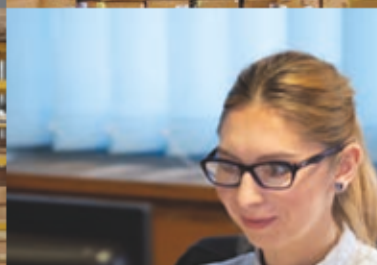




Interim Report 2020



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



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## Chairman's statement

**Macfarlane Group has achieved a resilient performance in the first half of 2020 despite the challenging market conditions due to the impact of Covid-19. The Board recognises this achievement is a testament to the exceptional contribution of our employees and wishes to take this opportunity to publicly thank the whole Macfarlane team for their hard work and commitment.**

All our sites have remained open and trading throughout, albeit adjusted to service reduced demand, with social distancing and hygiene measures in place to protect the health, safety and well-being of our staff and our customers. In addition, the majority of our office-based staff have been working successfully from home in accordance with our home working protocols.

Macfarlane Group sales decreased by 1.8% to £105.6 million in the first half of 2020 (2019: £107.5 million). Despite the impact of Covid-19 in the second quarter, our sales performance has been robust with the first half sales reduction versus the prior year comprising a 1.6% increase in sales in Q1 followed by a 5.2% fall in Q2. Profit before tax in the first half, at £3.6 million, was 5.5% lower than in 2019 (2019: £3.8 million) this excludes any benefit received from government support programmes as these have now been repaid. Incremental costs of £0.2 million were incurred in the first half of the year as a direct consequence of Covid-19.



Packaging Distribution sales decreased by 1.7% in the first half of 2020 compared with 2019. Sales increased by 3.0% in Q1 and decreased by 6.3% in Q2 compared to the equivalent periods in 2019. Sales revenue was impacted by weaker demand from the automotive and high street retail sectors, although this was partially offset by underlying strength in the e-commerce, household and medical sectors. First half sales also benefited from the 2019 acquisitions as well as the January 2020 acquisition of the packaging trade and assets of Armagrip Limited, ('Armagrip'). First half operating profit in Packaging Distribution of £4.0 million was £0.4 million below the equivalent period in 2019.

Sales in our Manufacturing Operations were 5.8% below 2019, with Q1 sales decreasing by 8.7% and Q2 sales falling by 2.9%. Strong demand from the food, medical and household essentials sectors in the Labels business, particularly in the second quarter, was more than offset by weaker demand from the aerospace and automotive sectors in the Packaging Design and Manufacture business. First half operating profit of £0.2 million in our Manufacturing Operations was £0.2 million below that achieved in 2019.

Group interest costs have decreased by £0.4 million due to lower levels of bank debt and finance leases and a lower pension deficit in the first half of 2020 compared to the same period in 2019.



## Chairman's statement (continued)

Net bank debt at 30 June 2020 was £0.8 million, £11.9 million below its 31 December 2019 level of £12.7 million. The improved cash position has been achieved through active management of working capital and reductions in the cost base. The net debt of £0.8 million has benefited by £5.4 million from the various government support and deferral programmes, all of which we have repaid since 30 June 2020. The Group is operating well within its existing bank facility of £30.0 million. We expect to pay an estimated £0.8 million in deferred consideration, in the second half of 2020, relating to the acquisition of Ecopac in 2019.

The pension scheme deficit reduced to £6.0 million at 30 June 2020 from £6.5 million at 31 December 2019, mainly due to our continued payment of deficit reduction contributions during the six month period. The reduction in the discount rate in the first six months was largely offset by strong investment returns, justifying the focus on liability-driven investments to match the scheme's liability profile.

There are still significant uncertainties and concerns over future economic conditions. However, the Board is confident that, given the resilience of the business in the second quarter, the expected seasonal uplift in the final quarter and actions being taken to reduce operating costs, the Group will continue to progress in the second half of 2020. The Board's current expectation for the full year in 2020 is largely dependent on: no further prolonged national or regional lockdowns; no abnormal bad debt exposure; and no significant reduction in consumer demand in the final quarter of the year, traditionally our busiest trading period.

As a key measure to conserve cash, the Board took the decision not to propose the 2019 final dividend of 1.76p per share, detailed in the preliminary announcement. The Board recognises the importance of recommending the payment of dividends to our shareholders as soon as possible. Given the stronger than anticipated profit performance and cash position, the Board is recommending an interim dividend of 0.70p per share to be paid on 8 October 2020 to shareholders on the register as at 11 September 2020 (2019: 0.69p per share).

Despite the impact of Covid-19, our strategy remains the delivery of sustainable profit growth by focusing on added value products and services in our target market sectors, combined with the execution of value-enhancing acquisitions. Macfarlane Group's performance in the first half of 2020 demonstrates the robust nature of our strategy and business model and we are confident that the Group is strongly positioned to effectively manage the challenges it will face in the remainder of 2020 and well placed to benefit when the UK economy begins to recover.



**Stuart R Paterson**  
Chairman  
27 August 2020

## Interim results – management report

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

### Packaging Distribution

Macfarlane's Packaging Distribution business is the UK's leading specialist distributor of protective packaging materials. 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 and services 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. In a fragmented market, Macfarlane competes effectively on a local basis through its strong focus on customer service, its breadth and depth of product offer and through the recruitment and retention of high-quality staff with good local market knowledge. On a national basis Macfarlane has focus, expertise and a breadth of product and service knowledge, all of which enables it to compete effectively against non-specialist packaging distributors.

