Carr's Milling Industries PLC
Annual Report and Accounts
2012

# Building on our success

# Carr's Milling Industries PLC ("Carr's") is focussed on the principal activities of agriculture, food and engineering.

The Group's agriculture business comprises retailing of farm machinery/supplies and animal feed manufacture in the UK, US and Germany.

Carr's principal food business is flour milling based in three UK locations.

Engineering comprises Bendalls, R Hind and Carrs MSM in the UK and Wälischmiller in Southern Germany.


**OVERVIEW**

| | |
|---|---|
| Financial and 2012 Highlights | 01 |
| Chairman's Statement | 02 |

**BUSINESS REVIEW**

| | |
|---|---|
| Chief Executive's Review | 04 |
| Financial Review | 12 |
| Board of Directors | 15 |
| Registered Office and Advisers | 15 |

**CORPORATE GOVERNANCE**

| | |
|---|---|
| Risk Management | 16 |
| Corporate Responsibility | 18 |
| Report of the Directors | 20 |
| Corporate Governance | 25 |

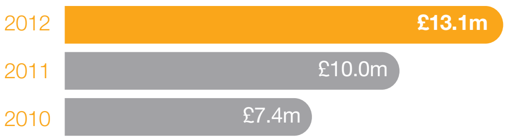
**FINANCIAL STATEMENTS**

| | |
|---|---|
| Directors' Remuneration Report | 28 |
| Independent Auditors' Report | 31 |
| Consolidated Income Statement | 32 |
| Consolidated and Company Statements of Comprehensive Income | 33 |
| Consolidated and Company Balance Sheets | 34 |
| Consolidated Statement of Changes in Equity | 35 |
| Company Statement of Changes in Equity | 36 |
| Consolidated and Company Statements of Cash Flows | 37 |
| Principal Accounting Policies | 38 |
| Notes to the Financial Statements | 43 |
| Five Year Statement | 88 |
| Notice of Annual General Meeting | 90 |
| Directory of Operations | 91 |

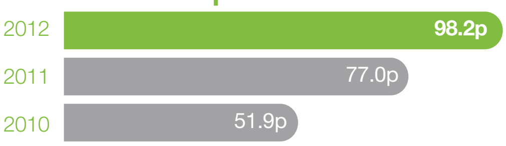

## Financial Highlights

### Revenue
£404.1m


### Profit before tax
£13.1m




### Earnings per share
98.2p




### Dividend per share
29.0p


## 2012 Highlights

- Construction of new flour mill at Kirkcaldy commenced
- Acquisition of agriculture business to extend geographical cover
- Construction of new block plant in Tennessee completed
- Megastart branded feed launched throughout UK
- AminoMax production commenced in New York State
- Expansion of fuel oil distribution business
- High level of activity throughout the year in Engineering
- Construction of new factory for Wälischmiller commenced

# Chairman's Statement

The strong financial performance achieved by Carr's for the 52 weeks ended 1 September 2012 reflects organic growth in Agriculture and Engineering as well as successful expansion in selected overseas markets.

**Richard Inglewood**
Chairman

A particular feature of this period's results was a doubling of the contribution to Group profit before taxation from overseas businesses to just over 48 per cent.

In Agriculture, the business is increasingly focused on proprietary products developed to improve livestock performance and profitability. Following significant investment and research in this area, we are experiencing strong demand for our products in North America, Europe and New Zealand, as well as in the UK, and expect this trend to continue.

Strong demand from the nuclear industry in China, France, Germany, Japan, Russia, the UK and USA is reflected in the increasing contribution of Engineering, which accounted for 36 per cent (2011: 17 per cent) of total Group profit before tax for the period. Overall, the growth in the value of the Engineering order book is providing significant visibility of revenues for the next two years.

The performance of the Food division continues to be depressed by long-term over-capacity in the flour industry. Following a detailed review of the options for improving the financial performance of the flour milling business, the Board has approved the construction of a state-of-the-art flour mill adjacent to the Port of Kirkcaldy for a total investment of £17 million. This new flour mill, which will replace the existing mill, will be at the forefront of mill design, innovation and technology, with commissioning expected in September 2013. This mill, alongside the re-opened port in Kirkcaldy, will continue to produce the high quality product associated with the Carr's name for decades. The Board believes that this investment, once completed, should result in significant financial benefits to be derived from new sales, operational efficiencies, input cost savings and margin improvements.

Investment has been crucial to the success of Carr's and forms a central part of our plans for future profitable growth. During the period, a total of £2.0 million was invested in acquisitions (Clive Walton Engineering, and the asset purchases of agricultural chemists, Laycocks, and animal feed business Afgritech, a joint venture of the Group). In addition, a total of £7.0 million was invested in Phase I of the new Wälischmiller factory in Germany, a new high moisture feed block plant in Tennessee, expansion of our agriculture branches and initial expenditure on the new flour mill at Kirkcaldy.

### Financial Review

Revenue for the period increased by 8.2 per cent to £404.1 million (2011: £373.3 million). Profit before taxation was up 30.5 per cent to £13.1 million (2011: £10.0 million).

Basic earnings per share for the period were up by 27.5 per cent to 98.2 pence (2011: 77.0 pence) with fully diluted earnings per share of 97.5 pence (2011: 76.3 pence) and adjusted earnings per share of 101.5 pence (2011: 88.4 pence).

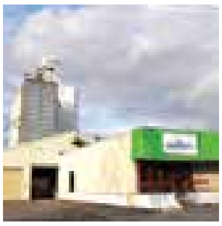
The net cash generated from continuing operations was £8.3 million (2011: £11.4 million). At the end of the period, the Group had net debt of £2.5 million compared to net cash of £4.6 million at 3 September 2011. This reflected total investment and capital expenditure during the period of £8.9 million, an increase in working capital of £2.0 million, and a contribution to the deficit in the pension scheme of £3.3 million.

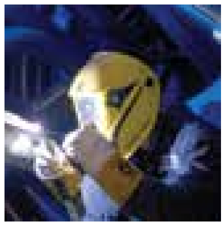
On 11 November 2011, the Group restructured part of its bank facilities with the Clydesdale Bank and with the exception of the bank overdraft of £5.0 million, which is renewed annually, the other facilities, revolving credit of £10.0 million and term loan of £2.5 million, are committed through to November 2014.

As a result of planned investments, we expect net debt to increase during the current period. On the basis that overall trading continues to be favourable, with maintained margins and strong operational cash flow, we expect gearing and interest cover to remain well within our conservative levels. This sound financial position means that Carr's is well placed to continue to fund its existing investment plans.

> "Investment has been crucial to the success of Carr's and forms a central part of our plans for future profitable growth."

**Photos**
Left: Watertown plant
Centre: Megastart
New mill at Kirkcaldy
Right: Evaporator D



## Dividend

The Board is proposing an 11.5 per cent increase in the final dividend to 14.5 pence per ordinary share which, together with the two interim dividends of 7.25 pence per share each, paid in May and October 2012, makes a total of 29.0 pence per share for the year (2011: 26.0 pence per share). The final dividend, if approved by shareholders, will be paid on 18 January 2013 to shareholders on the register at the close of business on 21 December 2012 and the shares will go ex-dividend on 19 December 2012.

## Board Changes

On 23 October 2012, it was announced that I will retire as Chairman and non-executive Director on 28 February 2013. Chris Holmes will retire as Chief Executive Officer at the same time to become Chairman, with Tim Davies being appointed as Chief Executive Officer with effect from 1 March 2013.

It was announced on 6 July 2012 that Ron Wood is retiring as Finance Director on 30 April 2013 to be succeeded by Neil Austin. The current Assistant Company Secretary, Katie Sinclair, will take over Ron Wood's position as Company Secretary with effect from 1 January 2013. In addition to being an outstanding Board colleague and Finance Director, Ron Wood has held Board responsibility for the Engineering division which he will continue to support in a consultancy role for approximately 18 months from the date of his retirement.

These changes to the Board represent the implementation of a succession plan under consideration for some time and will result in a top quality management team best placed to take Carr's to the next stage of its existing development.

I would like to take this opportunity to thank my Board colleagues for their enthusiasm and support during my time at Carr's. It has been a privilege to serve as Chairman for the last seven successful years and I am certain that the Group will continue to grow and prosper in the future.

## Outlook

The challenge for Carr's after the strong period of financial performance experienced in 2012 is how to build on it and grow further.

We view 2013 with optimism, boosted by the likely benefits of the considerable investments we have made and are making across all three divisions of the Group.

The considerable advance in Engineering revenues and profit before tax marks a step change in the size, breadth and capability of that division. The order book, particularly overseas, is strong and the visibility of revenues gives us confidence that the year's outturn can be matched.

The Food division, by contrast, continues to suffer from the well-rehearsed issues of over-capacity and pressure from customers but remains profitable. Wheat prices remain high as a consequence of the poor UK harvest with lower yields and poorer quality although the position of our mills near ports, equipped to take wheat from mainland Europe gives us some competitive advantage. However, we do not expect any significant improvement in profitability until our new state of the art plant at Kirkcaldy is commissioned at the end of the current financial period.

Against that background, it is likely that the Agriculture division will be the main source of growth in 2013. The current period has started well, benefiting from strong sales of animal feed in the UK and particularly in the USA where forage quality is poor, caused by the drought conditions in many states. We also expect good growth from a full year's production of *AminoMax*, the patented rumen bypass protein at the plant at Watertown, New York State. As before, the drivers of growth in the division are the demand for Carr's proprietary products for livestock across all markets as well as the expansion of the retail, machinery franchise and fuel depot networks in the UK.

In pursuit of our objectives, the Group continues to evaluate acquisition and other investment opportunities with vigour, assisted by our strong balance sheet and cash flow.

Richard Inglewood
Chairman
16 November 2012

# Chief Executive's Review

With our highest ever profits, the 2012 result broke the Group's previous record set last year, by 30 per cent.

**Chris Holmes**
Chief Executive Officer

We have maintained our emphasis on continued growth with capital projects and acquisitions across all three divisions. In addition we have embarked on further projects that will support the future growth of the Group in both the UK and abroad.

In the period, the major investment projects completed, commenced and proposed include:

- £17.0 million for a new mill at Kirkcaldy
- £0.4 million for a fuel oil depot at Cockermouth
- £4.4 million to replace the Wälischmiller Engineering factory scheduled for completion in 2013
- £1.2 million for expansion of the Agriculture Retail Branch at Carlisle
- £2.2 million for a new Agriculture Retail Branch at Annan
- £0.7 million for a low moisture block plant in Tennessee
- £0.4 million for the expansion of the AminoMax plant in Watertown, New York State
- £0.8 million acquisition of Clive Walton Engineering Limited
- £0.8 million acquisition of J L Marsden + Petsmart Ltd t/a Laycocks

Of the above £27.9 million investment programme, £8.6 million was incurred in the period to 1 September 2012 and £19.3 million is expected to be incurred in the current financial period.

### Staff

This year has not been without challenges, and the Board together with senior management recognise that without the continued commitment and dedication of our employees our success would not have been possible. Carr's is fortunate to have many employees with 20, 30 and even 40 years' service and this experience together with expertise enables Carr's to thrive.

I welcome our members of staff joining this year through acquisitions. On behalf of the Board I express our thanks and appreciation to all employees throughout the Group for their continued commitment and dedication.

Agriculture

Food

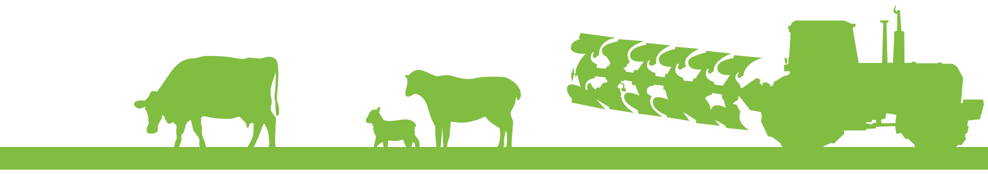
Engineering

# “A successful period following growth and expansion both in the UK and abroad.”

**Photos**
Left: Carrs Billington fuel lorry
Centre: Flour packer
Horslyx
Right: Opening of Watertown plant




## PROFIT BEFORE TAX BY SECTOR



**26.1% up from 2011**

£8.1m

**64.9% down from 2011**

£0.4m

**183.8% up from 2011**

£4.7m

# Agriculture


**Photos**
Left: Megalix
Right: AminoMax

## The trading environment for Agriculture during the period was broadly favourable, and although input prices were volatile, growth was primarily driven by feed block both in the UK and overseas, and retail and machinery sales in the UK.

**Revenue for the period grew by 7.7 per cent to £293.8 million (2011: £272.7 million) with profit before tax increasing by 26.1 per cent to £8.1 million (2011: £6.4 million).**

**Profit before tax, including contribution from associate and joint ventures, increased by 15.6 per cent to £9.5 million (2011: £8.2 million).**

Feed block sales increased by 24 per cent, reflecting market share gains in the UK and overseas and remain a prime source of growth in this division.

In the USA, the northern states had a very dry, mild winter with little snow, a complete contrast to the previous period; whilst the southern states experienced heavy rain in the summer followed by a prolonged drought. These weather conditions generated the demand for low moisture feed blocks and this, combined with new business won, resulted in a 37 per cent increase in *Smartlic* and *Feed in the Drum* sales.

In Tennessee, Gold-Bar Feed Supplements LLC, our 50 per cent joint venture, is now in full production of high moisture feed blocks and is expected to contribute positively to revenues and profits for 2012/13. In April 2012, full production of *AminoMax*, the patented rumen bypass protein, started at the 50 per cent joint venture plant at Watertown, New York State, after early engineering issues were resolved. The high quality of the product has been well received by US dairy farmers and the plant is on track to achieve profitable sales for the current period. Investment is being made in a new by-pass amino acid product, *Aminogreen*, and once trials are concluded it is planned that full production will commence alongside *AminoMax*.

Sales of low and high moisture feed blocks from our UK and German operations grew by 12 per cent with continued growth of our branded product, *Crystalyx*, continuing throughout Europe and New Zealand. Scotmin, based in Ayr, increased profitability through a combination of production efficiencies, increased sales of *Megalix*, and the introduction of the *Megastart* range marketed through the enlarged distribution network.

By contrast dairy feed sales remained static during the period but, overall, compound feed sales were down 7 per cent. Reduced margins for the period were affected by substantial increases in raw material prices, which are now showing some signs of easing.

Retail sales continued to achieve growth on last period's excellent result with a 13 per cent increase. This is the result of an enlarged product range being sold through an extended branch network in Scotland and the North of England, and the successful integration of Safe at Work, acquired in April 2011. Machinery sales are a continuing success with a 23 per cent increase following the 18 per cent growth of last period. This is attributable to new franchises increasing the product selection for our increasing number of customers.

In July 2012, the £0.8 million acquisition of Laycocks, of which £0.7 million was paid on completion, added branches in Malton, Settle and Skipton and further increased the veterinary product range available to our customers. It is expected to make a profitable contribution in 2012/13. A new branch, to be opened at the new auction mart at Kendal in December 2012, will take the total number of retail branches to 26.

Despite the relatively mild winter, fuel sale volumes were maintained, reflecting market share gains and positive contributions from new depots at Hexham (opened in August 2011) and Cockermouth (opened in February 2012).

> "AminoMax products have been well received by US dairy farmers and the plant is on track to achieve profitable sales."

**Profit before tax**
£8.1m


**Revenue**
£293.8m


**Photos**
Left: Bagged flour
Right: Ethnic bread
Bottom: Carr's strong white flour

# Food

**Revenue for the period from our three flour mills, at Kirkcaldy in Fife, Silloth in Cumbria and Maldon in Essex, was down by 2.6 per cent to £80.5 million (2011: £82.6 million) with profit before tax falling by 64.9 per cent to £0.4 million (2011: £1.3 million) mainly as a result of significant industry-imposed selling price reductions and rising wheat prices.**

The continuing over-capacity in the flour milling industry had a negative impact during the period when volumes were down by 1 per cent and the wheat price was volatile with a price range of £180 per tonne to £250 per tonne experienced in the last twelve months. The financial impact on this was partly mitigated by the performance of our wheat handling facility at Kirkcaldy, which exceeded our expectations, and the continued growth of speciality flour sales, in particular the expansion of our products sold to the ethnic food market.

The decision to invest £17 million in a new replacement flour mill at Kirkcaldy followed a comprehensive review by the Board of the options available to improve financial performance, and increase the competitiveness of Carr's in a difficult market. The Board took into account: the fact that the current mill is near the end of its natural life, the ever increasing importance of food safety, Carr's market position, and potential operational efficiencies to be achieved.

Carr's has a strong customer base in Scotland and the North of England. Kirkcaldy is the ideal location for the new mill, given the success of the re-opened port, and the logistics of the customers the mill serves.

The new mill will provide significant and immediate efficiencies in the areas of operations, energy consumption and raw material costs. Even with the less favourable market backdrop persisting, the profitability of the Food division is expected to be very positively impacted by the commissioning of this new mill.

Construction of the new mill commenced in July with commissioning scheduled for September 2013.

“£17 million in a new flour mill at Kirkcaldy followed a comprehensive review by the Board of the options available to improve financial performance.”

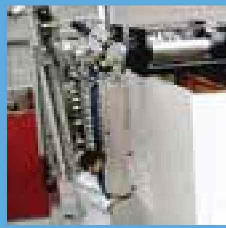
**Profit before tax**

£0.4m


**Revenue**

£80.5m






**Photos**
Left: Telbot® TB300
Right: VNE – MSM manipulator
Bottom: Evaporator D

# Engineering

**Profit before tax for the period increased by 183.8 per cent to £4.7 million (2011: £1.7 million) on revenue up by 65.2 per cent to £29.7 million (2011: £18.0 million).**

The 18 per cent revenue growth seen in the UK reflects steady demand, mainly from the nuclear industry. Specialist fabricators, Bendalls, completed a contract for the supply of pressure vessels to Bechtel in the US for the river protection project-water treatment plant in Handford, Washington State. Post-delivery issues arose which we are working with Bechtel to resolve. It also delivered, in the second half, a major vessel for the UK's largest nuclear project, Evaporator D, at Sellafield in Cumbria. Outside the nuclear industry, Bendalls commenced work on a £4 million project to supply pressure vessels for a floating production, storage and offloading platform being built by Hyundai for the BP Quad 204 area, west of the Shetland Islands. This is scheduled for delivery in early 2013.

In May 2012, Bendalls acquired Clive Walton Engineering Limited for £0.8 million, a precision machining business which is expected to make a positive contribution to revenue and profit in 2012/13. The acquisition complements the Bendalls business, enabling a wider set of skills to be offered to customers.

In the second half of the 2012 financial period, the performance of Carrs MSM benefited from the "life of plant" contract, signed in the first half of the period, for the supply of critical parts to Sellafield.

Wälischmiller, the remote handling and robotics business based in Germany, has been exceptionally busy and operating to capacity during the year. In order to fulfil existing contracts and support future growth, it has expanded its design and production engineering teams. Significant contracts for remote handling equipment were completed for customers in France, Japan and South Korea as well as delivery of the specialist *Telbot*® robots for a decommissioning plant in Germany.

Following the successful conclusion of the tests in Norway for our designed *Telbot*® for inspecting gas tanks for Shell, discussions are on-going to progress the project on a commercial basis.

Wälischmiller is currently working with the nuclear division of Mitsui to design specialist remote handling equipment for use at the tsunami destroyed Fukushima plant in Japan.

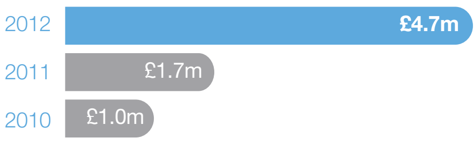
Phase I (new office accommodation and some production capacity) of the new €5.5 million factory at Markdorf was completed in October 2012, with construction of the main production facility now underway and scheduled for completion in October 2013.

Chris Holmes
Chief Executive Officer
16 November 2012

> "Bendalls commenced work on a £4 million project to supply pressure vessels for a floating production, storage and offloading platform being built by Hyundai for the BP Quad 204 area."

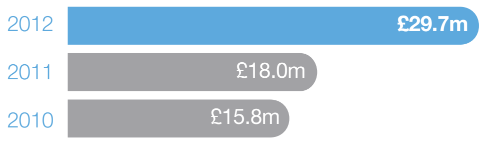
**Profit before tax**

£4.7m




**Revenue**

£29.7m




# The Group's business


**Photos**
Left: New mill at Kirkcaldy
Right: Wälischmiller manipulator

**Ronald Wood**
Finance Director

The Group's operations are organised into three business divisions, agriculture, food and engineering, and the performance of these three divisions in the period is discussed in the Chief Executive's Review on pages 4 to 11. The agriculture business operates predominately in the North of England, Wales and Scotland, in addition there are four animal feed plants in the US and a plant in Germany. The flour business operates entirely within the UK and the engineering business operates in the UK and Germany.

The markets in which all three businesses operate are competitive both in terms of pricing from other suppliers and the retail environment in general which has a direct impact on many of our customers. Despite this, Carr's businesses have a long record of increasing sales and profits through a combination of investing in modern efficient factories and equipment, developing a range of quality products and making sound acquisitions. The businesses are under the control of stable, experienced and talented operational management teams supported by a skilled workforce.

### Business objectives
There are five key elements to the Group's strategy for meeting its objectives of continuing growth and profitability:

- Deliver quality, innovative and cost-effective products and services to our customers
- Organic growth
- Seek acquisitions to complement our existing businesses
- Maximise operational efficiency
- Securing employee health and safety

### Business strategies
The Group's strategy is to focus on growing the quality end of the markets in which we operate, to establish meaningful and long lasting relationships with our customers, by a combination of product development and high service levels, and to invest in quality facilities. Each business within the Group is given the responsibility for developing its own plans to deliver the objectives of the Group with particular emphasis on growing sales through the supply of quality products, service and product innovation, improving operational efficiency and securing employee health and safety. The role of the Board in achieving the Group's objectives has been to support operational management and to identify suitable acquisitions that will bring new customers to the Group or will secure existing market positions.

### Current and future development and performance
The key features of the period have been the record profit before tax (from continuing operations) for the Group and continued capital investment including the decision to invest in a new flour mill at Kirkcaldy to replace our existing adjacent mill.

The trading environment in which the Group operates has remained challenging. During the year, the flour business had to manage volatile wheat prices, which it looked to recover through a combination of selling price increases and operational efficiency improvements.

The Group has experienced continuing competitor pressure, in all sectors, but the expansion of our agricultural branch network, our expansion of our oil depots, and strong engineering order book have to a large extent mitigated these pressures.

### Revenue
Reported revenue was 8.2 per cent ahead of last period reflecting growth across the agriculture and engineering sectors. The highlights for the period were the 37 per cent growth in low moisture feed blocks in the US, and the 29 per cent growth in high moisture feed blocks following the re-launch of Megastart and Megalix. The oil sector maintained revenue volumes year on year despite the contrasting winter periods and the Engineering division completed many large contracts.

### Operating profit
Group operating profit of £12.1 million is up 31.8 per cent on last period and reflects the revenue growth, mainly organic, and the benefit of operational efficiencies.

### Share of results of joint ventures
The Group's share of the post-tax result of its joint ventures, all agricultural related companies, was £201,000 (2011: £321,000). In the second half of the period the production facilities at the two new joint venture companies were commissioned, one in New York state producing *AminoMax* and the other in Tennessee producing high moisture feed blocks. Due to early engineering issues, which are now resolved, in the *AminoMax* plant the joint venture missed the seasonal market and returned a loss in the period. The plant is on track to achieving profitable sales in the current period.

### Profit before tax
Profit before tax at £13.1 million (2011: £10.0 million) was 30.5 per cent ahead of the prior period. The growth in profit was evident in the increase from overseas with 48.3 per cent (2011: 24.9 per cent) of the Group's profit generated from our businesses in Germany and USA.

### Taxation
The Group's effective tax charge on profit from activities after net finance costs and excluding profits from associate and joint ventures was 25.3 per cent (2011: 24.0 per cent). A reconciliation of the actual total tax charge to the standard rate of corporation tax in the UK of 25.16 per cent is set out in note 9 to the financial statements.

The substantive enactment of the Finance Act 2012 reduced the Corporation tax rate from 26 per cent to 24 per cent in the period to 1 September 2012.

### Earnings per share (continuing operations)
The profit attributable to the equity holders of the Company amounted to £8.5 million (2011: £6.8 million), and basic earnings per share was 98.2p (2011: 77.0p), an increase of 27.5 per cent. Adjusted earnings per share of 101.5p (2011: 88.4p) is calculated by dividing the profit attributable to equity shareholders for the period, before non-recurring items and amortisation of intangible assets, by the weighted average number of shares in issue during the period.

### Cash flow and net debt
The Group has continued to deliver strong operational cash flow. A significant investment programme, totalling over £27 million, commenced in 2012 and will be completed in 2013. This programme is a major reason for the movement of net cash of £4.6 million at 3 September 2011 to net debt of £2.5 million at 1 September 2012.

| | (£'000) | (£'000) |
|---|---|---|
| **Net cash at 3 September 2011** | | **4,572** |
| Profit for the period before tax | 13,059 | |
| Tax | (2,710) | |
| Depreciation, amortisation and profit on disposal | 4,373 | |
| Share of profit from associate and joint ventures | (1,381) | |
| Pensions | (3,772) | |
| Working capital movements | (1,958) | |
| Net cash used in investing activities | (11,563) | |
| Net cash used in financing activities | (6,152) | |
| Other movements | 531 | |
| **Net decrease in cash and cash equivalents** | | **(9,573)** |
| Net proceeds from new issue of bank loans | (2,381) | |
| Repayment of borrowings | 5,911 | |
| Finance lease repayments | 940 | |
| Movement in other borrowings | (628) | |
| **Net increase in loans and other borrowings** | | **3,842** |
| New finance leases | (1,241) | |
| Other movements | (55) | |
| **Non cash changes** | | **(1,296)** |
| **Net debt at 1 September 2012** | | **(2,455)** |

**Group Revenue £404.1m**

**Profit before tax £13.1m**

**Net finance costs £0.7m**

### Pensions
The Group operates its current pension arrangements on a defined benefit and defined contribution basis. The defined benefit section is closed to new members and has 73 active members, 93 deferred members and 197 current pensioners, and the scheme receives additional contributions from the Group in accordance with the latest actuarial valuation as agreed between the Company and the Trustees.

The valuation under the IAS19 accounting basis showed a deficit before the related deferred tax asset in the scheme at 1 September 2012 of £5.4 million (2011: £6.0 million). Actuarial losses of £2.7 million (2011: gains of £0.7 million) have been reported in the Consolidated Statement of Comprehensive Income.

Following the disposal of Carrs Fertilisers and in agreement with the Scheme Trustees the Company injected £1.0 million into the defined benefit section on 6 September 2011 and £2.0 million in the prior financial period on 13 July 2011.

A Group subsidiary undertaking is a participating employer in a defined benefit pension scheme. This scheme is closed to future service accrual. The IAS19 accounting basis showed a deficit, for that scheme, before the related deferred tax asset in the scheme at 1 September 2012 of £4.7 million (2011: £4.5 million). The details of both pension schemes are given on note 29 to the financial statements.

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

| | |
|---|---|
| **Organic sales growth** | year on year increase in sales revenue excluding the impact of acquisitions and disposals |
| **Gross return on revenue** | gross profit as a percentage of revenue |
| **Net return on revenue** | operating profit before non-recurring items as a percentage of revenue |
| **Adjusted earnings per share** | profit attributed to equity shareholders before non-recurring items and amortisation divided by the weighted average of shares in issue during the period |
| **Return on net assets** | profit before tax and before non-recurring items and amortisation as a percentage of net assets |
| **Operating cash flow** | cash generated from operations less tax and net interest paid |

### Performance against KPIs

| | 2012 | 2011 |
|---|---|---|
| Organic sales growth* | 8.1% | 20.8% |
| Gross return on revenue* | 10.9% | 11.0% |
| Net return on revenue* | 3.0% | 2.7% |
| Adjusted earnings per share* | 101.5p | 88.4p |
| Return on net assets* | 19.9% | 17.9% |
| Operating cash flow* | £8.3m | £11.4m |

*continuing operations

### Treasury policies
The Group's policy is structured to ensure adequate financial resources are available for the development of its business while managing its currency and interest rate risks. The Group's strategy, policy and controls are developed centrally and approved by the Board.

