our business, but its resilience in challenging times.

Effective, meaningful and timely communication has always been recognised as fundamental to positive employee engagement. The need for effective communication has never been more crucial than during the past year, ensuring that each employee has the tools and support needed to effectively fulfil their role.

The health, safety and wellbeing of our people has never been more important. In the current climate it is essential that we create a supportive, safe and rewarding work environment that enables employees to continue to deliver our goals and develop their careers.

### Employee development

Macfarlane Group is dedicated to creating a culture where everyone has the opportunity to not only excel in their current role but reach their full potential. Through a variety of development methods employees have the ability to enhance their current skills, gain new ones and develop their knowledge.

The apprenticeship schemes continue to be a success, with structured programmes in place across a number of business disciplines. Once participants have successfully completed their programme the objective is for them to be retained within the business, moving onto the next stage of their career.

The Macfarlane Leadership Programme remains key in ensuring the Company has a robust pipeline of future leadership talent in place. Through a structured training programme, based on theory and practical learning methods, talented employees looking for progression to senior management attend a series of leadership days providing them with an opportunity to improve their skills and knowledge. They are assessed regularly on how they are implementing the key learnings from the programme into their daily working life. The success of this programme has been demonstrated by the career development of many of the participants into senior management roles.

Whilst the pandemic has impacted upon Macfarlane Group's ability to provide face to face training a number of externally and internally sourced training courses, facilitated through various virtual platforms have been provided. In addition to the standard development programmes, increased focused on mental health, effective communication and IT skills within the virtual world have been made available to all employees. The Group has provided on average 10 hours recorded training per employee. As many support courses were provided to all staff and their families a number of training hours have not been formally recorded in 2020.

The business has continued to support and sponsor a number of further education programmes and professional qualifications including the Chartered Institute of Procurement and Supply.

### Employee engagement

Employee engagement is key to motivating the Group's employees, promoting a team ethos and working together to deliver outstanding customer experience. We have maintained traditional methods of engagement, however, we have also enhanced the volume and variety of communication tools given the current remote and socially distanced working environment.

Ensuring employee involvement through a broad range of communication channels, including virtual meetings, business update sessions, functional forums and written correspondence has proved critical in ensuring flexibility of approach and ability for the Group to react to changing challenges.

Employees took part in surveys during 2020, the feedback confirming that individuals felt the level of communication was right and also that they remained positive and had adjusted well to the new ways of working.

Company policy supports equal opportunities and the employment and development of individuals with disabilities where their disabilities do not hinder the performance of their duties. Proactive adjustments are made to the working environment where required.

### Employee wellbeing

Employee wellbeing has always been important, the Group aims to support employees in creating a positive feeling of well-being both inside and outside of the workplace. Guides, support tools and online training have been made available to all employees with the aim of creating a healthy, supportive working environment.

As a Group we understand how important a healthy home life is to an individual's wellbeing. The Group's support structures have been extended to direct family members, with extended flexible working practices being adopted to support the ability of employees to manage the demands of both work and home priorities.

### Diversity

The gender breakdown of Directors, Senior Managers and other Group employees at the year-end is shown in Table 1 below:

### Gender Pay Gap

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

This showed men's mean hourly rate to be 7.2% higher than women's and women's median hourly rate to be 12.9% higher than men's. The median pay gap in favour of women is reflective of our sales function being predominantly female, while the lower earning band of employees in production and logistics is predominantly male. These results do however change when reviewing the mean pay gap information. This is reflective of the demographics of the Senior Executive team and those printers (typically male) employed in Macfarlane Labels as skilled professionals, who receive competitive basic pay and a full shift system, offering a significant uplift on standard hourly rates.

### Human rights

Macfarlane Group does not have a specific human rights policy at present but it does have other policies, which reflect established human rights' principles. These are:

- Equality – Macfarlane Group is committed to providing equal opportunities in employment and to avoiding unlawful discrimination in recruitment, employment or to its customers and suppliers. Striving to ensure that the work environment is free of harassment and bullying and that everyone is treated with dignity and respect is an important aspect of ensuring equal opportunities in employment and there is a specific dignity at work policy, which deals with these issues. Where an employee becomes disabled every effort is made to ensure that their employment with the Group continues and that appropriate adjustments are made. Disabled employees receive equal opportunities regarding selection for training, career development and promotion.
- Engagement – the Group recognises the importance of meaningful communication and consultation in maintaining good employee relations. This is achieved through formal and informal meetings across all business units.
- Anti-bribery and corruption – the Group has an anti-bribery and corruption policy, which is supplemented by a gift register and an associated policy on accepting gifts. This was externally reviewed in 2020.
- Whistleblowing policy – there is provision for employees to use an independent service if they are not comfortable speaking to anyone within the Group with regard to any matters which give them concern. This service is promoted throughout the Group.
- Modern Slavery Act – the Group has now made a statement under the Modern Slavery Act which is supported by internal procedures to ensure that the principles of the act are adhered to. The statement is available on the website (www.macfarlanegroup.com).

No material breaches of the above policies were noted during 2020, nor were any matters of significant concern reported through our whistleblowing service.

### Table 1: Diversity

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | **Female** | **Male** | Female | Male |
| Directors | **1** | **6** | 1 | 5 |
| Senior Managers | **5** | **11** | 5 | 12 |
| All other employees | **285** | **547** | 320 | 575 |

### Health and safety: Covid-19

We conducted risk assessments on all sites to determine the risk of spread of Covid-19. The methodology used was as follows:

- Ensure employees working at home where possible;
- Temperature testing of all staff and visitors who enter one of our sites;
- Maintaining 2-metre social distancing guidelines/installing screens between work stations at all sites;
- Mandatory face coverings for all employees when not at their work station or desk;
- Introduce one way systems on stair cases and in corridors, where possible;
- Enhanced cleaning regimes including all touch points and 'fogging', with detergent, all communal spaces;
- Strict controls on visitors and contractors coming onto our sites; and
- Regularly updated signage to remind employees and visitors of site rules and help prevent complacency.

### Health and Safety

The health, safety and wellbeing of our employees, customers and suppliers, forms a critical part of the Group's business objectives. We aim to achieve a positive health and safety culture through the creation of a safe and healthy work environment, preventing and minimising risks. Our vision and goals for Health and Safety and how we commit to achieve them are based upon best practice guidelines, issued by the Health and Safety Executive. To ensure we adhere and abide by best health and safety practices we have dedicated Health and Safety Managers in the Group, who work with local health and safety teams to ensure knowledge and standards are effectively applied on a consistent basis throughout all the health and safety disciplines.

We continue to invest in our premises and our equipment to improve the safety of our operations, particularly in relation to machinery and vehicles.

Aside from the Group's response to Covid-19, in 2020 we also delivered:

- new working from home guidance and risk assessments were conducted;
- a substantial increase in reporting of Positive Safety Observations, introduced in 2019 to encourage sharing of good practice across the Group.
- enhanced health policies covering Legionella, Noise, Asbestos etc.; and
- integration of acquisitions into the Group's Health and Safety management systems.

Seven reportable incidents occurred in 2020 compared to four in 2019. All reportable incidents are investigated by our Health and Safety team and changes to working practices implemented if required. We also ensure that training in a particular area where incidents have arisen is reinforced.

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

The Accident Frequency Rate ('AFR') representing the number of reportable incidents per 100,000 man-hours worked is shown in Table 2 below.

To ensure constant and consistent focus regarding Health and Safety throughout the Group, it is a main agenda item at all formal monthly review meetings and operating sites in the Group are internally assessed and graded on their Health and Safety performance.

The Group Board plays a key role in overseeing the operation of all Health and Safety, reviewing reports on Health and Safety at each meeting. This report covers incidents, near misses, reportable and non-reportable incidents.

In 2021, our aim is to continue the journey towards zero harm by raising our standards and expectations. This includes driving a positive safety culture throughout the Group using continuous improvement methodology. We aim to drive this process through:

- Introduction of Health and Safety Management System software to improve ownership, traceability, compliance, standardisation and reporting;
- Encouraging and promoting good working practices;
- Accident investigation and root cause training;
- Analysis of all incidents, accidents and high potential near misses; and
- Continued increase in number of Directors Safety Checks being conducted.

### Table 2: Accident Frequency Rate (AFR)

| Business segment | **2020** | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| Packaging Distribution | **0.18** | 0.15 | 0.48 | 0.53 | 0.42 |
| Manufacturing Operations | **1.17** | 0.43 | 1.20 | 0.22 | 1.11 |
| **Group** | **0.45** | 0.23 | 0.73 | 0.43 | 0.64 |

## The environment

### Environmental care

Macfarlane Group is committed to sustainable business practice, through ensuring our logistics operations run as efficiently as possible. We endeavour to reduce the carbon footprint of our operations, as well as reduce waste through effective recycling. Through our Nottingham Recycling business, we make it more convenient for our local packaging customers to recycle their used cardboard – contributing to the local recycling network.

### Mandatory Greenhouse Gas Reporting 2020

Macfarlane Group seeks to minimise the impact of our operations on the environment and is committed to reducing its greenhouse gas ('GHG') emissions. This report outlines Macfarlane Group's GHG emissions for 2020. Using an operational approach, the Group identified its boundaries to ensure all activities and facilities for which it is responsible were being recorded and reported in line with Scope 1 and 2 of the Mandatory Greenhouse Gas Reporting regulation. Relevant data was provided to an independent consultant, EcoAct. The validity, accuracy and completeness of the data was audited by EcoAct and then used to calculate the GHG for Macfarlane Group. Calculations were completed in accordance with the main requirements of ISO-14064-1:2006 standard and deliver both absolute values and an intensity ratio for Macfarlane Group's emissions. The acquisition of Armagrip completed during 2020 has been included in GHG reporting and an assumption has been made regarding usage based on equivalent Group sites.

Macfarlane Group uses total turnover (£000) in the reporting period to calculate the intensity ratio, as this allows emissions to be monitored over time taking into account changes in the size of the Group. This factor was chosen because it provides the greatest degree of accuracy and is the metric best aligned to business growth.

The results in Tables 3, 4 and 5 show that total gross GHG emissions in the period were 6,786 tonnes of $CO_2$e, (2019: 6,752 tonnes).

72% of emissions came from diesel, 21% from electricity, and 7% from natural gas.

Macfarlane Group's overall footprint increased 0.5% from 6,752 tonnes to 6,786 tonnes. The intensity calculation for 2020 reflects the work completed with a reduction in emissions based on turnover from 0.0300 to 0.0295.

This is predominantly due to decreasing electricity emission factors caused by decarbonisation of the national grids of the UK and Ireland has also been significant.

Emissions from natural gas consumption decreased by 1% at least partly due to a warm 2019/20 winter.

Emissions from diesel flexed broadly in line with activity, largely driven by a shift to diesel reclaims, but also to a lesser extent by a slight material increase in usage of petrol hybrid vehicles.

Our policy of leasing the vast majority of our premises allows us to vary our property footprint to ensure the maximum efficiency of our operations, thereby minimising the impact on the environment.

### Table 3: Type of emissions

| Type of emissions | Activity | **2020 Units** | 2019 Units | **2020 Tonnes of $CO_2$e** | 2019 Tonnes of $CO_2$e |
|---|---|---|---|---|---|
| Direct (Scope 1) | Natural gas (kWh) | **2,442,273** | 2,435,349 | **449** | 448 |
| | Vehicle fuel (litres) | **1,850,967** | 1,822,058 | **4,785** | 4,718 |
| | Other | **86,721** | 23,512 | **161** | 146 |
| | Sub-total | | | **5,395** | 5,312 |
| Indirect (Scope 2) | Purchased electricity (kWh) | **5,968,628** | 5,360,779 | **1,391** | 1,440 |
| | Sub-total | | | **1,391** | 1,440 |
| Total gross emissions ($tCO_2e$) | | | | **6,786** | 6,752 |

### Table 4: Intensity ratio

| | **2020** | 2019 |
|---|---|---|
| Total gross GHG emissions ($tCO_2e$) | **6,786** | 6,752 |
| Total sales (£000) | **230,029** | 225,246 |
| Carbon intensity ($tCO_2e$/£000) | **0.0295** | 0.0300 |

# Corporate responsibility
(continued)

Given the growth of the business, continued reductions in the overall Gross $tCO_2e$/Sales result will be a challenging target, however the Group is committed to see a further year on year reduction in 2021.

### Taskforce on Climate-related Financial Disclosures (TCFD)

Macfarlane Group supports the recommendations of the Financial Stability Board's TCFD and continues to make progress in our consideration and response to the issue of climate change.

The Board considers climate change risk as part of its risk management oversight. Areas where climate related risks could impact the business include increased raw material prices, increased business interruption and/or reduced economic activity due to the increased frequency of extreme weather incidents.

Climate related risks and opportunities are an integral part of the Macfarlane Group strategy as we seek to provide our customers with the information and options to allow them to make better informed decisions about the impact of our products and services on the environment. Packaging is an essential commodity for many businesses, but it is important to consider ways to minimise the impact that packaging can have on the environment, without compromising on product protection.

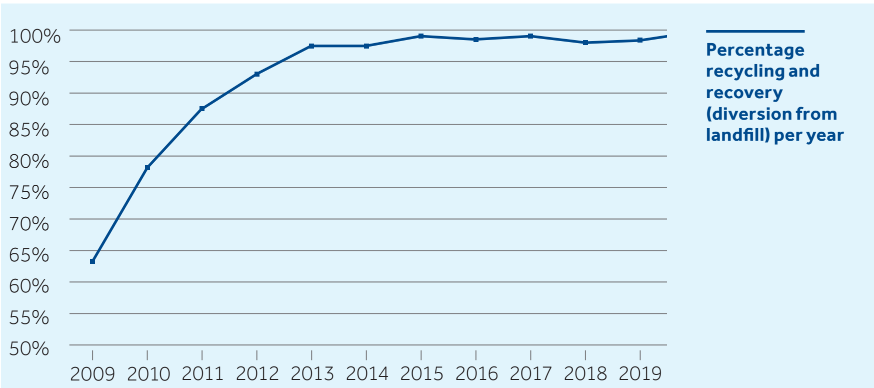
Further information can be found on our website at **www.macfarlanegroup.com/corporate-responsibility/environment**.

The assessment of climate related risks and opportunities is an ongoing area of focus for the Group and further work is planned to fully understand the impact of climate change on our business and to ensure that we have the appropriate mitigation in place to mitigate these risks.

### Waste management

The Group's overall waste tonnages decreased despite additional sales and a further acquisition, maintaining our waste management objectives to deliver a high recycling and recovery rate. This has been achieved during 2020 with support from Reconomy initially and then by Footprint Recycling, our new waste management services provider, during the year. We have been able to carry out more site audits at our facilities, local toolbox talks, and provide reports to help manage waste streams and costs together with implementing continuous improvement programmes in monitoring waste volumes and increasing segregations of waste streams. Not all of our sites were supported by Reconomy and Footprint Recycling in 2020 and therefore assumptions have been made in the collection of certain data.

### Table 6: Recycling and recovery rate




Our goal to achieve a 'zero to landfill' status in 2020 was very close with all businesses across the Group achieving over 99.2% of waste diverted from landfill. The levels of waste segregated on site increased to 83% (2019: 73%).

Our Labels division, through recycling 86 tonnes (2019: 50 tonnes) of paper-based backing product as part of their waste reduction programme, achieved 98.3% (2019: 99.9%) waste diverted from landfill.

The chart on the previous page (Table 6) demonstrates significant improvements in the recycling and recovery rate figures in the last ten years.

Further achievements in 2020 are:

- The majority of the Groups sites now purchase electricity through renewable sources.
- Twelve of our sites are now registered as FSC® accredited, facilitating the procurement and distribution of sustainably sourced products.

### Table 5: Business segment

| Business segment | **2020 Tonnes of $CO_2e$** | 2019 Tonnes of $CO_2e$ | **2020 Sales £000** | 2019 Sales £000 | **2020 $tCO_2e$/£000** | 2019 $tCO_2e$/£000 |
|---|---|---|---|---|---|---|
| Packaging Distribution | **5,185** | 5,412 | **201,739** | 196,706 | **0.0257** | 0.0275 |
| Manufacturing Operations | **1,601** | 1,340 | **28,290** | 28,540 | **0.0566** | 0.0470 |
| Total | **6,786** | 6,752 | **230,029** | 225,246 | **0.0295** | 0.0300 |

Our key environmental objectives for 2021 include:

- Continuous review and appraisals of all sites every quarter with a view to making efficiencies;
- Consider options for capital expenditure to improve efficiency in the Group's recovery and recycling activities, taking into account the findings from our Energy Savings Opportunity Scheme ('ESOS') report;
- Incorporate all new sites under the Group waste contract therefore ensuring compliance, regular reviews and appraisals to support the overall Group targets;
- Continuation of our programme to introduce LED lighting throughout our sites;
- Deliver savings through the Manufacturing Waste Reduction Programme;
- Transition plan to register recent acquisitions to BSI ISO 14001 Environmental Management Standard; and
- Increasing the number of RDCs capable of selling products which are FSC certified as coming from sustainable sources.

## Our business, customers and products

The Group works in partnership with its customers and suppliers to ensure that we provide an expert, independent and tailored approach, which takes into consideration the impact which the products and services we provide have on the environment.

### Our customers

Our Innovation Lab ('iLab') continues to develop environmentally friendly solutions for customers. There we can stress test packaging products to offer greater performance, with reduced materials. This includes optimising packaging solutions that minimise space, resulting in transport and storage savings for our customers, also enabling them to reduce their carbon footprint.

With future taxes on plastics, we can design bespoke products that minimises the cost to our customer and provides them more environmentally friendly options. This allows us to save the customers money on their packaging operations, whilst also making them more sustainable.

The Group continues to make progress in its performance against the identified CR objectives. During 2021, the CR Committee will continue to review environmental performance, actively supporting methods or practices that contribute to the continued development of a culture driven by environmental responsibility.

### Our customers and Covid-19

We have helped our customers adapt to the new business environment caused by Covid-19. This included:

- Increasing usage of our online trading platform Simplicit.e;
- Helping customers in certain sectors adapt their packaging requirements and processes to adjust for additional demand during the pandemic; and
- Providing customers with 'virtual tours' of our Innovation Lab, to help them continue to benefit from the design and testing of bespoke products.

### Customer feedback

To continually improve service to our customers, we use a range of metrics to evaluate our performance on an annual basis. In Packaging Distribution, we gain regular feedback from our customers through Net Promoter Score (NPS) Surveys, an Annual Customer Satisfaction Survey (Table 7), and online Trust Pilot reviews. This feedback is then used to improve products, processes and systems that interact with our customers. We also survey customers in all of our businesses annually, to evaluate our performance against a range of key service metrics.

### Sales order management

Our online customer order management and e-trading system, Simplicit.e, and shop.macfarlanepackaging.com are contributing to improvements in productivity as well as meeting the needs of our customers requiring more visibility of their packaging management. In Packaging Distribution in 2020, the percentage of order lines transacted online increased to 27% (2019: 23%).

**Table 7: Annual customer satisfaction scores**

| | **2020** | 2019 |
|---|---|---|
| Packaging Distribution | **91%** | 93% |
| Packaging Design and Manufacture | **96%** | 85% |
| Labels | **87%** | 91% |

## Helping our customers benefit from the Significant Six

Our customers' products must arrive in perfect condition, on time, in a cost efficient and sustainable manner.

At Macfarlane Packaging, we have spent decades innovating and perfecting packaging solutions for a wide range of markets that are strong, efficient and sustainable. In doing so, we have isolated six hidden costs that have the biggest impact on most packaging operations… we call these costs 'The Significant Six' and they can account for 90% of all costs in a packaging operation.

### Storage costs

1.
**With over 700,000 sq ft of warehouse space and a fleet of over 100 vehicles, our nationwide RDCs mean that customers' packaging stock levels can be minimised.**

### Productivity costs

2.
**We can review the end-to-end customer pack operation to identify space, time and process efficiencies to aid productivity at all stages.**

### Administration costs

3.
**As the UK's biggest packaging supplier we can provide insight to enable our customers to reduce the costs associated with managing multiple suppliers.**

### Customer experience

4.
**Macfarlane can help enhance the consumer experience of packaging form and brand but at the same time be mindful of cost implications.**

### Transport costs

5.
**By re-thinking the pack design, significant reductions in storage, postal and courier charges can be achieved, whilst improving product protection at the same time.**

### Damages and returns

6.
**By challenging areas in the customer supply chain where there are damages and returns, we can find the right packaging solution to protect the product and the brand too.**

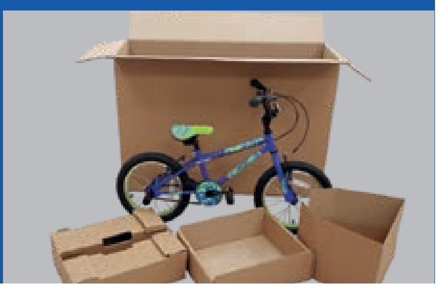
# Corporate responsibility
(continued)


**Retail customer:**
## Halfords

**Halfords challenged Macfarlane Packaging to redesign a range of bike boxes for the Halfords children's Christmas bike range.**

The existing boxes for smaller children's bikes, featuring wide stunt pegs and stabilisers, had empty spaces inside that had to be filled with plastic to protect them during transportation.

However, with Halfords looking to reduce levels of plastic packaging to help protect the environment, MacFarlane used the 'Significant Six' to optimise the designs for performance and sustainability and designed four bespoke sized boxes with three inserts for packaging across 90 bike models.



### Electronic documentation
In 2020, 94% (2019: 91%) of invoices to our customers were delivered electronically, further reducing paper usage. The Group continues to encourage customers to receive documentation electronically.

### Our suppliers
The Group has long established relationships with our supply chain partners primarily in the UK but also in Europe and the Far East. Through these trusted partnerships we can work closely with suppliers to promote sustainable business practices and supply more environmentally friendly products.

One approach we take to achieve this is by using an Environmental Product Matrix, produced in conjunction with our suppliers, which is consistent with the underlying need to ensure products are effectively protected in storage and transit. This Matrix enables our customers to choose packaging, which is fit for purpose, whilst ensuring they still embrace the Reduce, Re-use, and Recycle ethos.

To support our ongoing commitment to improve our environmental performance, we pursue the following objectives:

- Ensure compliance with all applicable environmental legislation and regulations;
- Reduce emissions' pollution;
- Improve waste management practices;
- Reduce the consumption of natural resources;
- Minimise noise and other nuisances; and
- Continuously assess our environmental performance.

These objectives are monitored by an internal independent audit process providing visibility of a site's operational activities and its adherence to legislative or Company requirements. Environmental information is recorded, reviewed and analysed, by our procurement teams to ensure compliance with the Company's legal obligations and achievement of internal objectives and targets.

### Registration to ISO 14001
With the exception of 9 sites, all our UK packaging sites are registered to BSI ISO 14001 Environmental Management Standard. It is planned to have all sites registered by 2025. As an internationally recognised standard on environmental management, registration involves a process of continual assessment of our environmental standards and processes. A key objective in 2021 is to develop a transition plan to register recent acquisitions under the standard.

# Board of Directors

**Stuart Paterson**
Chairman

Stuart joined the Board on 1 January 2013 as a Non-executive Director, becoming Chairman on 29 September 2017. He is a Chartered Accountant and was Chief Financial Officer at Forth Ports Limited until he retired in January 2018. He joined Forth Ports in March 2011 when it was listed on the London Stock Exchange and the company was subsequently acquired by Arcus Infrastructure Partners in 2011. Prior to this role, Stuart was Chief Financial Officer of Johnston Press PLC from 2001 to 2010 and previously worked in senior financial management roles at Motorola Corporation, and as Group Finance Director and then Managing Director Europe for Aggreko PLC. Stuart joined Angel Trains Group Limited as a non-executive Director in September 2019 and chairs the Audit & Risk Committee. He is also a trustee of the Royal Yacht Britannia and a member of their Audit, Risk and Remuneration Committees. He also served as a non-executive Director with Devro PLC from 2006 to 2012, chairing the Audit Committee. He chairs the Nominations Committee and is a member of the Remuneration Committee.

**Peter Atkinson**
Chief Executive

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

**Ivor Gray**
Finance Director

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

**John Love**
Executive Director

John is a member of The Institute of Chartered Accountants of Scotland and has been with the Group for twenty-four years and was appointed Finance Director on 12 July 1999. He was with Deloitte and its predecessor firms for sixteen years before joining Macfarlane Group in 1996. He stepped down as Finance Director on 31 December 2020 and retires from the Board and Macfarlane Group on 31 March 2021.