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

	2020 £000	2019 £000
<b>Sales</b>	<b>91,496</b>	93,053
Cost of sales	<b>62,013</b>	65,103
<b>Gross margin</b>	<b>29,483</b>	27,950
Overheads	<b>25,450</b>	23,487
<b>Operating profit</b>	<b>4,033</b>	4,463

The main features of our first half performance in 2020 were:

- Despite the challenges of Covid-19, existing business has remained resilient with weaker demand from customers in the automotive and high street retail sectors being offset by strong demand in the e-commerce and medical sectors;
- New business growth was subdued due to limited engagement with new prospects through the Covid-19 challenges, nevertheless there were some important new business wins in the period;
- Increasing numbers of customers switching to buying online either through our [www.macfarlanepackaging.com](http://www.macfarlanepackaging.com) shop or using our new Simplicit-e electronic trading platform;
- Positive impact from acquiring quality packaging distribution businesses in 2019 and 2020;
- An improved gross margin at 32.2% (2019: 30.0%) achieved through effective management of input price changes on paper-based products in the second half of 2019 flowing through into the first half of 2020;
- Progress in our 'Follow the Customer' programme in Europe; and
- Overhead increases, primarily due to the impact of acquisitions (£1.0 million), an increase in bad debt provisioning (£0.5 million) and incremental Covid-19 related costs.

## Interim results – management report (continued)

We expect sales to once again be weighted towards H2 reflecting the busiest trading period for internet retail customers, which will be a key contributor to our results in H2 2020. The key areas we will focus on in the second half are:

- Prioritise engagement with potential new customers in stable and growing sectors such as e-commerce, medical and third party logistics;
- Invest in new technology to allow our sales teams to demonstrate our ability to add value for customers through ongoing implementation of our 'Significant Six' sales approach to optimise their 'Total Cost of Packaging' in both face-to-face and virtual environments;
- Accelerate implementation of our web-based solutions to allow customers access to our full range of products and services;
- Continue 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

Macfarlane's Manufacturing Operations comprises Packaging Design & Manufacture and Labels.

	2020 £000	2019 £000
<b>Sales</b>	<b>16,379</b>	17,390
Cost of sales	<b>11,043</b>	12,099
<b>Gross margin</b>	<b>5,336</b>	5,291
Overheads	<b>5,105</b>	4,881
<b>Operating profit</b>	<b>231</b>	410

### Packaging Design & Manufacture

The principal activity of the Packaging Design and Manufacture business is the design, manufacture and assembly of custom-designed packaging solutions for customers requiring cost-effective methods of protecting high value products in storage and transit. The business operates from sites in Grantham and Westbury, supplying both directly to customers and also through Packaging Distribution's RDC network.

Key market sectors are defence, aerospace, medical equipment, electronics and automotive. The markets in which we operate are highly fragmented, with a range of locally based competitors. We differentiate our market offering through technical expertise, design capability, industry accreditations and national coverage through Macfarlane Packaging Distribution.

Packaging Design & Manufacture sales in H1 2020 decreased by 19.0% from the equivalent period in 2019 due to significantly weaker demand in the aerospace and automotive sectors. As a result of the lower sales profit in H1 2020 is below the same period in 2019 and actions are in progress to realign the cost base.

## Labels

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. We have worked closely with these key customers over a long period to ensure high levels of service and to introduce product and service development initiatives to maintain competitive differentiation.

In H1 2020, sales at Macfarlane Labels were 6.7% higher than in 2019, mainly due to an increase in demand from existing customers in the food, household essentials and hygiene sectors. Overhead costs have increased due to higher transportation costs servicing overseas customers. Profit in H1 2020 is ahead of the same period in 2019.

The priorities for the Manufacturing Operations in the second half of 2020 are to:

- Reduce the operating costs of the Design and Manufacture business in line with lower sales;
- Focus the Design & Manufacture sales team on growth sectors like 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 & Manufacture operations and our Packaging Distribution business to create both sales and cost synergies;
- 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 installation of additional printing capacity in our Kilmarnock site in July 2020 to improve gross margins.

## Summary and future prospects

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

Our future performance is largely dependent on our own efforts to grow sales, increase efficiencies and bring high quality acquisitions into the Group. Whilst we have experienced significant challenges from the Covid-19 pandemic and there are still uncertainties ahead, our strategy and business model have proved resilient and robust. We expect to deliver a solid sales and profit performance in 2020 and are well positioned to benefit as the economy recovers.



## Interim results – management report (continued)

### Risks and uncertainties

The principal risks and uncertainties, which could impact on the performance of the Group, were outlined on pages 18 and 19 in our Annual Report and Accounts for 2019 (available on our website at [www.macfarlanegroup.com](http://www.macfarlanegroup.com)) together with the mitigating actions. These remain substantially the same for the remaining six months of the current financial year and are summarised below with the impact of the recent Covid-19 pandemic set out immediately underneath the table of risks:

- The Group's businesses are impacted by commodity-based raw material prices and manufacturer energy costs, with profitability sensitive to supplier price changes including currency fluctuations. 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;
- Given the multi-site nature of its business the Group has an extensive property portfolio comprising 3 owned sites and 36 leased sites, 3 of which are sub-let. The portfolio can give 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;
- The Group has a significant investment in working capital in trade receivables and inventories. There is a risk that this investment is not fully recovered. Rigour is applied to the management of trade receivables and inventories throughout the Group to mitigate these risks;
- The Group needs continued access to funding to meet its trading obligations and to support organic growth and acquisitions. Although the current facility is only partly utilised, there is a risk that the Group may be unable to obtain funds or that such funds will only be available on unfavourable terms. The Group's borrowing facility comprises a committed facility of £30 million with Lloyds Bank PLC, available until June 2022, which finances our trading requirements and supports controlled expansion, providing a medium-term funding platform for growth;
- The Group's defined benefit pension scheme is sensitive to a number of key factors; investment returns, 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 Group has sought to manage the volatility of the pension scheme deficit caused by these factors by undertaking exercises to reduce liabilities, more effectively match the investment profile with the liability profile and making contributions to reduce the deficit;
- In Packaging Distribution, the business model reflects a decentralised approach with a high dependency on effective local decision-making. There is a risk that local decisions may not always meet overall corporate objectives. This is closely monitored using the Group's management information system, with regular reviews of performance for all locations; and
- The Group's growth strategy includes acquisitions as a key component. There are risks that the availability of acquisitions may reduce, or that acquisitions may not perform as expected either immediately after acquisition or on subsequent integration. Having made twelve acquisitions since 2014, the Group has well-established due diligence and integration processes and procedures and seeks to acquire quality businesses which will perform well in the Group.



Macfarlane Group has carried out scenario planning for the continuing effects of the Covid-19 pandemic considering impacts on sales, profitability, cash flow, bad debt risk and the health, safety and well-being of its employees. These scenarios also assumed no further acquisition activity. This is constantly under review and based on our experience to date we are confident the Group is robust enough to operate safely, profitably and within its borrowing facilities under all reasonable scenarios.

Macfarlane Group has also carried out an impact analysis and evaluated the potential short to medium-term implications of a no-deal Brexit including reversion to World Trade Organisation tariffs. Where practical, we have put in place contingency measures to try to mitigate any immediate effects on our supply chain and these measures are being reviewed at regular intervals.

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

### **Cautionary statement**

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

This report and the financial statements contain certain forward-looking statements relating to operations, performance and financial status. By their nature, such statements involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors, including both economic and business risk factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report. Nothing in this Interim Results Statement should be construed as a profit forecast or an invitation to deal in the securities of the Group.

## Statement of Directors' responsibilities

The Directors of Macfarlane Group PLC during the first six months of 2020 were:

<b>S.R. Paterson</b>	Chairman
<b>P.D. Atkinson</b>	Chief Executive
<b>J. Love</b>	Finance Director
<b>R. McLellan</b>	Non-Executive Director/ Senior Independent Director
<b>J.W.F. Baird</b>	Non-Executive Director
<b>A.M. Dunstan</b>	Non-Executive Director

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

- (i) the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting*;
- (ii) the interim management report includes a fair review of the information required by DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

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

Approved by the Board of Directors on 27 August 2020 and signed on its behalf by:



**Peter D. Atkinson**  
Chief Executive

**John Love**  
Finance Director

## Condensed consolidated income statement (unaudited)

For the six months ended 30 June 2020

	Note	Six months to 30 June 2020 €000	Six months to 30 June 2019 €000	Year to 31 December 2019 €000
<b>Continuing operations</b>				
Revenue	3	<b>105,572</b>	107,542	225,389
Cost of sales		<b>(70,753)</b>	(74,301)	(153,256)
<b>Gross profit</b>		<b>34,819</b>	33,241	72,133
Distribution costs		<b>(4,171)</b>	(4,204)	(8,441)
Administrative expenses		<b>(26,384)</b>	(24,164)	(50,062)
<b>Operating profit</b>	3	<b>4,264</b>	4,873	13,630
Finance costs	4	<b>(642)</b>	(1,041)	(1,606)
<b>Profit before tax</b>		<b>3,622</b>	3,832	12,024
Tax	5	<b>(736)</b>	(693)	(2,293)
<b>Profit for the period</b>	3	<b>2,886</b>	3,139	9,731
<b>Earnings per share</b>	7			
Basic		<b>1.83p</b>	1.99p	6.17p
Diluted		<b>1.82p</b>	1.99p	6.16p

## Condensed consolidated statement of comprehensive income (unaudited)

For the six months ended 30 June 2020

	Note	Six months to 30 June 2020 €000	Six months to 30 June 2019 €000	Year to 31 December 2019 €000
<b>Items that may be reclassified to profit or loss</b>				
Foreign currency translation differences		<b>67</b>	(17)	(62)
<b>Items that will not be reclassified to profit or loss</b>				
Remeasurement of pension scheme liability	10	<b>(1,038)</b>	(809)	537
<b>Tax recognised in other comprehensive income</b>				
Tax on remeasurement of pension scheme liability	11	<b>197</b>	138	(92)
Long-term corporation tax rate change on deferred tax	11	<b>129</b>	—	—
<b>Other comprehensive (expense)/income for the period, net of tax</b>		<b>(645)</b>	(688)	383
Profit for the period		<b>2,886</b>	3,139	9,731
<b>Total comprehensive income for the period</b>		<b>2,241</b>	2,451	10,114

## Condensed consolidated statement of changes in equity (unaudited)

For the six months ended 30 June 2020

	Note	Share capital £000	Share premium £000	Revaluation reserve £000	Translation reserve £000	Retained earnings £000	Total £000
At 1 January 2020		39,453	13,148	70	231	16,369	69,271
<b>Comprehensive income</b>							
Profit for the period		–	–	–	–	2,886	2,886
Foreign currency translation differences		–	–	–	67	–	67
Remeasurement of pension scheme liability	10	–	–	–	–	(1,038)	(1,038)
Tax on remeasurement of pension scheme liability	11	–	–	–	–	197	197
Long-term corporation tax rate change on deferred tax	11	–	–	–	–	129	129
<b>Total comprehensive income</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>67</b>	<b>2,174</b>	<b>2,241</b>
<b>Transactions with shareholders</b>							
Share-based payments		–	–	–	–	90	90
<b>Total transactions with shareholders</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>90</b>	<b>90</b>
<b>At 30 June 2020</b>		<b>39,453</b>	<b>13,148</b>	<b>70</b>	<b>298</b>	<b>18,633</b>	<b>71,602</b>