The main elements of treasury activity are outlined below.

### Functional currency
The functional currency of the Group is sterling.

The Group's policy is structured to ensure adequate financial resources are available for the development of its business while managing its currency and interest rate risks. The Group's strategy, policy and controls are developed centrally and approved by the Board. The Group contracts to purchase raw materials for its flour milling activities in advance of sales contracts.

### Foreign currency risk
The major transactional foreign currency risk facing the Group is in the purchase of raw materials for the flour milling operation. The major currency involved is the euro. In addition, the Group is committed to build a new flour mill at Kirkcaldy and part of the expenditure on equipment is in Swiss francs. The policy of the Group is to hedge using forward foreign exchange contracts with UK banks as soon as commitment has been given to the underlying transaction.

The results of the Group's foreign subsidiaries and joint ventures are translated into sterling at the average rates of exchange for the period concerned. As this translation has no impact on cash flow, the Group chooses not to hedge its foreign subsidiaries' earnings.

The balance sheets of the foreign subsidiaries are translated into sterling at the closing US dollar and euro exchange rates. Any gains or losses on the translation of the balance sheet into sterling are recorded in reserves.

### Interest rate risk
With low interest rates and low borrowings the Board decided not to manage its cost of borrowing through interest rate hedging instruments. The Board will continue to review the appropriateness of the interest rate hedging should the level of borrowing increase.

### Credit risk
Practically all sales are made on credit terms to an extensive range of customers, which include UK food producers, agricultural merchants, farmers and the nuclear industry. Overdue accounts are reviewed monthly at divisional management meetings. Historically, the incidence of bad debts is low. However, this period the food sector experienced a bad debt arising from a long established food producer and our exposure, net of provision, was £256,000. The ongoing current financial climate requires the Group's credit control functions to be particularly vigilant.

### Funding
The Group has historically been cash generative. The bank position for each operation is monitored on a daily basis and capital expenditure above a certain level is approved at the monthly Group board meeting. Each operation has access to the Group's overdraft facility or has facilities specific to that operation and all term debt is arranged centrally. Bank facilities for more than half the Group's funding requirements is agreed for the two years to November 2014. The balance of the Group's funding is negotiated annually.

### Resources, risks and uncertainties
The Group aims to safeguard the assets that give it competitive advantage, being its product quality, product innovation, food safety and service levels, its operational management, skilled workforce and its modern well-equipped factories.

### Reputation
It is the responsibility of local operational management assisted by the Group Risk Manager to maintain and where possible enhance the Group's reputation for product quality, product innovation, food safety service levels and a culture of safe working.

### Manufacturing facilities
The Group has continued to invest in its production facilities in all three sectors and has authorised significant capital funding on its engineering facilities in Germany and a new flour mill in Kirkcaldy. It intends to continue investing to ensure that it maintains a competitive edge.

### Employees
While the Group continues to invest in facilities and equipment we also continue to invest in our people. The Group offers training programmes where additional skills are required to undertake their responsibilities. The businesses have strategies for retaining staff, including the provision of competitive terms and conditions, and a contributory occupational pension scheme.

### Principal risks and uncertainties
Each year the Group carries out a formal exercise to identify and assess the impact of risks on its business and this year the exercise was carried out in August 2012, and the main risks are set out on pages 16 to 17.

### Retirement
After 25 great years at Carr's I have decided that the time has come to retire, and with some sadness, earlier this year I announced that I would retire on 30 April 2013. I am extremely proud of what Carr's has achieved over the last two decades. I have had the good fortune to work with a great team of dedicated colleagues, whose commitment, vision and teamwork has made the business what it is today. I hand over to Neil Austin, a colleague of many years. Neil's energy and ambition for the business will I am sure lead the Group forward and, together with the Chief Executive Officer, Carr's will continue to prosper under their stewardship.

On behalf of the Board
Ronald C Wood
Finance Director
16 November 2012

## BOARD OF DIRECTORS

**Lord Inglewood**
Non-Executive Chairman

**Chris Holmes**
Chief Executive Officer

**Ronald Wood**
Finance Director

**Alistair Wannop**
Non-Executive Director

**Robert Heygate**
Non-Executive Director

## REGISTERED OFFICE AND ADVISERS

**Registered Office**
Carr's Milling Industries PLC
Old Croft, Stanwix
Carlisle CA3 9BA
Registered No. 98221

**Chartered Accountants and Statutory Auditors**
PricewaterhouseCoopers LLP
89 Sandyford Road
Newcastle upon Tyne
NE1 8HW

**Bankers**
Clydesdale Bank PLC
82 English Street
Carlisle CA3 8HP

The Royal Bank of Scotland plc
37 Lowther Street
Carlisle CA3 8EL

**Financial Adviser and Broker**
Investec Bank (UK) Limited
2 Gresham Street
London EC2V 7QP

**Solicitors**
Hill Dickinson LLP
1 St Paul's Square
Liverpool L3 9SJ

Atkinson Ritson
15 Fisher Street
Carlisle CA3 8RW

**Registrars**
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

# Our risk analysis and management processes enable the Group to achieve its objectives and support our strategy by anticipating and mitigating potential risks.

The process involves the identification and prioritisation of key risks, together with associated controls and plans for mitigation.

The risks identified are collated and reported to the Finance Director. This culminates in the identification for the Board of the Group's key business, financial, operational and compliance risks with associated action plans and controls to mitigate them where possible. Further details of the risk management process are on page 14 and the key risks and uncertainties identified as part of this process, together with some of the mitigating actions that we are taking, are listed below.

The Group is exposed to a number of other risks, some of which may have a material impact on its results. It is not possible to identify or anticipate every risk that may affect the Group. Our overall success depends, in part, upon our ability to succeed in different economic, social and political environments and to manage and to mitigate these risks.

**Key Risks**

| Risk | Impact and description | Examples of mitigating actions |
|---|---|---|
| **Failure to act safely and to maintain the continued safe operation of our facilities and quality of our products** | The safety of our employees, customers, contractors, suppliers, and the communities in which we operate is fundamentally important. We must operate within all laws, regulations and rules relating to health, safety and the environment. The operation of our sites involves many risks, including failure or sub-standard performance of equipment and improper installation or operation of equipment. | • Health and safety policies and procedures at all facilities<br>• Designated staff at all locations to ensure policies are embedded and measured<br>• Product safety and quality policies and procedures in place to prevent contamination<br>• Regular review of safety/environmental performance at group divisional level<br>• Monitoring of health and safety/environmental performance across the Group by means of an established site audit programme |
| **Failure to attract, develop and retain key personnel** | Performance, knowledge and skills of employees are central to success. We must attract, integrate and retain the talent required to fulfil our ambitions. Inability to retain key knowledge and adequately plan for succession could have a negative impact on the Group's performance. | • Remuneration policies designed to attract, retain and reward employees with ability and experience to execute Group strategy<br>• Strategies to provide opportunities for employees to develop careers<br>• Succession planning takes place at management and Board level |

| Risk | Impact and description | Examples of mitigating actions |
|---|---|---|
| **Non-compliance with legislation and regulation** | The Group operates in diverse markets and therefore is exposed to a range of legislation and regulation, which we must comply with and understand. Any breach could have a financial impact and damage our reputation. | • Legal advisers monitor changes in legislation and advise directors accordingly<br>• Legal advisers maintain compliance policies in areas such as antitrust, money laundering and anti-corruption laws |
| **Fluctuations in prices, offtake and availability of raw materials, energy, freight and other operating inputs** | 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. 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. | • Strategic relationships with suppliers<br>• Multiple-source suppliers for key ingredient supplies<br>• Raw material and energy purchasing policies to provide security of supply<br>• Derivatives used where possible to hedge exposure to movements in future prices of commodities |
| **Failure to protect intellectual property** | Our commercial success depends, in part, on obtaining and maintaining trademark and patent protection on certain products and technology. We must successfully defend trademarks and patents against third-party challenges or infringements. | • The Group legal adviser, supported by expert patent lawyers, monitors all patents<br>• Organised and secure process for identifying and recording innovations, trade secrets and potential patentable ideas |
| **Failure to maintain high standards of customer service and identify important consumer trends** | Not meeting the required service levels, especially where the business is heavily reliant on a particular customer, and/or falling behind on emerging trends could have a negative impact on performance and reputation. | • Management work closely with customers to identify emerging trends<br>• Area account managers in place for major customers |
| **Failure to maintain an effective system of internal financial controls** | Without effective internal financial controls, we could be exposed to financial irregularities and losses from acts which could have a significant impact on the ability of the business to operate. We must safeguard business assets and ensure accuracy and reliability of records and financial reporting. | • Authorisation policies ensure that key tasks are segregated to safeguard assets<br>• Detailed internal finance and capital expenditure manuals set out procedure<br>• Group financial performance monitored with monthly Board reports and regular forecasting<br>• Chief Executive and Finance Director undertake detailed business and financial reviews |
| **Managing procurement costs** | The flour division purchases a significant quantity of raw materials each year and incurs many other input costs such as utilities. The Group's cost base can be affected by fluctuating raw material services and energy prices. An inability to pass on increases in costs quickly to the customer could adversely affect the results of the Group. | • Through the division's wheat director, we have strong relationships with suppliers, enabling optimal negotiated prices<br>• Forward prices are agreed and locked in where appropriate and available<br>• The Group seeks to pass on cost increases wherever possible to its customers through price rises, however, competitive constraints in achieving this can affect the Group's results |

# Our Environmental Commitment

We are committed to conducting our business in a manner that is sensitive to the environmental needs of the communities within which we operate.

### Our people

We want Carr's to be an employer of choice, and we believe recruiting, developing and engaging employees is critical to meeting and sustaining our business objectives. The Group is committed to:

- Employment policies free from discrimination;
- An environment that does not tolerate harassment or discrimination;
- Ensuring equal opportunity for all existing and potential employees;
- Fair treatment of people with disabilities regarding applications, training, promotion and career development;
- Providing fair terms of employment and competitive remuneration; and
- Enabling employees to access information enabling engagement with the Group's objectives and achievements.

Across the Group women accounted for 24 per cent of the total number of employees.

### Safety

People are the Group's biggest asset, and in addition to our commitment to treating our employees with dignity and integrity, the safety of our employees is paramount to ensure they will continue to contribute to the running of a successful business. This means that we have to provide safe and healthy conditions for our employees, customers, contractors and visitors at all our locations. Our continuous improvement of our safety record is essential to our operation as a successful business.

#### Overview

The safety performance of the Group significantly improved this year, with a 24 per cent reduction in the total number of accidents. Each of our divisions reported fewer accidents, which can be attributed to:

- the continuing promotion of safe working practices;
- raising awareness;
- creating an enhanced safety culture; and
- increasing workforce involvement.

| | |
|---|---|
| The number of minor accidents decreased by | **13%** |
| The number of major accidents decreased by | **100%** |
| The number of RIDDOR injuries (injuries involving 3 days or more off work[1]) decreased by | **63%** |
| Days lost from RIDDOR injuries fell by | **82%** |

1. RIDDOR reporting requirements changed on 6 April 2012 to include only accidents involving over 7 days off work. We have reported on a like for like basis to get a direct comparison with 2010-2011.

There have been no fatalities.

We are exceptionally pleased with our results, however, there is always room for improvement and the Risk Manager will continue to improve the audit programme, commence an in-house training programme, as well as continue with regular reviews of physical conditions at each site.

### Environment

We play an active role in tackling climate change, reducing waste and looking after the natural environment. We are committed to conducting our business in a manner that is sensitive to the environmental needs of the communities within which we operate. This aim will be achieved by upholding defined, key environmental standards in all of our operations.

#### Overview

Project 250 was established at the end of 2010 with the target of reducing our energy usage by 2.5 per cent year on year. With the ever increasing importance of our commitment to the environment, Project 250 has been expanded to become the Group Environment Committee, managed by a team of individuals representing the entire Group. The Committee has implemented the Energy Efficiency Policy for the Group and has engaged all personnel in the benefits, both business and environmental, of reducing energy usage. The Committee now has the remit to review and propose to the Board all environmentally friendly projects, including any suggestions for renewable energy initiatives. Naturally, the Committee remains committed to ensuring the reduction in both the Group's energy usage and carbon footprint. The carbon footprint is a measure of the impact that a person, organisation or product has on the environment in terms of the amount of carbon dioxide produced during a given period or product cycle. Calculating our total carbon footprint helps us to manage our overall environmental impact and benchmark our performance year on year.

> “At Carr’s we believe a commitment to Corporate Responsibility will enhance the business and foster the right conditions for the growth of our business.”



**Results**

In reducing our energy usage we are able to make financial savings for the group, as well as helping the environment.

This year we managed to build on last year’s success:

- Energy use per unit of production reduced by 1.2 per cent, due to energy efficiency projects and improvements in plant utilisation.
- Primary carbon footprint from manufacturing energy use reduced by 0.9 per cent per unit of production, resulting largely from these energy efficiency initiatives.

**Outlook**

The Committee is working to further improve environmental performance, and to provide action plans that will build on our progress to date and looking towards the reporting requirement on greenhouse gases next year. These plans include:

- Reducing energy usage per unit of production, through a constant focus on efficient operation, supported where appropriate by capital investment;
- Review of global operations;
- Continuing to evaluate our carbon footprint;
- Improving engagement with colleagues and external stakeholders on our environmental performance and other sustainability matters; and
- Investigating renewable energy source options.

## Community

We want to play a positive role in the communities in which we operate. We chiefly do this through charitable donations and by supporting our employees’ participation in community activities.

**Overview**

Each year we support a significant number of organisations, ranging from long-established charities to fledgling community organisations. Community support takes many forms, depending on the needs of the organisation. It includes funding, employee volunteering, consultancy, and providing mentoring and business skills.

**On-going**

This year we decided to sponsor a research student throughout their 4 year research project into food security at Lancaster University. The research project will look at wheat root systems and how to make wheat, one of the world’s most important crops “climate proof” enabling growth in hostile areas. We recognise that this research directly aligns with the interests of Carr’s and we want to assist with the future development of the food industry.

Throughout the year we continued our special relationship with the Lake District Calvert Trust; a charity which enables people of all ages with disabilities, together with their families and friends, to achieve their potential through the challenge of outdoor adventure in the countryside. We have donated £25,000 this year, which we hope will help to enable the trust to continue with the fantastic work they undertake. In addition, several of our employees have participated in volunteering to complete necessary works at the Trust. Such community involvement benefits our employees by enhancing the facilities at the Trust, and offers personal development opportunities.

In addition to the work we do with the Trust we also support a variety of charities and organisations such as:

- The Cumbria Community Foundation, which tackles poverty and disadvantage and improves the quality of community life for the people in Cumbria.
- Carlisle Youth Zone which serves the social, recreational and emotional needs of young people of the area.
- A variety of musical and artistic groups in the local community.
- A variety of schools and nurseries and the local hospice.

We believe that the projects we sponsor target local needs and deliver the most positive impact, and ensure that our community work reflects our broader responsibilities as a Company.

# REPORT OF THE DIRECTORS

The Directors submit their report and the audited consolidated financial statements of the Group for the period ended 1 September 2012.

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 Company's registered number is 98221 and the address of its registered office is Old Croft, Stanwix, Carlisle, CA3 9BA.

## Principal activities, business review and future developments

The Group's activities are Agriculture, Food and Engineering. A review of the business and future development of the Group is presented in the Chief Executive's Review on pages 4 to 11 and in the Financial Review on pages 12 to 14. The principal activity of the Company is that of a holding company.

## Results and dividends

The Group profit from continuing activities before taxation, was £13.1 million (2011: £10.0 million). After taxation charge of £3.0 million (2011: £2.0 million), the profit for the period is £10.1 million (2011: £8.0 million). In the prior period, July 2011, the Group sold its fertiliser business and the profit from discontinued activities after taxation was £16.6 million.

An interim dividend of 7.25p (2011: 6.5p) per ordinary share was paid on 25 May 2012. A second interim dividend of 7.25p (2011: 6.5p) per ordinary share was paid on 5 October 2012. The Directors recommend the payment of a final dividend for the period, which is not reflected in these accounts, of 14.5p (2011: 13.0p) per ordinary share which, together with the interim dividends, represents 29.0p per ordinary share, totalling £2.6 million (2011: 26.0p per ordinary share, totalling £2.3 million).

Subject to approval at the Annual General Meeting, the final dividend will be paid on 18 January 2013 to members on the register at the close of business on 21 December 2012. Shares will be ex-dividend on 19 December 2012.

Key performance indicators are presented in the Financial Review on pages 13 to 14.

## Principal risk identification and management

The Group's principal risks and uncertainties have been reviewed by the Board, and are shown in the Risk management review section on pages 16 to 17. The Risk management review section also provides information on the how the Board envisages the Group managing those risks.

## 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. On 6 September 2011 the Group paid a further £1.0 million to reduce the Group's pension fund deficit. In the previous period the Group paid £2.0 million into the pension fund from the proceeds of the sale of the Group's fertiliser business on 13 July 2011. The total of £3.0 million is £1.4 million in excess of the statutory payment requirement.

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 29 in the Notes to the Financial Statements.

## Directors and their interests

The Directors of the Company who served during the period and up to the date of signing the financial statements are stated on page 15. Each of the current Directors served for the whole of the period under review. Lord Inglewood announced his intention to retire on 28 February 2013, in an announcement on 23 October 2012. C N C Holmes will commence as Executive Chairman on 1 March 2013. Tim Davies has been appointed as Chief Executive Officer and will commence his appointment on 1 March 2013. Lord Inglewood will stand for re-election at the AGM until his retirement on 28 February 2013, in accordance with the Articles of Association. A R Heygate retires in accordance with best practice under the UK Corporate Governance Code 2010, and offers himself for re-election.

In accordance with the UK Corporate Governance Code 2010, the Board confirm that it believes that A R Heygate is an asset to the Board as a result of his great depth of knowledge and expertise in the agriculture and the UK flour milling industry, which the Board view as invaluable.

Biographical details of the Directors are shown below:

### *Non-executive Directors*

Lord Inglewood was appointed as Chairman to the Board in 2005. He was a Conservative member of the European Parliament for ten years until his retirement in 2004, a Government Minister from 1995 to 1997 and has been a member of the House of Lords since 1989. He is currently the Chair of the House of Lords Select Committee on Communications. He is also Chairman of CN Group Limited, the Carlisle based regional media company. Age 61.

Mr A R Heygate was appointed to the Board in 1991. He is the joint Managing Director of Heygate & Sons Ltd, the UK's largest independent flour milling company. He is the longest standing non-executive Director of Carr's and is Chairman of the Audit Committee. He is also a member of the executive of Camden BRI association and sits as Chairman on its Audit Committee. For almost 30 years he has been a member of the executive of the National Association of British & Irish Millers. Age 67.

Mr A G M Wannop was appointed to the Board in September 2005. He is the Senior Independent Director of the Board and the Chairman of the Remuneration Committee. He 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. He is a fellow of the Royal Agricultural Society of England. Age 50.

Mr A R Heygate and Mr A G M Wannop have one year fixed term contracts which expire on 31 August 2013.

### *Executive Directors*

Mr C N C Holmes was appointed to the Board in January 1992, and as CEO in September 1994. Previously he held senior management positions in the agricultural division of J Bibby & Sons. C N C Holmes has advised the Board that he will retire as Chief Executive Officer on 28 February 2013, commencing as Executive Chairman on that date. Age 61.

Mr R C Wood was appointed to the Board as Finance Director and Company Secretary in January 1988 and is a member of the Chartered Institute of Management Accountants. Mr R C Wood has advised the Board that he will retire as a Director on 30 April 2013 and retire as Company Secretary on 31 December 2012. Age 64.

The Executive Directors have service contracts which provide for a rolling one year notice period.

The Directors are entitled to be indemnified by the Company to the extent permitted by law and in the Company's Articles of Association, in respect of all losses arising out of or in connection with the execution of their powers, duties and responsibilities. The Company has executed deeds of indemnity for the benefit of each Director in respect of liabilities which may attach to them in their capacity as Directors of the Company. The Company purchased and maintained Directors' and Officers' liability insurance throughout 2011/12, which has been renewed for 2012/13. Neither the indemnities nor the insurance provide cover in the event the Director is proved to have acted fraudulently.

### Employment policies and employees

The Group is committed to its employees and further details on the Group's policies and commitment can be found in the Corporate Responsibility Report on page 18.

### Acquisitions

On 25 May 2012 Carrs Engineering Limited acquired the entire issued share capital of Clive Walton Engineering Limited, a company engaged in machining parts for various industrial sectors. The cash consideration paid was £800,000. The Walton business complements Bendalls Engineering and was relocated to the Bendalls location in October.

On 20 July 2012 Carrs Billington Agriculture (Sales) Limited acquired the trade and net assets of J L Marsden + Petsmart Limited t/a Laycocks, a supplier of agricultural products. The cash consideration paid on completion was £735,000, and a further £93,000 in November 2012. The acquired business extends our existing branch network in Yorkshire.

On 31 July 2012 the Company acquired the trade and certain assets and liabilities of Afgritech Limited. The cash consideration paid on completion was £409,000.

### Political and charitable donations

During the period ended 1 September 2012 the Group contributed £29,386 (2011: £38,088) in the UK for charitable purposes. Further details have been included with the Corporate Responsibility statement on page 19. There were no political donations during the period (2011: £Nil).

### Investment properties

The market value of the Group's investment properties at 1 September 2012 exceeded their net book amount by approximately £360,000. The previous valuation in July 2011 for the majority of the investment properties was undertaken by independent, professionally qualified valuers. The Directors have reviewed the valuations and are satisfied there are no significant changes to the assumptions and the valuations.

### Payment of suppliers

Payment terms are agreed with each supplier and every endeavour is made to adhere to the agreed terms. The average credit terms for the Group as a whole, based on the year-end trade payables figure and a 365 day period, is 41 days (2011: 38 days). The Company has no outstanding trade payables at the end of the financial period (2011: £Nil).

### Share capital

The Company has a single class of share capital which is divided into Ordinary Shares of £0.25 each.

The movement in the share capital during the period is detailed in note 30 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 8 January 2013, is limited to £731,235 which is equal to 33 per cent of the nominal value of the issued share capital on 17 November 2011. 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.

***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 £221,586 representing 10 per cent of the Company's issued share capital as at 17 November 2011. This authority will expire at the end of the Annual General Meeting.

***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 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 have 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. 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 28 to 30), are as follows:

| | **on 1 September 2012 Ordinary Shares** | on 3 September 2011 Ordinary Shares |
|---|---|---|
| C N C Holmes | **127,500** | 127,500 |
| R C Wood | **96,430** | 98,230 |
| A R Heygate | **37,225** | 37,225 |
| W R Inglewood | **4,410** | 4,410 |
| A G M Wannop | **2,261** | 2,261 |

All the above interests are beneficial. There have been no other changes to the above interests in the period from 1 September 2012 to 5 November 2012.

### 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 there 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 8 January 2013, 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 has been informed of the following interests at 5 November 2012 in the 8,876,356 ordinary shares of the Company, as required by the Companies Act 2006:

| | Number of shares | Percentage of Issued share capital |
|---|---|---|
| Heygate & Sons Limited* | 1,265,287 | 14.3% |
| T W G Charlton | 575,000 | 6.5% |
| Rathbone Nominees Limited | 453,225 | 5.1% |
| Europe Nominees Limited | 378,779 | 4.3% |
| HSBC Global Custody Nominee (UK) Limited | 264,094 | 3.0% |

* A R Heygate is a director of Heygate & Sons Limited.

### 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.

### Annual General Meeting and Special Business to be transacted at the Annual General Meeting

The Notice convening the Annual General Meeting appears on page 90 and includes the following items of Special Business:

***(i) Resolution 8: Authority to allot shares***

Under the Companies Act 2006, the Directors of a public company are unable to allot shares without the authority of the Shareholders in a general meeting. Resolution 8 authorises the Directors to allot shares in the Company up to an aggregate nominal amount of £732,299. This represents 2,929,197 ordinary shares of 25p each in the capital of the Company, which is approximately 33 per cent of the Company's issued share capital (excluding treasury shares) as at 5 November 2012 (being the last practicable date before the printing of this document).

As at 5 November 2012 (being the last practicable date before the printing of this document), no shares in the Company were held as treasury shares.

This authority will last until the end of the next Annual General Meeting of the Company or 31 March 2014 if earlier. The Directors do not have any present intention of exercising this authority except in connection with the issue of ordinary shares in respect of the Company's share option plans.

This resolution complies with guidelines issued by investor bodies and, in accordance with normal practice, the Directors will seek annual renewal of this authority.

The Association of British Insurers' guidance on the approval of allotments of shares states that, in addition to request for authorisation to allot new shares in an amount up to one-third of the existing issued share capital of a company, it would regard as routine requests to authorise the allotment of a further one-third in connection with a rights issue. Resolution 8 is the usual general authority to allot shares up to approximately 33 per cent of the Company's issued share capital (which as in previous years is accompanied by a disapplication of Shareholders pre-emption rights resolution in resolution 9).

***(ii) Resolution 9: Disapplication of pre-emption rights***

If equity securities are to be allotted for cash, the Companies Act 2006 ("the Act") requires that those equity securities and treasury shares are offered first to existing Shareholders on a pro rata basis, i.e. in proportion to the number of equity securities they each hold at that time. Equity securities include the Company's ordinary shares.

There may be circumstances, however, when it is in the interests of the Company to be able to allot equity securities for cash and to sell treasury shares for cash without first offering them to existing Shareholders.

Resolution 9 gives the Directors power to allot equity securities for cash (pursuant to the authority obtained in resolution 8) and to sell treasury shares for cash as if the pre-emption provisions of section 561(1) of the Act do not apply. Other than in connection with a rights issue or other similar issue, the power contained in this resolution will be limited to an aggregate nominal amount of £110,954. This represents 443,818 ordinary shares of 25p each in the capital of the Company, which is approximately 5 per cent of the Company's issued share capital as at 5 November 2012 (being the latest practicable date before the printing of this document).

This power will last until the end of the next Annual General Meeting of the Company or 31 March 2014 if earlier. This resolution complies with guidelines issued by investor bodies and, in accordance with normal practice, the Directors will seek annual renewal of this power.

The Company intends to comply with the principle on disapplying pre-emption rights set out by the Pre-Emption Group that (in the absence of suitable advance consultation and explanation or the matter having been specifically highlighted at the time at which the request for disapplication was made) a company should not issue more than 7.5 per cent of its ordinary share capital for cash other than to existing Shareholders in any rolling three year period.

***(iii) Resolution 10: Authority to buy own ordinary shares***
Resolution 10 authorises the Company to buy its own ordinary shares in the market.

This authority allows the Company to purchase a maximum of 887,636 ordinary shares (which is approximately 10 per cent of the company's issued share capital as at 5 November 2012.

The price to be paid for any shares must not be less than 25p, being the nominal value of a share, and must not exceed 105 per cent 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 contracted to be purchased.

This authority will expire on the earlier of the date which is 18 months after the passing of the resolution or the conclusion of the next Annual General Meeting to be held after the date of this Annual General Meeting.

As at 5 November 2012 (the latest practicable date before the printing of this document) options over 223,150 ordinary shares in the Company were outstanding under the Company's employee share schemes, representing 2.5 per cent of the Company's issued share capital at that date. If the existing authority to purchase shares granted at the Company's last annual general meeting and the proposed authority now being sought were to be exercised in full, such options would represent 2.8 per cent of the Company's issued share capital (excluding treasury shares) at 5 November 2012.

