# FOCUSING ON GROWTH MARKETS WORLDWIDE

ANNUAL REPORT AND ACCOUNTS

2016

# THE GROUP

## CARR'S GROUP PLC IS FOCUSSED ON THE PRINCIPAL ACTIVITIES OF AGRICULTURE AND ENGINEERING.

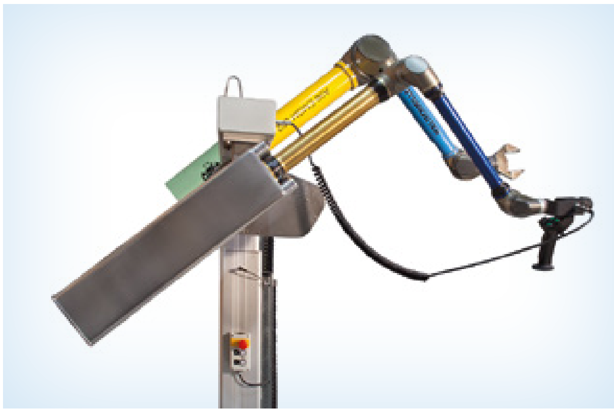
Carr's Group plc is an international business. During the year it operated across Agriculture, Food and Engineering, supplying over 35 countries around the world.

On 3 September 2016 the Food division was sold* and the Group continues with two divisions Agriculture and Engineering.

The Agriculture division comprises an international feed block supplement business with manufacturing locations in the USA, UK and Europe. In the UK the division also sells animal feed, fertiliser, animal health products, oil, farm machinery and rural supplies from its 40 locations.

The Engineering division designs, manufactures and supplies specialist precision parts, equipment, robotics and remote handling products from three sites in the UK and one site in Germany. These highly specialised products and services are supplied predominately into the nuclear and oil and gas markets.

The Group is listed on the London Stock Exchange.

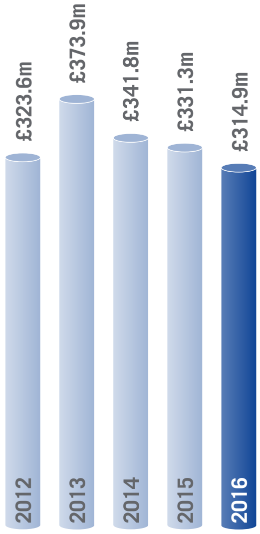
## CONTENTS



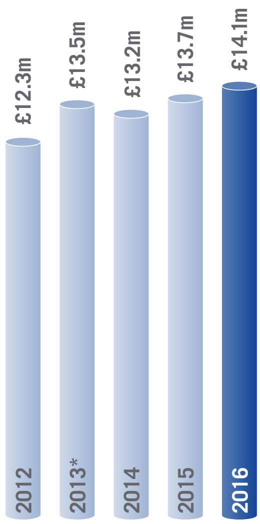
*For further details of the disposal see page 4.

# FINANCIAL HIGHLIGHTS

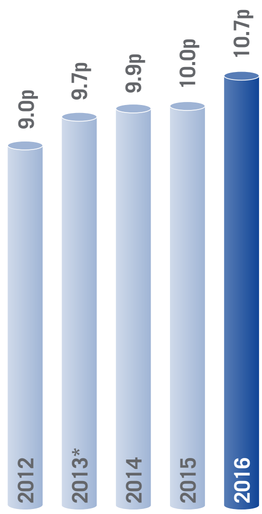
Continuing operations only



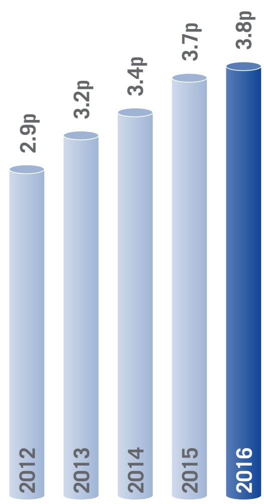

REVENUE
**£314.9m**
**4.9% DOWN** FROM 2015




PROFIT BEFORE TAX
**£14.1m**
**2.8% UP** FROM 2015




EARNINGS PER SHARE**
**10.7p**
**7.0% UP** FROM 2015




DIVIDEND PER SHARE**
**3.8p**
**2.7% UP** FROM 2015

* restated for IAS 19 Revised
** restated for the effect of the 10:1 share split in January 2015

## 2016 HIGHLIGHTS

View this report online
**www.carrsgroup.com**

### ENGINEERING
SIGNIFICANT CONTRACT WINS

### FOOD
DISPOSAL OF FOOD DIVISION


### FURTHER INVESTMENT IN OUR RETAIL NETWORK






STRATEGIC REPORT
CORPORATE GOVERNANCE
FINANCIAL STATEMENTS

# GROUP AT A GLANCE: STRENGTH THROUGH DIVERSITY

Carr's is an international group focussed on developing innovative solutions for our global customers. The Group's distribution network spans over 35 countries worldwide, and the geographic and divisional diversity lies at the centre of our strategy. During the year the Group consisted of three divisions, however, on 3 September 2016 the Food division was sold leaving the Agriculture and Engineering divisions, which operate in markets that offer growth prospects. Our diverse geographic and divisional exposure provides strength in an increasingly volatile global economic environment.

## AGRICULTURE
OVERVIEW AND MARKETS

EMPLOYEES TOTAL: **594**

427 167

The Agriculture division develops and supplies a range of branded innovative animal nutrition products into the livestock industries as well as servicing the UK farming and rural communities through a network of retail stores and fuel businesses.

Carr's develops and manufactures branded molasses-based feed supplements, in the form of high and low moisture feed blocks, which enrich the diet of all types of farm animals.

**Operational Locations**
The division's products are manufactured in the USA, Germany and the UK, which are sold through a vast distributor network across the UK, Europe, New Zealand and North America.

**Customer Base**
Leading livestock farmers across the globe in the dairy, beef, sheep, pig and equine sectors.

## ENGINEERING
OVERVIEW AND MARKETS

EMPLOYEES TOTAL: **296**

247 49

The Engineering division designs and manufactures bespoke equipment for use in the nuclear, oil and gas, and petrochemical industries. Products include manipulators, robotics, specialist fabrication and precision machining.

Carr's is focussed on the design and manufacture of pressure vessels and steel fabrications together with specialist remote handling technology, robotics and radiation protection equipment for use in environments inaccessible to humans.

**Operational Locations**
The division is based in a number of key locations across the UK and in Germany, distributing to clients around the world including Europe, North and South America, Russia, Australia, Japan and South Africa.

**Customer Base**
Key players across the worldwide nuclear, research, oil and gas, and petrochemical industries.

## FOOD
OVERVIEW AND MARKETS

EMPLOYEES TOTAL: **218**

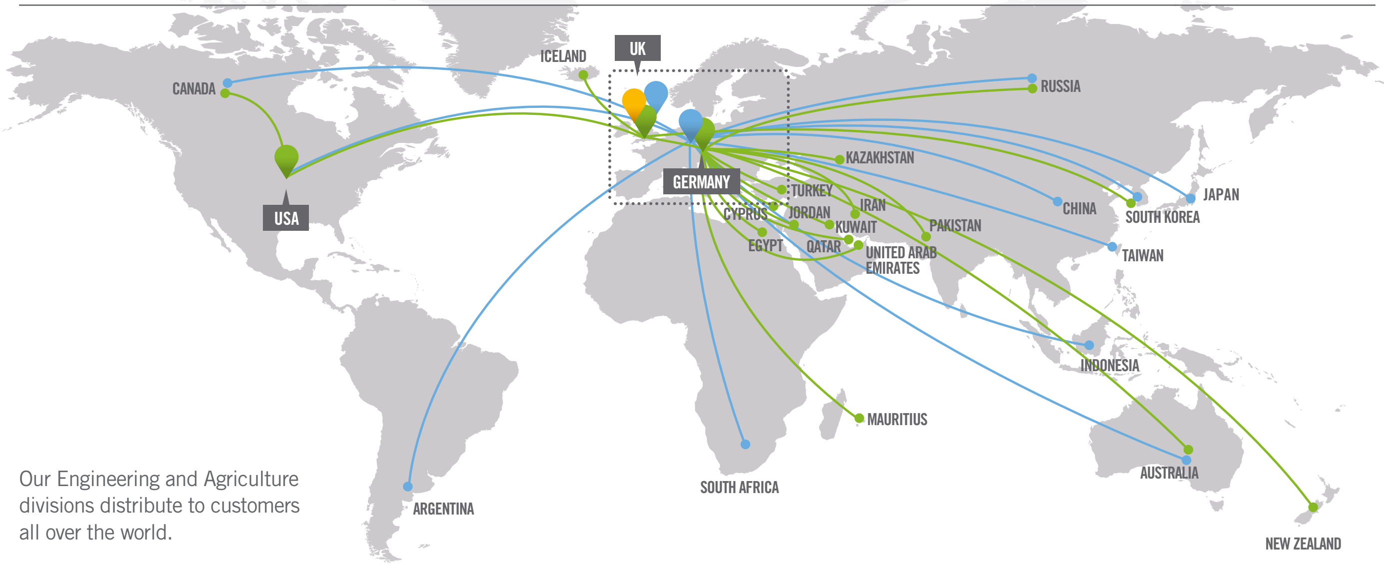
181 37

The Food division supplied bakeries, food manufacturers and multiples across the UK, using the latest milling technologies and sourcing the best wheat either from the UK or overseas.

**Operational Locations**
The division operated from two strategically located dockside sites in the UK, on the coast at Silloth in Cumbria and at the state-of-the-art site at Kirkcaldy in Fife, as well as a third mill at Maldon in Essex.

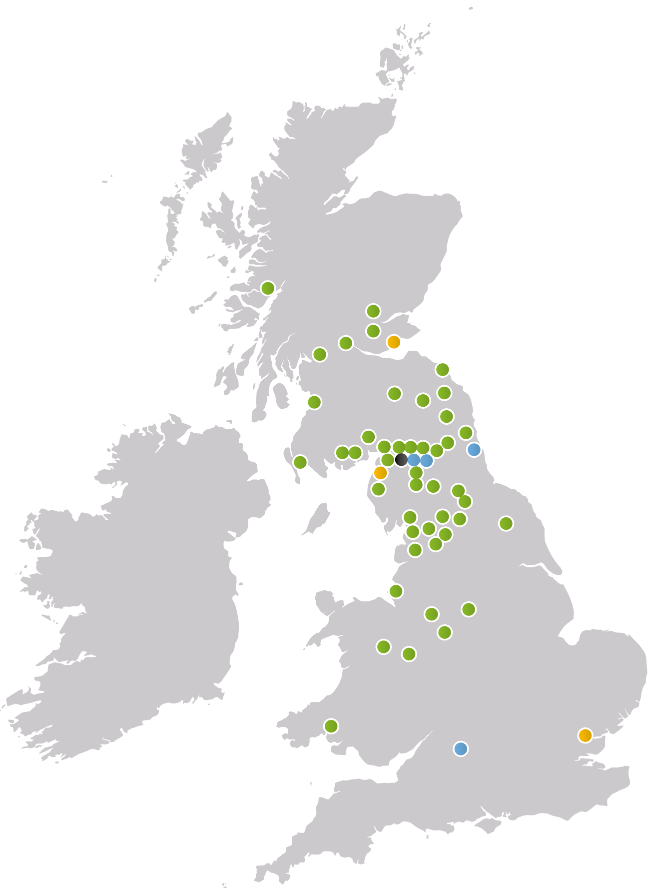
**Disposal**
On 3 September 2016 the division was sold to Whitworths Holdings Ltd, for more information see page 4.

# INTERNATIONAL DISTRIBUTION



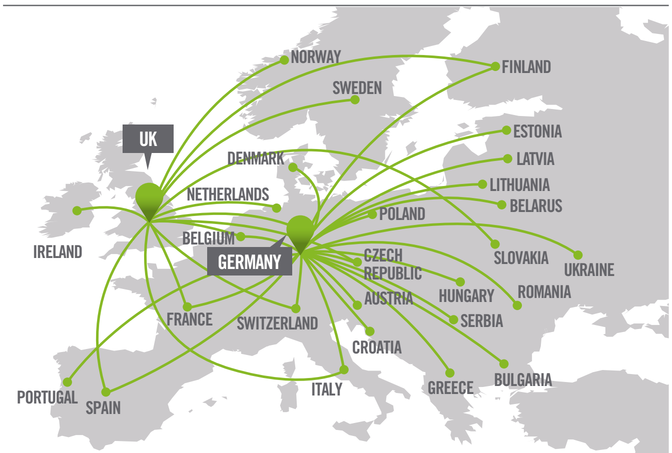

Our Engineering and Agriculture divisions distribute to customers all over the world.

# UK LOCATIONS

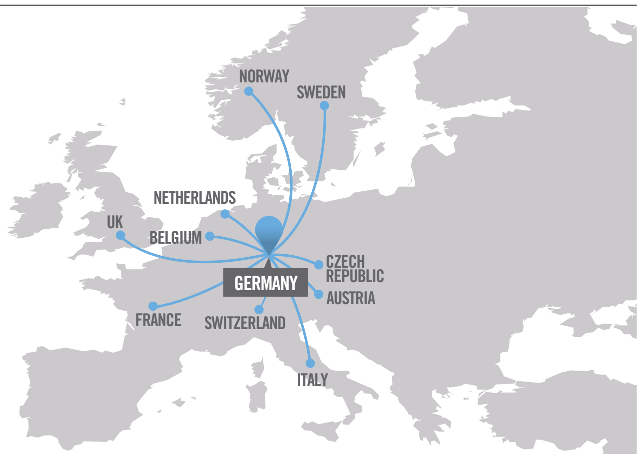


HEAD OFFICE
FOOD
AGRICULTURE
ENGINEERING

# AGRICULTURE EUROPEAN DISTRIBUTION




# ENGINEERING EUROPEAN DISTRIBUTION






STRATEGIC REPORT
CORPORATE GOVERNANCE
FINANCIAL STATEMENTS

# CHAIRMAN'S STATEMENT

**CHRIS HOLMES**
CHAIRMAN

> "I am pleased to report that the Group has delivered a solid set of results in the context of a challenging market."

## STRATEGIC DELIVERY

It has been a significant year in the strategic development of the Group with the disposal of the Food division at the end of the year. As discussed below, we believe this action by the Group enhances shareholder value as a result of having a much stronger focus on growing both the Agriculture and Engineering divisions.

In trading terms, the year has seen depressed farmgate milk prices, which for most of the year adversely impacted our farming customers. The Engineering division also continues to be negatively impacted by the current low oil price. In addition, the North of England was affected by severe floods during December 2015. Despite these challenges, the Group has delivered a robust performance ahead of last year. The Board recognises this strong performance and thanks every one of our employees and our management team for their expertise, dedication and support.

Revenue for the year from continuing operations fell by 4.9% to £314.9m (2015: £331.3m). Profit before tax from continuing operations, excluding a profit from discontinued operations of £2.8m, was up 2.8% to £14.1m (2015: £13.7m). This comprised an 8.6% increase in Agriculture operating profit to £10.3m (2015: £9.4m), and a 4.9% reduction in Engineering operating profit to £2.5m (2015: £2.6m). Basic earnings per share from continuing operations were up by 7.0% to 10.7 pence per share (2015: 10.0 pence), with fully diluted earnings per share of 10.5 pence (2015: 9.7 pence) and adjusted earnings per share, excluding non-recurring items and amortisation of intangibles, of 10.9 pence (2015: 10.2 pence). Net cash at the year end was £8.1m (2015: net debt of £24.4m).

## STRATEGIC REFOCUSING

Following an approach by Whitworths Holdings Ltd for the acquisition of Carr's Flour Mills Ltd (the Food division), the Board undertook a strategic review of the Group's three divisions. It concluded that the nature of the offer presented an excellent opportunity to realise the value of the Food division, whilst allowing the Group to further strengthen its focus on growing both the Agriculture and Engineering divisions in a way that could enhance shareholder value.

A decision was therefore taken by the Board to dispose of the Food division for a gross consideration of £36.0m on a cash and debt free basis (the Disposal). The purchase price was subject to an adjustment based on actual working capital at the date of sale compared to the agreed average working capital. After adjustment for the carrying value of net debt amounting to £7.9m and the allowance for an estimated working capital adjustment of £3.2m, the Group received £24.9m in cash.

Given the significant amount of cash realised from the Disposal, the Board decided to return £16.0m of the net proceeds of the Disposal to shareholders in the form of a special dividend, which took place on 7 October 2016. The Group's modest debt position after the special dividend enables it to pursue acquisition opportunities as and when appropriate. The Board believes that taking into account the £16.0m returned to shareholders and the potential investment in growth opportunities utilising the £8.9m cash retained from the net proceeds of the Disposal, the transaction should contribute to an increase in shareholder value.

Consistent with the above, on 24 October 2016, the Group has recently acquired a German engineering company, STABER GmbH (formerly called Städele GmbH), a long term supplier to our German remote handling business, for a gross consideration of €7.85m. This acquisition will enhance the intellectual property and growth potential of the existing German remote handling business.

On behalf of the Board I would like to thank the employees of Carr's Flour Mills Ltd for all of their support and dedication over the years. I am pleased that in joining Whitworths Holdings Ltd, they have joined a company that is fully committed to continuing to build on the strong foundations laid out by Jonathan Dodgson Carr when he started the business back in 1831. I would also like to welcome the employees of STABER to the Group.

## BUSINESS REVIEW

In Agriculture, our international feedblock business has delivered another excellent performance, driven by a strong performance in the USA where we have seen a significant increase in demand. Sales volumes have increased as a result of the strength of our branded product offering and the rebuilding of beef herds. In accordance with our strategy, we continue to invest in our production facilities and R&D programme, both in the UK and internationally, to drive future growth in existing markets and expansion into new geographies. Our UK retail business continued to build on the momentum established in previous years, with the expansion of the Country Store network into new territories both organically and through acquisitions. I am pleased that by the end of this calendar year we will be operating from 41 locations across the UK. In the financial year we acquired Green (Agriculture) Co in Northumberland and Phoenix Feeds Ltd in Lancashire, expanding our customer base in both regions. We welcome our new colleagues.

We are grateful to our customers who have continued to support our business during this challenging year. We believe our strong geographic presence, the relevance of our product offering, and continued excellent customer service will be key requirements in supporting them over the forthcoming year.

Our Engineering division has had another tough year, impacted by the continuing downturn in the oil and gas market and several contract delays. The division is beginning to see the benefit of the resurgence in the UK nuclear market with several new contract wins, in particular the largest ever contract secured by the division awarded by Sellafield with a value of approximately £48m over the next ten years. We remain confident in the medium term prospects of the division as we continue to focus on nuclear and adjacent markets.

## GOVERNANCE

The Board is mindful of the UK Corporate Governance Code and takes its responsibilities very seriously. It continues to strive to comply with all areas of the Code and a full report on Corporate Governance can be found on pages 25 to 27. All Directors will be standing for election at the Annual General Meeting (AGM) on 10 January 2017.

## DIVIDEND

The Board is proposing a 2.7% increase in the final dividend to 1.9 pence per ordinary share, which together with the two interim dividends of 0.95 pence per ordinary share paid on 13 May and 7 October 2016, make a total of 3.8 pence per share for the year (2015: 3.7 pence), representing an increase of 2.7%. The final dividend, if approved by the Shareholders, will be paid on 13 January 2017 to Shareholders on the register on close of business 16 December 2016, and the shares will go ex-dividend on 15 December 2016.

This final dividend and the two interim dividends are in addition to the special dividend of 17.54 pence per ordinary share paid on 7 October 2016 following the disposal of Carr's Flour Mills Ltd.

## THE BOARD

Last year, John Worby was appointed as a Non-Executive Director of the Board, taking over as Senior Independent Director and Audit Committee Chairman from Alistair Wannop and Robert Heygate respectively. The Board has been further strengthened this year with the appointment of Non-Executive Director Ian Wood, who has extensive experience in the engineering and energy sectors, previously working for Centrica plc.

In addition, on 10 September 2015 it was announced that Robert Heygate had decided to stand down from the Board after 25 years' service, with effect from 30 April 2016. I would like to take this opportunity to thank Bob for his contribution, dedication, enthusiasm, and support during his time with Carr's.

## OUTLOOK

The disposal of the Food division will support the Group's ambition to achieve further growth and development in line with its strategic objectives across its remaining two divisions, Agriculture and Engineering. The Board sees opportunities for international growth of our feedblock business and to further build on our nuclear business capability in the short and medium term, as well as continuing to strengthen our UK Agricultural business. We will continue to identify acquisition opportunities while investing in our existing business for the future.

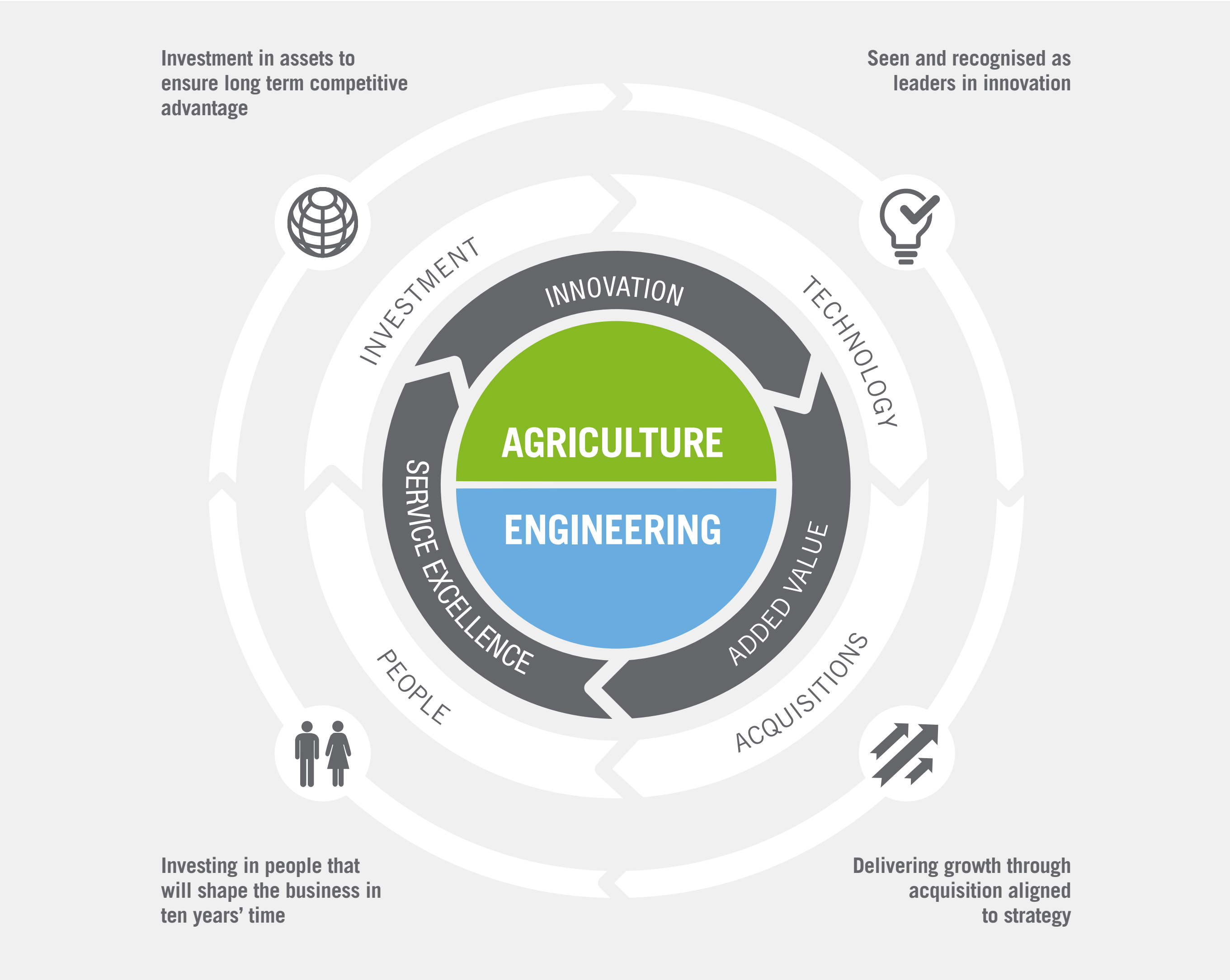
The Board's expectations for the current financial year remain unchanged. Trading in the first quarter has started positively with a continued stabilising of farmgate milk prices. The climate of uncertainty relating to the UK's exit from the European Union will continue in the short term, and there is medium term risk associated with UK Agriculture which is dependent on future Government policy and the terms of exit from the EU. In overall terms, some of the difficulties experienced in the UK as a result of Brexit have been offset as a result of the exchange rate benefit from overseas operations. The Board will continue to monitor the position and believe that the Group is well placed to respond to any challenges and opportunities that may arise.

CHRIS HOLMES DL
Chairman
16 November 2016

# **GROUP** STRATEGY

## VISION

To be recognised as a truly international business at the forefront of technology and innovation




## STRATEGIC OBJECTIVES

- Build business value by focussing on markets with growth potential
- Grow and diversify our international footprint
- Differentiate ourselves through innovation and technology
- Lead in our chosen markets

# BUSINESS STRATEGIES

## FOCUSED ON GROWTH MARKETS

We aim to succeed by being selective in what we do. We constantly strive to build deep and long lasting relationships with customers across a range of carefully chosen markets.

### OUR KEY STRENGTHS

#### Global Markets

Wide range of export markets across the globe supplied from key manufacturing plants in UK, mainland Europe and across the United States.

#### Core Competencies

Deep industry knowhow delivering market leading solutions backed up with world leading engineering capability.

#### Market Leading Products

Leading branded products such as Crystalyx® and SmartLic® in Agriculture and Telbot® and A1000 robots in Engineering.

#### Doing the Right Thing

Management style that encourages entrepreneurial drive and innovation backed up by key values – respect, trust and integrity.

## AGRICULTURE


The last two years have been tough across the global agricultural market as the farming commodity cycle moves towards a cyclical low. However, the medium to long term outlook remains bright. The world's population is expected to reach over nine billion people by 2050, an increase of over two billion on the current level. This growth combined with continued urbanisation particularly in emerging economies will drive demand for both food and agricultural products and the need for technologies to drive productivity.

- Increased UK feed volumes against a national average decline and growth of 10.2% in USA block sales
- Retail development and growth
- New block plant in Silver Springs, USA®
- New products – Megastart® and Piglyx®
- New markets – New Zealand and South America

## ENGINEERING

A resurgent UK nuclear industry offers a range of exciting opportunities both in new build and decommissioning. In oil and gas, global markets have been challenging and this is set to continue through the next year. Opportunities are emerging in other related markets such as defence and aerospace.

- New products such as the Demo 2000 Telbot®
- Closer integration and marketing of combined offerings across the Engineering division
- Development of design department that is driving new contract wins
- New markets – USA

STRATEGIC REPORT
CORPORATE GOVERNANCE
FINANCIAL STATEMENTS

# CHIEF EXECUTIVE'S REVIEW

**TIM DAVIES**
CHIEF EXECUTIVE OFFICER

OPERATING PROFIT BY SECTOR

| AGRICULTURE | ENGINEERING |
|---|---|
| £10.3m | £2.5m |
| 8.6% UP FROM 2015 | 4.9% DOWN FROM 2015 |

## INTRODUCTION

2016 was the beginning of a transformational period for the Group culminating at the end of the financial year with the disposal of the Food division. The Group sold Carr's Flour Mills Ltd (the Food division) to Whitworths Holdings Ltd, representing an exciting stage in the Group's strategic development. The disposal enables the Group to focus on the Agriculture and Engineering divisions to drive future growth and improve the financial returns for our shareholders. Both of these divisions are internationally recognised for manufacturing value added and technologically advanced products with market leading brands.

Our strategy remains centred around four key pillars:

- investing in our people, who are vital to the long term success of the business;
- investing in our asset base, to ensure we retain our competitive advantage;
- driving product innovation across each of our divisions; and
- delivering growth through acquisitions and organic expansion.

These strategic pillars are at the heart of each division, and their continued implementation has ensured we have once again delivered another record year of profit for the Group.

Our investment in the business has continued to be a priority. Major projects commenced and completed in the year include:

- £0.9m reconfiguration of feedblock site at Ayr;
- £0.5m new silos at feedblock site in Silloth;
- £1.7m acquisition of Phoenix Feeds Ltd in June 2016;
- €1.0m high moisture feedblock plant in Oldenburg commissioned;
- £0.3m acquisition of Green (Agriculture) Co September 2015;
- £0.2m on new and redeveloped country stores at:-
  - Wigton
  - Leek
  - Penicuik
- $0.5m office expansion at AFS;
- €0.9m commencement of Wälischmiller showroom; and
- £0.5m additional fuel tankers across the existing fuel depots.

After the year end the Group acquired STABER GmbH, formerly called Städele GmbH, a family owned engineering business located near the Group's existing German operations in Markdorf. STABER has designed and developed specialised intellectual property, which will be strategically beneficial to the Group's German operations in both the near and long term. This purchase is fully aligned with the Engineering division's growth strategy of capitalising on the global resurgence of nuclear decommissioning as well as the use of robotic technologies in highly explosive environments.

## OUTLOOK

The disposal of the Food division leaves the Group well placed to capitalise on the opportunity it presents by pursuing further organic and acquisitive growth in its two remaining higher margin divisions.

The Board is keen to pursue opportunities on the international expansion of the feedblock division into new territories and pursue further opportunities in animal supplementation. In Engineering, there will be a focus on expanding the markets, territories and capabilities of the highly specialised remote handling engineering business, both organically and acquisitively, as well as pursuing complementary acquisitions that are strategically aligned to that division.

The Group is operating in challenging global markets and as a result of the decision to leave the EU, the UK faces a period of uncertainty in the short-term. The Group is well placed to capitalise on any opportunities this presents, and with its inherent operational and geographical diversity is in a strong position to deal with this uncertainty. The current financial year has started positively and trading is in line with the Boards' expectations.

> "We have once again delivered another record year of profit for the Group."

# AGRICULTURE

Operating profit for the year increased by **8.6%** to **£10.3m** (2015: £9.4m) on revenue down by **4.4%** to **£284.8m** (2015: £297.7m).

OPERATING PROFIT

**£10.3m**

**8.6% UP** FROM 2015


The Agriculture division has reported another record year, driven by its operational and geographic diversity.

## FEEDBLOCKS

Overall our global feedblock sales volumes were up 6.0% on last year.

Sales of feedblocks in the USA were at unprecedented levels with sales volumes, excluding joint ventures, up 5.1% on last year. Record production levels have been driven by an increase in market size with the continued rebuilding of the beef herds across our key territories, in addition to market share gains. The new SmartLic® feedblock plant at Silver Springs, Nevada, was commissioned in the year with the first product being produced in January 2016. This plant will significantly extend the market reach and penetration in the western states of the USA, and alleviate the capacity pressure currently experienced by the Belle Fourche plant, South Dakota, which has been operating at capacity throughout the year. The Silver Springs plant is expected to make a full contribution in the current financial year, with the primary feedblock season in the region being August to February.

Sales of feedblocks in the USA through our joint venture operations at Shelbyville, Tennessee and Sioux City, Iowa were up 34.2% on last year. As a result of the success of the joint venture at Shelbyville, the Board has decided to expand our operations with the construction of a $4.6m new low moisture feedblock plant alongside the existing high moisture feedblock facility. It is anticipated that this will be completed within the current financial year ahead of the main feedblock season at the start of the 2018 financial year.

This will extend our ability to supply low moisture blocks to the significant market of the eastern states of the USA, which cannot be reached by our existing operations.

The exportation of Horslyx®, a product for the equine leisure market, into the USA has continued, with the business now working with several new distributors down the East Coast. We have continued with our UK research into the benefits of Megastart® and, following the successful conclusion of University trials, it has been demonstrated that Megastart® significantly increases production of colostrum, which will improve the profitability of our UK dairy farm and suckler herd customers.

We continue to develop opportunities to expand geographically. The first shipment of Crystalyx® into South America occurred in the year to facilitate the commencement of trials at FAI Farms (a commercial research institute in Brazil) and the Instituto de Zootecnia near Ribeirao Preto, Sao Paulo State.

The opportunities for expansion in New Zealand continue to be assessed, although progress was delayed during the year as a result of the adverse impact of the depressed global milk market on dairy farming in New Zealand. However, the New Zealand market continues to be a promising expansion opportunity for the feedblock business, and our medium term objective of building a low moisture block plant remains unchanged.

# CHIEF EXECUTIVE'S REVIEW CONTINUED


### UK AGRICULTURE

The retail business has delivered a record performance, with the Country Store network across Northern England and Southern Scotland delivering a 5.0% increase in like for like sales and a 16.0% increase in total sales following the integration of the acquisitions of Green (Agriculture) Co and Reid and Robertson Ltd in September 2015 and June 2015 respectively.

The strategy for the retail business has been to expand the geographic reach into adjacent territories, redevelop existing facilities and expand the product offering for the benefit of rural communities. During the year the product offer at the Balloch, Oban and Ayr stores has been extended, the Leek store has been refurbished and a new store at Wigton, Cumbria, has been opened. A new Country Store at Penicuik, Midlothian, is due to open on 1 December 2016 and will have a significant focus on the local equine market in addition to supplying our normal range of products and services. The opening of Penicuik will bring our total retail footprint to 41 locations.

In September 2015, Green (Agriculture) Co, an agricultural merchant business based at Morpeth, Northumberland was acquired. This retail business is situated near the existing machinery only Country Store and enhances the offering to the local community. It has been successfully integrated into the network of Country Stores and has made a positive contribution during the year.

In June 2016, Phoenix Feeds Ltd, an agricultural merchant business specifically retailing animal feed and based in Lancashire, was acquired and has been successfully integrated.

During the year, compound feed volumes increased by 2.1% as a result of market share gains. This is a particularly robust performance against a market backdrop that declined by 4% nationally. However, due to the pressure on dairy farm incomes and the competitive nature of the feed market, margins were significantly reduced year on year.

Total machinery sales have been severely impacted by the downturn in farm incomes with sales declining 8.1% year on year. National tractor sales have declined 14.8%.

The oil distribution business has performed well with sales volumes increasing 7.1% year on year. This is a result of market share gains and the corresponding increase in the truck fleet.

The flooding in December 2015 in the North of England had a significant impact on the Lancaster feed mill and the AminoMax® manufacturing facility. Global sales volumes of AminoMax®, the patented animal bypass protein product for dairy cows, are down 3.9% as a result of the pressure on dairy farm incomes and the downtime at the UK manufacturing facility resulting from the floods.

### MARKET CONDITIONS

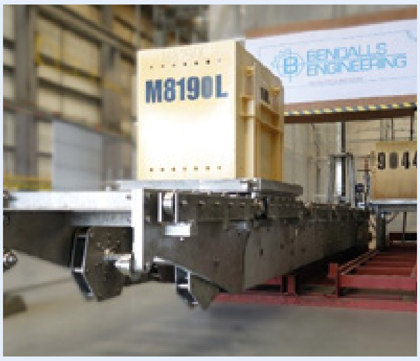
Farmer confidence remained low during the year with the farmgate milk price only stabilising towards the end of the financial year, causing significant pressure on farm incomes which is set to continue through the current financial year. The uncertainty following the outcome from the EU referendum, particularly relating to the future of the single farm payment and support for UK farmers in general, is likely to result in volatile market conditions for the foreseeable future. However, in the short-term UK livestock and dairy prices have responded positively due to the devaluation of Sterling.

The division is well placed both operationally and geographically to adapt to future variable market conditions whilst continuing to support our farming customers.

# ENGINEERING

Operating profit for the year decreased by **4.9%** to **£2.5m** (2015: £2.6m) on revenue down by **10.2%** to **£30.1m** (2015: £33.5m).

OPERATING PROFIT
**£2.5m**
**4.9% DOWN** FROM 2015


This year the Engineering division has made significant progress in its objective to reposition its focus on nuclear and adjacent markets, such as defence. This is evidenced by a number of significant contract wins and strengthening of the management teams in the UK, along with increased coordination and integration of activities within the division. Unfortunately, the benefits from these actions have been offset in the short term by customer delays in the awarding of some nuclear contracts and the continued depressed oil and gas market. Nevertheless, the division's performance for the full year was satisfactory in the context of challenging market conditions. The overall split of nuclear and non-nuclear work of the division in 2016 was 69% nuclear (2015: 62% nuclear).

### UK MANUFACTURING BUSINESS

Revenues have declined in the year following the completion of the large BP contract in 2015 and as a result of contract delays, however, the outlook looks more promising in the nuclear market following a number of sizeable contact wins.

The UK manufacturing business was awarded The Sellafield Vessels and Tanks Category Management Framework contract. This contract, with a value of £48m at the time of the tender, was won through an open European Tendering process. The Framework contract secures a position of exclusivity to design and manufacture Sellafield's highest complexity vessels for the next 10 years. This is a significant milestone for the Engineering division, being the largest ever contract secured by the business, and underpins the growth and development of our Engineering division over the medium term.