## Condensed consolidated statement of changes in equity (unaudited)

For the six months ended 30 June 2019

	Note	Share capital €000	Share premium €000	Revaluation reserve €000	Translation reserve €000	Retained earnings €000	Total €000
At 1 January 2019		39,387	12,975	70	293	9,807	<b>62,532</b>
<b>Comprehensive income</b>							
Profit for the period		–	–	–	–	3,139	<b>3,139</b>
Foreign currency translation differences		–	–	–	(17)	–	<b>(17)</b>
Remeasurement of pension scheme liability	10	–	–	–	–	(809)	<b>(809)</b>
Tax on remeasurement of pension scheme liability	11	–	–	–	–	138	<b>138</b>
<b>Total comprehensive income</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>(17)</b>	<b>2,468</b>	<b>2,451</b>
<b>Transactions with shareholders</b>							
Dividends	6	–	–	–	–	(2,600)	<b>(2,600)</b>
Share-based payments		–	–	–	–	10	<b>10</b>
<b>Total transactions with shareholders</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(2,590)</b>	<b>(2,590)</b>
<b>At 30 June 2019</b>		<b>39,387</b>	<b>12,975</b>	<b>70</b>	<b>276</b>	<b>9,685</b>	<b>62,393</b>

## Condensed consolidated statement of changes in equity

For the year ended 31 December 2019

	Note	Share capital £000	Share premium £000	Revaluation reserve £000	Translation reserve £000	Retained earnings £000	Total £000
At 1 January 2019		39,387	12,975	70	293	9,807	<b>62,532</b>
<b>Comprehensive income</b>							
Profit for the year		–	–	–	–	9,731	<b>9,731</b>
Foreign currency translation differences		–	–	–	(62)	–	<b>(62)</b>
Remeasurement of pension scheme liability	10	–	–	–	–	537	<b>537</b>
Tax on remeasurement of pension scheme liability	11	–	–	–	–	(92)	<b>(92)</b>
<b>Total comprehensive income</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>(62)</b>	<b>10,176</b>	<b>10,114</b>
<b>Transactions with shareholders</b>							
Dividends	6	–	–	–	–	(3,689)	<b>(3,689)</b>
Share-based payments		–	–	–	–	75	<b>75</b>
Issue of share capital		66	173	–	–	–	<b>239</b>
<b>Total transactions with shareholders</b>		<b>66</b>	<b>173</b>	<b>–</b>	<b>–</b>	<b>(3,614)</b>	<b>(3,375)</b>
<b>At 31 December 2019</b>		<b>39,453</b>	<b>13,148</b>	<b>70</b>	<b>231</b>	<b>16,369</b>	<b>69,271</b>

## Condensed consolidated balance sheet (unaudited)

At 30 June 2020

	Note	30 June 2020 €000	30 June 2019 €000	31 December 2019 €000
<b>Non-current assets</b>				
Goodwill and other intangible assets		61,857	60,795	62,663
Property, plant and equipment		9,248	9,221	9,621
Right of use assets		23,078	30,293	25,855
Trade and other receivables		35	56	35
Deferred tax assets	11	1,274	1,726	1,224
<b>Total non-current assets</b>		<b>95,492</b>	102,091	99,398
<b>Current assets</b>				
Inventories		15,014	16,171	15,813
Trade and other receivables		44,641	48,867	52,044
Cash and cash equivalents	9	4,726	3,863	3,310
<b>Total current assets</b>		<b>64,381</b>	68,901	71,167
<b>Total assets</b>	3	<b>159,873</b>	170,992	170,565
<b>Current liabilities</b>				
Trade and other payables		49,484	46,946	48,530
Current tax liabilities		756	860	1,084
Lease liabilities	9	5,384	6,249	6,321
Bank borrowings	9	5,542	18,811	15,984
<b>Total current liabilities</b>		<b>61,166</b>	72,866	71,919
<b>Net current assets/(liabilities)</b>		<b>3,215</b>	(3,965)	(752)
<b>Non-current liabilities</b>				
Retirement benefit obligations	10	6,048	9,029	6,465
Deferred tax liabilities	11	3,256	3,119	3,242
Trade and other payables		22	24	22
Lease liabilities	9	17,779	23,561	19,646
<b>Total non-current liabilities</b>		<b>27,105</b>	35,733	29,375
<b>Total liabilities</b>		<b>88,271</b>	108,599	101,294
<b>Net assets</b>	3	<b>71,602</b>	62,393	69,271
<b>Equity</b>				
Share capital		39,453	39,387	39,453
Share premium		13,148	12,975	13,148
Revaluation reserve		70	70	70
Translation reserve		298	276	231
Retained earnings		18,633	9,685	16,369
<b>Total equity</b>		<b>71,602</b>	62,393	69,271