Shares will only be repurchased if the Directors consider such purchases to be in the best interests of Shareholders generally and that they can be expected to result in an increase in earnings per share. The authority will only be used after careful consideration, taking into account market conditions prevailing at the time, other investment opportunities, appropriate gearing levels and the overall financial position of the Company. Shares held as treasury shares will not automatically be cancelled and will not be taken into account in future calculations of earnings per share (unless they are subsequently resold or transferred out of treasury).

***(iv) Resolution 11: Notice of general meetings***
Under the Act the notice period required for general meetings of the Company is 21 clear days unless Shareholders approve a shorter notice period, which cannot however be less than 14 clear days. (Annual General Meetings will continue to be held on at least 21 clear days' notice).

In order to call general meetings on less than 21 clear days' notice, the Company must make a means of electronic voting available to all Shareholders for that meeting. This requirement will be satisfied if the Company offers a facility allowing Shareholders to appoint a proxy by means of a website.

***(v) Resolution 12: New long term incentive plan***
At its Annual General Meeting in January 2006, Carr's Milling Industries PLC (the "Company") established (with shareholder approval) the Carr's Milling Industries Approved Executive Share Option Scheme 2006 (the "Approved Scheme"), the Carr's Milling Industries Unapproved Executive Share Option Scheme 2006 (the "Unapproved Scheme") and the Carr's Milling Industries Deferred Bonus Scheme 2006 (the "Deferred Bonus Scheme") (together, the "2006 Schemes"). The 2006 Schemes are discretionary schemes, enabling the grant of awards, over ordinary shares in the Company ("Shares") to selected employees of the Carr's Milling Industries group (the "Group"), with flexibility for the grant of tax-favoured options, to the extent permissible, under the Approved Scheme. At the same time, the Company also established (again with shareholder approval) the Carr's Milling Industries Sharesave Scheme 2006 (the "Sharesave Scheme"), an all-employee scheme, which also enables the grant of tax-favoured options to eligible employees of the Group.

The Remuneration Committee of the board of directors of the Company (the "Committee") has reviewed the overall remuneration structure for the Company's executive directors and has concluded that it would be appropriate, to achieve a flexible and balanced remuneration package, for the Company to adopt the LTIP. If approved by shareholders, it is intended that going forwards participants in the LTIP will not be granted awards under either of the Approved Scheme or the Unapproved Scheme or Deferred Bonus Scheme.

Under the proposed LTIP, the Committee may determine, in its discretion, those employees or executive directors who will be granted rights to acquire Shares for no cost, subject to the achievement of suitably stretching and measurable performance targets. For initial awards under the LTIP, these targets will be set by reference to the Company's published Earnings per Share over the period of 3 financial years.

The Committee is of the view that the LTIP is the most appropriate way going forward for the Company to offer incentivisation and recognition for good performance through share awards. The Committee considers that the rules of the LTIP reflect current best practice.

A copy of the Carr's Milling Industries Long Term Incentive Plan 2013 will be available for inspection at the offices of Pinsent Masons LLP, 30 Crown Place, London EC2A 4ES during normal business hours from the date of this notice until the conclusion of the meeting and at the place of the Annual General Meeting for at least 15 minutes before and during the meeting.

**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 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.

### 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 15. 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 15 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
Ronald C Wood
Company Secretary
16 November 2012

# CORPORATE GOVERNANCE

Statement by the Directors on compliance with the provisions of the UK Corporate Governance Code 2010.

## Principles of good governance

The Board is committed to high standards of corporate governance. The adoption and maintenance of good governance is the responsibility of the Board as a whole. This report, together with the Directors' Remuneration Report on pages 28 to 30, describes how the Board applies the principles of good governance and best practice as set out in the UK Corporate Governance Code 2010 (the "Code"). A statement of compliance can be found at the end of this report.

## The Board

The Board is responsible for providing entrepreneurial leadership, whilst working within a prudent and effective framework of control, which balances and manages risk. The Board establishes the Group's values and standards and ensures that its obligations to shareholders and stakeholders are met. It sets the Group's objectives and ensures that the Group has the necessary personnel and finances available to meet those objectives.

The Board meets eleven times throughout the period. 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. The schedule is reviewed periodically and includes but is not limited to the following:

- approval of the Group's annual Business Plan;
- the Group's strategy;
- acquisitions, disposals and capital expenditure projects above certain thresholds;
- all guarantees;
- treasury policies;
- the financial statements;
- the Company's dividend policy;
- transactions involving the issue or purchase of Company shares;
- borrowing powers;
- appointments to the Board;
- alterations to the Memorandum and Articles of Association;
- legal actions brought by or against the Group above certain thresholds; and
- the scope of delegations to Board committees, subsidiary boards and executive management of the Group.

A schedule of matters is available on the Company's website. The Board has delegated authority to the Audit and Remuneration 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.

## Members

Throughout the period the Board consisted of a non-executive Chairman, two executive Directors and two other non-executive Directors. W R Inglewood is considered independent and his independence was assessed when he was appointed as non-executive Chairman. A R Heygate is a non-executive Director and the Board considers him to be independent although the Code questions his independence due to his long association with the Company and the fact that he represents a significant shareholder. The Board believes that he acts in the best interests of the Company and that his knowledge and experience are an asset to the Company. In addition, it is felt that his holding of shares in the Company aligns his interests with those of the shareholders.

A G M Wannop is the Senior Independent non-executive Director. The Code recommends that the Board of Directors of a UK public company should include a balance of executive and non-executive Directors (including independent non-executives) such that no individual or small group of individuals can dominate the Board's decision-making. The Board is confident that it meets the requirements of the Code.

Directors' biographies are shown on page 20. The formal terms of reference for the main Board Committees together with the terms and conditions of appointment of non-executive Directors are reviewed annually and are available for inspection at the Company's Registered Office and at the Annual General Meeting.

## New Board structure

On 6 July 2012 it was announced that R C Wood will retire as Finance Director on 30 April 2013, and that Neil Austin will commence working for the Company on 1 January 2013, prior to taking over as Finance Director on 1 May 2013. It was also announced that R C Wood will retire as Company Secretary on 31 December 2012, and that Katie Sinclair, the existing Assistant Company Secretary and Legal Counsel will take over as Company Secretary on 1 January 2013.

On 23 October 2012 it was announced that Lord Inglewood will retire on 28 February 2013. It was also announced that C N C Holmes will retire as Chief Executive Officer and commence as Executive Chairman effective from 1 March 2013. Tim Davies has been appointed as Chief Executive Officer from 1 March 2013.

The Board has taken the decision to appoint C N C Holmes as Chairman to ensure the Group's on-going success. The Board believes that the new structure will ensure continuity of strategy and Company knowledge at a time when both C N C Holmes and R C Wood retire from their current roles. Between them they have 47 years' experience in the Group, and the desire is that this knowledge is not lost. It is important that the focus for everyone is on the business performance. C N C Holmes will cease as Executive Chairman and become non-executive Chairman by the middle of 2013, once Tim Davies has had the opportunity to become familiar with the very diverse nature of the Group.

The Board will consider measures next period to mitigate any governance concerns, and these will be reported next period once the Board makes its decision.

The Board did consult with major shareholders regarding its decision and received unanimous agreement with the decision.

## Elections

The Company's Articles of Association provide that one third of the Directors retire by rotation each year at the Annual General Meeting which is in compliance with the Code. As a result of A R Heygate's long association with the Group the Board have decided that it would be prudent to require him to retire annually to ensure that the shareholders are able to review his continued membership of the Board. In addition, Lord Inglewood will retire by rotation, whose appointment will be on a fixed term until 28 February 2013.

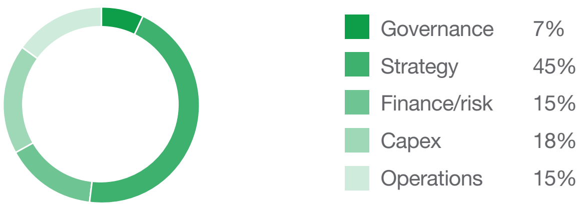
## Attendance and Agenda

In advance of all Board meetings the Directors are supplied with detailed and comprehensive papers covering the Group's operating functions. Members of the executive management team 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 and Remuneration Committees during the period are set out in the table below:

| | Board | Audit Committee | Remuneration Committee |
|---|---|---|---|
| **No. of meetings** | **11** | **2** | **2** |
| W R Inglewood | 11 | 2 | 2 |
| C N C Holmes | 11 | — | — |
| R C Wood | 10 | — | — |
| A R Heygate | 10 | 2 | 2 |
| A G M Wannop | 11 | 2 | 2 |

The chart below shows the approximate time the Board has spent discussing agenda items during the period, separated into broad categories:




In addition to the regular scheduled meetings throughout the period, unscheduled supplementary meetings may also take place as and when necessary, although during this financial period there has been no reason to hold an unscheduled meeting. The Board meetings are structured to allow open discussion and all Directors participate in discussing strategy, financial performance and risk management.

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 Officer or the Group Finance Director.

### 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.

### Chairman and Chief Executive Officer

The roles of the Chairman and Chief Executive Officer are separated and their responsibilities are clearly established, set out in writing and agreed by the Board. The Chairman is responsible for the leadership and workings of the Board and ensuring its effectiveness, while the Chief Executive Officer is responsible for running the business and implementing strategy and policy.

### Directors' conflicts of interest

As permitted under the Companies Act 2006, the Company's Articles of Association permit Directors to authorise conflicts of interest and 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 period there have been no declared conflicts of interest.

### Board Committees

#### *Audit Committee*

The Audit Committee currently comprises the three non-executive Directors, A R Heygate (Chairman), W R Inglewood and A G M Wannop. The Board considers that the Company meets the main requirements of the Code for a company of Carr's size.

The Board is responsible for assessing the Group's internal financial controls and meeting with the external auditors as appropriate. The external auditors have the opportunity for direct access to the Committee without the executive Directors being present. The Committee meets at least two times a year and such meetings involve a review of the Group's interim and full year financial statements.

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

- monitor the integrity of the financial statements of the Group;
- review, understand and evaluate the Group's internal financial risk, and other internal controls and their associated systems;
- oversee the relationship with the external auditors, making recommendations to the Board in relation to their appointment, remuneration and terms of engagement; and
- monitor and review the external auditors' independence, objectivity and effectiveness and to approve the policy on the engagement of the external auditors to supply non-audit services.

During the year and up to the date of this Annual Report the Committee has:

- reviewed the Committee's terms of reference and its effectiveness;
- agreed the terms of engagement, the fees, areas of responsibility and scope of the audit work to be undertaken by the external auditors;
- reviewed the annual and interim financial statements. In doing so the Committee reviewed significant accounting policies, financial reporting issues and judgements, together with the reports received from the external auditors on their audits;
- reviewed and approved the scope of non-audit services provided by the auditors to ensure that there was no impairment of independence and objectivity, and subsequently monitored the non-audit work performed to ensure it was within policy guidelines; and
- reviewed the policy and process enabling employees within the Group to make disclosures about suspected financial and operational improprieties.

The Committee has recommended to the Board that PricewaterhouseCoopers LLP be re-appointed as the Company's auditors.

As a result of its work during the year, the Committee has concluded that it has acted in accordance with its terms of reference and has ensured the independence and objectivity of the external auditors.

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

#### *Remuneration Committee*

The Remuneration Committee currently comprises A G M Wannop (Chairman), W R Inglewood and A R Heygate. It is a requirement of the Code that the Committee should, in the case of smaller companies, consist of at least two members who are considered by the Code to be independent. The Company has complied with this. C N C Holmes, Chief Executive Officer, attends 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 recommends to the Board the policy for executive remuneration and determines, on behalf of the Board, the other terms and conditions of service for each executive Director. It determines appropriate performance conditions for the annual cash bonus and deferred bonus scheme and approves awards and the issue of options in accordance with the terms of those schemes. The executive Directors' contract notice periods are one year. The Committee has access to advice from the Company Secretary and to detailed analysis of executive remuneration in comparable companies. Details of the Committee's current remuneration policies are given in the Directors' Remuneration Report on pages 28 to 30.

The Chairman of the Remuneration Committee attends the Annual General Meeting to respond to any shareholder questions that might be raised on the Committee's activities.

**Relations with shareholders**

The Board recognises the importance of good communications with all shareholders. The Group maintains dialogue with institutional shareholders and analysts, and general presentations are made when financial results are announced. Shareholders have access to the Company's website at www.carrs-milling.com.

We engage with our shareholders through our regular communications. We announce our financial results on a six month basis with all shareholders receiving a half year report. In addition, we produce interim management statements. All reports and statements are made available on our website.

The Annual General Meeting is the principal forum for all the Directors to engage in dialogue with private investors. All shareholders are given the opportunity to raise questions 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.

**Going concern**

The Directors have prepared the accounts on a going concern basis, having satisfied themselves from a review of internal budgets and forecasts and current bank facilities that the Group has adequate resources to continue in operational existence for the foreseeable future.

**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 period.

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 does not have an internal audit function as the Board consider that the Group has not yet reached a size where a separate internal audit function would be an appropriate or cost effective method of ensuring compliance with Group policies, and therefore does not currently propose to introduce a Group internal audit function. This area will be kept under review as part of the Board's assessment of the Group's systems of internal control.

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 key risks to the business is set out at pages 16 and 17.

**Compliance with the Code**

The Directors consider that the Company has, during the period ended 1 September 2012, complied with the requirements of the Code other than as set out below:

- the non-executive Director, A R Heygate, is deemed to be independent notwithstanding his long association with the Company and the fact that he represents a significant shareholder (B.1.1);
- the members of the Audit Committee are deemed not to have recent and relevant financial experience in accordance with the Code (C.3.1). However, the Board believes their business knowledge and experience is sufficient to satisfy the Committee's obligations;
- the Board did not have in place during the period a formal and rigorous process of evaluation of its own performance and that of its committees (B.6.). Rigorous but informal evaluation has historically been carried out by the Chairman and Chief Executive Officer, an evaluation of the performance of the individual Directors has also been carried out by the Remuneration Committee;
- the non-executive Directors do not meet without the Chairman to evaluate his performance, (A.4.2) as his performance is reviewed with the Chief Executive Officer and Group Finance Director;
- there is no separate Nominations Committee (B.2.1) to assess and recommend new Directors. Instead the Board as a whole considers these areas following initial scrutiny and recommendations by the Chief Executive Officer and Chairman;
- the Chairman does not discuss governance or strategy with major shareholders (E.1.1); and
- the Senior Independent Director (A G M Wannop) does not meet with major shareholders to discuss their issues/concerns, other than at the Annual General Meeting (E.1.1). The Chief Executive Officer and the Group Finance Director have contact with major shareholders and are able to answer any of their concerns and present any issues to the Board for it to consider.

By order of the Board

Ronald C Wood
Company Secretary
Carlisle
CA3 9BA
16 November 2012

**Information not subject to audit.**

### Remuneration Committee

All matters relating to executive remuneration are determined by the Remuneration Committee, a sub-committee of the Board of Directors. The Remuneration Committee comprises A G M Wannop (Chairman), A R Heygate and Lord Inglewood. The Committee may invite the Chief Executive Officer to participate in some of its discussions when necessary. The Committee's Terms of Reference are available from the Company's website. The Committee's main responsibility is determining the terms and conditions of employment of executive Directors. It is also responsible for considering management recommendations for remuneration and employment terms of the Company's senior staff, including incentive arrangements for bonus payments and the grant of share options. In addition, Pinsent Masons continue to give advice to the Remuneration Committee on share option awards and other benefit schemes.

The remuneration of the non-executive Directors is determined by the Chairman and the executive Directors and reflects the time, commitment and responsibility of their roles. No Director attends any part of a meeting at which his own remuneration is discussed.

### 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 executives with the progress of the Group whilst giving consideration to salary levels in similar sized quoted companies in the sector. The remuneration package is in two parts: a non-performance part represented by basic salary (including benefits); and a significant performance related element in the form of a profit related bonus. The details of individual components of the remuneration package and service contracts are set out below:

### Remuneration package

The non-performance related elements of remuneration which comprise basic salary, car benefit, private healthcare and death in service cover are reviewed annually and are effective from 1 September.

The bonus scheme in operation is based on the achievement of divisional company targets and the Group profit targets. The targets are set having regard to the Group's budget, historical performance and market outlook for the year. The bonus relates to the achievement of a target performance based on a percentage of the results in excess of an annual target. The performance is based solely on the Group's profit before tax, with a sliding scale of targets set around budget performance. The total bonus is capped at 100 per cent of basic salary. Non-executive Directors do not participate in the Group's bonus scheme.

### Service contracts

Each of the executive Directors has a permanent contract with a one year notice period. The most recent executed contracts for the executive Directors were dated 10 June 2002 and as amended on 8 September 2011. Both C N C Holmes and R C Wood receive a pension from the Carr's Milling Industries Pension Scheme 1993 and they would be entitled to loss of salary and benefits in the event of termination of employment. The contracts of non-executive Directors of the Company are fixed for one year and the most recent executed contracts for A R Heygate and A G M Wannop were 10 September 2012. Lord Inglewood has a fixed term contract ending on 28 February 2013 at which time he will resign as a Director of the Company.

### Share Options and Long Term Incentive Plan

The basic salary and a bonus scheme are intended as the most significant part of Directors' Remuneration; in addition, executive share options can be proposed by the Remuneration Committee and are granted periodically to promote the involvement of senior management in the longer term success of the Group. Options can only be exercised if certain performance criteria are achieved by the Group. There are no vested executive share options applicable to the executive Directors.

Executive Directors may also apply for Save As You Earn (SAYE) options on the same terms as all other employees.

In February 2006, the Group established an HMRC Approved Deferred Bonus Scheme. In the year ended 1 September 2012, the Remuneration Committee declined to offer the two executive Directors deferred bonus shares (2011: Nil). There are no shares vesting in this scheme.

These additional parts to a remuneration package are being reviewed as a result of the impending Board changes, as it is appreciated by the Remuneration Committee that the remuneration package for the newly appointed Finance Director and Chief Executive Officer must encourage their commitment to developing the Group.

### Pay and conditions across the Group

The following are the key aspects of how pay and employment conditions across the Group are taken into account when setting the remuneration of employees including the executive Directors.

- All employees, including Directors, are paid by reference to the market rate.
- Performance is measured and rewarded through a number of performance related bonus schemes across the Group including share options for executive Directors and senior executives.
- Performance measures are cascaded down through the organisation.
- The Group offers employment conditions that are commensurate with a small size quoted company, including high standards of health and safety and equal opportunities.
- The Group operates SAYE share schemes which are open to all eligible employees including executive Directors.

### Pensions

The two executive Directors receive a pension from the defined benefit section of the Carr's Milling Industries Pension Scheme 1993 and as such neither the company nor the executive Directors contribute to the scheme. Pensions in payment are guaranteed to be increased annually by 5 per cent or the increase in the Retail Price Index (RPI) if less. For death after retirement a spouse's pension of two-thirds of the member's pension is payable plus the balance of a five year guarantee if applicable.

**Performance Graph**

The following graph illustrates the Company's total shareholder return performance since 31 August 2007 relative to the FTSE All-share index. The Company considers that the FTSE All-share index to be the most appropriate comparator group as it is a broad index and reflects the Company's broad range of activities.


Carr's Milling Industries PLC

FTSE All-Share Price Index

Source: Thomson Datastream

**Information subject to audit**

The remuneration of the Directors for the period was as follows:

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Salary and fees | 656 | 873 |
| Bonuses | 528 | 508 |
| Benefits | 20 | 26 |
| | 1,204 | 1,407 |
| Pension contribution | — | 30 |
| | 1,204 | 1,437 |
| Aggregate notional gains by Directors on exercise of options | — | 32 |

Individual Directors' remuneration, including pension contributions:

**Directors' Remuneration**

| | Fees and Basic Salary £'000 | Annual Bonus £'000 | Benefits £'000 | 2012 Total Emoluments £'000 | 2011 Total Emoluments £'000 | 2012 Pension Contributions £'000 | 2011 Pension Contributions £'000 |
|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | |
| C N C Holmes | 281 | 281 | 11 | 573 | 799 | — | 30 |
| R C Wood | 247 | 247 | 9 | 503 | 484 | — | — |
| **Non-executive directors** | | | | | | | |
| W R Inglewood | 60 | — | — | 60 | 58 | — | — |
| A R Heygate | 34 | — | — | 34 | 33 | — | — |
| A G M Wannop | 34 | — | — | 34 | 33 | — | — |
| | 656 | 528 | 20 | 1,204 | 1,407 | — | 30 |

In 2011, the basic salary of C N C Holmes included an additional sum representing 93% of his gross basic salary to normal retirement age at 5 September 2011. This additional sum represented compensation for the reduction in pension entitlement.

## DIRECTORS' REMUNERATION REPORT
continued

### Executive Directors' Pension Information

| | Accrued entitlement at: | | Transfer value of accrued benefit at: | |
|---|---|---|---|---|
| | **1 September 2012 £'000** | 3 September 2011 £'000 | **1 September 2012 £'000** | 3 September 2011 £'000 |
| C N C Holmes | **90** | 86 | **2,231** | 1,988 |
| R C Wood | **151** | 144 | **3,388** | 3,070 |

As both C N C Holmes and R C Wood are taking their pension no further disclosure is necessary.

### Savings Related Share Option Scheme

| | At 3 September 2011 Number | Granted in the period Number | **At 1 September 2012 Number** | Weighted average exercise price p | Range of exercise dates |
|---|---|---|---|---|---|
| C N C Holmes | 131 | 525 | **656** | 572 | 1 June 2014<br>1 January 2014 |
| R C Wood | 131 | 525 | **656** | 572 | 1 May 2013<br>1 November 2013 |

R C Wood has announced he will retire from the Company at 30 April 2013 and the range of exercise dates are six months from that date.

The executive Directors participate, along with other employees of the Group, in the current SAYE scheme, which by its nature does not have performance conditions.

### On behalf of the Board

A G M Wannop
Chairman of the Remuneration Committee
16 November 2012

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

We have audited the financial statements of Carr's Milling Industries PLC for the period ended 1 September 2012 which comprise the Consolidated Income Statement, the Consolidated and Company Statements of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated and Company Statement of Cash Flows, the principal accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

### Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 23 to 24, 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 International Standards on Auditing (UK and 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.

### Scope of the audit of the financial statements

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 parent 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. In addition, we read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 1 September 2012 and of the Group's profit and Group's and parent Company's cash flows for the period then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent 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.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Report of the Directors for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- 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.

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

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the parent Company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 27, in relation to going concern;
- the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Mark Webster (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
16 November 2012

# CONSOLIDATED INCOME STATEMENT
for the period ended 1 September 2012

| | Notes | 52 week period 2012 £'000 | 53 week period 2011 £'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| **Revenue** | 2,3 | **404,058** | 373,318 |
| Cost of sales | 3 | **(360,124)** | (332,202) |
| **Gross profit** | 3 | **43,934** | 41,116 |
| Net operating expenses | 3 | **(31,863)** | (31,960) |
| **Group operating profit** | 3,4 | **12,071** | 9,156 |
| Profit on disposal of property and investment | 2,6 | **282** | — |
| Finance income | 8 | **673** | 410 |
| Finance costs | 8 | **(1,348)** | (1,332) |
| Share of post-tax profit in associate and joint ventures | 5 | **1,381** | 1,776 |
| **Profit before taxation** | 2 | **13,059** | 10,010 |
| Taxation | 9 | **(2,954)** | (1,973) |
| **Profit for the period from continuing operations** | | **10,105** | 8,037 |
| **Discontinued operations** | | | |
| (Loss)/profit for the period from discontinued operations | 10 | **(202)** | 16,598 |
| **Profit for the period** | | **9,903** | 24,635 |
| **Profit attributable to:** | | | |
| Equity shareholders | | **8,510** | 23,381 |
| Minority interests | | **1,393** | 1,254 |
| | | **9,903** | 24,635 |
| **Basic earnings per ordinary share (pence)** | | | |
| Profit from continuing operations | | **98.2** | 77.0 |
| (Loss)/profit from discontinued operations | | **(2.3)** | 188.4 |
| | 12 | **95.9** | 265.4 |
| **Diluted earnings per ordinary share (pence)** | | | |
| Profit from continuing operations | | **97.5** | 76.3 |
| (Loss)/profit from discontinued operations | | **(2.3)** | 186.6 |
| | 12 | **95.2** | 262.9 |

# CONSOLIDATED AND COMPANY STATEMENTS OF COMPREHENSIVE INCOME

for the period ended 1 September 2012

| | Notes | Group 52 week period 2012 £'000 | Group 53 week period 2011 £'000 | Company 52 week period 2012 £'000 | Company 53 week period 2011 £'000 |
|---|---|---|---|---|---|
| **Profit for the period** | | **9,903** | 24,635 | **508** | 21,149 |
| **Other comprehensive (expense)/income** | | | | | |
| Foreign exchange translation (losses)/gains arising on translation of overseas subsidiaries | | **(235)** | 57 | **121** | 171 |
| Actuarial (losses)/gains on retirement benefit obligation: | | | | | |
| — Group | 29 | **(2,686)** | 726 | **(2,686)** | 726 |
| — Share of associate | 29 | **(419)** | (27) | **—** | — |
| Taxation credit/(charge) on actuarial movement on retirement benefit obligation: | | | | | |
| — Group | 20 | **618** | (182) | **618** | (182) |
| — Share of associate | | **96** | 7 | **—** | — |
| **Other comprehensive (expense)/income for the period, net of tax** | | **(2,626)** | 581 | **(1,947)** | 715 |
| **Total comprehensive income/(expense) for the period** | | **7,277** | 25,216 | **(1,439)** | 21,864 |
| **Total comprehensive income/(expense) attributable to:** | | | | | |
| Equity shareholders | | **5,884** | 23,964 | **(1,439)** | 21,864 |
| Minority interests | | **1,393** | 1,252 | **—** | — |
| | | **7,277** | 25,216 | **(1,439)** | 21,864 |