During 2015 the business created a new design department, to further enhance services available to customers for the design of a wide range of mission critical equipment, including steel fabrications and pressure vessels. The design business is integrated with the business' production capability to maximise innovation and improve efficiency. During the year it concluded an important design and build project for a skip conveyor system for the First Generation Magnox Storage Pond (FGMSP) project in Sellafield. This system is the first of its kind, and is fundamental to assisting in the retrieval and removal of radioactive waste from one of the storage ponds in Sellafield.

Despite the partial recovery of the oil price towards the end of the 2016 financial year, the oil and gas market remains depressed, particularly in the exploration and production sector, which has consequently had an adverse impact on the business during the year. The focus on the nuclear industry has continued although, as previously reported, the transition by part of the manufacturing business away from oil and gas to nuclear has been slower than initially anticipated due to contract delays.

The UK nuclear industry has benefited from the Government's commitment to both the on-going decommissioning process and nuclear new build, and as a result the division is seeing an increase in the number of tenders and subsequent contract wins. The Government and international investor commitment to the Hinkley C power station is a significant vote of confidence in new nuclear in the UK and will have boosted the potential for the other developments, not least with the Horizon project in North Wales and the NuGEN project in Cumbria.

# CHIEF EXECUTIVE'S REVIEW CONTINUED

### REMOTE HANDLING BUSINESS

During the year the remote handling business performed in line with the Board's expectations with several major projects completed. The Demo 2000 Telbot® project, for the inspection of oil and gas tanks in Norway, completed successfully in December 2015. This project developed a robotic system for vessel inspection and cleaning, the first in the world to be certified for use in the most highly explosive of environments. Statoil, a partner in the project, has subsequently invested further in the business to develop a lighter weight version of the Demo 2000 Telbot® for use on off-shore platforms, where there are strict machinery weight restrictions.

The business has completed two major contracts for Sellafield, one for the Silo Direct Encapsulation (SDP) project and the other for the Box Encapsulation Plant (BEP) project. In early 2015, Sellafield awarded a contract for the design and production of a robot to assist in the removal of high-level toxic nuclear waste on the site in the SDP project. This robot, Sally Telbot®, was successfully tested in Germany for 1200hrs without failure and proved to perform the tasks 40% faster than the previously tested hydraulic arms. Following its success, an order was placed for a second Sally Telbot®, which has been manufactured during the year with successful factory testing completed before the year-end and delivery to Sellafield in November 2016.

Completion of the contract for two A1000 power manipulators for the nuclear facility at Dounreay in Scotland was completed in the year. An A1000 has also been delivered to Mitsui in Japan for trial work in a future decommissioning project to be undertaken at the Fukushima nuclear facility, and the business was also awarded a contract for the design and manufacture of the highly specialised A1000 power manipulator to Sellafield for the BEP project. Production has almost completed and factory acceptance tests will commence in January 2017.

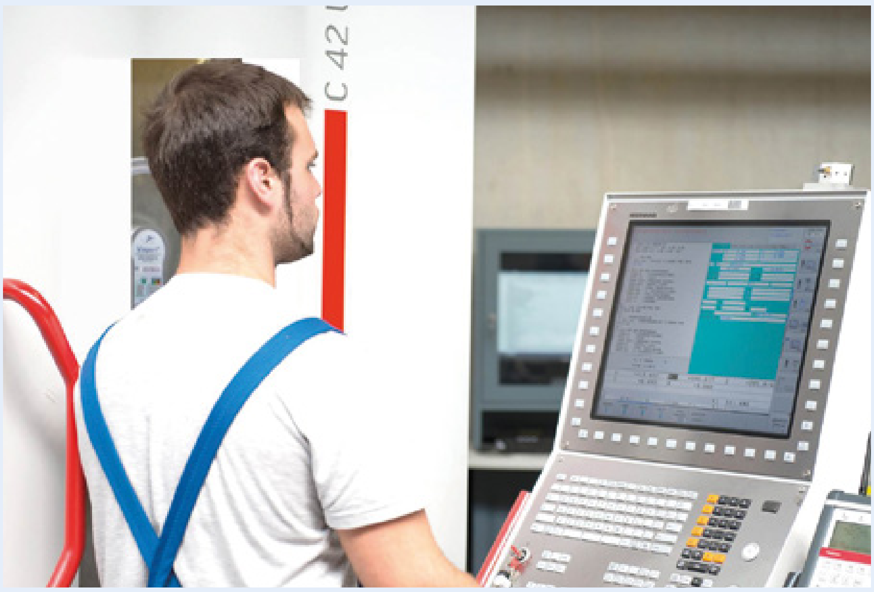
Following on from the development and extensive trials in Japan and Germany of Robbie, the V1000 robot, a remote controlled handling vehicle, the business has received its first order for delivery in 2017. Robbie will be used in the vitrification plant on the WAK GmbH Karlsruhe site in Germany. The plant contains high level toxic waste and dust particles making it too hazardous for human presence. Robbie will assist the A1000 power manipulators already in the plant to continue with their decommissioning.

A major contract, of c£1.8m in value, with Cavendish Nuclear for the supply of Master Slave Manipulators into Sellafield was completed successfully during the year. Further progress was made in the USA nuclear market, with two small orders for Master Slave Manipulators received in the year, one for the USA National Laboratory at Idaho and the other for the USA National Laboratory at Oakridge, both due in November 2016. Although small, these orders demonstrate further progress being made by the business in the penetration of the US market.

The business continues to face the ongoing macroeconomic pressures resulting from the political issues in Russia and the delay in funding in Japan in the short term. This is offset by the on-going resurgence in the UK nuclear market.

On 24 October 2016, the German remote handling business acquired one of its primary suppliers, STABER GmbH, formerly called Städele GmbH, including all of its associated intellectual property for a total cash consideration of €7.85m. STABER and Wälischmiller, a subsidiary of Carr's Engineering Ltd, have been working together closely for over 50 years and most recently STABER has been a key supplier of parts for the remote handling business. During 2014 and 2015 STABER was intrinsic in assisting Wälischmiller in the development of the Demo 2000 Telbot®, a robotic system for vessel inspection and cleaning in the oil and gas market, and the first in the world to be certified for use in the most highly explosive of environments. STABER has designed and developed specialised intellectual property ("IP") which will be strategically beneficial to Wälischmiller in both the near and long term. This IP will accelerate the ongoing strategic development work on the Telbot® and the Demo 2000 Telbot® by Wälischmiller.

The Engineering division is a well-established supplier of high integrity equipment to the nuclear industry. With agreements in place with leading UK and Global nuclear companies, it is well positioned to secure high value, long term contracts to build on its existing decommissioning portfolio and potential defence opportunities through the UK Successor and Defence programmes.



# FOOD

Profit for the year from discontinued operations was **£2.8m** (2015: £3.0m).


PROFIT FROM DISCONTINUED OPERATIONS

**£2.8m**

**6.5% DOWN** FROM 2015

The floods in December 2015 in Cumbria directly affected one of the Food division's major customers, which had a consequential impact on sales volumes in the year. Due to appropriate and comprehensive insurance cover, the floods had no financial impact on the business.

Underlying sales volumes grew 3.54%, in spite of the changes in the consumer market, notably the decline in consumption of the traditional sliced loaf and the concurrent increase in the consumption of bake-off products. The division's performance has also been supported by the investment made by the Group in the mill at Kirkcaldy and excellent long term relationships with customers.

The 2015 UK wheat harvest was in excess of 16 million tonnes, although the quality was variable. The wheat price volatility in the market has continued, with significant price falls experienced in early 2016. Carr's approach to risk management, which seeks to match sales contracts with raw materials commitments, served to minimise the impact of that volatility.

The flour market continues to decline, is over supplied and is operating in a challenging consumer environment with limited growth opportunities for the Group. This, coupled with the need for significant future capital investment, resulted in the Group being exposed to an increased risk profile.

At the year-end we announced the disposal of the Food division to Whitworths Holdings Ltd.

TIM DAVIES
Chief Executive Officer
16 November 2016

# **RISK** MANAGEMENT

## OUR RISK APPETITE AND APPROACH TO RISK MANAGEMENT

Our success as a Group depends on the ability to identify and maximise the opportunities generated by our businesses and the markets in which we operate. In doing so, we continue to develop an embedded approach to risk management which puts risk and opportunity assessment at the heart of our strategy.

The Group adopts a risk profile aligned to our vision to be recognised as a truly international business at the forefront of technology and innovation. Our available capital and resources are applied to underpin our four strategic pillars: acquisitions, people, investment and innovation.

Our approach to risk management is designed to provide reasonable assurance that our assets are safeguarded. The risks facing the business are assessed and, where possible, mitigated and all relevant information is disclosed and reported to the Board.

### ORGANISATION AND PROCESS

The Board assumes overall responsibility for the management of risk and for reviewing the effectiveness of the Group's risk management and internal control systems.

The Board has established a clear organisational structure with well-defined accountabilities for the principal risks the Group faces in the short, medium, and long term, across all divisions. This is overseen by the Executive Directors, who have an active responsibility for focusing on the principal areas of risk to the Group. The Board reviews these risk areas, including consideration of environmental, social, and governance matters, and retains responsibility for determining the nature and extent of the risks that the Group is prepared to undertake. This review is undertaken quarterly.

For each of our principal risks we have a risk management framework detailing our assessment of the risk, the controls we have in place, who is responsible for managing the risk, as well as any further mitigating actions required.

### BOARD'S ASSESSMENT OF COMPLIANCE WITH THE RISK MANAGEMENT FRAMEWORK

The Board review the principal risks quarterly. This is supported by an annual review of the risk management system undertaken by the Audit Committee. Details of the activities of the Audit Committee in relation to this can be found in the Audit Committee Report on pages 28 to 29. Decisions that could have a material impact on the Group are reviewed as and when required at Board meetings.

### PRINCIPAL RISK FACTORS

Our business is subject to a variety of risks and uncertainties. On the following pages we have identified the risks we regard as most relevant to our Group and performance at this time. These may change as the Group develops over the year. We have commented on mitigating actions that we believe help us manage these risks. However, we may not be successful in deploying some or all of these mitigating actions. If the circumstances in these risks occur or are not successfully mitigated, our cash flow, operating results, financial position, business and reputation could be materially adversely affected.

### KEY RISKS

| DESCRIPTION OF THE RISK | WHAT WE ARE DOING TO MANAGE THE RISK |
|---|---|
| **Safety**<br>The safety of our employees, contractors and suppliers and the communities in which we operate is paramount. We must operate within local laws, regulations, rules, and ordinances relating to health, safety, and the environment, including emissions. | We have Health and Safety policies that apply to all facilities, with dedicated staff to ensure they are embedded within our culture and regularly measured and assessed. This includes an annual compliance programme, which reports monthly to the Executive Directors, highlighting any issues that require action, including training needs. Regular training in this area is also provided to key personnel in the Group's locations.<br><br>Additionally, the Board receives and reviews a Health and Safety report at each Board meeting, and also meets annually with the Health and Safety Manager to discuss the Group's safety performance and areas for improvement. |
| **Business Continuity**<br>The operation of manufacturing plants involves many risks that could cause a temporary or permanent stoppage in production and could have a material adverse effect on the Group. | The Group has Business Continuity arrangements in place to enable continuity of supply, as quickly as practicable, of product to customers in the event of a natural disaster or major equipment or plant failure. A programme of insurance is also in place to protect against the cost of major business interruptions. |

| DESCRIPTION OF THE RISK | WHAT WE ARE DOING TO MANAGE THE RISK |
|---|---|
| **People**<br>Performance, knowledge, and skills of employees are central to the success of the Group. We must attract, integrate, and retain the talent required to fulfil our strategic growth ambitions. Inability to retain key knowledge, and adequately plan for succession could have a negative impact on the Group's performance. | The Group has remuneration policies designed to attract, retain and reward employees with the ability and experience to execute the Group's strategy.<br><br>Management development programmes are in place, alongside detailed succession planning across the Group. Succession plans for senior roles are reviewed by the Nominations Committee annually. |
| **Commodity Costs**<br>Margins may be affected by fluctuations in crop prices due to factors such as harvest and weather conditions, crop disease, crop yields, alternative crops, and by-product values.<br><br>In some cases, due to the basis for pricing in sales contracts, or due to competitive markets, we may not be able to pass on to customers the full amount of raw material price increases or higher energy, freight or other operating costs. | The Group has a number of strategies in place to manage this risk. These include:<br><br>• strategic long term relationships with suppliers;<br>• multiple-source suppliers for key ingredients;<br>• raw material and forward energy purchasing policies to provide security of supply and cost;<br>• the use of derivatives where most beneficial to hedge exposure to movements in future prices of commodities; and<br>• close monitoring of contract execution to ensure supply is within agreed terms. |
| **Product Innovation Risk**<br>Our commercial success depends, in part, on innovation and then obtaining and maintaining trademark and patent protection on certain products and technology.<br><br>Failure to innovate could have an adverse effect on our business. We must also successfully defend trademarks and patents against third party challenges or infringements. | The Group invests heavily in research and development to innovate across its businesses. For new innovations, there is an organised and secure process for identifying and recording innovations, trade secrets, and potentially patentable ideas.<br><br>The Group has an in-house Legal Counsel to monitor and oversee this risk, supported by expert intellectual property lawyers in multiple jurisdictions. |
| **Strategic Partners**<br>The Group has a number of strategic partners, particularly in the Agriculture division, who are involved either as joint venture partners or significant minority shareholders. A successful working relationship with these partners in paramount to those businesses' success. | Close working relationships are maintained with all the Group's strategic partners. This includes regular meetings, both formally and informally, and close involvement in the setting and monitoring of strategy for those businesses. In addition, arrangements are appropriately documented in contracts and legal agreements. |
| **Treasury**<br>We are exposed to a variety of financial risks in relation to treasury.<br><br>The Group must ensure that it has an adequate level of facilities to provide sufficient funding to operate its businesses and to develop growth opportunities.<br><br>Changes to the value of currencies can fluctuate widely and could have a significant impact on a division's results. Furthermore, because the Group has international businesses it is subject to exchange risks in the translation of the underlying net assets and earnings of its foreign subsidiaries. | The level of facilities are regularly reviewed by the Group Finance Director, and these are also regularly reported to and discussed by the Board.<br><br>The Group operates a treasury policy of hedging all significant transactional currency exposures. Additionally, translational hedging instruments are used to limit the potential impact of fluctuating currencies on reported earnings from foreign subsidiaries.<br><br>For interest rate risk on floating rate debt, we maintain a mix of fixed rate debt, primarily finance lease, and floating rate debt. These levels are monitored and assessed against forecast changes in interest rates and forward guidance from interest rate setting authorities. |

# RISK MANAGEMENT CONTINUED

| DESCRIPTION OF THE RISK | WHAT WE ARE DOING TO MANAGE THE RISK |
|---|---|
| **Acquisitions**<br>The Group is acquisitive and is therefore exposed to the possibility of acquiring a company based on inaccurate information, unrealistic synergies and financial benefits, or an inappropriate deal structure.<br><br>Failure to effectively integrate acquired businesses could also undermine any expected synergies. | A thorough and careful due diligence process is undertaken, utilising relevant skilled internal personnel, as well as external expertise when required. Individual business unit and Group resource is used to analyse potential synergies and financial benefits. Consideration is given to the composition and skills of the management team of the acquired company and support and relevant training is provided by Group personnel to ensure a successful integration. The deal structure and proposed financing arrangements are determined on a case by case basis.<br><br>Post-acquisition reviews are also undertaken to identify any areas for improvement in future transactions. |
| **Customer Demand**<br>Changes in customer demand, be that retail or commercial customers caused by economic factors could result in a fall in demand for the Group's product offering, resulting in a significant loss in revenue. | The Group operates in diverse worldwide markets, which provide resilience for the Group against difficulties faced by any one market or economy. The businesses are managed flexibly to react to changing demands in their own sector. |
| **Reliance on Key Customers**<br>Some businesses within the Group have a significant proportion of their revenue generated from a small number of key customers. A loss of a number of these customers could adversely affect the performance of a division and in turn the Group. | The businesses have established good long term relationships with key customers to ensure that demands and expectations are met. The Group is constantly investing in its businesses to ensure that they are able to satisfy customer needs and are market leaders.<br><br>The Group is continually working on identifying new markets, products, and opportunities to expand the customer base of all its businesses. |
| **Reliance on Key Ingredients**<br>Our feed block business relies on a key ingredient of molasses. Should there be volatility in the molasses market or should a crop disaster result in little to no harvest, this could adversely affect business performance. | Our feed block businesses acquire molasses from a variety of sources worldwide and therefore there is no over reliance on any one producer. The molasses market is international and therefore it is unlikely that molasses could not be sourced from an alternative location should any one harvest be adversely impact by a natural disaster. In addition, research remains underway to establish alternative ingredients to molasses. |
| **Defined Benefit Pension Scheme**<br>The Group operates one defined benefit pension scheme. The funding of the scheme could be adversely affected by a number of factors including: investment returns, interest rate fluctuations, members' longevity and government gilt rates that are used to determine the value of liabilities. Changes in all or some of these inputs could increase the cost to the Group of funding this scheme in the future. | The scheme closed to future accrual on 31 December 2015. As at the last triennial actuarial valuation, the scheme was fully funded. This funding level is monitored on a quarterly basis by both the Company and the scheme Trustees.<br><br>The scheme also has a dynamic de-risking programme in place, with an investment strategy designed to reduce the volatility of the funding level in changeable markets. |
| **Brexit**<br>The UK's impending exit from the European Union (EU) highlights a number of risks for the Group, particularly in the Agriculture division.<br><br>Part of our customer base is inherently reliant on agricultural subsidies from the EU, and therefore future government policy and support for the agricultural sector will potentially impact on our customers with a knock on effect to our agricultural business.<br><br>Similarly, for some areas of the business the Group imports raw materials from within the EU. The imposition of tariffs or other related cost increases could impact the cost base of the Group. | The Group benefits from its operational and geographic diversity and is not substantially dependent on the EU for either raw materials or revenues.<br><br>We will continue to monitor developments and incorporate these into our future business planning. |

# **VIABILITY** STATEMENT

The Group's business model and strategy are central to an understanding of its prospects, and details can be found on pages 6 to 7. The Group is very diverse both operationally and geographically. The Group set down a strategic plan two years ago, which is subject to ongoing monitoring and development as described below.

The Group's focus is particularly on developing the supplements business, because of the opportunities for international expansion and product development, and its nuclear engineering business because of the global expansion opportunities in the nuclear sector and adjacent markets.

The Group's prospects are assessed primarily through its strategic planning process. This process is led by the Chief Executive across all aspects of the Group. The Board participates fully in the annual process through an annual strategy day, detailed strategic presentations on all areas of the business by business leaders throughout the year, and an annual half-year strategic update. Part of the Board's role is to consider whether the plan continues to take appropriate account of the changing external environment.

The output of the strategic planning process is a set of Group strategic objectives and a number of strategic priorities for the forthcoming financial year. The latest updates to the strategic plan were finalised in July 2016 following this year's review. This considered the Group's current position and the development of the business as a whole over the next three years.

Given the nature of the business cycles in both Agriculture and Engineering, it was decided that a period of three years to 31 August 2019 was the most appropriate for the purpose of a viability assessment. The Group has prepared detailed financial forecasts for the 3 year period to 31 August 2019, so that 2 years 10 months remains at the time of approval of this year's annual report. The first year of the financial forecasts form the Group's operating budget and is subject to a re-forecast process at the half-year. The second and third years are in a similar level of detail.

The Group's principal risks are set out on pages 14 to 16. The purpose of the principal risks table is primarily to summarise those matters that could prevent the Group from delivering on its strategy. A number of other aspects of the principal risks – because of their nature or potential impact – could also threaten the Group's ability to continue in business in its current form if they were to occur. Of the principal risks identified, the following are the most important to the assessment of the viability of the Group:

1. Treasury;
2. Commodity costs;
3. Reliance on key ingredients;
4. Strategic partners; and
5. Consumer demand

It was determined that none of these individual risks would, in isolation, compromise the Group's viability.

Although the strategic plan reflects the Directors' best estimate of the future prospects of the business, they have also tested the potential impact on the Group of a number of scenarios over and above those included in the plan by quantifying their financial impact and overlaying this on the detailed financial forecasts in the plan. These scenarios represent 'severe but plausible' circumstances that the Group could experience.

The scenarios tested included:

- Significant reductions in profitability and associated cashflows associated with the risks highlighted above, with consumer demand affecting all business units and additional impacts on Agriculture business units from commodity costs, reliance on key ingredients, and from strategic partners; and

- Interest costs increasing by a factor of two.

The results of this stress testing showed that, due to the stability of the core business, the Group would be able to withstand the impact of these scenarios occurring over the period of the financial forecasts by making adjustments to its operating plans within the normal course of business.

The Group also considered a number of scenarios that would represent serious threats to its liquidity. None of these was considered to be plausible.

Based on their assessment of prospects and viability above, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period ending 31 August 2019.

The Directors also considered it appropriate to prepare the financial statements on the going concern basis, as explained in the Basis of accounting paragraph in the principal accounting policies.

# FINANCIAL REVIEW

NEIL AUSTIN
GROUP FINANCE DIRECTOR

## CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

### REVENUE

Reported revenues from continuing operations were £314.9m, 4.9 per cent behind last year (2015: £331.3m).

Revenues have fallen primarily as a result of lower raw material prices, which because of the nature of some of our contracts can directly affect sales values, and also because of a reduced level of activity in Engineering.

### OPERATING PROFIT

Group operating profit from continuing operations of £12.8m is up 5.6 per cent on last year (2015: £12.1m). As a percentage of revenues, Group operating margin is 4.1 per cent compared to 3.6 per cent in 2015.

Following the disposal of the Food division, the results of the Food division for the year of £2.8m (2015: £3.0m) are shown separately in the results of discontinued operations.

Operating profits from continuing operations per division and as a percentage of divisional revenues are as follows:

| Operating Profit | 2016 £m | 2016 % | 2015 £m | 2015 % |
|---|---|---|---|---|
| Agriculture | 10.3 | 3.6 | 9.4 | 3.2 |
| Engineering | 2.5 | 8.3 | 2.6 | 7.9 |

### SHARE OF ASSOCIATE AND JVS

The Group's share of the post-tax result in its associate and joint ventures was £2.1m, compared to £2.3m in 2015. The result reflected a decrease in its associate's profitability, primarily due to reduced feed margins, offset by a slight increase in aggregated joint venture profitability with a strong US performance offsetting a reduction in European feed blocks caused by the ongoing issues in the dairy sector.

### FINANCE COSTS

Net finance costs of £0.8m were higher than the previous year (2015: £0.7m), reflecting lower interest receivable in the year. Interest cover was 19.2 times compared to 20.4 times in 2015.

### PROFIT BEFORE TAX

Profit before tax from continuing operations at £14.1m was 2.8 per cent higher than in the previous year (2015: £13.7m).

> "The key features of the year have been the record profit before tax for the Group, for another successive year, continued capital investment across all three divisions and the disposal of the Food division."

## TAXATION

The Group's effective tax charge on profit from activities after net finance costs and excluding profits from associate and joint ventures was 24.2 per cent (2015: 26.4 per cent). A reconciliation of the actual total tax charge to the standard rate of corporation tax in the UK of 20 per cent is given in note 6 to the financial statements.

## EARNINGS PER SHARE

The profit attributable to the equity holders of the Company amounted to £12.5m (2015: £12.0m), and basic earnings per share from continuing operations was 10.7p (2015: 10.0p), an increase of 7 per cent.

Adjusted earnings per share of 10.9p (2015: 10.2p) is calculated by dividing the profit attributable to equity holders for the year, before non-recurring items and amortisation of intangible assets, by the weighted average number of shares in issue during the year.

## ACQUISITIONS AND DISPOSALS

The Group acquired the business and assets of Green (Agriculture) Co in September 2015 for a consideration of £0.3m.

In June 2016 the Group acquired the entire issued share capital of Phoenix Feeds Ltd for a consideration of £1.7m, including contingent consideration of £0.5m. This business was hived up on acquisition into our UK Agriculture business.

On 3 September 2016 the Group disposed of its Food division for a gross consideration of £36m, receiving net proceeds of £24.9m after adjusting for net debt and working capital. Consequently the segmental analysis presented in the financial statements has been restated to reallocate central costs previously borne by the Food division to alternative segments. The disposal resulted in a small profit on sale of £39,000, which has been included in the results of discontinued operations.

## CASH FLOW AND NET DEBT

Due to the disposal of the Food division and the special dividend not being paid until post year end, the Group was in a net cash position at 3 September 2016.

A free cash flow of £6.5 million was generated in the year, representing an increase of 11.9 per cent on £5.8 million in the previous year.

Headroom against existing facilities was £23.0m at the year end. Other than the Group's overdraft, which is renewable annually, the Group's existing facilities are due for renewal in July 2019.

| **Cash flow and net (debt)/cash** | **2016** |
|---|---|
| | **£'000** |
| Operating profit from continuing operations | 12,770 |
| Depreciation and profit on disposal | 3,504 |
| Amortisation | 205 |
| **EBITDA (excluding associate and joint ventures)** | **16,479** |
| Increase in inventories | (1,620) |
| Increase in receivables | (3,606) |
| Decrease in payables | (3,226) |
| Other | (1,770) |
| **Net operating cash flow** | **6,257** |
| Net interest | (518) |
| Taxation | (1,098) |
| **Cash flow from continuing operations** | **4,641** |
| Maintenance capex | (1,764) |
| Net cash from discontinued operations | 3,620 |
| **Free cash flow** | **6,497** |
| Expansionary capex | (4,024) |
| Acquisitions/disposals | 22,664 |
| Dividends | (3,347) |
| Loans and Finance leases received/paid | (3,078) |
| Other | 4,800 |
| **Increase in cash and cash equivalents** | **23,512** |
| Opening cash and cash equivalents | 16,275 |
| **Closing cash and cash equivalents** | **39,787** |
| **Opening net debt** | **(24,413)** |
| Increase in cash and cash equivalents | 23,512 |
| Change in borrowings | 9,045 |
| **Closing net cash** | **8,144** |

## PENSIONS

The Group operates its current pension arrangements on a defined benefit and defined contribution basis. The defined benefit scheme is closed to new members and during the year was closed to future accrual. The closure resulted in a negative past service cost, net of associated costs, of approximately £0.3m. The scheme currently has 112 deferred members and 224 current pensioners. It received £0.8 million during the year in additional deficit reduction contributions from the Group in accordance with the 2011 actuarial valuation as agreed between the Company and the Trustees. Deficit reduction contributions ceased on 31 December 2015 as per the agreed recovery plan.

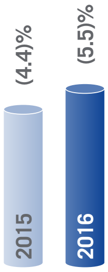
The valuation on an IAS 19 accounting basis showed a surplus before the related deferred tax liability in the scheme at 3 September 2016 of £0.3m (2015: £1.8m). Actuarial losses of £2.7m (2015: £2.8m) have been recognised in the Consolidated Statement of Comprehensive Income.

The Group and the Trustees continue to work together to introduce ways of de-risking the defined benefit scheme to provide less volatility in the scheme's assets and liabilities in the future. Several initiatives were introduced during the year.

NEIL AUSTIN
Group Finance Director
16 November 2016

# KEY PERFORMANCE INDICATORS

We monitor our performance against the strategy by means of key performance indicators ('KPIs'):




## UNDERLYING SALES GROWTH/DECLINE

(5.5)%

Financial Review
Pages 18 to 19

**Definition**
Year on year increase/(decrease) in sales revenue excluding the impact of acquisitions and disposals.

**Comments**
Revenues are monitored by the Board, although because of the nature of our businesses it is not, by itself, an indicator of growth. Our volume driven businesses are all subject to significant raw material price variations, the majority of which are passed through to selling prices. Hence falling raw material prices are expected to lead to falling revenues. The reduction in the year reflected lower commodity prices in Agriculture and contract delays in Engineering.

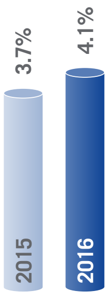

## GROSS MARGIN

13.1%

Financial Review
Pages 18 to 19

**Definition**
Gross profit as a percentage of sales revenue.

**Comments**
Gross margin is a reflection on how successfully we have managed raw material price volatility in our markets, together with how successful we have been in pricing in other areas of our business in competitive markets. Our gross margin from continuing operations grew to 13.1% in the current year, which highlights how we continue to manage input price volatility.



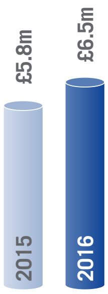

## ADJUSTED GROUP OPERATING MARGIN

4.1%

Financial Review
Pages 18 to 19

**Definition**
Operating profit before non-recurring items and amortisation, as a percentage of revenue.

**Comments**
The underlying Group operating margin reflects the gross margin achieved, which is described above, but also indicates the efficiency of our operations from both an administrative and distribution perspective. The growth in underlying operating margin from continuing operations to 4.1% relates to both of these aspects.



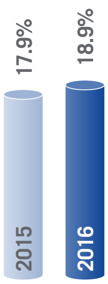

## FREE CASH FLOW

£6.5m

Financial Review
Pages 18 to 19

**Definition**
Cash generated from operating activities including all cashflows from discontinued operations, less maintenance capital expenditure.

**Comments**
This KPI indicates how much cash has been generated by the Group's operations that is available for expansionary capital investment, paying dividends, or financing/repaying borrowings. The increase in FY16 is predominantly due to an increase in EBITDA year on year.




## RETURN ON NET ASSETS

18.9%

Financial Review
Pages 18 to 19

**Definition**
Profit before tax, non-recurring items and amortisation as a percentage of net assets.

**Comments**
Return on net assets increased to 18.9% this year. This has been calculated after adjusting year end net assets for the £16m special dividend arising from the disposal of the Food business. That disposal reduced the Group's asset base in the year.

# THE BOARD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2


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8

**1 TIM DAVIES**
**Chief Executive Officer**
Tim joined Carr's in March 2013 as Chief Executive. Tim was formerly the Group Managing Director at Openfield. Prior to this, he progressed from Sales Director to Managing Director of Grainfarmers plc in 2005. He subsequently led the successful merger of Grainfarmers plc and Centaur Grain Ltd in 2008, forming Openfield, the largest farmer-owned grain marketing business in the UK. Tim continued in his role as Group Managing Director until 2013. He has been a Director of the Agricultural Industries Confederation since 2003.

**2 NEIL AUSTIN**
**Group Finance Director**
Neil joined Carr's in January 2013 and became Group Finance Director in April 2013. Neil was formerly a Director at PwC, having joined as a graduate in their Newcastle office in 1997. He was appointed as a Director of the Newcastle office in 2007 with lead responsibility for part of the Assurance practice, and has experience with FTSE 350 companies and multi-nationals.

**3 CHRIS HOLMES**
**Board Chairman**
**Nominations Committee Chairman**
Chris joined Carr's in 1991 as the Managing Director of the Agriculture business, having previously worked for J Bibby & Sons. Chris was appointed Chief Executive in 1994, and remained in that role until he was appointed Chairman in 2013. He commenced as Chairman of Carlisle Youth Zone in 2013 and is a Non-Executive Director of Break 90 Limited.

**4 ROBERT HEYGATE**
**Non-Executive Director**
Robert joined Carr's as a Non-Executive Director in 1991. He is the joint Managing Director of Heygate & Sons Ltd, the UK's largest independent flour milling company, which is also engaged in animal feed compounding and other agricultural activities. Robert retired from the Board on 30 April 2016.

**5 ALISTAIR WANNOP**
**Remuneration Committee Chairman**
Alistair was appointed a Non-Executive Director in 2005. Alistair has been the Chairman of both the County NFU and the MAFF northern regional advisory panel. He has served as a Director of The English Farming and Food Partnership, Rural Regeneration Cumbria, and Cumbria Vision. Alistair is a fellow of the Royal Agricultural Society of England.

**6 JOHN WORBY**
**Senior Independent Director**
**Audit Committee Chairman**
John was appointed a Non-Executive Director in April 2015. John is currently a Non-Executive Director of Fidessa plc, Senior Independent Director of Hilton Food Group plc and Chairman of the audit committee of both companies. John was previously the Finance Director of Genus and a Non-Executive Director of Cranswick plc. John is a chartered accountant and a member of the Financial Reporting Review Panel.

**7 IAN WOOD**
**Non-Executive Director**
Ian was appointed to the Board on 1 October 2015. He retired as the Commercial Director, International Business Development for Centrica (previously British Gas) in January 2016 and having held a number of positions with the Company, covering various aspects of the business including engineering, customer services, industrial and commercial marketing, and energy trading within the UK, Continental Europe and North America. Ian is a Director of Talkin Energy Ltd.

**8 KATIE WOOD**
**Company Secretary**
Katie was appointed Counsel and Assistant Company Secretary in 2010. She became Company Secretary in January 2013, whilst maintaining her role as Counsel. Katie is a solicitor and has worked with FTSE and NASDAQ companies, and has a breadth of experience in corporate, commercial and employment matters. She is an Associate of the Chartered Institute of Secretaries.

# **CORPORATE** RESPONSIBILITY

## ONGOING COMMITMENT TO CORPORATE RESPONSIBILITY

The Group maintains its emphasis on ensuring it operates with ethical responsibility and remains committed to all aspects of corporate social responsibility.

### PEOPLE

People are fundamental to every business and our employees are critical to the successful delivery of our strategic objectives; one of the four key pillars being "investing in people, who are vital to the long term success of the business".

Our values of trust, respect, and integrity run throughout all our businesses. Our high levels of teamwork and co-operation are a major contributing factor to our success. We remain committed to employee engagement throughout the Group, and employees are kept up-to-date with the Group's performance and development through regular briefing notes.

Identifying talent and people development will remain key priorities for us going forward. We remain committed to providing a working environment that:

- is consistent and fair;
- is free from discrimination;
- aids development and skills;
- supports employee engagement.

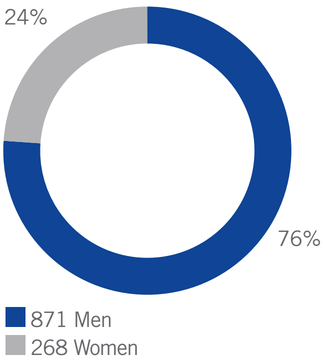
**Sharesave**

The Group operates a sharesave scheme, in which currently all UK based employees are entitled to participate. The Group recognises that the scheme is a well-established method of employee engagement, facilitating ownership in the Group.

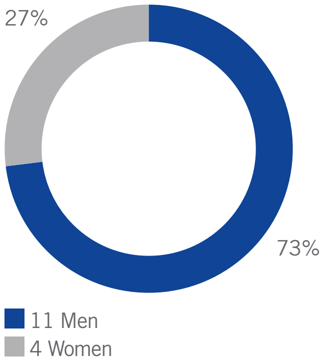
**Equal opportunities**

The Group is committed to an active equal opportunities policy promoting an environment free from discrimination, harassment and victimisation, where everyone will receive equal treatment regardless of gender, colour, ethnic or national origin, disability, age, marital status, sexual orientation or religion. All decisions relating to employment practices will be objective, free from bias and based solely upon work criteria and individual merit. The Group is responsive to the needs of its employees, customers and the community at large. We are an organisation which uses everyone's talents and abilities and where diversity is valued.

The Group employs, 1,139 people. The split is as follows:




Senior Managers and Executives, male and female:




**Employees with disabilities**

It is our policy that people with disabilities should have full and fair consideration for all vacancies. We remain committed to maintaining the current open, fair and non-discriminatory recruitment process operated throughout the Group, and seek to have full engagement with any employee who becomes disabled during their employment.

**Year overview**

This year has seen significant delivery in development at all levels.

We have successfully delivered a Group Wide Senior Leadership Development Programme over the last 12 months with the participants now working on Strategic Business Projects ready for delivery in January 2017.

This programme has been run with one of our development partners, the Brathay Trust. The Trust was founded in 1946 and is a registered Charity with the principal business activities comprising of Professional Development, Children and Young People's Services, and the Brathay Research and Evaluation Hub. As a social enterprise, Brathay is committed to a policy of Corporate Social Responsibility. All profits from Brathay Professional Development are utilised by the Brathay Trust to carry out youth development work – this work focuses on young people from all backgrounds and aims to help them cultivate a positive sense of themselves and others that allows them to succeed and flourish.

The Programme Objectives have been:

- To provide participants with an increased self-awareness around their working style and impact on others to improve their overall effectiveness as leaders of the future.
- To gain feedback on performance and leadership style and to explore how leadership and organisational climate drives business performance.
- To challenge current leadership style and to develop new ways of working, by employing an active, experiential learning approach.
- To increase participants management and leadership skills, knowledge and awareness.
- To create opportunities to learn from key business managers and to share best practice across the Group's businesses.