**Bob McLellan**
Non-executive Director and Senior Independent Director

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

**James Baird**
Non-executive Director

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

**Andrea Dunstan**
Non-executive Director

Andrea joined the Board on 1 September 2018 and has significant experience in the areas of performance management, organisational development, strategy and change management across several sectors notably distribution and third party logistics. She was most recently Chief People Officer at Premier Farnell PLC. Andrea is a non-executive Director of Sumo Group PLC, where she is chair of the Remuneration Committee and a member of the Audit and Nominations Committees. She is also a non-executive Director and Chair of the Remuneration Committee at TI Fluid Systems PLC. Andrea was appointed as chair of the Remuneration Committee on her appointment on 1 September 2018 and is a member of both the Audit and Nominations Committees.

**James Macdonald**
Group Financial Controller and Company Secretary

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


Stuart Paterson


Peter Atkinson


Ivor Gray


John Love


Bob McLellan


James Baird


Andrea Dunstan


James Macdonald

# Corporate information

**Registration number**
No. SC 004221
Registered in Scotland

**Company Secretary**
James Macdonald

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

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

**Solicitors**
CMS Cameron McKenna
Nabarro Olswang LLP
1 West Regent Street
Glasgow G2 1AP

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

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

**Independent auditor**
Deloitte LLP
110 Queen Street
Glasgow G1 3BX

**Registrars**
Equiniti
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

# Report of the Directors

**The Directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2020. Pages 4 to 61 inclusive comprise the Directors' Report, which in turn includes the Chairman's Statement and the Strategic Report on pages 4 to 35. These reports have been drawn up and presented in accordance with and in reliance upon applicable company law and any liability of the Directors in connection with these reports shall be subject to the limitations and restrictions provided by such laws.**

## Corporate governance

The information that fulfils the requirement of the Corporate Governance Statement can be found in the Corporate Governance Report on pages 53 to 61 (and is incorporated into this report by reference) with the exception of the information referred to in the Financial Conduct Authority Disclosure and Transparency Rules 7.2.6, which is located within this report.

## Report on greenhouse gas emissions

Details of the Group's emissions and policies are contained within the Corporate Responsibility Report on pages 31 to 33.

## Cautionary statement

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

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

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

## Results and dividends

The Group's profit before tax from continuing activities was £13,002,000 (2019: Restated* £11,862,000). This resulted in a profit for the year of £10,171,000 (2019: Restated* £9,600,000). Details of the restatements are set out on pages 76 and 77.

The Directors declared an interim dividend of 0.70p per share, which was paid on 8 October 2020 (2019: 0.69p per share). The proposed final dividend of 1.85p per share (2019: Nil per share) is subject to approval by shareholders at the AGM in May 2021 and has not been included as a liability in these financial statements.

## Capital structure

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

The Company has one class of ordinary share, which carries no right to fixed income. Each ordinary share carries the right to one vote at general meetings of the Company. There are no restrictions on the size of shareholdings nor on the transfer of shares. Both are governed by the Articles of Association of the Company ('the Articles') and prevailing legislation. The Directors are not aware of any agreements between the Company's shareholders that may result in restrictions on the transfer of securities or on voting rights.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid. There were no movements in the issued share capital during the year with details shown in note 19 to the financial statements.

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

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

The Directors will propose an ordinary resolution at the 2021 AGM seeking authority to allot shares in the Company under section 551 of the Companies Act 2006 up to an aggregate nominal amount of £13,151,000.

At the 2020 AGM, the Directors were given authority to allot further ordinary shares, disapplying any pre-emption rights, beyond those committed to the share option schemes or long-term incentive plans up to an aggregate nominal value of £3,945,300, which expires at the conclusion of the 2021 AGM. Resolutions at the 2021 AGM will seek to renew for a further year the authority over the existing unissued and uncommitted ordinary share capital of £3,945,300.

## Employees and employee share schemes

The Company's policies for employees and employee engagement are set out in the Corporate Responsibility Report on pages 28 to 30. Option awards are detailed in the Directors' Remuneration Report with those awards outstanding at 31 December 2020 set out in note 44.

### Substantial holdings

| | Number of shares held | Percentage |
|---|---|---|
| Funds managed or advised by Rights & Issues Investment Trust plc | 17,250,000 | 10.9% |
| Funds managed by Canaccord Genuity Group Inc. | 16,909,800 | 10.7% |
| Funds managed or advised by Otus Capital Management | 9,917,419 | 6.3% |
| Almadon Limited | 9,090,909 | 5.8% |
| Funds managed or advised by Charles Stanley | 7,712,905 | 4.9% |
| Funds managed or advised by BGF Investment Management | 6,405,303 | 4.1% |

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

### Substantial holdings of shares in the Company

The Company has received notification prior to 25 February 2021 in accordance with Rule 5 of the Financial Conduct Authority's Disclosure and Transparency Rules of the voting rights as a shareholder of the Company as shown in the table above.

### Directors

The names of the Directors in office at 31 December 2020 together with short biographical details, are set out on page 36. The Board considers its three Non-executive Directors to be independent.

All Directors retire by rotation at the AGM in May 2021 and offer themselves for re-election. P.D. Atkinson and I. Gray have service contracts dated 6 October 2003 and 23 December 2020 respectively, with notice periods of twelve months. S.R. Paterson has a letter of appointment dated 29 September 2020 with a notice period of six months. R. McLellan, J.W.F. Baird and A.M. Dunstan each have letters of appointment dated 10 March 2019, 8 January 2021 and 1 September 2018 respectively for periods of three years, with notice periods of three months.

J. Love will retire from the Board and from Macfarlane Group on 31 March 2021.

No Director, either during or at the end of the financial year, had an interest in any contract relating to the business of the Company or any of its subsidiaries. The statement of Directors' interests in the ordinary share capital of Macfarlane Group is contained in the Directors' Remuneration Report on page 45.

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

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

### Political donations

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

### Special business

A special resolution will be put to shareholders to renew for a further year the authority in relation to the disapplication of pre-emption rights over the existing unissued and uncommitted ordinary share capital. This authority is limited to a maximum nominal amount of £3,945,300, representing 10% of the current share capital.

### Non-financial information statement

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

### Disclosure of information to auditor

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

### Independent auditor

A resolution to re-appoint Deloitte LLP as the Company's auditor will be proposed at the AGM in 2021.

### Company information

The Company is registered in Scotland (SC 004221) and its registered office is at 3 Park Gardens, Glasgow, G3 7YE.

### Approval

The Strategic Report on pages 4 to 35 and the Directors' Report on pages 4 to 61 were both approved by the Board on 25 February 2021.

# Report of the Directors
(continued)

| Reporting requirement | Details including the impact on Macfarlane Group including any risks in relation to these matters and financial and non-financial KPIs |
|---|---|
| Business model | Our business model is described on page 6. |
| Outlook and developments | Main trends/factors likely to affect the future development, performance and position of the business including KPIs are set out in the Business and Finance reviews and in the Corporate responsibility section both within the Strategic review on pages 4 to 35. |
| Principal risks | The principal risks, potential adverse impacts and mitigating actions are set out in the Principal risks and uncertainties section on pages 20 to 23. |
| Stakeholder engagement | The Stakeholder engagement section on pages 24 to 26 includes details summarising how Directors have had regard to the need to foster the Company's and the Group's business relationships with all stakeholders, and the effect on the principal decisions taken by the Group during the financial year. |
| Employees | The main policies and interactions with our employees are set out in the Chief Executive's review on pages 8 to 13, Principal risks and uncertainties on pages 20 to 23, the Stakeholder engagement section on pages 24 to 26, the Our people, culture and the community chapter of the Corporate responsibility section on pages 28 to 30 and the Directors' remuneration report on pages 41 to 49. |
| Environmental matters | Environmental matters are disclosed in the The environment chapter of the Corporate responsibility section on pages 31 to 33 and the Stakeholder engagement section on pages 24 to 26. |
| Financial risk management | Details of the use of financial instruments and financial risk management are set out in the Finance review on pages 18 and 19. |
| Human Rights | Details of our policies in these areas are set out in the Human rights paragraph of the Corporate responsibility section on page 29 and the Stakeholder engagement section on page 26. |
| Social and community matters | Social and community matters are disclosed in the Covid-19 review on pages 14 to 17, the Stakeholder engagement section on pages 24 to 26 and the Corporate responsibility section on pages 28 to 35. |
| Anti-bribery and corruption and whistleblowing | Details of our policies in these areas are set out in the Human rights paragraph of the Corporate responsibility section on page 29. |

**James Macdonald**
Company Secretary
25 February 2021

# Remuneration report

## Remuneration Committee Chair's summary statement

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2020, which has been drawn up under the provisions of the Companies Act 2006 and taking into account the new requirements of The Companies (Miscellaneous Reporting) Regulations 2018. In addition to this statement the Directors' Remuneration Report includes the Annual Report on Remuneration on pages 41 to 49. Shareholders will be asked to approve our Directors' Remuneration Report at the AGM in May 2021 as a normal, annual, advisory vote. I am grateful for the support which our shareholders gave on the resolutions to approve our Directors' Remuneration Report for 2019 at the 2020 AGM and the three-year Directors' Remuneration Policy at our 2019 AGM.

For information, we have also provided a summary of the Remuneration Policy, approved by shareholders at the 2019 AGM, on pages 50 to 52. This does not form part of the Directors' Remuneration Report which shareholders are being asked to approve at our 2021 AGM.

The Company has a Remuneration Committee constituted in accordance with the 2018 UK Corporate Governance Code, comprising three independent Non-executive Directors and the Company Chairman. The Committee determines the remuneration for the Executive Directors and in consultation with the Chief Executive determines total individual remuneration packages for his direct reports, setting incentive targets and determining share award levels to ensure competitive rewards are available for key executives within an appropriate governance framework.

**Remuneration in 2020 – Covid-19 impact**

Due to the unprecedented challenges faced in 2020 from Covid-19, actions were taken to reduce or defer executive remuneration given the material uncertainty as to the full extent of disruption on the Group's business at the commencement of the lockdown in Spring 2020.

These initial actions and others relating to the wider employee Group included:

- All Board Directors agreed to a reduction of 25% of their salaries and fees from April to September 2020, comprising six months at reduced pay;
- A total of 384 employees were furloughed under the Government's Coronavirus Job Retention Scheme ('CJRS'). However, for employees whose furlough deduction took them below the minimum wage, the CJRS contribution was topped up to minimum wage levels. For employees earning above the CJRS threshold of £30,000 per annum, the Group made contributions to ensure that 80% of basic salary was paid;
- Payment of the 2019 Executive Directors' bonuses due in March 2020 was deferred and subsequently paid in September 2020;
- The Senior Management Bonus scheme for 2020 was put on hold, pending a replacement aligned with the changing circumstances of the Group. All other annual incentive schemes for 2020 in the Group were also put on hold. A 'Performance Award Scheme' was created to provide a shared profit incentive for the majority of Group employees; and
- Whilst the Group made 62 employees redundant in the second half of 2020, 54 of these were voluntary redundancies. The 62 employees were part of a workforce of around 900 at the start of the second half of 2020. These decisions were taken as part of a responsible and prudent management approach to ensure the business was positioned to deal with the challenges faced in uncertain market conditions.

These actions above were taken, in conjunction with a number of other management actions, to protect the liquidity of the business and preserve cash until the impact of Covid-19 on the business could be fully determined.

The business demonstrated considerable resilience during 2020 with lower demand from industrial customers being largely offset by an increase in business from e-commerce customers as a consequence of Covid-19. The 2020 Group performance was ahead of 2019, despite the initial downturn. As a result, the following actions were taken:

- Government monies received from CJRS to support furlough payments made to employees in the second quarter of 2020, comprising £1.3 million in total, were repaid in full in August 2020;
- To recognise the Executive Directors' effective navigation of the business to date through the crisis in 2020, the 25% salary reduction was repaid to the Executive Directors in the final quarter of 2020. This was felt appropriate given that the Covid-19 effect on the Group was not as severe as initially feared when the original decision to reduce salaries by 25% was taken; and

- A revised level of Executive Director Bonus for 2020 performance was agreed. This was capped at 7.5%, approximately the same level that employees in the Packaging Distribution business received under the Performance Award Scheme, to reflect the team approach adopted at all levels in the organisation.

Group results for 2020 are as set out in our Strategic Review. Whilst the original performance threshold for 2020, set before any disruption caused by the Covid-19 pandemic, was met, we believe the performance achieved is more appropriately reflected in the revised bonus outcomes for 2020 (7.5% of base salary for our three Executive Directors). We have disclosed the performance measures for our 2020 Annual bonus plan on page 43.

The level of PSP awards in 2020 for our Executive Directors were over shares worth 100% of the Directors' base salaries as permitted by the Directors' Remuneration Policy, as in 2019. Executive Directors hold Macfarlane Group shares worth between 0.3 times and 3.9 times salary at 31 December 2020.

**Remuneration in 2021**

There are some key changes to Executive Remuneration for future years as follows:

- **Pension contributions** – All newly-appointed Executive Directors will have pension contribution rates consistent with other employees. Pension contributions for I. Gray, who was appointed Finance Director in January 2021, are in line with this new requirement. A commitment is also made to have P.D. Atkinson's pension contribution rate brought in line with those for other employees by 1 January 2023, in line with the latest guidance from the Investment Association. J. Love, Finance Director until 31 December 2020, retires from the Board in March 2021.
- **Post-employment share ownership** – A new guideline will be introduced for Executive Directors, in line with UK governance requirements, which will require them to hold shares equal to their in-employment guideline (100% of base salary) for the first year post employment and 50% for the second year, post-employment. This requirement will only apply to shares from incentive arrangements granted from the date of the next LTIP grant in 2021.

Both these changes will be reflected in the revised Remuneration Policy to be approved at the 2022 AGM.

The other key components of executive remuneration at Macfarlane Group remain substantially unchanged from 2020:

- **Basic salary and benefits** – salaries have been frozen at 2020 levels, reflecting the uncertainty over the Group outlook from the challenges likely to be faced in 2021. This applies to all employees and will be reviewed at the end of the first quarter based on business performance and market conditions;
- **Annual bonus** – in 2021 there is again a maximum payment opportunity of 50% of salary with 40% of salary based on Profit before tax ('PBT') performance and 10% of salary based on personal objectives. The main focus of the personal objectives are business growth, leadership development and executing effective acquisitions. Payment of the personal objectives element of the Annual bonus is subject to achieving a threshold PBT performance. All annual bonus payments are subject to the discretion of the Remuneration Committee; and
- **Long term incentives** – the Remuneration Committee's intention is to make further PSP awards in 2021. The level of 2021 awards for Executive Directors will again be over shares with a value equivalent of up to 100% of base salaries. Vesting will continue to be subject to three-year EPS growth conditions with any further underpin vesting conditions set by the Committee. Details of the performance conditions for these awards will be set out in 2021 Directors' Remuneration Report.

I do hope that you will feel able to support the resolution to approve this Directors' Remuneration Report at the AGM in May 2021.

**Andrea Dunstan**
Chair of the Remuneration Committee
25 February 2021

## Annual report on remuneration

The details set out on pages 43 to 45 of this report have been audited by Deloitte LLP.

### Single total figure of remuneration for each Director

| 2020 | Salary and fees £000 | Taxable benefits £000 | Pension costs £000 | Fixed pay £000 | Bonus £000 | Variable pay £000 | Total pay £000 |
|---|---|---|---|---|---|---|---|
| **Chairman** | | | | | | | |
| S.R. Paterson | **60** | **–** | **–** | **60** | **–** | **–** | **60** |
| **Executive Directors** | | | | | | | |
| P.D. Atkinson | **362** | **16** | **79** | **457** | **27** | **27** | **484** |
| J. Love | **179** | **10** | **40** | **229** | **13** | **13** | **242** |
| I. Gray (appointed 19 Nov 2020) | **18** | **1** | **2** | **21** | **1** | **1** | **22** |
| **Non-executive Directors** | | | | | | | |
| R. McLellan | **30** | **–** | **–** | **30** | **–** | **–** | **30** |
| J.W.F. Baird | **30** | **–** | **–** | **30** | **–** | **–** | **30** |
| A.M. Dunstan | **30** | **–** | **–** | **30** | **–** | **–** | **30** |
| **Total** | **709** | **27** | **121** | **857** | **41** | **41** | **898** |

| 2019 | Salary and fees £000 | Taxable benefits £000 | Pension costs £000 | Fixed pay £000 | Bonus £000 | Variable pay £000 | Total pay £000 |
|---|---|---|---|---|---|---|---|
| **Chairman** | | | | | | | |
| S.R. Paterson | 67 | – | – | 67 | – | – | 67 |
| **Executive Directors** | | | | | | | |
| P.D. Atkinson | 355 | 16 | 78 | 449 | 81 | 81 | 530 |
| J. Love | 176 | 9 | 33 | 218 | 36 | 36 | 254 |
| **Non-executive Directors** | | | | | | | |
| R. McLellan | 34 | – | – | 34 | – | – | 34 |
| J.W.F. Baird | 34 | – | – | 34 | – | – | 34 |
| A.M. Dunstan | 34 | – | – | 34 | – | – | 34 |
| **Total** | 700 | 25 | 111 | 836 | 117 | 117 | 953 |

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

### Directors' pension entitlements

P.D. Atkinson receives a cash allowance which equates to 25% of his base salary, including the related employer's national insurance contributions.

J. Love is a member of Macfarlane Group PLC Pension & Life Assurance Scheme (1974) and the basis of his benefits is consistent with all active members of the scheme. His accrued pension at 31 December 2020 was £49,200 (2019: £47,300). The related transfer value was £984,000 (2019: £946,000) calculated using HMRC guidelines. The scheme's normal retirement date is 65 with no automatic entitlement to early retirement.

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

### Annual bonus for the year ended 31 December 2020

The 2020 Annual bonus plan is based on performance against financial targets and personal objectives as set out in the Remuneration Policy and is paid in cash following Board approval of the Group Accounts. The original financial targets for 2020 are shown below:

| | | 2020 profit before tax |
|---|---|---|
| Threshold | 25% of incentive | £13.00m |
| Target | 50% of incentive | £13.50m |
| Maximum | 100% of incentive | £15.00m |
| **Actual performance** | | £13.00m |

A bonus of up to 10% of base salary is also payable for achievement of personal performance objectives with nothing payable under the personal performance element unless the threshold level of PBT is achieved. As explained in the Remuneration Committee Chair's summary statement, given the impact of Covid-19, no amounts were paid in 2020 under the Annual bonus plan but a revised level of Executive Director bonus was paid in line with the basis of rewards under the Performance Award Scheme.

This revised level of Executive Director Bonus for 2020 performance was agreed and capped at 7.5%. The total bonus payable for 2020 to P.D. Atkinson was £27,123 (7.5% of salary) J. Love £13,436 (7.5% of salary) and I. Gray £1,343 (7.5% of salary) respectively, in line with the equivalent amounts payable to senior staff under the Performance Award Scheme.

### Long term incentives for the year ended 31 December 2020

The Company operates a PSP under which shares are awarded which vest subject to performance over a three-year period. No outstanding awards were due to vest during 2020.

### Grant of 2020 PSP awards

Awards were granted on 2 September 2020 over shares worth 100% of salary to the two Executive Directors which will vest subject to EPS targets for the financial year ended 31 December 2022. EPS performance conditions are shown below:

| | EPS targets (fully diluted EPS before any separately disclosed items) |
|---|---|
| Threshold (25% of maximum) | 6.53p |
| Maximum (100% of maximum) | 7.84p |

These targets are deemed to be sufficiently stretching given the impact of Covid-19 in combination with Brexit and the material uncertainty this has created for the market outlook. These targets are viewed as an appropriate challenge to align the Executives with shareholders at the time they were set in 2020.

The 2020 PSP awards were granted at the three-day average share price of 91.40p from the last trading day prior to grant on 2 September 2020. The value of these awards was £361,644 to P.D. Atkinson and £179,143 to J. Love.

### Grant of 2019 PSP awards

Awards were granted in 2019 over shares worth 100% of salary to each Executive Director, which will vest subject to EPS targets for the financial year ended 31 December 2021. The EPS performance conditions are shown below:

| | EPS targets (fully diluted EPS before any separately disclosed items) |
|---|---|
| Threshold (25% of maximum) | 6.77p |
| Maximum (100% of maximum) | 8.12p |

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

| | Awards held at 1 January 2020 | Awards granted during the year | Awards exercised during the year | Awards lapsed during the year | **Awards held at 31 December 2020** |
|---|---|---|---|---|---|
| P.D. Atkinson | 330,123 | 395,672 | – | – | **725,795** |
| J. Love | 163,525 | 195,999 | – | – | **359,524** |
| I. Gray | 57,266 | 124,726 | – | – | **181,992** |

I. Gray was appointed as an Executive Director on 19 November 2020. Both awards shown above were made prior to his appointment as a Director.

## Payments to past Directors

No payments were made to former Directors in the year or payments made for loss of office.

Shareholdings and share interests of the Directors in office at 31 December 2020 were as set out below:

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | **Beneficial** | **Options** | Beneficial | Options |
| S.R. Paterson | **120,000** | **–** | 120,000 | – |
| P.D. Atkinson | **854,172** | **725,795** | 854,172 | 330,123 |
| J. Love | **800,000** | **359,524** | 800,000 | 163,525 |
| I. Gray | **66,652** | **181,992** | 54,836 | – |
| R. McLellan | **102,819** | **–** | 102,819 | – |
| J.W.F. Baird | **66,605** | **–** | 66,605 | – |
| A.M. Dunstan | **10,000** | **–** | 10,000 | – |

Executive Directors are expected to build up a prescribed level of shareholding equivalent to 100% of base salary. Both P.D. Atkinson and J. Love materially exceed these requirements. I. Gray is currently below this requirement given his recent appointment as a Director in November 2020.

Options held by P.D. Atkinson, J. Love and I. Gray are in respect of the PSP awards made in 2019 and 2020. These are unvested and subject to the achievement of performance targets described earlier.

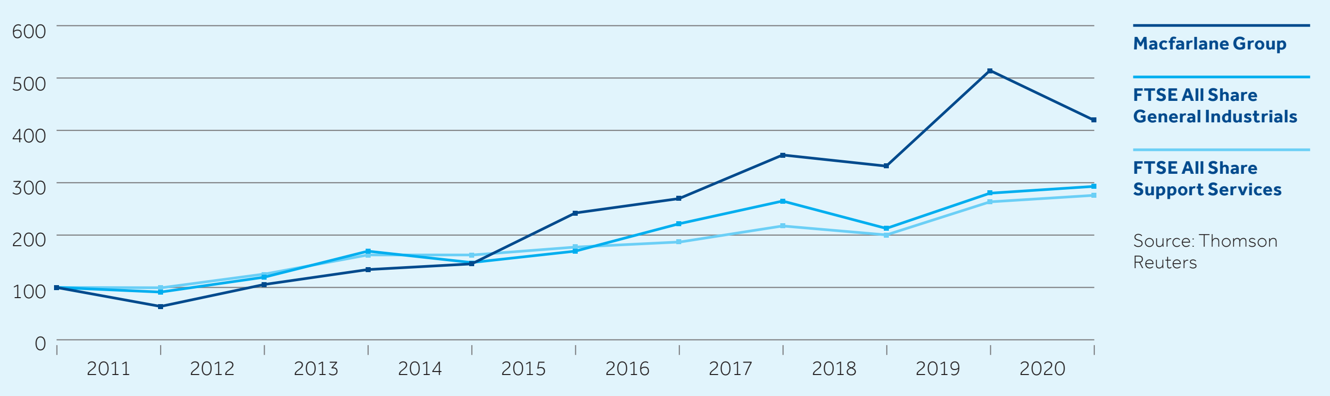
The share price ranged from 62.0p to 113.50p during 2020. The closing share price on 31 December 2020 was 87.50p (2019: 107.75p).

The remainder of the Annual report on remuneration is not subject to audit.

## Performance graph and table

The graph below shows Macfarlane Group's performance, measured by Total Shareholder Return, compared with the performance of the FTSE All-Share Index for Support Services, and the FTSE All-Share Index for General Industrials, also measured by Total Shareholder Return for the period since 1 January 2011. Macfarlane Group is a constituent part of the General Industrial Index. The Index for Support Services has also been selected because it includes a range of distributor companies, which the Remuneration Committee considers to be the most appropriate comparison to Macfarlane Group for this purpose.