# CONSOLIDATED AND COMPANY BALANCE SHEETS
As at 1 September 2012

| | Notes | Group 52 week period 2012 £'000 | Group 53 week period 2011 £'000 | Company 52 week period 2012 £'000 | Company 53 week period 2011 £'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Goodwill | 13 | **5,199** | 4,558 | **—** | — |
| Other intangible assets | 13 | **728** | 1,029 | **—** | — |
| Property, plant and equipment | 14 | **37,158** | 31,519 | **—** | — |
| Investment property | 15 | **1,005** | 764 | **—** | — |
| Investment in subsidiary undertakings | 16,19 | **—** | — | **12,558** | 12,945 |
| Investment in associate | 16,17 | **5,103** | 4,246 | **1,470** | 1,470 |
| Interest in joint ventures | 16,18 | **2,907** | 2,519 | **272** | 320 |
| Other investments | 16 | **71** | 67 | **—** | — |
| Financial assets | | | | | |
| — Non-current receivables | 22 | **2** | 2 | **775** | 1,275 |
| Deferred tax assets | 20 | **2,480** | 2,519 | **1,248** | 1,492 |
| | | **54,653** | 47,223 | **16,323** | 17,502 |
| **Current assets** | | | | | |
| Inventories | 21 | **27,128** | 22,793 | **—** | — |
| Trade and other receivables | 22 | **59,651** | 56,988 | **19,266** | 17,274 |
| Current tax assets | 23 | **—** | 9 | **1,469** | 2,016 |
| Financial assets | | | | | |
| — Cash and cash equivalents | 24 | **23,294** | 33,282 | **22,736** | 28,284 |
| | | **110,073** | 113,072 | **43,471** | 47,574 |
| **Total assets** | | **164,726** | 160,295 | **59,794** | 65,076 |
| **Liabilities** | | | | | |
| **Current liabilities** | | | | | |
| Financial liabilities | | | | | |
| — Borrowings | 27 | **(14,176)** | (26,436) | **(10,429)** | (18,520) |
| — Derivative financial instruments | 28 | **(309)** | — | **(70)** | — |
| Trade and other payables | 25 | **(56,108)** | (53,469) | **(1,747)** | (2,155) |
| Current tax liabilities | 26 | **(1,552)** | (1,688) | **—** | — |
| | | **(72,145)** | (81,593) | **(12,246)** | (20,675) |
| **Non-current liabilities** | | | | | |
| Financial liabilities | | | | | |
| — Borrowings | 27 | **(11,573)** | (2,274) | **(7,470)** | — |
| Retirement benefit obligation | 29 | **(5,351)** | (5,960) | **(5,351)** | (5,960) |
| Deferred tax liabilities | 20 | **(3,733)** | (4,007) | **—** | — |
| Other non-current liabilities | 25 | **(4,064)** | (3,617) | **—** | — |
| | | **(24,721)** | (15,858) | **(12,821)** | (5,960) |
| **Total liabilities** | | **(96,866)** | (97,451) | **(25,067)** | (26,635) |
| **Net assets** | | **67,860** | 62,844 | **34,727** | 38,441 |
| **Shareholders' equity** | | | | | |
| Called-up share capital | 30 | **2,219** | 2,216 | **2,219** | 2,216 |
| Share premium | | **8,118** | 8,059 | **8,118** | 8,059 |
| Equity compensation reserve | | **113** | 84 | **142** | 107 |
| Foreign exchange reserve | | **160** | 360 | **144** | 23 |
| Other reserve | | **901** | 913 | **—** | — |
| Retained earnings | | **49,075** | 45,343 | **24,104** | 28,036 |
| **Total shareholders' equity** | | **60,586** | 56,975 | **34,727** | 38,441 |
| Minority interests in equity | | **7,274** | 5,869 | **—** | — |
| **Total equity** | | **67,860** | 62,844 | **34,727** | 38,441 |

The financial statements set out on pages 32 to 87 were approved by the Board on 16 November 2012 and signed on its behalf by:

**Christopher N C Holmes** **Ronald C Wood**

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the period ended 1 September 2012

| | Called-up 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 | Minority Interests £'000 | Total Equity £'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| At 29 August 2010 | 2,196 | 7,738 | (101) | 170 | 301 | 1,477 | 22,925 | 34,706 | 4,613 | 39,319 |
| Profit for the period | — | — | — | — | — | — | 23,381 | 23,381 | 1,254 | 24,635 |
| Other comprehensive income/(expense) | — | — | — | — | 59 | — | 524 | 583 | (2) | 581 |
| Total comprehensive income | — | — | — | — | 59 | — | 23,905 | 23,964 | 1,252 | 25,216 |
| Dividends paid | — | — | — | — | — | — | (2,155) | (2,155) | — | (2,155) |
| Equity settled share-based payment transactions, net of tax | — | — | — | (86) | — | — | 104 | 18 | 4 | 22 |
| Allotment of shares | 20 | 321 | — | — | — | — | — | 341 | — | 341 |
| Utilisation of shares | — | — | 101 | — | — | — | — | 101 | — | 101 |
| Transfer | — | — | — | — | — | (564) | 564 | — | — | — |
| At 3 September 2011 | 2,216 | 8,059 | — | 84 | 360 | 913 | 45,343 | 56,975 | 5,869 | 62,844 |
| **At 4 September 2011** | **2,216** | **8,059** | **—** | **84** | **360** | **913** | **45,343** | **56,975** | **5,869** | **62,844** |
| Profit for the period | **—** | **—** | **—** | **—** | **—** | **—** | **8,510** | **8,510** | **1,393** | **9,903** |
| Other comprehensive expense | **—** | **—** | **—** | **—** | **(235)** | **—** | **(2,391)** | **(2,626)** | **—** | **(2,626)** |
| Total comprehensive (expense)/income | **—** | **—** | **—** | **—** | **(235)** | **—** | **6,119** | **5,884** | **1,393** | **7,277** |
| Dividends paid | **—** | **—** | **—** | **—** | **—** | **—** | **(2,372)** | **(2,372)** | **—** | **(2,372)** |
| Equity settled share-based payment transactions, net of tax | **—** | **—** | **—** | **29** | **—** | **—** | **8** | **37** | **12** | **49** |
| Allotment of shares | **3** | **59** | **—** | **—** | **—** | **—** | **—** | **62** | **—** | **62** |
| Transfer | **—** | **—** | **—** | **—** | **35** | **(12)** | **(23)** | **—** | **—** | **—** |
| **At 1 September 2012** | **2,219** | **8,118** | **—** | **113** | **160** | **901** | **49,075** | **60,586** | **7,274** | **67,860** |

The treasury share reserve included the purchase of own shares in the Company, which were held in trust. These shares were acquired by the trust in the open market place and were held to meet the Group's obligations under the share based award schemes. In the prior period the shares were utilised against options exercised under the Share Save Scheme 2006 (5 year plan).

The equity compensation reserve reflects the cumulative spreading, 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. During the period £8,000 (2011: £104,000) was transferred from the equity compensation reserve to retained earnings in respect of the cumulative spreading on options exercised in the period.

The amount recognised in the Statement of Comprehensive Income in respect of foreign exchange translation (losses)/gains arising on translation of overseas subsidiaries includes £nil (2011: losses of £2,000) in respect of translation differences attributable to minority interest.

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. In the prior period the increased transfer from other reserves to retained earnings reflects the accelerated transfer of previous revaluations of property owned by the fertiliser blending business which was disposed of during the prior period.

## COMPANY STATEMENT OF CHANGES IN EQUITY

For the period ended 1 September 2012

| | Called-up Share Capital £'000 | Share Premium £'000 | Equity Compensation Reserve £'000 | Foreign Exchange Reserve £'000 | Retained Earnings £'000 | Total Equity £'000 |
|---|---|---|---|---|---|---|
| At 29 August 2010 | 2,196 | 7,738 | 205 | (148) | 8,451 | 18,442 |
| Profit for the period | — | — | — | — | 21,149 | 21,149 |
| Other comprehensive income | — | — | — | 171 | 544 | 715 |
| Total comprehensive income | — | — | — | 171 | 21,693 | 21,864 |
| Dividends paid | — | — | — | — | (2,155) | (2,155) |
| Equity settled share-based payment transactions, net of tax | — | — | (98) | — | 47 | (51) |
| Allotment of shares | 20 | 321 | — | — | — | 341 |
| At 3 September 2011 | 2,216 | 8,059 | 107 | 23 | 28,036 | 38,441 |
| **At 4 September 2011** | **2,216** | **8,059** | **107** | **23** | **28,036** | **38,441** |
| Profit for the period | **–** | **–** | **–** | **–** | **508** | **508** |
| Other comprehensive income/(expense) | **–** | **–** | **–** | **121** | **(2,068)** | **(1,947)** |
| Total comprehensive income/(expense) | **–** | **–** | **–** | **121** | **(1,560)** | **(1,439)** |
| Dividends paid | **–** | **–** | **–** | **–** | **(2,372)** | **(2,372)** |
| Equity settled share-based payment transactions, net of tax | **–** | **–** | **35** | **–** | **–** | **35** |
| Allotment of shares | **3** | **59** | **–** | **–** | **–** | **62** |
| **At 1 September 2012** | **2,219** | **8,118** | **142** | **144** | **24,104** | **34,727** |

The equity compensation reserve reflects the cumulative spreading, 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 period £nil (2011: £47,000) was transferred from the equity compensation reserve to retained earnings and £14,000 (2011: £73,000) was transferred from the equity compensation reserve to investment in subsidiaries in respect of the cumulative spreading on options exercised in the period.

## CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS

For the period ended 1 September 2012

| | Notes | Group 52 week period 2012 £'000 | Group 53 week period 2011 £'000 | Company 52 week period 2012 £'000 | Company 53 week period 2011 £'000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Cash generated from/(used in) continuing operations | 33 | **11,974** | 14,097 | **(5,318)** | (3,632) |
| Interest received | | **434** | 403 | **603** | 514 |
| Interest paid | | **(1,385)** | (1,378) | **(556)** | (615) |
| Tax (paid)/recovered | | **(2,710)** | (1,711) | **461** | 741 |
| **Net cash generated from/(used in) operating activities in continuing operations** | | **8,313** | 11,411 | **(4,810)** | (2,992) |
| Net cash used in operating activities in discontinued operations | | **–** | (3,202) | **–** | – |
| **Net cash generated from/(used in) operating activities** | | **8,313** | 8,209 | **(4,810)** | (2,992) |
| **Cash flows from investing activities** | | | | | |
| Acquisition of subsidiaries (net of overdraft acquired) | 32 | **(2,063)** | (1,833) | **–** | – |
| Disposal of subsidiary (including overdraft disposed) | | **(350)** | 22,074 | **–** | – |
| Disposal of trade | | **–** | 160 | **–** | – |
| Dividends received from subsidiaries | | **–** | – | **2,220** | 22,377 |
| Net receipt of loans to subsidiaries | | **–** | – | **500** | 2,350 |
| Loan to joint ventures | | **(881)** | (1,286) | **(543)** | (911) |
| Loan repaid by share trust | | **–** | 83 | **–** | 83 |
| Purchase of intangible assets | | **(54)** | (45) | **–** | – |
| Proceeds from sale of property, plant and equipment | | **643** | 287 | **–** | – |
| Purchase of property, plant and equipment | | **(8,855)** | (5,025) | **–** | – |
| Proceeds from sale of investment property | | **94** | – | **–** | – |
| Purchase of investment property | | **(300)** | – | **–** | – |
| Purchase of investments | | **(4)** | (1) | **–** | – |
| Disposal of investment | | **107** | 3 | **107** | – |
| Redemption of preference shares in joint venture | | **100** | – | **–** | – |
| **Net cash (used in)/generated from investing activities in continuing operations** | | **(11,563)** | 14,417 | **2,284** | 23,899 |
| Net cash used in investing activities in discontinued operations | | **–** | (397) | **–** | – |
| **Net cash (used in)/generated from investing activities** | | **(11,563)** | 14,020 | **2,284** | 23,899 |
| **Cash flows from financing activities** | | | | | |
| Proceeds from issue of ordinary share capital | | **62** | 341 | **62** | 341 |
| Net proceeds from loans from subsidiaries | | **–** | – | **5,225** | 686 |
| Net proceeds/(costs) from issue of new bank loans | | **2,381** | – | **(119)** | – |
| Finance lease principal repayments | | **(940)** | (868) | **–** | – |
| Repayment of borrowings | | **(5,911)** | (3,355) | **(5,661)** | (1,000) |
| Increase in other borrowings | | **628** | 2,295 | **–** | – |
| Dividends paid to shareholders | 11 | **(2,372)** | (2,155) | **(2,372)** | (2,155) |
| Receipt of grant income | | **–** | 830 | **–** | – |
| **Net cash used in financing activities in continuing operations** | | **(6,152)** | (2,912) | **(2,865)** | (2,128) |
| Net cash used in financing activities in discontinued operations | | **–** | (207) | **–** | – |
| **Net cash used in financing activities** | | **(6,152)** | (3,119) | **(2,865)** | (2,128) |
| Effects of exchange rate changes | | **(171)** | 71 | **(157)** | (54) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(9,573)** | 19,181 | **(5,548)** | 18,725 |
| Cash and cash equivalents at beginning of the period | 24 | **32,449** | 13,268 | **28,284** | 9,559 |
| Cash and cash equivalents at end of the period | 24 | **22,876** | 32,449 | **22,736** | 28,284 |

# PRINCIPAL ACCOUNTING POLICIES

### Basis of accounting
The consolidated financial statements are prepared on a going concern basis in accordance with International Financial Reporting Standards (IFRSs) and IFRIC 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 period. 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 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.

### Basis of consolidation
The consolidated financial statements comprise Carr's Milling Industries 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 period were included in the financial statements from the effective date of acquisition or up to the effective date of disposal, as appropriate. 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.

Subsidiaries are entities where the Group has the power to govern the financial and operating policies, generally accompanied by a share of more than 50% of the voting rights. 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 per cent and 50 per cent 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. Losses have been recognised against loan balances due from joint ventures where those loans are deemed to be, in substance, part of the permanent equity interest in the joint ventures.

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 minority 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 income statement in the period they are incurred.

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

### Employee share trust
Standing Interpretations Committee (SIC) 12 requires that the Group consolidate a special purpose 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 special purpose 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 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 period. 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.

### 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 per cent 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 income statement.

### Retirement benefit obligations

The Group participates in two defined benefit pension schemes, Carr's Milling Industries Pension Scheme 1993 and Carrs Billington Agriculture Pension Scheme. The Group also offers various defined contribution schemes to its employees.

The assets of the above named 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 period to which they relate. The liability recognised in the consolidated balance sheet at the period end in respect of defined benefit pension schemes 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 obligation 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 current service costs are included in operating profit in the consolidated income statement.

A charge is made within net operating expenses which represents the expected increase in the liabilities of the pension schemes during the period. This arises from the liabilities of the schemes being one year closer to payment.

A credit representing the expected return on the assets of the pension schemes during the period is netted against the above charge within net operating expenses. This is based on the market value of the assets of the schemes at the start of the financial period. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the consolidated statement of comprehensive income. The pension schemes' deficits or surpluses, to the extent that they are considered recoverable, are recognised in full on the consolidated balance sheet.

The Group's share of the deficit in the Carrs Billington Agriculture Pension Scheme is recognised through its investment in associate.

### 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.

### Operating segments

The Group has adopted the requirements of IFRS8 'Operating segments'. The standard 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 Board of Directors.

The Board considers the business from a product/services perspective. Operating segments have been identified as Agriculture, Food and Engineering.

### 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 businesses, derivative 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 and asset impairments.

### Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity at the date of the acquisition.

At the date of acquisition, goodwill is allocated to cash generating units for the purpose of impairment testing.

Goodwill is recognised as an asset, which is carried at cost less impairment, and assessed for impairment annually. Any impairment is recognised immediately in the income statement. Once recognised, an impairment of goodwill is not reversed under any circumstance.

Where a business combination results in an excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost, the excess is credited to the consolidated income statement in the period of acquisition.

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 at each financial period-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

At each reporting date, the Group assesses whether there is any indication that an asset 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.

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.

### Cash and cash equivalents

Cash and cash equivalents for the purposes of the consolidated 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 balance sheet.

### 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 period 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 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 statement of comprehensive income.

## Dividends

Final equity dividends to the shareholders of the Company are recognised in the period that they are approved by the shareholders. Interim equity dividends are recognised in the period 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 Group's consolidated balance sheet when the Group 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 an allowance account, and the amount of the loss is recognised in the consolidated income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

### *Investments*

Investments are initially measured at cost, including transaction costs. They are classified as 'held to maturity' and are measured at amortised cost using the effective interest method.

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 period 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 interest rate swaps, caps and collars, forward foreign currency contracts and currency swaps to manage its exposures to fluctuating interest and 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 borrowings 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.

### *Fair valuation*

Fair values are based on market values, where available. Where market values are not readily available, the Group establishes fair valuation techniques; these include the use of recent arm's length transactions, reference to other similar instruments and discounted cash flow analysis.

## New standards and interpretations

From 4 September 2011 the following interpretations became effective and were adopted by the Group:

IAS 24 (revised): 'Related party disclosures' – This revised standard removes the requirement for government related entities to disclose details of all transactions with the government and other government-related entities and it clarifies and simplifies the definition of a related party.

Amendment to IFRS 1 on Hyperinflation and fixed dates – These amendments include two changes to IFRS 1, 'First-time adoption of IFRS'. The first replaces references to a fixed date of 1 January 2004 with 'the date of transition to IFRSs', thus eliminating the need for entities adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation.

Amendment to IFRS 7, Financial instruments: Transfers of financial assets – The amendments promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets.

Amendment to IFRIC 14, 'Pre-payments of a Minimum Funding Requirement' – This amendment will have a limited impact, as it applies only to entities that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction', relating to voluntary pension pre-payments when there is a minimum funding requirement.

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

The following new standards, amendments and interpretations, which are in issue at the balance sheet date but not yet effective, have not been applied in these financial statements:

| | Effective for periods commencing on or after |
|---|---|
| IFRS 9: 'Financial instruments' | 1 January 2015 |
| IFRS 10: 'Consolidated financial statements' | 1 January 2013 |
| IFRS 11: 'Joint arrangements' | 1 January 2013 |
| IFRS 12: 'Disclosures of interests in other entities' | 1 January 2013 |
| IFRS 13: 'Fair value measurement' | 1 January 2013 |
| IAS 27 (revised 2011): 'Separate financial statements' | 1 January 2013 |
| IAS 28 (revised 2011): 'Associates and joint ventures' | 1 January 2013 |
| Amendment to IFRS 1, 'First time adoption' on government grants | 1 January 2013 |
| Amendments to IFRS 7 on Financial instruments asset and liability offsetting | 1 January 2013 |
| Amendments to IFRS 10,11 and 12 on transition guidance | 1 January 2013 |
| Amendment to IAS 1: 'Presentation of financial statements' on OCI | 1 July 2012 |
| Amendment to IAS 12: 'Income taxes' on deferred tax | 1 January 2012 |
| Amendment to IAS 19: (revised 2011) 'Employee benefits' | 1 January 2013 |
| Amendments to IAS 32 on Financial instruments asset and liability offsetting | 1 January 2014 |
| Annual improvements to IFRSs 2011 | 1 January 2013 |
| IFRIC 20 'Stripping costs in the production phase of a surface mine' | 1 January 2013 |

It is considered that the above standards, amendments and interpretations will not have a significant effect on the results or net assets of the Group but will increase the level of disclosure to be made in the financial statements.

## 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 period following advice from the Group's actuary and can fluctuate based on a number of external factors. Such factors include the major assumptions as shown in the table in note 29 and actual returns on scheme assets compared to those predicted in the previous scheme valuation.

***Valuation of share-based payments***

The fair value of share-based payments is determined using valuation models and is charged to the consolidated income statement over the vesting period.

The valuation models require certain assumptions to be made as shown in the tables in note 31. Estimations of vesting and satisfaction of performance criteria are required to determine fair value.

***Impairment of goodwill***

The carrying value of goodwill must be assessed for impairment annually. 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 period (note 13).

***Impairment of property, plant and equipment***

The financial statements included an impairment of property, plant and equipment in the prior period as shown in note 14. The calculation of the impairment required an estimation of recoverable amount.

***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 of the entire contract in order to determine the level of revenue and profit to recognise.

***Provision for impairment of trade receivables***

The financial statements include a provision for impairment of trade receivables (note 22) 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.

***Valuation of derivative financial instruments***

The fair value of derivative financial instruments (note 28) is determined using market factors at the period end over which management have no control. Such factors include the estimation of future currency exchange rates and interest rates. In addition the fair value of such instruments is affected by the global economic environment and financial institution pricing structures.

## 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 period dealt with in the accounts of the Company was £508,000 (2011: £21,149,000).

### 2 Segmental information

The chief operating decision maker ("CODM") has been identified as the Board of Directors. Management has identified the operating segments based on internal financial information reviewed by the Board. The Board considers the business from a product/services perspective. Operating segments have been identified as Agriculture, Food and Engineering. 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.

Food derives its revenues from the milling of wheat into flour. Customers range from the larger companies, bread and biscuit manufacturers and supermarkets, to smaller owner managed bakeries.

Engineering derives its revenues from the design and manufacture of remote handling equipment for use in research and nuclear industries. In addition the UK business is involved in the design and manufacture of pressure vessels for the oil, petrochemical and gas industry.

Performance is assessed using profit before taxation. For internal purposes profit before taxation 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.

Adjustments to segmental information represents non-reportable segments and consolidation adjustments.

Segment assets represent inventories and trade receivables as reported to the CODM.

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 period ended 1 September 2012 is as follows:

| | Agriculture £'000 | Food £'000 | Engineering £'000 | Group £'000 |
|---|---|---|---|---|
| Revenues from external customers | 293,796 | 80,472 | 29,743 | 404,011 |
| Adjustments | | | | 47 |
| | | | | 404,058 |
| Revenues from other operating segments | 42 | 5 | 54 | 101 |
| Elimination of inter segment revenues | | | | (101) |
| | | | | – |
| Profit before taxation | 8,108 | 442 | 4,702 | 13,252 |
| Head office net expense | | | | (1,034) |
| Retirement benefit charge | | | | (477) |
| Adjustments related to derivative financial instruments | | | | (236) |
| Adjustments related to intangible assets | | | | (122) |
| Other adjustments | | | | 13 |
| Profit on disposal of property and investment | | | | 282 |
| Share of post-tax profit of associate | | | | 1,180 |
| Share of post-tax profit of joint ventures | | | | 201 |
| Profit before taxation from continuing operations | | | | 13,059 |

### 2 Segmental information (continued)

| | Agriculture £'000 | Food £'000 | Engineering £'000 | Group £'000 |
|---|---|---|---|---|
| **The following are included in segmental profit before taxation:** | | | | |
| Finance income | 202 | 2 | 84 | 288 |
| Adjustments | | | | 385 |
| | | | | 673 |
| Finance costs | (865) | (284) | (114) | (1,263) |
| Adjustments | | | | (85) |
| | | | | (1,348) |
| Depreciation of property, plant and equipment | (1,917) | (1,430) | (643) | (3,990) |
| Adjustments | | | | (175) |
| | | | | (4,165) |
| Depreciation of investment property | – | (4) | – | (4) |
| Adjustments | | | | (16) |
| | | | | (20) |
| Profit on the disposal of property, plant and equipment | 12 | 2 | 8 | 22 |
| | | | | 22 |
| Amortisation of intangible assets | (200) | (20) | (150) | (370) |
| Adjustments | | | | (122) |
| | | | | 492 |

***Assets***

| | Agriculture £'000 | Food £'000 | Engineering £'000 | Group £'000 |
|---|---|---|---|---|
| Segment assets | 52,829 | 16,241 | 9,950 | 79,020 |
| Adjustments | | | | (96) |
| Other current assets: | | | | |
| Other receivables | | | | 7,855 |
| Cash and cash equivalents | | | | 23,294 |
| Non-current assets | | | | 54,653 |
| Total Assets | | | | 164,726 |

**2 Segmental information (continued)**

The segmental information for the period ended 3 September 2011 is as follows:

| | Agriculture £'000 | Food £'000 | Engineering £'000 | Group £'000 |
|---|---|---|---|---|
| Revenues from external customers | 272,678 | 82,602 | 18,000 | 373,280 |
| Adjustments | | | | 38 |
| | | | | 373,318 |
| Revenues from other operating segments | 108 | 5 | 72 | 185 |
| Elimination of inter segment revenues | | | | (185) |
| | | | | — |
| Profit before taxation | 6,429 | 1,258 | 1,657 | 9,344 |
| Head office net expense | | | | (394) |
| Retirement benefit charge | | | | (742) |
| Adjustments | | | | 26 |
| Share of post-tax profit of associate | | | | 1,455 |
| Share of post-tax profit of joint ventures | | | | 321 |
| Profit before taxation from continuing operations | | | | 10,010 |
| The following are included in segmental profit before taxation: | | | | |
| Finance income | 195 | 1 | 22 | 218 |
| Adjustments | | | | 192 |
| Discontinued operations | | | | 3 |
| | | | | 413 |
| Finance costs | (731) | (160) | (187) | (1,078) |
| Adjustments | | | | (254) |
| Discontinued operations | | | | (203) |
| | | | | (1,535) |
| Depreciation of property, plant and equipment | (1,964) | (1,308) | (494) | (3,766) |
| Impairment of property, plant and equipment | (121) | — | (203) | (324) |
| Adjustments | | | | (157) |
| Discontinued operations | | | | (352) |
| | | | | (4,599) |
| Depreciation of investment property | — | (4) | — | (4) |
| Adjustments | | | | (16) |
| | | | | (20) |
| Profit/(loss) on the disposal of property, plant and equipment | 2 | (2) | 7 | 7 |
| Adjustments | | | | 3 |
| Discontinued operations | | | | (4) |
| | | | | 6 |
| Amortisation of intangible assets | (250) | (22) | (106) | (378) |
| Impairment of intangible assets | (325) | — | — | (325) |
| Adjustments | | | | (102) |
| | | | | (805) |

### 2 Segmental information (continued)

***Assets***

| | Agriculture £'000 | Food £'000 | Engineering £'000 | Group £'000 |
|---|---|---|---|---|
| Segment assets | 44,402 | 18,578 | 7,690 | 70,670 |
| Adjustments | | | | (64) |
| Other current assets: | | | | |
| Other receivables | | | | 9,175 |
| Current tax assets | | | | 9 |
| Cash and cash equivalents | | | | 33,282 |
| Non-current assets | | | | 47,223 |
| Total Assets | | | | 160,295 |

***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 | **2012 £'000** | 2011 £'000 |
|---|---|---|
| UK | **363,667** | 350,350 |
| Other | **40,391** | 22,968 |
| | **404,058** | 373,318 |

***Non-current assets excluding deferred tax assets:***

| **2012** | **Goodwill £'000** | **Other intangible assets £'000** | **Property, plant and equipment £'000** | **Investment property £'000** | **Investment in associate £'000** | **Interest in joint ventures £'000** | **Other investments £'000** | **Non-current receivables £'000** |
|---|---|---|---|---|---|---|---|---|
| **UK** | **4,886** | **243** | **32,083** | **1,005** | **5,103** | **1,622** | **51** | **2** |
| **Other** | **313** | **485** | **5,075** | **—** | **—** | **1,285** | **20** | **—** |
| | **5,199** | **728** | **37,158** | **1,005** | **5,103** | **2,907** | **71** | **2** |

| 2011 | Goodwill £'000 | Other intangible assets £'000 | Property, plant and equipment £'000 | Investment property £'000 | Investment in associate £'000 | Interest in joint ventures £'000 | Other investments £'000 | Non-current receivables £'000 |
|---|---|---|---|---|---|---|---|---|
| UK | 4,245 | 455 | 27,970 | 764 | 4,246 | 1,488 | 51 | 2 |
| Other | 313 | 574 | 3,549 | — | — | 1,031 | 16 | — |
| | 4,558 | 1,029 | 31,519 | 764 | 4,246 | 2,519 | 67 | 2 |

***Major customers***

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

### 3 Revenue, cost of sales and net operating expenses

| Continuing operations | 2012 £'000 | 2012 £'000 | 2011 £'000 | 2011 £'000 |
|---|---|---|---|---|
| **Revenue** | | | | |
| — from sale of goods | **376,189** | | 357,220 | |
| — from contracts | **27,869** | | 16,098 | |
| | | **404,058** | | 373,318 |
| Cost of sales | | **(360,124)** | | (332,202) |
| Gross profit | | **43,934** | | 41,116 |
| Net operating expenses: | | | | |
| Distribution costs | **(18,362)** | | (17,962) | |
| Administrative expenses | **(13,501)** | | (13,998) | |
| | | **(31,863)** | | (31,960) |
| **Group operating profit** | | **12,071** | | 9,156 |

The results from acquisitions during the period were not material and have not been presented separately.