A full review of the programme will take place on completion of the business projects but the Group has already seen significant development of the participants with many positive examples of personal and professional progression.

In January 2016 Carrs Billington Agriculture (Sales) Ltd commenced a Branch Supervisors' Development Programme:

- To provide supervisors with the necessary knowledge, skills and behaviours to increase their effectiveness in their current roles.
- To equip supervisors with the managerial skills necessary for them to adapt to changing demands.
- To provide a structured development programme which will enable supervisors to fulfil their potential within the company.

This programme has successfully combined learning managerial skills along with the operational and product knowledge required to be successful in this role. Feedback has been obtained throughout the programme providing real time opportunity to adapt and amend the programme and its content to ensure appropriate learning and development is adding value and enabling line management to respond effectively and efficiently.

Based on the success of this programme so far, we have adapted the content and run this programme within Carr's Engineering Ltd.

Bendalls, part of Carr's Engineering Ltd, has undergone a significant culture change programme this year focussing on motivation, change and growth. The feedback from this programme has identified many aspects of business improvement and personal developmental goals as well as identifying further development requirements in the areas of engagement, quality and Health & Safety.

## HEALTH & SAFETY

The Group is committed to the maintenance of high standards of health and safety for all its employees, visitors, customers, and others who may be affected by its business activities. There is also recognition of the need to continually improve safety performance.

The CEO, Group FD and Group Risk Manager meet monthly in advance of each Board meeting to review Health and Safety. It is a standard Board meeting agenda item and enables review of accident statistics, auditing activity and other initiatives as well as ensuring the Board are alerted to key risk management and legislative changes. The Board also endorses an ongoing programme of safety improvements.

Arrangements have been further improved by the appointment of Non-Executive Director Ian Wood, who has the Board oversight for health and safety. This is a significant step and builds on our arrangements to ensure they are more in line with the recommendations of the Institute of Directors and HSE.

A comprehensive Branch Supervisor training programme was conducted throughout the year and this included a health and safety module. The Group Risk Manager continuously monitors safety performance to ensure there is a high standard of health and safety management across all Group businesses. This year the programme of audits was extended to include the wholly-owned USA businesses.

The overall number of accidents across the UK Group companies was 41, a 19.6% reduction on the 51 recorded in the previous year. The number of RIDDOR reportable injuries has also reduced 16.7%, from 6 to 5.

In terms of the Group as a whole, including the overseas businesses, the total number of accidents was 59, a reduction of 14.5% on the 69 the previous year.

In addition the number of days lost in the year arising from RIDDOR reportable injuries and overseas equivalents was 119, a 7.0% reduction from 128 the previous year.

The Board is committed to improving standards of health and safety and remains confident the overall trend of reduction in accident numbers will continue.

## SUSTAINABILITY

The Group continues to make progress towards its target of obtaining 25% of the Group's energy from carbon neutral sources by 2020.

Continued investment in energy efficient lighting and processes continues to reduce the carbon generation. The Group wide Environmental Reporting System is fully operational for both UK and overseas subsidiaries and each location reports the following monthly data and performance against pre set benchmarks.

- Energy and Carbon Generation
- Water Utilisation
- Waste Generation and Recycling
- Transport Fuels
- Environmental Legislation / Compliance

### Environment Legislation & Compliance

All of the UK Group Engineering sites are now utilising green renewable grid supplied electricity.

During 2015 the Group undertook a full Energy Audit in accordance with the mandatory Energy Savings Opportunity Scheme, and the findings and energy saving opportunities identified from the audit were presented to the CEO and duly signed off as required by the statutory legislation.

### Carbon Generation Report

The Group did not generate any additional greenhouse gases other than $CO_2$ from the utilisation of grid supplied electricity and natural gas during 2016.

The energy intensive operations of the Food division and the UK feedblock business continued to be in receipt of Climate Change Discount Agreements in exchange for target carbon reductions. As a result of the sale of the Food division on 3 September 2016, energy consumption will reduce in 2017.

Detailed below is the $CO_2$ generation for all of the Group's subsidiary companies and compares actual volume against previous year.

It should be noted that this does not include transport $CO_2$ generated for the period 2015/16 and depicts manufacturing and retail carbon footprint data from utilities only. This is reported separately in this statement.

## CARR'S GROUP CARBON $CO_2$ GENERATION 2015/16 V 2014/15

| Division | $CO_2$ Tonnes 2015/16 | $CO_2$ Tonnes 2014/15 |
|---|---|---|
| Food | 12,242 | 14,256 |
| UK Agriculture | 4,699 | 3,970 |
| USA Agriculture | 6,050 | 7,052 |
| Engineering | 273 | 821 |
| Head Office | 21 | 51 |
| **Sub Total** | **23,285** | **26,150** |
| Transport | 4,405 | 5,038 |
| **Total** | **27,690** | **31,188** |

# **CORPORATE** RESPONSIBILITY CONTINUED

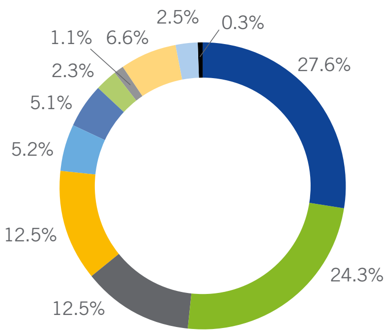
**Electricity and Gas Utilisation**

| | |
|---|---|
| Annual UK Group Electricity Consumption for 2015 /16 | 30,893,521 Kwh |
| Group Overseas Electricity Consumption for 2015 /16 | 6,877,221 Kwh |
| Annual UK Group Gas Consumption for 2015 /16 | 8,885,006 Kwh |
| Group Overseas Gas Consumption for 2015 /16 | 6,015.602 Kwh |
| Total Other Fossil Fuel Consumption for 2015 /16 | 1,554,112 Kwh |

**Transport Fuels**
During 2016 the Group utilised 1,643,993 litres of Diesel Fuel for Own Fleet Vehicles and Company Cars throughout its UK operations.

The $CO_2$ generated from this fuel consumption during 2016 is 4,405 tonnes, down 12.6% (2015: 5,038).

**CARR'S GROUP PLC TOTAL UK ENERGY BY SUBSIDIARY**




- Flour: Kirkcaldy
- Flour: Silloth
- Flour: Maldon
- Caltech
- CBAS Commercial Fleet
- Wallace Oils Commercial Fleet
- JWF Commercial Fleet
- Scotmin Commercial Fleet
- Company Cars
- CBAS Sites
- Old Croft

**Total $CO_2$ Generated by the Group**
Combining the $CO_2$ generated through operation and fuel consumption the total Group $CO_2$ Generation for the year is 27,690 tonnes. On a like for like basis this resulted in an annual decrease 11.3%.

**Intensity Metric**
Due to the diverse nature of the operations of the Group it was decided that people were the best measure for the intensity metric. The 2016 intensity metric is 24.3 $CO_2$ tonnes per employee, being 27,690 $CO_2$ Tonnes / 1,134 employees, down 16.2% from 29 $CO_2$ tonnes per employee in 2015.

The $CO_2$ emissions data is reported in metric tonnes. The $CO_2$ emissions data has been calculated on the basis of measured energy and fuel use and multiplied by relevant $CO_2$ conversion factors, as approved by the Department of Energy. Fuel and energy use are based on direct measurement verified through purchase invoices for the vast majority of our sites. In certain instances, an exceptionally small number of invoices were not available, therefore it has been necessary to estimate energy and fuel usage.

**Environmental Compliance**
There have been no breaches of environmental legislation during the year and the large manufacturing sites continued to operate within the emission levels set by the UK Environment Agency and their current permit conditions.

All sites operate within the framework of a full Environmental Management System.

Waste Reduction and Recycling targets have been set for each subsidiary for 2017.

All Group employees are actively encouraged to reduce waste and improve energy efficiencies.

**COMMUNITY**
Supporting the communities in which we operate is exceptionally important to the Group. The support that has been provided throughout the year has been varied, from charitable donations to volunteer work.

During the year one of our Agriculture businesses Carrs Billington Agriculture (Sales) Ltd became part of a global project launched by Zeus Packaging Group to support children's charities in Ireland, the UK, Spain, Portugal, New Zealand and Australia. The initiative saw Carrs be provided with the exclusive distribution rights of Zeus Purple Silage wrap and Purple Netwrap in the UK to support WellChild, the national charity for sick children.

In addition, to the proceeds Carrs raised, it launched a competition to support WellChild. Farmers were challenged to create eye-catching displays from their purple hay bales. They could customise their bales with special packs provided by Carrs. Farmers taking part submitted photos of their creation, which were then displayed on social media. The best display received two tickets for the prestigious WellChild Awards 2016 which took place in London in October. This was a star studded event, which was attended by a host of celebrities, and WellChild Patron Prince Harry, with awards being given to inspirational children coping with serious illness, caring children and to dedicated child health professionals.

During the year we continued to contribute to the Cumbria Community Foundation, which during the year, supported those in Cumbria badly affected by the floods of winter 2015. Carr's also maintained its relationship with Carlisle Youth Zone, which continues to serve the social, recreational and emotional needs of young people in the Carlisle area.

# **CORPORATE GOVERNANCE** REPORT

**CHRIS HOLMES**
CHAIRMAN

> "Governance plays a vital role, and the Board is committed to maintaining high standards of corporate governance."

## CHAIRMAN'S OVERVIEW

Significant changes made to the UK Corporate Governance Code 2014 have applied to the Group for the first time this year. These changes have facilitated an overarching review of how the Group approaches risk management. Risk management is underpinned by Carr's core values of openness, respect and a can-do attitude. An overview of the revised risk management process now in place and the principal risks of the Group are on pages 14 to 16.

Carr's approach to governance is outlined in the following report, which describes how the Group has integrated the main principles of the UK Corporate Governance Code 2014. The Board considers that it complied with the Code throughout the year, with the exception of B.1.1 as set out on page 27.

The corporate governance of the Company is continuously being reviewed as the Company develops, to ensure that the stakeholders' interests are always aligned with the Company.

CHRIS HOLMES DL
Chairman
16 November 2016

Statement by the Directors on compliance with the provisions of the UK Corporate Governance Code 2014.

## UK CORPORATE GOVERNANCE CODE

The UK Corporate Governance Code dated September 2014 issued by the Financial Reporting Council is applicable to listed companies, and sets out standards of good practice in relation to issues such as:

- Board composition and effectiveness;
- the role of Board committees;
- risk management;
- remuneration; and
- relationships with shareholders.

We are required to state how we have applied the principles contained in the Code and disclose whether we have complied with the provisions of the Code during the year. The Board consider that the Company has, during the year ended 3 September 2016, complied with the requirements of the Code, save for provision B.1.1.

The Company is aware of its ongoing corporate governance obligations and appointed a new independent Non-Executive Director, Ian Wood, who commenced on 1 October 2015 and is a member of the Remuneration, Audit and Nominations Committees.

## THE BOARD

The Directors have a collective duty to promote the long term success of the Company for its shareholders. In determining long-term strategy and objectives of the Group, the Board is mindful of its duties and responsibilities to shareholders as well as employees and other stakeholders. The Board reviews management and financial performance, and monitors strategic delivery and achievement of business objectives.

The Board's time can be grouped in to six key areas as outlined below. A portion of their time is also spent on administrative matters.

| | |
|---|---|
| **Strategy** | Setting strategic targets.<br>Reviewing new business developments, including potential acquisitions.<br>Research and technology. |
| **Risk** | Group's risk and internal control framework. |
| **Governance** | Legal updates and new disclosure requirements.<br>Internal Board review.<br>Succession planning. |
| **Finance** | Budget approval.<br>Oversight of the preparation and management of the financial statements.<br>Dividend policy.<br>Pensions strategy. |
| **Stakeholder engagement** | AGM and other shareholder feedback.<br>Investor calls, meetings and roadshows. |
| **Safety** | Health & Safety monthly updates and management. |

The powers of the Directors are set out in the Company's Articles of Association. In addition, the Directors have responsibilities and duties under legislation, in particular the Companies Act 2006.

During the year ended 3 September 2016, the Board comprised two Executive Directors, a Chairman, and at least three Non-Executive Directors (Ian Wood from 1 October 2015, Bob Heygate retired on 30 April 2016). There is a Company Secretary to the Board. The biographies of the Board can be found on page 21.

# CORPORATE GOVERNANCE REPORT CONTINUED

The Board met 13 times throughout the year. In addition to the regular scheduled meetings throughout the year, unscheduled supplementary meetings may also take place as and when necessary. During this financial year there were three unscheduled meetings in relation to the disposal of the Food division. Directors who are unable to attend a particular meeting receive relevant briefing papers and are given the opportunity to discuss any issues with the Chairman, the Chief Executive or the Group Finance Director. During this year there were no Director absences from the Board meetings.

To enable the Directors of the Board to carry out their responsibilities all Directors have full and timely access to all relevant information. The Board has a schedule of matters for its discussion, which is reviewed against best practice. A summary is shown below and a full schedule is available on the Company's website.

The Board is responsible for:
- the Group's strategy;
- acquisitions and divestment policy;
- corporate governance, risk and environment policy and management;
- approval of budgets;
- general treasury policy;
- major capital expenditure projects;
- dividend policy; and
- monitoring the Group's profit and cash flow performance.

The Board has delegated authority to the Audit, Remuneration, and Nominations Committees to carry out certain tasks as defined in their written terms of reference approved by the Board; these are also available on the Company website.

The UK Corporate Governance Code stipulates that there should be a clear division of responsibility between the running of the Board and executive responsibilities for running the Company.

The Chairman was responsible for:
- setting the Board agenda;
- the leadership of the Board and ensuring its effectiveness on all aspects of its role;
- providing strategic insight from his long business experience in the industry and with the Company; and
- providing a sounding board for the Chief Executive on key business decisions and challenging proposals where appropriate.

The Chief Executive was responsible for:
- the day-to-day management of the Group's business;
- leading the business and the rest of the management team in accordance with the strategy agreed by the Board;
- leading the development of the Group's strategy with input from the rest of the Board;
- leading the management team in the implementation of the Group's strategy; and
- bringing matters of particular significance to the Chairman for discussion and consideration by the Board if appropriate.

### Elections
The Company's Articles of Association provide that one third of the Directors retire by rotation each year at the Annual General Meeting, however, the Company has deemed it best practice to require all the Directors to retire annually.

### Attendance & Agenda
In advance of all Board meetings the Directors are supplied with detailed and comprehensive papers covering the Group's strategy and operations. Members of the executive management team can attend and make presentations as appropriate at meetings of the Board. The Company Secretary is responsible to the Board for the timeliness and quality of information.

Details of the number of meetings of, and members' attendance at, the Board, Audit, Remuneration and Nominations Committees during the period are set out in the table below.

### Support
Directors can obtain independent professional advice at the Company's expense in performance of their duties as Directors. None of the Directors obtained independent professional advice in the period under review. All Directors have access to the advice and the services of the Company Secretary. In addition to these formal roles, the Non-Executive Directors have access to senior management of the business either by telephone or via involvement at informal meetings.

## DIRECTORS' CONFLICTS OF INTEREST
The Companies Act 2006 and the Company's Articles of Association require the Board to consider any potential conflicts of interest. The Board has a policy and procedures for managing and, where appropriate, authorising actual or potential conflicts of interest. Under those procedures, Directors are required to declare all directorships or other appointments to organisations that are not part of the Group and which could result in actual or potential conflicts of interest, as well as other situations which could result in a potential conflict of interest.

The Board is required to review Directors' actual or potential conflicts of interest at least annually. Directors are required to disclose proposed new appointments to the Chairman before taking them on, to ensure that any potential conflicts of interest can be identified and addressed appropriately. Any potential conflicts of interest in relation to proposed Directors are considered by the Board prior to their appointment. In this financial year there have been no declared conflicts of interest.

## BOARD EVALUATION
This year the Board conducted an internal evaluation. Improvements have continued to be implemented throughout the year following last year's evaluation. One of the areas highlighted for focus in the next financial year was for Board meetings to take place at different operational sites, to provide the Non-Executive Directors with a greater opportunity to meet employees and see the diverse nature of the Group's operations first hand. An agenda for Board meetings has been set for the current year which incorporates these visits. The Board will undertake an externally facilitated evaluation in the financial year ending 2017.

The Chairman appraised the individual performance of the Directors and the Non-Executives met and appraised the performance of the Chairman.

## BOARD COMMITTEES
### Audit Committee
The Audit Committee's key function is to review the effectiveness of the Company's financial reporting and performance of the external auditor.

| Meetings Attendance | Board | Audit Committee | Remuneration Committee | Nominations Committee |
|---|---|---|---|---|
| No. of meetings | | | | |
| Chris Holmes | 13 | 4 | 3 | 1 |
| Tim Davies | 13 | 4* | 2* | 1* |
| Neil Austin | 13 | 4* | 2* | 1* |
| Alistair Wannop | 13 | 3 | 3 | 1 |
| John Worby | 13 | 4 | 3 | 1 |
| Ian Wood** | 12 | 4 | 2 | 1 |
| Robert Heygate*** | 8 | 1 | 3 | – |

* part of the meetings by invitation
** attended all meetings since his appointment
*** attended all meetings up until his retirement

The Audit Committee comprised of four Non-Executive Directors: John Worby (Chairman), Chris Holmes, Robert Heygate (up until 30 April 2016), Ian Wood (from 1 October 2015) and Alistair Wannop. The Board considers that the Committee meets the main requirements of the Code for a company of Carr's size. The work, responsibilities and governance of the Audit Committee are set out on pages 28 to 29. The Chair of the Audit Committee will be available at the AGM to answer any shareholder questions on the Committee and its activities.

**Remuneration Committee**
During the year the Remuneration Committee comprised of Alistair Wannop (Chairman), Chris Holmes, Robert Heygate (up until 30 April 2016), John Worby, and Ian Wood (from 1 October 2015). The work, responsibilities and governance of the Remuneration Committee are set out on pages 30 to 35. The Chair of the Remuneration Committee will be available at the AGM to answer any shareholder questions on the Committee and its activities.

**Nominations Committee**
During the year the Nominations Committee comprised of Chris Holmes (Chairman), Alistair Wannop, Robert Heygate (up until 30 April 2016), John Worby and Ian Wood (from 1 October 2015). The work, responsibilities and governance of the Nominations Committee are set out on page 36. The Chair of the Nominations Committee will be available at the AGM to answer any shareholder questions on the Committee and its activities.

**Relations with Shareholders**
The Board recognises and values the importance of good communications with all shareholders. The Group maintains dialogue with institutional shareholders and analysts, and hosts presentations on the preliminary and interim results. Shareholders have access to the Company's website at www.carrsgroup.com.

We engage with our shareholders through our regular communications. Significant matters relating to trading or development of the business are disseminated to the market by way of Stock Exchange announcements. We announce our financial results on a six monthly basis with all shareholders receiving a half year statement, and we produce trading updates during the year. All reports and updates are made available on our website.

The Annual General Meeting provides all shareholders with the opportunity to develop further their understanding of the Company. It is the principal forum for all the Directors to engage in dialogue with private investors. All shareholders are given the opportunity to raise questions on any matter at the meeting. The Group aims to send notices of Annual General Meetings to shareholders at least 20 working days before the meeting, as required by the Code, and it is the Company's practice to indicate the proxy voting results on all resolutions at the meetings. Following the AGM the voting results for each resolution are published and are available on the Company's website.

## FAIR, BALANCED AND UNDERSTANDABLE

The Directors have also reviewed the financial statements and taken as a whole consider them to be fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

## INTERNAL CONTROL

The Board of Directors has overall responsibility for the Group's systems of internal control and for reviewing its effectiveness, including: financial, operational and compliance controls and risk management, which safeguard the shareholders' investment and the Group's assets. Such a system can only provide reasonable and not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives.

The Board of Directors is not aware of any significant losses caused by breaches of internal control in the year.

The Group operates within a clearly defined organisational structure with established responsibilities, authorities and reporting lines to the Board. The organisational structure has been designed in order to plan, execute, monitor and control the Group's objectives effectively and to ensure that internal control becomes embedded in the operations. The Board confirms that the key on-going processes and features of the Group's internal risk based control system, which accord with the Turnbull guidance, have been fully operative throughout the year and up to the date of the Annual Report being approved. These include: a process to identify and evaluate business risk; a strong control environment; an information and communication process; a monitoring system and a regular Board review for effectiveness. The Group Finance Director is responsible for overseeing the Group's internal controls.

The Group's internal controls systems cover controls over the financial reporting process, including monthly reporting from subsidiaries, its associate and joint ventures. This reporting is subject to detailed review by the Chief Executive and the Group Finance Director and detailed validation by the Group finance team, and forms the basis for information presented to and reviewed by the Board. All monthly reporting is prepared in line with Group accounting policies, which are reviewed annually and are also subject to review by the external auditors.

The management of the Group's businesses identified the key business risks within their operations, considered the financial implications and assessed the effectiveness of the control processes in place to mitigate these risks. The Board reviewed a summary of the findings and this, along with direct involvement in the strategies of the businesses, investment appraisal and budgeting process, enabled the Board to report on the effectiveness of internal control. A summary of the risk management framework and key risks to the business are set out on pages 14 to 16.

## COMPLIANCE WITH THE CODE

The Board considers that it complied with the Code throughout the year, with the exception of the following:

- B.1.1 requires all Non-Executive Directors to serve for less than 9 years. Alistair Wannop commenced as a Non-Executive Director in 2005 and therefore during the year he ceased to be deemed as independent in accordance with the Code. Alistair's agricultural knowledge, expertise and work in some of the communities in which we operate has resulted in him making very valuable contributions to the Board over the last 9 years. The Board consider that notwithstanding his length of service, his professionalism and actions show him to be independent.

- B.1.1. The Board considered Bob Heygate to be independent during his time on the Board in the year, notwithstanding his long directorship and substantial shareholding. Bob Heygate's wealth of knowledge of the flour milling industry has been valuable to the Board. Despite being on the Board for 25 years, Bob continued to question with the impartiality expected of a Non-Executive Director. In addition, his shareholding aligns his interests with other shareholders.

By order of the Board

KATIE WOOD
Company Secretary
Carlisle
CA3 9BA
16 November 2016

# **AUDIT COMMITTEE** REPORT

**JOHN WORBY**
CHAIRMAN OF THE AUDIT COMMITTEE

## INTRODUCTION

On behalf of the Audit Committee, I am pleased to present this report to shareholders. The purpose of the report is to highlight the areas that the Committee has reviewed and how we have discharged our responsibilities effectively during the year.

## RESPONSIBILITIES

The key responsibility of the Committee is to provide effective governance over the appropriateness of the Company's financial reporting.

Under its terms of reference, the Committee is required, amongst other things, to:

- monitor the integrity of the financial statements of the Company including the appropriateness of the accounting policies adopted and whether the Annual Report was fair, balanced and understandable;
- review, understand and evaluate the Company's internal financial risk, and other internal controls and risk management systems;
- oversee the relationship with the external auditors, making recommendations to the Board in relation to their appointment, remuneration and terms of engagement;
- monitor and review the effectiveness of the external audit including the external auditors' independence, objectivity and effectiveness and to approve the policy on the engagement of the external auditors to supply non-audit services; and
- keep under review the requirement for and extent of internal audit activities in the Company.

The terms of reference can be found on the Company's website www.carrsgroup.com.

## MEETINGS

The Audit Committee met three times during the year, and has an agenda linked to the Group financial calendar. It invites the Chief Executive, Group Finance Director, Group Financial Controller and external auditors to attend its meetings. The Committee met with the external auditors at the conclusion of the audit without the Executive Directors being present.

The Committee has met once since the end of the financial year to consider the results and Annual Report for the year ended 3 September 2016.

## MAIN ACTIVITIES DURING THE YEAR

Set out below is a summary of the key areas considered by the Committee during the year and up to the date of this report.

## FINANCIAL REPORTING

During the year the Audit Committee reviewed reports and information provided by both the Group Finance Director and the external auditors in respect of the half year and annual financial report.

During the year the Group also received and responded to a letter from the FRC in relation to the 2015 Annual Report and Accounts. All questions raised were discussed with the Committee and the response was approved by the Committee prior to submission. The FRC subsequently confirmed it was satisfied with the responses, which included clarifying some disclosures in the 2016 Annual Report and Accounts.

An important responsibility of the Audit Committee is to review and agree significant estimates and judgements made by management. To satisfy this responsibility, the Committee reviewed a written formal update from the Group Finance Director on such issues at the two meetings that reviewed the half year and year end results, as well as reports from the external auditors. The Committee carefully considered the content of these reports in evaluating the significant issues and area of judgement across the Group.

The key areas of judgement in the year were as follows:

- The assumptions adopted for the accounting valuation of our defined benefit pension scheme. The Committee concluded that the assumptions used were appropriate;
- Potential impairment of goodwill for historic acquisitions, especially in relation to Chirton Engineering given the continued issues in the oil and gas market. The Committee reviewed the assumptions used and the impact of sensitivities and agreed that no provision for impairment was required;
- Provisioning policies in relation to accounts receivable, particularly in the Agriculture division. The Committee determined that the judgements made were appropriate to justify the provisions held at 3 September 2016;
- Provisioning policies in relation to contractual disputes. The Committee determined that the judgements made were appropriate to justify the provisions held at 3 September 2016;
- The treatment of certain bid costs in the Engineering division in relation to a large contract win in the year. The Committee concluded it was satisfied with the accounting treatment;
- Accounting treatment of the disposal of the Food division, and associated disclosures. The Committee concluded that the disclosures and accounting treatment were appropriate; and
- Revenue recognition in the Engineering division, particularly in relation to part completed contracts at the year end. The Committee focussed on the recognition

of revenue and profit or losses on long term contracts and agreed with management's judgements.

The Committee, further to the Board's request, has reviewed the annual report and financial statements with the intention of providing advice to the Board on whether, as required by the Code, 'the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy'.

To make this assessment, the Committee reviewed a report prepared by the Group Finance Director outlining the key matters worthy of consideration. We also considered the KPIs included in the Strategic Report (see page 20) and concluded that, whilst they were appropriate for our shareholders' understanding of the performance, position and future prospects of the business, there could be further inclusion of additional non-financial KPIs. In addition, the Committee also considered and was satisfied that all the key events and issues which have been reported to the Board in the CEO's monthly report during the year, both good and bad, have been adequately referenced or reflected within the annual report.

The Committee has also reviewed the Group's disclosures in relation to the Group's going concern and viability statement disclosures. It received a written report prepared by the Group Finance Director which enabled it to review the base assumptions and various sensitised scenarios throughout the forecast period. The Committee was comfortable with the disclosures made.

## INTERNAL CONTROL AND RISK MANAGEMENT

During the year the Committee reviewed the effectiveness of the Group's internal control and risk management systems.

The Committee reported to the Board that it had reviewed and was satisfied with the effectiveness of the Company's internal control and risk management systems. During 2016/17 the Group will aim to develop a more integrated risk and assurance framework as a further improvement to the internal control and risk management systems.

## EXTERNAL AUDIT

The Audit Committee is responsible for recommendations for the appointment, reappointment or removal of external auditors and for approval of their remuneration.

PricewaterhouseCoopers LLP (PwC) and its predecessor firms have been the Auditor for Carr's Group plc since the Company first listed on the London Stock Exchange in 1972. The Audit Committee assesses annually the qualification, expertise and independence of the auditors and the effectiveness of the audit process.

Subject to the ongoing satisfactory performance of the external auditors, the Committee expects to carry out a tendering process for the 2019 year end following the conclusion of the five year term of the current audit partner. This will comply with the EU/FRC rotation requirements

Following approval by shareholders to re-appoint PwC at last year's AGM, the Audit Committee reviewed and approved the terms of engagement and remuneration of the external auditors.

## AUDIT EFFECTIVENESS

The effectiveness of the external audit process is dependent on appropriate audit risk identification at the start of the audit cycle. PwC present their detailed audit plan to us each year identifying their assessment of these key risks.

Our assessment of the effectiveness and quality of the audit process and addressing these key risks is formed by, amongst other things, the reporting from the auditors and also seeking feedback from management on the audit process.

The Committee remain satisfied with PwC's performance and is of the view that there is nothing of concern that would impact the effectiveness of the external audit process.

## AUDITOR INDEPENDENCE

The Group meets its obligations for maintaining an appropriate relationship with the external auditors through the Audit Committee, whose terms of reference include an obligation to consider and keep under review the degree of work undertaken by the external auditor other than the statutory audit, to ensure such objectivity and independence is safeguarded.

In accordance with the Auditing Practices Board Ethical Standards, PwC has to implement rules and requirements which include that none of their employees working on our audit can hold any shares in Carr's. PwC is also required to tell us about any significant facts and matters that may reasonably be thought to bear on their independence or on the objectivity of the lead partner and the audit team. The lead partner in the audit team must change every five years.

The Audit Committee reviewed and approved the non-audit services policy, the objective of which is to ensure that the provision of such services does not impair, or is not perceived to impair, the external auditors' independence or objectivity. The policy imposes guidance on the areas of work that the external auditors may be asked to undertake and those assignments where the external auditors should not be involved. There is a further category of services for which a case-by-case decision is necessary.

In order to ensure that the policy is effective and the level of non-audit fees is kept under review, major work to be awarded to the audit firm must be agreed in advance by the Audit Committee Chairman. For the 2016 financial year end, the non-audit to audit services ratio was 0.4. Note 3 on page 58 provides further detail on non-audit service fees.

Previously, PwC had undertaken our tax compliance activities in addition to their role as auditors. Rule changes meant that this was no longer possible for our 2016 year end and beyond, so with effect from 1 September 2016 PwC are no longer undertaking any tax compliance activities and the Group has appointed an alternative adviser.

Taking into account our findings in relation to the effectiveness of the audit process and in relation to the independence of PwC, the Committee is satisfied that PwC continues to be independent, and free from any conflicting interest with the Group. As a result, the Committee has recommended to the Board that PwC be proposed for reappointment at the forthcoming AGM in January 2017.

## INTERNAL AUDIT

Consideration was given to whether there should be a formal internal audit function within the Group. The Committee agreed that in view of the absence of any significant control issues having arisen no such internal audit function was required. The Committee will keep this under review.

## OTHER ACTIVITIES

The Committee also reviewed its terms of reference, its effectiveness, and the Group's whistleblowing policy.

As Chairman of the Committee, I will be available at the Annual General Meeting to respond to any shareholder questions that might be raised on the Committee's activities.

JOHN WORBY
Audit Committee Chairman
16 November 2016

# REMUNERATION COMMITTEE REPORT

**ALISTAIR WANNOP**
CHAIRMAN OF THE REMUNERATION COMMITTEE

> "As Chairman of the Remuneration Committee I am pleased to present the Remuneration Committee's annual report on Directors' remuneration for the year to 3 September 2016."

## INTRODUCTION

This report sets out the Group's remuneration policy and details of remuneration paid to Executive and Non-Executive Directors during the year.

## ROLE

The main role of the Remuneration Committee is to determine the remuneration for the Executive Directors, in agreement with the Board. The Committee is responsible for all aspects of the Executive Directors' remuneration, including bonus and long term incentives, and makes recommendations regarding awarding long term incentives to senior management. It reviews the long term incentives to ensure they are aligned with the development of the Group and the business needs. The policy that has been adopted was created by taking into account the need to create shareholder value and therefore putting in place the appropriate incentives for the Executive Directors.

The Committee considered the following during the year:

- total remuneration and review of base pay for the Directors;
- annual earnings of the Directors, including the outcome of annual bonus plans;
- the LTIP for the Executive Directors and senior management; and
- potential alternative arrangements for Directors following changes to tax rules in relation to pension contributions.

The Remuneration Committee currently comprises Alistair Wannop (Chairman), Chris Holmes, John Worby and Ian Wood. Neil Austin and Tim Davies attend meetings of the Committee by invitation and in an advisory capacity. No Director attends any part of a meeting at which his own remuneration is discussed. The Chairman and the Executive Directors determine the remuneration of the other Non-Executive Directors. The remuneration of the Chairman is determined by the Board. The Committee has access to advice from the Company Secretary and to detailed analysis of executive remuneration in comparable companies. The Chair of the Committee will be available at the AGM to answer any shareholder questions on the Committee and its activities.

The Committee is authorised by the Board to:

- determine the total remuneration packages, authorise terms and conditions, and issue contracts for the Board;
- approve the design and determine the targets for performance related pay schemes of the Executive Directors; and
- review the design of any share incentive plans for approval by the Board and shareholders.

## REMUNERATION POLICY

In this forward looking section we describe our remuneration policy for the Board. This includes considerations when determining policy, a description of the elements of the reward package, and an indication of the potential future value of this package for each Executive Director.

There have been no changes to the policy during 2015/16. From 2016/17, it is our intention to amend the policy in relation to pension contributions to enable the Group to pay cash in lieu of pension contributions following changes to the UK tax regime for pensions. In addition, the Executive Directors' bonus will now include an element connected to strategic objectives as well as profit before tax. We will continue to review the policy each year to ensure it continues to support the Group's strategy.

## CONSIDERATIONS WHEN DETERMINING REMUNERATION POLICY

The Group's policy is that the overall remuneration package offered should be sufficiently competitive to attract, retain and motivate high quality executives and to align the rewards of the Executive Directors with the progress of the Group, whilst giving consideration to salary levels in similar size quoted companies in similar industry sectors.

The remuneration package is split into two parts:

- a non-performance related element represented by basic salary (including benefits); and
- a significant performance related element in the form of an annual profit related bonus and a Long Term Incentive Plan.

## PERFORMANCE MEASURES AND TARGETS

Our Group strategy and business objectives are the primary consideration when we are selecting performance measures for incentive plans. Targets within incentive plans that are related to internal financial measures, such as profit, are typically determined based on our budgets. The threshold and maximum levels of performance are set to reflect minimum acceptable levels at threshold and very stretching but achievable levels at maximum. At the end of each performance period we review performance against the targets, using judgement to account for items such as foreign exchange rate movements, changes in accounting treatment, and significant one-off transactions. The application of judgement is important to ensure that final assessments of performance are fair and appropriate. In addition, the Remuneration Committee reviews the bonus and incentive plan results before any payments are made to Executive Directors or any shares vest and has full discretion to adjust the final payment or vesting downwards if they believe the circumstances warrant it.

## REMUNERATION POLICY TABLE

| ELEMENT | PURPOSE AND LINK TO STRATEGY | POLICY AND APPROACH | OPPORTUNITY | CHANGE OF POLICY VERSUS 2015? |
|---|---|---|---|---|
| Base salary | To attract and retain the best talent. | Salaries are reviewed annually and fixed for 12 months commencing 1 September. The decision is influenced by:<br>• level of skill, experience and scope of responsibilities of individual;<br>• business performance, economic climate and market conditions;<br>• increases elsewhere in the Group; and<br>• external comparator groups (used for reference purposes only). | Base salary increases are applied in line with the outcome of the annual review. | No. |
| Pension | To remain competitive in the market place. | Executive Directors are entitled to participate in a defined contribution pension arrangement or to receive a cash alternative to those contributions.<br><br>Company contributions are 15% of base salary. | 15% of base salary. | Yes. |
| Benefits | To aid retention and remain competitive in the market place. | These include permanent health insurance, private medical insurance and life assurance. Relocation benefits may also be provided in the case of recruitment of a new Executive Director. | Market rate determines value. | No. |
| Annual cash bonus | Designed to reward delivery of key strategic priorities during the year. | Bonus levels and appropriateness of performance measures and weighting are reviewed annually to ensure they continue to support our strategy. Performance is measured against stretching profit related targets and achievement of strategic objectives, and is usually paid in November each year for performance in the previous financial year. The bonuses payable are capped at a maximum of 100% of base salary. | Maximum of 100% of base salary. | Yes. |
| Save As You Earn (SAYE) | To encourage employee involvement and encourage greater shareholder alignment. | A SAYE scheme is available to eligible staff, including Executive Directors. Currently there is a 3 year and a 5 year scheme in operation. | N/A | No. |
| Long Term Incentive Plan (LTIP) | To motivate and incentivise delivery of sustained performance over the longer term, and to support and encourage greater shareholder alignment. | Award levels and vesting are reviewed annually to ensure they continue to support the Group's strategy. Awards are capped at the equivalent of 100% of base salary at the date of award.<br><br>Three awards remain unvested: one maturing in 2016, one in 2017 and one in 2018. The awards vest based on three year performance periods. A minimum average annual growth in adjusted EPS of 3% is required to vest 25%, with a sliding scale up to 100% vesting at an annual average growth of 10%. | Maximum of 100% of base salary. | No. |

# REMUNERATION COMMITTEE REPORT CONTINUED

## CHAIRMAN AND NON-EXECUTIVE DIRECTORS REMUNERATION

Our policy is for the Executive Directors to review the remuneration of Non-Executive Directors annually following consultation with the Chairman. Remuneration reflects:

- the time commitment and responsibility of their roles;
- market rate; and
- that they do not participate in any bonus, pension or share based scheme.