### Total shareholder return index



## CEO single figure

| | | Fixed remuneration £000 | Variable remuneration £000 | Single figure of total remuneration £000 | Annual variable element award vs. maximum opportunity | Long term incentive vesting against maximum opportunity |
|---|---|---|---|---|---|---|
| 2020 | P.D. Atkinson | 457 | 27 | 484 | 15% | n/a |
| 2019 | P.D. Atkinson | 449 | 81 | 530 | 46% | n/a |
| 2018 | P.D. Atkinson | 440 | 0 | 440 | 0% | n/a |
| 2017 | P.D. Atkinson | 433 | 81 | 514 | 48% | 0% |
| 2016 | P.D. Atkinson | 424 | 92 | 516 | 55% | n/a |
| 2015 | P.D. Atkinson | 416 | 92 | 508 | 56% | n/a |
| 2014 | P.D. Atkinson | 408 | 178* | 586 | 46% | n/a |
| 2013 | P.D. Atkinson | 400 | 16 | 416 | 10% | n/a |
| 2012 | P.D. Atkinson | 392 | 70 | 462 | 45% | n/a |
| 2011 | P.D. Atkinson | 400 | 15 | 415 | 10% | n/a |
| 2010 | P.D. Atkinson | 396 | 15 | 411 | 10% | n/a |

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

## Percentage change in remuneration of Directors and employees

The following table shows the percentage change in remuneration of the Directors and employees of the business between the 2019 and 2020 financial years.

| | % change from 2019 to 2020 | | |
|---|---|---|---|
| | Salary or fees | Benefits | Bonus |
| Average for all employees | 2.0% | (5.8%) | (29.7%) |
| **Executive Directors** | | | |
| P.D. Atkinson | 2.0% | 1.1% | (66.7%) |
| J. Love | 2.0% | 19.0% | (62.6%) |
| I. Gray | 2.0% | | |
| **Non-executive Directors** | | | |
| S.R. Paterson | (10.7%)* | | |
| R. McLellan | (10.7%)* | | |
| J.W.F. Baird | (10.7%)* | | |
| A.M. Dunstan | (10.7%)* | | |

* Reductions in Non-executive Directors' fees reflect the agreed reduction in fees of 25% for a six month period in 2020.

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

## Relative importance of spend on pay

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

| | **2020 £000** | 2019 £000 | Change |
|---|---|---|---|
| Total employee pay | **30,124** | 30,311 | (1%) |
| Dividend | **1,105** | 3,689 | (70%)* |

* The decision to cancel the 2019 year-end dividend originally payable in June 2020 to preserve cash at the commencement of the Covid-19 pandemic is the principal reason for the reduction in dividends from 2019 to 2020.

## CEO to employee pay ratio

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

| Financial year | Method | 25th percentile pay ratio | 50th percentile pay ratio | 75th percentile pay ratio |
|---|---|---|---|---|
| **2020** | **Option B** | **23.1 : 1** | **17.8 : 1** | **14.9 : 1** |
| 2019 | Option B | 24.6 : 1 | 18.9 : 1 | 16.4 : 1 |

### Notes to CEO to employee pay ratio

Option B, using the gender pay gap reporting data to identify the individuals who represent the three quartiles, was chosen as the methodology as this data was readily available on a Group-wide basis and is consistent with 2019.

Total remuneration for the CEO and for the individuals who represent the three quartiles was determined for the year to 31 December 2020. The three individuals are all full-time employees and are considered to be representative of the 25th percentile, median and 75th percentile pay levels in the Group.

Median pay ratios are reflective of Macfarlane Group's policy of not paying excessive salaries to Executive Directors. No PSP awards vested in either year, which resulted in a lower ratio than would otherwise have been the case.

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

| | Salary component of total pay and benefits | | | Total pay and benefits | | |
|---|---|---|---|---|---|---|
| Financial year | 25th percentile | 50th percentile | 75th percentile | 25th percentile | 50th percentile | 75th percentile |
| **2020** | **£19,550** | **£24,888** | **£29,799** | **£20,977** | **£27,245** | **£32,384** |
| 2019 | £18,585 | £26,998 | £30,600 | £21,554 | £28,078 | £32,324 |

### Statement of implementation of remuneration policy in 2021

Salaries for P.D. Atkinson and J. Love were frozen at 2020 levels, in line with all other employees. Their salaries remain at £361,644 and £179,143 respectively. I. Gray's salary on becoming Group Finance Director on 1 January 2021 was set at £191,000 following a benchmarking exercise undertaken in 2020. No inflationary increase to this salary was applied at the start of 2021.

The salary freeze is deemed appropriate given the continuing uncertainty caused by Covid-19 in the UK market. This decision will be monitored and revised if needed, depending on the results in the first quarter of 2021. This salary freeze also applies to the Chairman and Non-executive Directors.

There are no changes proposed to the operation of benefits and pensions from the bases operated in 2020.

Executive Directors will be eligible to receive an annual bonus of up to 50% of base salary, with 40% of salary based on PBT targets and 10% of salary based on personal objectives. No element of the annual bonus is payable if the PBT threshold target is not achieved. The precise PBT targets and the personal objectives framed on an individual basis around specific market, operational, human resources and financial priorities are considered by the Board to be commercially sensitive. The nature of the targets includes continuing the business on its growth journey, despite the market uncertainty that exists particularly for early 2021. This growth will be driven organically across Macfarlane Group's businesses, whilst potential remains for further acquisitions if the right opportunities become available.

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

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

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

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

The Remuneration Committee currently comprises three independent Non-executive Directors and the Company Chairman. Details of the Directors who were members of the Committee during the year are disclosed on page 57.

The Remuneration Committee used the services of FIT Remuneration Consultants LLP to advise on certain aspects of remuneration during 2020 and fees of £11,000 (2019: £13,000) were charged during the year for that advice. The Directors consider FIT Remuneration Consultants LLP to be independent of the Group and objective in their advice.

### Remuneration Committee's reporting obligations

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

- The Directors' Remuneration Policy, as approved by shareholders in May 2019, and our implementation of the Policy (including the use of PBT and personal performance measures for the Annual bonus and EPS performance measures for the PSP) support the Company's strategy.
- The use of PBT and EPS measures reflect the Company's focus on growing profits and our aims of motivating the Executive Directors to achieve a level of profitability that supports the Company paying an attractive level of dividend, balanced against the need to retain funds in the business to finance growth, make pension scheme contributions, fund acquisitions and meet capital expenditure requirements.
- Remuneration for the Executive Directors remains appropriate and consistent with our policy of not paying excessive salaries. The Remuneration Policy operated as intended, taking into account the challenges of the Covid-19 environment and delivered 7.5% of salary as a bonus to our Chief Executive in the year. This is deemed appropriate given it is commensurate with the wider employee award scheme introduced in 2020 in response to the Covid-19 environment.

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

- **Clarity** – Our Remuneration Policy is well understood by the Executive Directors and by our shareholders, with whom we engaged when revising the policy last year.
- **Simplicity** – The Remuneration Committee is conscious that overly complex remuneration structures are less impactful than simple structures and has strived to keep Executive Directors' pay as simple as possible whilst also offering a competitive remuneration package.
- **Risk** – Our Policy has been designed to ensure that it does not promote excessive risk taking (for example, the annual bonus and PSP operate on sliding performance scales, rather than relying on binary performance targets) and prevents 'payment for failure' through modest fixed remuneration and the use of stretching financial performance targets. The PSP, which forms the majority of variable pay opportunity, is delivered in shares which vest after three years, with a further two-year holding period, ensuring a link to sustained, long-term performance.

  Malus and clawback apply to both the annual bonus and the PSP.
- **Predictability** – Incentive plans for Executive Directors are subject to individual and overall caps, ensuring that the Remuneration Committee has control over levels of reward. The weighting of variable pay opportunity towards the PSP means that actual pay outcomes are highly aligned to the experience of shareholders.
- **Proportionality** – All pay levels are appropriately proportionate, not excessive and reflect Macfarlane Group's outlook and culture. Executive Directors' fixed remuneration is set, after consideration of external benchmarks, at a level that is competitive but affordable for the Group, with variable pay linked to the achievement of stretching performance targets.
- **Alignment to culture** – The performance targets which are used to measure both the annual bonus and the PSP are stretching, consistent with Macfarlane Group's performance-led culture. We do not believe that variable pay should be paid for poor performance and have a long track record of setting robust performance targets.

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

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

### Statement of voting at the Annual General Meeting on 12 May 2020

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

| | Total number of votes | % votes cast |
|---|---|---|
| For<br>Against | **71,663,348**<br>**8,250,097** | 89.68%<br>10.32% |
| **Total votes cast (for or against)** | **79,913,445** | 100.00% |
| Votes withheld | **28,902** | |
| **Total** | **79,942,347** | |

Votes received on 12 May 2020 (including votes withheld) amounted to 50.66% of the issued share capital.

### Statement of voting at the Annual General Meeting on 14 May 2019

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

| | Total number of votes | % votes cast |
|---|---|---|
| For<br>Against | **58,469,089**<br>**5,101,010** | 91.98%<br>8.02% |
| **Total votes cast (for or against)** | **63,570,099** | 100.00% |
| Votes withheld | **49,207** | |
| **Total** | **63,619,306** | |

Votes received on 14 May 2019 (including votes withheld) amounted to 40.38% of the issued share capital.

## Remuneration policy

The following pages detail the principal features of the Directors' Remuneration Policy approved at the 2019 AGM, which is shown in full under the Corporate Governance section of the Group website (**www.macfarlanegroup.com**).

### Salary (fixed pay)

| | |
|---|---|
| Link to strategy | Pay a fair salary commensurate with the individual's role, responsibilities and experience and having regard to market rates for similar roles in comparable companies. |
| Operation | The Committee reviews base salaries annually with changes effective from 1 January. This review takes into account practices elsewhere in the Group. Salary is pensionable. |
| Opportunity | There is no prescribed maximum salary or maximum rate of increase. The Committee takes into consideration the general increase for the broad employee population but on occasion may recognise changes in responsibility, development in the role or specific retention issues. |

### Retirement benefits (fixed pay)

| | |
|---|---|
| Link to strategy | Provide competitive pension arrangements to aid recruitment/retention of senior executives. |
| Operation | The Group pays a pension allowance or contributes to a pension scheme for Executive Directors. The Group's legacy defined benefit scheme has been closed to new members since 2002 and the pensionable salary frozen in 2010. Pension contributions for new appointments will be kept under review in line with developing market practice. |
| Opportunity | Company contribution of up to 25% of base salary or equivalent cash allowance in lieu (inclusive of employer's national insurance contribution) are currently paid. |

### Other benefits (fixed pay)

| | |
|---|---|
| Link to strategy | Provide cost effective benefits to aid recruitment and retention of senior executives and to support the wellbeing of employees. |
| Operation | Benefits include, car allowance or company car, private medical insurance, permanent health insurance and any other such benefits as the Committee considers appropriate. |
| Opportunity | The benefits are not subject to a specific cap but represent a small element of total remuneration. Costs to provide these benefits are closely monitored. |

### Annual bonus (variable pay)

| | |
|---|---|
| Link to strategy | Incentivise performance over a 12 month period based on the attainment of financial targets and individual performance objectives agreed by the Remuneration Committee. |
| Operation | The bonus is paid in cash based on the audited financial results and the Committee's assessment of delivery against personal objectives. Bonus awards are subject to malus and clawback provisions for two years following the award. |
| Opportunity | Maximum bonus potential capped at 100% of base salary but remains at 50% for 2020. The Annual bonus is not pensionable. |
| Performance measure | Performance measures may be financial or non-financial and corporate, divisional or individual and in such proportions as the Committee considers appropriate. The annual bonus plan remains a discretionary arrangement and the Committee retains a standard power to apply judgement to adjust the outcome of the plan for any performance measure (from zero to any cap) should it consider that to be appropriate. |

### Long term incentives (variable pay)

| | |
|---|---|
| Link to strategy | Incentivise delivery of strategic targets and sustained performance over the long-term. |
| Operation | Conditional awards over shares may be granted each year, which can be earned subject to delivery of performance goals. The Committee will set such performance conditions on PSP awards as it considers appropriate (whether financial or non-financial and corporate, divisional or individual). These conditions are for a fixed 3 year period with no re-testing.<br><br>Executive Directors are expected to build up a prescribed level of shareholding equivalent to 100% of base salary. If the prescribed shareholding has not been reached, Executive Directors will be expected to retain a proportion of the shares vesting under the Company's PSP until the guideline is met.<br><br>LTIP awards are subject to malus and clawback provisions for 3 years following vesting. |
| Opportunity | Awards are capped at a maximum of 100% of base salary in normal circumstances (200% in exceptional circumstances). |
| Performance measure | Conditional awards will vest based on three-year performance against challenging financial and other targets set and assessed by the Committee in its discretion. |

### Clawback/malus in the Annual bonus and long term incentives

Provisions are in place for both Annual bonus and LTIP arrangements to operate malus and/or clawback in certain exceptional circumstances, including the material misstatement of the Company's results (annual bonus and LTIP), if the assessment of performance on which vesting is based was based on an error (LTIP only) or circumstances which would warrant the summary dismissal of the individual, whether or not the Company has chosen to do so.

### Consideration of employment conditions elsewhere in the Group

There is a periodic employee survey and the Board receives a regular presentation from the Director of Human Resources, which includes consideration of the Group's remuneration policies. As a result, the Remuneration Committee has not conducted a specific employee consultation exercise on the Directors' remuneration policy.

While appropriate benchmarks vary by role, the Company seeks to apply the philosophy behind this policy across the Group as a whole. Where the Company's pay policy for Directors differs from its pay policies for Groups of employees, this reflects the appropriate market rate position and/or typical practice for the relevant roles. The Committee takes into account pay levels, bonus opportunity and share awards across the Group when setting the Remuneration Policy.

### Consideration of shareholder views

The Committee considers shareholder feedback received as part of any dialogue with shareholders via the Chairman, executive management or the Company's brokers. Where necessary the Remuneration Committee Chair will engage pro-actively with shareholders such as in advance of proposed awards under the Performance Share Plan.

### Approach to recruitment remuneration

The Remuneration Committee will follow the above policy when setting remuneration for a new Executive Director. Base salary will be set at a competitive level appropriate for the role and experience of the Director being appointed. In the case of an external appointment, the Committee may consider it appropriate to recognise awards or benefits that will or may be forfeited on resignation from the previous appointment. This may be cash and/or share awards but the maximum payment will be no more than the Committee considers is required to provide reasonable compensation.

If the Director is required to relocate then reasonable relocation, travel and subsistence payments will be provided at the discretion of the Committee and for a period of no more than two years following appointment.

### Service contracts and letters of appointment

Executive service contracts have a standard notice period of 12 months. The Committee reserves flexibility to alter these principles to secure the appointment of an appropriate candidate and if appropriate introduce a longer initial notice period, of up to two years, reducing over time. Executive Directors may accept appointments outside the Company provided the Board's permission is obtained, however the Board may require the fees from these appointments to be accounted for to the Company. Neither P.D. Atkinson, J. Love nor I. Gray currently hold any external appointments.

Chairman and Non-executive Director appointments are made using letters of appointment for periods not exceeding three years subject to re-election at the AGM and contain notice periods of six months and three months respectively.

## Non-executive Director remuneration policy

### Chairman

| | |
|---|---|
| Link to strategy | To attract and retain a high-calibre Chairman by offering a market competitive fee level. |
| Operation | The Chairman is paid a single fee for all his responsibilities, which is reviewed periodically by the Committee with reference to other comparable companies. |
| Opportunity | The current fee is £68,931 and is subject to periodic change under this policy. There is no maximum fee level. |

### Non-executive Directors

| | |
|---|---|
| Link to strategy | To attract and retain high-calibre Non-executive Directors by offering a market competitive fee level. |
| Operation | Non-executive Directors are paid a basic fee. Committee Chairs may be paid a supplement to reflect additional responsibilities. Fee levels are reviewed periodically by the Chairman and the Executive Directors with reference to other comparable companies. |
| Opportunity | The current fee is £34,465 and is subject to periodic change under this policy. There are currently no supplementary fees paid and there is no maximum fee level. |

### Payment for loss of office

The Committee's policy for an Executive Director whose employment is to be terminated is to agree a termination payment based on the value of base salary, contractual pension contributions and other benefits that would have accrued during the contractual notice period unless there has been a breach of the service agreement by the Director.

The policy is that the departing Director may work or be placed on garden leave for all or part of their notice period or receive payment in lieu of notice in accordance with the service agreement. The Committee supports the principle of mitigation and phased payments relative to any settlement and will take legal advice in relation to any settlements to be proposed. Share-based entitlements for Executive Directors will be determined based on the relevant plan rules.

The Company has the power to enter into settlement agreements with Directors and to pay compensation to settle potential legal claims. This policy does not include an explicit cap on the cost of termination payments.

### Committee discretions

The Committee has discretion, consistent with market practice, including the terms and the termination of any contract, in relation to the operation and administration of share plans. Any use of these discretions would be explained in the Director's Remuneration Report and if appropriate be the subject of consultation with major shareholders. The Committee may make minor amendments to the policy set out above without obtaining shareholder approval.

# Corporate governance

**Macfarlane Group is committed to the principles of corporate governance set out in the Financial Reporting Council's ('FRC') UK Corporate Governance Code issued in 2018 ('the Code'). The Company's compliance is set out in the narrative statement on pages 53 to 61 and for Directors' remuneration in the Directors' Remuneration Report on pages 41 to 49.**

## Compliance

The Company fully complied with all the Code provisions during 2020. The Company's auditor, Deloitte LLP, is required to review whether the above statement (in addition to its wider remit under the Listing Rules) reflects the Company's compliance with the provisions of the Code specified for its review by the Financial Conduct Authority's Listing Rules and to report if it does not reflect such compliance.

## The Board

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

The Board currently comprises the Chairman, three independent Non-executive Directors and three Executive Directors, albeit the number of Executive Directors will reduce to two in April 2021. Directors' names and biographical details, illustrating their range of experience and the benefit that each Director's appointment brings to Macfarlane Group are set out on page 36.

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

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

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

The Company has maintained Directors' and officers' liability insurance cover throughout the financial year. The Company made qualifying third-party indemnity provisions for the benefit of Directors in 2009, and these have remained in force throughout 2020 and to the time of this report.

The Board confirms that it has considered and authorised any conflicts or potential conflicts of interest in accordance with the Group's existing procedures.

The Chairman's other commitments are shown in his biography on page 36. The Board is satisfied that these do not interfere with the performance of Group duties which is based on a commitment of approx. 45 days per annum.

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

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

The balance of the Board's skills and experience is kept under regular review. The Board's succession plans recognise the need to consider wider diversity within the Group and in Board composition in the medium-term. We are also committed to improving the sustainability both of our operations and of the products that we offer our customers. The Board recognises that both of these objectives are to the benefit of all stakeholders of the Group.

### The roles of the Chairman and Chief Executive

The division of responsibilities between the Chairman and the Chief Executive is very clearly defined and has been approved by the Board. The Chairman is responsible for running the Board, ensuring that all Directors receive sufficient and relevant information on financial, business and corporate issues prior to meetings to allow Directors to bring independent judgement to bear on all issues. The Chairman facilitates the effective contribution of Non-executive Directors and ensures effective communication channels with shareholders.

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

### Senior Independent Director

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

### Re-election of Directors

At each AGM, all Directors fall due to retire and, being eligible, offer themselves for election. Directors' service contracts and letters of appointment will be available for shareholder review prior to the AGM on 11 May 2021.

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

### Company Secretary

James Macdonald, the Company Secretary, is responsible for advising the Board through the Chairman on all matters relating to corporate governance. Under the direction of the Chairman, the Company Secretary's responsibilities include ensuring good information flows within the Board, its committees and between executive management and Non-executive Directors. The Company Secretary also facilitates induction and assists with professional development for the Board. All Directors have access to the advice and services of the Company Secretary.

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

### Board procedures

The Group is controlled by the Board of Directors. The Board's main roles are to set the Group's strategic objectives, guide and support executive management in achieving these objectives, create value for and safeguard the interests of all shareholders within the appropriate legal and regulatory framework. The Board met nine (2019: seven) times during 2020 and individual attendance at those and the Board Committee meetings is set out in the table on the following page. Two additional meetings were added to the normal schedule in April 2020 and June 2020 to review in detail the Group's response to the Covid-19 pandemic. Key members of the management team joined the meetings to further develop the Board's understanding of the business. In the eight meetings from March to December there was a detailed review of the Group's response to Covid-19 ensuring:

- there was appropriate consideration of the effect on the principal risks likely to impact on the Group and any related internal controls;
- there was sufficient headroom in the bank facilities considering a range of possible scenarios;
- measures were in place to ensure the health and wellbeing of employees;
- service to customers was being maintained; and
- actions were being taken to preserve cash and control costs.

Further detail of the Board's response to Covid-19 and consideration of the impact on stakeholders is provided in the Covid-19 section on pages 14 to 17 and the Stakeholder engagement section on pages 24 to 26.

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

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

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

## Accountability

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

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

The Directors' Responsibilities Statement is set out on page 62.

## Going concern

Given the significant disruption and economic uncertainty caused by the Covid-19 pandemic, the Directors extended their consideration of going concern with the review of additional scenario analysis as set out in the Viability Statement on page 27. After making these enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for at least the next twelve months from the date of this report. For this reason they continue to adopt the going concern basis in preparing the financial statements.

## Board and Committee meetings

The number of regular Board and Committee meetings attended by each member during 2020 is shown in the table below.

## Professional development

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

## Board performance evaluation

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

## Attendance by Directors at Board and Committee meetings during 2020

| | | Board | Audit Committee | Remuneration Committee | Nominations Committee |
|---|---|---|---|---|---|
| **Stuart Paterson** | Chairman | 9 (9) | 2 (3)* | 3 (3) | 3 (3) |
| **Peter Atkinson** | Chief Executive | 9 (9) | – | – | – |
| **John Love** | Finance Director | 9 (9) | – | – | – |
| **Ivor Gray** | Executive Director (appointed 19 November 2020) | 1 (1) | – | – | – |
| **Bob McLellan** | Senior Independent Director | 9 (9) | 3 (3) | 3 (3) | 3 (3) |
| **James Baird** | Non-executive Director | 9 (9) | 3 (3) | 3 (3) | 3 (3) |
| **Andrea Dunstan** | Non-executive Director | 9 (9) | 3 (3) | 3 (3) | 3 (3) |

Figures in brackets indicate the maximum number of meetings in 2020 for which the individual was a Board or Committee member. Where a Director cannot attend a Board or Committee meeting, any comments the Director has on the papers being reviewed at that meeting are relayed in advance for consideration.

* The Chairman attends but is not a member of the Audit Committee.

Results are collated by the Company Secretary and reviewed to identify areas for improvement and confirm objectives for the year ahead. The Chairman then holds individual meetings with each Director to review performance and set individual objectives.

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

### Relationships with shareholders

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

Detailed reviews of the performance and financial position are included in the Strategic Report on pages 4 to 35 of this report. The Board uses this, together with the Chairman's Statement on pages 4 and 5 and the remainder of the Report of the Directors on pages 38 to 40, to present its assessment of the Company's position and prospects.

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

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

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

## Nominations Committee

The Nominations Committee during 2020 was as follows:

Stuart Paterson (Chair)
Bob McLellan
James Baird
Andrea Dunstan

The Committee met three times during 2020.

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

The principal work undertaken by the Nominations Committee in 2020 was to consider and recommend that the Company propose for re-election any Directors falling due for re-appointment at the AGM and to oversee the process to identify and appoint a new Finance Director.

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

Following a Nominations Committee held in 2020 the Committee proposed that all Directors make themselves available for re-election at the AGM on 12 May 2020.

During 2020, the Committee ran a process to select and appoint a new Finance Director. Following an extensive process which included a review of both internal and external candidates, Ivor Gray, the Group Financial Controller and Company Secretary was appointed to the Board on 19 November 2020 and became Finance Director on 1 January 2021. A qualified chartered accountant, Ivor has worked at Macfarlane Group for 24 years in a variety of financial and commercial roles including Financial Director of Macfarlane Labels, General Manager of Macfarlane USA and Commercial Director of Macfarlane Packaging Distribution. Ivor has a wide experience and an in-depth knowledge of the Group, making him the ideal candidate for the role of Finance Director.

In order to ensure continuity and a smooth transition of responsibilities to the new Finance Director, John Love will remain as a Director of the Group until 31 March 2021, when he will retire from the Board and the Company.

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

## Remuneration Committee

The Remuneration Committee during 2020 was as follows:

Andrea Dunstan (Chair)
Bob McLellan
James Baird
Stuart Paterson

None of the members of the Remuneration Committee during 2020 has any personal financial interests, other than as a shareholder, in the matters to be decided, conflicts of interests arising from cross-directorships or any day-to-day involvement in running the business.

The Committee met three times during 2020. Its terms of reference are available on the Group website (www.macfarlanegroup.com).

The principal work undertaken by the Remuneration Committee in 2020 was:

(a) To review performance against 2020 financial and personal objectives and to conclude on an appropriate performance related reward under the Annual bonus plan for senior executives including the Executive Directors;
(b) Given the Covid-19 pandemic, no awards were due under the original incentive schemes. The Committee then reviewed the proposed Performance Award Scheme for 2020 for the majority of the Group's staff and sought to align bonuses for senior executives including those for the Executive Directors to this Scheme;
(c) To approve financial and personal objectives for 2021 in relation to the performance related Annual bonus plan;
(d) To consider awards of share-based incentives and determining the performance conditions for these awards; and
(e) To approve the Directors' Remuneration Report.

The work of Remuneration Committee is described in the Directors' Remuneration Report on pages 41 to 49.