### 4 Group operating profit

| | 2012 Continuing operations £'000 | 2012 Discontinued operations £'000 | 2011 Continuing operations £'000 | 2011 Discontinued operations £'000 |
|---|---|---|---|---|
| Group operating profit is stated after (crediting)/charging: | | | | |
| Amortisation of grants | **(50)** | **—** | (8) | — |
| Profit/(loss) on disposal of property, plant and equipment | **(22)** | **—** | (10) | 4 |
| Depreciation of property, plant and equipment | **4,165** | **—** | 3,923 | 352 |
| Impairment of property, plant and equipment | **—** | **—** | 324 | — |
| Depreciation of owned investment property | **20** | **—** | 20 | — |
| Amortisation of intangible assets | **492** | **—** | 480 | — |
| Impairment of intangible assets | **—** | **—** | 325 | — |
| Profit on disposal of trade | **—** | **—** | (190) | — |
| Profit on disposal of investment | **—** | **—** | (2) | — |
| Foreign exchange losses/(gains) | **94** | **—** | (49) | (3) |
| Derivative financial instruments losses/(gains) | **309** | **—** | — | (211) |
| Operating lease charges | **637** | **—** | 644 | 29 |
| Auditors' remuneration: | | | | |
| Audit services (Company £14,000; 2011: £13,000) | **71** | **—** | 69 | — |
| The auditing of accounts of subsidiaries of the Company pursuant to legislation (including that of countries and territories outside Great Britain) | **136** | **—** | 129 | 10 |
| Services relating to taxation | **47** | **—** | 47 | — |
| Other services | **36** | **—** | 17 | 103 |
| Included within Group operating profit is the following in respect of investment property leased to, and occupied by, external parties: | | | | |
| Rental income | **(54)** | **—** | (44) | — |
| Operating expenses | **58** | **—** | 60 | — |
| | **4** | **—** | 16 | — |

### 5 Share of post-tax profit in associate and joint ventures

| Continuing operations | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Share of post-tax profit in associate | **1,180** | 1,455 |
| Share of post-tax profit in joint ventures | **201** | 321 |
| Total share of post-tax profit in associate and joint ventures | **1,381** | 1,776 |

### 6 Non-recurring items

| Continuing operations | 2012 Amount £'000 | 2012 Tax credit/ (charge) £'000 | 2011 Amount £'000 | 2011 Tax credit/ (charge) £'000 |
|---|---|---|---|---|
| Group operating profit: | | | | |
| Impairment of goodwill | – | – | (325) | – |
| Impairment of property, plant and equipment | – | – | (324) | 81 |
| Reorganisation costs of acquired business | – | – | (292) | 77 |
| Profit on disposal of trade | – | – | 190 | (52) |
| Derivative financial instrument loss in respect of property, plant and equipment | (236) | 54 | – | – |
| Group profit before tax: | | | | |
| Profit on disposal of property | 175 | (44) | – | – |
| Profit on disposal of investment | 107 | 23 | – | – |
| Non-recurring items | 46 | 33 | (751) | 106 |
| Profit before taxation and non-recurring items | 13,013 | | 10,761 | |
| Non-recurring items | 46 | | (751) | |
| Profit before taxation | 13,059 | | 10,010 | |
| Group operating profit before non-recurring items | 12,307 | | 9,907 | |
| Non-recurring items | (236) | | (751) | |
| Group operating profit | 12,071 | | 9,156 | |

### 7 Staff costs

| Group | 2012 Continuing operations £'000 | 2012 Discontinued operations £'000 | 2011 Continuing operations £'000 | 2011 Discontinued operations £'000 |
|---|---|---|---|---|
| Wages and salaries | 25,817 | – | 25,882 | 1,450 |
| Social security costs | 2,776 | – | 2,781 | 157 |
| Other pension costs | 1,834 | – | 2,067 | 92 |
| Share based payments | 49 | – | 20 | 2 |
| | 30,476 | – | 30,750 | 1,701 |

Included within other pension costs in continuing operations is £477,000 (2011: £742,000) in respect of the defined benefit pension scheme.

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

| | 2012 Continuing operations Number | 2012 Discontinued operations Number | 2011 Continuing operations Number | 2011 Discontinued operations Number |
|---|---|---|---|---|
| Sales, office and management | 529 | – | 480 | 20 |
| Manufacture and distribution | 354 | – | 363 | 19 |
| | 883 | – | 843 | 39 |

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 Directors' Remuneration Report on pages 28 to 30.

## 8 Finance income and finance costs

| Continuing operations | 2012 £'000 | 2011 £'000 |
|---|---|---|
| **Finance income** | | |
| Bank interest | **643** | 350 |
| Other interest | **30** | 60 |
| Total finance income | **673** | 410 |
| **Finance costs** | | |
| Interest payable on bank overdrafts | **(258)** | (157) |
| Interest payable on bank loans and other borrowings | **(820)** | (900) |
| Interest payable on finance leases | **(119)** | (101) |
| Interest payable to joint ventures | **—** | (15) |
| Other interest | **(151)** | (159) |
| Total finance costs | **(1,348)** | (1,332) |

## 9 Taxation

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

| Continuing operations | 2012 £'000 | 2011 £'000 |
|---|---|---|
| **Current tax:** | | |
| UK corporation tax | | |
| Current period | **827** | 1,016 |
| Prior period | **(160)** | (15) |
| Foreign tax | | |
| Current period | **1,931** | 782 |
| Group current tax | **2,598** | 1,783 |
| **Deferred tax:** | | |
| Origination and reversal of timing differences | | |
| Current period | **275** | 513 |
| Prior period | **81** | (323) |
| Group deferred tax (note 20) | **356** | 190 |
| Tax on profit from ordinary activities | **2,954** | 1,973 |

### 9 Taxation (continued)

***(b) Factors affecting tax charge for the period***

The tax assessed for the period is lower (2011: lower) than the rate of corporation tax in the UK of 25.16% (2011: 27.16%). The differences are explained below:

| Continuing operations | **2012 £'000** | 2011 £'000 |
|---|---|---|
| Profit before taxation | **13,059** | 10,010 |
| Tax at 25.16% (2011: 27.16%) | **3,286** | 2,719 |
| Effects of: | | |
| Tax effect of share of profit in associate and joint ventures | **(347)** | (482) |
| Tax effect of expenses that are not allowable in determining taxable profit | **65** | 108 |
| Non taxable income | **–** | (3) |
| Effects of different tax rates of foreign subsidiaries | **269** | 68 |
| Effects of changes in tax rates | **(262)** | (201) |
| Over provision in prior years | **(79)** | (338) |
| Utilisation of unrecognised tax losses | **–** | (1) |
| Unrecognised deferred tax on losses | **–** | 97 |
| Other | **22** | 6 |
| Total tax charge for the period | **2,954** | 1,973 |

***(c) Factors affecting future tax charges***

The Finance Act 2012, which was substantively enacted on 3 July 2012, includes legislation reducing the main rate of corporation tax to 23% from 1 April 2013. As the Finance Act 2012 was substantively enacted at the balance sheet date, deferred tax balances at 1 September 2012 have been calculated using a tax rate of 23%.

A further reduction to the main rate is proposed to reduce the rate by 1% to 22% by 1 April 2014. This proposed reduction in the main rate of corporation tax is not expected to be enacted until a future Finance Bill is approved. The overall effect of the further change from 23% to 22%, if this were applied to the deferred tax balance at 1 September 2012, would be to reduce the net deferred tax liability by approximately £104,000.

### 10 Discontinued operations

In the prior period Carrs Agriculture Limited hived down its fertiliser trade, assets and liabilities (save for certain assets and liabilities) to Origin Fertilisers 2011 Limited (formerly CM Fertilisers Limited), a newly incorporated, wholly owned subsidiary of Carrs Agriculture Limited.

Subsequently, in the prior period, Carrs Agriculture Limited disposed of its entire shareholding in Origin Fertilisers 2011 Limited for a cash consideration of £19m, 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:

| | **2012 £'000** | 2011 £'000 |
|---|---|---|
| Revenue | **–** | 78,416 |
| Expenses | **–** | (75,355) |
| Profit before taxation of discontinued operations | **–** | 3,061 |
| Taxation | **–** | (1,363) |
| **Profit after taxation of discontinued operations** | **–** | 1,698 |
| Pre-taxation (loss)/gain recognised on the measurement to fair value less costs to sell | **(202)** | 14,900 |
| Taxation | **–** | – |
| After taxation (loss)/gain recognised on the measurement to fair value less costs to sell | **(202)** | 14,900 |
| **(Loss)/profit for the period from discontinued operations** | **(202)** | 16,598 |

During the period £202,000 of residual costs were incurred in respect of the prior period disposal.

## 11 Dividends

| Equity | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Second interim paid for the period ended 3 September 2011 of 6.5p per 25.0p share (2010: 6.0p) | 576 | 527 |
| Final dividend for the period ended 3 September 2011 of 13.0p per 25.0p share (2010: 12.0p) | 1,153 | 1,056 |
| First interim paid for the period ended 1 September 2012 of 7.25p per 25.0p share (2011: 6.5p) | 643 | 572 |
| | 2,372 | 2,155 |

Since the period end a second interim dividend of £643,523, being 7.25p per share, has been paid. The financial statements do not reflect this dividend payable.

The proposed dividend to be considered by shareholders at the Annual General Meeting is £1,287,072, being 14.5p per share, making a total for the period of 29.0p. The financial statements do not reflect this dividend payable.

## 12 Earnings per ordinary share

Earnings per share are calculated by reference to a weighted average of 8,869,438 shares (2011: 8,808,156) in issue during the period.

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:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Earnings £'000 | Earnings per share pence | Earnings £'000 | Earnings per share pence |
| **Continuing operations** | | | | |
| Earnings per share — basic | 8,712 | 98.2 | 6,783 | 77.0 |
| Amortisation and non-recurring items: | | | | |
| Amortisation of intangible assets | 492 | 5.5 | 480 | 5.5 |
| Taxation relief on amortisation | (120) | (1.3) | (124) | (1.4) |
| Impairment of goodwill | — | — | 325 | 3.7 |
| Impairment of property, plant and equipment | — | — | 324 | 3.7 |
| Taxation relief on impairment | — | — | (81) | (0.9) |
| Reorganisation costs of acquired business | — | — | 292 | 3.3 |
| Taxation relief on reorganisation costs | — | — | (77) | (0.9) |
| Profit on disposal of trade | — | — | (190) | (2.2) |
| Taxation on disposal of trade | — | — | 52 | 0.6 |
| Derivative financial instrument loss | 236 | 2.7 | — | — |
| Taxation relief on derivative loss | (54) | (0.6) | — | — |
| Profit on disposal of property | (175) | (2.0) | — | — |
| Taxation on profit on disposal of property | 44 | 0.5 | — | — |
| Profit on disposal of investment | (107) | (1.2) | — | — |
| Taxation relief on disposal of investment | (23) | (0.3) | — | — |
| Earnings per share — adjusted | 9,005 | 101.5 | 7,784 | 88.4 |
| **Discontinued operations** | | | | |
| Earnings per share — basic and adjusted | (202) | (2.3) | 16,598 | 188.4 |
| | 8,803 | 99.2 | 24,382 | 276.8 |

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 period, are disclosed in note 31.

### 12 Earnings per ordinary share (continued)

| | 2012 Earnings £'000 | 2012 Weighted average number of shares | 2012 Earnings per share pence | 2011 Earnings £'000 | 2011 Weighted average number of shares | 2011 Earnings per share pence |
|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | |
| Earnings per share | 8,712 | 8,869,438 | 98.2 | 6,783 | 8,808,156 | 77.0 |
| Effect of dilutive securities: | | | | | | |
| Share option scheme | – | 42,734 | (0.5) | – | 60,579 | (0.5) |
| Share save scheme | – | 23,524 | (0.2) | – | 23,973 | (0.2) |
| Deferred bonus scheme | – | – | – | – | 2,175 | – |
| Diluted earnings per share | 8,712 | 8,935,696 | 97.5 | 6,783 | 8,894,883 | 76.3 |
| **Discontinued operations** | | | | | | |
| Earnings per share | (202) | 8,869,438 | (2.3) | 16,598 | 8,808,156 | 188.4 |
| Effect of dilutive securities: | | | | | | |
| Share option scheme | – | 42,734 | – | – | 60,579 | (1.3) |
| Share save scheme | – | 23,524 | – | – | 23,973 | (0.5) |
| Deferred bonus scheme | – | – | – | – | 2,175 | – |
| Diluted earnings per share | (202) | 8,935,696 | (2.3) | 16,598 | 8,894,883 | 186.6 |
| | 8,510 | 8,935,696 | 95.2 | 23,381 | 8,894,883 | 262.9 |

## 13 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 28 August 2010 | 4,396 | 2,906 | 603 | 240 | 128 | 422 | 8,695 |
| Exchange differences | — | — | 17 | — | (6) | 25 | 36 |
| Subsidiaries acquired | 937 | 68 | — | — | — | — | 1,005 |
| Subsidiary disposed | (450) | — | — | — | — | — | (450) |
| Additions | — | — | — | — | 13 | 32 | 45 |
| At 3 September 2011 | 4,883 | 2,974 | 620 | 240 | 135 | 479 | 9,331 |
| Exchange differences | — | — | (25) | — | 2 | (83) | (106) |
| Subsidiaries acquired | 641 | 184 | — | — | — | — | 825 |
| Additions | — | — | — | — | 10 | 44 | 54 |
| **At 1 September 2012** | **5,524** | **3,158** | **595** | **240** | **147** | **440** | **10,104** |
| **Accumulated amortisation** | | | | | | | |
| At 28 August 2010 | 60 | 2,404 | 199 | 161 | 79 | 94 | 2,997 |
| Exchange differences | — | — | 2 | — | (2) | 2 | 2 |
| Subsidiary disposed | (60) | — | — | — | — | — | (60) |
| Charge for the period | — | 339 | 39 | 16 | 13 | 73 | 480 |
| Impairment in the period | 325 | — | — | — | — | — | 325 |
| At 3 September 2011 | 325 | 2,743 | 240 | 177 | 90 | 169 | 3,744 |
| Exchange differences | — | — | (5) | — | 1 | (55) | (59) |
| Charge for the period | — | 314 | 36 | 63 | 8 | 71 | 492 |
| **At 1 September 2012** | **325** | **3,057** | **271** | **240** | **99** | **185** | **4,177** |
| **Net book amount** | | | | | | | |
| At 28 August 2010 | 4,336 | 502 | 404 | 79 | 49 | 328 | 5,698 |
| At 3 September 2011 | 4,558 | 231 | 380 | 63 | 45 | 310 | 5,587 |
| **At 1 September 2012** | **5,199** | **101** | **324** | **—** | **48** | **255** | **5,927** |

During the period goodwill of £641,000 arose on acquisitions (note 32).

During the prior period goodwill totalling £937,000 arose on the acquisition of the entire issued share capital of Forsyths of (Wooler) Limited and Safe at Work Limited. Goodwill reflected the value of the employees, which under IFRS should not be recorded as a separately identifiable intangible asset on the balance sheet, and anticipated synergy benefits arising from the acquisitions. Synergy benefits included the rationalisation of the procurement and administration functions.

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 acquisition.

### 13 Goodwill and other intangible assets (continued)

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

| | 1 September 2012 £'000 | 3 September 2011 £'000 |
|---|---|---|
| Carrs Billington Agriculture (Sales) Limited | 195 | 195 |
| Carrs Billington Agriculture (Sales) Limited - Johnstone Wallace Oils profit centre | 781 | 781 |
| Carrs Billington Agriculture (Sales) Limited - Borders profit centre | 264 | 264 |
| Carrs Billington Agriculture (Sales) Limited - Wooler profit centre | 369 | 369 |
| Carrs Billington Agriculture (Sales) Limited - Safe at Work profit centre | 568 | 568 |
| Carrs Billington Agriculture (Sales) Limited - Laycocks profit centre | 125 | — |
| Carrs Agriculture Limited - Scotmin profit centre | 2,068 | 2,068 |
| Wälischmiller Engineering GmbH | 313 | 313 |
| Carrs Engineering Limited - Clive Walton Engineering profit centre | 516 | — |
| | 5,199 | 4,558 |

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 these cash flows to their present value. The key assumptions in this calculation are in respect of discount rates used and the change in cash flows. 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 2013, which has been approved by the Board and extrapolates cash flows based on an estimated growth rate of 1-3% excluding inflation. The pre-tax discount rate used to discount the forecast cash flows for all cash generating units is 8.5% (2011: 8.5%).

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 sensitivity analysis 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.

Amortisation and impairment charges are recognised within administrative expenses.

There is no goodwill or intangible assets in the Company (2011: nil).

## 14 Property, plant and equipment

| Group | Land and buildings £'000 | Plant and equipment £'000 | Assets in the course of construction £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 28 August 2010 | 21,970 | 48,950 | 945 | 71,865 |
| Exchange differences | 60 | (172) | — | (112) |
| Subsidiaries acquired | 24 | 233 | — | 257 |
| Additions | 673 | 4,720 | 1,445 | 6,838 |
| Subsidiary disposed | (2,437) | (3,319) | — | (5,756) |
| Disposals | — | (1,124) | — | (1,124) |
| Reclassifications | 221 | 783 | (917) | 87 |
| Transfer to investment property | (113) | — | — | (113) |
| Amounts written off | — | (485) | (28) | (513) |
| At 3 September 2011 | 20,398 | 49,586 | 1,445 | 71,429 |
| Exchange differences | (155) | 21 | (2) | (136) |
| Subsidiaries acquired | — | 1,063 | — | 1,063 |
| Additions | 42 | 6,848 | 2,968 | 9,858 |
| Disposals | (257) | (1,011) | — | (1,268) |
| Reclassifications | 411 | 943 | (1,354) | — |
| Transfer from assets for resale | — | 25 | — | 25 |
| Amounts written off | — | (237) | (1) | (238) |
| **At 1 September 2012** | **20,439** | **57,238** | **3,056** | **80,733** |
| **Accumulated depreciation** | | | | |
| At 28 August 2010 | 5,549 | 33,728 | — | 39,277 |
| Exchange differences | (16) | (151) | — | (167) |
| Subsidiaries acquired | 10 | 119 | — | 129 |
| Charge for the period | 782 | 3,493 | — | 4,275 |
| Impairment in the period | 77 | 247 | — | 324 |
| Subsidiary disposed | (590) | (2,104) | — | (2,694) |
| Disposals | — | (808) | — | (808) |
| Reclassifications | (15) | 102 | — | 87 |
| Transfer to investment property | (28) | — | — | (28) |
| Amounts written off | — | (485) | — | (485) |
| At 3 September 2011 | 5,769 | 34,141 | — | 39,910 |
| Exchange differences | (31) | 40 | — | 9 |
| Subsidiaries acquired | — | 531 | — | 531 |
| Charge for the period | 797 | 3,368 | — | 4,165 |
| Disposals | (64) | (739) | — | (803) |
| Amounts written off | — | (237) | — | (237) |
| **At 1 September 2012** | **6,471** | **37,104** | **—** | **43,575** |
| **Net book amount** | | | | |
| At 28 August 2010 | 16,421 | 15,222 | 945 | 32,588 |
| At 3 September 2011 | 14,629 | 15,445 | 1,445 | 31,519 |
| **At 1 September 2012** | **13,968** | **20,134** | **3,056** | **37,158** |

Freehold land amounting to £2,880,595 (2011: £2,981,221) has not been depreciated.

The net book amount of plant and equipment includes £3,383,618 (2011: £2,519,246) in respect of assets held under finance leases. This consists of cost of £6,492,913 (2011: £4,956,821) less accumulated depreciation of £3,109,295 (2011: £2,437,575).

Depreciation is recognised within the Income Statement as shown below:

| Continuing operations | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Cost of sales | **3,137** | 2,913 |
| Distribution costs | **84** | 107 |
| Administrative expenses | **944** | 903 |
| | **4,165** | 3,923 |

The Company has no property, plant and equipment (2011: nil).

### 15 Investment property

| Group | Total £'000 |
|---|---|
| **Cost** | |
| At 28 August 2010 | 871 |
| Transfer from property, plant and equipment | 113 |
| At 3 September 2011 | 984 |
| Additions | 310 |
| Disposals | (62) |
| **At 1 September 2012** | **1,232** |
| **Accumulated depreciation** | |
| At 28 August 2010 | 172 |
| Charge for the period | 20 |
| Transfer from property, plant and equipment | 28 |
| At 3 September 2011 | 220 |
| Charge for the period | 20 |
| Disposals | (13) |
| **At 1 September 2012** | **227** |
| **Net book amount** | |
| At 28 August 2010 | 699 |
| At 3 September 2011 | 764 |
| **At 1 September 2012** | **1,005** |

Included within investment property are properties occupied by life tenants. The net book amount of these properties at 1 September 2012 is £159,000 (2011: £163,000).

The fair value of these properties at 1 September 2012 is £1,365,000 (2011: £1,170,000). Investment properties were valued by independent professionally qualified valuers in the prior period. The Directors have reviewed the valuations and are satisfied there are no significant changes to the assumptions and the valuations. The Directors have therefore not sought updated professional valuations at 1 September 2012.

There is no investment property in the Company (2011: nil).

### 16 Investments

| Group | Associate £'000 | Joint ventures £'000 | Other investments £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 28 August 2010 | 2,811 | 2,138 | 278 | 5,227 |
| Exchange difference | — | 60 | (2) | 58 |
| Additions | — | — | 1 | 1 |
| Disposals | — | — | (1) | (1) |
| Share of post-tax profit | 1,455 | 321 | — | 1,776 |
| Share of losses recognised directly in equity | (20) | — | — | (20) |
| At 3 September 2011 | 4,246 | 2,519 | 276 | 7,041 |
| Exchange difference | — | (123) | — | (123) |
| Additions | — | — | 4 | 4 |
| Disposals | — | — | (200) | (200) |
| Redemption of preference shares | — | (100) | — | (100) |
| Reclassification | — | 410 | — | 410 |
| Share of post-tax profit | 1,180 | 201 | — | 1,381 |
| Share of losses recognised directly in equity | (323) | — | — | (323) |
| **At 1 September 2012** | **5,103** | **2,907** | **80** | **8,090** |
| **Accumulated provision for impairment** | | | | |
| At 28 August 2010 and 3 September 2011 | — | — | 209 | 209 |
| Disposals | — | — | (200) | (200) |
| **At 1 September 2012** | **—** | **—** | **9** | **9** |
| **Net book amount** | | | | |
| At 28 August 2010 | 2,811 | 2,138 | 69 | 5,018 |
| At 3 September 2011 | 4,246 | 2,519 | 67 | 6,832 |
| **At 1 September 2012** | **5,103** | **2,907** | **71** | **8,081** |

During the period the initial losses of £410,000 incurred by our three US joint ventures were reclassified to amounts owed by other related parties within trade and other receivables. The cumulative losses on these investments have been recognised against the loan balances due from these three joint ventures as the loans are considered to form part of the permanent equity interest.

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.

### 16 Investments (continued)

| **Company** | Shares in subsidiaries £'000 | Associate £'000 | Joint ventures £'000 | Other investments £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 28 August 2010 | 18,086 | 1,470 | 320 | 200 | 20,076 |
| Share based payment expense in respect of employees of subsidiary undertakings | (55) | – | – | – | (55) |
| At 3 September 2011 | 18,031 | 1,470 | 320 | 200 | 20,021 |
| Exchange difference | – | – | (48) | – | (48) |
| Share based payment expense in respect of employees of subsidiary undertakings | 28 | – | – | – | 28 |
| Disposals | – | – | – | (200) | (200) |
| **At 1 September 2012** | **18,059** | **1,470** | **272** | **–** | **19,801** |
| **Accumulated provision for impairment** | | | | | |
| At 28 August 2010 and 3 September 2011 | 5,086 | – | – | 200 | 5,286 |
| Impairment in the period | 415 | – | – | – | 415 |
| Disposals | – | – | – | (200) | (200) |
| **At 1 September 2012** | **5,501** | **–** | **–** | **–** | **5,501** |
| **Net book amount** | | | | | |
| At 28 August 2010 | 13,000 | 1,470 | 320 | – | 14,790 |
| At 3 September 2011 | 12,945 | 1,470 | 320 | – | 14,735 |
| **At 1 September 2012** | **12,558** | **1,470** | **272** | **–** | **14,300** |

Other investments comprised shares in several private limited companies. These investments had been classified as unquoted investments for which fair value cannot be reliably measured and were held at cost less accumulated impairment. These investments were disposed of in the period.

### 17 Investment in associate

The associated undertaking at 1 September 2012 is:

***Group and Company***

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

Associates are accounted for using the equity method.

At the period end the associate had capital commitments of £143,000 (2011: £nil). No contingent liabilities exist within the associate.

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

| | **2012 £'000** | 2011 £'000 |
|---|---|---|
| Total assets | **29,840** | 26,237 |
| Total liabilities | **(21,925)** | (20,071) |
| Revenues | **103,163** | 98,758 |
| Profit after tax | **2,408** | 2,969 |

Included within the investment in associate is a loan for £1,225,000 (2011: £1,225,000) which is considered to form part of the net investment in associate.

### 18 Interest in joint ventures

The joint ventures at 1 September 2012 are:

***Group***

| Name | Proportion of shares held<br>Ordinary % | Preference % | Country of incorporation | Country of operation | Activity |
|---|---|---|---|---|---|
| Crystalyx Products GmbH | 50 | — | Germany | Germany | Manufacture of animal feed blocks |
| Bibby Agriculture Limited | 26 | 26 | England | UK | Sale of agricultural products |
| Afgritech Limited | 50 | — | England | UK | Holding company |
| Afgritech LLC | — | — | USA | USA | Producers of ingredients of animal feed |
| Afgritech Properties LLC | — | — | USA | USA | Property holding |
| Gold-Bar Feed Supplements LLC | — | — | USA | USA | Manufacture of animal feed blocks |
| Silloth Storage Company Limited | 50 | — | England | UK | Storage of cane derived livestock feed supplement |

Crystalyx Products GmbH has a 31 December accounting period end.

Silloth Storage Company Limited has a 30 June accounting period end.

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

Afgritech LLC, Afgritech Properties LLC and Gold-Bar Supplements LLC have no issued share capital.

Joint ventures are accounted for using the equity method.

At the period end Gold-Bar Supplements LLC had capital commitments of £nil (2011: £259,000). 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:

| | **2012 £'000** | 2011 £'000 |
|---|---|---|
| Non-current assets | **2,914** | 2,475 |
| Current assets | **3,941** | 4,206 |
| Current liabilities | **(4,700)** | (5,028) |
| Non-current liabilities | **(445)** | (21) |
| Income | **17,411** | 14,300 |
| Expenses | **(17,074)** | (13,822) |
| Net finance income | **10** | 10 |

Goodwill of £17,000 arose on the investment in Silloth Storage Company Limited. 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 £770,000 (2011: £870,000) which relates to the Group's interest in the preference share capital of Bibby Agriculture Limited.

## 19 Investment in subsidiary undertakings

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

Investments in the subsidiaries listed above are held directly by the Company with the following exception: Carrs Engineering Limited holds 100% of the ordinary share capital in Wälischmiller Engineering GmbH.

Dormant subsidiaries are not shown above because disclosure would be excessively lengthy. A full list of subsidiary undertakings will be annexed to the Company's next annual return.

During the period Carrs Engineering Limited acquired the entire issued share capital of Clive Walton Engineering Limited (note 32). By the period end the trade and net assets of Clive Walton Engineering Limited had been hived up into Carrs Engineering Limited leaving a dormant company. As this company is dormant by the period end it has not been included in the list above.

## 20 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| **Group** | **2012 £'000** | 2011 £'000 | **2012 £'000** | 2011 £'000 | **2012 £'000** | 2011 £'000 |
| Accelerated tax depreciation | **—** | — | **(2,981)** | (3,195) | **(2,981)** | (3,195) |
| Employee benefits | **1,231** | 1,490 | **—** | — | **1,231** | 1,490 |
| Other | **1,249** | 1,029 | **(752)** | (812) | **497** | 217 |
| Tax assets/(liabilities) | **2,480** | 2,519 | **(3,733)** | (4,007) | **(1,253)** | (1,488) |

### *Movement in deferred tax during the period*

| | At 3 September 2011 £'000 | Exchange differences £'000 | In respect of acquisitions and disposals £'000 | Recognised in income £'000 | Recognised in equity £'000 | **At 1 September 2012 £'000** |
|---|---|---|---|---|---|---|
| Assets: | | | | | | |
| Employee benefits | 1,490 | — | — | (877) | 618 | **1,231** |
| Other | 1,029 | 16 | — | 204 | — | **1,249** |
| | 2,519 | 16 | — | (673) | 618 | **2,480** |
| Liabilities: | | | | | | |
| Accelerated tax depreciation | (3,195) | (2) | (12) | 228 | — | **(2,981)** |
| Other | (812) | — | (29) | 89 | — | **(752)** |
| | (4,007) | (2) | (41) | 317 | — | **(3,733)** |
| Net liabilities | (1,488) | 14 | (41) | (356) | 618 | **(1,253)** |

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

Movements in deferred tax recognised in income during the period includes £nil (2011: £321,000) in respect of discontinued operations.