Non-Executive Directors are engaged on one year fixed-term letters of appointment that set out their duties and responsibilities.

## SHAREHOLDING GUIDELINES

The Committee believes that it is important for a significant investment to be made by each Executive Director in the shares of the company to provide alignment with shareholder interests. Executive Directors are required to build up a shareholding equivalent to 200% of base salary over a five year period. This guideline was introduced in 2015.

## APPROACH TO RECRUITMENT REMUNERATION

The remuneration package for a new Executive Director would be set in accordance with the terms of the Company's approved remuneration policy in force at the time of appointment.

### Buy-out awards

In addition, the Committee may offer additional cash and/or share-based elements (on a one-time basis or ongoing) when it considers these to be in the best interests of the Group (and therefore shareholders). Any such payments would be limited to a reasonable estimate of value of remuneration lost when leaving the former employer and would reflect the delivery mechanism (i.e. cash and/or share-based), time horizons and whether performance requirements are attached to that remuneration.

### Maximum level of variable pay

The maximum initial level of long-term incentives which may be awarded to a new Executive Director will be limited to the maximum Long Term Incentive Plan limit of 100% of base salary. Therefore the maximum initial level of overall variable pay that may be offered will be 200% of base salary (i.e. 100% annual bonus plus 100% Long Term Incentive Plan). These limits are in addition to the value of any buy-out arrangements which are governed by the policy above.

In the case of an internal appointment, any variable pay element awarded in respect of the prior role would be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment. In addition, any other previously awarded entitlements would continue, and be disclosed in the next annual report on remuneration.

### Base salary and relocation expenses

The Committee has the flexibility to set the salary of a new appointment at a discount to the market level initially, with a series of planned increases implemented over the following few years to bring the salary to the appropriate market position, subject to individual performance in the role.

For external and internal appointments, the Committee may agree that the Group will meet certain relocation expenses as appropriate.

### Appointment of Non-Executive Directors

For the appointment of a new Chairman or Non-Executive Director, the fee arrangement would be set in accordance with the approved remuneration policy in force at that time.

## ESTIMATES OF TOTAL FUTURE POTENTIAL REMUNERATION FROM 2017 PAY PACKAGES

The tables below provide estimates of the potential future remuneration of each Executive Director based on the remuneration opportunity granted in the 2017 financial year. Potential outcomes based on different scenarios are provided for each Executive Director.

The assumptions underlying each scenario are described below.

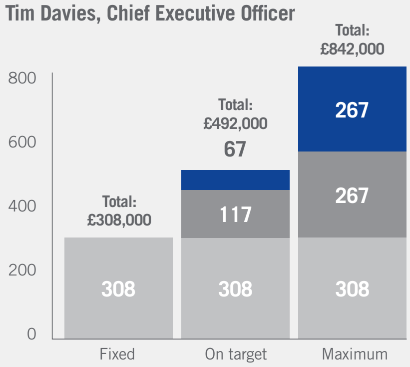
**Fixed**: Consists of base salary, pension and other benefits.
Base salaries are as at 1 September 2016.
Benefits are valued using the figures in the total remuneration for the 2016 financial year table, adjusted for any benefits that will not be provided during 2017.
Pensions are valued by applying the appropriate percentage to the base salary.

| | Base £'000 | Benefits £'000 | Pension £'000 | Total £'000 |
|---|---|---|---|---|
| Tim Davies | 267 | 1 | 40 | 308 |
| Neil Austin | 197 | 1 | 30 | 228 |

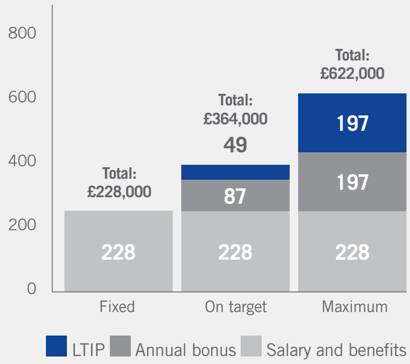
**On target**: Based on what a Director would receive if performance was in line with plan and the threshold level was achieved under the LTIP.

**Maximum**: Assumes that the full stretch target for the LTIP are achieved, and maximum performance is obtained under the annual bonus scheme.

**Tim Davies, Chief Executive Officer**




**Neil Austin, Group Finance Director**



**SERVICE CONTRACTS AND LETTERS OF APPOINTMENT**

The Group's current policy is not to enter into employment contracts with any element of notice period in excess of one year. Dates of service contracts and first appointment to the Board for all Directors are given opposite.

For early termination, the Remuneration Committee will consider circumstances, including any duty to mitigate, and determine any compensation payments accordingly. Copies of Executive Directors' service contracts and Non-Executive Directors' letters of appointment are available for inspection at the Company's registered office during normal hours of business and will be available at the Company's AGM.

| | Date of service contract/ letter of appointment | Date first appointed to the Board |
|---|---|---|
| **Executive Directors** | | |
| Tim Davies | 18 October 2012 | 1 March 2013 |
| Neil Austin | 1 January 2013 | 1 May 2013 |
| **Non-Executive Directors** | | |
| Chris Holmes | 15 September 2016 | 7 January 1992 |
| Alistair Wannop | 15 September 2016 | 1 September 2005 |
| John Worby | 15 September 2016 | 1 April 2015 |
| Ian Wood | 15 September 2016 | 1 October 2015 |

**ANNUAL REPORT ON REMUNERATION**

**Remuneration Committee**

In this section we give details of the composition of the Remuneration Committee and activities undertaken during the 2016 financial year.

**2016 AGM**

The 2015 remuneration report received a 99.52% vote in favour, with 0.48% against.

**Shareholder contact**

No shareholders have contacted the Remuneration Committee during the year to share views regarding remuneration.

**2016 Remuneration (Audited Information)**

In this section we summarise the pay packages awarded to our Executive Directors for performance in the 2016 financial year versus 2015. The table below shows all remuneration that was earned by each individual during the year and includes a single total remuneration figure for the year. The value of the annual bonus was earned in the year but will be paid out as cash in the following financial year.

The Remuneration Committee reviews all incentive awards prior to payment and has full discretion to reduce awards if it believes this is appropriate. The Committee did not exercise any discretion in determining the annual bonus payout for this year.

The performance period for the 2013 LTIP awards has completed, and the awards vested at 37.45% on the expiry of the three year period, which was on 14 November 2016. Therefore, the share price used to value the awards in the table below has been taken as the average price in the final quarter of the 2015/16 financial year.

| | Salary/Fees | | Benefits | | Bonus | | LTIP | | Pension | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2016 £'000** | 2015 £'000 | **2016 £'000** | 2015 £'000 | **2016 £'000** | 2015 £'000 | **2016 £'000** | 2015 £'000 | **2016 £'000** | 2015 £'000 | **2016 £'000** | 2015 £'000 |
| **Executive Directors** | | | | | | | | | | | | |
| Tim Davies | **264** | 261 | **1** | 35 | **145** | 261 | **81** | 315 | **40** | 39 | **531** | 911 |
| Neil Austin | **195** | 193 | **1** | 1 | **107** | 193 | **60** | 233 | **29** | 29 | **392** | 649 |
| **Non-Executive Directors** | | | | | | | | | | | | |
| Chris Holmes | **77** | 77 | **—** | — | **—** | — | **—** | — | **—** | — | **77** | 77 |
| Alistair Wannop | **37** | 36 | **—** | — | **—** | — | **—** | — | **—** | — | **37** | 36 |
| John Worby | **37** | 15[1] | **—** | — | **—** | — | **—** | — | **—** | — | **37** | 15 |
| Ian Wood[2] | **34** | — | **—** | — | **—** | — | **—** | — | **—** | — | **34** | — |
| Robert Heygate | **24**[3] | 36 | **—** | — | **—** | — | **—** | — | **—** | — | **24** | 36 |

1 Represents a 5 month period – pro rata would be £36,000
2 Represents an 11 month period – pro rata would be £37,000
3 Represents an 8 month period – pro rata would be £37,000

STRATEGIC REPORT CORPORATE GOVERNANCE FINANCIAL STATEMENTS

# REMUNERATION COMMITTEE REPORT CONTINUED

## 2016 ANNUAL BONUS PAYOUT

The annual bonus is payable based on adjusted profit before tax (PBT) performance of different parts of the Group, and an element payable based on total Group performance. If the Group target is achieved, regardless of individual divisional performance, then the maximum bonus is payable.

| | |
|---|---|
| Agriculture | 20% |
| Food | 20% |
| Engineering | 20% |
| Group | 40% |

Adjusted PBT is calculated as reported PBT after adding back or deducting any one-off items outside of normal trading that were not anticipated at the time the performance targets were set, such as acquisition related costs.

In the 2016 financial year the adjusted PBT target for the Group was set at £18.4m for maximum pay-out. The target for maximum pay-out was not reached, and accumulating divisional performance versus targets and the Group performance versus the target equated to a total pay-out of 55%.

## LONG TERM INCENTIVE PLAN AWARDS DURING THE YEAR

The 2016 long-term awards were made in line with the remuneration policy as disclosed in our 2015 remuneration report. The performance conditions are based on annual average growth in adjusted EPS over a three year period.

| Average annual growth % | % vesting |
|---|---|
| 3 | 25 |
| 10 | 100 |

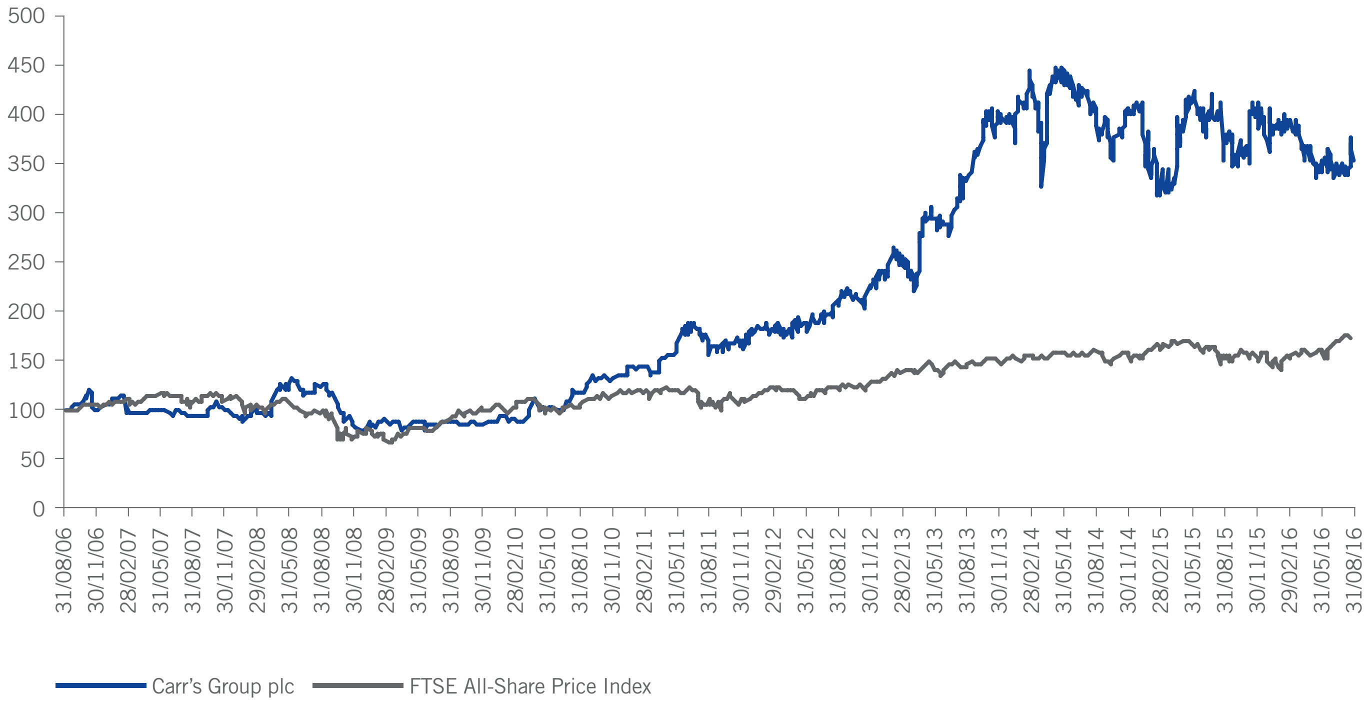
Nothing is payable below 3%, and a sliding scale operates between this and the maximum available.

## ALL EMPLOYEE SHARE PLANS

The Executive Directors are also eligible to participate in the UK all-employee plans.

The Carr's Group Sharesave Scheme 2016 is a HM Revenue & Customs ("HMRC") approved scheme open to all staff permanently employed in a UK Group company as of the eligibility date. Options under the plan are granted at a 20% discount to market value. Executive Directors' participation is included in the option table later in this report.

## TEN YEAR HISTORICAL TSR PERFORMANCE




Source: Thomson Datastream

## DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY (AUDITED INFORMATION)

A summary of interests in shares and scheme interests as at 3 September 2016, of the Directors who served during the year is given opposite.

| | Total number of interests in shares | Vested LTIP | Unvested LTIP | SAYE (unvested without performance conditions) |
|---|---|---|---|---|
| **Executive Directors** | | | | |
| Tim Davies | 20,000 | 247,131 | 344,174 | 5,328 |
| Neil Austin | 20,000 | 182,874 | 254,692 | 8,881 |
| **Non-Executive Directors** | | | | |
| Chris Holmes | 1,230,000 | — | — | — |
| Alistair Wannop | 22,610 | — | — | — |
| John Worby | 25,000 | — | — | — |
| Ian Wood | 1,000 | — | — | — |
| Bob Heygate | 452,250 | — | — | — |

## PERFORMANCE SHARES (AUDITED INFORMATION)

The maximum number of outstanding shares that have been awarded to Directors under the LTIP are currently as follows:

| | 2013/14 award | 2014/15 award | 2015/16 award |
|---|---|---|---|
| Tim Davies | 152,260 | 163,360 | 180,814 |
| Neil Austin | 112,670 | 120,890 | 133,802 |

## ASSESSING PAY AND PERFORMANCE

In the table opposite we summarise the Chief Executive's single remuneration figure over the past 5 years, as well as how variable pay plans have paid out in relation to the maximum opportunity.

| | 2012 Chris Holmes £'000 | 2013 Tim Davies £'000 | 2014 Tim Davies £'000 | 2015 Tim Davies £'000 | **2016 Tim Davies £'000** |
|---|---|---|---|---|---|
| Single figure of total remuneration | 573 | 283[1] | 559 | 911 | **531** |
| Annual variable element (actual award versus maximum opportunity) | 100% | 100% | 100% | 100% | **55%** |
| Long-term incentive (vesting versus maximum opportunity) | N/A | N/A | N/A | 100% | **37.45%** |

1 Represents a 6 month period – pro rata would be £566,000

## CHANGE IN CHIEF EXECUTIVE'S REMUNERATION

In the table opposite we show the percentage change in the Chief Executive's remuneration between 2015 and 2016 financial years compared to the other UK employees.

| | **Tim Davies** | **Other UK employees** |
|---|---|---|
| Base pay | 1% | 1% |
| Benefits | 0% | 0% |
| Annual bonus | -45% | -39% |

## RELATIVE SPEND ON PAY

The table shows the relative importance of spend on pay compared to distributions to shareholders.

| | **2016 £'000** | **2015 £'000** | % change |
|---|---|---|---|
| Employee costs | 38,390 | 39,148 | -1.9% |
| Dividends paid to shareholders | 3,347 | 3,110 | 7.6% |

By order of the Board

A.G.M. Wannop.

ALISTAIR WANNOP
Chairman of the Remuneration Committee
16 November 2016

# NOMINATIONS COMMITTEE REPORT

**CHRIS HOLMES**
CHAIR OF THE NOMINATIONS COMMITTEE

## DEAR SHAREHOLDER

This year the Committee continued to focus on Board succession plans and the outcomes are set out in this report.

## COMPOSITION AND CONSTITUTION

The Nominations Committee comprises the Chairman of the Company and all the Non-Executive Directors.

## ROLE OF THE COMMITTEE

The Committee meets at least once a year. It reviews the structure, size and composition of the Board and considers the optimal level of independence and diversity of skills, knowledge, experience and gender required for the Board to operate effectively. It is responsible for considering and making recommendations to the Board on new appointments of Executive and Non-Executive Directors. It also gives due consideration to succession planning throughout the Group, taking into account the challenge and opportunities facing the Group and the skills and expertise needed within the Board and senior management in the future.

## ACTIVITIES OF THE COMMITTEE

The Committee met on two occasions in the year to consider the following matters:

- the Committee's Terms of Reference to ensure they reflect the Committee's remit;
- the succession plans in place for senior management across the Group; and
- the structure, size, composition and diversity of both the Board and its Committees.

## BOARD SUCCESSION PLANNING

Ian Wood joined the Board on 1 October 2015. The appointment was made after conclusion of a process which included using independent external search consultants. Biographical details are set out on page 21.

At the end of April 2016 one Board member, Bob Heygate, resigned following 25 years of service to the Board. Bob Heygate had previously been the Chairman of the Audit Committee, which he relinquished for this financial year, enabling John Worby to take over that role. Biographical details can be found on page 21.

As a result of the succession planning over the last two years, the Board's size has increased to 4 Non-Executive Directors from 3 Non-Executive Directors. The number of Executive Directors remains unchanged.

## RE-ELECTION

At the Annual General Meeting on 10 January 2017 all the Directors will stand for re-election in accordance with best practice under the UK Corporate Governance Code 2014.

The Board has set out in the Notice of Annual General Meeting its reasons for supporting the re-election of the Directors at the forthcoming Annual General Meeting. Their biographical details on page 21 demonstrate the range of experience and skills which each brings to the benefit of the Company.

The Chair of the Nominations Committee will attend the Annual General Meeting to respond to any shareholder questions that might be raised on the Committee's activities.

On behalf of the Board

CHRIS HOLMES DL
Chair of the Nominations Committee
16 November 2016

# DIRECTORS' REPORT

## THE DIRECTORS SUBMIT THEIR REPORT AND THE AUDITED ACCOUNTS OF THE COMPANY FOR THE YEAR ENDED 3 SEPTEMBER 2016.



The Company is a public limited company incorporated and domiciled in England and Wales whose shares are listed and traded on the London Stock Exchange. The address of its registered office is Old Croft, Stanwix, Carlisle, CA3 9BA.

### RESULTS AND DIVIDENDS

A review of the results can be found on pages 18 to 19.

| | 2016 | 2015 |
|---|---|---|
| First Interim dividend per share paid on 13 May 2016 | **0.950p** | 0.925p |
| Second Interim dividend per share paid on 7 October 2016 | **0.950p** | 0.925p |
| Final dividend per share proposed | **1.9p** | 1.85p |

Subject to approval at the Annual General Meeting, the final dividend will be paid on 13 January 2017 to members on the register at the close of business on 16 December 2016. Shares will be ex-dividend on 15 December 2016.

The Group profit from continuing activities before taxation was £14.1m (2015: £13.7m). After taxation charge of £2.9m (2015: £3.0m), the profit from continuing operations for the year is £11.2m (2015: £10.7m).

Future developments of the Group have been discussed in the Strategic Report on pages 8 to 13.

### PENSIONS

Estimates of the amount and timing of future funding obligations for the Group's pension plans are based on various assumptions including, among other things, the actual and projected market performance of the pension plan assets, future long-term corporate bond yields, longevity of members and statutory requirements. The Group continued to make monthly payments to reduce the Group's pension fund deficit, totalling £0.8m in the year, which ended on 31 December 2015.

The Group continually reviews this risk and takes action to mitigate where possible. In addition, while the Group is consulted by the Trustees on the investment strategies of its pension plans, the Group has no direct control over these matters as the Trustees are directly responsible for the strategy.

Details of the Group's pension plans are in note 25 in the Notes to the Financial Statements.

### EMPLOYMENT POLICIES AND EMPLOYEES

The Company is committed to its employees and further details on the Company's policies and commitment can be found in the Corporate Responsibility Report on pages 22 to 24.

### ENVIRONMENT

The Company's report on sustainability including carbon footprint and energy usage is on pages 23 to 24.

### POLITICAL AND CHARITABLE DONATIONS

During the year ended 3 September 2016 the Group contributed £32,175 (2015: £43,920) in the UK for charitable purposes. Further details have been included with the Corporate Responsibility statement on pages 22 to 24. There were no political donations during the year (2015: £Nil).

### SHARE CAPITAL

The Company has a single class of share capital which is divided into Ordinary Shares of £0.025 each. The movement in the share capital during the year is detailed in note 26 to the financial statements.

At the last Annual General Meeting the Directors received authority from the shareholders to:

**Allot Shares** – this gives Directors the authority to allot authorised but unissued shares and maintains the flexibility in respect of the Company's financing arrangements. The nominal value of ordinary shares which the Directors may allot in the period up to the next Annual General Meeting to be held on 10 January 2017, is limited to £741,020.61 which is equal to 33 percent of the nominal value of the issued share capital on 11 November 2015. The Directors do not have any present intention of exercising this authority other than in connection with the issue of ordinary shares in respect of the Company's share option plans. This authority will expire at the end of the Annual General Meeting to be held on 10 January 2017.

# DIRECTORS' REPORT CONTINUED

**Disapplication of rights of pre-emption** – this disapplies rights of pre-emption on the allotment of shares by the Company and the sale by the Company of treasury shares. The authority will allow the Directors to allot equity securities for cash pursuant to the authority to allot shares mentioned above, and to sell treasury shares for cash, on a pro rata basis to existing shareholders (but subject to any exclusion or arrangements as the Directors consider necessary or expedient in relation to fractional entitlements, any legal, regulatory or practical problems or costs under the laws or regulations of any overseas territory or the requirements of any regulatory body or stock exchange) and otherwise on a pro rata basis up to an aggregate nominal amount of £112,275.85, representing 5 percent of the Company's issued share capital as at 11 November 2015. This authority will expire at the end of the Annual General Meeting to be held on 10 January 2017.

**To buy own shares** – this authority allows the Company to buy its own shares in the market, as permitted under the Articles of Association of the Company, up to a limit of 10 per cent of the Company's issued share capital. The price to be paid for any share must not be less than 0.25p, being the nominal value of a share, and must not exceed 105 percent of the average middle market quotations for the ordinary shares of the Company as derived from the London Stock Exchange Daily Official List for the 5 business days immediately preceding the day on which the ordinary shares are purchased. The Directors have no immediate plans to exercise the powers of the Company to purchase its own shares and undertaken that the authority would only be exercised if the Directors were satisfied that a purchase would result in an increase in expected earnings per share and was in the best interests of the Company at the time. This authority will expire at the end of the Annual General Meeting to be held on 10 January 2017. The Directors would consider holding any of its own shares that it purchases pursuant to this authority as treasury shares.

The interests of the Directors, as defined by the Companies Act 2006, in the ordinary shares of the Company, other than in respect of options to acquire ordinary shares (which are detailed in the analysis of options included in the Directors' Remuneration Report on pages 30 to 35), are as follows:

**Interest of the Directors**

| | At 3 September 2016 Ordinary Shares | At 29 August 2015 Ordinary Shares |
|---|---|---|
| T J Davies | 20,000 | 20,000 |
| N Austin | 20,000 | 20,000 |
| C N C Holmes | 1,230,000 | 1,252,500 |
| A G M Wannop | 22,610 | 22,610 |
| J G Worby | 25,000 | 25,000 |
| I Wood | 1,000 | — |

All the above interests are beneficial.

All the above interests are beneficial.
The following transactions took place after 3 September 2016: I. Wood acquiring 9,000 shares on 12 September; T. Davies exercising options over 190,110 and selling 89,896 shares; N. Austin exercising options over 140,680 and selling 66,559 shares, on 5 September 2016.

## TREASURY SHARES

To enable vesting of the Group's long term incentive plan, on 14 November 2016 178,027 ordinary 2.5 pence shares were held in treasury.

## RIGHTS AND OBLIGATIONS ATTACHING TO SHARES

In a general meeting of the Company, subject to the provisions of the Articles of Association and to any special rights or restrictions as to voting attached to any class of shares in the Company (of which they are none), the holders of the Ordinary Shares are entitled to one vote in a poll for every Ordinary Share held. No member shall be entitled to vote at any general meeting or class meeting in respect of any shares held if any call or other sum then payable in respect of that share remains unpaid. Currently all issued shares are fully paid.

Full details of the deadlines for exercising voting rights in respect of the resolutions to be considered at the Annual General Meeting to be held on 10 January 2017 are set out in the Notice of Annual General Meeting.

Subject to the provisions of the Companies Act 2006, the Company may, by ordinary resolution, declare a dividend to be paid to the members, but no dividend shall exceed the amount recommended by the Board. The Board may pay interim dividends, and also any fixed rate dividend, whenever the financial position of the Company, in the opinion of the Board, justifies its payment. All dividends shall be apportioned and paid pro rata according to the amounts paid up on the shares.

## MAJOR SHAREHOLDERS

The Company is aware of the following interests at 14 November 2016 in the 91,377,291 ordinary shares of the Company, as required by the Companies Act 2006:

**Major Shareholders**

| | Number of shares | % of issued share capital |
|---|---|---|
| Heygate & Sons Limited | 12,652,870 | 13.85 |
| T W G Charlton | 4,550,000 | 4.98 |
| Goldman Sachs Securities (Nominees) Ltd (ILSEG) | 3,746,500 | 4.10 |
| Rathbone Nominees Limited | 3,240,650 | 3.55 |
| HSBC Global Custody Nominee (UK) Limited (928488) | 2,968,940 | 3.25 |

### CHANGE OF CONTROL

There are no agreements that the Company considers significant and to which the Company is party that would take effect, alter or terminate upon change of control of the Company following a takeover bid, other than the following:

- The Company is party to a number of banking agreements which upon a change of control of the Company are terminable by the bank immediately.

### DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

### RESPONSIBILITY FOR PREPARING FINANCIAL STATEMENTS

Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have to prepared the Group and parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 the Company and of the profit or loss of the Group for that period. In preparing those 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 applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

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 of the Group and enable them to ensure that the financial statements and Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group 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 Company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the annual report and accounts, taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess a company's performance, business model and strategy.

### DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

The Directors who were members of the Board at the time of approving the Directors' Report are listed on page 21. Having made enquiries of fellow Directors each of these Directors, at the date of this report, confirms that:

- he is aware there is no relevant audit information of which the Company's auditors are unaware; and

- he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### RESPONSIBILITY STATEMENT

Each of the Directors, whose names and functions are listed on page 21 confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the Chief Executive's Review includes a fair review of the development and performance of the business and the position of the Group; and
- the Risk management review provides a description of the principal risks and uncertainties that the Company faces.

By order of the Board

KATIE WOOD
Company Secretary
16 November 2016

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CARR'S GROUP PLC

## REPORT ON THE FINANCIAL STATEMENTS

**Our opinion**

In our opinion:

- Carr's Group plc's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 3 September 2016 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

**What we have audited**

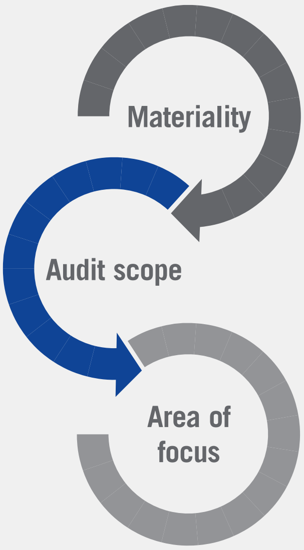
The financial statements, included within the Annual Report and Accounts (the "Annual Report"), comprise:

- the Consolidated and Company Balance Sheets as at 3 September 2016;
- the Consolidated Income Statement and the Consolidated and Company Statements of Comprehensive Income for the year then ended;
- the Consolidated and Company Statements of Cash Flows for the year then ended;
- the Consolidated and Company Statements of Changes in Equity for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006, and applicable law.

## OUR AUDIT APPROACH




**Overview**

- Overall Group materiality: £845,000 which represents slightly below 5% of profit before tax from continuing and discontinued operations.

- We identified six reporting units within the Agriculture, Food and Engineering divisions alongside the Company, which in our view required an audit of their complete financial information. Four of these reporting units were deemed financially significant and the other three were selected for particular risk characteristics, which included coverage of the risks relating to pension assumptions, fraud in revenue recognition, and of the profit from the associate.
- Specific audit procedures on certain balances and transactions were performed on two further reporting units based in the UK, in order to gain coverage of individually material financial statement line items.

- Goodwill impairment in Chirton Engineering
- Defined benefit pension scheme surplus
- Receivable provisioning
- Disposal of the Food division
- Fraud risk in revenue recognition

***The scope of our audit and our areas of focus***

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below.

We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

| AREA OF FOCUS | HOW OUR AUDIT ADDRESSED THE AREA OF FOCUS |
|---|---|
| **Goodwill impairment in Chirton Engineering**<br>Refer also to the significant judgements, key assumptions and estimates within the principal accounting policies and note 10.<br><br>The Group has a material goodwill balance in respect of the acquisition in 2014 of Chirton Engineering. The downturn in the oil and gas market has adversely affected the expected performance of this business giving rise to an increased risk of impairment. The Directors' assessment of the 'value in use' of the Cash Generating Unit involves judgements about the future results of the business and the discount rates applied to future cash flow forecasts. | We reviewed the composition of future cash flows to ensure that all relevant elements were included or excluded as appropriate. We compared current year actual results with the FY16 figures included in the prior year forecast to assess the accuracy of management's historic forecasts. We challenged management's assumptions within the forecasts for short and mid-term growth by comparing to the previous performance of the business and understanding and validating the measures implemented by management to achieve this growth. We considered the suitability of the discount rate by assessing the cost of capital for the company and comparable businesses. We assessed the sensitivity analysis performed by management and determined that the calculations were most sensitive to the assumptions regarding profits in the terminal period. We reviewed the adequacy of the disclosures given in note 10 in respect of the impairment assessment performed by management. |
| **Defined benefit pension scheme surplus**<br>Refer also to the significant judgements, key assumptions and estimates within the principal accounting policies and note 25.<br><br>The Group has a defined benefit pension scheme with post-retirement assets of £73.7m and post-retirement liabilities of £73.4m. The valuation of the Group surplus is sensitive to changes in key assumptions such as the discount rate, inflation and mortality estimates. The setting of these assumptions is complex and an area of judgement. Changes in any of these assumptions could lead to a material movement in the net surplus. | We tested the membership census data used in the valuation of the scheme to payroll information. We benchmarked and performed sensitivity analysis on key variables in the valuation model including salary increases, mortality rates, inflation and discount rates. We obtained third party confirmations over ownership and valuation of pension scheme assets. We ensured that the Company is entitled to recognise any surplus by examining the Trust Deed and Rules documentation. |
| **Receivable provisioning**<br>Refer also to the significant judgements, key assumptions and estimates within the principal accounting policies and note 19.<br><br>Within the Agriculture division there are material amounts of trade receivables that are past due and there has historically been a slower collection pattern within this division. Management's provisions in respect of these amounts are an area of subjectivity with respect to the recoverability of balances. | We understood management's receivables provisioning policy and tested the accuracy of the aging of balances in order to recalculate management's provision. We analysed the provision to identify significant balances for which the methodology had not been applied and understood and validated any such exceptions. We performed testing over the operating effectiveness of controls with respect to approval of credit limits and monthly reviews of the receivables ledger. For individually significant aged receivables balances, we understood the rationale for management's provision by considering historic payment patterns and other supporting information. We tested the levels of cash received after the year end on overdue receivables balances to assess the adequacy of the provision made. |
| **Disposal of the Food division**<br>The sale of the Food division on 3 September 2016 represented a significant transaction in the year and triggered disclosure requirements to present discontinued operations. We focussed on ensuring the completeness and accuracy of these disclosures. As the sale took place on the last day of the financial year, we also considered cut-off to be a relevant risk. | We reviewed the disclosures presented for discontinued operations and ensured that these only related to the Food division. We reviewed the sale documentation to ensure that the disposal took place before year end. We performed testing over the profit from discontinued operations line by testing the revenue and expenses of the division prior to disposal and the profit on disposal calculation. |
| **Fraud risk in revenue recognition**<br>Refer also to the significant judgements, key assumptions and estimates within the principal accounting policies.<br>ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition. We have determined this to apply specifically to the occurrence of revenue in all divisions because of the pressure management may feel to achieve the planned results. Within the Agriculture and Food division this is specifically in relation to whether a sale has occurred and within the Engineering division this is in relation to the judgements involved in long term contract accounting. | Our testing of revenue transactions focused on demonstrating a service had been provided or a sale had occurred.<br><br>For the Agriculture and Food divisions this involved testing the operating effectiveness of controls around dispatches and invoicing in certain components, as well as substantively testing that revenue agreed to accounts receivable and cash received. Where revenue did not directly agree to accounts receivable or cash further work was performed to understand and substantively test those transactions. From the work we performed no material exceptions were noted.<br><br>For the Engineering division we focused on the judgements required to account for long term contracts. This involved reading extracts of the related contracts in order to understand the nature of services provided. We also evaluated management's assessment of the stage of completion of significant contracts through performing a look back test to assess management's previous estimations as well as on a sample basis agreeing the inputs into the calculation of the revenue to supporting documentation and reperforming the calculation.<br><br>From the work we performed no material exceptions were noted. |

# INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF CARR'S GROUP PLC CONTINUED

***How we tailored the audit scope***

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group is structured in two business divisions, Agriculture and Engineering. The Food division is a discontinued operation within the year. The Group financial statements are a consolidation of 14 reporting units, comprising the Group's operating businesses within these business divisions. The Group operates mainly in the UK but has a global presence particularly in the USA and Germany.

Within the Agriculture division significant operations include subsidiaries Carrs Billington Agriculture (Sales) Ltd and Carrs Agriculture Ltd as well as an associate Carrs Billington Agriculture (Operations) Ltd all located within the UK. Animal Feed Supplement, Inc is also a significant operation located in the USA. Within Food the only operation was Carr's Flour Mills Ltd, located in the UK, this was disposed of within the year. Finally within the Engineering division Wälischmiller Engineering GmbH, located in Germany, is the largest contributor to profit before tax.

The Group also has centralised functions such as a treasury function and a payroll function which includes the pension scheme administration, all performed by the Company.

The Senior Statutory Auditor visited six of the nine reporting units located in both the UK and in the USA. For another two he attended the clearance meeting. The final reporting unit was audited by another firm operating under our instruction and the clearance meeting was attended by conference call by a senior member of the audit team.

These 9 reporting units accounted for 100% of revenue and 89% of PBT.

***Materiality***

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | |
|---|---|
| *Overall Group materiality* | £845,000 (2015: £875,000). |
| *How we determined it* | 5% of profit before tax from continuing and discontinued operations based on preliminary numbers. |
| *Rationale for benchmark applied* | We believe that profit before tax is the primary measure used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark. |
| *Reporting unit materiality* | For each component in our audit scope, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £300,000 and £800,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality. |

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £42,000 (2015: £44,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

***Going concern***

Under the Listing Rules we are required to review the Directors' statement, set out on page 17, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group and Company have adequate resources to remain in operation, and that the Directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and Company's ability to continue as a going concern.

## OTHER REQUIRED REPORTING

**Consistency of other information**

***Companies Act 2006 reporting***

In our opinion:
- 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.

In our opinion:
- the information given in the Corporate Governance Statement set out on pages 25 to 27 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

***ISAs (UK & Ireland) reporting***

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

| | |
|---|---|
| • information in the Annual Report is:<br>– materially inconsistent with the information in the audited financial statements; or<br>– apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Company acquired in the course of performing our audit; or<br>– otherwise misleading. | We have no exceptions to report. |
| • the statement given by the directors on page 27, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company acquired in the course of performing our audit. | We have no exceptions to report. |
| • the section of the Annual Report on pages 28 and 29, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee. | We have no exceptions to report. |

***The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group***

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

| | |
|---|---|
| • the Directors' confirmation on pages 14 to 16 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. | We have nothing material to add or to draw attention to. |
| • the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated. | We have nothing material to add or to draw attention to. |
| • the Directors' explanation on page 17 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. | We have nothing material to add or to draw attention to. |

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit.

We have nothing to report having performed our review.