## Audit Committee

During 2020 the Audit Committee comprised:

James Baird (Chair)
Bob McLellan
Andrea Dunstan

James Baird was appointed as Chair of the Committee on 8 January 2018 given his relevant experience. The remaining Committee members, Bob McLellan and Andrea Dunstan have a wide range of commercial experience as evidenced in their biographical details on page 36. The Committee Chairman will be available to answer questions on any aspect of the Committee's work at the AGM.

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

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

- Internal control and risk management
  The Committee reviews annually the Group's system of risk management and internal control and processes for evaluating and monitoring the risks facing the Group. The overall responsibility for the systems of internal control and for reviewing their effectiveness rests with the Board.
- Internal audit
  The Committee monitors and reviews the effectiveness of the Group's internal audit function and its terms of reference annually and recommends to the Board any changes required following its review. Reports from internal audit are considered at each meeting and the Committee actively engages in selecting and prioritising areas to be subject to audit.
- Whistleblowing
  The Committee monitors the Group's arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting and other areas including an external whistleblowing service to take calls from employees.
- External audit
  The Committee is responsible for monitoring the effectiveness of the external audit process and recommending to the Board the appointment, re-appointment and remuneration of the external auditor. It is responsible for ensuring that an appropriate relationship between the Group and the external auditor is maintained, including formal consideration of the independence of the external auditor. The Committee considers the framework for the supply of non-audit services by the external auditor and reviews any proposed non-audit services and fees.
- Financial reporting
  The Committee monitors the integrity of the Group's financial statements and the significant judgements contained therein including assessing the fair, balanced and understandable presentation within the reporting. The Committee also considers any other formal announcements relating to the Group's performance. Further details are set out on the following pages.

The Audit Committee met three times during 2020 and its agenda is linked to events in the Group's financial calendar.

The Committee meets privately with the external auditor at least once in each year. In 2020 the Audit Committee discharged its responsibilities by:

- Reviewing its terms of reference;
- Reviewing the Group's draft financial statements and interim results statement prior to Board approval and reviewing the external auditor's reports on the final results and draft financial statements;
- Agreeing the continuing appropriateness of the Group's accounting policies;
- Monitoring compliance with International Financial Reporting Standards;
- Challenging the output from the Group-wide process used to identify, evaluate and mitigate risks and associated mitigating controls;
- Reviewing the effectiveness of the Group's internal controls and disclosures made in the Annual Report;
- Reviewing the effectiveness of the external auditor at the conclusion of the 2019 audit;
- Agreeing the programme of work for the internal audit function taking into account identified risks;
- Discussing reports from the Head of Internal Audit on internal audit reports and management responses to proposals made in these reports, ensuring that the responses are actioned and completed on a timely basis;
- Agreeing the external auditor's plan for the audit of the Group financial statements which includes confirmations of auditor independence and approval of the engagement letter; and
- Reviewing and approving external audit fees and keeping the level and nature of non-audit fees under review.

During 2020 the Audit Committee focused specifically on a number of areas relating to management judgements and the business response to the Covid-19 pandemic to ensure that:

- there was sufficient stress testing of the Group's financial position through a full range of possible scenarios;
- there was a robust review of trade receivables and inventory provisioning to ensure it remained appropriate;
- the internal control environment had been maintained, the risk of inappropriate management override of controls was being monitored and where necessary mitigating or additional controls were implemented; and
- the increased cyber-security risk related to remote working had been considered and additional controls introduced to reduce or mitigate this risk.

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

### 2020 financial statements

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

For the 2020 financial statements, the Committee considers its key areas of judgement to be:

### Valuation of trade receivables

Trade receivables recorded in the Group's balance sheet comprise a large number of individual balances. The Group reviews all trade receivables and provides against potentially irrecoverable items throughout the year, applying an expected credit loss model. The Group's executive management then reviews local judgements. Whilst every attempt is made to ensure that the Expected Credit Loss allowance 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 uncollectible. At 31 December 2020, the Group retained a provision held against trade receivables of £1,148,000 (2019: £310,000) as set out in note 14.

The Audit Committee receives details of individual receivables > £25,000 twice in each year. The Committee reviews the extent to which year-end balances have been settled in 2021 to date, paying particular attention to receivables outwith terms and any bad debts written off, comparing this with similar analyses produced at previous reporting dates. This is then considered against the level of provision held against trade receivables.

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

### Pension scheme deficit

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

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

The pension scheme deficit calculated by the actuary and the related disclosures are based on these assumptions and the components of the movement in the deficit in 2020 have been explained to the Committee's satisfaction. The sensitivities of movements in the key underlying assumptions are clearly set out in note 24.

Accordingly the Committee is satisfied that it has challenged management's assumptions appropriately and is comfortable with the reporting of the pension scheme deficit.

## Audit Committee
(continued)

### Consideration of other matters
The Committee debates a number of other areas for each reporting period but does not consider these matters to be of such significance as those above. For the 2020 financial statements, the main other areas included:

- The Group's Viability Statement includes 'severe but plausible' scenarios applied in arriving at the conclusions made. The Committee reviewed these scenarios as well as the reverse stress testing applied to the model used (as disclosed on page 27) and was satisfied with the assumptions and judgements applied and the statement made. The Committee was also satisfied that the principal terms of the Group's banking facility, which was recently extended until 31 December 2025, have been properly disclosed;
- Goodwill is allocated to cash generating units ('CGUs') expected to benefit from the synergies of the business combination, for the purpose of impairment testing. Carrying values of goodwill for each CGU Grouping are considered annually. The Committee reviews and discusses management's approach to impairment testing including the related sensitivity analysis given the particular circumstances arising under Covid-19. The Committee was satisfied with the assumptions and judgements applied, concluding that there was no evidence of impairment of goodwill under all reasonable sensitivity scenarios;
- The level and basis for property-related provisions at 31 December 2020;
- The level of and basis for inventory provisions at 31 December 2020;
- The restatement due to prior year adjustments set out on pages 76 and 77; and
- Acquired businesses are measured at the date of acquisition as the aggregate fair value of assets, liabilities and contingent liabilities. The excess of the cost of acquisition over the fair value of the identifiable net assets is classified as goodwill. The Committee reviews this process for each acquisition undertaken and discusses the methodology and assumptions used with management and concluded that it was satisfied with the basis of accounting in this area and the resulting measurements.

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

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

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

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

Each year the Audit Committee considers and agrees the scope of the audit proposed by the external auditor, including coverage of identified risk areas. In their review of the 2020 audit scope, the Committee requested that the external auditors report on the following additional areas:

(a) compliance of receivables and inventories provisioning with the Group's approved accounting policies;
(b) procedures and controls over claims for Covid-19 related Government funding programmes such as CJRS; and
(c) the maintenance of key financial controls in particular during the period of Covid-19 related disruption.

The external auditors reported to the Committee on all of these areas on conclusion of the 2020 audit. No adjustments were made to the 2020 financial statements or to the Group's internal controls as a result.

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

The Audit Committee monitors non-audit services provided to the Group by the external auditor, recognising that there may be certain non-audit work which the external auditor is best placed to undertake. The Committee's policy is to keep all services provided by the external auditor under review to ensure the independence and objectivity of the external auditor, taking account of relevant professional and regulatory requirements. Non-audit work to be undertaken by the external auditor is approved by the Audit Committee in advance of the work being undertaken. Amounts paid to Deloitte LLP during 2020 for audit and other services are set out in note 2 to the financial statements.

On conclusion of each year's audit, the Audit Committee considers the effectiveness of the external auditor, in particular assessing the level of professional scepticism demonstrated throughout the audit process and in the challenge of management's assumptions. Through the Committee meeting privately with the external auditor and in subsequent discussions between the external auditor and the Committee Chair, the actual performance of the auditor is compared to the audit plan originally presented to and agreed by the Committee and against the service level commitments made by the external auditor in the 2019 audit tender.

## Risk management and internal control

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

The Board confirms that an ongoing process for identifying, evaluating and managing the significant risks faced by the Group was in place in accordance with the principles of the Code and the related guidance. The process was in place throughout 2020 and has continued to the date of approval of the Annual Report and financial statements.

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

The key elements of the internal control process are:

- Formal Board reporting on a monthly basis by the Chief Executive and the Finance Director;
- Formal Board approval of the annual budget;
- Since 2009, Internal Audit has been staffed in-house. Certain parts of the internal audit plan may be outsourced when specific expertise is required. The Committee challenges and agrees the annual internal audit plan, receives reports on internal audit issues raised, a six-monthly update and an annual report from the Head of Internal Audit;
- Monthly and annual financial control checklists submitted by each business unit;
- Discussion by the Committee of the external auditor's conclusions of its annual audit; and
- A robust risk assessment process as set out below.

Each business's risk register is kept under review during regular review meetings in each business. The Board considers the risk register every six months to maintain an overview of risks facing the Group and ensures that management has identified and implemented appropriate controls, which are acceptable to the Board, to address these risks. The risk register is taken into account in setting the internal audit plan each year.

The Audit Committee has received reports on cyber-security matters to emphasise the importance of having robust cyber-security measures in place as part of the controls framework, but also to ensure that employees, customers and suppliers are protected from the impact of cyber-security breaches.

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

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

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

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

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

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

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

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

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

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

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

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

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

We confirm that to the best of our knowledge:

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

This responsibility statement was approved by the Board on 25 February 2021 and signed on its behalf by:

**Peter D. Atkinson**
Chief Executive

25 February 2021

**Ivor Gray**
Finance Director

25 February 2021

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

## Report on the audit of the financial statements

### 1. Opinion

In our opinion:

- the financial statements of Macfarlane Group plc (the 'parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 41.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law, and international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

### 2. Basis for opinion

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

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

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

# Independent auditor's report to the members of Macfarlane Group PLC
(continued)

## 3. Summary of our audit approach

| | |
|---|---|
| Key audit matters | The key audit matter that we identified in the current year was:<br>• Valuation of trade receivables, focussed to balances greater than 60 days and the completeness of the expected credit loss model<br>Within this report, key audit matters are identified as follows:<br>Similar level of risk |
| Materiality | The materiality that we used for the Group financial statements was £643k which was determined on the basis of 4.9% of profit before tax. |
| Scoping | Our audit covered 93% of the Group's revenue, 95% of the Group's net assets and 87% of the Group's profit before tax. |
| Significant changes in our approach | Discount, inflation and mortality rates used in the valuation of pension scheme liabilities has been removed as a key audit matter in 2020. This is driven as a result of the understanding gained during our prior year audit of the methodology used by management's actuary and benchmarking of rates used by management.<br>This represents the only significant change in our approach in the current year. |

## 4. Conclusions relating to going concern

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

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

- Comparing the underlying data and key assumptions to past performance, including the impact of both Brexit and Covid-19 on the assumptions applied;
- Assessing the sophistication of the model used to prepare the forecasts, testing the clerical accuracy of those forecasts and considering the historical accuracy of the forecasts prepared by management;
- Assessing headroom in the forecasts cash and covenants;
- Assessing the financing facilities that are in place in the year including the repayment terms and covenants that are in place, ensuring that these have been appropriately reflected in the model;
- Assessing the likelihood of the downside scenarios and sensitivities performed by management; and
- Assessing the adequacy of the going concern disclosures.

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

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

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

## 5. Key audit matters

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

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

### 5.1. Valuation of trade receivables, focussed on balances greater than 60 days and the completeness of the expected credit loss model

| | |
|---|---|
| Key audit matter description | **The Group has material trade receivables, £45,961k (2019: £46,695k). A number of these receivables are individually material to the financial statements.**<br><br>The Group has a large number of customers and a significant trade receivables balance with the majority of sales on 60-75 day credit terms. Given the total value of trade receivables, we have identified a key audit matter around the risk that balances aged greater than 60 days (£837k) (2019: £1,339k) are not recoverable and in the completeness of the expected credit loss model.<br><br>There is significant level of judgement involved in determining the recoverability of these trade receivables and the calculation of the expected credit loss, such as creditworthiness of the customer and probability of default. We have thus determined that there is a potential for fraud through possible manipulation of the balance.<br><br>Management uses an expected credit model based on the past due status of receivables, adjusted as appropriate to reflect current conditions and management's estimates of future economic conditions and known recoverability issues.<br><br>Trade receivables are included within note 14 to the financial statements. The Audit Committee's consideration in respect of the risk is included on page 59. |
| How the scope of our audit responded to the key audit matter | The audit procedures we performed in respect of this matter included:<br><br>• Obtaining an understanding of the relevant controls relevant to the expected credit loss model;<br>• Assessing the mechanical accuracy and appropriateness of the assumptions, judgements and underlying data used in the expected credit loss model;<br>• Performing an analytical review of the year-end receivables balance using industry knowledge to challenge the recoverability of any receivables due from customers that we determine may be in financial distress;<br>• Selecting a sample of trade receivables with greater focus on those aged greater than 60 days and agreeing to supporting documentation and, where possible, receipt of cash at bank post year-end; and<br>• Assessing the appropriateness of judgements made in respect of the recoverability of any debtors overdue for 90 days or longer. |
| Key observations | We concluded that the valuation of trade receivables recorded in the financial statements is appropriate. |

## 6. Our application of materiality

### 6.1. Materiality

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

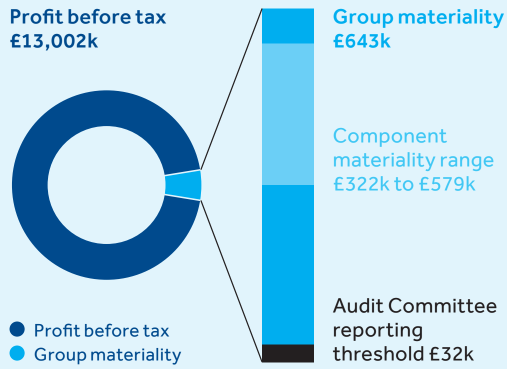
Based on our professional judgement, we determined materiality for the financial statements as a whole is shown overleaf.

# Independent auditor's report to the members of Macfarlane Group PLC
(continued)

## 6. Our application of materiality (continued)

### 6.1. Materiality (continued)

| | Group financial statements | Parent company financial statements |
|---|---|---|
| Materiality | £643k (2019: £600k) | £322k (2019: £205k) |
| Basis for determining materiality | 4.9% of profit before tax (2019: 5% of profit before tax). | 0.5% of net assets (2019: 0.5% of net assets), capped at 50% (2019: 50%) of Group materiality. |
| Rationale for the benchmark applied | We have used profit before tax as the benchmark for our determination of materiality as we consider this to be the key performance metric for the Group and one which is a key metric to analysts and investors given the prominence in the Annual Report. | The parent company holds the investments in the Group subsidiaries, the value of which is the key metric for the users of the financial statements. As statutory materiality would have been higher than the component materiality, we have capped materiality to be 50% of Group materiality being £322k. 50% is deemed appropriate based on the company only contribution to the Group. |




### 6.2. Performance materiality

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

| | Group financial statements | Parent company financial statements |
|---|---|---|
| Performance materiality | 70% (2019: 70%) of Group materiality | 70% (2019: 70%) of parent company materiality |
| Basis and rationale for determining performance materiality | In determining performance materiality we considered the following factors:<br>• This is our second year of engagement, from our understanding developed in the prior year and through our planning work; and<br>• Our risk assessment, including the quality of the control environment. | |

### 6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £32k (2019: £30k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## 7. An overview of the scope of our audit

### 7.1. Identification and scoping of components

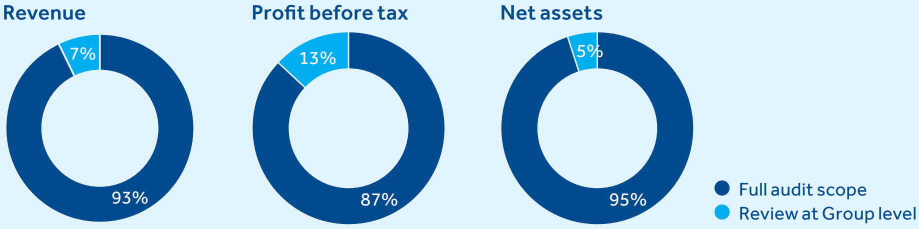
Our Group audit was scoped by obtaining an understanding of the Group and its environment through discussion with IT, internal audit, and the Group and component finance teams and by performing walkthroughs of processes across each of these areas, including Group-wide controls, and assessing the risk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

For components deemed significant to the Group, full scope audit procedures were performed to materiality levels applicable to each entity, which was lower than the Group materiality level and ranged from £322k to £579k (2019: £123k to £570k). Components deemed significant are as follows:

- Macfarlane Group UK Limited
- Nelsons for Cartons & Packaging Limited
- Macfarlane Labels Limited
- Macfarlane Group Ireland (Labels & Packaging) Limited

Macfarlane Labels generates revenues in both Europe and the UK while other Group entities operate primarily within the UK where 96% (2019: 97%) of total revenues are generated. Each legal entity operating in the UK generates revenue through a range of services and customer bases.

This provided audit coverage of over 93% (2019: 98%) of the Group's revenue, 95% (2019: 96%) of the Group's net assets and 87% (2019: 93%) of the Group's profit.




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

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

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

### 7.2. Our consideration of the control environment

With the involvement of our IT specialist we obtained an understanding of the relevant IT environment, by performing walkthroughs of key processes and in some instances performed testing on the relevant general IT controls and business cycles. We took a controls reliance approach on the relevant controls for certain components within the revenue, trade receivables, expenditure and trade payables business process cycles.

## 8. Other information

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

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

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

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

We have nothing to report in this regard.

## 9. Responsibilities of Directors

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

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

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

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

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

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

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

#### 11.1. Identifying and assessing potential risks related to irregularities

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

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

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the valuation of trade receivables. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

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

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

#### 11.2. Audit response to risks identified

As a result of performing the above, we identified valuation of trade receivables as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

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

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;

- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

## Report on other legal and regulatory requirements

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

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

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

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

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

### 13. Corporate Governance Statement

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

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

- the Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 55;
- the Directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 27;
- the Directors' statement on fair, balanced and understandable set out on page 55;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 20;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 61; and
- the section describing the work of the Audit Committee set out on page 58.

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

### 14.1. Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

### 14.2. Directors' remuneration

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

We have nothing to report in respect of these matters.

## 15. Other matters which we are required to address

### 15.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by Board of Directors on 12 July 2019 to audit the financial statements of the Group for the period ending 31 December 2019 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 2 years, covering the years ending 31 December 2019 to 31 December 2020.

### 15.2. Consistency of the audit report with the additional report to the Audit Committee

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

## 16. Use of our report

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

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

25 February 2021

# Consolidated income statement

For the year ended 31 December 2020

| | Note | 2020 £000 | Restated* 2019 £000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 1 | **230,029** | 225,246 |
| Cost of sales | | **153,483** | 153,256 |
| **Gross profit** | | **76,546** | 71,990 |
| Distribution costs | | **8,429** | 8,441 |
| Administrative expenses | | **53,748** | 50,062 |
| **Operating profit** | 2 | **14,369** | 13,487 |
| Finance costs | 4 | **1,367** | 1,625 |
| **Profit before tax** | | **13,002** | 11,862 |
| Tax | 5 | **2,831** | 2,262 |
| **Profit for the year** | 6,20 | **10,171** | 9,600 |
| **Earnings per share** | 8 | | |
| Basic | | **6.45p** | 6.09p |
| Diluted | | **6.42p** | 6.07p |

# Consolidated statement of comprehensive income

For the year ended 31 December 2020

| | Note | 2020 £000 | Restated* 2019 £000 |
|---|---|---|---|
| **Items that may be reclassified subsequently to profit or loss** | | | |
| Foreign currency translation differences | 20 | **60** | (62) |
| **Items that will not be reclassified subsequently to profit or loss** | | | |
| Remeasurement of pension scheme liability | 24 | **2,112** | 537 |
| **Tax recognised in other comprehensive income** | | | |
| Tax on remeasurement of pension scheme liability | 18 | **(401)** | (92) |
| Corporation tax rate change on deferred tax | | **129** | – |
| **Other comprehensive income for the year** | | **1,900** | 383 |
| Profit for the year | | **10,171** | 9,600 |
| **Total comprehensive income for the year** | | **12,071** | 9,983 |

* Details of the restatements are set out on pages 76 and 77.

# 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 | Restated* Retained earnings £000 | Restated* Total £000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2019 | | 39,387 | 12,975 | 70 | 293 | 9,404 | 62,129 |
| **Comprehensive income** | | | | | | | |
| Profit for the year | | – | – | – | – | 9,600 | 9,600 |
| Foreign currency translation differences | 20 | – | – | – | (62) | – | (62) |
| Remeasurement of pension scheme liability | 24 | – | – | – | – | 537 | 537 |
| Tax on remeasurement of pension scheme liability | 18 | – | – | – | – | (92) | (92) |
| **Total comprehensive income** | | – | – | – | (62) | 10,045 | 9,983 |
| **Transactions with shareholders** | | | | | | | |
| Dividends | 7 | – | – | – | – | (3,689) | (3,689) |
| Share-based payments | 25 | – | – | – | – | 75 | 75 |
| Issue of share capital | 19,20 | 66 | 173 | – | – | – | 239 |
| **Total transactions with shareholders** | | 66 | 173 | – | – | (3,614) | (3,375) |
| At 31 December 2019 | | **39,453** | **13,148** | **70** | **231** | **15,835** | **68,737** |
| **Comprehensive income** | | | | | | | |
| Profit for the year | | **–** | **–** | **–** | **–** | **10,171** | **10,171** |
| Foreign currency translation differences | 20 | **–** | **–** | **–** | **60** | **–** | **60** |
| Remeasurement of pension scheme liability | 24 | **–** | **–** | **–** | **–** | **2,112** | **2,112** |
| Tax on remeasurement of pension scheme liability | 18 | **–** | **–** | **–** | **–** | **(401)** | **(401)** |
| Corporation tax rate change on deferred tax | 18 | **–** | **–** | **–** | **–** | **129** | **129** |
| **Total comprehensive income** | | **–** | **–** | **–** | **60** | **12,011** | **12,071** |
| **Transactions with shareholders** | | | | | | | |
| Dividends | 7 | **–** | **–** | **–** | **–** | **(1,105)** | **(1,105)** |
| Share-based payments | 25 | **–** | **–** | **–** | **–** | **75** | **75** |
| **Total transactions with shareholders** | | **–** | **–** | **–** | **–** | **(1,030)** | **(1,030)** |
| **At 31 December 2020** | | **39,453** | **13,148** | **70** | **291** | **26,816** | **79,778** |

* Details of the restatements are set out on pages 76 and 77.

# Consolidated balance sheet

At 31 December 2020

| | Note | 2020 £000 | Restated* 2019 £000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill and other intangible assets | 10 | **60,598** | 62,663 |
| Property, plant and equipment | 11 | **8,640** | 9,621 |
| Right-of-use assets | 12 | **28,584** | 25,855 |
| Trade and other receivables | 14 | **35** | 35 |
| Deferred tax assets | 18 | **396** | 1,224 |
| **Total non-current assets** | | **98,253** | 99,398 |
| **Current assets** | | | |
| Inventories | 13 | **15,858** | 15,813 |
| Trade and other receivables | 14 | **51,371** | 52,044 |
| Cash and cash equivalents | 15 | **7,228** | 5,579 |
| **Total current assets** | | **74,457** | 73,436 |
| **Total assets** | 1 | **172,710** | 172,834 |
| **Current liabilities** | | | |
| Trade and other payables | 16 | **47,755** | 48,530 |
| Provisions | 21 | **1,834** | 660 |
| Current tax liabilities | | **1,731** | 1,084 |
| Lease liabilities | 17 | **5,784** | 6,321 |
| Bank borrowings | 15 | **7,766** | 18,253 |
| **Total current liabilities** | | **64,870** | 74,848 |
| **Net current assets/(liabilities)** | | **9,587** | (1,412) |
| **Non-current liabilities** | | | |
| Retirement benefit obligations | 24 | **1,471** | 6,465 |
| Deferred tax liabilities | 18 | **3,072** | 3,116 |
| Trade and other payables | 16 | **19** | 22 |
| Provisions | 21 | **592** | – |
| Lease liabilities | 17 | **22,908** | 19,646 |
| **Total non-current liabilities** | | **28,062** | 29,249 |
| **Total liabilities** | 1 | **92,932** | 104,097 |
| **Net assets** | 1 | **79,778** | 68,737 |
| **Equity** | | | |
| Share capital | 19 | **39,453** | 39,453 |
| Share premium | 20 | **13,148** | 13,148 |
| Revaluation reserve | 20 | **70** | 70 |
| Translation reserve | 20 | **291** | 231 |
| Retained earnings | 20 | **26,816** | 15,835 |
| **Total equity** | | **79,778** | 68,737 |

* Details of the restatements are set out on pages 76 and 77.