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

***Movement in deferred tax during the prior period***

| | At 29 August 2010 £'000 | Exchange differences £'000 | In respect of acquisitions and disposals £'000 | Recognised in income £'000 | Recognised in equity £'000 | At 3 September 2011 £'000 |
|---|---|---|---|---|---|---|
| Assets: | | | | | | |
| Employee benefits | 2,901 | — | — | (1,229) | (182) | 1,490 |
| Other | 1,023 | (45) | — | 51 | — | 1,029 |
| | 3,924 | (45) | — | (1,178) | (182) | 2,519 |
| Liabilities: | | | | | | |
| Accelerated tax depreciation | (4,009) | 5 | 299 | 510 | — | (3,195) |
| Other | (951) | — | (18) | 157 | — | (812) |
| | (4,960) | 5 | 281 | 667 | — | (4,007) |
| Net liabilities | (1,036) | (40) | 281 | (511) | (182) | (1,488) |

| | Assets | |
|---|---|---|
| **Company** | **2012 £'000** | 2011 £'000 |
| Accelerated tax depreciation | **1** | 2 |
| Employee benefits | **1,231** | 1,490 |
| Other | **16** | — |
| Tax assets | **1,248** | 1,492 |

***Movement in deferred tax assets during the period***

| | At 3 September 2011 £'000 | Recognised in income £'000 | Recognised in equity £'000 | **At 1 September 2012 £'000** |
|---|---|---|---|---|
| Accelerated tax depreciation | 2 | (1) | — | **1** |
| Employee benefits | 1,490 | (877) | 618 | **1,231** |
| Other | — | 16 | — | **16** |
| | 1,492 | (862) | 618 | **1,248** |

***Movement in deferred tax assets during the prior period***

| | At 29 August 2010 £'000 | Recognised in income £'000 | Recognised in equity £'000 | At 3 September 2011 £'000 |
|---|---|---|---|---|
| Accelerated tax depreciation | 2 | — | — | 2 |
| Employee benefits | 2,901 | (1,229) | (182) | 1,490 |
| | 2,903 | (1,229) | (182) | 1,492 |

Tax of £176,000 (2011: £191,000) in respect of tax losses has not been recognised as a deferred tax asset in the Group balance sheet.

Tax of £54,000 (2011: £59,000) in respect of tax losses has not been recognised as a deferred tax asset in the Company balance sheet.

## 21 Inventories

| Group | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Raw materials and consumables | 7,726 | 8,478 |
| Work in progress | 1,497 | 904 |
| Finished goods and goods for resale | 17,905 | 13,411 |
| | 27,128 | 22,793 |
| Inventories are stated after a provision for impairment of £164,000 (2011: £255,000). | | |
| Cost of sales consists of the following: | | |
| Material cost | 334,074 | 307,432 |
| Processing cost | 10,291 | 10,356 |
| Other | 15,759 | 14,414 |
| | 360,124 | 332,202 |

The Company has no inventories (2011: nil).

## 22 Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 £'000 | 2011 £'000 | 2012 £'000 | 2011 £'000 |
| **Current:** | | | | |
| Trade receivables | 56,069 | 51,762 | — | — |
| Less: provision for impairment of trade receivables | (4,273) | (3,949) | — | — |
| Trade receivables - net | 51,796 | 47,813 | — | — |
| Amounts recoverable on contracts | 984 | 3,856 | — | — |
| Amounts owed by Group undertakings (note 38) | — | — | 16,731 | 15,706 |
| Amounts owed by other related parties (note 38) | 2,607 | 1,945 | 1,929 | 1,353 |
| Other receivables | 2,251 | 1,943 | 451 | 135 |
| Prepayments and accrued income | 2,013 | 1,431 | 155 | 80 |
| | 59,651 | 56,988 | 19,266 | 17,274 |
| **Non-current:** | | | | |
| Amounts owed by Group undertakings (note 38) | — | — | 775 | 1,275 |
| Other receivables | 2 | 2 | — | — |
| | 2 | 2 | 775 | 1,275 |

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. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

During the period a charge of £441,000 (2011: £1,187,000) has been recognised within administrative expenses in the consolidated income statement in respect of the provision for impairment of trade receivables.

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

Interest bearing, non-trading amounts owed by Group undertakings carry interest at Bank of England base rate + 2.50%. Such amounts are unsecured and repayable on demand.

Interest bearing, non-trading amounts owed by other related parties carry interest at Bank of England base rate + 2.25%. Such amounts are unsecured and repayable on demand.

### 22 Trade and other receivables (continued)

| | 2012 Gross £'000 | 2012 Impairment £'000 | 2012 Past due but not impaired £'000 | 2011 Gross £'000 | 2011 Impairment £'000 | 2011 Past due but not impaired £'000 |
|---|---|---|---|---|---|---|
| **The ageing of trade receivables is as follows:** | | | | | | |
| Not past due | **36,362** | **(351)** | **N/A** | 34,519 | (489) | N/A |
| Past due 0 - 30 days | **8,269** | **(219)** | **8,050** | 8,011 | (427) | 7,584 |
| Past due 31 - 60 days | **3,566** | **(282)** | **3,284** | 3,582 | (479) | 3,103 |
| Past due 61 - 90 days | **2,432** | **(423)** | **2,009** | 1,903 | (486) | 1,417 |
| Past due 91 - 120 days | **1,413** | **(397)** | **1,016** | 1,001 | (371) | 630 |
| Past 121 days | **4,027** | **(2,601)** | **1,426** | 2,746 | (1,697) | 1,049 |
| | **56,069** | **(4,273)** | **15,785** | 51,762 | (3,949) | 13,783 |

The Company has no trade receivables (2011: nil).

The credit quality of customers is assessed at subsidiary and Group level, taking into account their financial positions, past experiences and other relevant factors. Individual customer credit limits are imposed based on these factors.

It is Group policy that overdue accounts are reviewed monthly at divisional management meetings to mitigate exposure to credit risk and are provided for where appropriate.

The maximum exposure to credit risk at the period 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 (2011: £nil).

| | Group 2012 £'000 | Group 2011 £'000 | Company 2012 £'000 | Company 2011 £'000 |
|---|---|---|---|---|
| The carrying value of trade receivables are denominated in the following currencies: | | | | |
| Sterling | **46,404** | 45,079 | **—** | — |
| US Dollar | **879** | 602 | **—** | — |
| Euro | **4,513** | 2,132 | **—** | — |
| | **51,796** | 47,813 | **—** | — |

### 23 Current tax assets

| | Group 2012 £'000 | Group 2011 £'000 | Company 2012 £'000 | Company 2011 £'000 |
|---|---|---|---|---|
| Corporation tax recoverable | **—** | 9 | **517** | 873 |
| Group taxation relief | **—** | — | **952** | 1,143 |
| | **—** | 9 | **1,469** | 2,016 |

## 24 Cash and cash equivalents and bank overdrafts

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 £'000 | 2011 £'000 | 2012 £'000 | 2011 £'000 |
| Cash and cash equivalents per the balance sheet | 23,294 | 33,282 | 22,736 | 28,284 |
| Bank overdrafts (note 27) | (418) | (833) | — | — |
| Cash and cash equivalents per the statement of cash flows | 22,876 | 32,449 | 22,736 | 28,284 |

## 25 Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 £'000 | 2011 £'000 | 2012 £'000 | 2011 £'000 |
| **Current:** | | | | |
| Trade payables | 25,008 | 23,249 | — | — |
| Payments on account | 8,903 | 10,816 | — | — |
| Amounts owed to Group undertakings (note 38) | — | — | 46 | 379 |
| Amounts owed to other related parties (note 38) | 13,901 | 10,790 | — | 16 |
| Other taxes and social security payable | 855 | 1,095 | 258 | 418 |
| Other payables | 2,666 | 2,476 | 179 | 136 |
| Accruals and deferred income | 4,775 | 5,043 | 1,264 | 1,206 |
| | 56,108 | 53,469 | 1,747 | 2,155 |
| **Non-current:** | | | | |
| Other payables | 3,184 | 2,687 | — | — |
| Accruals and deferred income | 880 | 930 | — | — |
| | 4,064 | 3,617 | — | — |

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

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 £'000 | 2011 £'000 | 2012 £'000 | 2011 £'000 |
| At the beginning of the period | 930 | 108 | — | — |
| Received in the period | — | 830 | — | — |
| Amortisation in the period | (50) | (8) | — | — |
| At the end of the period | 880 | 930 | — | — |

## 26 Current tax liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 £'000 | 2011 £'000 | 2012 £'000 | 2011 £'000 |
| Current tax | 1,552 | 1,688 | — | — |

## 27 Borrowings

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 £'000 | 2011 £'000 | 2012 £'000 | 2011 £'000 |
| **Current:** | | | | |
| Bank overdrafts | **418** | 833 | **—** | — |
| Bank loans and other borrowings | **12,864** | 24,931 | **805** | 14,000 |
| Loans from Group undertakings (note 38) | **—** | — | **9,624** | 4,520 |
| Finance leases | **894** | 672 | **—** | — |
| | **14,176** | 26,436 | **10,429** | 18,520 |
| **Non-current:** | | | | |
| Bank loans | **9,220** | — | **7,470** | — |
| Other loans (note 38) | **1,225** | 1,225 | **—** | — |
| Finance leases | **1,128** | 1,049 | **—** | — |
| | **11,573** | 2,274 | **7,470** | — |
| **Borrowings are repayable as follows:** | | | | |
| On demand or within one year | **14,176** | 26,436 | **10,429** | 18,520 |
| In the second year | **1,961** | 538 | **805** | — |
| In the third to fifth years inclusive | **9,612** | 1,736 | **6,665** | — |
| | **25,749** | 28,710 | **17,899** | 18,520 |

Group and Company borrowings are shown in the balance sheet net of arrangement fees of £63,000 (2011: £nil) of which £28,000 (2011: £nil) is deducted from current liabilities and £35,000 is deducted from non-current liabilities (2011: £nil).

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 £'000 | 2011 £'000 | 2012 £'000 | 2011 £'000 |
| **The net borrowings are:** | | | | |
| Borrowings as above | **25,749** | 28,710 | **17,899** | 18,520 |
| Cash and cash equivalents | **(23,294)** | (33,282) | **(22,736)** | (28,284) |
| Net borrowings/(cash) | **2,455** | (4,572) | **(4,837)** | (9,764) |

Bank loans and other borrowings includes an amount of £11,559,000 (2011: £10,931,000 ) which is secured on trade receivables. The Company, together with certain subsidiaries, act as guarantors on the bank loans. In addition, Royal Bank of Scotland PLC have a legal charge over certain properties. Finance lease obligations are secured on the assets to which they relate.

Interest bearing loans from Group undertakings carry interest at 1.68%, Bank of England base rate + 1.00% or Bank of England base rate + 2.50%. Such amounts are unsecured and repayable on demand.

Other loans are non-interest bearing and have no fixed date for repayment. The bank loans are repayable by instalments and the overdraft is repayable on demand.

Non-current bank loans (2011: Current bank loans) includes a drawn down revolving credit facility of £5.8 million (2011: £10 million) which is subject to renewal in November 2014. At the period end £4.2 million is undrawn (2011: £nil).

## 28 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 and they are summarised below. These policies have remained unchanged throughout the period.

***Credit risk***
The Group has no significant concentrations of credit risk. Credit risk arises from cash and cash equivalents, derivative financial instruments, deposits with banks and financial institutions, as well as credit exposures to customers. The credit quality of trade and other receivables is detailed in note 22.

The majority of Group revenues are made on credit terms. It is Group policy that overdue accounts are reviewed monthly at divisional management meetings to mitigate exposure to credit risk and are provided for where appropriate. The current financial climate requires the Group's credit control function to be particularly vigilant.

***Price risk***
The Group is not exposed to equity securities price risk. Due to the nature of its business the Group is exposed to commodity price risk such as the fluctuation in wheat prices. This risk is, however, managed primarily through the use of contracts to secure supply at agreed prices.

***Market risk***
Market risk is the risk that changes in foreign exchange rates (currency risk) and interest rates (interest rate risk) will affect income or the value of financial assets and liabilities.

***Currency risk***
The Group publishes its financial statements in Sterling but conducts business in some foreign currencies. As a result it is subject to foreign currency exchange risk due to the effects that exchange rate movements have on the translation of results and the underlying net assets of its foreign subsidiaries.

The Group's subsidiary, Animal Feed Supplement, Inc., operates in the US and its revenues and expenses are denominated exclusively in US dollars.

Afgritech LLC, Afgritech Properties LLC and Gold-Bar Feed Supplements LLC, joint ventures of the Group, operate in the US and their revenues and expenses are denominated exclusively in US dollars.

The Group's subsidiary, Wälischmiller Engineering GmbH, operates in Germany and its revenues and expenses are denominated exclusively in Euros.

Crystalyx Products GmbH, a joint venture of the Group, operates in Germany and its revenues and expenses are denominated exclusively in Euros.

The major transactional foreign currency risk facing the Group is in the purchase of raw materials for the flour milling operation. The major currency involved is the Euro. In addition, the Group is committed to build a new flour mill at Kirkcaldy and part of the expenditure on equipment is in Swiss Francs. The policy of the Group is to hedge using forward foreign exchange contracts with the UK banks as soon as commitment has been given to the underlying transaction.

The Group is hedging its international assets and has designated foreign currency borrowings as a hedge against its net investment in foreign operations.

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

Financial Instruments by currency

| Group | 2012 Sterling £'000 | 2012 US Dollar £'000 | 2012 Euro £'000 | 2012 Swiss Franc £'000 | 2012 Total £'000 | 2011 Sterling £'000 | 2011 US Dollar £'000 | 2011 Euro £'000 | 2011 Swiss Franc £'000 | 2011 Total £'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | |
| Other investments | 51 | 20 | — | — | 71 | 51 | 16 | — | — | 67 |
| Non-current receivables | 2 | — | — | — | 2 | 2 | — | — | — | 2 |
| Current trade and other receivables | 50,368 | 3,806 | 5,477 | — | 59,651 | 52,539 | 2,105 | 2,344 | — | 56,988 |
| Cash and cash equivalents | 21,264 | 922 | 1,103 | 5 | 23,294 | 28,910 | 114 | 4,258 | — | 33,282 |
| | 71,685 | 4,748 | 6,580 | 5 | 83,018 | 81,502 | 2,235 | 6,602 | — | 90,339 |
| **Liabilities** | | | | | | | | | | |
| Current borrowings | 13,758 | 418 | — | — | 14,176 | 25,178 | 200 | 1,058 | — | 26,436 |
| Current derivatives | — | 3 | 70 | 236 | 309 | — | — | — | — | — |
| Current trade and other payables | 44,213 | 1,645 | 10,250 | — | 56,108 | 43,271 | 1,110 | 9,088 | — | 53,469 |
| Non-current borrowings | 11,573 | — | — | — | 11,573 | 2,274 | — | — | — | 2,274 |
| Other non-current liabilities | 880 | 3,184 | — | — | 4,064 | 929 | 2,688 | — | — | 3,617 |
| | 70,424 | 5,250 | 10,320 | 236 | 86,230 | 71,652 | 3,998 | 10,146 | — | 85,796 |

| Company | 2012 Sterling £'000 | 2012 US Dollar £'000 | 2012 Euro £'000 | 2012 Total £'000 | 2011 Sterling £'000 | 2011 US Dollar £'000 | 2011 Euro £'000 | 2011 Total £'000 |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Non-current receivables | 775 | — | — | 775 | 1,275 | — | — | 1,275 |
| Current trade and other receivables | 17,361 | 1,905 | — | 19,266 | 16,325 | 949 | — | 17,274 |
| Cash and cash equivalents | 21,657 | 786 | 293 | 22,736 | 28,124 | 111 | 49 | 28,284 |
| | 39,793 | 2,691 | 293 | 42,777 | 45,724 | 1,060 | 49 | 46,833 |
| **Liabilities** | | | | | | | | |
| Current borrowings | 984 | 5,482 | 3,963 | 10,429 | 14,179 | 4,341 | — | 18,520 |
| Current derivatives | — | — | 70 | 70 | — | — | — | — |
| Current trade and other payables | 1,747 | — | — | 1,747 | 2,155 | — | — | 2,155 |
| Non-current borrowings | 7,470 | — | — | 7,470 | — | — | — | — |
| | 10,201 | 5,482 | 4,033 | 19,716 | 16,334 | 4,341 | — | 20,675 |

The Group and Company have right of offset on certain bank accounts.

***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% weakening or strengthening in Sterling against the Euro and a 5% weakening or strengthening in Sterling against other currencies represents reasonable possible changes.

| | 2012 5%/10% weakening £'000 | 2012 5%/10% strengthening £'000 | 2011 5% weakening £'000 | 2011 5% strengthening £'000 |
|---|---|---|---|---|
| Impact on profit after taxation | 600 | (505) | 185 | (168) |
| Impact on total equity | 410 | (348) | 224 | (202) |

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.

## 28 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 and then uses interest rate caps and swaps to manage the Group's exposure to interest rate fluctuations. Historically the policy of the Group has been to hedge around 40% to 60% of the core borrowings. With low interest rates and low net borrowings the Directors decided not to manage the Group's cost of borrowing through interest rate hedging instruments. The Directors will continue to review the appropriateness of the Group's interest rate and hedging policy should the level of net borrowing increase during the financial year. At the period end £2.0 million (2011: £1.7 million) of the Group's borrowings were at a fixed rate of interest.

| Group | Weighted average effective interest rate % | 2012 £'000 | Weighted average effective interest rate % | 2011 £'000 |
|---|---|---|---|---|
| Bank overdrafts | 5.75 | 418 | 3.00 | 833 |
| Bank loans and other borrowings | 2.75 | 22,084 | 2.95 | 24,931 |
| Other loans | — | 1,225 | — | 1,225 |
| Finance lease liabilities | 4.30 | 2,022 | 6.46 | 1,721 |
| | | 25,749 | | 28,710 |
| Fixed rate | | 2,022 | | 1,721 |
| Floating rate | | 22,502 | | 25,764 |
| Non-interest bearing | | 1,225 | | 1,225 |
| | | 25,749 | | 28,710 |

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

| | |
|---|---|
| Bank overdrafts | Bank of England base rate + 2.25%; US prime rate + 1% margin |
| Bank loans and other borrowings | Libor + 2.5%; Libor + 2.25%; Bank of England base rate + 1.9% margin |

| Company | Weighted average effective interest rate % | 2012 £'000 | Weighted average effective interest rate % | 2011 £'000 |
|---|---|---|---|---|
| Bank loans | 3.18 | 8,275 | 3.38 | 14,000 |
| Loans from Group undertakings | 1.59 | 9,624 | 1.50 | 4,520 |
| | | 17,899 | | 18,520 |
| Fixed rate | | 3,963 | | — |
| Floating rate | | 13,936 | | 18,520 |
| | | 17,899 | | 18,520 |

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

| | |
|---|---|
| Bank loans | Libor + 2.5% |

## 28 Derivatives and other financial instruments (continued)

***Sensitivity analysis***

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

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | 1% decrease £'000 | 1% increase £'000 | 1% decrease £'000 | 1% increase £'000 |
| Impact on profit after taxation | 92 | (88) | 365 | (362) |
| Impact on total equity | 92 | (88) | 365 | (362) |

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 period 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.

| | 2012 | | | | 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| Group | 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 overdrafts | 418 | 418 | — | — | 833 | 833 | — | — |
| Bank loans and other borrowings | 22,788 | 13,199 | 1,599 | 7,990 | 24,931 | 24,931 | — | — |
| Other loans | 1,225 | — | — | 1,225 | 1,225 | — | — | 1,225 |
| Finance lease liabilities | 2,174 | 980 | 699 | 495 | 1,884 | 757 | 585 | 542 |
| Derivatives | 309 | 309 | — | — | — | — | — | — |
| Trade and other payables | 56,108 | 56,108 | — | — | 53,469 | 53,469 | — | — |
| Other non-current liabilities | 4,064 | — | — | 4,064 | 3,617 | — | — | 3,617 |
| | 87,086 | 71,014 | 2,298 | 13,774 | 85,959 | 79,990 | 585 | 5,384 |

| | 2012 | | | | 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| 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 | 8,856 | 1,079 | 1,052 | 6,725 | 14,000 | 14,000 | — | — |
| Loans from Group undertakings | 9,624 | 9,624 | — | — | 4,520 | 4,520 | — | — |
| Derivatives | 70 | 70 | — | — | — | — | — | — |
| Trade and other payables | 1,747 | 1,747 | — | — | 2,155 | 2,155 | — | — |
| | 20,297 | 12,520 | 1,052 | 6,725 | 20,675 | 20,675 | — | — |

***Future minimum lease payments of finance leases***

| | | | Repayment profile | |
|---|---|---|---|---|
| Group | 2012 £'000 | 2011 £'000 | 2012 £'000 | 2011 £'000 |
| Amount payable: | | | | |
| Within one year | 980 | 757 | 894 | 672 |
| In the second year | 699 | 585 | 656 | 538 |
| In the third to fifth years inclusive | 495 | 542 | 472 | 511 |
| | 2,174 | 1,884 | 2,022 | 1,721 |
| Less: future finance charges | (152) | (163) | | |
| Present value of lease obligations | 2,022 | 1,721 | | |

The Company has no finance lease obligations (2011: nil).

## 28 Derivatives and other financial instruments (continued)

***Borrowing facilities***

The Group has various undrawn committed facilities. The undrawn facilities available at 1 September 2012, in respect of which all conditions precedent had been met, were as follows:

| | 2012 Floating rate £'000 | 2011 Floating rate £'000 |
|---|---|---|
| Expiring in one year or less | 19,144 | 17,842 |

The Company's overdraft is within a Group facility and it is therefore not possible to determine the Company's undrawn committed 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 shareholders' 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. Shareholders' equity is as shown in the consolidated balance sheet.

At 1 September 2012 the Group had net debt of £2.5m compared to net cash of £4.6m at the prior period end.

***Fair values of financial assets and liabilities***

| | Group | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|
| | 2012 | | 2011 | | 2012 | | 2011 | |
| | Book value £'000 | Fair value £'000 | Book value £'000 | Fair value £'000 | Book value £'000 | Fair value £'000 | Book value £'000 | Fair value £'000 |
| **Assets** | | | | | | | | |
| Other investments | 71 | 71 | 67 | 67 | — | — | — | — |
| Non-current receivables | 2 | 2 | 2 | 2 | 775 | 775 | 1,275 | 1,275 |
| Current trade and other receivables | 59,651 | 59,651 | 56,988 | 56,988 | 19,266 | 19,266 | 17,274 | 17,274 |
| Cash and cash equivalents | 23,294 | 23,294 | 33,282 | 33,282 | 22,736 | 22,736 | 28,284 | 28,284 |
| | 83,018 | 83,018 | 90,339 | 90,339 | 42,777 | 42,777 | 46,833 | 46,833 |
| **Liabilities** | | | | | | | | |
| Current borrowings | 14,176 | 14,176 | 26,436 | 26,436 | 10,429 | 10,429 | 18,520 | 18,520 |
| Current derivatives | 309 | 309 | — | — | 70 | 70 | — | — |
| Current trade and other payables | 56,108 | 56,108 | 53,469 | 53,469 | 1,747 | 1,747 | 2,155 | 2,155 |
| Non-current borrowings | 11,573 | 11,686 | 2,274 | 2,207 | 7,470 | 7,607 | — | — |
| Other non-current liabilities | 4,064 | 4,064 | 3,617 | 3,617 | — | — | — | — |
| | 86,230 | 86,343 | 85,796 | 85,729 | 19,716 | 19,853 | 20,675 | 20,675 |

Where market values are not available, fair values have been calculated by discounting expected cash flows at prevailing interest rates and by applying year end exchange rates.

Other investments consist of investments in unquoted companies, which are held at cost as fair value cannot be reliably measured.

Derivative instruments are recognised in the balance sheet at fair value.

The fair value of current assets and current liabilities are assumed to approximate to book value due to the short term maturity of the instrument.

## 28 Derivatives and other financial instruments (continued)

***Derivative financial instruments***

***Hedge of net investment in foreign subsidiaries***

The Company has US dollar denominated borrowings totalling $8,700,000 (2011: $7,000,000) which act as a partial hedge against the investment in its US subsidiary. The fair value of the US dollar borrowings at 1 September 2012 was £5,482,000 (2011: £4,341,000) and a foreign exchange pre-tax loss of £78,000 (2011: pre-tax gain of £171,000) was recognised in equity during the year on translation of this loan to sterling.

The Company has Euro denominated borrowing totalling €5,000,000 (2011: €nil) which act as a partial hedge against the investment in its European subsidiary. The fair value of the Euro borrowings at 1 September 2012 was £3,963,000 (2011: £nil) and a foreign exchange pre-tax gain of £199,000 (2011: £nil) was recognised in equity during the year on translation of this loan to sterling.

A subsidiary of the Group has Euro denominated net loans payable totalling €nil (2011: €2,008,000) which act as a partial hedge against the investment in its European subsidiary. The fair value of the Euro net loans payable at 1 September 2012 was £nil (2011: £1,760,000). No foreign exchange gains or losses (2011: pre-tax loss of £84,000) were recognised in equity during the year on translation of this net loan to sterling.

***Currency derivatives***

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

| Group | 2012 Fair value £'000 | 2012 Contractual or notional amount £'000 | 2011 Fair value £'000 | 2011 Contractual or notional amount £'000 |
|---|---|---|---|---|
| At beginning of period | – | – | (127) | 6,299 |
| (Losses)/gains during the period | (239) | 7,693 | 211 | 7,743 |
| Disposal of subsidiary | – | – | (84) | (14,042) |
| At end of period | (239) | 7,693 | – | – |
| Included within: | | | | |
| Current liabilities | (239) | 7,693 | – | – |
| | (239) | 7,693 | – | – |

The Company has no forward foreign currency contracts (2011: £nil).

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

| Group and Company | 2012 Fair value £'000 | 2012 Contractual or notional amount £'000 | 2011 Fair value £'000 | 2011 Contractual or notional amount £'000 |
|---|---|---|---|---|
| At beginning of period | – | – | – | – |
| Losses during the period | (70) | 4,042 | – | – |
| At end of period | (70) | 4,042 | – | – |
| Included within: | | | | |
| Current liabilities | (70) | 4,042 | – | – |
| | (70) | 4,042 | – | – |

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

All forward foreign currency contracts 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.

## 29 Retirement benefit obligation

The Group participates in two defined benefit pension schemes, Carr's Milling Industries Pension Scheme 1993 and Carrs Billington Agriculture Pension Scheme.

### *Carr's Milling Industries*

The Company sponsors the Carr's Milling Industries Pension Scheme 1993 and offers 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.

The pension expense for the defined contribution section of the scheme for the period was £403,000 (2011: £409,000). Contributions totalling £22,000 (2011: £21,000) were payable to the fund at the period end and are included in other payables.