# INDEPENDENT AUDITORS' REPORT
## TO THE MEMBERS OF CARR'S GROUP PLC CONTINUED

**Adequacy of accounting records and information and explanations received**

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 Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

**Directors' remuneration**

***Directors' remuneration report – Companies Act 2006 opinion***

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

***Other Companies Act 2006 reporting***

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

***Corporate governance statement***

Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the Company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

### RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

**Our responsibilities and those of the Directors**

As explained more fully in the Directors' Responsibilities set out on page 39, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**What an audit of financial statements involves**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:
- whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors;
  and the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Bill Macleod

BILL MACLEOD (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
16 November 2016

# CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 3 SEPTEMBER 2016

| | Notes | 2016 £'000 | (Restated) 2015 £'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| **Revenue** | 2 | 314,907 | 331,285 |
| Cost of sales | | (273,712) | (288,553) |
| **Gross profit** | | 41,195 | 42,732 |
| Distribution costs | | (15,975) | (15,580) |
| Administrative expenses | | (12,450) | (15,062) |
| **Group operating profit** | 3 | 12,770 | 12,090 |
| Finance income | 5 | 236 | 338 |
| Finance costs | 5 | (1,009) | (1,045) |
| Share of post-tax profit in associate | | 1,239 | 1,500 |
| Share of post-tax profit in joint ventures | | 842 | 807 |
| **Profit before taxation** | 2 | 14,078 | 13,690 |
| Taxation | 6 | (2,907) | (3,010) |
| **Profit for the year from continuing operations** | | 11,171 | 10,680 |
| **Discontinued operations** | | | |
| Profit for the year from discontinued operations | 7 | 2,817 | 3,013 |
| **Profit for the year** | | 13,988 | 13,693 |
| **Profit attributable to** | | | |
| Equity shareholders | | 12,455 | 11,989 |
| Non-controlling interests | | 1,533 | 1,704 |
| | | 13,988 | 13,693 |
| **Basic earnings per ordinary share (pence)** | | | |
| Profit from continuing operations | | 10.7 | 10.0 |
| Profit from discontinued operations | | 3.1 | 3.4 |
| | 9 | 13.8 | 13.4 |
| **Diluted earnings per ordinary share (pence)** | | | |
| Profit from continuing operations | | 10.5 | 9.7 |
| Profit from discontinued operations | | 3.0 | 3.2 |
| | 9 | 13.5 | 12.9 |

# CONSOLIDATED AND COMPANY STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 3 SEPTEMBER 2016

| | Notes | Group 2016 £'000 | Group 2015 £'000 | Company 2016 £'000 | Company 2015 £'000 |
|---|---|---|---|---|---|
| **Profit for the year** | | **13,988** | 13,693 | **26,362** | 2,870 |
| **Other comprehensive income/(expense)** | | | | | |
| **Items that may be reclassified subsequently to profit or loss:** | | | | | |
| Foreign exchange translation gains/(losses) arising on translation of overseas subsidiaries | | **2,860** | (249) | **—** | — |
| Net investment hedges | | **687** | 338 | **—** | — |
| Taxation charge on net investment hedges | | **(137)** | (69) | **—** | — |
| **Items that will not be reclassified subsequently to profit or loss:** | | | | | |
| Actuarial (losses)/gains on retirement benefit obligation: | | | | | |
| – Group | 25 | **(2,725)** | (2,848) | **(2,725)** | (2,848) |
| – Share of associate | | **(1,216)** | 70 | **—** | — |
| Taxation credit/(charge) on actuarial (losses)/gains on retirement benefit obligation: | | | | | |
| – Group | 17 | **490** | 570 | **490** | 570 |
| – Share of associate | | **205** | (14) | **—** | — |
| **Other comprehensive income/(expense) for the year, net of tax** | | **164** | (2,202) | **(2,235)** | (2,278) |
| **Total comprehensive income for the year** | | **14,152** | 11,491 | **24,127** | 592 |
| **Total comprehensive income attributable to:** | | | | | |
| Equity shareholders | | **12,619** | 9,787 | **24,127** | 592 |
| Non-controlling interests | | **1,533** | 1,704 | **—** | — |
| | | **14,152** | 11,491 | **24,127** | 592 |

# CONSOLIDATED AND COMPANY BALANCE SHEETS

AS AT 3 SEPTEMBER 2016

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Notes | 2016 £'000 | (Restated) 2015 £'000 | 2016 £'000 | 2015 £'000 |
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Goodwill | 10 | 11,440 | 10,849 | — | — |
| Other intangible assets | 10 | 286 | 448 | — | — |
| Property, plant and equipment | 11 | 35,811 | 58,385 | — | — |
| Investment property | 12 | 182 | 636 | — | — |
| Investment in subsidiary undertakings | 13,16 | — | — | 11,478 | 12,205 |
| Investment in associate | 13,14 | 8,667 | 8,439 | 245 | 245 |
| Interest in joint ventures | 13,15 | 6,257 | 5,012 | 272 | 272 |
| Other investments | 13 | 72 | 79 | — | — |
| Financial assets | | | | | |
| – Non-current receivables | 19 | 50 | 50 | 17,486 | — |
| Retirement benefit asset | 25 | 311 | 1,767 | 311 | 1,767 |
| Deferred tax assets | 17 | — | 861 | 2 | 3 |
| | | 63,076 | 86,526 | 29,794 | 14,492 |
| **Current assets** | | | | | |
| Inventories | 18 | 33,423 | 35,031 | — | — |
| Trade and other receivables | 19 | 56,940 | 64,454 | 18,831 | 36,845 |
| Current tax assets | 20 | 303 | 839 | 922 | 1,564 |
| Financial assets | | | | | |
| – Derivative financial instruments | 24 | — | 50 | — | 30 |
| – Cash and cash equivalents | 21 | 48,411 | 20,052 | 37,945 | 8,973 |
| | | 139,077 | 120,426 | 57,698 | 47,412 |
| **Total assets** | | 202,153 | 206,952 | 87,492 | 61,904 |
| **Liabilities** | | | | | |
| **Current liabilities** | | | | | |
| Financial liabilities | | | | | |
| – Borrowings | 23 | (21,642) | (18,721) | (5,974) | (690) |
| – Derivative financial instruments | 24 | (20) | (72) | — | — |
| Trade and other payables | 22 | (46,823) | (54,496) | (2,214) | (1,915) |
| Current tax liabilities | | (470) | (472) | — | — |
| | | (68,955) | (73,761) | (8,188) | (2,605) |
| **Non-current liabilities** | | | | | |
| Financial liabilities | | | | | |
| – Borrowings | 23 | (18,625) | (25,744) | (15,889) | (16,414) |
| Deferred tax liabilities | 17 | (1,817) | (4,184) | (56) | (353) |
| Other non-current liabilities | 22 | (2,668) | (4,300) | — | — |
| | | (23,110) | (34,228) | (15,945) | (16,767) |
| **Total liabilities** | | (92,065) | (107,989) | (24,133) | (19,372) |
| **Net assets** | | 110,088 | 98,963 | 63,359 | 42,532 |
| **Shareholders' equity** | | | | | |
| Share capital | 26 | 2,280 | 2,244 | 2,280 | 2,244 |
| Share premium | | 9,111 | 8,615 | 9,111 | 8,615 |
| Treasury share reserve | | (8) | — | (8) | — |
| Equity compensation reserve | | 706 | 1,138 | 759 | 1,239 |
| Foreign exchange reserve | | 2,895 | (515) | — | — |
| Other reserve | | 207 | 862 | — | — |
| Retained earnings | | 81,540 | 74,706 | 51,217 | 30,434 |
| **Total shareholders' equity** | | 96,731 | 87,050 | 63,359 | 42,532 |
| Non-controlling interests | | 13,357 | 11,913 | — | — |
| **Total equity** | | 110,088 | 98,963 | 63,359 | 42,532 |

The financial statements set out on pages 45 to 93 were approved by the Board on 16 November 2016 and signed on its behalf by:

**Tim J Davies** **Neil Austin**

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 3 SEPTEMBER 2016

| | Share Capital £'000 | Share Premium £'000 | Treasury Share Reserve £'000 | Equity Compensation Reserve £'000 | Foreign Exchange Reserve £'000 | Other Reserve £'000 | Retained Earnings £'000 | Total Shareholders' Equity £'000 | Non-controlling Interests £'000 | Total Equity £'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| At 31 August 2014 | 2,235 | 8,453 | — | 640 | (535) | 875 | 67,996 | 79,664 | 10,163 | 89,827 |
| Profit for the year | — | — | — | — | — | — | 11,989 | 11,989 | 1,704 | 13,693 |
| Other comprehensive income/(expense) | — | — | — | — | 20 | — | (2,222) | (2,202) | — | (2,202) |
| Total comprehensive income | — | — | — | — | 20 | — | 9,767 | 9,787 | 1,704 | 11,491 |
| Dividends paid | — | — | — | — | — | — | (3,110) | (3,110) | — | (3,110) |
| Equity settled share-based payment transactions, net of tax | — | — | — | 498 | — | — | 40 | 538 | 46 | 584 |
| Allotment of shares | 9 | 162 | — | — | — | — | — | 171 | — | 171 |
| Transfer | — | — | — | — | — | (13) | 13 | — | — | — |
| At 29 August 2015 | 2,244 | 8,615 | — | 1,138 | (515) | 862 | 74,706 | 87,050 | 11,913 | 98,963 |
| **At 30 August 2015** | **2,244** | **8,615** | **—** | **1,138** | **(515)** | **862** | **74,706** | **87,050** | **11,913** | **98,963** |
| Profit for the year | **—** | **—** | **—** | **—** | **—** | **—** | **12,455** | **12,455** | **1,533** | **13,988** |
| Other comprehensive income/(expense) | **—** | **—** | **—** | **—** | **3,410** | **—** | **(3,246)** | **164** | **—** | **164** |
| Total comprehensive income | **—** | **—** | **—** | **—** | **3,410** | **—** | **9,209** | **12,619** | **1,533** | **14,152** |
| Dividends paid | **—** | **—** | **—** | **—** | **—** | **—** | **(3,347)** | **(3,347)** | **—** | **(3,347)** |
| Equity settled share-based payment transactions, net of tax | **—** | **—** | **—** | **(432)** | **—** | **—** | **321** | **(111)** | **15** | **(96)** |
| Allotment of shares | **36** | **496** | **—** | **—** | **—** | **—** | **—** | **532** | **—** | **532** |
| Purchase of own shares held in trust | **—** | **—** | **(12)** | **—** | **—** | **—** | **—** | **(12)** | **—** | **(12)** |
| Dissolution of dormant subsidiaries | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **(104)** | **(104)** |
| Transfer | **—** | **—** | **4** | **—** | **—** | **(655)** | **651** | **—** | **—** | **—** |
| **At 3 September 2016** | **2,280** | **9,111** | **(8)** | **706** | **2,895** | **207** | **81,540** | **96,731** | **13,357** | **110,088** |

The equity compensation reserve reflects the cumulative accounting impact, at the balance sheet date, of the fair value of the share schemes over the vesting periods. The movement on the equity compensation reserve is taken through the consolidated income statement. During the year £264,000 (2015: £40,000) was transferred from the equity compensation reserve to retained earnings in respect of options exercised in the year and £57,000 was also transferred on the disposal of Carr's Flour Mills Ltd.

The Group has opted to use previous revaluations of property made under UK GAAP as deemed cost. On adoption of IFRS the revaluation reserve was reclassified to other reserves.

During the year £642,000 (2015: £nil) was transferred from other reserves to retained earnings in respect of previous revaluations of property owned by Carr's Flour Mills Ltd, a subsidiary undertaking which was sold during the year.

An adjustment of £104,000 (2015: £nil) has been made to remove balances in respect of dormant subsidiaries dissolved in the year from non-controlling interests.

# COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 3 SEPTEMBER 2016

| | Share Capital £'000 | Share Premium £'000 | Treasury Share Reserve £'000 | Equity Compensation Reserve £'000 | Retained Earnings £'000 | Total Equity £'000 |
|---|---|---|---|---|---|---|
| At 31 August 2014 | 2,235 | 8,453 | — | 699 | 32,956 | 44,343 |
| Profit for the year | — | — | — | — | 2,870 | 2,870 |
| Other comprehensive expense | — | — | — | — | (2,278) | (2,278) |
| Total comprehensive income | — | — | — | — | 592 | 592 |
| Dividends paid | — | — | — | — | (3,110) | (3,110) |
| Equity settled share-based payment transactions, net of tax | — | — | — | 540 | (4) | 536 |
| Allotment of shares | 9 | 162 | — | — | — | 171 |
| At 29 August 2015 | 2,224 | 8,615 | — | 1,239 | 30,434 | 42,532 |
| At 30 August 2015 | **2,244** | **8,615** | **—** | **1,239** | **30,434** | **42,532** |
| Profit for the year | **—** | **—** | **—** | **—** | **26,362** | **26,362** |
| Other comprehensive expense | **—** | **—** | **—** | **—** | **(2,235)** | **(2,235)** |
| Total comprehensive income | **—** | **—** | **—** | **—** | **24,127** | **24,127** |
| Dividends paid | **—** | **—** | **—** | **—** | **(3,347)** | **(3,347)** |
| Equity settled share-based payment transactions, net of tax | **—** | **—** | **—** | **(480)** | **7** | **(473)** |
| Allotment of shares | **36** | **496** | **—** | **—** | **—** | **532** |
| Purchase of own shares held in trust | **—** | **—** | **(12)** | **—** | **—** | **(12)** |
| Transfer | **—** | **—** | **4** | **—** | **(4)** | **—** |
| **At 3 September 2016** | **2,280** | **9,111** | **(8)** | **759** | **51,217** | **63,359** |

The equity compensation reserve reflects the cumulative accounting impact, at the balance sheet date, of the fair value of the share schemes over the vesting periods. The movement on the equity compensation reserve is taken through the income statement where it relates to employees of the Company and to investment in subsidiaries where it relates to employees of the subsidiaries. During the year £7,000 (2015: £4,000) was transferred from the equity compensation reserve to retained earnings and £321,000 (2015: £45,000) was transferred from the equity compensation reserve to investment in subsidiaries in respect of options exercised in the year.

# CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 3 SEPTEMBER 2016

| | Notes | Group 2016 £'000 | Group 2015 £'000 | Company 2016 £'000 | Company 2015 £'000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Cash generated from/(used in) continuing operations | 29 | **6,257** | 9,120 | **(2,299)** | (2,915) |
| Interest received | | **155** | 194 | **877** | 884 |
| Interest paid | | **(673)** | (685) | **(420)** | (359) |
| Tax (paid)/recovered | | **(1,098)** | (3,853) | **777** | (92) |
| **Net cash generated from/(used in) operating activities in continuing operations** | | **4,641** | 4,776 | **(1,065)** | (2,482) |
| Net cash generated from operating activities in discontinued operations | | **5,477** | 5,200 | **—** | — |
| **Net cash generated from/(used in) operating activities** | | **10,118** | 9,976 | **(1,065)** | (2,482) |
| **Cash flows from investing activities** | | | | | |
| Acquisition of subsidiaries (net of overdraft/cash acquired) | | **(1,258)** | (1,749) | **—** | — |
| Disposal of subsidiary, net of costs (including cash disposed) | | **23,922** | — | **6,685** | — |
| Dividends received from subsidiaries | | **—** | — | **4,802** | 4,200 |
| Net receipt/(payment) of loans to subsidiaries | | **—** | — | **14,259** | (2,602) |
| Return of investment in joint venture | | **—** | 488 | **—** | — |
| Dividend received from joint venture | | **113** | — | **—** | — |
| Loans to joint ventures | | **2,332** | 129 | **1,768** | — |
| Loan repaid by associate | | **500** | 500 | **500** | 500 |
| Other loans | | **(20)** | 220 | **—** | — |
| Purchase of intangible assets | | **(62)** | (15) | **—** | — |
| Proceeds from sale of property, plant and equipment | | **349** | 436 | **—** | — |
| Purchase of property, plant and equipment | | **(5,788)** | (4,621) | **—** | — |
| Purchase of own shares held in trust | | **(12)** | — | **(12)** | — |
| Redemption of preference shares in joint venture | 13 | **150** | 150 | **—** | — |
| **Net cash generated from/(used in) investing activities in continuing operations** | | **20,226** | (4,462) | **28,002** | 2,098 |
| Net cash used in investing activities in discontinued operations | | **(449)** | (1,323) | **—** | — |
| **Net cash generated from/(used in) investing activities** | | **19,777** | (5,785) | **28,002** | 2,098 |
| **Cash flows from financing activities** | | | | | |
| Proceeds from issue of ordinary share capital | 26 | **532** | 171 | **532** | 171 |
| Net proceeds from loans from subsidiaries | | **—** | — | **5,368** | — |
| Net proceeds/(costs) from issue of new bank loans | | **153** | 9,061 | **(15)** | 4,854 |
| Finance lease principal repayments | | **(925)** | (990) | **—** | — |
| Repayment of loan from related party | | **(500)** | (500) | **—** | — |
| Repayment of borrowings | | **(1,614)** | (4,880) | **(550)** | (1,383) |
| Decrease in other borrowings | | **(192)** | (3,638) | **—** | — |
| Dividends paid to shareholders | 8 | **(3,347)** | (3,110) | **(3,347)** | (3,110) |
| Receipt of grant income | | **—** | 200 | **—** | — |
| **Net cash (used in)/generated from financing activities in continuing operations** | | **(5,893)** | (3,686) | **1,988** | 532 |
| Net cash used in financing activities in discontinued operations | | **(1,408)** | (1,105) | **—** | — |
| **Net cash (used in)/generated from financing activities** | | **(7,301)** | (4,791) | **1,988** | 532 |
| Effects of exchange rate changes | | **918** | (150) | **47** | 3 |
| **Net increase/(decrease) in cash and cash equivalents** | | **23,512** | (750) | **28,972** | 151 |
| Cash and cash equivalents at beginning of the year | 21 | **16,275** | 17,025 | **8,973** | 8,822 |
| Cash and cash equivalents at end of the year | 21 | **39,787** | 16,275 | **37,945** | 8,973 |

# PRINCIPAL ACCOUNTING POLICIES

## BASIS OF ACCOUNTING

The consolidated and Company financial statements are prepared on a going concern basis in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Standards Interpretation Committee (IFRS IC) interpretations endorsed by the European Union (EU) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The Company is a public limited company incorporated and domiciled in England and Wales whose shares are listed and traded on the London Stock Exchange. The address of its registered office is Old Croft, Stanwix, Carlisle, CA3 9BA.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ materially from the estimates.

Accounting policies have been applied consistently, other than where new policies have been adopted.

The consolidated and Company financial statements are prepared under the historic cost convention as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

The prior year consolidated income statement has been restated for the reclassification to interest income of the net interest on the net defined benefit retirement asset previously recognised within operating profit. Comparatives at 29 August 2015 have been restated by £141,000, increasing finance income and reducing operating profit with no impact to profit before tax.

The prior year balance sheet has been restated for the grossing up of cash and cash equivalents and bank overdrafts, included within current borrowings, for accounts with right of offset within the same banking facility. Comparatives at 29 August 2015 have been restated by £3,564,000, increasing both cash and cash equivalents and current borrowings with no impact to net assets.

The accounting policies for the Group and Company are as follows:

## BASIS OF CONSOLIDATION

The consolidated financial statements comprise Carr's Group plc and all its subsidiaries, together with the Group's share of the results of its associate and joint ventures. The financial information of the subsidiaries, associate and joint ventures is prepared as of the same reporting date and consolidated using consistent accounting policies. Group inter-company balances and transactions, including any unrealised profits arising from Group inter-company transactions, are eliminated in full. Profits and losses on transactions with the associate and joint ventures are recognised in the consolidated income statement.

Results of subsidiary undertakings acquired or disposed of during the current and prior financial year were included in the financial statements from the effective date of control or up to the date of cessation of control. The separable net assets, both tangible and intangible, of the acquired subsidiary undertakings were incorporated into the financial statements on the basis of the fair value as at the effective date of the Group acquiring control.

IFRS 10 introduced a new definition of control which could affect whether an entity is consolidated into the Group accounts. An investor controls an investee when it is exposed, or has right, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Control requires power over the investee, exposure, or rights, to variable returns and the ability to use power to affect returns.

Subsidiaries are entities that meet the new definition of control. Subsidiaries are consolidated from the date on which control is transferred to the Group and are included until the date on which the Group ceases to control them.

Associates are entities over which the Group has significant influence but not control, generally accompanied by a share of between 20% and 50% of the voting rights. Joint ventures are entities over which the Group has joint control, established by contractual agreement. Investments in associates and joint ventures are accounted for using the equity method. The Group's share of its associate and joint ventures' post-tax profits or losses are recognised in the income statement, and its share of movement in reserves is recognised in reserves. The cumulative movements are adjusted against the carrying amount of the investment. The Group's investment in associate and joint ventures includes any goodwill arising on acquisition. If the Group's share of losses in an associate or joint venture equals or exceeds its investment in the associate or joint venture, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

All subsidiaries are accounted for by applying the purchase method. The cost of a business combination is measured as the aggregate of the fair values, at the acquisition date, of the assets given, liabilities incurred or assumed, and equity instruments issued by the Group. The identifiable assets, liabilities and contingent liabilities of the acquiree are measured initially at fair value at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill.

Acquisition related costs are expensed to the consolidated income statement in the year they are incurred.

The Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Group.

## EMPLOYEE SHARE TRUST

IFRS 10 requires that the Group consolidate a structured entity where the substance of the relationship between the parties indicates that the Group controls the entity. The employee share trust sponsored by the Group falls within this category of structured entity and has been accounted for as if it were, in substance, a subsidiary.

## CURRENCY TRANSLATION

The financial statements for the Group's subsidiaries, associate and joint ventures are prepared using their functional currency. The functional currency is the currency of the primary economic environment in which an entity operates. The presentation currency of the Group and Company is Sterling.

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. Exchange differences resulting from the settlement of such transactions and from the translation, at exchange rates ruling at the balance sheet date, of monetary assets and liabilities denominated in currencies other than the functional currency are recognised in the consolidated income statement.

The balance sheets of foreign operations are translated into sterling using the exchange rate at the balance sheet date and the income statements are translated into sterling using the average exchange rate for the year. Where this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, the exchange rate on the transaction date is used. Exchange differences arising are recognised as a separate component of shareholders' equity. On disposal of a foreign operation any cumulative exchange differences held in shareholders' equity are transferred to the consolidated income statement.

# PRINCIPAL ACCOUNTING POLICIES CONTINUED

## REVENUE RECOGNITION

Revenue from the sale of goods or services is measured at the fair value of the consideration, net of rebates and excluding value added tax. Revenue from the sale of goods or services is recognised when the Group has transferred the significant risks and rewards of ownership of the goods to the buyer, when the amount of revenue can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Inter segmental transactions are on an arm's length basis.

In respect of construction contracts, revenue is calculated on the basis of the stage of completion and the total sales value of each contract.

The stage of completion is determined as the proportion that contract costs incurred for work performed to date bear to the total estimated total contract costs. No profit is recognised until a contract is at least 30% complete. Amounts invoiced for work completed are deducted from the selling price, while amounts invoiced in excess of work completed are recognised as current liabilities.

Where it is probable that contract costs will exceed total contract revenue the expected loss is recognised immediately as an expense in the consolidated income statement.

## RETIREMENT BENEFIT ASSET/OBLIGATIONS

The Group offers various pension schemes to employees including a defined benefit pension scheme and several defined contribution schemes.

The assets of the Group's pension schemes are held separately from those of the Group and are invested with independent investment managers.

Contributions to defined contribution schemes are charged to the consolidated income statement in the year to which they relate.

*Carr's Group Pension Scheme (defined benefit section)*

The asset recognised in the consolidated and Company balance sheet at the year end is the present value of the defined benefit obligation at the balance sheet date less the fair value of scheme assets. Independent actuaries calculate the defined benefit asset annually using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

The service costs, including pension scheme administrative costs are included in operating profit in the consolidated income statement.

A credit is made within interest which represents a net interest amount that is calculated by applying the discount rate at the beginning of the year to the net defined benefit asset at the beginning of the year. The net interest amount also takes into account changes to the net asset during the year.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the consolidated and Company statement of comprehensive income. The pension scheme deficit or surplus, to the extent that they are considered recoverable, are recognised in full on the consolidated balance sheet.

IFRIC 14 confirms that where a company has an unconditional right to a refund of surplus from a defined benefit pension plan during the lifetime of that plan or when it winds it up, and where there is expected to be surplus assets, there is no limit on the asset the Company can show on its balance sheet. At 3 September 2016 and 29 August 2015 the consolidated and Company balance sheet recognises the full surplus on the Carr's Group defined benefit pension scheme.

*Carrs Billington Agriculture Pension Scheme*

One of the Group's subsidiaries is a participating employer in the Carrs Billington Agriculture Pension Scheme, which is a multi-employer defined benefit pension scheme. Note 25 provides further information on this scheme and how it has been accounted for in the consolidated accounts.

## SHARE BASED PAYMENTS

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of the grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Fair value is measured by use of a valuation model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

At each balance sheet date the Group revises its estimate of the number of options that are expected to vest. Changes to the fair value recognised as a result of this are charged or credited to the consolidated income statement with a corresponding adjustment to the equity compensation reserve.

## INTEREST

Interest is recognised in the consolidated income statement on an accruals basis using the effective interest method.

## BORROWING COSTS

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the consolidated income statement in the year in which they are incurred.

## OPERATING SEGMENTS

IFRS 8 requires operating segments to be identified on the basis of internal financial information about components of the Group that are regularly reviewed by the Chief Operating Decision Maker ('CODM') to allocate resources to the segments and to assess their performance. The CODM has been identified as the Executive Directors.

The CODM considers the business from a product/services perspective. Operating segments have been identified as Agriculture and Engineering. The previously recognised Food segment was disposed of during the year.

## NON-RECURRING ITEMS

Non-recurring items that are material by size and/or by nature are presented within their relevant income statement category. Items that management consider fall into this category are disclosed within a note to the financial statements. The separate disclosure of non-recurring items helps provide a better indication of the Group's underlying business performance. Events which may give rise to non-recurring items include, but are not limited to, gains or losses on the disposal of subsidiaries/businesses, derivative gains or losses in respect of capital expenditure, gains or losses on the disposal of properties, gains or losses on the disposal of material investments, the restructuring of businesses, the integration of new businesses, acquisition related costs and asset impairments.

## GOODWILL

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in the net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Goodwill written off to reserves under UK GAAP prior to 31 August 1998 has not been reinstated and would not form part of the gain or loss on the disposal of a business.

### OTHER INTANGIBLE ASSETS

Other intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation commences when assets are available for use. The expected useful lives, over which the assets are amortised, are generally as follows:

| | |
|---|---|
| Customer relationships | 1 – 5 years |
| Brands | 15 – 20 years |
| Know-how | 5 years |
| Patents and trademarks | contractual life |
| Software | 3 – 10 years |

Customer relationships and brands are amortised in line with the profit and income streams they are respectively expected to generate over their expected useful life.

Know-how, patents, trademarks and software are amortised on a straight-line basis.

The cost of intangible assets acquired in a business combination is the fair value at the acquisition date. The cost of separately acquired intangible assets comprises the purchase price and any directly attributable costs of preparing the assets for use.

### RESEARCH AND DEVELOPMENT COSTS

All research costs are recognised in the consolidated income statement as incurred. Development costs are recognised as an asset only to the extent that specific recognition criteria, as set out in IAS38 'Intangible assets', relevant to the proposed application are met and the amount recognised is recoverable through future economic benefits.

### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is carried at cost less accumulated depreciation and accumulated impairment losses. Cost comprises purchase price and directly attributable costs.

Freehold land and assets in the course of construction are not depreciated. For all other property, plant and equipment, depreciation is calculated on a straight-line basis to allocate cost less residual values of the assets over their estimated useful lives as follows:

| | |
|---|---|
| Freehold buildings | up to 50 years |
| Leasehold buildings | shorter of 50 years or lease term |
| Plant and equipment | 3 to 20 years |

Residual values and useful lives are reviewed, and adjusted if appropriate, at each financial year-end.

Assets not fully constructed at the balance sheet date are classified as assets in the course of construction. When construction is complete these assets are reclassified to the appropriate heading within property, plant and equipment. Depreciation commences when the asset is ready for use.

The cost of maintenance, repairs and minor equipment is charged to the consolidated income statement as incurred; the cost of major renovations and improvements is capitalised.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within the consolidated income statement.

### INVESTMENT PROPERTY

Investment properties are properties held for long-term rental yields. Investment properties are carried in the balance sheet at cost less accumulated depreciation. Freehold land is not depreciated. For all other investment property, depreciation is calculated on a straight-line basis to allocate cost less residual values of the assets over their estimated useful lives as follows:

| | |
|---|---|
| Freehold buildings | up to 50 years |

The cost of maintenance, repairs and minor equipment is charged to the consolidated income statement as incurred; the cost of major renovations and improvements is capitalised.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within the consolidated income statement.

### IMPAIRMENT OF NON-FINANCIAL ASSETS

Non-financial assets are reviewed for impairment where there are any events or changes in circumstances that would indicate potential impairment. In addition, at each reporting date, the Group assesses whether there is any indication that goodwill may be impaired. Where an indicator of impairment exists, the Group makes an estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is written down to its recoverable amount. Recoverable amount is the higher of fair value less costs to sell and value in use and is deemed for an individual asset. If the asset does not generate cash flows that are largely independent of those from other assets or groups of assets, the recoverable amount of the cash generating unit to which the asset belongs is determined. Discount rates reflecting the asset specific risks and the time value of money are used for the value in use calculation.

### INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Where appropriate, cost is calculated on a specific identification basis. Otherwise inventories are valued using the first-in first-out method.

Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Provision has been made, where necessary, for slow moving, obsolete and defective inventories.

Contract work in progress is measured at the selling price of the work performed at the balance sheet date. The selling price is measured by reference to the stage of completion at the balance sheet date and total expected income from the contract work.

# PRINCIPAL ACCOUNTING POLICIES CONTINUED

Progress payments received are deducted from the value of work in progress except to the extent that payments on account exceed the value of work in progress on any contract where the excess is included in trade and other payables.

Directly attributable, and separately identifiable, costs of bidding for contracts are included in contract costs after the point in time at which it is considered probable that the contract will be obtained.

## CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the purposes of the consolidated and Company statement of cash flows comprise cash at bank and in hand, money market deposits and other short term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are presented in borrowings within current liabilities in the consolidated and Company balance sheet.

In March 2016, the IFRS Interpretations Committee (IFRS IC) issued an agenda decision regarding the treatment of offsetting and cash-pooling arrangements in accordance with IAS 32: 'Financial instruments: Presentation'. This provided additional guidance on when bank overdrafts in cash-pooling arrangements would meet the requirements for offsetting in accordance with IAS 32. Following this additional guidance, the Group has reviewed its cash-pooling arrangements and has revised its presentation of bank overdrafts and has recognised £8.4m of bank overdrafts within current borrowings at the current year end that would previously have been offset against cash balances. Comparatives at 29 August 2015 have been restated by £3.6m.

## GRANTS

Grants received on capital expenditure are recorded as deferred income and taken to the consolidated income statement in equal annual instalments over the expected useful lives of the assets concerned.

Revenue grants and contributions are taken to the consolidated income statement in the year to which they apply.

## LEASES

Leases are classified as finance leases at inception where substantially all of the risks and rewards of ownership are transferred to the Group. Assets classified as finance leases are capitalised on the consolidated balance sheet and are depreciated over the shorter of the useful life of the asset and the term of the lease. The interest element of the rental obligations is charged to the consolidated income statement over the period of the lease using the actuarial method.

Rentals paid under operating leases are charged to the consolidated income statement on a straight-line basis over the term of the lease. Leasehold land is normally classified as an operating lease. Payments made to acquire leasehold land are included in prepayments at cost and are amortised over the life of the lease. Any incentives to enter into operating leases are recognised as a reduction of rental expense over the lease term on a straight-line basis.

## TAX

The tax charge comprises current tax and deferred tax.

The current tax charge represents an estimate of the amounts payable to tax authorities in respect of the Group's taxable profits.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the consolidated and Company financial statements. Deferred tax arising from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, is not recognised. Deferred tax is measured using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the asset is realised or the liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Tax is recognised in the consolidated income statement, unless the tax relates to items recognised directly in shareholders' equity, in which case the tax is recognised directly in shareholders' equity through the consolidated and Company statement of comprehensive income.

## DIVIDENDS

Final equity dividends to the shareholders of the Company are recognised in the year that they are approved by the shareholders. Interim equity dividends are recognised in the year that they are paid.

Dividends receivable are recognised in the period in which they are received.

## FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognised on the consolidated and Company balance sheet when the Group and Company becomes a party to the contractual provisions of the instrument.

*Trade receivables*

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of a provision for impairment, and the amount of the loss is recognised in the consolidated income statement. The provision is utilised when a trade receivable is uncollectible.

*Investments*

Investments are initially measured at cost, including transaction costs.

Equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured by other means are held at cost.

*Financial liabilities and equity*

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

*Bank borrowings*

Interest-bearing loans and overdrafts are recognised initially at fair value net of direct issue costs and are subsequently stated at amortised cost. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the year in which they arise.

*Trade payables*
Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

*Equity instruments*
Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

*Derivative financial instruments and hedging activities*
The Group primarily uses forward foreign currency contracts, options and currency swaps to manage its exposures to fluctuating foreign exchange rates. These instruments are initially recognised at fair value and are subsequently re-measured at their fair value at each balance sheet date.

The Group's policy is to hedge its international assets and it has designated foreign currency loans as a hedge against net investment in foreign operations. The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined as an effective hedge is recognised directly in equity. The gain or loss on any ineffective portion of the hedge is recognised immediately in the consolidated income statement.

**NEW STANDARDS AND INTERPRETATIONS**
From 30 August 2015 the following became effective and were adopted by the Group and Company:

Amendment to IAS 19 regarding defined benefit plans
Annual improvements to IFRSs 2012 and 2013

The adoption of these standards and interpretations has had no impact on the Group or Company's profit for the year or equity.

**NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE AND NOT EARLY ADOPTED**
Amendments to IFRS 2, 'Share based payments' on clarifying how to account for certain types of share based payment transactions
IFRS 9 'Financial instruments'
Amendment to IFRS 10 and IAS 28 on investment entities applying the consolidation exemption
Amendment to IFRS 11 'Joint arrangements' on acquisition of an interest in a joint operation
IFRS 14 'Regulatory deferral accounts'
IFRS 15 'Revenue from contracts with customers'
IFRS 16 'Leases'
Amendment to IAS 1 'Presentation of financial statements' on the disclosure initiative
Amendments to IAS 7, Statement of cash flows on disclosure initiative
Amendments to IAS 12, 'Income taxes' on recognition of deferred tax assets for unrealised losses
Amendment to IAS 16 'Property, plant and equipment' and IAS 38 'Intangible assets' on depreciation and amortisation
Amendment to IAS 16 'Property, plant and equipment' and IAS 41 'Agriculture' regarding bearer plants
Amendments to IAS 27, 'Separate financial statements' on the equity method
Annual improvements to IFRSs 2014

It is considered that the above standards and amendments, with the exception of IFRS 15 'Revenue from contracts with customers' and IFRS 16 'Leases', will not have a significant effect on the results or net assets of the Group or Company.

IFRS 15 is effective for accounting periods beginning on or after 1 January 2018. The Directors are currently reviewing the impact this standard may have, which is of particular relevance to the construction contracts within the Group's Engineering businesses.

IFRS 16 is effective for accounting periods beginning on or after 1 January 2019. The Directors are currently reviewing the level of the Group's leasing arrangements that would be brought within the scope of IFRS 16.

At the date of signing the financial statements the Directors are not yet in a sufficiently advanced stage of their reviews to be able to quantify any financial impact from either of these two standards.

**SIGNIFICANT JUDGEMENTS, KEY ASSUMPTIONS AND ESTIMATES**
Application of certain Group accounting policies requires management to make judgements, assumptions and estimates concerning the future as detailed below.

*Valuation of pension obligations*
The valuation of the Group's defined benefit pension scheme is determined each year following advice from a qualifying independent actuary and can fluctuate based on a number of external factors. Such factors include the major assumptions as shown in the table in note 25 and actual returns on scheme assets compared to those predicted in the previous scheme valuation.

*Impairment of goodwill*
The carrying value of goodwill must be assessed for impairment annually, or more frequently if there are indications that goodwill might be impaired. This requires an estimation of the value in use of the cash generating units to which goodwill is allocated. Value in use is dependent on estimations of future cash flows from the cash generating unit and the use of an appropriate discount rate to discount those cash flows to their present value.

No impairment has been identified in the year (note 10).

*Provision for impairment of trade receivables*
The financial statements include a provision for impairment of trade receivables (note 19) that is based on management's estimation of recoverability. There is a risk that the provision will not match the trade receivables that ultimately prove to be irrecoverable.

*Revenue recognition on construction contracts*
Under long term contracts, the Group recognises revenue and profits based on the percentage completion method. This requires management to make an assessment of the overall profitability and the stage of completion of the entire contract in order to determine the level of revenue and profit to recognise.

# NOTES TO THE FINANCIAL STATEMENTS

**1** The Company has taken advantage of the exemption, under section 408 of the Companies Act 2006, from presenting its own income statement. The profit after tax for the year dealt with in the accounts of the Company was £26,362,000 (2015: £2,870,000).