## Condensed consolidated cash flow statement (unaudited)

For the six months ended 30 June 2020

	Note	Six months to 30 June 2020 €000	Six months to 30 June 2019 €000	Year to 31 December 2019 €000
<b>Profit before tax</b>		<b>3,622</b>	3,832	12,024
Adjustments for:				
Amortisation of intangible assets		<b>1,262</b>	1,142	2,391
Depreciation of property, plant and equipment		<b>4,121</b>	4,242	7,816
Loss/(gain) on disposal of property, plant and equipment		<b>32</b>	(4)	5
Share-based payments		<b>90</b>	—	75
Finance costs		<b>642</b>	1,041	1,606
<b>Operating cash flows before movements in working capital</b>		<b>9,769</b>	10,253	23,917
Decrease in inventories		<b>1,080</b>	1,164	2,006
Decrease in receivables		<b>7,609</b>	3,003	1,178
Increase/(decrease) in payables		<b>1,021</b>	(2,726)	(947)
Pension contributions less current service costs		<b>(1,512)</b>	(1,670)	(2,994)
<b>Cash generated from operations</b>		<b>17,967</b>	10,024	23,160
Income taxes paid		<b>(830)</b>	(875)	(2,288)
Interest paid		<b>(585)</b>	(916)	(1,375)
<b>Net cash inflow from operating activities</b>		<b>16,552</b>	8,233	19,497
<b>Investing activities</b>				
Acquisitions	8	<b>(888)</b>	(2,840)	(6,162)
Proceeds on disposal of property, plant and equipment		<b>28</b>	12	185
Purchases of property, plant and equipment		<b>(627)</b>	(1,295)	(2,648)
<b>Net cash used in investing activities</b>		<b>(1,487)</b>	(4,123)	(8,625)
<b>Financing activities</b>				
Dividends paid	6	<b>—</b>	(2,600)	(3,689)
(Repayment)/drawdown of bank borrowings		<b>(10,442)</b>	1,042	(1,785)
Repayment of lease obligations		<b>(3,207)</b>	(3,300)	(6,699)
<b>Net cash used in financing activities</b>		<b>(13,649)</b>	(4,858)	(12,173)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1,416</b>	(748)	(1,301)
<b>Cash and cash equivalents at beginning of period</b>		<b>3,310</b>	4,611	4,611
<b>Cash and cash equivalents at end of period</b>	9	<b>4,726</b>	3,863	3,310



## Notes to the Group condensed financial statements (unaudited)

For the six months ended 30 June 2020

### 1. Basis of preparation

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

The Group's annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. This condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union.

This condensed set of financial statements has been prepared applying the accounting policies that were applied in the preparation of the company's published consolidated financial statements for the year ended 31 December 2019. There were no major changes from the adoption of new IFRS's in 2020.

### Judgements, assumptions and estimation uncertainties

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the period. Due to the nature of estimation, the actual outcomes may well differ from these estimates. No significant judgements have been made in the current or prior period. The key sources of estimation uncertainty that have a significant effect on the carrying amounts of assets and liabilities are discussed below:

The determination of any defined benefit pension scheme 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 10. The directors consider that those sensitivities represent reasonable sensitivities which could occur in the next financial period.

The provision held against trade receivables is based on applying an expected credit loss model and related estimates of recoverable amounts. Whilst every attempt is made to ensure that the provision held against doubtful trade receivables is as accurate as possible, there remains a risk that the provision may not match the level of debt, which ultimately proves uncollectable.

### Business activities, risks and financing

The Group's business activities, together with the factors likely to affect its future development, performance and financial position are set out in the Interim Management Report on pages 1 to 8.

The Group's principal financial risks in the medium term relate to liquidity and credit risk. Liquidity risk is managed by ensuring that the Group's day-to-day working capital requirements are met by having access to committed banking facilities with suitable terms and conditions to accommodate the requirements of the Group's operations. Credit risk is managed by applying considerable rigour in managing the Group's trade receivables. Although the current economic climate indicates an increased level of risk, the Directors believe that the Group is adequately placed to manage its financial risks effectively.

The Group's banking arrangement with Lloyds Bank PLC comprises a committed facility of £30 million, expiring in June 2022, secured over part of Macfarlane Group's trade receivables and bearing interest at commercial rates. The facility has financial covenants for interest cover and trade receivables headroom.

## Notes to the Group condensed financial statements (unaudited)

For the six months ended 30 June 2020

### 1. Basis of preparation (continued)

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

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

### Approval and review of condensed financial statements

These condensed financial statements were approved by the Board of Directors on 27 August 2020. As in previous years, the condensed set of financial statements for the half-year is unaudited.

### 2. General information

Comparative figures for the year ended 31 December 2019 are extracted from Macfarlane Group's statutory accounts for 2019. The information for the year ended 31 December 2019 does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been reported on by the Company's auditor and delivered to the Registrar of Companies. The report of the auditor on 27 February 2020 was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

### 3. Segmental information

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

	Six months to 30 June 2020 £000	Six months to 30 June 2019 £000	Year to 31 December 2019 £000
<b>Group segment – total revenue</b>			
Packaging Distribution	<b>91,496</b>	93,053	196,706
Manufacturing Operations	<b>16,379</b>	17,390	34,016
Inter-segment revenue	<b>(2,303)</b>	(2,901)	(5,333)
<b>Revenue</b>	<b>105,572</b>	107,542	225,389

## Trading results – continuing operations

	Six months to 30 June 2020 €000	Six months to 30 June 2019 €000	Year to 31 December 2019 €000
<b>Packaging Distribution</b>			
<b>Revenue</b>	<b>91,496</b>	93,053	196,706
Cost of sales	<b>(62,013)</b>	(65,103)	(135,525)
<b>Gross profit</b>	<b>29,483</b>	27,950	61,181
Net operating expenses	<b>(25,450)</b>	(23,487)	(48,775)
<b>Operating profit</b>	<b>4,033</b>	4,463	12,406
<b>Manufacturing Operations</b>			
<b>Revenue</b>	<b>16,379</b>	17,390	34,016
Cost of sales	<b>(11,043)</b>	(12,099)	(23,064)
<b>Gross profit</b>	<b>5,336</b>	5,291	10,952
Net operating expenses	<b>(5,105)</b>	(4,881)	(9,728)
<b>Operating profit</b>	<b>231</b>	410	1,224
	Six months to 30 June 2020 €000	Six months to 30 June 2019 €000	Year to 31 December 2019 €000
<b>Operating profit – continuing operations</b>			
Packaging Distribution	<b>4,033</b>	4,463	12,406
Manufacturing Operations	<b>231</b>	410	1,224
<b>Operating profit</b>	<b>4,264</b>	4,873	13,630
Finance costs (note 4)	<b>(642)</b>	(1,041)	(1,606)
<b>Profit before tax</b>	<b>3,622</b>	3,832	12,024
Tax (note 5)	<b>(736)</b>	(693)	(2,293)
<b>Profit for the period</b>	<b>2,886</b>	3,139	9,731