The defined benefit section of the scheme is funded to cover future pension liabilities (including expected future earnings and pension increases). It is subject to an independent valuation on a triennial basis by a qualified actuary who determines the rate of the employer's contribution. The most recent valuation of the scheme was at 31 December 2011 and adopted the Projected Unit Method. It was assumed that the investment returns would be 5.7% per annum and that the salary increases would average 4.05% per annum. It was also assumed that present and future pensions would increase up to a maximum of 5% per annum.

The actuarial valuation as at 31 December 2011 shows a funding shortfall (technical provisions minus value of assets) of £9,945,000.

The pension contribution made by the Group over the period to the defined benefit section was £3,772,000 (2011: £4,801,000).

In addition, the Group offers a Group Personal Pension plan to certain employees of Carr's Flour Mills Limited. The pension expense for this scheme for the period was £274,000 (2011: £298,000).

The following disclosures relate to the defined benefit section of the Carr's Milling Industries Pension Scheme 1993. The last full actuarial valuation of this scheme was carried out by a qualified independent actuary as at 31 December 2011 and updated on an approximate basis to 1 September 2012.

***Major assumptions:***

| | **2012**<br>**%** | 2011<br>% |
|---|---|---|
| Inflation (RPI) | **2.55** | 3.00 |
| Inflation (CPI) | **1.85** | 2.30 |
| Salary increases | **3.05** | 4.00 |
| Rate of discount | **4.40** | 5.40 |
| Pension in payment increases: | | |
| RPI or 5.0% per annum if less | **2.55** | 3.00 |
| RPI or 5.0% per annum if less, minimum 3.0% per annum | **3.00** | 3.00 |
| Allowance for revaluation of deferred pensions of CPI or 5.0% per annum if less | **1.85** | 2.30 |

The UK Government announced on 8 July 2010 that statutory pension increases or revaluations would be based on the Consumer Prices Index measure of price inflation from 2011, rather than the Retail Prices Index measure of price inflation. The Trustees have received legal advice which states that pension increases in the Scheme will continue to be linked to RPI and deferred increases will in the future be based on the statutory CPI increases.

### 29 Retirement benefit obligation (continued)

The mortality tables used in the valuation as at 1 September 2012 are 100% of S1PMA (males) and S1PFA (females) with allowance for mortality improvements using CMI_2009 with a 1.5%pa underpin. The mortality assumptions adopted imply the following life expectancies at age 65 as at 1 September 2012 (the life expectancies as at 3 September 2011 used a different set of mortality tables):

| | At 1 September 2012 | At 3 September 2011 |
|---|---|---|
| Males currently age 45 | 24.8 years | 23.7 years |
| Females currently age 45 | 27.0 years | 26.1 years |
| Males currently age 65 | 22.5 years | 21.8 years |
| Females currently age 65 | 24.6 years | 24.3 years |

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

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Current service cost | 510 | 644 |
| Interest on pension scheme liabilities | 2,591 | 2,496 |
| Expected return on pension scheme assets | (2,624) | (2,398) |
| | 477 | 742 |

***The expense is recognised within the Income Statement as shown below:***

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Cost of sales | 224 | 299 |
| Administrative expenses | 253 | 443 |
| | 477 | 742 |

Actuarial losses of £2,686,000 (2011: gains of £726,000) have been reported in the Statement of Comprehensive Income.

The cumulative amounts of actuarial losses recognised in the Statement of Comprehensive Income since adoption of IAS19 is £8,260,000 (2011: £5,574,000).

***Amounts included in the Balance Sheet:***

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Present value of defined benefit obligations | (55,472) | (48,918) |
| Fair value of scheme assets | 50,121 | 42,958 |
| Deficit in scheme | (5,351) | (5,960) |

## 29 Retirement benefit obligation (continued)

***Movements in the present value of defined benefit obligations:***

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| At the beginning of the period | **48,918** | 48,551 |
| Current service cost | **510** | 644 |
| Interest cost | **2,591** | 2,496 |
| Changes in assumptions underlying the defined benefit obligation | **5,490** | (1,296) |
| Benefits paid | **(2,037)** | (1,477) |
| At the end of the period | **55,472** | 48,918 |

***Movements in the fair value of scheme assets:***

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| At the beginning of the period | **42,958** | 37,806 |
| Expected return on scheme assets | **2,624** | 2,398 |
| Actual return less expected return on scheme assets | **2,804** | (570) |
| Contributions by employer | **3,772** | 4,801 |
| Benefits paid | **(2,037)** | (1,477) |
| At the end of the period | **50,121** | 42,958 |

***Analysis of the scheme assets, expected rate of return and actual return:***

| | Expected return | | Fair value of assets | |
|---|---|---|---|---|
| | 2012 % | 2011 % | 2012 £'000 | 2011 £'000 |
| Equity instruments | **6.20** | 6.65 | **25,384** | 21,975 |
| Debt instruments | **4.10** | 5.10 | **20,659** | 16,841 |
| Property | **6.20** | 6.45 | **3,895** | 3,758 |
| Other assets | **4.10** | 5.10 | **183** | 384 |
| | **5.33** | 6.01 | **50,121** | 42,958 |
| Actual return on scheme assets | | | **5,428** | 1,828 |

The expected long term return on other assets is based on the rate of return on bonds. The expected return on bonds is determined by reference to corporate bond yields at the balance sheet date. The expected rate of return on equities and property is based on the rate of return on bonds with an allowance for out-performance.

### 29 Retirement benefit obligation (continued)

***History of scheme:***

| | **2012 £'000** | 2011 £'000 | 2010 £'000 | 2009 £'000 | 2008 £'000 |
|---|---|---|---|---|---|
| Present value of the defined benefit obligation | **(55,472)** | (48,918) | (48,551) | (46,763) | (48,016) |
| Fair value of scheme assets | **50,121** | 42,958 | 37,806 | 32,090 | 31,458 |
| Deficit | **(5,351)** | (5,960) | (10,745) | (14,673) | (16,558) |
| Difference between expected and actual returns on scheme assets: | | | | | |
| Amount £'000 | **2,804** | (570) | 2,300 | (2,090) | (3,742) |
| Percentage of scheme assets | **5.6%** | 1.3% | 6.1% | 6.5% | 11.9% |
| Gains and losses on scheme liabilities: | | | | | |
| Amount £'000 | **(5,490)** | 1,296 | (6) | 3,041 | (7,323) |
| Percentage of scheme liabilities | **9.9%** | 2.6% | 0% | 6.5% | 15.3% |

The Group expects to contribute approximately £2,937,000 to the defined benefit scheme in the next financial period. The Company expects to contribute approximately £2,288,000 to the defined benefit scheme in the next financial period.

***Carrs Billington Agriculture***

Carrs Billington Agriculture (Sales) Limited, one of the Group's subsidiary undertakings, is a participating employer of the Carrs Billington Agriculture Pension Scheme, another funded defined benefit scheme. On 30 November 2007, following consultation with the active members, the Company and Trustees agreed to close the scheme to future service accrual.

The pension contribution made by Carrs Billington Agriculture (Sales) Limited over the period to the Carrs Billington Agriculture Pension Scheme was £nil (2011: £nil).

The actuarial valuation as at 31 December 2009 shows that the market value of assets relating to the scheme was £21,000,000 and the actuarial value of those assets represented 76% of the actuarial value of benefits that had accrued to members, after allowing for expected future increase in earnings. It was assumed that the investment returns would be pre-retirement 6.1% per annum and post-retirement 4.9% per annum. At 31 December 2009, the scheme showed a deficit of £6,700,000.

Carrs Billington Agriculture (Sales) Limited offers a Group Personal Pension Plan to its employees and the pension expense for this plan in the period was £358,000 (2011: £388,000).

During the period contributions were also payable to a defined contribution pension scheme for certain employees of Carrs Billington Agriculture (Sales) Limited. The pension expense for this scheme for the period was £15,000 (2011: £14,000).

The following disclosures relate to the defined benefit scheme. The last full actuarial valuation of this scheme was carried out by a qualified independent actuary as at 31 December 2009 and updated on an approximate basis to 1 September 2012.

It is not possible to identify the underlying share of the pension scheme assets and liabilities that relate to the Group. At inception in June 2000 approximately 50% of the assets and liabilities of the pension scheme related to the Group and under IFRS approximately 50% of the assets and liabilities are included in the Group's financial statements through the investment in associate, which is the sponsoring employer of the scheme.

## 29 Retirement benefit obligation (continued)

***Major assumptions:***

| | 2012<br>% | 2011<br>% |
|---|---|---|
| Inflation (RPI) | **2.70** | 3.20 |
| Inflation (CPI) | **2.00** | 2.50 |
| Salary increases | **N/A** | N/A |
| Rate of discount | **4.40** | 5.40 |
| Pension in payment increases: | | |
| LPI max 5% | **2.70** | 3.10 |
| LPI max 3% | **2.20** | 2.70 |
| LPI max 2.5% | **1.90** | 2.25 |
| Revaluation rate for deferred pensioners for pensions revaluing at 5.0% per annum or CPI if less | **2.00** | 2.50 |

The UK Government announced on 8 July 2010 that statutory pension increases or revaluations would be based on the Consumer Prices Index measure of inflation from 2011, rather than the Retail Prices Index measure of price inflation. The Trustees have received legal advice which states that pension increases in the Scheme will continue to be linked to RPI and deferred increases will in the future based be on the statutory CPI increases.

Mortality rates used in the valuation are based on the S1NMA and S1NFA tables, projected, medium cohort, allowing for members' actual year of birth with a 1.5% underpin for future improvements. The mortality assumptions adopted imply the following life expectancies at age 65:

| | At<br>1 September<br>2012 | At<br>3 September<br>2011 |
|---|---|---|
| Males currently age 45 | **24.7 years** | 24.7 years |
| Females currently age 45 | **27.7 years** | 27.7 years |
| Males currently age 65 | **21.8 years** | 21.8 years |
| Females currently age 65 | **24.7 years** | 24.7 years |

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

| | 2012<br>£'000 | 2011<br>£'000 |
|---|---|---|
| Interest on pension scheme liabilities | **1,292** | 1,256 |
| Expected return on pension scheme assets | **(1,171)** | (1,161) |
| | **121** | 95 |

The Group's share of the charge is recognised within the Income Statement through the share of post-tax profit in associate.

The Group's share of the actuarial losses of £855,000 (2011: £55,000) have been reported in the Statement of Comprehensive Income.

The Group's share of the cumulative amount of actuarial losses of £8,508,000 (2011: £7,653,000) have been recognised in the Statement of Comprehensive Income.

***Amounts included in the Balance Sheet of the associate:***

| | 2012<br>£'000 | 2011<br>£'000 |
|---|---|---|
| Present value of defined benefit obligations | **(26,746)** | (24,570) |
| Fair value of scheme assets | **22,091** | 20,091 |
| Deficit in scheme | **(4,655)** | (4,479) |

The Group's share of the deficit is recognised within the Balance Sheet through the investment in associate.

## 29 Retirement benefit obligation (continued)

***Movements in the present value of defined benefit obligations:***

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| At the beginning of the period | **24,570** | 25,143 |
| Interest cost | **1,292** | 1,256 |
| Changes in assumptions underlying the defined benefit obligation | **2,182** | (796) |
| Benefits paid | **(1,298)** | (1,033) |
| At the end of the period | **26,746** | 24,570 |

***Movements in the fair value of scheme assets:***

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| At the beginning of the period | **20,091** | 19,564 |
| Expected return on scheme assets | **1,171** | 1,161 |
| Actual return less expected return on scheme assets | **1,327** | (851) |
| Contributions by employer | **800** | 1,250 |
| Benefits paid | **(1,298)** | (1,033) |
| At the end of the period | **22,091** | 20,091 |

***Analysis of the scheme assets, expected rate of return and actual return:***

| | Expected return | | Fair value of assets | |
|---|---|---|---|---|
| | 2012 % | 2011 % | 2012 £'000 | 2011 £'000 |
| Equity instruments | **6.20** | 7.00 | **9,833** | 10,046 |
| Debt instruments | **3.76** | 4.79 | **11,012** | 10,045 |
| Property | **6.20** | — | **1,026** | — |
| Other | **2.50** | — | **220** | — |
| | **4.98** | 5.90 | **22,091** | 20,091 |
| Actual return on scheme assets | | | **2,498** | 310 |

To develop the expected long-term rate of return on assets assumption, the Company considered the current level of expected returns on risk free investments (primarily government bonds), and in previous years, the historical level of the risk premium associated with the other asset classes in which the portfolio was invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selection of the 4.98% assumption for 2012 and 5.90% for 2011.

## 29 Retirement benefit obligation (continued)

***History of scheme:***

| | 2012 £'000 | 2011 £'000 | 2010 £'000 | 2009 £'000 | 2008 £'000 |
|---|---|---|---|---|---|
| Present value of the defined benefit obligation | **(26,746)** | (24,570) | (25,143) | (22,858) | (21,896) |
| Fair value of scheme assets | **22,091** | 20,091 | 19,564 | 17,903 | 19,254 |
| Deficit | **(4,655)** | (4,479) | (5,579) | (4,955) | (2,642) |
| Difference between expected and actual returns on scheme assets: | | | | | |
| Amount £'000 | **1,327** | (851) | 998 | (2,060) | (3,005) |
| Percentage of scheme assets | **6.0%** | 4.2% | 5.1% | 11.5% | 15.6% |
| Gains and losses on scheme liabilities: | | | | | |
| Amount £'000 | **(2,182)** | 796 | (2,042) | (768) | 570 |
| Percentage of scheme liabilities | **8.2%** | 3.2% | 8.1% | 3.4% | 2.6% |

It is expected that contributions of approximately £800,000 will be paid to the defined benefit scheme in the next financial period.

## 30 Called-up share capital

| Group and Company | 2012 Shares | 2012 £'000 | 2011 Shares | 2011 £'000 |
|---|---|---|---|---|
| Authorised: | | | | |
| Ordinary shares of 25p each | **14,000,000** | **3,500** | 14,000,000 | 3,500 |
| Allotted and fully paid ordinary shares of 25p each: | | | | |
| At start of period | **8,863,056** | **2,216** | 8,784,286 | 2,196 |
| Allotment of shares | **13,126** | **3** | 78,770 | 20 |
| At end of period | **8,876,182** | **2,219** | 8,863,056 | 2,216 |

The consideration received on the allotment of shares during the period was £62,000 (2011: £341,000)

For details of share based payment schemes see note 31.

Since the period end there was a further allotment of 174 shares with a nominal value of £44 due to the exercise of share options.

### 31 Share-based payments

***Group***

The Group operates three active share based payment schemes at 1 September 2012.

In 2011 the Group entered into a new 3-year and 5-year plan under the existing 2006 approved discretionary employee Share Save Scheme.

In 2008 the Group entered into a deferred bonus scheme (Deferred Bonus Scheme 2007). As part of this deferred bonus scheme the eligible individuals invest a proportion of their bonus into shares. Matching shares may be awarded after a period of three years if certain performance criteria are met. Individuals in the scheme may receive a maximum of one matching share for every share that they bought subject to the Group's adjusted earnings per share over the period of three years ended 31 August 2010 equalling or exceeding the growth in the RPI over the same period by an average of 4% per annum. The award multiple will be reduced to 0.5 should the growth in adjusted earnings per share over the three years equal the growth in RPI by an average of 2% per annum. Should the Group's adjusted earnings per share fall between the two threshold levels, referred to above, the award multiple will be measured on a straight-line basis between 0.5 and 1.

In 2006 the Group entered into three schemes, an HM Revenue and Customs approved discretionary employee share option scheme, an unapproved discretionary share option scheme and a share save scheme (comprising a 3-year and a 5-year plan).

Both the approved and unapproved share options were granted to certain senior employees and Directors. Options are exercisable between three and ten years from the date of grant, subject to the movement of the Group's adjusted earnings per share over the three years to 31 August 2008 exceeding that of the RPI by an average of 2% per annum.

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:

| | Share Save Scheme 2011 (3-Year Plan) | Share Save Scheme 2011 (5-Year Plan) | Deferred Bonus Scheme 2007 | Approved and Unapproved Executive Share Option Scheme 2006 | Share Save Scheme 2006 (5-Year Plan) |
|---|---|---|---|---|---|
| Grant date (approved) | 10/5/11 | 10/5/11 | 6/12/07 | 24/2/06 | 1/6/06 |
| Grant date (unapproved) | — | — | — | 20/2/06 | — |
| Share price at grant date (weighted average) | £7.20 | £7.20 | £5.44 | £4.78 | £4.64 |
| Exercise price (weighted average) | £5.72 | £5.72 | £0.25 | £4.78 | £4.79 |
| Number of employees | 78 | 80 | — | 21 | — |
| Shares under option (approved) | 50,772 | 85,552 | — | 87,000 | — |
| Shares under option (unapproved) | — | — | — | — | — |
| Vesting period (years) | 3 | 5 | 2.83 | 3 | 5 |
| Model used for valuation | Black Scholes | Black Scholes | Black Scholes | Binomial | Black Scholes |
| Expected volatility | 25.00% | 24.00% | 22.00% | 22.44% | 21.37% |
| Option life (years) | 3.5 | 5.5 | 2.92 | 10 | 5.5 |
| Expected life (years) | 3.25 | 5.25 | 2.83 | 6.5 | 5.25 |
| Risk-free rate | 1.620% | 2.450% | 4.420% | 4.224% | 4.623% |
| Expected dividends expressed as a dividend yield | 3.90% | 3.90% | 3.30% | 3.36% | 3.56% |
| Expectations of vesting | 95% | 95% | 100% | 100% | 0% |
| Expectations of meeting performance criteria | N/A | N/A | 100% | 100% | N/A |
| Fair value per option | £1.49 | £1.56 | £4.74 | £0.99 | £0.78 |

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.

## 31 Share-based payments (continued)

***Share Save Scheme 2011 - 3 Year Plan***

The number and weighted average exercise prices are as follows:

| | 2012 Weighted average exercise price £ | 2012 Number of options ('000) | 2011 Weighted average exercise price £ | 2011 Number of options ('000) |
|---|---|---|---|---|
| Outstanding at the beginning of the period | **5.72** | **56** | — | — |
| Granted during the period | **—** | **—** | 5.72 | 56 |
| Forfeited during the period | **5.72** | **(5)** | — | — |
| Outstanding at the end of the period | **5.72** | **51** | 5.72 | 56 |
| Exercisable at the end of the period | **—** | **—** | — | — |

At the period end the weighted average remaining contractual life of the options is 2.25 years (2011: 3.25 years) with a weighted average remaining expected life of 2 years (2011: 3 years).

***Share Save Scheme 2011 - 5 Year Plan***

The number and weighted average exercise prices are as follows:

| | 2012 Weighted average exercise price £ | 2012 Number of options ('000) | 2011 Weighted average exercise price £ | 2011 Number of options ('000) |
|---|---|---|---|---|
| Outstanding at the beginning of the period | **5.72** | **90** | — | — |
| Granted during the period | **—** | **—** | 5.72 | 90 |
| Forfeited during the period | **5.72** | **(4)** | — | — |
| Outstanding at the end of the period | **5.72** | **86** | 5.72 | 90 |
| Exercisable at the end of the period | **—** | **—** | — | — |

At the period end the weighted average remaining contractual life of the options is 4.25 years (2011: 5.25 years) with a weighted average remaining expected life of 4 years (2011: 5 years).

***Deferred Bonus Scheme 2007***

The number and weighted average exercise prices are as follows:

| | 2012 Weighted average exercise price £ | 2012 Number of options ('000) | 2011 Weighted average exercise price £ | 2011 Number of options ('000) |
|---|---|---|---|---|
| Outstanding at the beginning of the period | **—** | **—** | 0.25 | 8 |
| Exercised during the period | **—** | **—** | 0.25 | (8) |
| Outstanding at the end of the period | **—** | **—** | — | — |
| Exercisable at the end of the period | **—** | **—** | — | — |

As the performance criterion under this Scheme was met, matching shares were awarded in the prior period.

### 31 Share-based payments (continued)

***Approved and Unapproved Executive Share Option Scheme 2006***

The number and weighted average exercise prices are as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Weighted average exercise price £ | Number of options ('000) | Weighted average exercise price £ | Number of options ('000) |
| Outstanding at the beginning of the period | 4.78 | 99 | 4.78 | 141 |
| Exercised during the period | 4.78 | (12) | 4.78 | (42) |
| Outstanding at the end of the period | 4.78 | 87 | 4.78 | 99 |
| Exercisable at the end of the period | 4.78 | 87 | 4.78 | 99 |

At the period end the weighted average remaining contractual life of the options is 3.5 years (2011: 4.5 years) with a weighted average remaining expected life of nil years (2011: 1 year).

***Share Save Scheme 2006 - 5 Year Plan***

The number and weighted average exercise prices are as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Weighted average exercise price £ | Number of options ('000) | Weighted average exercise price £ | Number of options ('000) |
| Outstanding at the beginning of the period | 4.79 | 2 | 4.79 | 50 |
| Exercised during the period | 4.79 | (1) | 4.79 | (48) |
| Forfeited during the period | 4.79 | (1) | 4.79 | — |
| Outstanding at the end of the period | — | — | 4.79 | 2 |
| Exercisable at the end of the period | — | — | 4.79 | 2 |

At the period end the weighted average remaining contractual life of the options is nil years (2011: 0.25 years) with a weighted average remaining expected life of nil years (2011: nil years).

The total expense recognised for the period arising from share based payments are as follows:

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Share Save Scheme 2011 - 3 Year Plan | 24 | 7 |
| Share Save Scheme 2011 - 5 Year Plan | 25 | 7 |
| Share Save Scheme 2006 - 5 Year Plan | — | 7 |
| Deferred Bonus Scheme 2007 | — | 1 |
| | 49 | 22 |

## 31 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 period arising from share based payments are as follows:

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Share Save Scheme 2011 - 3 Year Plan | 5 | 1 |
| Share Save Scheme 2011 - 5 Year Plan | 1 | 1 |
| Deferred Bonus Scheme 2007 | – | 1 |
| | 6 | 3 |

Share based payments awarded to employees of subsidiary undertakings and recognised as an investment in subsidiary undertakings in the Company are as follows:

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Approved Executive Share Option Scheme 2006 | 80 | 92 |
| Share Save Scheme 2011 - 3 Year Plan | 24 | 6 |
| Share Save Scheme 2011 - 5 Year Plan | 30 | 7 |
| Share Save Scheme 2006 - 5 Year Plan | – | 1 |
| Total carrying amount of investments | 134 | 106 |

## 32 Acquisitions

***Clive Walton Engineering Limited***

On 25 May 2012 Carrs Engineering Limited acquired the entire issued share capital of Clive Walton Engineering Limited for cash consideration of £800,000.

The principal activity of Clive Walton Engineering Limited is that of precision engineering.

This purchase has been accounted for as an acquisition.

The primary reason for the business combination was that the acquired business complimented the existing engineering business enabling a wider set of skills to be offered to customers.

***J L Marsden & Petsmart Limited t/a Laycocks***

On 20 July 2012 Carrs Billington Agriculture (Sales) Limited acquired the trade and net assets of Laycocks for a provisional cash consideration of £828,000 of which £735,000 was paid by 1 September 2012.

The principal activity of Laycocks is that of an agricultural merchant.

This purchase has been accounted for as an acquisition.

The primary reason for the business combination was the geographical expansion of the existing Agriculture business into Yorkshire. Synergies are expected following the rationalisation of the procurement and administration functions.

***Afgritech Limited***

On 31 July 2012 Carrs Agriculture Limited acquired the trade and certain assets and liabilities of Afgritech Limited, a joint venture of the Group for cash consideration of £409,000.

The principal activity of Afgritech Limited is that of producing an ingredient of animal feed.

This purchase has been accounted for as an acquisition.

The primary reason for the business combination was to move the business from being jointly owned to wholly owned.

## 32 Acquisitions (continued)

***Aggregate disclosures***

The total goodwill arising from acquisitions in the period amounts to £641,000. Goodwill reflects the value of the employees, which under IFRS should not be recorded as a separately identifiable intangible asset on the balance sheet, and anticipated synergy benefits arising from the acquisitions. Synergy benefits include the rationalisation of the procurement and administration functions.

The following aggregated amounts have been recognised within the consolidated income statement in respect of acquisitions:

| | £'000 |
|---|---|
| Revenue | 617 |
| Profit before taxation | 22 |

There were no other recognised gains and losses other than the profit shown above.

Related costs of the above acquisitions amounted to £20,000, which have been recognised within administrative expenses in the consolidated income statement.

The aggregate assets and liabilities acquired in the period are set out below:

| | Fair value £'000 |
|---|---|
| Intangible assets | 184 |
| Property, plant and equipment | 532 |
| Inventories | 491 |
| Receivables | 1,030 |
| Bank overdraft | (119) |
| Payables | (625) |
| Taxation | |
| — Current | (56) |
| — Deferred | (41) |
| Net assets acquired | 1,396 |
| Goodwill | 641 |
| Satisfied by cash (of which £1,944,000 has been paid by 1 September 2012) | 2,037 |

The table above includes the aggregate assets and liabilities acquired, and consideration paid, in respect of Laycocks which are provisional pending finalisation of completion accounts.

The aggregate gross contractual amounts receivable were £977,000.

***Pro forma full year information***

IFRS3 (revised) requires disclosure of information as to the impact on the financial statements if acquisitions had occurred at the beginning of the accounting period.

The unaudited pro forma summary below presents the Group as if all acquisitions in the period had been acquired on 4 September 2011.

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 of operations of the combined businesses.

| **Continuing operations** | £'000 |
|---|---|
| Revenue | 408,101 |
| Profit before taxation | 13,220 |

### 33 Cash generated from/(used in) continuing operations

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 £'000 | 2011 £'000 | 2012 £'000 | 2011 £'000 |
| **Profit for the period from continuing operations** | **10,105** | 8,037 | **508** | 21,149 |
| Adjustments for: | | | | |
| Tax | **2,954** | 1,973 | **(107)** | 92 |
| Dividends received from subsidiaries | **—** | — | **(2,220)** | (22,377) |
| Depreciation of property, plant and equipment | **4,165** | 3,923 | **—** | — |
| Impairment of property, plant and equipment | **—** | 324 | **—** | — |
| Amounts written off property, plant and equipment | **1** | 28 | **—** | — |
| Profit on disposal of property, plant and equipment | **(153)** | (10) | **—** | — |
| Depreciation of investment property | **20** | 20 | **—** | — |
| Profit on disposal of investment property | **(45)** | — | **—** | — |
| Intangible asset amortisation | **492** | 480 | **—** | — |
| Intangible asset impairment | **—** | 325 | **—** | — |
| Profit on disposal of investment | **(107)** | (2) | **(107)** | — |
| Profit on disposal of trade | **—** | (190) | **—** | — |
| Impairment of investment | **—** | — | **415** | — |
| Loan forgiven in the period | **—** | (40) | **13** | — |
| Amortisation of grants | **(50)** | — | **—** | — |
| Net fair value loss on share based payments | **49** | 20 | **6** | 3 |
| Net foreign exchange differences | **138** | 18 | **183** | 35 |
| Net fair value losses on derivative financial instruments in operating profit | **309** | — | **70** | — |
| Finance costs: | | | | |
| Interest income | **(673)** | (410) | **(841)** | (516) |
| Interest expense and borrowing costs | **1,403** | 1,424 | **583** | 674 |
| Share of profit from associate and joint ventures | **(1,381)** | (1,776) | **—** | — |
| IAS19 income statement credit in respect of employer contributions (note 29) | **(3,772)** | (4,801) | **(3,772)** | (4,801) |
| IAS19 income statement charge (note 29) | **477** | 742 | **477** | 742 |
| Changes in working capital (excluding the effects of acquisitions and disposal): | | | | |
| Increase in inventories | **(3,868)** | (205) | **—** | — |
| (Increase)/decrease in receivables | **(896)** | (14,591) | **(147)** | 110 |
| Increase/(decrease) in payables | **2,806** | 18,808 | **(379)** | 1,257 |
| Cash generated from/(used in) continuing operations | **11,974** | 14,097 | **(5,318)** | (3,632) |

### 34 Analysis of net cash/(net debt)

| Group | At 4 September 2011 £'000 | Cash flow £'000 | Other non-cash changes £'000 | Exchange movements £'000 | **At 1 September 2012 £'000** |
|---|---|---|---|---|---|
| Cash and cash equivalents | 33,282 | (9,988) | — | — | **23,294** |
| Bank overdrafts | (833) | 587 | — | (172) | **(418)** |
| | 32,449 | (9,401) | — | (172) | **22,876** |
| Loans and other borrowings: | | | | | |
| — current | (24,931) | 4,652 | 7,415 | — | **(12,864)** |
| — non-current | (1,225) | (1,750) | (7,470) | — | **(10,445)** |
| Finance leases: | | | | | |
| — current | (672) | 940 | (1,162) | — | **(894)** |
| — non-current | (1,049) | — | (79) | — | **(1,128)** |
| Net cash/(net debt) | 4,572 | (5,559) | (1,296) | (172) | **(2,455)** |

Other non-cash changes relate to finance leases, including finance leases acquired with subsidiaries, and transfers between categories of borrowings. It also includes the release of deferred borrowing costs to the consolidated income statement.

| Company | At 4 September 2011 £'000 | Cash flow £'000 | Other non-cash changes £'000 | Exchange movements £'000 | **At 1 September 2012 £'000** |
|---|---|---|---|---|---|
| Cash and cash equivalents | 28,284 | (5,390) | — | (158) | **22,736** |
| Loans and other borrowings: | | | | | |
| — current | (18,520) | 555 | 7,415 | 121 | **(10,429)** |
| — non-current | — | — | (7,470) | — | **(7,470)** |
| Net cash | 9,764 | (4,835) | (55) | (37) | **4,837** |

Other non-cash changes relate to the release of deferred borrowing costs to the consolidated income statement and transfers between categories of borrowings.