**2 Segmental information**

The chief operating decision maker ("CODM") has been identified as the Executive Directors. Management has identified the operating segments based on internal financial information reviewed by the CODM. The CODM considers the business from a product/services perspective. Operating segments have been identified as Agriculture and Engineering. The previously recognised Food operating segment was disposed of during the year. Operating segments have not been aggregated for the purpose of determining reportable segments.

Agriculture aims to provide for all farming requirements. It derives its revenue from the sale of animal feed and feed blocks together with retail sales of farm equipment, fuels and farm consumables.

Engineering derives its revenue from the design and manufacture of bespoke equipment for use in the nuclear, oil and gas, and petrochemical industries. Products include manipulators, robotics, specialist fabrication and precision machining.

Performance is assessed using operating profit. For internal purposes operating profit is measured in a manner consistent with that in the financial statements, with the exception of material non-recurring items, which are excluded.

Inter-segmental transactions are all undertaken on an arm's length basis.

As segment liabilities are not reviewed by the CODM they are not required to be disclosed under IFRS 8.

The Group has operations in the UK and overseas. In accordance with IFRS 8, entity wide disclosures based on the geography of operations is also presented. The geographical analysis of revenue is presented by revenue origin.

The segmental information for the year ended 3 September 2016 is as follows:

| | Agriculture £'000 | Engineering £'000 | Group £'000 |
|---|---|---|---|
| Total segment revenue | 284,836 | 30,192 | 315,028 |
| Inter segment revenue | (63) | (58) | (121) |
| Revenue from external customers | 284,773 | 30,134 | 314,907 |
| EBITDA[1] | 12,924 | 3,555 | 16,479 |
| Depreciation of property, plant and equipment | (2,539) | (1,043) | (3,582) |
| Depreciation of investment property | (6) | — | (6) |
| Profit on the disposal of property, plant and equipment | 12 | 72 | 84 |
| Amortisation of intangible assets | (133) | (72) | (205) |
| Operating profit | 10,258 | 2,512 | 12,770 |
| Finance income | | | 236 |
| Finance costs | | | (1,009) |
| | | | 11,997 |
| Share of post-tax profit of associate | | | 1,239 |
| Share of post-tax profit of joint ventures | | | 842 |
| Profit before taxation from continuing operations | | | 14,078 |

1 Earnings before interest, tax, depreciation and amortisation (and before profit/(loss) on the disposal of property, plant and equipment)

**2 Segmental information (continued)**

*Assets*

| | Agriculture £'000 | Engineering £'000 | Group £'000 |
|---|---|---|---|
| Segment gross assets | **149,777** | **52,376** | **202,153** |

The segmental information for the year ended 29 August 2015 (restated) is as follows:

| | Agriculture £'000 | Engineering £'000 | Group £'000 |
|---|---|---|---|
| Total segment revenue | 297,858 | 33,588 | 331,446 |
| Inter segment revenue | (115) | (46) | (161) |
| Revenue from external customers | 297,743 | 33,542 | 331,285 |
| EBITDA[1] | 11,882 | 3,573 | 15,455 |
| Depreciation of property, plant and equipment | (2,365) | (815) | (3,180) |
| Depreciation of investment property | (6) | — | (6) |
| Profit/(loss) on the disposal of property, plant and equipment | 38 | (24) | 14 |
| Amortisation of intangible assets | (100) | (93) | (193) |
| Operating profit | 9,449 | 2,641 | 12,090 |
| Finance income | | | 338 |
| Finance costs | | | (1,045) |
| | | | 11,383 |
| Share of post-tax profit of associate | | | 1,500 |
| Share of post-tax profit of joint ventures | | | 807 |
| Profit before taxation from continuing operations | | | 13,690 |

*Assets*

| | Agriculture £'000 | Food £'000 | Engineering £'000 | Group £'000 |
|---|---|---|---|---|
| Segment gross assets | 125,057 | 35,225 | 46,670 | 206,952 |

The Food operating segment was disposed in the year ended 3 September 2016.

*Entity wide disclosures*

Revenues from external customers are derived from the sale of products by individual business segment. The breakdown of revenue by business segment is provided above.

Revenues from external customers:

| **Continuing operations** | **2016 £'000** | 2015 £'000 |
|---|---|---|
| UK | **269,109** | 287,727 |
| Europe | **13,343** | 13,759 |
| USA | **32,455** | 29,799 |
| | **314,907** | 331,285 |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 2 Segmental information (continued)

*Non-current assets excluding deferred tax assets:*

| | 2016 UK £'000 | 2016 Europe £'000 | 2016 USA £'000 | 2016 Total £'000 | 2015 UK £'000 | 2015 Europe £'000 | 2015 USA £'000 | 2015 Total £'000 |
|---|---|---|---|---|---|---|---|---|
| Goodwill | 11,108 | 313 | 19 | 11,440 | 10,520 | 313 | 16 | 10,849 |
| Other intangible assets | — | 257 | 29 | 286 | 173 | 245 | 30 | 448 |
| Property, plant and equipment | 22,821 | 6,642 | 6,348 | 35,811 | 48,256 | 6,009 | 4,120 | 58,385 |
| Investment property | 182 | — | — | 182 | 636 | — | — | 636 |
| Investment in associate | 8,667 | — | — | 8,667 | 8,439 | — | — | 8,439 |
| Interest in joint ventures | 1,717 | 2,554 | 1,986 | 6,257 | 1,748 | 2,097 | 1,167 | 5,012 |
| Other investments | 50 | — | 22 | 72 | 61 | — | 18 | 79 |
| Non-current receivables | 50 | — | — | 50 | 50 | — | — | 50 |
| Retirement benefit asset | 311 | — | — | 311 | 1,767 | — | — | 1,767 |
| | 44,906 | 9,766 | 8,404 | 63,076 | 71,650 | 8,664 | 5,351 | 85,665 |

*Major customers*

There are no revenues from transactions with individual customers which amount to ten percent or more of Group revenue.

## 3 Group operating profit

| | 2016 £'000 Continuing operations | 2016 £'000 Discontinued operations | 2015 £'000 Continuing operations | 2015 £'000 Discontinued operations |
|---|---|---|---|---|
| Group operating profit is stated after (crediting)/charging: | | | | |
| Amortisation of grants | (53) | (100) | (20) | (100) |
| Profit on disposal of property, plant and equipment | (84) | (6) | (14) | (11) |
| Depreciation of property, plant and equipment | 3,582 | 1,875 | 3,180 | 1,879 |
| Depreciation of owned investment property | 6 | 13 | 6 | 14 |
| Amortisation of intangible assets | 205 | 14 | 193 | 15 |
| Foreign exchange (gains)/losses | (383) | (206) | 50 | — |
| Derivative financial instruments losses | 70 | 74 | (65) | 72 |
| Operating lease charges | 556 | 730 | 377 | 700 |
| Research and development expense | 1,320 | 1,046 | 1,423 | 1,201 |
| Auditors' remuneration: | | | | |
| Audit services (Company £15,450; 2015: £15,300) | 76 | — | 75 | — |
| The auditing of accounts of subsidiaries of the Company pursuant to legislation (including overseas) | 159 | 21 | 121 | 30 |
| Total audit services | 235 | 21 | 196 | 30 |
| Taxation compliance services | 27 | — | 33 | — |
| Other taxation advisory services | 70 | — | 35 | — |
| Other non-audit services | 6 | — | 19 | — |
| Total non-audit services | 103 | — | 87 | — |
| Included within Group operating profit is the following in respect of investment property leased to, and occupied by, external parties: | | | | |
| Rental income | (42) | (13) | (41) | (13) |
| Operating expenses | 44 | 22 | 42 | 22 |
| | 2 | 9 | 1 | 9 |

### 4 Staff costs

| Group | 2016 Continuing operations £'000 | 2016 Discontinued operations £'000 | 2015 (Restated) Continuing operations £'000 | 2015 Discontinued operations £'000 |
|---|---|---|---|---|
| Wages and salaries | 27,321 | 5,643 | 27,114 | 5,896 |
| Social security costs | 3,065 | 581 | 2,933 | 603 |
| Other pension costs | 1,478 | 473 | 1,681 | 478 |
| Share based payments | (99) | 3 | 520 | 64 |
| | 31,765 | 6,700 | 32,248 | 7,041 |

The prior year has been restated by £141,000 for the reclassification to interest income of the net interest on the net defined benefit retirement asset previously recognised within operating profit.

Included within other pension costs is a credit of £287,000 (2015: charge of £261,000) in respect of the defined benefit pension scheme (note 25).

The average monthly number of employees, including Directors, during the year was made up as follows:

| Group | 2016 Continuing operations Number | 2016 Discontinued operations Number | 2015 Continuing operations Number | 2015 Discontinued operations Number |
|---|---|---|---|---|
| Sales, office and management | 504 | 70 | 495 | 71 |
| Manufacture and distribution | 401 | 102 | 384 | 107 |
| | 905 | 172 | 879 | 178 |

Key management are considered to be the Directors of the Group.

Full details of the Directors' emoluments, pension benefits and share options are given in the Remuneration Committee Report on pages 30 to 35.

### 5 Finance income and finance costs

| Continuing operations | 2016 £'000 | (Restated) 2015 £'000 |
|---|---|---|
| **Finance income** | | |
| Bank interest | 126 | 187 |
| Net interest on the net defined benefit retirement asset (note 25) | 94 | 141 |
| Other interest | 16 | 10 |
| Total finance income | 236 | 338 |
| **Finance costs** | | |
| Interest payable on bank overdrafts | (130) | (114) |
| Interest payable on bank loans and other borrowings | (735) | (763) |
| Interest payable on finance leases | (78) | (98) |
| Other interest | (66) | (70) |
| Total finance costs | (1,009) | (1,045) |

The prior year has been restated for the reclassification to interest income of the net interest on the net defined benefit retirement asset previously recognised within operating profit.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 6 Taxation

*(a) Analysis of the charge in the year*

| Continuing operations | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **Current tax:** | | |
| UK corporation tax | | |
| Current year | 952 | 1,104 |
| Adjustment in respect of prior years | 173 | 137 |
| Foreign tax | | |
| Current year | 680 | 621 |
| Adjustment in respect of prior years | — | (33) |
| Group current tax | 1,805 | 1,829 |
| **Deferred tax:** | | |
| Origination and reversal of timing differences | | |
| Current year | 1,177 | 1,199 |
| Adjustment in respect of prior years | (75) | (18) |
| Group deferred tax (note 17) | 1,102 | 1,181 |
| Tax on profit from ordinary activities | 2,907 | 3,010 |

*(b) Factors affecting tax charge for the year*
The tax assessed for the year is higher (2015: higher) than the rate of corporation tax in the UK of 20% (2015: 20.58%). The differences are explained below:

| Continuing operations | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Profit before taxation | 14,078 | 13,690 |
| Tax at 20% (2015: 20.58%) | 2,816 | 2,817 |
| Effects of: | | |
| Tax effect of share of profit in associate and joint ventures | (416) | (475) |
| Tax effect of expenses that are not allowable in determining taxable profit | — | 148 |
| Tax effect of non-taxable income | (105) | (31) |
| Effects of different tax rates of foreign subsidiaries | 704 | 478 |
| Effects of changes in tax rates | (190) | (13) |
| Adjustment in respect of prior years | 98 | 86 |
| Total tax charge for the year | 2,907 | 3,010 |

*(c) Factors affecting future tax charges*

The main rate of UK corporation tax has been reduced from 20% to 19% with effect from 1 April 2017 and from 19% to 18% with effect from 1 April 2020. These rate reductions were substantively enacted before the year end and as the Directors consider the deferred tax balances are expected to reverse after 1 April 2020 the tax rate used for deferred tax at the year end is 18%.

During the year the UK government proposed that the main rate of UK corporation tax would be further reduced to 17% instead of 18% with effect from 1 April 2020. This has not been substantively enacted prior to the balance sheet date. The overall effect of the further change from 18% to 17%, if this was applied to the deferred tax balance at 3 September 2016, would be to reduce the deferred tax liability by approximately £68,000.

### 7 Discontinued operations

On 3 September 2016 Carr's Group plc disposed of its entire shareholding in Carr's Flour Mills Ltd for a gross consideration of £36m on a cash and debt free basis, less costs to sell.

An analysis of the result of discontinued operations, and the gain recognised on the re-measurement to fair value less costs to sell, is as follows:

| | **2016 £'000** | 2015 £'000 |
|---|---|---|
| Revenue | **71,440** | 80,280 |
| Expenses | **(67,950)** | (76,503) |
| Profit before taxation of discontinued operations | **3,490** | 3,777 |
| Taxation | **(712)** | (764) |
| **Profit after taxation of discontinued operations** | **2,778** | 3,013 |
| Pre-taxation gain recognised on the measurement to fair value less costs to sell | **39** | — |
| Taxation | **—** | — |
| After taxation gain recognised on the measurement to fair value less costs sell | **39** | — |
| **Profit for the year from discontinued operations** | **2,817** | 3,013 |

### 8 Dividends

| **Equity** | **2016 £'000** | 2015 £'000 |
|---|---|---|
| Second interim paid for the year ended 29 August 2015 of 0.925p per 2.5p share (2014: 0.85p) | **830** | 760 |
| Final dividend for the year ended 29 August 2015 of 1.85p per 2.5p share (2014: 1.7p) | **1,662** | 1,520 |
| First interim paid for the year ended 3 September 2016 of 0.95p per 2.5p share (2015: 0.925p) | **855** | 830 |
| | **3,347** | 3,110 |

Since the year end a second interim dividend of £866,393, being 0.95p per share, has been paid. A special dividend of £15,996,351, being 17.54p per share, was paid in October following the disposal of Carr's Flour Mills Ltd. The financial statements do not reflect these dividends payable.

The proposed final dividend for the year ended 3 September 2016 to be considered by shareholders at the Annual General Meeting is £1,732,786, being 1.9p per share, making a total for the year, excluding the special dividend, of 3.8p (2015: 3.7p). Shares held in treasury do not carry entitlement to a dividend. The financial statements do not reflect this proposed final dividend as payable.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 9 Earnings per ordinary share

Earnings per share are calculated by reference to a weighted average of 90,087,357 shares (2015: 89,574,461) in issue during the year.

Non-recurring items and amortisation that are charged or credited to profit do not relate to the profitability of the Group on an ongoing basis. Therefore an adjusted earnings per share is presented as follows:

| | 2016 Earnings £'000 | 2016 Earnings per share pence | 2015 Earnings £'000 | 2015 Earnings per share pence |
|---|---|---|---|---|
| **Continuing operations** | | | | |
| Earnings per share – basic | 9,638 | 10.7 | 8,976 | 10.0 |
| Amortisation and non-recurring items: | | | | |
| Amortisation of intangible assets | 205 | 0.2 | 193 | 0.2 |
| Taxation relief on amortisation | (47) | — | (49) | (0.1) |
| Acquisition related costs[1] | 7 | — | 58 | 0.1 |
| Earnings per share – adjusted | 9,803 | 10.9 | 9,178 | 10.2 |
| **Discontinued operations** | | | | |
| Earnings per share – basic | 2,817 | 3.1 | 3,013 | 3.4 |
| Amortisation and non-recurring items: | | | | |
| Amortisation of intangible assets | 14 | — | 15 | — |
| Taxation relief on amortisation | — | — | (3) | — |
| Profit on disposal of subsidiary | (39) | — | — | — |
| Earnings per share – adjusted | 2,792 | 3.1 | 3,025 | 3.4 |
| Total (basic) | 12,455 | 13.8 | 11,989 | 13.4 |
| Total (adjusted) | 12,595 | 14.0 | 12,203 | 13.6 |

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The potentially dilutive ordinary shares, where the exercise price is less than the average market price of the Company's ordinary shares during the year, are disclosed in note 27.

| | 2016 Earnings £'000 | 2016 Weighted average number of shares | 2016 Earnings per share pence | 2015 Earnings £'000 | 2015 Weighted average number of shares | 2015 Earnings per share pence |
|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | |
| Earnings per share | 9,638 | 90,087,357 | 10.7 | 8,976 | 89,574,461 | 10.0 |
| Effect of dilutive securities: | | | | | | |
| Share option scheme | — | 78,032 | — | — | 332,332 | — |
| Share save scheme | — | 1,317,329 | (0.2) | — | 1,288,785 | (0.1) |
| Long term incentive plan | — | 551,437 | — | — | 1,476,960 | (0.2) |
| Diluted earnings per share | 9,638 | 92,034,155 | 10.5 | 8,976 | 92,672,538 | 9.7 |
| **Discontinued operations** | | | | | | |
| Earnings per share | 2,817 | 90,087,357 | 3.1 | 3,013 | 89,574,461 | 3.4 |
| Effect of dilutive securities: | | | | | | |
| Share option scheme | — | 78,032 | — | — | 332,332 | — |
| Share save scheme | — | 1,317,329 | (0.1) | — | 1,288,785 | (0.1) |
| Long term incentive plan | — | 551,437 | — | — | 1,476,960 | (0.1) |
| Diluted earnings per share | 2,817 | 92,034,155 | 3.0 | 3,013 | 92,672,538 | 3.2 |
| | 12,455 | 92,034,155 | 13.5 | 11,989 | 92,672,538 | 12.9 |

1 Disallowable for tax purposes

### 9 Earnings per ordinary share (continued)

| | 2016 Adjusted earnings £'000 | 2016 Weighted average number of shares | 2016 Earnings per share pence | 2015 Adjusted earnings £'000 | 2015 Weighted average number of shares | 2015 Earnings per share pence |
|---|---|---|---|---|---|---|
| **Continuing operations** Diluted adjusted earnings per share | 9,803 | 92,034,155 | 10.7 | 9,178 | 92,672,538 | 9.9 |
| **Discontinued operations** Diluted adjusted earnings per share | 2,792 | 92,034,155 | 3.0 | 3,025 | 92,672,538 | 3.3 |
| | 12,595 | 92,034,155 | 13.7 | 12,203 | 92,672,538 | 13.2 |

### 10 Goodwill and other intangible assets

| Group | Goodwill £'000 | Customer relationships £'000 | Brands £'000 | Know-how £'000 | Patents and trademarks £'000 | Software £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 30 August 2014 | 10,123 | 3,209 | 594 | 240 | 145 | 590 | 14,901 |
| Exchange differences | 1 | — | (16) | — | 13 | (40) | (42) |
| Subsidiaries acquired | 1,050 | 162 | — | — | — | — | 1,212 |
| Additions | — | — | — | — | 5 | 10 | 15 |
| At 29 August 2015 | 11,174 | 3,371 | 578 | 240 | 163 | 560 | 16,086 |
| Exchange differences | 3 | — | 31 | — | 25 | 77 | 136 |
| Subsidiaries/businesses acquired | 783 | 39 | — | — | — | — | 822 |
| Additions | — | — | — | — | 8 | 54 | 62 |
| Subsidiary disposed | — | (2,094) | (357) | — | — | — | (2,451) |
| Disposals | (195) | — | — | — | — | — | (195) |
| **At 3 September 2016** | 11,765 | 1,316 | 252 | 240 | 196 | 691 | 14,460 |
| **Accumulated amortisation and impairment** | | | | | | | |
| At 30 August 2014 | 325 | 3,209 | 337 | 240 | 105 | 388 | 4,604 |
| Exchange differences | — | — | (6) | — | 9 | (26) | (23) |
| Charge for the year | — | 81 | 30 | — | 19 | 78 | 208 |
| At 29 August 2015 | 325 | 3,290 | 361 | 240 | 133 | 440 | 4,789 |
| Exchange differences | — | — | 15 | — | 21 | 64 | 100 |
| Charge for the year | — | 120 | 30 | — | 13 | 56 | 219 |
| Subsidiary disposed | — | (2,094) | (280) | — | — | — | (2,374) |
| **At 3 September 2016** | 325 | 1,316 | 126 | 240 | 167 | 560 | 2,734 |
| **Net book amount** | | | | | | | |
| At 30 August 2014 | 9,798 | — | 257 | — | 40 | 202 | 10,297 |
| At 29 August 2015 | 10,849 | 81 | 217 | — | 30 | 120 | 11,297 |
| **At 3 September 2016** | 11,440 | — | 126 | — | 29 | 131 | 11,726 |

During the year goodwill of £783,000 arose on acquisitions (note 28).

During the year there was a disposal of £195,000 (2015: £nil) in respect of the dissolution of dormant subsidiaries. This was partially offset by an adjustment to non-controlling interests of £104,000.

During the prior year goodwill totalling £1,050,000 arose on the acquisitions of WM. Nicholls & Company (Crickhowell) Ltd and Reid and Robertson Ltd. Goodwill represented the excess of the consideration paid over the Group's interest in the net fair value of the net identifiable assets, liabilities and contingent liabilities acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to cash generating units that are expected to benefit from the synergies of the combination.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

**10 Goodwill and other intangible assets (continued)**

The carrying value of goodwill has been allocated to the following cash generating units:

| | 3 September 2016 £'000 | 29 August 2015 £'000 |
|---|---|---|
| Carrs Billington Agriculture (Sales) Ltd | — | 195 |
| Carrs Billington Agriculture (Sales) Ltd – Johnstone Wallace Oils profit centre | 781 | 781 |
| Carrs Billington Agriculture (Sales) Ltd – Borders profit centre | 264 | 264 |
| Carrs Billington Agriculture (Sales) Ltd – Wooler profit centre | 369 | 369 |
| Carrs Billington Agriculture (Sales) Ltd – Safe at Work profit centre | 568 | 568 |
| Carrs Billington Agriculture (Sales) Ltd – Laycocks profit centre | 125 | 125 |
| Carrs Billington Agriculture (Sales) Ltd – Wales profit centre | 626 | 626 |
| Carrs Billington Agriculture (Sales) Ltd – Reid and Robertson profit centre | 783 | 783 |
| Carrs Billington Agriculture (Sales) Ltd – Greens profit centre | 80 | — |
| Carrs Billington Agriculture (Sales) Ltd – Phoenix profit centre | 703 | — |
| Carrs Agriculture Ltd – Scotmin profit centre | 2,068 | 2,068 |
| Animal Feed Supplement, Inc. – Silver Springs profit centre | 18 | 15 |
| Wälischmiller Engineering GmbH | 313 | 313 |
| Carr's Engineering Ltd – Bendalls Engineering profit centre | 516 | 516 |
| Carr's Engineering Ltd – Chirton profit centre | 4,226 | 4,226 |
| | 11,440 | 10,849 |

Goodwill is tested annually for impairment, or more frequently if there are indications that goodwill might be impaired. Goodwill is tested for impairment by estimating future cash flows from the cash generating units to which goodwill has been allocated and discounting those cash flows to their present value. Each unit or group of units to which goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at operating segment level. The key assumptions in this calculation are the levels of future cash flows, particularly in the perpetuity period, and the discount rate. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the cash generating units.

Cash flows are estimated using the most recent budget information for the year to August 2017, which has been approved by the Board and forecast information for the four years to August 2021 based on medium term business plans and an assumption for long term growth of between 1-3% excluding inflation. The pre-tax discount rates used to discount the forecast cash flows for all cash generating units is 5.43% - 10.38% (2015: 7.73% - 12.76%).

The Directors consider the assumptions adopted in calculating the cash flows to be consistent with historical performance and to be reasonable given current market conditions.

Significant headroom exists in each of the cash generating units and, based on the stress testing performed, reasonable possible changes in the assumptions would not cause the carrying amount of the cash generating units to equal or to exceed their recoverable amount. Given the current state of the oil market the Directors placed particular attention to the impairment review on the carrying value of goodwill relating to the Chirton profit centre. The Directors reviewed the assumptions used and the impact of sensitivities and agreed that no provision for impairment was required.

Amortisation and impairment charges are recognised within administrative expenses.

There is no goodwill or intangible assets in the Company (2015: none).

**Significant cash generating units**

The following key assumptions have been used in the impairment testing for goodwill with a significant carrying value:

| | Goodwill carrying value £'000 | Pre-tax discount rate % | Long term average annual change in cash flows % | Long term growth rate % |
|---|---|---|---|---|
| **Cash generating unit** | | | | |
| Carr's Engineering Ltd – Chirton profit centre | 4,226 | 10.38 | 12 | 2 |
| Carrs Agriculture Ltd – Scotmin profit centre | 2,068 | 5.43 | 13 | 2 |

Stress testing of the future cash flows generated from these cash generating units shows that an impairment of goodwill would potentially arise should cash flows fall by 40% in the Chirton profit centre and by 96% in the Scotmin profit centre.

### 11 Property, plant and equipment

| Group | Land and buildings £'000 | Plant and equipment £'000 | Assets in the course of construction £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 30 August 2014 | 35,461 | 72,012 | 603 | 108,076 |
| Exchange differences | (198) | 300 | (2) | 100 |
| Subsidiaries acquired | 14 | 178 | — | 192 |
| Additions | 710 | 4,410 | 2,143 | 7,263 |
| Disposals | (51) | (1,419) | — | (1,470) |
| Reclassifications | 133 | 175 | (308) | — |
| At 29 August 2015 | **36,069** | **75,656** | **2,436** | **114,161** |
| Exchange differences | **1,023** | **1,167** | **284** | **2,474** |
| Subsidiaries/businesses acquired | **—** | **25** | **—** | **25** |
| Additions | **1,512** | **4,791** | **948** | **7,251** |
| Subsidiary disposed | **(14,648)** | **(41,704)** | **—** | **(56,352)** |
| Disposals | **(5)** | **(1,607)** | **—** | **(1,612)** |
| Reclassifications | **1,721** | **104** | **(1,825)** | **—** |
| **At 3 September 2016** | **25,672** | **38,432** | **1,843** | **65,947** |
| **Accumulated depreciation** | | | | |
| At 30 August 2014 | 6,981 | 44,469 | — | 51,450 |
| Exchange differences | 42 | 301 | — | 343 |
| Subsidiaries acquired | 14 | 60 | — | 74 |
| Charge for the year | 817 | 4,242 | — | 5,059 |
| Disposals | (14) | (1,136) | — | (1,150) |
| At 29 August 2015 | **7,840** | **47,936** | **—** | **55,776** |
| Exchange differences | **193** | **885** | **—** | **1,078** |
| Charge for the year | **917** | **4,540** | **—** | **5,457** |
| Subsidiary disposed | **(3,273)** | **(27,590)** | **—** | **(30,863)** |
| Disposals | **—** | **(1,312)** | **—** | **(1,312)** |
| **At 3 September 2016** | **5,677** | **24,459** | **—** | **30,136** |
| **Net book amount** | | | | |
| At 30 August 2014 | 28,480 | 27,543 | 603 | 56,626 |
| At 29 August 2015 | 28,229 | 27,720 | 2,436 | 58,385 |
| **At 3 September 2016** | **19,995** | **13,973** | **1,843** | **35,811** |

Freehold land amounting to £3,008,879 (2015: £3,569,135) has not been depreciated.

The net book amount of plant and equipment includes £3,206,805 (2015: £12,261,842) in respect of assets held under finance leases. This consists of cost of £5,046,733 (2015: £16,603,001) less accumulated depreciation of £1,839,928 (2015: £4,341,159). The finance lease lessors hold security over the assets held under finance leases.

Under the Group's banking facilities the lenders have legal charges over certain properties together with floating charges over the assets of certain businesses. The net book amount of specific assets held under legal charges at the balance sheet date was £1,667,000 (2015: £1,721,000).

Included in the above table in respect of assets held under floating charges are assets with a net book amount of £6,327,000 (2015: £23,431,000). This excludes specific assets under legal charge and assets secured under finance leases both of which are separately disclosed above. The prior year included assets within Carr's Flour Mills Ltd which was sold during the year ended 3 September 2016.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 11 Property, plant and equipment (continued)

Depreciation is recognised within the Consolidated Income Statement as shown below:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Cost of sales | **4,896** | 4,373 |
| Distribution costs | **46** | 76 |
| Administrative expenses | **515** | 610 |
| | **5,457** | 5,059 |

The Company has no property, plant and equipment (2015: none).

### 12 Investment property

| Group | Total £'000 |
|---|---|
| **Cost** | |
| At 30 August 2014 and 29 August 2015 | **922** |
| Subsidiary disposed | **(623)** |
| **At 3 September 2016** | **299** |
| **Accumulated depreciation** | |
| At 30 August 2014 | 266 |
| Charge for the year | 20 |
| At 29 August 2015 | **286** |
| Charge for the year | **19** |
| Subsidiary disposed | **(188)** |
| **At 3 September 2016** | **117** |
| **Net book amount** | |
| At 30 August 2014 | 656 |
| At 29 August 2015 | 636 |
| **At 3 September 2016** | **182** |

Included within investment property at the prior year end are properties occupied by life tenants. The net book amount of these properties at 3 September 2016 is £nil (2015: £145,000).

The fair value of investment properties at 3 September 2016 is £360,000 (2015: £1,065,000). Investment properties were valued by independent professionally qualified valuers in October 2016.

There is no investment property in the Company (2015: none).

### 13 Investments

| Group | Associate £'000 | Joint ventures £'000 | Other investments £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 30 August 2014 | 6,883 | 4,836 | 86 | 11,805 |
| Exchange difference | — | (71) | 2 | (69) |
| Return of capital invested | — | (488) | — | (488) |
| Redemption of preference shares | — | (150) | — | (150) |
| Share of post-tax profit | 1,500 | 807 | — | 2,307 |
| Share of gains recognised directly in equity | 56 | 78 | — | 134 |
| At 29 August 2015 | **8,439** | **5,012** | **88** | **13,539** |
| Exchange difference | **—** | **472** | **3** | **475** |
| Disposals | **—** | **—** | **(10)** | **(10)** |
| Redemption of preference shares | **—** | **(150)** | **—** | **(150)** |
| Share of post-tax profit | **1,239** | **842** | **—** | **2,081** |
| Share of (losses)/gains recognised directly in equity | **(1,011)** | **194** | **—** | **(817)** |
| Dividend paid by joint venture | **—** | **(113)** | **—** | **(113)** |
| **At 3 September 2016** | **8,667** | **6,257** | **81** | **15,005** |
| **Accumulated provision for impairment** | | | | |
| **At 30 August 2014, 29 August 2015 and 3 September 2016** | **—** | **—** | **9** | **9** |
| **Net book amount** | | | | |
| At 30 August 2014 | 6,883 | 4,836 | 77 | 11,796 |
| At 29 August 2015 | 8,439 | 5,012 | 79 | 13,530 |
| **At 3 September 2016** | **8,667** | **6,257** | **72** | **14,996** |

Other investments comprise shares in several private limited companies. These investments have been classified as unquoted investments for which fair value cannot be reliably measured and are held at cost less accumulated impairment.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 13 Investments (continued)

| Company | Shares in subsidiaries £'000 | Associate £'000 | Joint ventures £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 30 August 2014 | 18,142 | 245 | 272 | 18,659 |
| Recapitalisation | 74 | — | — | 74 |
| Share based payment expense in respect of employees of subsidiary undertakings | 222 | — | — | 222 |
| At 29 August 2015 | **18,438** | **245** | **272** | **18,955** |
| Subsidiary disposed | **(264)** | **—** | **—** | **(264)** |
| Subsidiaries dissolved | **(1,605)** | **—** | **—** | **(1,605)** |
| Share based payment credit in respect of employees of subsidiary undertakings | **(297)** | **—** | **—** | **(297)** |
| **At 3 September 2016** | **16,272** | **245** | **272** | **16,789** |
| **Accumulated provision for impairment** | | | | |
| At 30 August 2014 | 5,387 | — | — | 5,387 |
| Impairment in the year | 846 | — | — | 846 |
| At 29 August 2015 | **6,233** | **—** | **—** | **6,233** |
| Subsidiaries dissolved | **(1,439)** | **—** | **—** | **(1,439)** |
| **At 3 September 2016** | **4,794** | **—** | **—** | **4,794** |
| **Net book amount** | | | | |
| At 30 August 2014 | 12,755 | 245 | 272 | 13,272 |
| At 29 August 2015 | 12,205 | 245 | 272 | 12,722 |
| **At 3 September 2016** | **11,478** | **245** | **272** | **11,995** |

During the year several dormant companies with a combined cost of £1,605,000 and a combined accumulated provision for impairment of £1,439,000 were dissolved. In the prior year an impairment of £846,000 was recognised to impair the investment in certain dormant subsidiaries down to their net realisable amount. These dormant subsidiaries were dissolved in the year ended 3 September 2016.

## 14 Investment in associate

The associated undertaking at 3 September 2016 is:

*Group and Company*

| Name | Proportion of shares held Ordinary % | Country of incorporation | Country of operation | Activity |
|---|---|---|---|---|
| Carrs Billington Agriculture (Operations) Ltd | 49 | England | UK | Manufacture of animal feed |

The Group does not have the ability to control the financial and operating policies of Carrs Billington Agriculture (Operations) Ltd. The Group has a 49% shareholding and a 43% representation on the Board of Directors of this associate.

Associates are accounted for using the equity method.

At the year end the associate had capital commitments of £177,966 (2015: £187,000). No contingent liabilities exist within the associate.

The aggregate amounts relating to the associate, of which the Group recognises 49% in the net investment in associate, are:

| | **2016 £'000** | 2015 £'000 |
|---|---|---|
| Total assets | **37,438** | 34,199 |
| Total liabilities | **(19,751)** | (16,977) |
| Revenues | **98,445** | 105,162 |
| Profit after tax | **2,528** | 3,061 |

### 15 Interest in joint ventures
The joint ventures at 3 September 2016 are:

*Group*

| Name | Interest held Equity % | Interest held Non-equity % | Country of incorporation | Country of operation | Activity |
|---|---|---|---|---|---|
| Crystalyx Products GmbH | 50 | — | Germany | Germany | Manufacture of animal feed blocks |
| Bibby Agriculture Ltd | 26 | 26 | England | UK | Sale of agricultural products |
| Afgritech Ltd | 50 | — | England | UK | Holding company |
| Afgritech LLC | 50 | — | USA | USA | Producers of ingredients of animal feed |
| Gold-Bar Feed Supplements LLC | 50 | — | USA | USA | Manufacture of animal feed blocks |
| ACC Feed Supplement LLC | 50 | — | USA | USA | Manufacture of animal feed blocks |
| Silloth Storage Company Ltd | 50 | — | England | UK | Storage of molasses |

Crystalyx Products GmbH has a 31 December accounting year end.

Silloth Storage Company Ltd has a 30 June accounting year end.

Interests in the joint ventures listed above are held directly by the holding Company with the following exceptions: Carrs Billington Agriculture (Sales) Ltd holds 50% of the ordinary share capital and 50% of the preference share capital in Bibby Agriculture Ltd. Carrs Agriculture Ltd holds 50% of the ordinary share capital in Silloth Storage Company Ltd. Animal Feed Supplement, Inc. holds the interest in Gold-Bar Feed Supplements LLC and ACC Feed Supplement LLC. Afgritech Ltd has 100% control of Afgritech LLC. The preference shares in Bibby Agriculture Ltd are redeemable with three months notice, carry no dividend entitlement except at the Directors' discretion, and no voting rights.

Joint ventures are accounted for using the equity method.

At the year end the joint ventures had no capital commitments (2015: £nil). No contingent liabilities exist within the joint ventures.

The aggregate amounts included in the financial statements relating to the Group's share of joint ventures are:

| | **2016 £'000** | 2015 £'000 |
|---|---|---|
| Non-current assets | **6,232** | 5,737 |
| Current assets | **6,144** | 5,643 |
| Current liabilities | **(4,268)** | (5,930) |
| Non-current liabilities | **(2,038)** | (775) |
| Income | **24,204** | 24,607 |
| Expenses | **(23,202)** | (23,618) |
| Net finance cost | **(52)** | (12) |

Goodwill of £17,000 arose on the investment in Silloth Storage Company Ltd. This is included in the carrying amount of the Group's interest in joint ventures and is not shown as a separate asset.

Included within interest in joint ventures is an amount of £170,000 (2015: £320,000) which relates to the Group's interest in the preference share capital of Bibby Agriculture Ltd.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 16 Investment in subsidiary undertakings

| Name | Proportion of shares held Ordinary % | Country of incorporation | Country of operation | Activity |
|---|---|---|---|---|
| Carrs Agriculture Ltd | 100 | England | UK | Manufacture of animal feed/mineral blocks and ingredients of animal feed |
| Carrs Billington Agriculture (Sales) Ltd | 51 | England | UK | Agricultural retailers |
| Animal Feed Supplement, Inc. | 100 | USA | USA | Manufacture of animal feed blocks |
| Horslyx LLC | 100 | USA | USA | Distributor of animal feed blocks |
| Carr's Engineering Ltd | 100 | England | UK | Engineering |
| Wälischmiller Engineering GmbH | 100 | Germany | Germany | Engineering |
| B.R.B. Trust Ltd | 100 | England | UK | Financial services |
| Carrs Properties Ltd | 100 | England | UK | Property holding |

During the year the Company disposed of its investment in Carr's Flour Mills Ltd (Note 7). Dormant subsidiaries are listed on the inside back cover of this Annual Report and Accounts.