The Packaging Distribution business has historically benefited from additional demand in the final months of the year, resulting in revenue and profitability at higher levels in the second half of the year.

## Notes to the Group condensed financial statements (unaudited)

For the six months ended 30 June 2020

### 3. Segmental information (continued)

	30 June 2020 €000	30 June 2019 €000	31 December 2019 €000
<b>Total assets</b>			
Packaging Distribution	<b>140,145</b>	150,838	151,115
Manufacturing Operations	<b>19,728</b>	20,154	19,450
<b>Total assets</b>	<b>159,873</b>	170,992	170,565
<b>Net assets</b>			
Packaging Distribution	<b>63,235</b>	54,276	60,607
Manufacturing Operations	<b>8,367</b>	8,117	8,664
<b>Net assets</b>	<b>71,602</b>	62,393	69,271

### 4. Finance costs

	Six months to 30 June 2020 €000	Six months to 30 June 2019 €000	Year to 31 December 2019 €000
Interest on bank borrowings	<b>228</b>	293	573
Interest on leases	<b>357</b>	623	802
Finance cost relating to defined benefit pension scheme (note 10)	<b>57</b>	125	231
<b>Total finance costs</b>	<b>642</b>	1,041	1,606

### 5. Tax

	Six months to 30 June 2020 €000	Six months to 30 June 2019 €000	Year to 31 December 2019 €000
<b>Current tax</b>			
UK corporation tax	<b>529</b>	611	2,057
Foreign tax	<b>32</b>	68	104
Prior year adjustments	<b>(58)</b>	(64)	(53)
<b>Total current tax</b>	<b>503</b>	615	2,108
Deferred tax – current year	<b>(132)</b>	78	185
– Long-term corporation tax rate change	<b>365</b>	–	–
<b>Total deferred tax (note 11)</b>	<b>233</b>	78	185
<b>Total tax</b>	<b>736</b>	693	2,293

Tax for the six months ended 30 June 2020 has been charged at 19.00% (2019: 19.00%) representing the best estimate of the effective tax charge for the full year.



## 6. Dividends

	Six months to 30 June 2020 €000	Six months to 30 June 2019 €000	Year to 31 December 2019 €000
Amounts recognised as distributions to equity holders in the period			
Final dividend (Nil per share) (2018: 1.65p per share)	–	2,600	2,600
Interim dividend (2019: 0.69p per share)	–	–	1,089
<b>Distributions in the period</b>	<b>–</b>	<b>2,600</b>	<b>3,689</b>

An interim dividend of 0.70p per share, payable on 8 October 2020 was declared on 27 August 2020 and has therefore not been included as a liability in these condensed financial statements.

## 7. Earnings per share

	Six months to 30 June 2020 €000	Six months to 30 June 2019 €000	Year to 31 December 2019 €000
<b>Earnings</b>			
Profit for the period from continuing operations	<b>2,886</b>	3,139	9,731
	<b>30 June 2020</b>	30 June 2019	31 December 2019
<b>Number of shares '000</b>			
Weighted average number of shares in issue for the purposes of basic earnings per share	<b>157,812</b>	157,548	157,636
Effect of Long-Term Incentive Plan awards in issue	<b>358</b>	114	393
<b>Weighted average number of shares in issue for the purposes of diluted earnings per share</b>	<b>158,170</b>	157,662	158,029
<b>Basic earnings per share</b>	<b>1.83p</b>	1.99p	6.17p
<b>Diluted earnings per share</b>	<b>1.82p</b>	1.99p	6.16p

## 8. Acquisitions

On 6 January 2020, the Group's subsidiary, Macfarlane Group UK Limited ('MGUK') acquired the trade, selected assets and goodwill of the packaging distribution business of Armagrip for a cash consideration of £0.9 million.

On 2 May 2019, MGUK acquired 100% of Ecopac (UK) Limited, for a maximum consideration of £3.9 million. £3.1 million was paid in cash on acquisition and the deferred consideration of £0.8 million will be paid in 2020, as trading targets have been met in an agreed 12 month period after acquisition. On 30 August 2019, Macfarlane Group PLC acquired 100% of Leyland Packaging Company (Lancs) Limited, for a maximum consideration estimated at £3.05 million. £2.00 million was paid in cash and shares to the value of £0.25 million issued to the Vendors on acquisition. Deferred consideration of £0.8 million is payable in 2020, subject to certain trading targets being met in an agreed 12 month period after acquisition.

## Notes to the Group condensed financial statements (unaudited)

For the six months ended 30 June 2020

### 8. Acquisitions (continued)

Contingent considerations are recognised as a liability in trade and other payables and are remeasured to fair value of £1.6 million at the balance sheet date based on a range of outcomes between £Nil and £1.8 million. Trading in the post-acquisition periods supports the remeasured value of £1.6 million.