### 35 Capital Commitments

| Group | **2012 £'000** | 2011 £'000 |
|---|---|---|
| Capital expenditure on property, plant and equipment that has been contracted for but has not been provided for in the accounts | **8,985** | — |

The Company has no capital commitments (2011: nil).

## 36 Other Financial Commitments

***Group***

At 1 September 2012 the Group had commitments, other than land and buildings, under non-cancellable operating leases as follows:

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Within one year | 514 | 409 |
| Within two and five years inclusive | 1,007 | 753 |
| After five years | 30 | 1 |
| | 1,551 | 1,163 |

The Company has no commitments under non-cancellable operating leases (2011: nil).

## 37 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 and guarantee facilities with that bank, which at 1 September 2012 amounted to £8,776,000 (2011: £3,996,000).

The Company, together with certain subsidiary undertakings, has a €nil (2011: €125,000) letter of credit by Clydesdale Bank PLC in favour of Crystalyx Products GmbH, a joint venture arrangement.

The Company, together with certain subsidiary undertakings, had entered into a guarantee with Royal Bank of Scotland PLC in respect of an overdraft with that bank. Due to a change in finance provider during the period this guarantee does not exist at 1 September 2012 (2011: £641,000).

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 1 September 2012 was £3,977,000 (2011: £6,563,000).

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 1 September 2012 the contracts under guarantee that have still to be completed have a total contract value of £377,000 (2011: £1,814,000).

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 (2011: £1,500,000).

The Group and Company does not expect any of the above guarantees to be called in.

## 38 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 Directors' Remuneration Report.

| | Group | | Company | |
|---|---|---|---|---|
| | **2012 £'000** | 2011 £'000 | **2012 £'000** | 2011 £'000 |
| Balances reported in the Balance Sheet | | | | |
| Amounts owed by key management personnel (in a trading capacity): | | | | |
| Trade receivables | **95** | 137 | **–** | – |
| Transactions reported in the Income Statement | | | | |
| Revenue | **626** | 772 | **–** | – |
| Purchases | **(5)** | (8) | **–** | – |

During the period the Group incurred recruitment related costs in respect of Neil Austin, who will be appointed Finance Director upon Ron Wood's retirement.

***Transactions with subsidiaries***

| | Company | |
|---|---|---|
| | **2012 £'000** | 2011 £'000 |
| Balances reported in the Balance Sheet | | |
| Amounts owed by subsidiary undertakings: | | |
| Loans | **17,484** | 16,943 |
| Other receivables | **22** | 38 |
| | **17,506** | 16,981 |
| Amounts owed to subsidiary undertakings: | | |
| Loans | **(9,624)** | (4,520) |
| Other payables | **(46)** | (379) |
| | **(9,670)** | (4,899) |
| Transactions reported in the Income Statement | | |
| Management charges receivable | **1,688** | 2,669 |
| Dividends received | **2,220** | 22,377 |
| Interest receivable | **342** | 295 |
| Interest payable | **(115)** | (68) |

## 38 Related parties (continued)

***Transactions with associate***

| | Group | | Company | |
|---|---|---|---|---|
| | **2012 £'000** | 2011 £'000 | **2012 £'000** | 2011 £'000 |
| Balances reported in the Balance Sheet | | | | |
| Amounts owed by associate: | | | | |
| Trade and other receivables | **185** | 43 | **2** | – |
| Amounts owed to associate: | | | | |
| Trade and other payables | **(13,888)** | (10,777) | **–** | (3) |
| Transactions reported in the Income Statement | | | | |
| Revenue | **563** | 461 | **–** | – |
| Rental income | **19** | 18 | **–** | – |
| Management charges receivable | **60** | 57 | **15** | 15 |
| Management charges payable | **(67)** | (64) | **–** | – |
| Purchases | **(89,762)** | (85,789) | **–** | – |

***Transactions with joint ventures***

| | Group | | Company | |
|---|---|---|---|---|
| | **2012 £'000** | 2011 £'000 | **2012 £'000** | 2011 £'000 |
| Balances reported in the Balance Sheet | | | | |
| Amounts owed by joint ventures: | | | | |
| Trade and other receivables | **2,327** | 1,765 | **1,927** | 1,353 |
| Amounts owed to joint ventures: | | | | |
| Trade and other payables | **(13)** | (13) | **–** | (13) |

Included within Group trade and other receivables is £2,224,000 (2011: £1,725,000) in respect of loans owed by joint ventures. The loan balance for the current period is stated after the recognition of the cumulative losses of £410,000 on the three US joint ventures (note 16).

Included within Company trade and other receivables is £1,916,000 (2011: £1,350,000 ) in respect of loans owed by joint ventures.

| | Group | | Company | |
|---|---|---|---|---|
| | **2012 £'000** | 2011 £'000 | **2012 £'000** | 2011 £'000 |
| Transactions reported in the Income Statement | | | | |
| Revenue | **91** | 91 | **–** | – |
| Management charges receivable | **100** | 58 | **–** | – |

***Transactions with other related parties***

Other loans of £1,225,000 (2011: £1,225,000) included within non-current borrowings is in respect of a loan from Edward Billington and Son Limited to Carrs Billington Agriculture (Sales) Limited. This loan is interest free, unsecured, and has no set repayment date. Edward Billington and Son Limited has a 49% shareholding in Carrs Billington Agriculture (Sales) Limited.

## FIVE YEAR STATEMENT

| Continuing operations<br>Revenue and Results | 2008<br>£'000 | 2009<br>£'000 | 2010<br>£'000 | 2011<br>£'000 | **2012<br>£'000** |
|---|---|---|---|---|---|
| **Revenue** | 372,307 | 350,023 | 298,110 | 373,318 | **404,058** |
| **Group operating profit** | 12,875 | 7,295 | 7,445 | 9,156 | **12,071** |
| **Analysed as:** | | | | | |
| **Operating profit before non-recurring items** | 12,814 | 7,295 | 7,445 | 9,907 | **12,307** |
| Non-recurring items | 61 | — | — | (751) | **(236)** |
| **Group operating profit** | 12,875 | 7,295 | 7,445 | 9,156 | **12,071** |
| Profit on the disposal of property and investment | — | — | — | — | **282** |
| Finance income | 454 | 211 | 404 | 410 | **673** |
| Finance costs | (2,061) | (1,522) | (1,224) | (1,332) | **(1,348)** |
| Share of post-tax profit in associate and joint ventures | 1,590 | 1,051 | 799 | 1,776 | **1,381** |
| **Profit before taxation** | 12,858 | 7,035 | 7,424 | 10,010 | **13,059** |
| Taxation | (4,605) | (1,829) | (1,663) | (1,973) | **(2,954)** |
| **Profit for the period from continuing operations** | 8,253 | 5,206 | 5,761 | 8,037 | **10,105** |
| Profit for the period from discontinued operations | — | — | 1,074 | 16,598 | **(202)** |
| **Profit for the period** | 8,253 | 5,206 | 6,835 | 24,635 | **9,903** |
| **Ratios (continuing operations)** | | | | | |
| Operating margin (excluding non-recurring items) | 3.4% | 2.1% | 2.5% | 2.7% | **3.0%** |
| Return on net assets (excluding non-recurring items) | 46.4% | 21.1% | 18.9% | 17.1% | **19.2%** |
| Earnings per share — basic | 92.7p | 50.4p | 51.9p | 77.0p | **98.2p** |
| — adjusted | 108.6p | 51.0p | 53.5p | 88.4p | **101.5p** |
| Dividends per ordinary share | 23.0p | 23.0p | 24.0p | 26.0p | **29.0p** |

Revenue and results for years ended 2008 and 2009 include the revenue and results from the fertiliser blending operations which were disposed of in the prior period.

| Net assets employed | 2008<br>£'000 | 2009<br>£'000 | 2010<br>£'000 | 2011<br>£'000 | **2012<br>£'000** |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Goodwill | 1,381 | 1,654 | 4,336 | 4,558 | **5,199** |
| Other intangible assets | 294 | 764 | 1,362 | 1,029 | **728** |
| Property, plant and equipment | 28,596 | 31,764 | 32,588 | 31,519 | **37,158** |
| Investment property | 737 | 718 | 699 | 764 | **1,005** |
| Investments | 4,530 | 4,626 | 5,018 | 6,832 | **8,081** |
| Financial assets | | | | | |
| — Derivative financial instruments | — | — | — | — | **—** |
| — Non-current receivables | 50 | 53 | 5 | 2 | **2** |
| Deferred tax assets | 5,318 | 5,015 | 3,924 | 2,519 | **2,480** |
| | 40,906 | 44,594 | 47,932 | 47,223 | **54,653** |
| **Current assets** | | | | | |
| Inventories | 31,014 | 23,860 | 27,015 | 22,793 | **27,128** |
| Trade and other receivables | 50,754 | 43,059 | 48,810 | 56,988 | **59,651** |
| Current tax assets | 65 | 119 | 303 | 9 | **—** |
| Financial assets | | | | | |
| — Derivative financial instruments | 927 | 16 | — | — | **—** |
| — Cash and cash equivalents | 3,896 | 10,304 | 13,695 | 33,282 | **23,294** |
| | 86,656 | 77,358 | 89,823 | 113,072 | **110,073** |
| **Total assets** | 127,562 | 121,952 | 137,755 | 160,295 | **164,726** |
| **Current liabilities** | | | | | |
| Financial liabilities | | | | | |
| — Borrowings | (15,004) | (10,226) | (11,478) | (26,436) | **(14,176)** |
| — Derivative financial instruments | (22) | (43) | (127) | — | **(309)** |
| Trade and other payables | (52,977) | (35,928) | (49,468) | (53,469) | **(56,108)** |
| Current tax liabilities | (2,054) | (708) | (1,129) | (1,688) | **(1,552)** |
| | (70,057) | (46,905) | (62,202) | (81,593) | **(72,145)** |
| **Non-current liabilities** | | | | | |
| Financial liabilities | | | | | |
| — Borrowings | (6,325) | (19,403) | (17,732) | (2,274) | **(11,573)** |
| — Derivative financial instruments | (14) | — | — | — | **—** |
| Retirement benefit obligation | (16,558) | (14,673) | (10,745) | (5,960) | **(5,351)** |
| Deferred tax liabilities | (4,775) | (4,840) | (4,960) | (4,007) | **(3,733)** |
| Other non-current liabilities | (2,237) | (2,834) | (2,797) | (3,617) | **(4,064)** |
| | (29,909) | (41,750) | (36,234) | (15,858) | **(24,721)** |
| **Total liabilities** | (99,966) | (88,655) | (98,436) | (97,451) | **(96,866)** |
| **Net assets** | 27,596 | 33,297 | 39,319 | 62,844 | **67,860** |

# COMPANY NUMBER: 98221
# CARR'S MILLING INDUSTRIES PLC NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the one hundred and fourth annual general meeting of the Company will be held at the Crown Hotel, Wetheral, Carlisle on Tuesday 8 January, 2013 at 11.30 a.m. for the following purposes:

**Ordinary Business**

1. To receive the Company's annual accounts for the financial year ended 1 September 2012 together with the directors' report and the auditor's report on those accounts.
2. To declare a final dividend of 14.5p per share for the year ended 1 September 2012.
3. To re-elect A R Heygate who retires in accordance with best practice under the UK Corporate Governance Code 2010.
4. To re-elect Lord Inglewood, who retires by rotation until 28 February 2013.
5. To re-appoint PricewaterhouseCoopers LLP as Auditors of the Company.
6. To authorise the Audit Committee of the Board to determine the remuneration of the auditors.
7. To approve the directors' remuneration report for the financial year ended 1 September 2012.

**Special Business**

8. To consider and, if thought fit, pass the following resolution which will be proposed as an ordinary resolution:

   "**THAT**, in substitution for all existing and unexercised authorities and powers, the directors of the company be and they are hereby generally and unconditionally authorised for the purpose of section 551 of the Companies Act 2006 (the "**Act**") to exercise all or any of the powers of the Company to allot relevant securities to such persons at such times and generally on such terms and conditions as the directors may determine (subject always to the Articles of Association of the Company) provided that:

   a. the maximum nominal amount of such securities which may be allotted under this authority is £732,299; and

   b. this authority shall, unless previously renewed, varied or revoked by the Company in general meeting, expire at the conclusion of the next annual general meeting or on the date which is 6 months after the next accounting reference date of the Company (if earlier) save that the directors of the Company may, before the expiry of such period, make an offer or agreement which would or might require relevant securities to be allotted after the expiry of such period and the directors of the Company may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired."

9. To consider and, if thought fit, pass the following resolution which will be proposed as a special resolution:

   "**THAT**, subject to and conditional upon the passing of the resolution numbered 9 in the notice convening the meeting at which this resolution was proposed and in substitution for all existing and unexercised authorities and powers, the Directors of the Company be and are hereby empowered pursuant to section 570-573 of the Act to allot equity securities pursuant to the authority conferred upon them by resolution 9 as if section 561 of the Act did not apply to any such allotment provided that this authority and power shall be limited to:

   a. the allotment of equity securities in connection with a rights issue or similar offer in favour of ordinary shareholders where the equity securities respectively attributable to the interest of all other shareholders are proportionate (as nearly as may be) to the respective number of ordinary shares held by them subject only to such exclusion or other arrangements as the directors of the Company may consider appropriate to deal with fractional entitlements or legal and practical difficulties under the laws of, or the requirements of any recognised regulatory body in any, territory; and

   b. The allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £110,954 representing approximately 5% of the current issued share capital of the Company, and shall expire on the date of the next annual general meeting of the Company or (if earlier) the date which is 6 months after the next accounting reference date of the Company, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired."

10. To consider and, if thought fit, pass the following resolution which will be proposed as a special resolution:

    "**THAT**, the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of section 693 of the Act) of Ordinary Shares provided that:

    a. the maximum number of Ordinary Shares which may be purchased is 887,636 (representing 10% of the Company's issued share capital);

    b. the minimum price which may be paid for each Ordinary Share is 25p;

    c. the maximum price which may be paid for each Ordinary Share is an amount equal to 105% of the average of the middle market quotations for an Ordinary Share as derived from the Daily Official List of London Stock Exchange plc for the 5 business days immediately preceding the day on which the Ordinary Share in question is purchased;

    d. unless previously revoked or varied, the authority hereby conferred shall expire at the conclusion of the next annual general meeting of the Company to be held in 2013 or, if earlier, on the date which is 12 months after the date of the passing of this resolution; and

    e. the Company may make a contract or contracts to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which contract or contracts will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of Ordinary Shares in pursuance of any such contract or contracts."

11. To consider and, if thought fit, pass the following resolution which will be proposed as a special resolution:

    "**THAT** a general meeting other than an annual general meeting may be called on not less than 14 clear days' notice."

12. To consider and, if thought fit, pass the following resolution which will be proposed as an ordinary resolution:

    "**THAT** the Directors be authorised to establish The Carr's Milling Industries Long Term Incentive Plan 2013 (the "LTIP"), a copy of the draft rules of which has been produced to the meeting and initialled by the Chairman (for the purpose of identification only) and a summary of the main provisions of which is set out in the Appendix to the Notice of AGM of Carr's Milling Industries PLC to be held on 8 January 2013, and to do all such acts and things as may be necessary or expedient to give effect to the LTIP."

**By Order Of The Board**

Ron Wood
Company Secretary
16 November 2012

Old Croft
Stanwix
Carlisle
CA3 9BA

# DIRECTORY OF OPERATIONS

**Carr's Milling Industries PLC**
Old Croft, Stanwix, Carlisle,
Cumbria CA3 9BA
Tel: 01228 554600
Fax: 01228 554601
Website: www.carrs-milling.com

**Animal Feed Supplement, Inc**
East Highway 212,
PO Box 188, Belle Fourche,
South Dakota 57717 USA
Tel: 00 1 605 892 3421
Fax: 00 1 605 892 3473

**Animal Feed Supplement, Inc**
PO Box 105,
101 Roanoke Avenue, Poteau,
Oklahoma 74953 USA
Tel: 00 1 918 647 8133
Fax: 00 1 918 647 7318

**Caltech**
Solway Mills, Silloth, Wigton,
Cumbria CA7 4AJ
Tel: 016973 32592
Fax: 016973 32339

**Scotmin**
13 Whitfield Drive,
Heathfield Ind Est, Ayr
KA8 9RX
Tel: 01292 280 909
Fax: 01292 280 919

**Aminomax**
Old Croft
Stanwix, Carlisle
Tel: 01228 554 600
Fax: 01228 554 601

**Gold-Bar Feed Supplements LLC***
783 Eagle Boulevard, Shelbyville,
TN 37160, USA
Tel: 00 1 877 618 6455
Fax: 00 1 877 618 6489

**Crystalyx Products GmbH***
Am Stau 199-203, 26122,
Oldenburg, Germany
Tel: 00 49 441 2188 92142
Fax: 00 49 441 2188 92177

**Carrs Billington Agriculture (Operations)****
Parkhill Road, Kingstown Ind Est,
Carlisle CA03 0EX
Tel: 01228 529 021
Fax: 01228 554 397

**Carrs Billington Agriculture (Operations)****
Lansil Way,
Lancaster LA1 3QY
Tel: 01524 597 200
Fax: 01524 597 229

**Carrs Billington Agriculture (Operations)****
High Mill, Langwathby,
Penrith CA10 1NB
Tel: 01768 889 800
Fax: 01768 889 887

**Carrs Billington Agriculture (Operations)****
Cold Meece,
Stone ST15 0QW
Tel: 01785 760 535
Fax: 01785 760 888

**Carrs Billington Agriculture (Sales), Annan**
25 High Street, Annan,
Dumfriesshire DG12 6AE
Tel: 01461 202 772
Fax: 01461 202 712

**Carrs Billington Agriculture (Sales), Appleby**
Crosscroft Industrial Estate,
Appleby,
Cumbria CA16 6HX
Tel: 01768 352 999

**Carrs Billington Agriculture (Sales), Askrigg**
Uredale Mill, Askrigg, Leyburn,
North Yorkshire DL8 7HZ
Tel: 01969 650 229
Fax: 01969 650 770

**Carrs Billington Agriculture (Sales), Barnard Castle**
Montalbo Road, Barnard Castle,
Co Durham DL12 8ED
Tel: 01833 637 537
Fax: 01833 638 010

**Carrs Billington Agriculture (Sales), Bakewell**
Unit 4, Station Road Industrial
Estate, Bakewell, Derbyshire
DE45 1GE
Tel: 01629 814 126
Fax: 01629 814 804

**Carrs Billington Agriculture (Sales), Berwick upon Tweed**
Highgate Works, Tweedmouth,
Berwick upon Tweed,
Northumberland
TD15 2AP
Tel: 01289 307 245
Fax: 01289 305 727

**Carrs Billington Agriculture (Sales), Brock**
Brockholes Way,
Claughton Trading Estate,
Lancaster Old Road,
Claughton on Brock,
Preston PR3 0PZ
Tel: 01995 643 200
Fax: 01995 643 220

**Carrs Billington Agriculture (Sales), Carlisle**
Montgomery Way, Rosehill
Estate, Carlisle CA1 2UY
Tel: 01228 520 212
Fax: 01228 817 800

**Carrs Billington Agriculture (Sales), Cockermouth**
Unit 5, Lakeland Agricultural
Centre, Cockermouth
CA13 0QQ
Tel: 01900 824 105
Fax: 01900 826 860

**Carrs Billington Agriculture (Sales), Gisburn**
Pendle Mill, Mill Lane, Gisburn,
Clitheroe, Lancashire BB7 4ES
Tel: 01200 445 491
Fax: 01200 445 305

**Carrs Billington Agriculture (Sales), Hawes**
Burtersett Road, Hawes,
North Yorkshire DL8 3NP
Tel: 01969 667 334
Fax: 01969 667 335

**Carrs Billington Agriculture (Sales), Hexham**
Tyne Mills Industrial Estate,
Hexham, Northumberland
NE46 1XL
Tel: 01434 605 371
Fax: 01434 608 938

**Carrs Billington Agriculture (Sales), Jedburgh**
Mounthooly, Crailing,
Jedburgh, TD8 6TJ
Tel: 01835 850250
Fax: 01835 850748

**Carrs Billington Agriculture (Sales), Kendal**
Unit 1 Moss End, Crooklands,
Milnthorpe, Cumbria

**Carrs Billington Agriculture (Sales), Leek**
Macclesfield Road, Leek,
Staffordshire ST13 8NR
Tel: 01538 383 277
Fax: 01538 385 731

**Carrs Billington Agriculture (Sales), t/a Laycocks, Malton**
Unit 1 The Pyramid Estate,
Showfield Lane, Malton,
North Yorkshire YO17 6BT
Tel: 01653 600 328
Fax: 01653 690 338

**Carrs Billington Agriculture (Sales), Milnathort**
Stirling Road, Milnathort,
Kinross KY13 9UZ
Tel: 01577 862 381
Fax: 01577 863 057

**Carrs Billington Agriculture (Sales), Morpeth**
20c Coopies Lane Industrial
Estate, Morpeth, Northumberland
NE61 6JN
Tel: 01670 503 930
Fax: 01670 504 404

**Carrs Billington Agriculture (Sales), Penrith**
Haweswater Road,
Penrith Industrial Estate, Penrith
Cumbria CA11 9EH
Tel: 01768 862 160
Fax: 01768 899 345

**Carrs Billington Agriculture (Sales), Perth**
Highland House,
St Catherine's Road,
Perth PH1 5YA
Tel: 01738 643 022
Fax: 01738 643 022

**Carrs Billington Agriculture (Sales), Selkirk**
The Old Pump House,
Dunsdale Road, Selkirk,
Selkirkshire TD7 5EB
Tel: 01750 720 734
Fax: 01750 722 725

**Carrs Billington Agriculture (Sales), t/a Laycocks, Settle**
Unit 6 The Sidings Industrial
Estate, Settle, North Yorkshire
BD24 9RP
Tel: 01729 825 812
Fax: 01729 825 812

**Carrs Billington Agriculture (Sales), t/a Laycocks, Skipton**
Laycock House, Skipton Auction
Market, Skipton,
North Yorkshire BD23 1UD
Tel: 01756 792 166
Fax: 01756 701 008

**Carrs Billington Agriculture (Sales), Spennymoor**
Southend Works, Byers Green,
Spennymoor, Co. Durham,
DL16 7NL
Tel: 01388 662 266
Fax: 01388 603 743

**Carrs Billington Agriculture (Sales), Stirling**
Stirling Agricultural Centre,
Stirling FK9 4RN
Tel: 01786 474 826
Fax: 01786 472 933

**Carrs Billington Agriculture (Sales), Wooler**
Bridge End, South Road,
Wooler,Northumberland,
NE71 6QE
Tel: 01668 281 567
Fax: 01668 283 453

**Safe at Work**
Kingstown Broadway, Kingstown Industrial Estate, Carlisle CA3 0HA
Tel: 01228 591091
Fax: 01228 590026

**Wallace Oils, Carlisle**
Kingstown Broadway, Kingstown Industrial Estate, Carlisle CA3 0HA
Tel: 01228 534 342
Fax: 01228 590 820

**Johnstone Wallace Fuels, Castle Douglas**
Abercromby Industrial Park,
Castle Douglas, Dumfriesshire
DG7 1BA

**Johnstone Wallace Fuels, Dumfries**
Dargavel Stores,
Lockerbie Road, Dumfries,
Dumfriesshire DG1 3PG
Tel: 01387 750 747
Fax: 01387 750 747

**Johnstone Wallace Fuels, Stranraer**
Droughduil, Dunragit,
Stranraer DG9 8QA
Tel: 01581 400 356
Fax: 01581 400 356

**Afgritech LLC***
200 Willow Street, Watertown,
New York 13601, USA
Tel: 00 1 315 785 3625
Fax: 00 1 315 785 3627

**Afgritech Properties LLC***
200 Willow Street, Watertown,
New York 13601, USA
Tel: 00 1 315 785 3625
Fax: 00 1 315 785 3627

**Bibby Agriculture***
Drive House, St. David's Park,
Job's Well Road, Carmarthen,
SA31 3HB
Tel: 01267 232 041
Fax: 01267 232 374

**Bibby Agriculture***
1A Network House
Badgers Way
Oxon Business Park
Shrewsbury, Shropshire
SY3 5AB
Tel: 01743 237 890
Fax: 01743 351 552

**Bendalls**
Brunthill Road,
Kingstown Industrial Estate,
Carlisle CA3 0EH
Tel: 01228 526 246
Fax: 01228 525 634

**R Hind**
Kingstown Broadway,
Kingstown Industrial Estate,
Carlisle CA3 0HA
Tel: 01228 523 647
Fax: 01228 512 712

**Carrs MSM**
Unit 1 Spitfire Way,
Hunts Rise,
South Marston Park,
Swindon, Wiltshire SN3 4TX
Tel: 01793 824 891
Fax: 01793 824 894

**Wälischmiller Engineering GmbH**
Schießstattweg 16
88677 Markdorf
Germany
Tel: 0049 7544 95140
Fax: 0049 7544 951499

**Carr's Flour, Silloth**
Solway Mills, Silloth, Wigton,
Cumbria CA7 4AJ
Tel: 01697 333 700
Fax: 01697 332 543

**Carr's Flour, Maldon**
Station Road, Maldon,
Essex CM9 4LQ
Tel: 01621 852 696
Fax: 01621 854 525

**Carr's Flour, Scotland**
East Bridge, Kirkcaldy,
Fife KY1 2SR
Tel: 01592 267 191
Fax: 01592 641 805

**John Stronach**
Solway Mills, Silloth, Wigton,
Cumbria CA7 4AJ
Tel: 01697 331 456
Fax: 01697 332 808

**Silloth Storage Company***
Station Road, Silloth,
Wigton, Cumbria
CA7 4JQ

* joint venture company
** associate company

Designed and produced by corporate**prm**, Edinburgh and London. www.corporateprm.co.uk

**Carr’s Milling Industries PLC**
Old Croft, Stanwix
Carlisle CA3 9BA

www.carrs-milling.com