Investments in the subsidiaries listed above are held directly by the Company with the following exceptions: Carr's Engineering Ltd holds 100% of the ordinary share capital in Wälischmiller Engineering GmbH and Carrs Agriculture Ltd holds 100% of the investment in Horslyx LLC.

### 17 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| **Group** | **2016 £'000** | 2015 £'000 | **2016 £'000** | 2015 £'000 | **2016 £'000** | 2015 £'000 |
| Accelerated tax depreciation | **—** | — | **(1,230)** | (2,996) | **(1,230)** | (2,996) |
| Employee benefits | **—** | — | **(56)** | (353) | **(56)** | (353) |
| Other | **—** | 861 | **(531)** | (835) | **(531)** | 26 |
| Tax assets/(liabilities) | **—** | 861 | **(1,817)** | (4,184) | **(1,817)** | (3,323) |

Deferred tax net liabilities are expected to reverse after more than one year from the balance sheet date.

*Movement in deferred tax during the year*

| | At 30 August 2015 £'000 | Exchange differences £'000 | In respect of acquisitions £'000 | In respect of disposals £'000 | Recognised in income £'000 | Recognised in equity £'000 | **At 3 September 2016 £'000** |
|---|---|---|---|---|---|---|---|
| Assets: | | | | | | | |
| Other | 861 | **38** | **—** | **(22)** | **(877)** | **—** | **—** |
| | 861 | **38** | **—** | **(22)** | **(877)** | **—** | **—** |
| Liabilities: | | | | | | | |
| Accelerated tax depreciation | (2,996) | **(42)** | **(8)** | **1,995** | **(179)** | **—** | **(1,230)** |
| Employee benefits | (353) | **—** | **—** | **—** | **(193)** | **490** | **(56)** |
| Other | (835) | **(35)** | **—** | **192** | **147** | **—** | **(531)** |
| | (4,184) | **(77)** | **(8)** | **2,187** | **(225)** | **490** | **(1,817)** |
| Net liabilities | (3,323) | **(39)** | **(8)** | **2,165** | **(1,102)** | **490** | **(1,817)** |

Other deferred tax assets and liabilities includes deferred tax on short term timing differences, rolled over capital gains, trading losses, capital losses, business combinations and overseas deferred tax.

### 17 Deferred tax assets and liabilities (continued)

*Movement in deferred tax during the prior year*

| | At 31 August 2014 £'000 | Exchange differences £'000 | In respect of acquisitions £'000 | Recognised in income £'000 | Recognised in equity £'000 | At 29 August 2015 £'000 |
|---|---|---|---|---|---|---|
| Assets: | | | | | | |
| Other | 1,507 | 118 | (32) | (732) | — | 861 |
| | 1,507 | 118 | (32) | (732) | — | 861 |
| Liabilities: | | | | | | |
| Accelerated tax depreciation | (2,932) | (10) | (39) | (15) | — | (2,996) |
| Employee benefits | (412) | — | — | (511) | 570 | (353) |
| Other | (767) | 10 | — | (78) | — | (835) |
| | (4,111) | — | (39) | (604) | 570 | (4,184) |
| Net liabilities | (2,604) | 118 | (71) | (1,336) | 570 | (3,323) |

Deferred tax recognised in income includes £155,000 in respect of Carr's Flour Mills Ltd which was disposed in the current year.

| Company | Assets 2016 £'000 | Assets 2015 £'000 | Liabilities 2016 £'000 | Liabilities 2015 £'000 | Net 2016 £'000 | Net 2015 £'000 |
|---|---|---|---|---|---|---|
| Accelerated tax depreciation | **2** | 3 | **—** | — | **2** | 3 |
| Employee benefits | **—** | — | **(56)** | (353) | **(56)** | (353) |
| Tax assets/(liabilities) | **2** | 3 | **(56)** | (353) | **(54)** | (350) |

*Movement in deferred tax during the year*

| | At 30 August 2015 £'000 | Recognised in income £'000 | Recognised in equity £'000 | **At 3 September 2016 £'000** |
|---|---|---|---|---|
| Assets: | | | | |
| Accelerated tax depreciation | 3 | **(1)** | **—** | **2** |
| Liabilities: | | | | |
| Employee benefits | (353) | **(193)** | **490** | **(56)** |
| Net liabilities | (350) | **(194)** | **490** | **(54)** |

*Movement in deferred tax during the prior year*

| | At 31 August 2014 £'000 | Recognised in income £'000 | Recognised in equity £'000 | At 29 August 2015 £'000 |
|---|---|---|---|---|
| Assets: | | | | |
| Accelerated tax depreciation | 3 | — | — | 3 |
| Liabilities: | | | | |
| Employee benefits | (412) | (511) | 570 | (353) |
| Net liabilities | (409) | (511) | 570 | (350) |

Tax of £120,000 (2015: £133,000) in respect of tax losses has not been recognised as a deferred tax asset in the Group balance sheet.

Tax of £39,000 (2015: £43,000) in respect of tax losses has not been recognised as a deferred tax asset in the Company balance sheet.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 18 Inventories

| Group | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Raw materials and consumables | **8,377** | 10,060 |
| Work in progress | **2,800** | 2,382 |
| Finished goods and goods for resale | **22,246** | 22,589 |
| | **33,423** | 35,031 |

Inventories are stated after a provision for impairment of £651,000 (2015: £414,000). The amount recognised as an expense in the year in respect of the write down of inventories is £237,000 (2015: £66,000). The amount recognised as a credit in the year in respect of reversals of write downs of inventories is £nil (2015: £9,000).

The cost of inventories recognised as an expense and included in cost of sales is £272,341,000 (2015: £354,656,000).

The Company has no inventories (2015: none).

*Construction contracts disclosures*

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Contract costs incurred plus recognised profits less recognised losses to date | **3,014** | 2,691 |
| Contract advances received | **(1,257)** | (1,679) |
| Work in progress on construction contracts | **1,757** | 1,012 |
| Revenue from construction contracts | **21,332** | 23,678 |

## 19 Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| **Current:** | | | | |
| Trade receivables | **46,980** | 53,428 | **—** | — |
| Less: provision for impairment of trade receivables | **(2,100)** | (2,070) | **—** | — |
| Trade receivables – net | **44,880** | 51,358 | **—** | — |
| Amounts recoverable on contracts | **5,733** | 3,985 | **—** | — |
| Amounts owed by Group undertakings (note 34) | **—** | — | **16,494** | 32,740 |
| Amounts owed by other related parties (note 34) | **1,901** | 4,343 | **1,640** | 3,651 |
| Loans receivable | **50** | — | **—** | — |
| Other taxes and social security receivable | **625** | 1,141 | **—** | — |
| Other receivables | **1,121** | 1,379 | **370** | 234 |
| Prepayments and accrued income | **2,630** | 2,248 | **327** | 220 |
| | **56,940** | 64,454 | **18,831** | 36,845 |
| **Non-current:** | | | | |
| Amounts owed by Group undertakings (note 34) | **—** | — | **17,486** | — |
| Other receivables | **50** | 50 | **—** | — |
| | **50** | 50 | **17,486** | — |

The movement in the provision for impaired trade receivables consists of increases for additional provisions offset by receivables written off and unused provision released back to the consolidated income statement. The provision is utilised when there is no expectation of recovering additional cash.

### 19 Trade and other receivables (continued)

During the year a charge of £50,000 (2015: credit of £307,000) has been recognised within administrative expenses in the consolidated income statement in respect of the movement in provision for impairment of trade receivables.

No impairment of other receivables has been recognised in the current or preceding year.

Interest bearing, non-trading amounts owed by Group undertakings within current trade and other receivables carry interest at Bank of England base rate + 2.50%, 4.50% or 4.88%. Such amounts are unsecured and repayable on demand.

Interest bearing, non-trading amounts owed by Group undertakings within non-current receivables carry interest at 4.88% and 6.25%. Such amounts are unsecured and have a term of 5 years.

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **Gross £'000** | **Impairment £'000** | **Past due but not impaired £'000** | Gross £'000 | Impairment £'000 | Past due but not impaired £'000 |
| **The ageing of trade receivables is as follows:** | | | | | | |
| Not past due | **23,273** | **(57)** | **N/A** | 35,236 | (123) | N/A |
| Past due 0 – 30 days | **9,354** | **(23)** | **9,331** | 6,800 | (82) | 6,718 |
| Past due 31 – 60 days | **3,876** | **(27)** | **3,849** | 3,724 | (110) | 3,614 |
| Past due 61 – 90 days | **3,569** | **(115)** | **3,454** | 2,667 | (104) | 2,563 |
| Past due 91 – 120 days | **2,184** | **(69)** | **2,115** | 1,282 | (83) | 1,199 |
| Past 121 days | **4,724** | **(1,809)** | **2,915** | 3,719 | (1,568) | 2,151 |
| | **46,980** | **(2,100)** | **21,664** | 53,428 | (2,070) | 16,245 |

The Company has no trade receivables (2015: none).

In relation to trade receivables, the major source of estimation uncertainty is the recoverable value of those receivables. The judgements applied to this include the credit quality of customers, taking into account their financial positions, past experiences and other relevant factors. Individual customer credit limits are imposed based on these factors, and provisions for impairment are made using those judgements. Provisions for impairment are reviewed monthly by divisional management.

The maximum exposure to credit risk at the year end is the carrying value, net of provision for impairment, of each receivable. The Group and Company do not hold any significant collateral as security (2015: none).

| | Group | | Company | |
|---|---|---|---|---|
| | **2016 £'000** | 2015 £'000 | **2016 £'000** | 2015 £'000 |
| The carrying value of trade receivables are denominated in the following currencies: | | | | |
| Sterling | **38,404** | 47,443 | **—** | — |
| US Dollar | **1,823** | 630 | **—** | — |
| Euro | **4,281** | 2,937 | **—** | — |
| New Zealand Dollar | **372** | 348 | **—** | — |
| | **44,880** | 51,358 | **—** | — |

### 20 Current tax assets

| | Group | | Company | |
|---|---|---|---|---|
| | **2016 £'000** | 2015 £'000 | **2016 £'000** | 2015 £'000 |
| Corporation tax recoverable | **303** | 839 | **710** | 1,256 |
| Group taxation relief | **—** | — | **212** | 308 |
| | **303** | 839 | **922** | 1,564 |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 21 Cash and cash equivalents and bank overdrafts

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 £'000 | (Restated) 2015 £'000 | 2016 £'000 | 2015 £'000 |
| Cash and cash equivalents per the balance sheet | **48,411** | 20,052 | **37,945** | 8,973 |
| Bank overdrafts (note 23) | **(8,624)** | (3,777) | **—** | — |
| Cash and cash equivalents per the statement of cash flows | **39,787** | 16,275 | **37,945** | 8,973 |

The prior year has been restated by £3,564,000 to gross up bank balances with right of offset within the same facility.

### 22 Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| **Current:** | | | | |
| Trade payables | **13,568** | 20,655 | **—** | — |
| Payments on account | **2,497** | 1,279 | **—** | — |
| Amounts owed to Group undertakings (note 34) | **—** | — | **37** | 27 |
| Amounts owed to other related parties (note 34) | **20,676** | 18,045 | **—** | 1 |
| Other taxes and social security payable | **1,073** | 1,162 | **442** | 683 |
| Deferred employee incentive plan | **—** | 2,324 | **—** | — |
| Other payables | **4,193** | 5,836 | **355** | 241 |
| Accruals and deferred income | **4,816** | 5,195 | **1,380** | 963 |
| | **46,823** | 54,496 | **2,214** | 1,915 |
| **Non-current:** | | | | |
| Contingent consideration | **2,394** | 2,394 | **—** | — |
| Accruals and deferred income | **274** | 1,906 | **—** | — |
| | **2,668** | 4,300 | **—** | — |

Amounts owed to Group undertakings and other related parties are interest free, unsecured and repayable on demand.

The contingent consideration of £2,394,000 on the acquisition of Chirton Engineering Ltd in year ended 2014 remains potentially payable subject to certain earnings criteria being met. As at 3 September 2016 this criteria was not met and therefore none of this contingent consideration is payable within one year of the balance sheet date. The earliest that any consideration may fall due would be subsequent to year end 2017. The contingent consideration has not been discounted as the impact of discounting is not material.

Included within accruals and deferred income is the following in respect of government grants:

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| At the beginning of the year | **2,008** | 1,628 | **—** | — |
| Subsidiaries disposed | **(1,581)** | — | **—** | — |
| Received in the year | **—** | 500 | **—** | — |
| Amortisation in the year | **(153)** | (120) | **—** | — |
| At the end of the year | **274** | 2,008 | **—** | — |
| Included within: | | | | |
| Current liabilities | **—** | 102 | **—** | — |
| Non-current liabilities | **274** | 1,906 | **—** | — |
| | **274** | 2,008 | **—** | — |

## 23 Borrowings

| | Group 2016 £'000 | Group (Restated)[1] 2015 £'000 | Company 2016 £'000 | Company 2015 £'000 |
|---|---|---|---|---|
| **Current:** | | | | |
| Bank overdrafts | **8,624** | 3,777 | **—** | — |
| Bank loans and other borrowings | **12,376** | 12,270 | **513** | 517 |
| Loans from Group undertakings (note 34) | **—** | — | **5,461** | 173 |
| Other loans from related parties (note 34) | **—** | 500 | **—** | — |
| Finance leases | **642** | 2,174 | **—** | — |
| | **21,642** | 18,721 | **5,974** | 690 |
| **Non-current:** | | | | |
| Bank loans | **17,108** | 18,444 | **15,889** | 16,414 |
| Finance leases | **1,517** | 7,300 | **—** | — |
| | **18,625** | 25,744 | **15,889** | 16,414 |
| **Borrowings are repayable as follows:** | | | | |
| On demand or within one year | **21,642** | 18,721 | **5,974** | 690 |
| In the second year | **1,942** | 3,229 | **513** | 517 |
| In the third to fifth years inclusive | **16,670** | 22,467 | **15,376** | 15,897 |
| Over five years | **13** | 48 | **—** | — |
| | **40,267** | 44,465 | **21,863** | 17,104 |

Group and Company borrowings are shown in the balance sheet net of arrangement fees of £110,000 (2015: £132,000) of which £37,000 (2015: £33,000) is deducted from current liabilities and £73,000 (2015: £99,000) is deducted from non-current liabilities.

| | Group 2016 £'000 | Group (Restated)[1] 2015 £'000 | Company 2016 £'000 | Company 2015 £'000 |
|---|---|---|---|---|
| **The net (cash)/borrowings are:** | | | | |
| Borrowings as above | **40,267** | 44,465 | **21,863** | 17,104 |
| Cash and cash equivalents | **(48,411)** | (20,052) | **(37,945)** | (8,973) |
| Net (cash)/borrowings | **(8,144)** | 24,413 | **(16,082)** | 8,131 |

Bank loans and other borrowings includes an amount of £9,791,000 (2015: £9,984,000) which is secured on trade receivables. The Company, together with certain subsidiaries, act as guarantors on the bank loans. In addition, The Royal Bank of Scotland PLC has legal charges over certain properties. Finance lease obligations are secured on the assets to which they relate.

Loans from Group undertakings are non-interest bearing. Such amounts are unsecured and repayable on demand.

Other loans from related parties are non-interest bearing. The bank loans are repayable by instalments and the overdraft is repayable on demand.

Bank loans includes a drawn down revolving credit facility of £15.0m (2015: £15.0m) which is repayable in June 2019. At the year end the Group had £4.5m of undrawn revolving credit facilities (2015: £2.0m).

1 The prior year has been restated by £3,564,000 for the grossing up of cash and cash equivalents and bank overdrafts for accounts with right of offset within the same banking facility.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 24 Derivatives and other financial instruments

The Group's activities expose it to a variety of financial risks. The Board reviews and agrees policies for managing its risk. These policies have remained unchanged throughout the year.

Throughout this note the prior year has been restated by £3,564,000 for the grossing up of cash and cash equivalents and bank overdrafts for accounts with right of offset within the same banking facility.

*Financial Instruments by currency*

| | **2016** | | | | | 2015 (Restated) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Group** | **Sterling £'000** | **US Dollar £'000** | **Euro £'000** | **NZ Dollar £'000** | **Total £'000** | Sterling £'000 | US Dollar £'000 | Euro £'000 | NZ Dollar £'000 | Total £'000 |
| **Assets** | | | | | | | | | | |
| Other investments | **50** | **22** | **—** | **—** | **72** | 61 | 18 | — | — | 79 |
| Non-current receivables | **50** | **—** | **—** | **—** | **50** | 50 | — | — | — | 50 |
| Current trade and other receivables | **45,739** | **3,282** | **4,292** | **372** | **53,685** | 53,596 | 4,177 | 2,944 | 348 | 61,065 |
| Current derivatives | **—** | **—** | **—** | **—** | **—** | — | 14 | 36 | — | 50 |
| Cash and cash equivalents | **43,738** | **1,319** | **2,823** | **531** | **48,411** | 15,322 | 3,080 | 1,222 | 428 | 20,052 |
| | **89,577** | **4,623** | **7,115** | **903** | **102,218** | 69,029 | 7,289 | 4,202 | 776 | 81,296 |
| **Liabilities** | | | | | | | | | | |
| Current borrowings | **20,179** | **205** | **1,258** | **—** | **21,642** | 17,551 | 213 | 957 | — | 18,721 |
| Current derivatives | **—** | **11** | **9** | **—** | **20** | — | 72 | — | — | 72 |
| Current trade and other payables | **39,697** | **1,692** | **4,361** | **—** | **45,750** | 45,904 | 3,847 | 3,481 | — | 53,232 |
| Non-current borrowings | **18,625** | **—** | **—** | **—** | **18,625** | 25,744 | — | — | — | 25,744 |
| Other non-current liabilities | **2,394** | **—** | **—** | **—** | **2,394** | 2,394 | — | — | — | 2,394 |
| | **80,895** | **1,908** | **5,628** | **—** | **88,431** | 91,593 | 4,132 | 4,438 | — | 100,163 |

| | **2016** | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| **Company** | **Sterling £'000** | **US Dollar £'000** | **Euro £'000** | **Total £'000** | Sterling £'000 | US Dollar £'000 | Euro £'000 | Total £'000 |
| **Assets** | | | | | | | | |
| Non-current receivables | **—** | **17,486** | **—** | **17,486** | — | — | — | — |
| Current trade and other receivables | **15,829** | **1,207** | **1,468** | **18,504** | 30,697 | 4,824 | 1,104 | 36,625 |
| Current derivatives | **—** | **—** | **—** | **—** | — | 14 | 16 | 30 |
| Cash and cash equivalents | **37,463** | **210** | **272** | **37,945** | 8,173 | 687 | 113 | 8,973 |
| | **53,292** | **18,903** | **1,740** | **73,935** | 38,870 | 5,525 | 1,233 | 45,628 |
| **Liabilities** | | | | | | | | |
| Current borrowings | **5,974** | **—** | **—** | **5,974** | 690 | — | — | 690 |
| Current trade and other payables | **1,772** | **—** | **—** | **1,772** | 1,232 | — | — | 1,232 |
| Non-current borrowings | **15,889** | **—** | **—** | **15,889** | 16,414 | — | — | 16,414 |
| | **23,635** | **—** | **—** | **23,635** | 18,336 | — | — | 18,336 |

Other taxes and social security receivable and prepayments are excluded from trade and other receivables in the tables above as they are not financial instruments. For this same reason other taxes and social security payable is excluded from trade and other payables. Deferred income in respect of government grants is excluded as it is not a financial liability.

*Sensitivity analysis*

The impact of a weakening or strengthening in Sterling against other currencies at the balance sheet date is shown in the table below. The Directors consider that a 10% (2015: 10%) weakening or strengthening in Sterling against other currencies represents reasonable possible changes.

| | **2016** | | 2015 | |
|---|---|---|---|---|
| | **10% weakening £'000** | **10% strengthening £'000** | 10% weakening £'000 | 10% strengthening £'000 |
| Impact on profit after taxation (continuing operations) | **709** | **(579)** | 480 | (353) |
| Impact on total equity | **3,012** | **(2,463)** | 2,521 | (1,993) |

This sensitivity analysis is not an indication of actual results, which may materially differ. For the purposes of this sensitivity analysis all other variables have been held constant.

### 24 Derivatives and other financial instruments (continued)

*Interest rate risk*

The Group finances its operations through a mixture of retained earnings and bank borrowings. The Group borrows in the desired currencies at fixed and floating rates of interest.

| Group | Weighted average effective interest rate % | 2016 £'000 | Weighted average effective interest rate % | (Restated) 2015 £'000 |
|---|---|---|---|---|
| Bank overdrafts | 2.12 | 8,624 | 2.45 | 3,777 |
| Bank loans and other borrowings | 2.04 | 29,484 | 2.16 | 30,714 |
| Other loans | — | — | — | 500 |
| Finance lease liabilities | 2.60 | 2,159 | 2.21 | 9,474 |
| | | 40,267 | | 44,465 |
| Fixed rate | | 2,159 | | 9,474 |
| Floating rate | | 38,108 | | 34,491 |
| Non-interest bearing | | — | | 500 |
| | | 40,267 | | 44,465 |

The Group's floating rate financial liabilities bear interest determined as follows:

| | |
|---|---|
| Bank overdrafts | US prime rate + 1.0% margin; US prime rate + 1.6% margin; Bank of England base rate +1.8% margin |
| Bank loans and other borrowings | Libor + 1.8%; Libor + 2.0%; Bank of England base rate + 1.25% margin; 1.3% |

| Company | Weighted average effective interest rate % | 2016 £'000 | Weighted average effective interest rate % | 2015 £'000 |
|---|---|---|---|---|
| Bank loans | 2.18 | 16,402 | 2.39 | 16,931 |
| Loans from Group undertakings | — | 5,461 | — | 173 |
| Floating rate | | 21,863 | | 17,104 |

The Company's floating rate financial liabilities bear interest determined as follows:

| | |
|---|---|
| Bank loans | Libor + 1.8% |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 24 Derivatives and other financial instruments (continued)

*Sensitivity analysis*

The impact of a decrease or increase in interest rates during the year is shown in the table below. The Directors consider that a 1% movement in interest rates represents a reasonable possible change.

| | 2016 1% decrease £'000 | 2016 1% increase £'000 | 2015 1% decrease £'000 | 2015 1% increase £'000 |
|---|---|---|---|---|
| Impact on profit after taxation (continuing operations) | 366 | (366) | 328 | (328) |
| Impact on total equity | 366 | (366) | 328 | (328) |

This sensitivity analysis is not an indication of actual results, which may materially differ. For the purposes of this sensitivity analysis all other variables have been held constant.

*Liquidity risk*

The Group's policy throughout the year has been to maintain a mix of short and medium term borrowings. Short-term flexibility is achieved by overdraft facilities. In addition it is the Group's policy to maintain committed undrawn facilities in order to provide flexibility in the management of the Group's liquidity.

The tables below analyse the Group and Company's financial liabilities which will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows which have been calculated using spot rates at the relevant balance sheet date.

| | 2016 | | | | | 2015 (Restated) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Group | Total £'000 | Within one year £'000 | One to two years £'000 | Two to five years £'000 | Over five years £'000 | Total £'000 | Within one year £'000 | One to two years £'000 | Two to five years £'000 | Over five years £'000 |
| Bank overdrafts | 8,624 | 8,624 | — | — | — | 3,777 | 3,777 | — | — | — |
| Bank loans and other borrowings | 30,632 | 12,807 | 1,726 | 16,099 | — | 32,445 | 12,768 | 1,793 | 17,884 | — |
| Other loans | — | — | — | — | — | 500 | 500 | — | — | — |
| Finance lease liabilities | 2,362 | 705 | 668 | 972 | 17 | 10,338 | 2,482 | 2,131 | 5,666 | 59 |
| Derivatives | 20 | 20 | — | — | — | 72 | 72 | — | — | — |
| Trade and other payables | 45,750 | 45,750 | — | — | — | 53,232 | 53,232 | — | — | — |
| Other non-current liabilities | 2,394 | — | — | 2,394 | — | 2,394 | — | 2,394 | — | — |
| | 89,782 | 67,906 | 2,394 | 19,465 | 17 | 102,758 | 72,831 | 6,318 | 23,550 | 59 |

| | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| Company | Total £'000 | Within one year £'000 | One to two years £'000 | Two to five years £'000 | Total £'000 | Within one year £'000 | One to two years £'000 | Two to five years £'000 |
| Bank loans | 17,491 | 906 | 895 | 15,690 | 18,533 | 952 | 939 | 16,642 |
| Loans from Group undertakings | 5,461 | 5,461 | — | — | 173 | 173 | — | — |
| Trade and other payables | 1,772 | 1,772 | — | — | 1,232 | 1,232 | — | — |
| | 24,724 | 8,139 | 895 | 15,690 | 19,938 | 2,357 | 939 | 16,642 |

Trade and other payables in the tables above exclude other taxes and social security which do not meet the definition of financial liabilities under IFRS 7. Deferred income in respect of government grants has also been excluded as it does not give rise to a contractual obligation to pay cash.

**24 Derivatives and other financial instruments (continued)**

*Future minimum lease payments of finance leases*

| Group | 2016 £'000 | 2015 £'000 | Repayment profile 2016 £'000 | Repayment profile 2015 £'000 |
|---|---|---|---|---|
| Amount payable: | | | | |
| Within one year | **705** | 2,482 | **642** | 2,174 |
| In the second year | **668** | 2,131 | **616** | 1,900 |
| In the third to fifth years inclusive | **972** | 5,666 | **888** | 5,352 |
| Over five years | **17** | 59 | **13** | 48 |
| | **2,362** | 10,338 | **2,159** | 9,474 |
| Less: future finance charges | **(203)** | (864) | | |
| Present value of lease obligations | **2,159** | 9,474 | | |

The Company has no finance lease obligations (2015: none).

*Borrowing facilities*

The Group has various undrawn facilities. The undrawn facilities available at 3 September 2016, in respect of which all conditions precedent had been met, were as follows:

| | 2016 Floating rate £'000 | 2015 Floating rate £'000 |
|---|---|---|
| Expiring in one year or less | **18,514** | 17,007 |
| Expiring within two and five years inclusive | **4,500** | 2,000 |
| | **23,014** | 19,007 |

The Company's overdraft is within a Group facility and it is therefore not possible to determine the Company's undrawn facilities at the balance sheet date.

*Capital risk management*

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an efficient capital structure to optimise the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including current and non-current borrowings) as shown in the consolidated balance sheet less cash and cash equivalents. Total equity is as shown in the consolidated balance sheet.

At 3 September 2016 the Group had net cash of £8.1m (2015: net debt of £24.4m). Gearing was 24.7% at the prior year end.

The Group monitors cash balances and net debt on a daily basis to ensure adequate headroom exists on banking facilities and that it is compliant with banking covenants.

*Fair value hierarchy*

IFRS 13 requires financial instruments that are measured at fair value to be classified according to the valuation technique used:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – inputs, other than Level 1 inputs, that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
Level 3 – unobservable inputs

All derivative financial instruments are measured at fair value using Level 2 inputs. There were no transfers between levels in the above hierarchy in either the current or prior year.

The Group holds shares in several private limited companies. These have been classified as unquoted investments for which fair value cannot be reliably measured and are held at cost less accumulated impairment. Had fair value been applied this financial asset would have been Level 3.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

**24 Derivatives and other financial instruments (continued)**

*Fair values of financial assets and liabilities*

The fair value of Group and Company financial assets and liabilities are not materially different to book value.

*Derivative financial instruments*

*Hedge of net investment in foreign subsidiaries*

The Group hedges foreign denominated loans against its investment in foreign subsidiaries. A foreign exchange pre-tax gain of £504,000 (2015: £373,000) was recognised in equity during the year on translation of US dollar denominated loans with a fair value of $24,908,000 (2015: $7,408,000) to sterling. A foreign exchange pre-tax gain of £183,000 (2015: pre-tax loss of £35,000) was recognised in equity during the year on translation of Euro denominated loans with a fair value of €1,750,000 (2015: €1,500,000) to sterling. The Group's net investment hedge was fully effective in both the current and prior year and therefore no gain or loss is recognised in the consolidated income statement.

*Currency derivatives*

The Group and Company use forward foreign currency contracts and options to manage exchange risk exposure. At the balance sheet date, the fair value of outstanding forward foreign currency contracts and options are as below:

| Group | 2016 Fair value £'000 | 2016 Contractual or notional amount £'000 | 2015 Fair value £'000 | 2015 Contractual or notional amount £'000 |
|---|---|---|---|---|
| At beginning of the year | (32) | 7,402 | (15) | 515 |
| Subsidiaries disposed | 146 | (1,305) | — | — |
| Losses during the year | (134) | (4,635) | (17) | 6,887 |
| At end of the year | (20) | 1,462 | (32) | 7,402 |
| Included within: | | | | |
| Current assets | — | — | 40 | 5,193 |
| Current liabilities | (20) | 1,462 | (72) | 2,209 |
| | (20) | 1,462 | (32) | 7,402 |

| Company | 2016 Fair value £'000 | 2016 Contractual or notional amount £'000 | 2015 Fair value £'000 | 2015 Contractual or notional amount £'000 |
|---|---|---|---|---|
| At beginning of the year | 30 | 5,066 | — | — |
| (Losses)/gains during the year | (30) | (5,066) | 30 | 5,066 |
| At end of the year (current assets) | — | — | 30 | 5,066 |

The Group uses currency swaps to manage exchange risk exposure. At the balance sheet date, the fair value of outstanding currency swaps are as below:

| Group | 2016 Fair value £'000 | 2016 Contractual or notional amount £'000 | 2015 Fair value £'000 | 2015 Contractual or notional amount £'000 |
|---|---|---|---|---|
| At beginning of the year | 10 | 394 | — | — |
| (Losses)/gains during the year | (10) | (394) | 10 | 394 |
| At end of the year (current assets) | — | — | 10 | 394 |

The Company has no currency swaps (2015: none).

Fair value has been determined by reference to the value of equivalent forward foreign currency contracts, options and currency swaps at the balance sheet date.

All forward foreign currency contracts, options and currency swaps have a maturity of less than one year after the balance sheet date. Gains and losses on currency related derivatives are included within administrative expenses.

### 25 Retirement benefits

The Group participates in two defined benefit pension schemes, Carr's Group Pension Scheme and Carrs Billington Agriculture Pension Scheme.

*Carr's Group*

The Company sponsors the Carr's Group Pension Scheme and offered a defined contribution and a defined benefit section. The assets of the scheme are held separately from those of the Group and are invested with independent investment managers.

From 1 September 2015 the defined contribution section was closed. Members of that section were enrolled in a new defined contribution scheme, the Carr's Group Retirement Savings Scheme ('Carr's Group RSS'), set up under a Master Trust arrangement. The pension expense for the defined contribution section of the Carr's Group Pension Scheme for the year was £nil (2015: £751,000). Contributions totalling £nil (2015: £47,000) were payable to the fund at the year end and are included in other payables.

The defined benefit section of the scheme was previously closed to new members, and has closed to future accrual with effect from 31 December 2015. Members of this section became entitled to become members of the Carr's Group RSS from 1 January 2016. The pension contribution made by the Group over the year to the defined benefit section was £888,000 (2015: £2,679,000). Contributions to the scheme for the year ending August 2017 are expected to be £nil.

The following disclosures relate to the defined benefit section of the Carr's Group Pension Scheme. The last full actuarial valuation of this scheme was carried out by a qualified independent actuary as at 31 December 2014 and updated on an approximate basis to 3 September 2016 by a qualified independent actuary.

*Major assumptions:*

| | **2016 %** | 2015 % |
|---|---|---|
| Inflation (RPI) | **2.80** | 3.00 |
| Inflation (CPI) | **1.90** | 2.10 |
| Salary increases | **n/a** | 2.55 |
| Rate of discount | **2.05** | 3.80 |
| Pension in payment increases: | | |
| RPI or 5.0% per annum if less | **2.80** | 2.90 |
| RPI or 5.0% per annum if less, minimum 3.0% per annum | **3.50** | 3.50 |

The mortality tables used in the valuation as at 3 September 2016 are 100% of S2PMA (males) and S2PFA (females) with allowance for mortality improvements using CMI_2015 with a 1.25%pa underpin. The mortality assumptions adopted imply the following life expectancies at age 65 as at 3 September 2016:

| | **At 3 September 2016** | At 29 August 2015 |
|---|---|---|
| Males currently age 45 | **23.9 years** | 24.2 years |
| Females currently age 45 | **26.1 years** | 26.6 years |
| Males currently age 65 | **22.2 years** | 22.5 years |
| Females currently age 65 | **24.2 years** | 24.7 years |

*Amounts recognised in the Income Statement in respect of defined benefit schemes:*

| | **2016 £'000** | 2015 £'000 |
|---|---|---|
| Service cost – including current service costs, past service costs and settlements | **(426)** | 31 |
| Service cost – administrative cost | **139** | 230 |
| Net interest on the net defined benefit asset | **(94)** | (141) |
| Total (income)/expense | **(381)** | 120 |

As a result of the closure to future accrual on 31 December 2015 a negative past service cost, net of associated costs, of approximately £350,000 has been recognised in the income statement.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

**25 Retirement benefits (continued)**

*The (income)/expense is recognised within the Income Statement as shown below:*

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Within operating profit: | | |
| Cost of sales | (124) | 120 |
| Administrative expenses | (163) | 141 |
| Within interest: | | |
| Finance income | (94) | (141) |
| Total (income)/expense | (381) | 120 |

*Remeasurements of the net defined benefit asset to be shown in the Statement of Comprehensive Income:*

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Net measurement – financial | (16,623) | (1,700) |
| Net measurement – demographic | 1,051 | — |
| Net measurement – experience | 2,012 | (699) |
| Return on assets, excluding interest income | 10,835 | (449) |
| Total remeasurement of the net defined benefit asset | (2,725) | (2,848) |

*Amounts included in the Balance Sheet:*

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Present value of funded defined benefit obligations | (73,355) | (60,352) |
| Fair value of scheme assets | 73,666 | 62,119 |
| Surplus in funded scheme | 311 | 1,767 |

*Reconciliation of opening and closing balances of the present value of the defined benefit obligation:*

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Benefit obligation at the beginning of the year | 60,352 | 61,948 |
| Service cost | 89 | 301 |
| Interest cost | 2,239 | 2,346 |
| Contributions by scheme participants | 61 | 190 |
| Net measurement losses – financial | 16,623 | 1,700 |
| Net measurement gains – demographic | (1,051) | — |
| Net measurement (gains)/losses – experience | (2,012) | 699 |
| Benefits paid | (2,431) | (6,562) |
| Past service cost | (515) | (270) |
| Benefit obligation at the end of the year | 73,355 | 60,352 |

*Reconciliation of opening and closing balances of the fair value of scheme assets:*

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Fair value of scheme assets at the beginning of the year | 62,119 | 64,004 |
| Interest income on scheme assets | 2,333 | 2,487 |
| Return on assets, excluding interest income | 10,835 | (449) |
| Contributions by employers | 888 | 2,679 |
| Contributions by scheme participants | 61 | 190 |
| Benefits paid | (2,431) | (6,562) |
| Scheme administrative cost | (139) | (230) |
| Fair value of scheme assets at the end of the year | 73,666 | 62,119 |

**25 Retirement benefits (continued)**

*Analysis of the scheme assets and actual return:*

| | Fair value of assets 2016 £'000 | 2015 £'000 |
|---|---|---|
| Equity instruments | **34,771** | 28,476 |
| Property | **5,449** | 5,637 |
| Bonds | **33,401** | 27,177 |
| Cash | **45** | 829 |
| | **73,666** | 62,119 |
| Actual return on scheme assets | **13,168** | 2,038 |

*Sensitivity analysis*

A sensitivity analysis of the principal assumptions used to measure the scheme liabilities:

| | Change in assumption | Impact on scheme liabilities 3 September 2016 |
|---|---|---|
| Discount rate | Increase by 0.25% | **Decrease by £2.9m** |
| Rate of inflation | Increase by 0.25% | **Increase by £1.9m** |
| Assumed life expectancy at age 65 | Increase by 1 year | **Increase by £2.3m** |

Extrapolation or combination of the sensitivity analysis beyond the ranges shown may not be appropriate.

*Characteristics of the Scheme and the risks associated with the Scheme*

a) Information about the characteristics of the Scheme

i. The Scheme provides pensions in retirement and death benefits to members. Pension benefits are linked to member's final salary at 31 December 2015 (or date of leaving, if earlier) revalued up to the members' retirement date, and their length of service.

ii. The Plan is a registered scheme under UK legislation and is contracted out of the State Second Pension.