All three businesses are packaging distributors, accounted for in the Packaging Distribution segment. Goodwill arising is attributable to the anticipated future profitability of the distribution of the Group's product ranges in the UK and anticipated operating synergies from future combinations of activities with the existing Packaging Distribution network. Fair values assigned to net assets acquired and consideration paid and payable are set out below:

	Six months to 30 June 2020 £000	Six months to 30 June 2019 £000	Year to 31 December 2019 £000
<b>Net assets acquired</b>			
Other intangible assets	298	1,701	3,313
Property, plant and equipment	–	701	1,194
Inventories	206	395	879
Trade and other receivables	282	1,170	1,797
Cash and bank balances	–	211	249
Bank borrowings	–	–	(149)
Trade and other payables	–	(974)	(1,658)
Current tax liabilities	–	(91)	(235)
Lease liabilities	–	(539)	(979)
Deferred tax liabilities	(57)	(311)	(599)
<b>Net assets acquired</b>	<b>729</b>	2,263	3,812
Goodwill	159	1,588	3,093
<b>Total consideration</b>	<b>888</b>	3,851	6,905
<b>Contingent consideration on acquisitions</b>			
Current year	–	(800)	(1,600)
Prior years	–	–	1,207
<b>Shares issued for non-cash consideration</b>	<b>–</b>	–	(250)
<b>Total cash consideration</b>	<b>888</b>	3,051	6,262
<b>Net cash outflow arising on acquisition</b>			
Cash consideration	(888)	(3,051)	(6,262)
Cash and bank borrowings acquired	–	211	100
<b>Net cash outflow</b>	<b>(888)</b>	(2,840)	(6,162)

## 9. Notes to the cash flow statement

	Cash and cash equivalents €000	Bank borrowing €000	Lease liabilities €000	Total debt €000
<b>Total debt</b>				
At 1 January 2019	4,611	(17,769)	(101)	<b>(13,259)</b>
Non-cash movements				
IFRS 16 transition on 1 January 2019	–	–	(29,701)	<b>(29,701)</b>
New leases	–	–	(2,769)	<b>(2,769)</b>
Acquisitions	–	–	(539)	<b>(539)</b>
Cash movements	(748)	(1,042)	3,300	<b>1,510</b>
<b>At 30 June 2019</b>	<b>3,863</b>	<b>(18,811)</b>	<b>(29,810)</b>	<b>(44,758)</b>
Non-cash movements				
Adjustments to IFRS 16 transition	–	–	1,738	<b>1,738</b>
New leases	–	–	(854)	<b>(854)</b>
Acquisitions	–	–	(440)	<b>(440)</b>
Cash movements	(553)	2,827	3,399	<b>5,673</b>
<b>At 31 December 2019</b>	<b>3,310</b>	<b>(15,984)</b>	<b>(25,967)</b>	<b>(38,641)</b>
Non-cash movements				
New leases	–	–	(403)	<b>(403)</b>
Cash movements	1,416	10,442	3,207	<b>15,065</b>
<b>At 30 June 2020</b>	<b>4,726</b>	<b>(5,542)</b>	<b>(23,163)</b>	<b>(23,979)</b>
Total cash movements for 2019	(1,301)	1,785	6,699	7,183

### Net bank debt

	Cash and cash equivalents €000	Bank borrowing €000	Net bank debt €000
<b>At 30 June 2020</b>	<b>4,726</b>	<b>(5,542)</b>	<b>(816)</b>
At 31 December 2019	3,310	(15,984)	(12,674)

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

## Notes to the Group condensed financial statements (unaudited)

For the six months ended 30 June 2020

### 10. Retirement benefit obligations

The figures below have been prepared by Aon Hewitt based on the results of the triennial actuarial valuation as at 1 May 2017, updated to 30 June 2020, 31 December 2019 and 30 June 2019. The scheme investments and the scheme's net liability position as calculated under IAS 19 are as follows:

Investment class	30 June 2020 £000	30 June 2019 £000	31 December 2019 £000
<b>Equities</b>			
UK equity funds	7,520	7,330	8,913
Overseas equity funds	12,541	11,288	13,226
Multi-asset diversified growth funds	23,976	19,220	25,382
<b>Bonds</b>			
Liability-driven investment funds	32,694	33,601	27,688
<b>Other investments</b>			
European loan fund	6,092	6,264	6,379
Secured property income fund	6,095	6,020	6,192
Cash	6,798	1,686	281
<b>Fair value of scheme investments</b>	<b>95,716</b>	85,409	88,061
Present value of scheme liabilities	(101,764)	(94,438)	(94,526)
<b>Pension scheme deficit</b>	<b>(6,048)</b>	(9,029)	(6,465)

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

Assumptions	30 June 2020	30 June 2019	31 December 2019
Discount rate	1.50%	2.20%	2.00%
Rate of increase in pensionable salaries	0.00%	0.00%	0.00%
Rate of increase in pensions in payment	3% or 5% for fixed increases or 2.85% for LPI	3% or 5% for fixed increases or 3.10% for LPI	3% or 5% for fixed increases or 2.95% for LPI
PIE take up rate	45%	45%	45%
Inflation assumption (RPI)	2.90%	3.20%	3.00%
Inflation assumption (CPI)	2.20%	2.20%	2.10%
Life expectancy beyond normal retirement age of 65			
Male	23.4 years	23.6 years	23.3 years
Female	25.5 years	25.7 years	25.5 years
Average uplift for GMP service	0.40%	0.40%	0.40%