The financial statements of Macfarlane Group PLC, Company registration number SC004221, were approved by the Board of Directors on 25 February 2021 and signed on its behalf by

**Peter D. Atkinson**
Chief Executive

**Ivor Gray**
Finance Director

# Consolidated cash flow statement

For the year ended 31 December 2020

| | Note | 2020 £000 | Restated* 2019 £000 |
|---|---|---|---|
| **Profit before tax** | | **13,002** | 11,862 |
| Adjustments for: | | | |
| Amortisation of intangible assets | | **2,520** | 2,391 |
| Depreciation of tangible assets | | **1,719** | 1,593 |
| Depreciation of right-of-use assets | | **6,740** | 6,223 |
| Loss on disposal of property, plant and equipment | | **30** | 5 |
| Share-based payment expense | | **75** | 75 |
| Finance costs | | **1,342** | 1,606 |
| **Operating cash flows before movements in working capital** | | **25,428** | 23,755 |
| Decrease in inventories | | **161** | 2,006 |
| Decrease in receivables | | **955** | 1,178 |
| Increase/(decrease) in payables | | **965** | (1,445) |
| Increase in provisions | | **1,766** | 660 |
| Pension scheme contributions (less current service cost) | | **(2,981)** | (2,994) |
| **Cash generated from operations** | | **26,294** | 23,160 |
| Income taxes paid | | **(1,728)** | (2,288) |
| Interest paid | | **(1,243)** | (1,375) |
| **Net cash inflow from operating activities** | | **23,323** | 19,497 |
| **Investing activities** | | | |
| Acquisitions | 23 | **(2,661)** | (6,162) |
| Proceeds from disposal of property, plant and equipment | | **102** | 185 |
| Purchase of property, plant and equipment | | **(804)** | (2,648) |
| **Cash outflow from investing activities** | | **(3,363)** | (8,625) |
| **Financing activities** | | | |
| Dividends paid | 7 | **(1,105)** | (3,689) |
| Repayment of bank borrowing facility | | **(10,225)** | (1,785) |
| Repayment of lease obligations | | **(6,719)** | (6,699) |
| **Cash outflow from financing activities** | | **(18,049)** | (12,173) |
| **Net increase/(decrease) in cash and cash equivalents** | | **1,911** | (1,301) |
| Cash and cash equivalents at beginning of year | | **3,310** | 4,611 |
| **Cash and cash equivalents at end of year** | | **5,221** | 3,310 |

*** Details of the restatements are set out on pages 76 and 77.**

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

| | 2020 £000 | 2019 £000 |
|---|---|---|
| **Reconciliation to consolidated cash flow statement** | | |
| Cash and cash equivalents per the consolidated balance sheet | **7,228** | 5,579 |
| Bank overdraft | **(2,007)** | (2,269) |
| **Balances per consolidated cash flow statement** | **5,221** | 3,310 |

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

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

## Basis of accounting
The principal activities of the Company and its subsidiaries ('the Group') and the nature of the Group's operations are set out in the strategic report on pages 4 to 35. The 2020 financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. These consolidated financial statements are presented in Sterling, which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

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

## Going concern
The Directors, in their consideration of going concern, have reviewed the Group's future cash flow forecasts and profit projections, which they believe are based on an appropriate assessment of the market and past experience. The Group's business activities, together with the factors likely to affect its future development, performance and financial position are set out in the Strategic Report on pages 4 to 35.

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

The Directors are of the opinion that the Group's cash flow forecasts and profit projections, which they believe are based on a prudent assessment of the market and past experience taking account of reasonably possible changes in trading performance given current market and economic conditions, show that the Group should be able to operate within the current facility and comply with its banking covenants. As a consequence of the Covid-19 pandemic the Directors have modelled a range of scenarios, including a central case, a downside scenario, a severe but plausible downside and a reverse stress test, over a three-year horizon. Details are set out in the Viability statement review on page 27.

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

## Critical judgements and key sources of estimation uncertainty
The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. Due to the nature of estimation, the actual outcomes may well differ from these estimates.

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

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

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

### Valuation of trade receivables
The provision held against trade receivables is based on applying an expected credit loss model and related estimates of recoverable amounts, as detailed in note 14. Whilst every attempt is made to ensure that the provision held against doubtful trade receivables is as accurate as possible, there remains a risk that the provision may not match the level of debt which ultimately proves uncollectable. For illustration only an increase in the average default rate of overdue trade receivables from 0.97% to 2.35% above the historic loss rates observed would lead to an increase of £650,000 in the provision required.

### Alternative performance measures

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

To the extent that measurements under Generally Accepted Accounting Principles ('GAAP') are adjusted for separately disclosed non-recurring items, these are referred to as Alternative Performance Measures ('APMs'). We believe that these APMs, and the comparable GAAP measurements provide a useful basis for measuring the financial performance and position.

There were no separately disclosed non-recurring items in either these financial statements or in the financial statements for the preceding year.

### Changes in accounting policies in 2020

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

### New accounting standards and interpretations

The Group is currently assessing the potential impact of new and revised standards and interpretations issued by the IASB that will be effective from 1 January 2021. None of these have been adopted early.

| | |
|---|---|
| IFRS 17 | Insurance Contracts |
| IFRS 10 and IAS 28 (amendments) | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture |
| Amendments to IAS 1 | Classification of Liabilities as Current or Non-current |
| Amendments to IFRS 3 | Reference to the Conceptual Framework |
| Amendments to IAS16 | Property, Plant and Equipment – Proceeds before Intended Use |
| Amendments to IAS 37 | Onerous Contracts – Cost of Fulfilling a Contract |
| Annual Improvements to IFRS Standards 2018-2020 cycle | IFRS 9 Financial Instruments, IFRS 16 Leases |

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

### Restatement due to prior period adjustments

As part of the Group's preparations to mitigate Brexit-related risks, the Group undertook an exercise to review duty and tariff arrangements for all imports and exports to and from all countries, both within and outwith the EU. This review, which was completed in December 2020, uncovered one product area in the Manufacturing Operations segment where the Group, in conjunction with its customers, had applied an incorrect duty code on certain exported items. It was confirmed that this error had originated in prior years. Working with the customers concerned, the Group agreed that the error should be rectified forthwith and all arrears of duty including interest, should be paid.

In addition to rectifying the specific error identified, the Group undertook a further review of all imports and exports to confirm that there was no risk of any similar instances. This was concluded satisfactorily, and no other such errors were identified.

The Group's share of the estimated value of £697,000 after tax has been fully provided for at 31 December 2020 (notes 18 and 21), with £534,000 recognised as a prior period adjustment being £143,000 deducted from 2019 sales, £19,000 added to interest, £31,000 deducted from the 2019 tax charge and £403,000 relating to earlier years recorded as a reduction in Retained earnings at 1 January 2019.

These adjustments have been recognised as prior year errors in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors' within these Financial Statements and restated accordingly. The impact of the restatements on the affected primary statement line items is shown in the tables on the following page.

## Restatement due to prior period adjustments

### Restatement in prior periods to 31 December 2019

| | As previously reported £000 | Adjustment to retained earnings £000 | Adjusted (2019 impact) £000 | As restated £000 |
|---|---|---|---|---|
| **Consolidated income statement** | | | | |
| Revenue | 225,389 | – | (143) | 225,246 |
| Gross profit | 72,133 | – | (143) | 71,990 |
| Operating profit | 13,630 | – | (143) | 13,487 |
| Finance costs | (1,606) | – | (19) | (1,625) |
| Profit before tax | 12,024 | – | (162) | 11,862 |
| Tax | (2,293) | – | 31 | (2,262) |
| Profit for the year | 9,731 | – | (131) | 9,600 |
| **Consolidated statement of other comprehensive income** | | | | |
| Profit for the year | 9,731 | – | (131) | 9,600 |
| Total comprehensive income for the year | 10,114 | – | (131) | 9,983 |
| **Consolidated balance sheet** | | | | |
| Current liabilities – provisions | – | (498) | (162) | (660) |
| Deferred tax liabilities | (3,242) | 95 | 31 | (3,116) |
| Net assets | 69,271 | (403) | (131) | 68,737 |
| Retained earnings | 16,369 | (403) | (131) | 15,835 |
| Total equity | 69,271 | (403) | (131) | 68,737 |
| **Consolidated cash flow** | | | | |
| Profit before tax | 12,024 | – | (162) | 11,862 |
| Operating cash flows before movements in working capital | 23,917 | – | (162) | 23,755 |
| Decrease in payables | (947) | – | 162 | (785) |
| Cash generated from operations | 23,160 | – | – | 23,160 |
| **Consolidated statement of changes in equity** | | | | |
| At 1 January 2019 | 9,807 | (403) | – | 9,404 |
| Profit for the year | 9,731 | – | (131) | 9,600 |
| At 31 December 2019 | 16,369 | (403) | (131) | 15,835 |

All headings and numbers throughout the Report and Financial Statements that are marked as 'Restated*' reflect the restatements for these prior period adjustments as set out above. All restatements relate to the Manufacturing Operations segment.

In addition, the Group has 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, £2,269,000 has been added to cash balances and bank borrowings respectively in 2019 and there has been no impact on the income statement or on net assets.

### Summary of significant accounting policies

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

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

### (a) Basis of consolidation

#### Subsidiaries

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

### (a) Basis of consolidation (continued)

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

#### Business combinations

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

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

#### Transactions eliminated on consolidation

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

### (b) Goodwill and other intangible assets

#### Goodwill

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

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

#### Other intangible assets

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

#### Impairment

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

### (c) Revenue recognition

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

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

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

The lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses appropriate incremental borrowing rates.

Lease liabilities are presented on two separate lines in the balance sheet for amounts due within one year and amounts due beyond one year. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the liability by payments made. The Company remeasures the lease liability (and adjusts the related right-of-use asset) whenever the lease term has changed or a lease contract is modified and the modification is not accounted for as a separate lease.

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

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

The Group's incremental borrowing rates applied to lease liabilities in 2020 ranged between 2.75% and 4.00%, with the average rate applied across all leases being 3.02%.

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

Movements in ROU assets and lease liabilities and are set out in note 12 and note 17 respectively.

### (e) Foreign currencies
Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the consolidated income statement. Non-monetary assets and liabilities, measured at historical cost in a foreign currency, are translated using the exchange rates at the date of the transaction. Non-monetary assets and liabilities, stated at fair value in a foreign currency, are retranslated to the functional currency at the exchange rates ruling at the dates the fair value was determined.

Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency, Sterling, at the exchange rates ruling at the balance sheet date. Revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the exchange rates ruling at the dates of the transactions. Exchange differences arising from the translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve.

### (f) Retirement benefits
#### Defined contribution schemes
A defined contribution scheme is a post-employment benefit scheme under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension schemes are recognised as an expense in the consolidated income statement in the periods during which services are rendered by employees.

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

### (f) Retirement benefits (continued)

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

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

When the benefits of a scheme are changed, or when a scheme is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in the consolidated income statement when the scheme amendment or curtailment occurs.

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

The Group's defined benefit pension scheme covers the Group companies at December 2002. The net defined benefit cost of the scheme is apportioned to these participating entities based on the employment history of scheme members, who are allocated to the relevant subsidiary, with any remaining members allocated to the parent company.

### (g) Taxation

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

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

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

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

Deferred tax liabilities are generally recognised for all taxable temporary differences.

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

### (h) Property, plant and equipment

Property, plant and equipment are stated at cost, with assets revalued before the date of transition to IFRS recorded at deemed cost.

No depreciation is provided on land. Depreciation is recognised so as to write off the cost of the property, plant and equipment, less their estimated residual values, by equal annual instalments over their estimated useful lives. The rates of depreciation use the straight-line method and vary between 2% and 5% per annum on buildings and 7% and 33% per annum on plant and equipment. Rates of depreciation are reviewed annually to ensure they remain relevant and residual values are reviewed to ensure they remain appropriate once in each calendar year.

### (i) Inventories

Inventories are consistently stated at the lower of cost and net realisable value. Cost represents purchase price. In the case of work in progress and finished goods, cost comprises direct materials, direct labour costs and attributable overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is based on the estimated selling price, less any further costs expected to be incurred to completion and disposal. Inventories are stated less provisions required for slow-moving and obsolete items, where appropriate.

### (j) Financial instruments

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

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

Other financial assets comprise trade and other receivables that have fixed or determinable recoveries. The classification takes account of the nature and purpose of the financial assets and is determined on initial recognition. Trade and other receivables are measured at amortised cost less impairment under the Expected Credit Loss ('ECL') model.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is measured on an expected credit loss model at inception rather than an incurred loss model. When a trade receivable is uncollectible, it is written off against the provision made on inception or at a previous reporting period end. Subsequent recoveries of amounts previously written off are credited against the provision. In accordance with IFRS 9 '*Financial Instruments*' changes in the carrying value of the provision are recognised in the consolidated income statement.

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

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

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

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

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

### (k) Provisions

#### Property provisions

The Group has a number of property leases. Under IAS 37 an entity must recognise a provision if a present obligation has arisen as a result of a past event, payment is probable and the amount can be estimated reliably. Where it is probable at the balance sheet date, that there is a liability in respect of restoring the property to its original condition a provision is made for management's best estimate of the cost of fulfilling any residual repairing obligation for that property lease.

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

#### Other provisions

The Group has made provision for sums due to customers in respect of backdated duty including interest.

### (l) Share-based payments

The grant date fair value of share-based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Details of the determination of the fair value of equity-settled share-based transactions are set out in note 25.

# 1. Business and geographical segments

## (a) Business segments

The Group's principal business segment is **Packaging Distribution**, comprising the distribution of packaging materials and supply of storage and warehousing services in the UK. This comprises over 85% of Group revenue and profit. The Group's **Manufacturing Operations** segment comprises the design, manufacture and assembly of timber, corrugated and foam-based packaging materials in the UK, the design, manufacture and supply of self-adhesive labels to a variety of FMCG customers in the UK & Europe and the design, manufacture and supply of resealable labels to a variety of FMCG customers in the UK, Europe and the USA. None of the business segments within Manufacturing Operations represents more than 10% of Group revenue or profit.

| External revenues from major products and services | 2020 £000 | Restated* 2019 £000 |
|---|---|---|
| Packaging Distribution | 201,739 | 196,706 |
| Design, manufacture and assembly of timber, corrugated and foam-based packaging materials | 8,488 | 10,642 |
| Manufacture and supply of self-adhesive labels | 9,503 | 9,148 |
| Manufacture and supply of resealable labels and related machinery | 10,299 | 8,750 |
| **External revenues from Continuing operations** | **230,029** | 225,246 |

## (b) Segmental information

| | Packaging Distribution £000 | Manufacturing Operations £000 | 2020 Total £000 | Packaging Distribution £000 | Restated* Manufacturing Operations £000 | Restated* 2019 Total £000 |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| Total revenue | 201,739 | 33,543 | 235,282 | 196,706 | 33,873 | 230,579 |
| Inter-segment revenue | – | 5,253 | 5,253 | – | 5,333 | 5,333 |
| External revenue | 201,739 | 28,290 | 230,029 | 196,706 | 28,540 | 225,246 |
| Cost of sales | 136,177 | 17,306 | 153,483 | 135,525 | 17,731 | 153,256 |
| **Gross profit** | 65,562 | 10,984 | 76,546 | 61,181 | 10,809 | 71,990 |
| Net operating expenses | 51,574 | 10,603 | 62,177 | 48,775 | 9,728 | 58,503 |
| **Operating profit** | 13,988 | 381 | 14,369 | 12,406 | 1,081 | 13,487 |
| Net finance costs | | | 1,367 | | | 1,625 |
| **Profit before tax** | | | 13,002 | | | 11,862 |
| Tax | | | 2,831 | | | 2,262 |
| **Profit for the year** | | | 10,171 | | | 9,600 |

Inter-segment revenues are charged at prevailing market prices.

| | Packaging Distribution £000 | Manufacturing Operations £000 | 2020 Total £000 | Packaging Distribution £000 | Restated* Manufacturing Operations £000 | Restated* 2019 Total £000 |
|---|---|---|---|---|---|---|
| Capital additions | 2,312 | 842 | 3,154 | 12,074 | 1,805 | 13,879 |
| Depreciation/amortisation | 10,152 | 827 | 10,979 | 9,179 | 1,033 | 10,212 |
| Segment assets | 152,272 | 20,438 | 172,710 | 153,384 | 19,450 | 172,834 |
| Segment liabilities | (80,476) | (12,456) | (92,932) | (92,777) | (11,320) | (104,097) |
| **Net assets** | 71,796 | 7,982 | 79,778 | 60,607 | 8,130 | 68,737 |

* Details of the restatements are set out on pages 76 and 77.

### (c) Geographical segments

The Group's operations are primarily located in the UK and Europe.

Packaging Distribution activities are primarily in the UK.

Within Manufacturing Operations, the Packaging Design and Manufacture business operates primarily in the UK and the Labels businesses operate in the UK, Europe and through distributors in the USA.

| | **Continuing operations UK £000** | **Continuing operations Europe £000** | **2020 Total £000** | Restated* Continuing operations UK £000 | Restated* Continuing operations Europe £000 | Restated* 2019 Total £000 |
|---|---|---|---|---|---|---|
| **External revenue** | **219,873** | **10,156** | **230,029** | 219,167 | 6,079 | 225,246 |
| **Operating profit** | **13,260** | **1,109** | **14,369** | 13,027 | 460 | 13,487 |
| **Non-current assets** | **95,839** | **2,414** | **98,253** | 89,719 | 9,679 | 99,398 |
| **Capital additions** | **3,106** | **48** | **3,154** | 12,994 | 885 | 13,879 |

### (d) Information about major customers

No single customer accounts for more than 10% of the Group's external revenues. Customer dependencies are regularly monitored.

## 2. Operating profit

| **Operating profit has been arrived at after charging:** | **2020 £000** | 2019 £000 |
|---|---|---|
| Cost of inventories recognised as an expense in the consolidated income statement | **149,218** | 149,014 |
| Amortisation of other intangible assets (note 10) | **2,520** | 2,391 |
| Depreciation of property, plant and equipment (note 11) | **1,719** | 1,598 |
| Depreciation of right-of-use assets (note 12) | **6,740** | 6,223 |
| Acquisition related costs | **19** | 97 |
| Staff costs (note 3) | **35,027** | 34,937 |

The detailed analysis of auditor's remuneration is provided below:

| | | |
|---|---|---|
| **Audit services** | | |
| Fees payable to the auditor for the audit of these financial statements | **44** | 46 |
| Fees payable to auditor for the audit of the Company's subsidiaries | **140** | 128 |
| **Total audit fees** | **184** | 174 |
| **Non-audit services** | | |
| IFRS 16 project set-up costs | **–** | 25 |
| Other assurance services for the audit of the Company pension scheme | **11** | 11 |
| **Total non-audit fees** | **11** | 36 |
| **Total fees paid to auditor** | **195** | 210 |

IFRS 16 project set-up costs were incurred in advance Deloitte LLP's appointment as auditor in 2019. The project was terminated on Deloitte's appointment and no reliance placed on the work in the 2019 financial statements. A new provider was engaged who has supported the Group with its IFRS 16 work in 2019 and 2020.

The Audit Committee reviews and approves non-audit work which the auditor performs, including the fees paid for such work, to ensure that the auditor's objectivity and independence is not compromised.

## 3. Staff costs

| The average monthly number of employees (including Directors) was: | 2020 No. | 2019 No. |
|---|---|---|
| Production | **179** | 190 |
| Sales and distribution | **485** | 496 |
| Administration | **246** | 247 |
| | **910** | 933 |

| The costs incurred in respect of these employees were: | 2020 £000 | 2019 £000 |
|---|---|---|
| Wages and salaries | **30,124** | 30,311 |
| Social security costs | **2,928** | 2,860 |
| Pension costs | | |
| Contributions to defined contribution schemes | **1,670** | 1,579 |
| Contributions to defined benefit schemes | **230** | 112 |
| Share-based payments (note 25) | **75** | 75 |
| | **35,027** | 34,937 |

## 4. Finance costs

| | 2020 £000 | Restated* 2019 £000 |
|---|---|---|
| Interest on bank borrowings | **482** | 573 |
| Interest on leases | **761** | 802 |
| Finance cost relating to defined benefit scheme (note 24) | **99** | 231 |
| Other interest | **25** | 19 |
| **Finance costs** | **1,367** | 1,625 |

* Details of the restatements are set out on pages 76 and 77.

## 5. Tax

| | 2020 £000 | Restated* 2019 £000 |
|---|---|---|
| **Current tax** | | |
| United Kingdom corporation tax | **2,343** | 2,057 |
| Foreign tax | **121** | 104 |
| Adjustments in respect of prior years | **(90)** | (53) |
| **Current tax charge** | **2,374** | 2,108 |
| **Deferred tax** | | |
| Current year | **37** | 154 |
| Adjustments in respect of prior years | **53** | – |
| Change in corporation tax rate | **367** | – |
| **Deferred tax charge** (note 18) | **457** | 154 |
| **Total tax charge** | **2,831** | 2,262 |

The standard rate of tax, based on the UK average rate of corporation tax is 19%.

Taxation for other jurisdictions is calculated at the rates prevailing in these jurisdictions.

The actual tax charge varies from the standard rate of tax on the results in the consolidated income statement for the reasons set out below.

| | **2020 £000** | Restated* 2019 £000 |
|---|---|---|
| **Profit before tax** | **13,002** | 11,862 |
| **Tax on profit at 19%** (2019: 19%) | **2,470** | 2,254 |
| **Factors affecting tax charge for the year:** | | |
| Change in rate for deferred tax from 17% to 19% | **367** | – |
| Non-deductible expenses | **107** | 47 |
| Difference on overseas tax rates | **(18)** | 14 |
| Utilisation of tax losses not previously recognised | **(58)** | – |
| Changes in estimates related to prior years | **(37)** | (53) |
| **Tax charge for the year** | **2,831** | 2,262 |
| **Weighted average effective tax rate for the year** | **21.8%** | 19.1% |

* Details of the restatements are set out on pages 76 and 77.

Macfarlane Group's corporate tax structure is such that the effective corporation tax rate should be relatively close to the prevailing tax rate with non-deductible expenses usually the principal reason for any variation.

Deferred tax assets and liabilities at 31 December 2020 have been calculated based on a long-term corporation tax rate of 19%, which had been substantively enacted at the balance sheet date. This changed from 17% effective from 1 April 2020.

## 6. Profit for the year

The Company has taken advantage of Section 408 of the Companies Act 2006 and consequently a separate profit and loss account for the parent company is not presented as part of these financial statements.

The Company's profit for the year is disclosed in note 37 to these financial statements.

## 7. Dividends

| | **2020 £000** | 2019 £000 |
|---|---|---|
| **Amounts recognised as distributions to equity holders in the year:** | | |
| Final dividend for 2019 of Nil p per share (2018: 1.65p per share) | **–** | 2,600 |
| Interim dividend for 2020 of 0.70p per share (2019: 0.69p per share) | **1,105** | 1,089 |
| | **1,105** | 3,689 |

As part of the steps taken by the Company to preserve cash resources at the outbreak of the Covid-19 pandemic in the first quarter of 2020, the Directors made the decision to cancel the final dividend for 2019 of 1.76p per share due for payment in June 2020.

A proposed final dividend of 1.85p per share will be paid on 3 June 2021 to shareholders on the register at 14 May 2021. This is subject to approval by shareholders at the Annual General Meeting on 11 May 2021 and therefore is not included as a liability in these financial statements.

## 8. Earnings per share

| | 2020 £000 | Restated* 2019 £000 |
|---|---|---|
| **Earnings for the purposes of calculating earnings per share** | | |
| Profit for the year | **10,171** | 9,600 |

| **Number of shares in issue** | 2020 Number of shares '000 | 2019 Number of shares '000 |
|---|---|---|
| Weighted average number of ordinary shares to calculate basic earnings per share | **157,812** | 157,636 |
| Dilutive effect of Long-Term Incentive Plan awards in issue | **703** | 393 |
| Weighted average number of ordinary shares to calculate diluted earnings per share | **158,515** | 158,029 |
| **Basic earnings per share** | **6.45p** | 6.09p |
| **Diluted earnings per share** | **6.42p** | 6.07p |

* Details of the restatements are set out on pages 76 and 77.

## 9. Subsidiary companies

Subsidiary companies, with names, countries of incorporation and registered offices, are shown on page 120.

The Group has agreed to exempt the two companies, Harrison's Packaging Limited (Company number 06999588) and Leyland Packaging Company (Lancs) Limited (Company number 03775077) from the provisions of the Companies Act relating to the audit of individual accounts by virtue of section 479A.

This is on the basis that the trade and assets of both companies will be hived up into the major trading company Macfarlane Group (UK) Limited ('MGUK') during 2021.