The Scheme is subject to the scheme funding requirements outlined in UK legislation. The scheme funding valuation of the Scheme at 31 December 2014 revealed a deficit, and the existing recovery plan was continued to 31 December 2015.

iii. The Scheme was established under trust and is governed by the Scheme's trust deed and rules dated June 2008. The Trustees are responsible for the operation and the governance of the Scheme, including making decisions regarding the Scheme's funding and investment strategy in conjunction with the Employer.

b) Information about risks of the Scheme to the Employer

In general, the risk to the Employer is that the assumptions underlying the disclosures, or the calculation of contribution requirements are not borne out in practice and the cost to the Employer is higher than expected. This could result in higher contributions required from the Employer and a higher deficit disclosed. This may also impact the Employer's ability to grant discretionary benefits or other enhancements to members.

i. The return on the Scheme's assets being lower than assumed, resulting in an unaffordable increase in the required Employer contribution rate.

ii. Falls in asset values (particularly equities) not being matched by similar falls in the value of liabilities.

iii. Unanticipated future changes in mortality patterns leading to an increase in the Scheme's liabilities. Future mortality rates cannot be predicted with certainty. This is especially so bearing in mind that the youngest Scheme members could be expected to still be alive in 50 years or more and it is not possible to reliably predict what medical advances may or may not have occurred by this time. The average duration of the Scheme's liabilities is approximately 16 years.

iv. The potential exercise (by members or others) of options against the Scheme for example taking early retirement or exchanging a portion of pension for a cash lump sum.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 25 Retirement benefits (continued)

*Carr's Group Retirement Savings Scheme*

The Company offers membership in a Master Trust arrangement, Carr's Group RSS, following the closure of both sections of the Carr's Group Pension Scheme. The pension expense for this scheme for the year was £902,000, including £189,000 in respect of Carr's Flour Mills Ltd (2015: £nil).

*Carrs Billington Agriculture Pension Scheme*

One of the Group's subsidiaries, Carrs Billington Agriculture (Sales) Ltd, is a participating employer in the Carrs Billington Agriculture Pension Scheme, which is a multi-employer defined benefit pension scheme. For the reasons explained below this scheme is accounted for as a defined contribution scheme.

The scheme is closed to new entrants and has been closed to future accrual since 1 December 2007. There is currently a deficit, calculated in accordance with IAS 19, of £5.1m (2015: £3.2m). The sponsoring employer, Carrs Billington Agriculture (Operations) Ltd, is currently paying £0.8m per annum under the terms of the recovery plan agreed between them and the Trustees of the scheme.

Under the rules of the scheme, any employer wishing to exit the scheme would trigger a partial wind-up of the scheme and would therefore be responsible for their s75 debt. A full wind-up of the plan would also trigger s75 debts for each participating employer.

The history of the scheme is that it was brought together from many other pension schemes and employers following multiple acquisitions over several years. Many of those acquisitions had little or no records of employee histories. Because of this, approximately 85% of the scheme liabilities are 'Orphan Liabilities'. Under the rules of the scheme, on a wind-up the orphan liabilities would be split between the participating employers in the same proportion as their calculated share of non-orphan liabilities. At the last actuarial valuation, the buy-out d eficit was £15.5m and the Group's estimated liability on the wind up of the scheme was £7.5m.

Because of the scheme history described above, it is not possible to calculate the Group's share of the assets and liabilities of the scheme, and consequently despite it being a defined benefit pension scheme the Group treats it as a defined contribution pension scheme for accounting purposes. The Group does not expect to pay any contributions to the scheme in the next reporting period (2015: £nil). Currently the deficit repair contributions are being funded solely by the sponsoring employer and this is expected to remain the case in the future. Those deficit repair contributions are based on the last triennial valuation of the scheme as at 31 December 2012, which showed that the scheme had a deficit of £6.8m on a technical provisions basis. The actuarial valuation as at 31 December 2015 is not yet finalised.

The Group's level of participation in the scheme is estimated at 48.5%, which is based on its estimated share of the total buy-out liabilities. The Group has a 49% shareholding in its associate company which is the sponsoring company of the pension scheme. As a result of equity accounting for its share of the net assets of the associate the Group recognises 49% of the deficit calculated on an IAS 19 accounting basis within its 'Investment in Associate' in its consolidated balance sheet.

*Other pension schemes*

Carrs Billington Agriculture (Sales) Ltd offers a Group Personal Pension Plan to some of its employees and the pension expense for this plan in the year was £508,000 (2015: £451,000).

In addition, the Group offered a Group Personal Pension plan to certain employees of Carr's Flour Mills Ltd. The pension expense for this scheme for the year up to the date of disposal of the subsidiary was £205,000 (2015: £208,000).

The pension expense in respect of defined contribution pension arrangements in foreign subsidiaries during the year was £215,000 (2015: £156,000).

Pension contributions into NEST during the year amounted to £45,000 (2015: £38,000).

The Group also pays contributions into various defined contribution schemes acquired through business combinations. The pension expense during the year in respect of these schemes was £101,000 (2015: £91,000).

### 26 Share capital

| Group and Company | 2016 Shares | 2016 £'000 | 2015 Shares | 2015 £'000 |
|---|---|---|---|---|
| Authorised: | | | | |
| Ordinary shares of 2.5p each | 140,000,000 | 3,500 | 140,000,000 | 3,500 |
| Allotted and fully paid ordinary shares of 2.5p each: | | | | |
| At start of the year | 89,760,090 | 2,244 | 89,401,900 | 2,235 |
| Allotment of shares | 1,432,714 | 36 | 358,190 | 9 |
| At end of the year | 91,192,804 | 2,280 | 89,760,090 | 2,244 |

The consideration received on the allotment of shares during the year was £532,000 (2015: £171,000).

For details of share based payment schemes see note 27.

Since the year end there was a further allotment of 6,460 shares with a nominal value of £162 due to the exercise of share options. In addition, to enable vesting of the Group's long term incentive plan, on 14 November 2016 178,027 shares with a nominal value of £4,451 were held in treasury.

### 27 Share-based payments

*Group*

The Group operates two active share based payment schemes at 3 September 2016.

Under the long term incentive plan shares will be awarded to eligible individuals subject to an earnings per share (EPS) target measured against average annual increases over a three year period. For the awards granted in May 2013 an average annual growth of EPS must exceed 7.0% for 25% of the awards to vest, 50% vest at 8.1% and 100% vest at 10.2%, with a straight line calculation between 25%, 50% and 100% of the award. For the awards granted in November 2013, November 2014 and November 2015 an average annual growth of EPS must exceed 3.0% for 25% of the awards to vest and 100% vest at 10.0%, with a straight line calculation between 25% and 100% of the award.

All employees, subject to eligibility criteria, may participate in the share save scheme. Under this scheme employees are offered savings contracts for both 3 year and 5 year vesting period plans. The exercise period is 6 months from the vesting date.

The fair value per option granted and the assumptions used in the calculation of fair values are as follows:

| | Long Term Incentive Plan November 2015 | Long Term Incentive Plan November 2014 | Long Term Incentive Plan November 2013 | Long Term Incentive Plan May 2013 | Share Save Scheme (3-Year Plan 2014) | Share Save Scheme (5-Year Plan 2014) | Share Save Scheme (5-Year Plan 2011) |
|---|---|---|---|---|---|---|---|
| Grant date | 9/11/15 | 10/11/14 | 11/11/13 | 1/5/13 | 9/6/14 | 9/6/14 | 10/5/11 |
| Share price at grant date (weighted average) | £1.460 | £1.600 | £1.683 | £1.315 | £1.870 | £1.870 | £0.720 |
| Exercise price (weighted average) | £0.00 | £0.00 | £0.00 | £0.00 | £1.520 | £1.520 | £0.572 |
| Fair value per option at grant | £1.344 | £1.504 | £1.597 | £1.237 | £0.490 | £0.529 | £0.156 |
| Number of employees | 10 | 8 | 8 | 2 | 167 | 57 | 4 |
| Shares under option | 624,787 | 512,200 | 475,790 | 330,790 | 428,410 | 281,950 | 19,390 |
| Vesting period (years) | 3 | 3 | 3 | 3 | 3 | 5 | 5 |
| Model used for valuation | Market value[1] | Market value[1] | Market value[1] | Market value[1] | Black Scholes | Black Scholes | Black Scholes |
| Expected volatility | — | — | — | — | 30.0% | 26.9% | 24.00% |
| Option life (years) | 10 | 10 | 10 | 10 | 3.5 | 5.5 | 5.5 |
| Expected life (years) | 6.5 | 6.5 | 6.5 | 6.5 | 3.25 | 5.25 | 5.25 |
| Risk-free rate | — | — | — | — | 1.51% | 2.07% | 2.450% |
| Expected dividends expressed as a dividend yield | 2.54% | 2.81% | 3.02% | 2.42% | 1.93% | 1.93% | 3.90% |
| Expectations of vesting | 0% | 0% | 25% | 100% | 95% | 95% | 95% |

1 discounted for dividends forgone over the three year vesting period

The expected volatility has been calculated using historical daily data over a term commensurate with the expected life of each option. The expected life is the midpoint of the exercise period. The risk-free rate of return is the implied yield of zero-coupon UK Government bonds with a remaining term equal to the expected term of the award being valued.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 27 Share-based payments (continued)

*Number of options*

| | Long Term Incentive Plan November 2015 Number '000 | Long Term Incentive Plan November 2014 Number '000 | Long Term Incentive Plan November 2013 Number '000 | Long Term Incentive Plan May 2013 Number '000 | Share Save Scheme (3-Year Plan 2014) Number '000 | Share Save Scheme (5-Year Plan 2014) Number '000 | Share Save Scheme (5-Year Plan 2011) Number '000 | Approved Executive Share Option Scheme 2006 Number '000 |
|---|---|---|---|---|---|---|---|---|
| Outstanding: | | | | | | | | |
| At 30 August 2014 | — | — | 475 | 489 | 544 | 324 | 778 | 710 |
| Granted in the year | — | 512 | — | — | — | — | — | — |
| Exercised in the year | — | — | — | — | — | — | — | (350) |
| Forfeited in the year | — | — | — | — | (40) | — | (43) | (150) |
| At 29 August 2015 | **—** | **512** | **475** | **489** | **504** | **324** | **735** | **210** |
| Granted in the year | **625** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| Exercised in the year | **—** | **—** | **—** | **(158)** | **—** | **—** | **(710)** | **(210)** |
| Forfeited in the year | **—** | **—** | **—** | **—** | **(76)** | **(42)** | **(6)** | **—** |
| **At 3 September 2016** | **625** | **512** | **475** | **331** | **428** | **282** | **19** | **—** |
| Exercisable: | | | | | | | | |
| At 29 August 2015 | — | — | — | — | — | — | — | 210 |
| **At 3 September 2016** | **—** | **—** | **—** | **331** | **—** | **—** | **19** | **—** |
| Weighted average: Remaining contractual life (years) | **9.00** | **8.00** | **7.00** | **6.00** | **1.25** | **3.25** | **0.25** | **—** |
| Remaining expected life (years) | **5.50** | **4.50** | **3.50** | **2.50** | **1.00** | **3.00** | **—** | **—** |

The total (income)/expense recognised for the year arising from share based payments are as follows:

| | **2016 £'000** | 2015 £'000 |
|---|---|---|
| Long Term Incentive Plan November 2015 | **—** | — |
| Long Term Incentive Plan November 2014 | **(128)** | 128 |
| Long Term Incentive Plan November 2013 | **(63)** | 127 |
| Long Term Incentive Plan May 2013 | **—** | 202 |
| Share Save Scheme (3-Year Plan 2014) | **52** | 77 |
| Share Save Scheme (5-Year Plan 2014) | **23** | 33 |
| Share Save Scheme (5-Year Plan 2011) | **20** | 17 |
| | **(96)** | 584 |

### 27 Share-based payments (continued)

*Company*

The movement in the number of outstanding options under the share schemes for the company is not shown as it is immaterial and disclosure would be excessively lengthy.

The total expense recognised for the year arising from share based payments are as follows:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Long Term Incentive Plan November 2015 | — | — |
| Long Term Incentive Plan November 2014 | (84) | 84 |
| Long Term Incentive Plan November 2013 | (41) | 83 |
| Long Term Incentive May Plan 2013 | — | 137 |
| Share Save Scheme (3-Year Plan 2014) | 3 | 11 |
| Share Save Scheme (5-Year Plan 2014) | 2 | 1 |
| Share Save Scheme (5-Year Plan 2011) | 1 | 1 |
| | (119) | 317 |

Share based payments awarded to employees of subsidiary undertakings and recognised as an investment in subsidiary undertakings in the Company are as follows:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Long Term Incentive Plan November 2015 | — | — |
| Long Term Incentive Plan November 2014 | — | 45 |
| Long Term Incentive Plan November 2013 | 49 | 88 |
| Long Term Incentive Plan May 2013 | — | 195 |
| Share Save Scheme (3-Year Plan 2014) | 104 | 83 |
| Share Save Scheme (5-Year Plan 2014) | 48 | 39 |
| Share Save Scheme (5-Year Plan 2011) | 3 | 87 |
| Approved Executive Share Option Scheme 2006 | — | 21 |
| Total carrying amount of investments | 204 | 558 |

### 28 Acquisitions

*Green (Agriculture) Co*

On 4 September 2015 Carrs Billington Agriculture (Sales) Ltd acquired the business and certain assets of Green (Agriculture) Co for net cash consideration of £265,000.

The principal activity of the business acquired is that of an agricultural merchant.

The primary reason for the business combination was the expansion of the existing agriculture business.

*Phoenix Feeds Ltd*

On 1 June 2016 Carrs Billington Agriculture (Sales) Ltd acquired the entire issued share capital of Phoenix Feeds Ltd for cash consideration of £1,744,000 including £490,000 of contingent consideration. The contingent consideration is linked to the continued employment of key personnel and therefore in accordance with IFRS 3 this has not been recognised as consideration in the acquisition accounting and is instead being recognised in the income statement over a two year period. Given the nature of the payment it is intended to recognise this as a non-recurring item.

The principal activity of Phoenix Feeds Ltd is that of an agricultural merchant.

The primary reason for the business combination was the expansion of the existing agriculture business.

*WM. Nicholls & Company (Crickhowell) Ltd*

In the prior year Carrs Billington Agriculture (Sales) Ltd acquired the entire issued share capital of WM. Nicholls & Company (Crickhowell) Ltd. As a condition of this acquisition the assets and liabilities not required by the Group were sold back to the vendor. The net cash consideration for this entire transaction was £1,030,000.

The principal activity of WM. Nicholls & Company (Crickhowell) Ltd is that of an agricultural merchant.

The primary reason for the business combination was the expansion of the existing agriculture business.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

**28 Acquisitions (continued)**

*Reid and Robertson Ltd*

In the prior year Carrs Billington Agriculture (Sales) Ltd acquired the entire issued share capital of Reid and Robertson Ltd for cash consideration of £869,000.

The principal activity of Reid and Robertson Ltd is that of an agricultural merchant.

The primary reason for the business combination was the expansion of the existing agriculture business.

All of the above purchases have been accounted for as acquisitions. Given the size of the acquisitions no separate disclosure has been presented on the face of the consolidated income statement as the impact would not be material.

*Aggregate disclosures*

The total goodwill arising from acquisitions in the year amounts to £783,000 (2015: £1,050,000). Goodwill, in both the current and prior year, represents the excess of the consideration paid over the Group's interests in the net fair value of the net identifiable assets, liabilities and contingent liabilities acquired.

The following aggregated amounts have been recognised within the consolidated income statement in respect of acquisitions made in the year:

| | **2016 £'000** | 2015 £'000 |
|---|---|---|
| Revenue | **1,868** | 3,589 |
| Profit before taxation | **76** | 85 |

There were no other recognised gains and losses other than the profit shown above.

Acquisition related costs amounted to £7,000 (2015: £58,000), which have been recognised within administrative expenses in the consolidated income statement.

The aggregate assets and liabilities recognised in the acquisition accounting are set out below:

| | **2016 Fair value £'000** | 2015 Fair value £'000 |
|---|---|---|
| Intangible assets | **39** | 162 |
| Property, plant and equipment | **25** | 118 |
| Inventories | **118** | 549 |
| Receivables | **1,144** | 1,493 |
| Assets held for resale | **—** | 116 |
| Cash at bank | **—** | 150 |
| Bank overdraft | **(12)** | — |
| Payables | **(541)** | (1,431) |
| Finance Leases | **—** | (37) |
| Taxation | | |
| – Current | **(29)** | (200) |
| – Deferred | **(8)** | (71) |
| Net assets acquired | **736** | 849 |
| Goodwill | **783** | 1,050 |
| | **1,519** | 1,899 |
| Satisfied by: | | |
| Cash consideration | **1,519** | 1,899 |

Intangible assets represents the fair value of customer relationships of Phoenix Feeds Ltd. The fair value exercise on the acquisition of the business of Greens (Agriculture) Co. in the year resulted in no significant intangible assets being identified other than the value of employees, which is not permitted to be recognised on the balance sheet.

Assets held for resale were sold before the prior year end.

### 28 Acquisitions (continued)

*Pro forma full year information*

IFRS3 (revised) requires disclosure of information as to the impact on the financial statements if the acquisitions had occurred at the beginning of the accounting year.

The unaudited pro forma summary below presents the Group as if the acquisitions had been acquired on 30 August 2015 (2015: 31 August 2014).

The pro forma amounts include the results of the acquisitions and the interest expense on the increase in net debt as a result of the acquisitions. The pro forma amounts do not include any possible synergies from the acquisition. The pro forma information is provided for comparative purposes only and does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of future results.

| Continuing operations | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Revenue | 318,672 | 335,014 |
| Profit before taxation | 14,172 | 14,243 |

### 29 Cash generated from/(used in) continuing operations

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| **Profit for the year from continuing operations** | 11,171 | 10,680 | 26,362 | 2,870 |
| Adjustments for: | | | | |
| Tax | 2,907 | 3,010 | 58 | 232 |
| Tax credit in respect of R & D | (176) | (292) | — | — |
| Dividends received from subsidiaries | — | — | (19,935) | (4,200) |
| Depreciation of property, plant and equipment | 3,582 | 3,180 | — | — |
| Depreciation of investment property | 6 | 6 | — | — |
| Intangible asset amortisation | 205 | 193 | — | — |
| Profit on disposal of property, plant and equipment | (84) | (14) | — | — |
| Loss on disposal of investment | 10 | — | — | — |
| Loss on dissolution of dormant subsidiary | — | — | 85 | — |
| Profit on disposal of subsidiary | — | — | (6,478) | — |
| Impairment of investment | — | — | — | 846 |
| Amortisation of grants | (53) | (20) | — | — |
| Net fair value (gain)/loss on share based payments | (99) | 520 | (119) | 317 |
| Net foreign exchange differences | (383) | 53 | (732) | (341) |
| Net fair value losses/(gains) on derivative financial instruments in operating profit | 70 | (65) | 30 | (30) |
| Finance costs: | | | | |
| Interest income | (236) | (338) | (959) | (1,028) |
| Interest expense and borrowing costs | 1,045 | 1,077 | 464 | 435 |
| Share of profit from associate and joint ventures | (2,081) | (2,307) | — | — |
| Pension contributions – deficit reduction | (780) | (2,340) | (780) | (2,340) |
| – ongoing | (108) | (339) | (108) | (339) |
| IAS19 income statement (credit)/charge (excluding interest) (note 25) | (287) | 261 | (287) | 261 |
| Changes in working capital (excluding the effects of acquisitions and disposals): | | | | |
| Increase in inventories | (1,620) | (1,886) | — | — |
| (Increase)/decrease in receivables | (3,606) | 63 | (193) | (162) |
| (Decrease)/increase in payables | (3,226) | (2,322) | 293 | 564 |
| Cash generated from/(used in) continuing operations | 6,257 | 9,120 | (2,299) | (2,915) |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 30 Analysis of net (debt)/cash

| Group | At 30 August 2015 £'000 | Cash flow £'000 | Other non-cash changes £'000 | Exchange movements £'000 | At 3 September 2016 £'000 |
|---|---|---|---|---|---|
| Cash and cash equivalents | 20,052 | 27,441 | — | 918 | 48,411 |
| Bank overdrafts | (3,777) | (4,847) | — | — | (8,624) |
| | 16,275 | 22,594 | — | 918 | 39,787 |
| Loans and other borrowings: | | | | | |
| – current | (12,770) | 1,902 | (1,374) | (134) | (12,376) |
| – non-current | (18,444) | — | 1,336 | — | (17,108) |
| Finance leases: | | | | | |
| – current | (2,174) | 2,333 | (801) | — | (642) |
| – non-current | (7,300) | — | 5,783 | — | (1,517) |
| Net (debt)/cash | (24,413) | 26,829 | 4,944 | 784 | 8,144 |

Cash and cash equivalents and bank overdrafts at 30 August 2015 have been restated for the grossing up of accounts with right of offset within the same banking facility.

Other non-cash changes relate to finance leases, including finance leases disposed with a subsidiary, and transfers between categories of borrowings. It also includes the release of deferred borrowing costs to the consolidated income statement.

| Company | At 30 August 2015 £'000 | Cash flow £'000 | Other non-cash changes £'000 | Exchange movements £'000 | At 3 September 2016 £'000 |
|---|---|---|---|---|---|
| Cash and cash equivalents | 8,973 | 28,925 | — | 47 | 37,945 |
| Loans and other borrowings: | | | | | |
| – current | (690) | (4,803) | (481) | — | (5,974) |
| – non-current | (16,414) | — | 525 | — | (15,889) |
| Net (debt)/cash | (8,131) | 24,122 | 44 | 47 | 16,082 |

Other non-cash changes relate to the release of deferred borrowing costs to the consolidated income statement and transfers between categories of borrowings.

## 31 Capital Commitments

| Group | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Capital expenditure on property, plant and equipment that has been contracted for but has not been provided for in the accounts | 56 | 22 |

The Company has no capital commitments (2015: none).

## 32 Other Financial Commitments

*Group*

At 3 September 2016 the Group had commitments, other than land and buildings, under non-cancellable operating leases as follows:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Within one year | 453 | 695 |
| Within two and five years inclusive | 748 | 1,104 |
| | 1,201 | 1,799 |

The Company has no commitments under non-cancellable operating leases (2015: none).

### 33 Financial guarantees

The Company, together with certain subsidiary undertakings, has entered into a guarantee with Clydesdale Bank PLC in respect of the Group loans, overdraft, asset finance and guarantee facilities with that bank, which at 3 September 2016 amounted to £3,980,000 (2015: £8,152,000).

Certain subsidiary undertakings utilise guarantee facilities with financial institutions which include their own bankers. These financial institutions in the normal course of business enter into certain specific guarantees with some of the subsidiaries' customers. All these guarantees allow the financial institutions to have recourse to the subsidiaries if a guarantee is enforced. The total outstanding of such guarantees at 3 September 2016 was £3,284,000 (2015: £1,453,000).

The Company has provided specific guarantees to certain customers of a subsidiary. These are in place to guarantee the completion of the contract in any event. At 3 September 2016 the contracts under guarantee that have still to be completed and delivered have a total contract value of £nil (2015: £9,521,000).

The Company has provided a guarantee over the lease of a premises occupied by a subsidiary. The guarantee is in respect of prompt and full payment of rents due throughout the term of the lease. As at 3 September 2016 the cumulative rent payable over the remaining term of the lease is £1,455,000 (2015: £1,494,000).

The Company has entered into a guarantee with the Trustees of the Carrs Billington Agriculture Pension Scheme in respect of the punctual payment of obligations due to the pension scheme by the participating employers of the scheme. The Company's total liability shall not exceed £1,500,000 (2015: £1,500,000).

One of the Group's subsidiary undertakings is a participating employer in the Carrs Billington Agriculture Pension Scheme. On a wind-up of the scheme the buy-out deficit would be split between the participating employers with the Group's level of participation in the scheme estimated at 48.5%. At the last actuarial valuation, the Group's estimated liability on the wind-up of the scheme was £7.5m (2015: £7.6m).

The Group and Company does not expect any of the above guarantees to be called in.

### 34 Related parties

*Group and Company*

*Identity of related parties*

The Group has a related party relationship with its subsidiaries, associate and joint ventures and with its Directors. The balances and transactions shown below were all undertaken on an arm's length basis in the normal course of business.

*Transactions with key management personnel*

Key management personnel are considered to be the Directors and their remuneration is disclosed within the Remuneration Committee Report.

| | Group | | Company | |
|---|---|---|---|---|
| | **2016 £'000** | 2015 £'000 | **2016 £'000** | 2015 £'000 |
| Balances reported in the Balance Sheet | | | | |
| Amounts owed by businesses controlled by key management personnel (in a trading capacity): | | | | |
| Trade receivables | **75** | 109 | **—** | — |
| Transactions reported in the Income Statement | | | | |
| Revenue | **167** | 204 | **—** | — |

STRATEGIC REPORT

CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 34 Related parties (continued)

*Transactions with subsidiaries*

| | Company | |
|---|---|---|
| | **2016 £'000** | 2015 £'000 |
| Balances reported in the Balance Sheet | | |
| Amounts owed by subsidiary undertakings: | | |
| Loans | **33,861** | 32,602 |
| Other receivables | **119** | 138 |
| | **33,980** | 32,740 |
| Amounts owed to subsidiary undertakings: | | |
| Loans | **(5,461)** | (173) |
| Other payables | **(37)** | (27) |
| | **(5,498)** | (200) |
| Transactions reported in the Income Statement | | |
| Management charges receivable | **2,489** | 2,520 |
| Dividends received | **19,935** | 4,200 |
| Interest receivable | **756** | 744 |

*Transactions with associate*

| | Group | | Company | |
|---|---|---|---|---|
| | **2016 £'000** | 2015 £'000 | **2016 £'000** | 2015 £'000 |
| Balances reported in the Balance Sheet | | | | |
| Amounts owed by associate: | | | | |
| Trade and other receivables | **152** | 623 | **12** | 555 |
| Amounts owed to associate: | | | | |
| Trade and other payables | **(20,665)** | (18,036) | **—** | (1) |
| Transactions reported in the Income Statement | | | | |
| Revenue | **647** | 967 | **—** | — |
| Rental income | **19** | 19 | **—** | — |
| Management charges receivable | **45** | 91 | **45** | 44 |
| Management charges payable | **(202)** | (189) | **—** | (8) |
| Purchases | **(99,192)** | (92,235) | **—** | — |

### 34 Related parties (continued)

*Transactions with joint ventures*

| | Group | | Company | |
|---|---|---|---|---|
| | **2016 £'000** | 2015 £'000 | **2016 £'000** | 2015 £'000 |
| Balances reported in the Balance Sheet | | | | |
| Amounts owed by joint ventures:<br>Trade and other receivables | **1,674** | 3,611 | **1,628** | 3,096 |
| Amounts owed to joint ventures:<br>Trade and other payables | **(11)** | (9) | **—** | — |

Included within Group trade and other receivables is £1,627,000 (2015: £3,584,000) in respect of loans owed by joint ventures.

Included within Company trade and other receivables is £1,627,000 (2015: £3,095,000) in respect of loans owed by joint ventures.

| | Group | | Company | |
|---|---|---|---|---|
| | **2016 £'000** | 2015 £'000 | **2016 £'000** | 2015 £'000 |
| Transactions reported in the Income Statement | | | | |
| Revenue | **56** | 147 | **—** | — |
| Management charges receivable | **125** | 110 | **—** | — |
| Purchases | **(1,116)** | (1,093) | **—** | — |

*Transactions with other related parties*

Other loans of £nil (2015: £500,000) included within current borrowings is in respect of a loan from Edward Billington and Son Ltd to Carrs Billington Agriculture (Sales) Ltd. This loan is interest free and unsecured. Edward Billington and Son Ltd has a 49% shareholding in Carrs Billington Agriculture (Sales) Ltd.

### 35 Post balance sheet event

On 24 October 2016, after the year end, the Group acquired the entire issued share capital of STABER GmbH, one of the primary suppliers to its German engineering business, including all of its associated intellectual property for €7.85 million of which €2.0 million will be deferred, until at the latest 30 June 2018.

The acquisition will provide the Group with specialised IP relating to high quality, niche robotics and design technology and will further enhance the capability of the German business and its long term operational performance.

Given that this has been a recent acquisition the identifiable assets and liabilities at completion and goodwill have yet to be finalised. The Directors therefore consider it impracticable to be able to disclose this information in these financial statements.

# FIVE YEAR STATEMENT

| Continuing operations<br>Revenue and Results | (Restated)<br>2012<br>£'000 | (Restated)[1]<br>2013<br>£'000 | (Restated)<br>2014<br>£'000 | (Restated)[2]<br>2015<br>£'000 | 2016<br>£'000 |
|---|---|---|---|---|---|
| **Revenue** | 323,581 | 373,906 | 341,849 | 331,285 | **314,907** |
| **Group operating profit** | 11,153 | 11,529 | 11,638 | 12,090 | **12,770** |
| **Analysed as:** | | | | | |
| **Operating profit before non-recurring items and amortisation** | 11,388 | 11,763 | 11,937 | 12,341 | **12,982** |
| Non-recurring items and amortisation | (235) | (234) | (299) | (251) | **(212)** |
| **Group operating profit** | 11,153 | 11,529 | 11,638 | 12,090 | **12,770** |
| Profit on the disposal of property and investment | 237 | — | — | — | **—** |
| Finance income | 673 | 513 | 264 | 338 | **236** |
| Finance costs | (1,168) | (1,379) | (1,171) | (1,045) | **(1,009)** |
| Share of post-tax profit in associate and joint ventures | 1,381 | 2,819 | 2,486 | 2,307 | **2,081** |
| **Profit before taxation** | 12,276 | 13,482 | 13,217 | 13,690 | **14,078** |
| Taxation | (2,938) | (2,989) | (2,873) | (3,010) | **(2,907)** |
| **Profit for the year from continuing operations** | 9,338 | 10,493 | 10,344 | 10,680 | **11,171** |
| Profit for the year from discontinued operations | 565 | 1,822 | 2,549 | 3,013 | **2,817** |
| **Profit for the year** | 9,903 | 12,315 | 12,893 | 13,693 | **13,988** |
| **Ratios (continuing operations)** | | | | | |
| Operating margin (excluding non-recurring items and amortisation) | 3.5% | 3.1% | 3.5% | 3.7% | **4.1%** |
| Return on net assets (excluding non-recurring items and amortisation) | 19.9% | 19.7% | 18.8% | 17.9% | **18.9%** |
| Earnings per share – basic[3] | 9.0p | 9.7p | 9.9p | 10.0p | **10.7p** |
| – adjusted[3] | 9.1p | 9.9p | 10.2p | 10.2p | **10.9p** |
| Dividends per ordinary share[3] | 2.9p | 3.2p | 3.4p | 3.7p | **3.8p** |

Revenue and results included in the table above have been restated to reflect the disposal of Carr's Flour Mills Ltd. The profit after taxation from this business has been included within profit for the year from discontinued operations.

1 Restated for IAS 19 revised

2 Restated for the reclassification to interest income of the net interest on the net defined benefit retirement asset previously recognised within operating profit

3 Restated for the effect of the 10:1 share split in January 2015

| Net assets employed | 2012 £'000 | 2013 £'000 | 2014 £'000 | (Restated) 2015 £'000 | **2016 £'000** |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Goodwill | 5,199 | 5,215 | 9,798 | 10,849 | **11,440** |
| Other intangible assets | 728 | 615 | 499 | 448 | **286** |
| Property, plant and equipment | 37,158 | 53,068 | 56,626 | 58,385 | **35,811** |
| Investment property | 1,005 | 675 | 656 | 636 | **182** |
| Investments | 8,081 | 10,395 | 11,796 | 13,530 | **14,996** |
| Financial assets | | | | | |
| – Non-current receivables | 2 | 1 | 501 | 50 | **50** |
| Retirement benefit asset | — | — | 2,056 | 1,767 | **311** |
| Deferred tax assets | 2,480 | 2,044 | 1,507 | 861 | **—** |
| | 54,653 | 72,013 | 83,439 | 86,526 | **63,076** |
| **Current assets** | | | | | |
| Inventories | 27,128 | 33,445 | 33,315 | 35,031 | **33,423** |
| Trade and other receivables | 59,651 | 66,434 | 63,623 | 64,454 | **56,940** |
| Current tax assets | — | 178 | 47 | 839 | **303** |
| Financial assets | | | | | |
| – Derivative financial instruments | — | 2 | — | 50 | **—** |
| – Cash and cash equivalents | 23,294 | 22,884 | 17,268 | 20,052 | **48,411** |
| | 110,073 | 122,943 | 114,253 | 120,426 | **139,077** |
| Total assets | 164,726 | 194,956 | 197,692 | 206,952 | **202,153** |
| **Current liabilities** | | | | | |
| Financial liabilities | | | | | |
| – Borrowings | (14,176) | (15,545) | (19,688) | (18,721) | **(21,642)** |
| – Derivative financial instruments | (309) | (8) | (15) | (72) | **(20)** |
| Trade and other payables | (56,108) | (58,282) | (54,236) | (54,496) | **(46,823)** |
| Current tax liabilities | (1,552) | (1,639) | (1,631) | (472) | **(470)** |
| | (72,145) | (75,474) | (75,570) | (73,761) | **(68,955)** |
| **Non-current liabilities** | | | | | |
| Financial liabilities | | | | | |
| – Borrowings | (11,573) | (29,448) | (22,189) | (25,744) | **(18,625)** |
| Retirement benefit obligation | (5,351) | (3,272) | — | — | **—** |
| Deferred tax liabilities | (3,733) | (3,765) | (4,111) | (4,184) | **(1,817)** |
| Other non-current liabilities | (4,064) | (4,956) | (5,995) | (4,300) | **(2,668)** |
| | (24,721) | (41,441) | (32,295) | (34,228) | **(23,110)** |
| **Total liabilities** | (96,866) | (116,915) | (107,865) | (107,989) | **(92,065)** |
| **Net assets** | 67,860 | 78,041 | 89,827 | 98,963 | **110,088** |

The prior year has been restated for the grossing up of cash and cash equivalents and bank overdrafts, included within current borrowings, for accounts with right of offset within the same banking facility.

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**Bibby Agriculture***
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**R Hind**
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Tel: 0191 296 2020

**Wälischmiller Engineering GmbH**
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Tel: 0049 7544 95140
Fax: 0049 7544 951499

**Silloth Storage Company***
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Wigton, Cumbria, CA7 4JQ

* joint venture company
** associate company

# REGISTERED OFFICE AND ADVISERS

**Registered Office**
**Carr's Group plc**
Old Croft, Stanwix,
Carlisle,
CA3 9BA
Registered No. 98221

**Chartered Accountants and Statutory Auditors**
**PricewaterhouseCoopers LLP**
Central Square South,
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NE1 3AZ

**Bankers**
**Clydesdale Bank PLC**
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**Financial Adviser and Broker**
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2 Gresham Street,
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**Financial and Corporate PR Advisers**
**Powerscourt**
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**Registrars**
**Capita Registrars**
The Registry,
34 Beckenham Road,
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Kent,
BR3 4TU

# DORMANT SUBSIDIARIES

| Company Name | Registered and Located | Ownership |
|---|---|---|
| B. E. Williams Ltd | England & Wales | 51%[1] |
| Caltech Biotechnology Ltd | England & Wales | 100% |
| Carrs Animal Feed Supplements Ltd | England & Wales | 100% |
| Carrs Feeds Ltd | England & Wales | 51%[1] |
| Carrs Fertilisers Ltd | England & Wales | 100% |
| Carr's International Industries Ltd | England & Wales | 100% |
| Carr's Milling Industries Ltd | England & Wales | 100% |
| Carrs Milling Ltd | England & Wales | 100% |
| Carrs Natural Feeds Ltd | England & Wales | 100% |
| Chirton Engineering Ltd | England & Wales | 100% |
| Forsyths of (Wooler) Ltd | England & Wales | 51%[1] |
| Greens Flour Mills Ltd | England & Wales | 100% |
| Johnstone Fuels and Lubricants Ltd | Scotland | 51%[1] |
| Phoenix Feeds Ltd | England & Wales | 51%[1] |
| R Hind Ltd | England & Wales | 100% |
| Reid and Robertson Ltd | Scotland | 51%[1] |
| Robert Hutchison Ltd | England & Wales | 100% |
| Safe at Work Ltd | England & Wales | 51%[1] |
| Scotmin Nutrition Ltd | Scotland | 100% |
| Walischmiller Solutions Ltd | England & Wales | 100% |
| Wallace Oils Ltd | England & Wales | 51%[1] |
| WM. Nicholls & Company (Crickhowell) Ltd | England & Wales | 51%[1] |

[1] 100% owned by Carrs Billington Agriculture (Sales) Ltd which is a 51% subsidiary of Carr's Group plc.

Companies registered in England & Wales have a registered office of Old Croft, Stanwix, Carlisle, Cumbria, CA3 9BA. Companies registered in Scotland have a registered office of 13 Whitfield Drive, Heathfield Ind. Est., Ayr, KA8 9RX.

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