	Six months to 30 June 2020 €000	Six months to 30 June 2019 €000	Year to 31 December 2019 €000
<b>Movement in scheme deficit in the period</b>			
At start of period	(6,465)	(9,765)	(9,765)
Current service cost	(62)	(62)	(112)
Employer contributions	1,574	1,732	3,106
Net finance cost	(57)	(125)	(231)
Remeasurement of pension scheme liability in the period	(1,038)	(809)	537
<b>At end of period</b>	<b>(6,048)</b>	<b>(9,029)</b>	<b>(6,465)</b>

### Sensitivity to key assumptions

Key assumptions used for IAS 19 are discount rate, inflation and mortality. If different assumptions were used, then this could have a material effect on the deficit. Assuming all other assumptions are held static then a movement in the following key assumptions would affect the level of the deficit as shown below:

Assumptions	30 June 2020 €000	30 June 2019 €000	31 December 2019 €000
Discount rate movement of +0.4%	6,513	6,044	6,048
Inflation rate movement of +0.1%	(407)	(378)	(482)
Mortality movement of +0.1 year in age rating	305	283	284

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

	Six months to 30 June 2020 €000	Six months to 30 June 2019 €000	Year to 31 December 2019 €000
<b>Movement in fair value of scheme investments</b>			
Scheme investments at start of period	88,061	75,827	75,827
Interest income	879	1,062	2,109
Return on scheme assets (exc. amounts shown in interest income)	7,021	8,525	11,154
Contributions from sponsoring companies	1,574	1,732	3,106
Contribution from scheme members	34	36	70
Benefits paid	(1,853)	(1,773)	(4,205)
<b>Scheme investments at end of period</b>	<b>95,716</b>	<b>85,409</b>	<b>88,061</b>
<b>Movement in present value of scheme liabilities</b>			
Scheme liabilities at start of period	(94,526)	(85,592)	(85,592)
Normal service costs	(62)	(62)	(112)
Interest cost	(936)	(1,187)	(2,340)
Contribution from scheme members	(34)	(36)	(70)
Actuarial loss due to the changes in financial and experience	(8,059)	(9,334)	(11,495)
Actuarial gain due to change in demographic assumptions	–	–	878
Benefits paid	1,853	1,773	4,205
<b>Scheme liabilities at end of period</b>	<b>(101,764)</b>	<b>(94,438)</b>	<b>(94,526)</b>

## Notes to the Group condensed financial statements (unaudited)

For the six months ended 30 June 2020

### 10. Retirement benefit obligations (continued)

#### Investments

The Trustees review the scheme investments regularly and consult with the Company regarding any changes. In the first half of 2020, surplus cash generated from the Liability-driven investment funds was held in cash funds at 30 June 2020, pending investment into the existing Multi-asset diversified growth funds in the second half of 2020.

#### Funding

Following the completion of the triennial actuarial valuation at 1 May 2017, Macfarlane Group PLC is paying deficit reduction contributions with a deficit recovery period of 7 years. Contributions in 2020, inclusive of service costs and interest of £0.24 million, are expected to be £3.15 million.

The triennial actuarial valuation at 1 May 2020 has commenced and is likely to conclude in the first quarter of 2021.

### 11. Deferred tax

	Tax losses less accelerated capital allowances £000	Other intangible assets £000	Retirement benefit obligations £000	Total £000
At 1 January 2019	(8)	(2,794)	1,660	<b>(1,142)</b>
Acquisitions	(22)	(289)	–	<b>(311)</b>
(Charged)/credited in income statement				
Current period	(10)	193	(261)	<b>(78)</b>
Credited in other comprehensive income	–	–	138	<b>138</b>
At 30 June 2019	<b>(40)</b>	<b>(2,890)</b>	<b>1,537</b>	<b>(1,393)</b>
Acquisitions	(15)	(273)	–	<b>(288)</b>
(Charged)/credited in income statement				
Current period	(111)	212	(208)	<b>(107)</b>
Charged in other comprehensive income	–	–	(230)	<b>(230)</b>
At 1 January 2020	<b>(166)</b>	<b>(2,951)</b>	<b>1,099</b>	<b>(2,018)</b>
Acquisitions	–	(57)	–	<b>(57)</b>
Credited/(charged) in income statement				
Current period	150	(107)	(276)	<b>(233)</b>
Credited in other comprehensive income	–	–	326	<b>326</b>
<b>At 30 June 2020</b>	<b>(16)</b>	<b>(3,115)</b>	<b>1,149</b>	<b>(1,982)</b>
Deferred tax assets	125	–	1,149	<b>1,274</b>
Deferred tax liabilities	(141)	(3,115)	–	<b>(3,256)</b>
<b>At 30 June 2020</b>	<b>(16)</b>	<b>(3,115)</b>	<b>1,149</b>	<b>(1,982)</b>

## 12. Related party transactions

Related party transactions for 2019 are disclosed in note 28 of the 2019 Annual Report. The directors are satisfied that other than the changes in the Retirement Benefit Obligations disclosed in note 10 above, there have been no changes which could have a material effect on the financial position of the Group in the first six months of the financial year.

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

Details of individual and collective remuneration of the Company's Directors and dividends received by the Directors for calendar year 2020 will be disclosed in the Group's 2020 Annual Report. Peter Atkinson and John Love hold option awards over 330,123 and 163,525 ordinary shares respectively under the Macfarlane Group PLC Long Term Incentive Plan awarded in 2019.

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

## 13. Post balance sheet events

There are no post balance sheet events requiring disclosure.

## 14. Interim Report

The interim report will be posted to shareholders on 11 September 2020. Copies will be available from the registered office, 3 Park Gardens, Glasgow G3 7YE and available on the Company's website, [www.macfarlanegroup.com](http://www.macfarlanegroup.com), from that date.



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