## 10. Goodwill and other intangible assets

| | Packaging Distribution £000 | Manufacturing Operations £000 | 2020 Total £000 | 2019 Total £000 |
|---|---|---|---|---|
| Goodwill | **44,108** | **1,359** | **45,467** | 45,303 |
| Other intangible assets | **15,131** | **–** | **15,131** | 17,360 |
| **Goodwill and other intangible assets** | **59,239** | **1,359** | **60,598** | 62,663 |

| **Goodwill** | Packaging Distribution £000 | Manufacturing Operations £000 | 2020 Total £000 | 2019 Total £000 |
|---|---|---|---|---|
| **Fair value on acquisition** | | | | |
| At 1 January | **43,944** | **1,359** | **45,303** | 42,210 |
| Additions (note 23) | **164** | **–** | **164** | 3,093 |
| At 31 December | **44,108** | **1,359** | **45,467** | 45,303 |
| **Accumulated impairment losses** | | | | |
| At 1 January and 31 December | **–** | **–** | **–** | – |
| **Carrying value** | | | | |
| **At 31 December 2020** | **44,108** | **1,359** | **45,467** | |
| At 31 December 2019 | 43,944 | 1,359 | | 45,303 |

On 6 January 2020, the Group's major trading subsidiary, MGUK, acquired the trade and selected assets of the packaging business known as Armagrip. Goodwill arising on this acquisition was added to the Packaging Distribution CGU. During 2019 the Group acquired the whole issued share capital of Carnweather, the intermediate parent and 100% owner of Ecopac (U.K.) Limited and Leyland Packaging Company (Lancs) Limited, with goodwill on both acquisitions added to the Packaging Distribution CGU.

At 31 December 2020, the Group had two CGU Groupings to which goodwill had been ascribed namely:

(i) Packaging Distribution, comprising goodwill arising on all acquisitions in this segment since 2001; and
(ii) Manufacturing Operations, comprising goodwill arising on Labels' acquisitions, primarily in the Reseal-it business in 2000.

The recoverable amount of each CGU Grouping is determined using 'value in use' calculations with key assumptions relating to discount rates, sales growth rates, projected gross margin and overhead costs. A post-tax discount rate of 9.0% (2019: 9.0%) is used for both CGU's reflecting the Group's weighted average cost of capital adjusted for appropriate market risk, which is considered to be the most definitive basis for arriving at a discount rate. The Group believes the risk profiles across the markets in which it operates are not significantly different and has therefore deemed it appropriate to apply the same discount rate to both CGUs. The pre-tax discount rate is 11.1% (2019: 11.1%) for each CGU Grouping and the Group's effective tax rate is then applied to give the post-tax discount rate.

Sales growth rates of 1%, changes in gross margin and overhead costs are based on our expectation of future performance in the markets in which we operate. These are consistent with our budgets for 2021 and strategic plans for future years. The assumptions are used to extrapolate cash flows for five years after which a terminal value is calculated assuming no inherent growth.

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

## 10. Goodwill and other intangible assets (continued)

| Other intangible assets | Brand values £000 | Customer relationships £000 | 2020 Total £000 | 2019 Total £000 |
|---|---|---|---|---|
| **Fair value on acquisition** | | | | |
| At 1 January | **891** | **26,762** | **27,653** | 24,340 |
| Additions (note 23) | **–** | **291** | **291** | 3,313 |
| At 31 December | **891** | **27,053** | **27,944** | 27,653 |
| **Amortisation** | | | | |
| At 1 January | **723** | **9,570** | **10,293** | 7,902 |
| Charge for year | **100** | **2,420** | **2,520** | 2,391 |
| At 31 December | **823** | **11,990** | **12,813** | 10,293 |
| **Carrying value** | | | | |
| **At 31 December 2020** | **68** | **15,063** | **15,131** | |
| At 31 December 2019 | 168 | 17,192 | | 17,360 |

Other intangible assets comprise separately identifiable intangible assets recognised on the acquisitions of businesses and subsidiary companies in Packaging Distribution between 2014 and 2020. They are recorded at fair value on acquisition less subsequent amortisation.

These are primarily Brand values, which are calculated on the Relief from Royalty method and a valuation of Customer relationships, which is calculated on the Excess Earnings method, based on the net anticipated earnings stream. Brand values are calculated on royalty rates of 0.5%, consistent with an assessment of what would be charged in a typical franchise agreement. The valuation of Customer relationships is calculated using our best estimates of customer attrition rates, and returns, based on assessments of performance levels in the markets in which we operate. Brand values and Customer relationship valuations are amortised on a straight-line basis over periods up to five years and over a ten year period respectively.

On 6 January 2020 the Group's subsidiary, MGUK, acquired the trade and selected assets of the packaging business known as Armagrip. Values for Customer relationships were recognised and added to those shown above for Packaging Distribution.

At 31 December 2020, the Group retained values in respect of:

| Year of acquisition | Company/business acquired | Brand | Customer relationships |
|---|---|---|---|
| 2014 | Packaging business of Lane Packaging Limited | | ✓ |
| 2014 | Network Packaging Limited | | ✓ |
| 2015 | Packaging business of One Packaging Limited | | ✓ |
| 2016 | Packaging business of Colton Packaging Teesside | | ✓ |
| 2016 | Packaging business of Edward McNeil Limited | | ✓ |
| 2016 | Nelsons for Cartons & Packaging Limited | ✓ | ✓ |
| 2017 | Packaging business of Greenwoods Stock Boxes Limited and Nottingham Recycling Limited | | ✓ |
| 2018 | Tyler Packaging (Leicester) Limited | | ✓ |
| 2018 | Harrisons Packaging Limited | ✓ | ✓ |
| 2019 | Ecopac (U.K.) Limited | ✓ | ✓ |
| 2019 | Leyland Packaging Company (Lancs) Limited | ✓ | ✓ |
| 2020 | Packaging business of Armagrip | | ✓ |

## 11. Property, plant and equipment

| | Property £000 | Plant, machinery & vehicles £000 | Total £000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2019 | 7,556 | 27,236 | 34,792 |
| Acquisitions | – | 703 | 703 |
| Additions | 557 | 2,091 | 2,648 |
| Disposals | (84) | (1,155) | (1,239) |
| At 31 December 2019 | 8,029 | 28,875 | 36,904 |
| Additions | **145** | **659** | **804** |
| Exchange movements | **–** | **182** | **182** |
| Disposals | **(60)** | **(2,917)** | **(2,977)** |
| **At 31 December 2020** | **8,114** | **26,799** | **34,913** |
| **Accumulated depreciation** | | | |
| At 1 January 2019 | 3,831 | 22,428 | 26,259 |
| Acquisitions | – | 480 | 480 |
| Charge for year | 427 | 1,171 | 1,598 |
| Disposals | (77) | (977) | (1,054) |
| At 31 December 2019 | 4,181 | 23,102 | 27,283 |
| Charge for year | **421** | **1,298** | **1,719** |
| Exchange movements | **–** | **116** | **116** |
| Disposals | **(60)** | **(2,785)** | **(2,845)** |
| **At 31 December 2020** | **4,542** | **21,731** | **26,273** |
| **Carrying amount** | | | |
| **At 31 December 2020** | **3,572** | **5,068** | **8,640** |
| At 31 December 2019 | 3,848 | 5,773 | 9,621 |
| At 1 January 2019 | 3,725 | 4,808 | 8,533 |

The main components of property, plant and equipment are:

(i) Three properties owned in our Manufacturing Operations and tenant's improvements at a number of short and medium-term leases in Packaging Distribution, categorised as Property.

(ii) A significant investment in plant and machinery in Manufacturing Operations, typically printing presses for label printing and corrugated case-making machinery, as well as investments in our IT hardware systems throughout the Group, which are all categorised under the combined heading of Plant, machinery and vehicles.

| | **2020 £000** | 2019 £000 |
|---|---|---|
| **Property at net book value comprises:** | | |
| Freeholds | **1,779** | 1,830 |
| Long leaseholds | **1,506** | 1,688 |
| Short leaseholds | **287** | 330 |
| | **3,572** | 3,848 |

Contractual commitments for capital expenditure for which no provision has been made in the accounts amounted to £919,000 (2019: £Nil).

## 12. Right of use assets

| | Property £000 | Plant, machinery & vehicles £000 | Total £000 |
|---|---|---|---|
| **Cost** | | | |
| On adoption of IFRS 16 on 1 January 2019 | 22,725 | 4,751 | 27,476 |
| Additions | 1,926 | 1,697 | 3,623 |
| Acquisitions | 967 | 12 | 979 |
| At 31 December 2019 | 25,618 | 6,460 | 32,078 |
| Additions | **625** | **1,243** | **1,868** |
| Exchange movements | **136** | **–** | **136** |
| Lease modifications | **5,713** | **220** | **5,933** |
| Disposals | **(38)** | **(470)** | **(508)** |
| **At 31 December 2020** | **32,054** | **7,453** | **39,507** |
| **Accumulated depreciation** | | | |
| At 1 January 2019 | – | – | – |
| Charge for year | 4,707 | 1,516 | 6,223 |
| At 31 December 2019 | 4,707 | 1,516 | 6,223 |
| Charge for year | **5,107** | **1,633** | **6,740** |
| Exchange movements | **20** | **–** | **20** |
| Lease modifications | **(1,482)** | **(70)** | **(1,552)** |
| Disposals | **(38)** | **(470)** | **(508)** |
| **At 31 December 2020** | **8,314** | **2,609** | **10,923** |
| **Carrying amount** | | | |
| **At 31 December 2020** | **23,740** | **4,844** | **28,584** |
| Carrying amount | | | |
| At 31 December 2019 | 20,911 | 4,944 | 25,855 |

The property portfolio comprises a number of property leases for periods from one to ten years, which are subject to rent reviews. The Group also leases the majority of its commercial vehicles, motor vehicles and forklift trucks on leases, with the leases running for periods of up to seven years.

## 13. Inventories

| | 2020 £000 | 2019 £000 |
|---|---|---|
| Raw materials and consumables | **1,112** | 710 |
| Work in progress | **520** | 204 |
| Finished goods and goods for resale | **14,226** | 14,899 |
| | **15,858** | 15,813 |

Inventories represent raw materials, work in progress and finished goods held at the year-end in our businesses to respond to customers' requirements. These comprise large numbers of comparatively small balances.

Local teams review inventory levels, older and obsolete inventories and provide against exposures throughout the year. The Group's executive management then reviews these local judgements to ensure they properly reflect movements in absolute inventory levels, ageing of holdings and known obsolescence.

| **Movement in the provisions for slow-moving and obsolete inventories** | 2020 £000 | 2019 £000 |
|---|---|---|
| At 1 January | **713** | 448 |
| Acquisitions | **–** | 187 |
| Additional provisions recognised in the consolidated income statement | **1,172** | 545 |
| Inventories written off during the year | **(596)** | (467) |
| **At 31 December** | **1,289** | 713 |

## 14. Trade and other receivables

| | 2020 £000 | 2019 £000 |
|---|---|---|
| **Current** | | |
| Trade receivables | **47,171** | 47,005 |
| Loss allowance | **(1,148)** | (310) |
| | **46,023** | 46,695 |
| Lease receivables | **–** | 246 |
| Other receivables | **2,656** | 2,571 |
| Prepayments | **2,692** | 2,532 |
| | **51,371** | 52,044 |
| **Non-current** | | |
| Other receivables | **35** | 35 |

Trade receivables represent amounts owed by customers in respect of revenues for goods or services provided prior to the year end. The Group's credit risk is primarily attributable to trade receivables. The average credit period taken at the reporting date is 54 days (2019: 57 days). No interest is charged on overdue receivables.

The Group uses external credit scoring systems to assess new customers' credit quality and set credit limits for each customer. The Group has a substantial customer base covering a wide range of business segments. No individual customer represents more than 5% of total trade receivables. Receivables balances greater than £25,000 are reviewed by the Board twice in each year.

Since the inception of IFRS 9 'Financial Instruments', the Group has applied a simplified approach to measuring the ECL level. This uses a provision matrix which takes into account historical credit loss experience based on the past-due status of receivables, adjusted to reflect current conditions and management's estimates of future economic conditions and known recoverability issues as a means of measuring the loss allowance.

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

| Risk profile category (ageing) | 2020 £000 | ECL rate | 2020 ECL allowance £000 | 2019 £000 | ECL rate | 2019 ECL allowance £000 |
|---|---|---|---|---|---|---|
| Current | **35,569** | **1.59%** | **567** | 34,751 | 0.37% | 130 |
| **Overdue** | | | | | | |
| 0-30 days | **7,107** | **3.10%** | **221** | 6,381 | 0.75% | 48 |
| 30-60 days | **3,658** | **4.71%** | **172** | 4,534 | 1.04% | 47 |
| 60-90 days | **659** | **13.90%** | **92** | 1,061 | 3.11% | 33 |
| Over 90 days | **178** | **53.84%** | **96** | 278 | 18.67% | 52 |
| | **47,171** | | **1,148** | 47,005 | | 310 |

The ECL allowance reflects the Group's prior experience and assessment of the current economic environment, with credit risk particularly heightened as a result of the Covid-19 pandemic. In determining the recoverability of trade receivables and the level of loss allowance, known changes in credit quality or expected credit loss from the date credit was originally granted are taken into account.

| | 2020 £000 | 2019 £000 |
|---|---|---|
| **ECL allowance** | | |
| At 1 January | **310** | 304 |
| Change in loss allowance for new trade receivables in 2020 | **1,296** | 203 |
| Amounts written off as uncollectible (net of recoveries) | **(458)** | (197) |
| **At 31 December** | **1,148** | 310 |

The Directors consider that the carrying amount of trade and other receivables approximate to their fair value.

## 15. Financial instruments

The Group funds its operations from a number of sources of finance, namely operating cash flows, bank borrowings, finance leases and shareholders' equity, which comprises share capital, reserves and retained earnings. The objective is to achieve a capital structure with an appropriate cost of capital, whilst providing flexibility in immediate and medium-term funding to accommodate any material investment requirements.

The Group's principal financial instruments comprise borrowings, cash and short-term deposits, and other items, such as trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to provide finance for the Group's operations. Throughout the period under review, the Group's policy is that no trading in financial instruments is undertaken for speculative purposes.

There has been no significant change to the Group's exposure to market risks during 2020. Principal risks arising are liquidity risk and credit risk, with secondary risks being interest rate risk and currency risk. The Board reviews and agrees policies for managing each of these risks, which are summarised below and have remained unchanged since the beginning of 2021.

### Liquidity risk

The Group's liquidity requirements are met by ensuring adequate access to funds by maintaining appropriate levels of committed bank facilities, which are reviewed regularly. The Group bank borrowing facility with Lloyds Banking Group PLC of £30 million was extended in the year and is available until December 2025. The facility bears interest at normal commercial rates and carries standard financial covenants in relation to interest cover and levels of headroom over certain trade receivables' balances. The maturity profile is set out in this note.

### Credit risk

The Group's exposure to credit risk is managed by dealing only with banks and financial institutions with good credit ratings and by applying considerable rigour in managing trade receivables. The Group's principal credit risk is primarily attributable to its trade receivables. Amounts presented in the balance sheet are shown net of an ECL allowance, as estimated by the Group's management with details set out in note 14.

### Interest rate risk

The Group borrows in the desired currencies at floating rates of interest. It was not considered necessary to cover interest rate exposures by the use of financial instruments during 2020.

A sensitivity analysis has been prepared based on bank interest rate exposures at the year-end date and the stipulated change taking place at the beginning of the financial year and held constant throughout the year. If interest rates had been 50 basis points higher and all other variables held constant, the Group's profit before tax would have decreased by £48,000 (2019: £96,000).

### Currency risk

The Group has three overseas subsidiaries, one operating in Ireland, one operating in The Netherlands and one operating in Sweden. Revenues and expenses are denominated exclusively in Euros and Swedish Krone respectively. As a result, movements in the Euro and Swedish Krone to sterling exchange rates could affect the Group's sterling balance sheet. The Group's policy during 2020 has been to review the need to hedge currency exposures on a regular basis and it was not considered necessary to cover existing currency exposures by the use of financial instruments. The Group continues to review the need to hedge exposures on a regular basis.

The Sterling value of foreign currency denominated assets and liabilities at the year-end is as follows:

| | **Assets 2020 £000** | Assets 2019 £000 | **Liabilities 2020 £000** | Liabilities 2019 £000 |
|---|---|---|---|---|
| Euros | **6,368** | 4,955 | **5,273** | 4,277 |
| Swedish Krone | **1,745** | 633 | **1,294** | 253 |
| | **8,113** | 5,588 | **6,567** | 4,530 |

The Sterling value of the Group's foreign currency denominated profit/(loss) before tax is as follows:

| | **2020 £000** | 2019 £000 |
|---|---|---|
| Euros | **482** | (47) |
| Swedish Krone | **504** | 472 |
| | **986** | 425 |

## 15. Financial instruments (continued)

The following table details the sensitivity to a 5% reduction in Sterling against the respective foreign currencies. The sensitivity of the Group's exposure to foreign currency risk is determined based on the exposure at the year-end and on the change taking place at the beginning of the financial year and held constant throughout the year.

| | **Result 2020 £000** | Result 2019 £000 | **Other equity 2020 £000** | Other equity 2019 £000 |
|---|---|---|---|---|
| Euros | **24** | (2) | **55** | 34 |
| Swedish Krone | **25** | 23 | **23** | 19 |
| | **49** | 21 | **78** | 53 |

| **Cash and cash equivalents** | **2020 £000** | Restated* 2019 £000 |
|---|---|---|
| **Currency** | | |
| Sterling | **5,728** | 5,054 |
| Euros | **975** | 370 |
| US Dollars | **5** | 54 |
| Swedish Krone | **520** | 101 |
| **Cash and cash equivalents** | **7,228** | 5,579 |
| **Bank borrowings** | | |
| Currency – Sterling | **7,766** | 18,253 |
| **Bank borrowings** | **7,766** | 18,253 |
| **Net bank debt** | **538** | 12,674 |

Cash and cash equivalents comprise cash at bank and other short-term highly liquid investments with maturity of three months or less.

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

The Group has been in compliance with all conditions in relation to its borrowing facility throughout 2020 and has remained in compliance in 2021 to date.

### Interest rates

Bank borrowings are held at floating rates of interest. The average effective interest rate on these borrowings approximates to 2.39% per annum (2019: 2.80%).

### Fair value of financial instruments

Current assets and liabilities are all held at floating rates. The fair values of cash and cash equivalents and bank borrowings at 31 December 2020 all materially equate to book values.

### Borrowing facilities

The Group's committed borrowing facilities, for which all conditions precedent had been met, are as follows:

| | **2020 £000** | 2019 £000 |
|---|---|---|
| Drawn down | **7,766** | 18,253 |
| Undrawn | **22,234** | 11,747 |
| **Committed borrowing facilities** | **30,000** | 30,000 |

| The Group's borrowing profile is as follows: | 2020 £000 | Restated* 2019 £000 |
|---|---|---|
| **At amortised cost** | | |
| Bank borrowings – secured | **7,766** | 18,253 |
| Lease liabilities | **5,784** | 6,321 |
| **Current borrowings** | **13,550** | 24,574 |
| Non-current – lease liabilities | **22,908** | 19,646 |
| **Total borrowings** | **36,458** | 44,220 |
| **Equity** | **79,778** | 68,737 |
| **Gearing (net debt to equity) ratio** | **46%** | 64% |

* Details of the restatements are set out on pages 76 and 77.

### Financial instruments carried at fair value

IFRS 7 requires that all financial instruments carried at fair value be analysed under certain levels. The table below analyses financial instruments, into a fair value hierarchy based on the valuation technique used to determine fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair values of all financial assets and financial liabilities by class together with their carrying amounts shown in the balance sheet are as follows:

| Financial instruments which are designated at fair value through profit or loss (note 16) | Carrying amount 2020 £000 | Fair value 2020 £000 | Level 1 2020 £000 | Level 2 2020 £000 | Level 3 2020 £000 |
|---|---|---|---|---|---|
| Contingent consideration | **–** | **–** | **–** | **–** | **–** |
| | Carrying amount 2019 £000 | Fair value 2019 £000 | Level 1 2019 £000 | Level 2 2019 £000 | Level 3 2019 £000 |
| Contingent consideration | 1,600 | 1,600 | – | – | 1,600 |

The following table shows the valuation techniques used for Level 3 fair values, and significant unobservable inputs used for Level 3 items.

| Financial instruments measured at fair value | Valuation technique | Significant unobservable inputs (Level 3 only) |
|---|---|---|
| Contingent consideration | The expected payment reflects calculated cash outflows under possible earn-out scenarios and is not discounted | Trading performance of acquired subsidiary companies in a period of 12 months following acquisition |

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements.

| | | 2020 Contractual cash flows | | |
|---|---|---|---|---|
| **Non-derivative financial instruments** | **Total £000** | **Due within one year £000** | **Due from 1-5 years £000** | **Due after five years £000** |
| Secured bank borrowings | **7,766** | **7,766** | **–** | **–** |
| Lease liabilities | **28,692** | **5,784** | **16,643** | **6,265** |
| Trade payables | **35,641** | **35,622** | **19** | **–** |
| | **72,099** | **49,172** | **16,662** | **6,265** |

## 15. Financial instruments (continued)

| Non-derivative financial instruments | Total £000 | 2019 Contractual cash flows (Restated*) Due within one year £000 | Due from 1-5 years £000 | Due after five years £000 |
|---|---|---|---|---|
| Secured bank borrowings | 18,253 | 18,253 | – | – |
| Lease liabilities | 25,967 | 6,321 | 16,035 | 3,611 |
| Trade payables | 36,221 | 36,199 | 22 | – |
| | 80,441 | 60,773 | 16,057 | 3,611 |

## 16. Trade and other payables

| | **2020 £000** | 2019 £000 |
|---|---|---|
| **Due within one year** | | |
| Trade payables | **35,622** | 36,199 |
| Other taxation and social security | **4,009** | 3,662 |
| Contingent consideration | **–** | 1,600 |
| Other payables | **1,147** | 515 |
| Accruals and deferred income | **6,977** | 6,554 |
| | **47,755** | 48,530 |
| **Due after more than one year** | | |
| Other payables | **19** | 22 |

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs in all the Group's businesses. No interest is charged on overdue trade payables.

The Directors consider that the carrying amounts for trade and other payables approximate to their fair value.

## 17. Lease liabilities

| | **2020 £000** | 2019 £000 |
|---|---|---|
| **Amounts payable under leases** | | |
| Within one year | **5,784** | 6,321 |
| Between one and five years | **16,643** | 16,035 |
| After more than five years | **6,265** | 3,611 |
| **Present value of lease liabilities** | **28,692** | 25,967 |
| Due for settlement within 12 months (current liabilities) | **(5,784)** | (6,321) |
| **Due for settlement after more than 12 months (non-current liabilities)** | **22,908** | 19,646 |

| | **2020 £000** | 2019 £000 |
|---|---|---|
| At 1 January | **25,967** | 101 |
| On adoption of IFRS 16 on 1 January 2019 | **–** | 27,963 |
| New leases entered into during year | **1,868** | 3,623 |
| Exchange movements | **91** | – |
| Acquisitions | **–** | 979 |
| Lease modifications | **7,485** | – |
| Repayments under leases | **(6,719)** | (6,699) |
| **At 31 December** | **28,692** | 25,967 |

All lease payments due and payable during 2020 have been made and there are no payment concessions from any lessors to be carried forward into 2021. The Directors consider that the carrying amounts for lease liabilities approximate to their fair value.

## 18. Deferred tax

| | Restated* Tax losses/ accelerated capital allowances £000 | Other intangible assets £000 | Retirement benefit obligations £000 | Restated* Total £000 |
|---|---|---|---|---|
| At 1 January 2019 | 87 | (2,794) | 1,660 | (1,047) |
| Acquisition (note 23) | (37) | (562) | – | (599) |
| (Charged)/credited in income statement | (90) | 405 | (469) | (154) |
| Credited in other comprehensive income | | | | |
| Deferred tax on remeasurement of pension scheme liability | – | – | (92) | (92) |
| At 31 December 2019 | (40) | (2,951) | 1,099 | (1,892) |
| Acquisition (note 23) | **–** | **(55)** | **–** | **(55)** |
| (Charged)/credited in income statement | **(39)** | **130** | **(548)** | **(457)** |
| Credited in other comprehensive income | | | | |
| Deferred tax on remeasurement of pension scheme liability | **–** | **–** | **(401)** | **(401)** |
| Corporation tax rate change on deferred tax | **–** | **–** | **129** | **129** |
| **At 31 December 2020** | **(79)** | **(2,876)** | **279** | **(2,676)** |
| **2020 deferred tax assets** | | | | |
| Due outwith one year | **117** | **–** | **279** | **396** |
| **2020 deferred tax liabilities** | | | | |
| Due outwith one year | **(196)** | **(2,876)** | **–** | **(3,072)** |
| | **(79)** | **(2,876)** | **279** | **(2,676)** |
| 2019 deferred tax assets | | | | |
| Due outwith one year | 125 | – | 1,099 | 1,224 |
| 2019 deferred tax liabilities | | | | |
| Due outwith one year | (165) | (2,951) | – | (3,116) |
| | (40) | (2,951) | 1,099 | (1,892) |

* Details of the restatements are set out on pages 76 and 77.

Deferred tax balances represent tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax assets and liabilities at 31 December 2020 have been calculated based on a corporation tax rate of 19%.

## 19. Share capital

| | **Number of 25p shares** | **2020 £000** | 2019 £000 |
|---|---|---|---|
| **Allotted, issued and fully paid:** | | | |
| At 1 January | **157,812,000** | **39,453** | 39,387 |
| Issued during the year | **–** | **–** | 66 |
| **At 31 December** | **157,812,000** | **39,453** | 39,453 |

The Company has one class of ordinary shares, which carry no right to fixed income.

Each ordinary share carries one vote in any General Meeting of the Company.

On 5 September 2019, the Company issued 264,382 ordinary shares of 25p each at a value of 94.56p per share as non-cash consideration to the Vendors of Leyland Packaging Company (Lancs) Limited, an effective value of £250,000. The shares were admitted to the Official List of the London Stock Exchange on 5 September 2019.

## 20. Reserves

| | Share premium £000 | Revaluation reserve £000 | Translation reserve £000 | Restated* Retained earnings £000 |
|---|---|---|---|---|
| Balance at 1 January 2019 (as previously stated) | 12,975 | 70 | 293 | 9,807 |
| Restatement (see pages 76 and 77) | – | – | – | (403) |
| Balance at 1 January 2019 (as restated) | 12,975 | 70 | 293 | 9,404 |
| Profit for the year | – | – | – | 9,600 |
| Dividends paid (see note 7) | – | – | – | (3,689) |
| Foreign currency translation differences – foreign operations | – | – | (62) | – |
| Issue of new shares (net of expenses of issue) | 173 | – | – | – |
| Share-based payments | – | – | – | 75 |
| Remeasurement of pension scheme liability taken direct to equity | – | – | – | 537 |
| Deferred tax taken direct to equity | – | – | – | (92) |
| Balance at 31 December 2019 | **13,148** | **70** | **231** | **15,835** |
| Profit for the year | **–** | **–** | **–** | **10,171** |
| Dividends paid (see note 7) | **–** | **–** | **–** | **(1,105)** |
| Foreign currency translation differences – foreign operations | **–** | **–** | **60** | **–** |
| Share-based payments | **–** | **–** | **–** | **75** |
| Remeasurement of pension scheme liability taken direct to equity | **–** | **–** | **–** | **2,112** |
| Deferred tax taken direct to equity | **–** | **–** | **–** | **(272)** |
| **Balance at 31 December 2020** | **13,148** | **70** | **291** | **26,816** |

* Details of the restatements are set out on pages 76 and 77.

Exchange differences arising in the consolidated accounts on the retranslation at closing rates of the Group's net investments in foreign subsidiary companies are recorded as movements on the translation reserve.

## 21. Provisions

| | Property £000 | Restated* Other £000 | Restated* Total £000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2020 (as previously stated) | – | – | – |
| Restatement (see pages 76 and 77) | – | 660 | 660 |
| At 1 January 2020 (as restated) | – | 660 | 660 |
| Reclassifications from Trade and other payables | **467** | **–** | **467** |
| Additions in the year | **1,225** | **199** | **1,424** |
| Payments | **(125)** | **–** | **(125)** |
| **At 31 December 2020** | **1,567** | **859** | **2,426** |
| Due within one year | **975** | **859** | **1,834** |
| Due after more than one year | **592** | **–** | **592** |
| **At 31 December 2020** | **1,567** | **859** | **2,426** |

Property provisions relate to sums due in respect of dilapidations.

Other provisions relate to sums due to customers in respect of backdated duty including interest.

## 22. Analysis of changes in net debt

| | Cash and cash equivalents £000 | Bank borrowing £000 | Lease liabilities £000 | Total debt £000 |
|---|---|---|---|---|
| At 1 January 2020 (as previously stated) | 3,310 | (15,984) | (25,967) | (38,641) |
| Restatement (page 77) | 2,269 | (2,269) | – | – |
| At 1 January 2020 (as restated) | 5,579 | (18,253) | (25,967) | (38,641) |
| Non-cash movements | | | | |
| New leases | – | – | (1,868) | (1,868) |
| Exchange movements | – | – | (91) | (91) |
| Lease modifications | – | – | (7,485) | (7,485) |
| Cash movements | 1,649 | 10,487 | 6,719 | 18,855 |
| **At 31 December 2020** | **7,228** | **(7,766)** | **(28,692)** | **(29,230)** |

| | Cash and cash equivalents £000 | Bank borrowing £000 | Net bank debt £000 |
|---|---|---|---|
| **Net bank debt 2020** | **7,228** | **(7,766)** | **(538)** |
| Net bank debt 2019 Restated* | 5,579 | (18,253) | (12,674) |

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

The movement in net bank debt is inclusive of the net cash outflow in respect of acquisitions set out in note 23.

## 23. Acquisitions

On 6 January 2020, the Group's subsidiary, MGUK acquired the business trade and assets of Armagrip, a packaging distributor based in Co. Durham, for a consideration of approximately £0.9 million, paid in cash on acquisition. The business achieved sales of £1.2 million and a profit of £0.1 million in 2020.

In 2019, MGUK acquired 100% of Carnweather Limited, the parent company of Ecopac, for a maximum consideration of £3.9 million. £3.1 million was paid in cash on acquisition, with the deferred consideration of £0.8 million paid in 2020, as trading targets following acquisition were met in full.

In 2019 the Group also acquired 100% of Leyland, for a maximum consideration of £3.25 million. £2.00 million was paid in cash on acquisition with shares to the value of £0.25 million issued to the Vendors on acquisition. Deferred consideration of £0.97 million was paid in 2020, reflecting the results in the trading period after acquisition.

All the businesses detailed above are part of the Packaging Distribution segment. Goodwill arising on the acquisitions is attributable to the anticipated future profitability of the distribution of Group product ranges and anticipated operating synergies from future combinations of activities in the Packaging Distribution network.

Fair values assigned to net assets acquired and consideration paid and payable are set out below:

| | Armagrip £000 | Previous years' acquisitions £000 | **2020 Total £000** | 2019 Total £000 |
|---|---|---|---|---|
| **Net assets acquired** | | | | |
| Other intangible assets (note 10) | 291 | – | **291** | 3,313 |
| Tangible assets (inc. ROU assets) | – | – | **–** | 1,194 |
| Inventories | 206 | – | **206** | 879 |
| Trade and other receivables | 282 | – | **282** | 1,797 |
| Cash and bank balances | – | – | **–** | 249 |
| Bank borrowings | – | – | **–** | (149) |
| Trade and other payables | – | – | **–** | (1,658) |
| Current tax liabilities | – | – | **–** | (235) |
| Lease liabilities | – | – | **–** | (979) |
| Deferred tax liabilities (note 18) | (55) | – | **(55)** | (599) |
| **Net assets acquired** | 724 | – | **724** | 3,812 |
| Goodwill arising on acquisition (note 10) | 164 | – | **164** | 3,093 |
| **Total consideration** | 888 | – | **888** | 6,905 |
| **Contingent consideration on acquisitions** | | | | |
| Current year | – | – | **–** | (1,600) |
| Prior years | – | 1,773 | **1,773** | 1,207 |
| **Shares issued for non-cash consideration** | – | – | **–** | (250) |
| **Total cash consideration** | 888 | 1,773 | **2,661** | 6,262 |
| **Net cash outflow arising on acquisitions** | | | | |
| Cash consideration | (888) | (1,773) | **(2,661)** | (6,262) |
| Cash and bank balances acquired | – | – | **–** | 100 |
| **Net cash outflow – acquisitions** | (888) | (1,773) | **(2,661)** | (6,162) |

## 24. Retirement benefit obligations

### Introduction

Macfarlane Group PLC sponsors a defined benefit pension scheme for certain active and former UK employees – the Macfarlane Group PLC Pension & Life Assurance Scheme (1974) ('the Scheme'). Two of the trading subsidiaries, Macfarlane Group UK Limited and Macfarlane Labels Limited are also sponsoring employers of the Scheme. The Scheme is currently in deficit and disclosure of the respective proportions of the Group deficit are included and disclosed in the financial statements of each of the three participating employers.

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

The Scheme provides qualifying employees with an annual pension of 1/60 of pensionable salary for each completed year's service on attainment of a normal retirement age of 65. Pensionable salaries were frozen for the remaining active members at the levels current at 30 April 2009 with the change taking effect from 30 April 2010. As a result no further salary inflation applies for active members who elected to remain in the Scheme. Active members' benefits also include life assurance cover, with the payment of these benefits at the discretion of the Trustees of the Scheme. The Scheme was closed to new entrants during 2002.

On leaving active service a deferred member's pension is revalued from the time of withdrawal until the pension is drawn. Revaluation in deferment is statutory and since 2010 has been revalued on the Consumer Price Index ('CPI') measure of inflation. Revaluation of pensions in payment is a blend of fixed increases and inflationary increases depending on the relevant periods of accrual of benefit. For pensions in payment, the inflationary increase is currently based on the Retail Price Index ('RPI') measure of inflation or based on Limited Price Indexation ('LPI') for certain defined periods of service.

During 2012, Macfarlane Group PLC agreed with the Board of Trustees to amend benefits for pensioner, deferred and active members in the Scheme by offering a Pension Increase Exchange ('PIE') option to pensioner members and a PIE option to all other members at retirement after 1 May 2012.

### Balance sheet disclosures at 31 December 2020

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

The investment classes held by the Scheme and the Scheme deficit, based on the results of the actuarial valuation as at 1 May 2020, updated to the year-end are as shown below:

| Investment class | **Valuation 2020 £000** | **Asset allocation** | Valuation 2019 £000 | Asset allocation | Valuation 2018 £000 | Asset allocation |
|---|---|---|---|---|---|---|
| **Equities** | | | | | | |
| UK equity funds | **8,351** | **8.4%** | 8,913 | 10.1% | 6,244 | 8.2% |
| Overseas equity funds | **14,585** | **14.7%** | 13,226 | 15.0% | 9,781 | 12.9% |
| Multi-asset diversified growth funds | **31,559** | **31.7%** | 25,382 | 28.8% | 17,512 | 23.1% |
| **Bonds** | | | | | | |
| Liability-driven investment funds | **31,463** | **31.7%** | 27,688 | 31.5% | 28,379 | 37.4% |
| **Other** | | | | | | |
| European loan fund | **6,493** | **6.5%** | 6,379 | 7.3% | 6,645 | 8.8% |
| Secured property income fund | **6,254** | **6.3%** | 6,192 | 7.0% | 7,112 | 9.4% |
| Cash | **725** | **0.7%** | 281 | 0.3% | 154 | 0.2% |
| Fair value of scheme investments | **99,430** | **100.0%** | 88,061 | 100.0% | 75,827 | 100.0% |
| Present value of scheme liabilities | **(100,901)** | | (94,526) | | (85,592) | |
| **Pension scheme deficit** | **(1,471)** | | (6,465) | | (9,765) | |

## 24. Retirement benefit obligations (continued)

The Trustees review the Scheme's investments on a regular basis and consult with the Company regarding any proposed changes to the investment profile. During 2020 the Trustees agreed to make adjustments between the various investment categories to bring the overall allocations into line with the strategic asset allocation in the Trustees' Statement of Investment Principles.

Liability-Driven Investment Funds provide a match of 100% against the impact of inflation movements on pension liabilities and of approximately 85% against the impact of movements in interest rates on pension liabilities.

The ability to realise the Scheme's investments at, or close to, fair value was considered when setting the investment strategy. 87% (2019: 86%) of the Scheme's investments can be realised at fair value on a daily or weekly basis. The remaining investments have monthly or quarterly liquidity, however, whilst the income from these helps to meet the Scheme's cash flow needs, they are not expected to be realised at short notice. The present value of the Scheme liabilities is derived from cash flow projections over a long period and is thus inherently uncertain.

### Assumptions

The Scheme's liabilities at 31 December 2020 were calculated on the following bases as required under IAS19:

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

### Sensitivity to significant assumptions

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

| | **2020 £000** | 2019 £000 | 2018 £000 |
|---|---|---|---|
| **Assumptions** | | | |
| Discount rate movement of +0.6% | **9,684** | 9,072 | 8,214 |
| Inflation rate movement of +0.1% | **(515)** | (482) | (436) |
| Mortality movement of +0.1 year in age rating | **303** | 284 | 257 |

Positive figures reflect a reduction in scheme liabilities and therefore a reduction in the deficit. The sensitivity information has been prepared using the same method as adopted when updating the results of the most recent actuarial valuation to the balance sheet date and is consistent with the approach adopted in previous years.

The level of sensitivities shown reflect average movements in the assumptions in the last three years.

The sensitivity information assumes that the average duration of the scheme's liabilities is seventeen years.

### GMP equalisation

In 2018, the Directors made the judgement that the estimated effect of GMP equalisation on the Group's pension liabilities was a past service cost. The average uplift for GMP service for impacted members was reflected through the consolidated income statement in 2018, with any subsequent changes in the estimate to be recognised in other comprehensive income. This treatment was based on the fact that reported pension liabilities for the scheme as at 31 December 2017 did not include any amount in respect of GMP equalisation.

UK pension legislation requires that pension schemes are funded prudently. Following the conclusion of the 2020 actuarial valuation, the scheme's trustees agreed with the Company to a deficit recovery period of 4 years. As part of this agreement, the Group reconfirmed its effective unconditional right to a refund of any surplus, based on and in accordance with the terms and conditions of the defined benefit scheme and minimum funding requirements. Accordingly IFRIC 14 does not require an adjustment to the net pension liability.

Macfarlane Group PLC paid contributions of £3,211,000 per annum (inclusive of current service costs and interest of £329,000), which along with investment returns from return-seeking assets is expected to make good the actuarial shortfall by April 2024. The estimated deficit reduction contributions in 2021 will be £1,800,000 (inclusive of estimated service costs and interest of £160,000).

The employer contribution rate for active members from 1 May 2020 is 44.4% (previously 28.7%) of pensionable salary and the employee contribution rate is 7.0% of pensionable salary.

| **Movement in the scheme deficit during the year** | **2020 £000** | 2019 £000 |
|---|---|---|
| At 1 January | **(6,465)** | (9,765) |
| Current service costs | **(143)** | (112) |
| Contributions from sponsoring employers | **3,211** | 3,106 |
| GMP on transfer values | **(87)** | – |
| Net finance cost (note 4) | **(99)** | (231) |
| Remeasurement of pension scheme liability in the year | **2,112** | 537 |
| **At 31 December** | **(1,471)** | (6,465) |
| **Analysis of amounts charged to profit before tax** | | |
| Current service cost | **(143)** | (112) |
| GMP on transfer values | **(87)** | – |
| Net finance cost | **(99)** | (231) |
| **Pension expense charged to profit before tax** | **(329)** | (343) |
| **Analysis of the remeasurement of the pension scheme liability recognised in the statement of other comprehensive income** | | |
| Return on scheme investments excluding amount shown in interest income | **10,655** | 11,154 |
| Changes due to scheme experience | **2,364** | (102) |
| Changes in assumptions underlying the present value of scheme liabilities | **(10,907)** | (10,515) |
| **Remeasurement of the pension scheme liability recognised in the statement of other comprehensive income** | **2,112** | 537 |
| **Movement in the fair value of scheme investments** | | |
| At 1 January | **88,061** | 75,827 |
| Interest income | **1,751** | 2,109 |
| Return on scheme investments (excluding amount shown in interest income) | **10,655** | 11,154 |
| Contributions from sponsoring employers | **3,211** | 3,106 |
| Contributions from scheme members | **34** | 70 |
| Benefits paid | **(4,282)** | (4,205) |
| **At 31 December** | **99,430** | 88,061 |

## 24. Retirement benefit obligations (continued)

| **Movement in the present value of scheme liabilities** | **2020 £000** | 2019 £000 |
|---|---|---|
| At 1 January | **(94,526)** | (85,592) |
| Current service cost | **(143)** | (112) |
| GMP on transfer values | **(87)** | – |
| Interest cost | **(1,850)** | (2,340) |
| Contributions from scheme members | **(34)** | (70) |
| Changes due to scheme experience | **2,364** | (102) |
| Changes in assumptions underlying the scheme liabilities | **(10,907)** | (10,515) |
| Benefits paid | **4,282** | 4,205 |
| **At 31 December** | **(100,901)** | (94,526) |

The cumulative amount of actuarial losses recognised in other comprehensive income since the date of transition to IAS 19 on 1 January 2004 is £19,254,000 (2019: £21,366,000).

The history of experience adjustments and actual returns on scheme assets and scheme liabilities is as follows:

| | **2020 £000** | 2019 £000 | 2018 £000 | 2017 £000 | 2016 £000 |
|---|---|---|---|---|---|
| Present value of defined benefit obligations | **(100,901)** | (94,526) | (85,592) | (92,783) | (92,345) |
| Fair value of scheme investments | **99,430** | 88,061 | 75,827 | 80,960 | 77,808 |
| **Pension scheme deficit** | **(1,471)** | (6,465) | (9,765) | (11,823) | (14,537) |
| **Actual return on scheme investments** | | | | | |
| Amount | **12,406** | 13,263 | (2,156) | 5,795 | 12,080 |
| Percentage of scheme investments | **12.5%** | 15.1% | (2.8%) | 7.2% | 15.5% |
| **Experience adjustment on scheme liabilities** | | | | | |
| Amount | **(8,543)** | (10,617) | 4,111 | (3,953) | (15,162) |
| Percentage of scheme liabilities | **(8.5%)** | (11.2%) | 4.8% | (4.3%) | (16.4%) |
| **Experience adjustment on scheme investments** | | | | | |
| Amount | **10,655** | 11,154 | (4,143) | 3,730 | 9,610 |
| Percentage of scheme investments | **10.7%** | 12.7% | (5.5%) | 4.6% | 12.4% |

### Defined contribution schemes

The Group also operates a number of defined contribution pension arrangements, set up as the Macfarlane Group Personal Pension Plan, including an Auto-enrolment scheme. The assets of these plans are held separately from those of the Group in independently administered funds. The pension cost charge represents contributions paid by the Group to these plans and amounted to £1,670,000 (2019: £1,579,000). Contributions amounting to £168,000 (2019: £181,000) were payable to the plans and are included in trade and other payables at 31 December.

## 25. Share-based payments

| Equity-settled long-term incentive plans<br>Movements in PSP awards during the year | Number of shares 2020 | Number of shares 2019 |
|---|---|---|
| Outstanding at 1 January | **604,270** | – |
| Awarded during the year | **716,397** | 604,270 |
| Lapsed during the year | **(53,356)** | – |
| **Outstanding at 31 December** | **1,267,311** | 604,270 |

A nil cost option award was granted under The Macfarlane Group PLC Long Term Incentive Plan in September 2020 based on 100% of salary. The performance condition requires EPS in 2022 to be between 6.53p and 7.84p for between 25%-100% of this part of the award to vest, working on a straight-line basis.

A nil cost option award was granted under The Macfarlane Group PLC Long Term Incentive Plan in May 2019 based on 100% of salary. The performance condition requires EPS in 2021 to be between 6.77p and 8.12p for between 25%-100% of this part of the award to vest, working on a straight-line basis.

Both awards are subject to an underpin based on the Remuneration Committee's view of overall performance in the three-year periods to 31 December 2021 and 2022 respectively. No re-setting of either award is allowed. Vesting periods are three years and awards vesting then have a holding period of two years after vesting.

The Group recognised an expense of £75,000 (2019: £75,000) in 2020 relating to equity-settled long-term incentive plan awards on the basis that the 2019 awards had an estimated probability of vesting of 30% (2019: 65%) and the 2020 awards had an estimated probability of vesting of 75%.

## 26. Post balance sheet event

There are no post balance sheet events to be disclosed.

## 27. Related party transactions

The Group has related party relationships with

(i) its subsidiaries, listed on page 120,
(ii) its Directors who comprise the Group Board; and
(iii) the Macfarlane Group PLC sponsored pension schemes (see note 24).

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

Key management personnel comprise the Group Board. Their remuneration is set out below in aggregate for each of the categories specified in IAS 24 '*Related Party Disclosures*'.

| | 2020 £000 | 2019 £000 |
|---|---|---|
| Directors' remuneration | **898** | 953 |
| Employer's national insurance contributions | **124** | 130 |
| | **1,022** | 1,083 |

Further details of Directors' individual and collective remuneration are set out in the Directors' Remuneration Report on page 43. The details provided in the Directors' Remuneration Report address the Companies Act disclosure requirements relating to Directors' remuneration.

Details of Directors' shareholdings in the Company are shown on page 45 and total dividends of £14,000 were paid in respect of these shareholdings in 2020 (2019: £46,000).

Disclosures in relation to the pension schemes are set out in note 24.

The Directors have considered the implications of IAS 24 '*Related Party Disclosures*' and are satisfied that there are no other related party transactions occurring during the year, which require disclosure other than those already disclosed in these financial statements.

# Company balance sheet

At 31 December 2020

| | Note | 2020<br>£000 | 2019<br>£000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Tangible assets | 29 | **54** | 61 |
| Right-of-use assets | 30 | **119** | 134 |
| Investments | 31 | **26,935** | 29,989 |
| Deferred tax assets | 32 | **111** | 439 |
| Debtors | 33 | **33,545** | 31,162 |
| | | **60,764** | 61,785 |
| **Current assets** | | | |
| Debtors | 33 | **3,858** | 3,135 |
| Cash at bank and in hand | | **2,731** | 2,615 |
| **Total current assets** | | **6,589** | 5,750 |
| Creditors – amounts falling due within one year | 34 | **(643)** | (1,332) |
| **Net current assets** | | **5,946** | 4,418 |
| **Total assets less current liabilities** | | **66,710** | 66,203 |
| Creditors – amounts falling due after more than one year | 35 | **(114)** | (128) |
| **Net assets excluding pension liability** | | **66,596** | 66,075 |
| Pension liability | 40 | **(589)** | (2,586) |
| **Net assets** | | **66,007** | 63,489 |
| **Capital and reserves** | | | |
| Share capital | 36 | **39,453** | 39,453 |
| Share premium | 37 | **13,148** | 13,148 |
| Profit and loss account | 37 | **13,406** | 10,888 |
| **Shareholders' funds** | 38 | **66,007** | 63,489 |

The accompanying notes are an integral part of this Company balance sheet.

The financial statements of Macfarlane Group PLC, Company registration number SC004221, were approved by the Board of Directors on 25 February 2021 and signed on its behalf by

**Peter D. Atkinson**
Chief Executive

**Ivor Gray**
Finance Director

# Company statement of changes in equity

For the year ended 31 December 2020

| | Note | Share capital £000 | Share premium £000 | Retained earnings £000 | Total £000 |
|---|---|---|---|---|---|
| At 1 January 2019 | | 39,387 | 12,975 | 8,267 | 60,629 |
| **Comprehensive income** | | | | | |
| Profit for the year | | – | – | 5,373 | 5,373 |
| Remeasurement of pension scheme liability | 40 | – | – | 1,038 | 1,038 |
| Tax on remeasurement of pension scheme liability | 32 | – | – | (176) | (176) |
| **Total comprehensive income** | | – | – | 6,235 | 6,235 |
| **Transactions with shareholders** | | | | | |
| Dividends | 7 | – | – | (3,689) | (3,689) |
| Share-based payments | 25 | – | – | 75 | 75 |
| Issue of share capital | 36,37 | 66 | 173 | – | 239 |
| **Total transactions with shareholders** | | 66 | 173 | (3,614) | (3,375) |
| At 31 December 2019 | | **39,453** | **13,148** | **10,888** | **63,489** |
| **Comprehensive income** | | | | | |
| Profit for the year | | **–** | **–** | **2,122** | **2,122** |
| Remeasurement of pension scheme liability | 40 | **–** | **–** | **1,698** | **1,698** |
| Tax on remeasurement of pension scheme liability | 32 | **–** | **–** | **(323)** | **(323)** |
| Corporation tax rate change on deferred tax | 32 | **–** | **–** | **51** | **51** |
| **Total comprehensive income** | | **–** | **–** | **3,548** | **3,548** |
| **Transactions with shareholders** | | | | | |
| Dividends | 7 | **–** | **–** | **(1,105)** | **(1,105)** |
| Share-based payments | 25 | **–** | **–** | **75** | **75** |
| **Total transactions with shareholders** | | **–** | **–** | **(1,030)** | **(1,030)** |
| **At 31 December 2020** | | **39,453** | **13,148** | **13,406** | **66,007** |

The accompanying notes are an integral part of this statement of changes in equity.

## 28. Significant accounting policies

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

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework ('FRS 101')*.

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

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

As the consolidated financial statements for Macfarlane Group PLC include the equivalent disclosures, the Company has also applied the exemptions available under FRS 101 in respect of certain disclosures required by;

(i) IFRS 2 *Share Based Payments* in relation to Group-settled share-based payments;
(ii) IFRS 3 *Business Combinations* relating to business combinations undertaken by the Company; and
(iii) IFRS 7 *Financial Instruments*.

### Going concern
The Directors, in their consideration of going concern, have reviewed the Company and Group's future cash flow forecasts and revenue projections, which they believe are based on a prudent assessment of the market and past experience as set out on page 27.

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

### Critical judgements and key sources of estimation uncertainty
The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. Due to the nature of estimation, the actual outcomes may well differ from these estimates.

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

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

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

### Changes in accounting policies and application of revised standards and interpretations
There are no new accounting policies applied in 2020 which have had a material effect on these accounts.

The Directors do not consider that the adoption of new and revised standards and interpretations issued by the IASB in 2020 has had any material impact on the financial statements of the Group.

## Accounting policies
The financial statements are prepared on the historical cost basis except that certain of the following assets and liabilities are stated at their fair value. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the preparation of these financial statements.

### Tangible assets
Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on a straight-line basis to write off the cost or valuation of the assets to their estimated residual values over the period of their expected useful lives. The rates of depreciation vary between 2%-5% per annum on property and 7%-25% per annum on plant and equipment. Rates of depreciation are reviewed annually to ensure they remain relevant and residual values are reviewed once in each calendar year.

### Investments
Investments held as fixed assets are stated in note 31 at cost less any provision for impairment.

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

#### Trade and other debtors
Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

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

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

### IFRS 16 'Leases'
The Company recognises a right-of-use asset and a corresponding lease liability for all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets below £4,000. For these short-term or low value leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

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

Lease liabilities are presented on two separate lines in the balance sheet for amounts due within one year and amounts due beyond one year. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the liability by payments made. The Company remeasures the lease liability (and adjusts the related right-of-use asset) whenever the lease term has changed or a lease contract is modified and the lease modification is not accounted for as a separate lease. The Company did not make any such adjustments during the period presented.

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

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

The Company's incremental borrowing rate applied to lease liabilities in 2020 is 3.0%.

Movements in lease liabilities during 2020 are set out in note 35.

## 28. Significant accounting policies (continued)

### Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for management services provided to Group undertakings, net of VAT. Revenue is recognised over time as the related charges are made.

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

### Financial assets
Financial assets, categorised as investments, are recognised and derecognised on the effective date where the purchase or sale of an investment is under a contract whose terms require the delivery of the investment within the timeframe established. They are initially measured at fair value, net of transaction costs except for those financial assets classified at fair value through the income statement, which are initially measured at fair value.

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

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

The carrying amount of the financial asset is reduced by the impairment loss.

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

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

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

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

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

Contingent consideration classified as a liability will be subsequently re-measured through the income statement under the requirements of the revised IFRS 3.

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

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

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

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

Deferred tax liabilities are generally recognised for all taxable temporary differences.

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

## Retirement benefit costs

### Defined contribution schemes

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

### Defined benefit schemes

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

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

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

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

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

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

## Share-based payments

The fair value of share-based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes. Details of the determination of the fair value of equity-settled share-based transactions are set out in note 25.

## 29. Tangible assets

| | Plant and equipment £000 | Total £000 |
|---|---|---|
| **Cost** | | |
| At 1 January 2020 and 31 December 2020 | **173** | **173** |
| **Depreciation** | | |
| At 1 January 2020 | **112** | **112** |
| Charge for the year | **7** | **7** |
| **At 31 December 2020** | **119** | **119** |
| **Net book value** | | |
| **At 31 December 2020** | **54** | **54** |
| At 31 December 2019 | 61 | 61 |

## 30. Right of use assets

| **Property** | Total £000 |
|---|---|
| **Cost** | |
| At 1 January 2020 and 31 December 2020 | **148** |
| **Depreciation** | |
| At 1 January 2020 | **14** |
| Charge for year | **15** |
| **At 31 December 2020** | **29** |
| **Net book value** | |
| **At 31 December 2020** | **119** |
| At 31 December 2019 | 134 |

## 31. Investments

| | **2020 £000** | 2019 £000 |
|---|---|---|
| **Investment in subsidiaries at cost** | | |
| At 1 January | **29,989** | 35,391 |
| Additions | **–** | 3,054 |
| Impaired during the year | **–** | (939) |
| Group transfers | **(3,054)** | (7,517) |
| **At 31 December** | **26,935** | 29,989 |

On 30 August 2019, Macfarlane Group PLC acquired 100% of the issued share capital of Leyland Packaging Company (Lancs) Limited ('Leyland'), for a consideration of approximately £3.25 million. £2.00 million was paid in cash on acquisition with shares to the value of £0.25 million issued on acquisition. Deferred consideration of £1.00 million was paid in 2020, reflecting performance against trading targets in the period after acquisition.

The parent company transferred its investment in Leyland to Macfarlane Group UK Limited in December 2020.

Details of the principal operating subsidiaries are set out on page 120.

## 32. Deferred tax assets

| | 2020 £000 | 2019 £000 |
|---|---|---|
| **Deferred tax on pension scheme deficit** | | |
| At 1 January | **439** | 664 |
| Charged to reserves | **(271)** | (176) |
| Charged to profit and loss account | **(57)** | (49) |
| **At 31 December** | **111** | 439 |

## 33. Debtors

| | 2020 £000 | 2019 £000 |
|---|---|---|
| **Due within one year** | | |
| Amounts owed by subsidiary undertakings | **3,580** | 2,750 |
| Other receivables | **11** | 21 |
| Prepayments and accrued income | **248** | 326 |
| Deferred tax asset (see below) | **19** | 38 |
| | **3,858** | 3,135 |
| **Deferred tax asset – Corporation tax losses** | | |
| At 1 January | **38** | 104 |
| Charged to profit and loss account | **(19)** | (66) |
| At 31 December | **19** | 38 |

| | 2020 £000 | 2019 £000 |
|---|---|---|
| **Due after more than one year** | | |
| Amounts owed by subsidiary undertakings | **33,545** | 31,162 |

Amounts owed by subsidiary undertakings attract interest at normal commercial rates.

## 34. Creditors – amounts falling due within one year

| | 2020 £000 | 2019 £000 |
|---|---|---|
| Trade creditors | **47** | 164 |
| Other taxation and social security | **57** | 10 |
| Corporation tax | **135** | – |
| Amounts owed to subsidiary undertakings | **–** | 21 |
| Contingent consideration | **–** | 800 |
| Accruals and deferred income | **390** | 324 |
| Amounts due under leases (note 35) | **14** | 13 |
| | **643** | 1,332 |

The Company is a party to the Group bank borrowing facility with Lloyds Banking Group PLC, a committed facility of £30 million now available until December 2025. The facility bears interest at normal commercial rates and carries standard financial covenants in relation to interest cover and levels of headroom over the trade receivables of Macfarlane Group UK Limited, the principal trading subsidiary.

The Company and certain subsidiaries have given inter-company guarantees to secure the drawdown on this facility. The drawdown at 31 December 2020 by the subsidiary company, Macfarlane Group UK Limited amounted to £5.8 million (2019: £15.7 million).

## 35. Creditors – amounts falling due after more than one year

| | 2020 £000 | 2019 £000 |
|---|---|---|
| Amounts due under leases | **114** | 128 |
| **Amounts due under leases** | | |
| Within one year | **14** | 13 |
| Between one and five years | **61** | 59 |
| After more than five years | **53** | 69 |
| Total amount due | **128** | 141 |
| Due within one year | **(14)** | (13) |
| Due after more than one year | **114** | 128 |
| At 1 January | **141** | – |
| New leases | **–** | 148 |
| Repayments under leases | **(13)** | (7) |
| **At 31 December** | **128** | 141 |

## 36. Share capital

| | Number of 25p shares | 2020 £000 | 2019 £000 |
|---|---|---|---|
| **Called up, allotted and fully paid:** | | | |
| At 1 January | **157,812,000** | **39,453** | 39,387 |
| Issued during the year | **–** | **–** | 66 |
| **At 31 December** | **157,812,000** | **39,453** | 39,453 |

The Company has one class of ordinary shares, which carry no right to fixed income.

Each ordinary share carries one vote in any General Meeting of the Company.

On 5 September 2019, the Company issued 264,382 ordinary shares of 25p each at a value of 94.56p per share as non-cash consideration to the Vendors of Leyland Packaging Company (Lancs) Limited, an effective value of £250,000. The shares were admitted to the Official List of the London Stock Exchange on 5 September 2019.

## 37. Reserves

| | Share premium £000 | Profit and loss account £000 | Total £000 |
|---|---|---|---|
| Balance at 1 January 2019 | 12,975 | 8,267 | 21,242 |
| Profit for the year | – | 5,373 | 5,373 |
| Dividends paid (note 7) | – | (3,689) | (3,689) |
| Post-tax actuarial gain in pension scheme taken direct to reserves | – | 862 | 862 |
| Share-based payments (note 25) | – | 75 | 75 |
| Issue of new shares (net of expenses of issue) | 173 | – | 173 |
| Balance at 1 January 2020 | 13,148 | 10,888 | 24,036 |
| Profit for the year | **–** | **2,122** | **2,122** |
| Dividends paid (note 7) | **–** | **(1,105)** | **(1,105)** |
| Post-tax actuarial gain in pension scheme taken direct to reserves | **–** | **1,426** | **1,426** |
| Share-based payments (note 25) | **–** | **75** | **75** |
| **Balance at 31 December 2020** | **13,148** | **13,406** | **26,554** |

## 38. Reconciliation of movements in shareholders' funds

| | 2020 £000 | 2019 £000 |
|---|---|---|
| Profit for the year | **2,122** | 5,373 |
| Dividends to equity holders in the year | **(1,105)** | (3,689) |
| Post-tax actuarial gain in pension scheme taken direct to equity | **1,426** | 862 |
| Share-based payments | **75** | 75 |
| Issue of new shares (net of issue expenses) | **–** | 239 |
| **Movements in shareholders' funds in the year** | **2,518** | 2,860 |
| Opening shareholders' funds | **63,489** | 60,629 |
| **Closing shareholders' funds** | **66,007** | 63,489 |

## 39. Operating profit

| | | 2020 £000 | 2019 £000 |
|---|---|---|---|
| **Operating profit for the parent company has been arrived at after charging:** | | | |
| Depreciation | | **7** | 8 |
| Depreciation on right-of-use assets | | **15** | 14 |
| Auditor's remuneration | Audit services | **44** | 46 |
| | Non-audit services | **11** | 36 |

| | 2020 No. | 2019 No. |
|---|---|---|
| **Staff costs** | | |
| **The average monthly number of employees was:** | | |
| Administration | **10** | 10 |

| | 2020 £000 | 2019 £000 |
|---|---|---|
| **The costs incurred in respect of these employees were:** | | |
| Wages and salaries | **924** | 1,092 |
| Social security costs | **130** | 144 |
| Other pension costs | **61** | 25 |
| Share-based payments (note 25) | **75** | 75 |
| | **1,190** | 1,336 |

## 40. Pensions

### Introduction

Macfarlane Group PLC sponsors a defined benefit pension scheme for certain active and former UK employees – the Macfarlane Group PLC Pension & Life Assurance Scheme (1974) ('the Scheme'). Two of the trading subsidiaries, Macfarlane Group UK Limited and Macfarlane Labels Limited are also sponsoring employers of the Scheme. The Scheme is currently in deficit and disclosure of the respective proportions of the Group deficit are included and disclosed in the financial statements of each of the three participating employers.

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

The Scheme provides qualifying employees with an annual pension of 1/60 of pensionable salary for each completed year's service on attainment of a normal retirement age of 65. Pensionable salaries were frozen for the remaining active members at the levels current at 30 April 2009 with the change taking effect from 30 April 2010. As a result no further salary inflation applies for active members who elected to remain in the Scheme. Active members' benefits also include life assurance cover, with the payment of these benefits at the discretion of the Trustees. The Scheme was closed to new entrants during 2002.

On leaving active service a deferred member's pension is revalued from the time of withdrawal until the pension is drawn. Revaluation in deferment is statutory and since 2010 has been revalued on the Consumer Price Index ('CPI') measure of inflation. Revaluation of pensions in payment is a blend of fixed increases and inflationary increases depending on the relevant periods of accrual of benefit. For pensions in payment, the inflationary increase is currently based on the Retail Price Index ('RPI') measure of inflation or based on Limited Price Indexation ('LPI') for certain defined periods of service.

During 2012, Macfarlane Group PLC agreed with the Board of Trustees to amend benefits for pensioner, deferred and active members in the Scheme by offering a Pension Increase Exchange ('PIE') option to pensioner members and a PIE option to all other members at retirement after 1 May 2012.

### Balance sheet disclosures at 31 December 2020

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

The investments held by the scheme and the Scheme deficit, based on the results of the actuarial valuation as at 1 May 2020, updated to the year-end to reflect amounts attributable to Macfarlane Group PLC, the parent company, are as shown below:

| Investment class | **2020 £000** | 2019 £000 | 2018 £000 |
|---|---|---|---|
| Equities | **9,175** | 8,855 | 6,410 |
| Multi-asset diversified funds | **12,624** | 10,153 | 7,005 |
| Liability-driven investment funds | **12,585** | 11,075 | 11,352 |
| European loan fund | **2,598** | 2,477 | 2,845 |
| Secured property income fund | **2,501** | 2,552 | 2,658 |
| Cash | **288** | 113 | 60 |
| **Fair value of scheme investments** | **39,771** | 35,225 | 30,330 |
| Present value of scheme liabilities | **(40,360)** | (37,811) | (34,238) |
| **Pension scheme deficit** | **(589)** | (2,586) | (3,908) |

The Trustees review the Scheme's investments on a regular basis and consult with the Company regarding any proposed changes to the investment profile. During 2020 the Trustees agreed to make adjustments between the various investment categories to bring the overall allocations into line with the strategic asset allocation in the Trustees' Statement of Investment Principles.

Liability-Driven Investment Funds provide a match of 100% against the impact of inflation movements on pension liabilities and of approximately 85% against the impact of movements in interest rates on pension liabilities.

The ability to realise the Scheme's investments at, or close to, fair value was considered when setting the investment strategy. 87% (2019: 86%) of the Scheme's investments can be realised at fair value on a daily or weekly basis. The remaining investments have monthly or quarterly liquidity, however, whilst the income from these helps to meet the Scheme's cash flow needs, they are not expected to be realised at short notice. The present value of the Scheme liabilities is derived from cash flow projections over a long period and is thus inherently uncertain.

The Scheme's liabilities at 31 December 2020 were calculated on the following bases as required under FRS 17:

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

| Movement in scheme deficit during the year | 2020 £000 | 2019 £000 |
|---|---|---|
| At 1 January | **(2,586)** | (3,908) |
| Current service cost | **(18)** | (11) |
| GMP on transfer values | **(35)** | - |
| Company contributions | **391** | 388 |
| Net finance cost | **(39)** | (93) |
| Remeasurement of pension scheme liability in the year | **1,698** | 1,038 |
| **At 31 December** | **(589)** | (2,586) |
| **Analysis of amounts charged to operating profit** | | |
| Current service cost | **(18)** | (11) |
| GMP on transfer values | **(35)** | – |
| **Pension cost charged to operating profit** | **(53)** | (11) |
| **Analysis of amounts charged to other financial charges** | | |
| Expected return on pension scheme investments | **700** | 843 |
| Interest cost of pension scheme liabilities | **(739)** | (936) |
| **Other financial charges** | **(39)** | (93) |
| **Analysis of the remeasurement of the scheme deficit** | | |
| Return on scheme assets (excluding amount shown in interest income) | **5,164** | 5,336 |
| Changes in assumptions underlying the present value of the scheme's liabilities | **(3,466)** | (4,298) |
| **Remeasurement of the pension scheme deficit** | **1,698** | 1,038 |

## 40. Pensions (continued)

| | 2020 £000 | 2019 £000 |
|---|---|---|
| **Movement in the fair value of scheme assets** | | |
| At 1 January | **35,225** | 30,330 |
| Interest income | **700** | 843 |
| Return on scheme assets (excluding amounts shown in interest income) | **5,164** | 5,336 |
| Contributions from the Company | **391** | 388 |
| Contributions from scheme members | **4** | 7 |
| Benefits paid | **(1,713)** | (1,679) |
| **At 31 December** | **39,771** | 35,225 |
| **Movement in the present value of scheme liabilities** | | |
| At 1 January | **(37,811)** | (34,238) |
| Service cost | **(18)** | (11) |
| GMP on transfer values | **(35)** | – |
| Interest cost | **(739)** | (936) |
| Contributions from scheme members | **(4)** | (7) |
| Actuarial (loss)/gain in the year | **(3,466)** | (4,298) |
| Benefits paid | **1,713** | 1,679 |
| **At 31 December** | **(40,360)** | (37,811) |

The cumulative remeasurement of pension liabilities since IAS19 transition is a gain of £580,000 (2019: Loss of £1,118,000).

| | 2020 £000 | 2019 £000 | 2018 £000 | 2017 £000 | 2016 £000 |
|---|---|---|---|---|---|
| Present value of defined benefit obligations | **(40,360)** | (37,811) | (34,238) | (37,113) | (36,938) |
| Fair value of Scheme investments | **39,771** | 35,225 | 30,330 | 32,383 | 31,123 |
| **Pension scheme deficit** | **(589)** | (2,586) | (3,908) | (4,730) | (5,815) |
| **Return on scheme investments** | **5,864** | 6,179 | (22) | 3,355 | 5,599 |
| Percentage of scheme investments | **14.7%** | 17.5% | (0.1%) | 10.4% | 18.0% |
| **Experience adjustment to scheme investments** | **5,164** | 5,336 | (817) | 2,529 | 4,610 |
| Percentage of scheme investments | **13.0%** | 15.2% | (2.7%) | 7.8% | 14.8% |
| **Experience adjustment on scheme liabilities** | **(3,466)** | (4,298) | 1,587 | (1,634) | (6,107) |
| Percentage of scheme liabilities | **(8.6%)** | (11.4%) | 4.6% | (4.4%) | (16.5%) |

### Defined contribution schemes

The Company also participated in a defined contribution scheme, the Macfarlane Group Personal Pension Plan. Contributions to the plan for the year were £8,000 (2019: £14,000) with contributions £3,000 (2019: £Nil) of payable to the plan at the balance sheet date.

## 41. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation in the Group financial statements. The Directors have considered the implications of IAS 24 '*Related Party Disclosures*' and are satisfied that there are no other related party transactions occurring during the year, which require disclosure, other than those already disclosed in these financial statements.

# Five year record

| | 2020 £000 | Restated* 2019 £000 | Restated* 2018 £000 | Restated* 2017 £000 | Restated* 2016 £000 |
|---|---|---|---|---|---|
| **Turnover** | **230,029** | 225,246 | 217,129 | 195,818 | 179,608 |
| **Operating profit before separately disclosed items** | **14,369** | 13,487 | 11,878 | 9,924 | 8,551 |
| Net interest payable | **1,367** | 1,625 | 823 | 837 | 904 |
| **Profit before separately disclosed item** | **13,002** | 11,862 | 11,055 | 9,087 | 7,647 |
| Separately disclosed item | **–** | – | 330 | – | – |
| **Profit before tax** | **13,002** | 11,862 | 10,725 | 9,087 | 7,647 |
| Taxation | **2,831** | 2,262 | 2,114 | 1,803 | 1,730 |
| **Profit for the financial year** | **10,171** | 9,600 | 8,611 | 7,284 | 5,917 |
| **Basic earnings per ordinary share** | **6.45p** | 6.09p | 5.47p | 5.12p | 4.57p |
| **Dividends** | **1,105**** | 3,689 | 3,387 | 2,854 | 2,358 |
| **Dividends paid per ordinary share** | **0.70p**** | 2.34p | 2.15p | 2.00p | 1.84p |
| **Dividend cover** | **9.2**** | 2.6 | 2.5 | 2.6 | 2.5 |

* Details of the restatements are set out on pages 76 and 77.
** This reflects the cancellation of the dividend of 1.76p payable in June 2020.

This table reflects the five-year record for the Group's operations as classified at 31 December 2020.

# Principal operating subsidiaries and related undertakings

| Company name | | Principal activities | Country of registration |
|---|---|---|---|
| **Macfarlane Group UK Limited** [1]<br>Coventry | Tel: 02476 511511 | Supply and distribution of all forms of packaging materials and equipment. Design and manufacture of specialist packaging. | England |
| **Nelsons for Cartons & Packaging Limited** [1]<br>Leicester | Tel: 0116 2641050 | Supply and distribution of all forms of packaging materials and equipment. | England |
| **Harrisons Packaging Limited** [1]<br>Leyland | Tel: 01772 331780 | Supply and distribution of all forms of packaging materials and equipment. | England |
| **Ecopac (U.K.) Limited** [1]<br>Aylesbury | Tel: 01296 652700 | Supply and distribution of all forms of packaging materials and equipment. | England |
| **Leyland Packaging Company (Lancs) Limited** [1]<br>Leyland | Tel: 01772 622622 | Supply and distribution of all forms of packaging materials and equipment. | England |
| **Nottingham Recycling Limited** [1]<br>Nottingham | Tel: 0115 986 7181 | Recovery of waste paper and corrugated board for recycling. | England |
| **Macfarlane Group B.V.** [2]<br>Hoofddorp | Tel: 00 31 235689207 | Supply and distribution of all forms of packaging materials and equipment. | The Netherlands |
| **Macfarlane Labels Limited** [3]<br>Kilmarnock | Tel: 01563 525151 | Manufacture of high quality printed self-adhesive labels and resealable labelling solutions. | Scotland |
| **Macfarlane Group Ireland (Labels & Packaging) Limited** [4]<br>Wicklow | Tel: 00 353 1281 0234 | Manufacture of high quality printed self-adhesive labels and resealable labelling solutions and supply and distribution of packaging materials and equipment. | Ireland |
| **Macfarlane Group Sweden AB** [5]<br>Helsingborg | Tel: 00 46 42 13 75 55 | Provision of high quality printed self-adhesive labels and resealable labelling solutions. | Sweden |

All the above subsidiaries are wholly owned either by Macfarlane Group PLC or one of its subsidiary companies and operate in the country of registration. The Group controls 100% of the ordinary share capital of each subsidiary. The Group's other related undertakings are the dormant subsidiary undertakings disclosed below. In all cases the Company listed as owner controls 100% of the issued share capital of the dormant subsidiary undertaking.

| Company name | Company number | Country of registration |
|---|---|---|
| **Owned by Macfarlane Group PLC** | | |
| National Packaging Group Limited [1] | 01355867 | England |
| Adhesive Labels Limited [1] | 00723320 | England |
| **Owned by Macfarlane Group UK Limited** | | |
| Online Packaging Limited [1] | 02903657 | England |
| Macfarlane Packaging Limited [6] | SC041678 | Scotland |
| Abbott's Packaging Limited [1] | 00372831 | England |
| Mitchell Packaging Limited [1] | 00535311 | England |
| Greenwoods Stock Boxes Limited [6] | SC576825 | Scotland |
| Network Packaging Limited [1] | 03400627 | England |
| Tyler Packaging (Leicester) Limited [1] | 03460830 | England |
| **Owned by Harrisons Packaging Limited** | | |
| Temperature Controlled Packaging Limited [1] | 06896225 | England |
| **Owned by Network Packaging Limited** | | |
| Networkpack Limited [1] | 07076439 | England |
| **Owned by Macfarlane Group Sweden AB** | | |
| ReSeal-it Scandinavia [5] | 556480-9845 | Sweden |
| Regath HB [5] | 969610-8753 | Sweden |

**Registered offices**

[1] Siskin Parkway East, Middlemarch Business Park, Coventry, CV3 4PE
[2] Siriusdreef 17, 2132 WT, Hoofddorp, The Netherlands
[3] Bentinck Street, Kilmarnock, KA1 4AS
[4] Kilmacullagh, Newtownmountkennedy, Co. Wicklow, Ireland
[5] Kapplöpningsgatan 14, f252 30 Helsingborg, Sweden
[6] 3 Park Gardens, Glasgow, G3 7YE

# Financial diary

## Financial results

Interim: Announced – August
Final: Announced – February

## Accounts and Annual General Meeting

Report and financial statements – Posted to shareholders on 2 April 2021
Annual General Meeting – Held in Glasgow on 11 May 2021

## Shareholder enquiries

Macfarlane Group PLC's ordinary shares are classified under the 'Industrial – General' section of the Industrial Sector on the London Stock Exchange.

Enquiries regarding shareholdings, dividend payments, dividend mandate instructions, lost share certificates, tax vouchers, changes of address, transfers of shares to another person and other administrative matters should be addressed to the Company's registrars,

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex, BN99 6DA

Telephone: 0371 384 2439
Website: www.shareview.co.uk

The Company's website, www.macfarlanegroup.com provides details of all major Stock Exchange announcements, details of the current share price and information about Macfarlane Group's business.

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