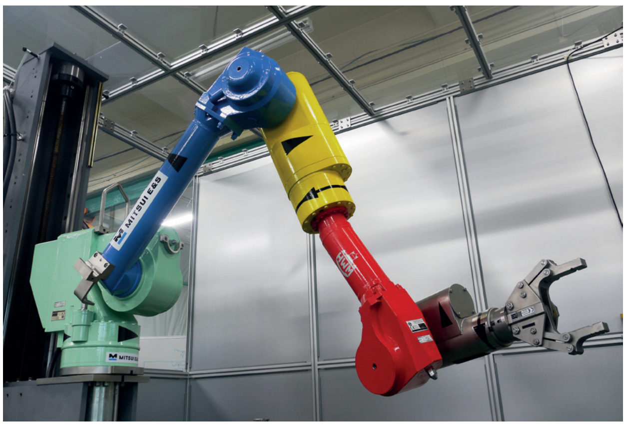
Carr's Group plc

DELIVERING CONTINUED GROWTH

Half year report 2018/19

Carr’s Group plc is focused on the principal activities of Agriculture and Engineering

Carr's is an international leader in manufacturing value added products and solutions, with market leading brands and robust market positions in Agriculture and Engineering, supplying customers in over 50 countries around the world.



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Its Agriculture division manufactures and supplies feed blocks and supplementation products for livestock, distributes farm machinery and runs a UK network of rural stores, providing a one-stop shop for the farming community.

Its Engineering division designs and manufactures bespoke equipment and provides technical engineering services into the nuclear, petrochemical, oil and gas, pharmaceutical, process and renewable energy industries, including robotic and remote handling equipment.

Interim Management Report

INTRODUCTION

Carr's has delivered a good performance during the period and ahead of the same period last year driven by improved profits in Engineering and a solid performance in Agriculture.

BUSINESS REVIEW

During the 26 weeks ended 2 March 2019 Group revenues were £206.2m, up on the prior year (H1 2018: £200.1m). Adjusted profit before tax increased by 4.5% to £11.4m (H1 2018: £10.9m). Adjusted operating profits are stated before amortisation of acquired intangibles and non-recurring items. The Board considers that this measure better reflects the Group's underlying performance. Reported profit before tax after amortisation and non-recurring items was £10.3m (H1 2018: £10.6m). Amortisation and non-recurring items of £1.1m (H1 2018: £0.3m) related mainly to the costs of GMP equalisation in the closed defined benefit pension scheme (£0.8m), together with business combination expenses and amortisation of acquired intangible assets.

Adjusted group operating profit of £11.9m (H1 2018: £11.3m) was 5.2% ahead of the prior year driven by the improved performance in Engineering, and reported operating profit was 1.6% behind the prior year at £10.8m (H1 2018: £11.0m).

On an adjusted basis, earnings per share increased by 2.2% to 9.4p (H1 2018: 9.2p). Basic earnings per share decreased by 7.8% from 9.0p to 8.3p.

AGRICULTURE

Overall, Agriculture continues to perform in line with the Board's expectations for the full year.

The unfavourable weather conditions experienced within the first quarter of the year continued for the rest of the period, affecting volumes in both the UK and USA. This was in marked contrast to the same period in 2018. The continued uncertainty around Brexit also led to caution among the farming community impacting UK Agriculture. However, the resulting effect on profitability was offset through strong positions on raw materials and highly effective procurement across a broad range of product lines. Against this backdrop, the Agriculture division has reported adjusted operating profit of £10.0m (H1 2018: £10.0m), unchanged from the prior year and in line with the Board's expectations for the half year. Reported operating profit was £9.8m (H1 2018: £9.8m).

Feed blocks and supplements

Overall, global feed block volumes decreased 0.5% against the prior year.

Following a strong start to the year for our USA feed block business, volumes, including joint ventures, were 5.6% up on the prior year despite adverse weather conditions that made trading more difficult. Our new low moisture feed block plant at Shelbyville, Tennessee delivered a strong performance during its first full year of operation. This facility expands our geographic footprint, providing access to customers across the eastern and south eastern states of the USA.

UK feed block sales volumes were down 14.1% compared to H1 2018 due to significantly warmer and drier weather conditions experienced during the period, in contrast to the much colder and wetter conditions in the same period last year.

Feed block sales in Europe through our joint venture business based in Germany, Crystalyx Products GmbH, were also affected by similar weather conditions to the UK, with volumes down 9.9% on H1 2018.

Despite some challenging market conditions, principally weather related, which resulted in lower volumes across a number of our feed block plants, we were able to mitigate the negative impact on profitability by adopting a series of measures, including increased efficiencies, strict control of operating costs and better procurement.

The integration of Animax Limited, our recently acquired manufacturer of market-leading trace element supplements for livestock, is progressing well. As part of the first integration phase we have commenced the implementation of production efficiencies and made good progress in the area of new product development. The performance of the business during its first period of ownership was in line with the Board's expectations. Animax, which is highly complementary to the Group's global feed block offering, broadens our product range in the animal health and supplementation markets which deliver added value to farmers.

UK Agriculture

The current financial year started positively, however, volumes in our feed and fuel businesses were lower during the period as the unseasonably mild weather reduced demand. This resulted in total compound feed volumes decreasing by 4.1% during the period.

Similarly, volumes in our fuel distribution business were down 6.0% on last year.

Our retail business was similarly affected by the mild, dry winter; revenues were down 0.4% and like for like sales were down 5.5%.

Machinery revenues were down 10.2% against a record performance last year, reflecting heightened concern of our farming customers in relation to the outcome of Brexit negotiations.

The implementation of efficiencies, good procurement and strong raw materials positions offset the impact on profitability of the unseasonably mild and dry weather.

ENGINEERING

Overall, our Engineering division is performing in line with the Board's expectations for the full year. Adjusted operating profit was up 45.1% at £2.0m (H1 2018: £1.4m) driven by improved performances in UK Manufacturing and USA Engineering; reported operating profit was £1.9m (H1 2018: £1.2m).

UK Manufacturing

Our UK Manufacturing business performed well during the period. The new management team installed in our fabrication business approximately twelve months ago has successfully delivered a significant improvement in the business, which has resulted in a marked uplift in the forward order book, opportunity pipeline, and in the performance of the business.

Our precision engineering business has also significantly evolved during the period through a strengthened management team and improved manufacturing efficiencies. This has supported increased business development which, when combined with a recovery in the oil price, has resulted in a very strong order book.

Remote Handling

As reported at the time of our AGM statement in January 2019, we have secured a major contract worth $8.5m in the USA, which represents a significant strategic milestone for the Group and fully supports our strategy for delivering sustainable growth. As anticipated, in the shorter term the business is currently experiencing a softer order book. However, this is not expected to impact on overall divisional performance owing to the performance of our UK Manufacturing and USA Engineering businesses. The medium term prospects for our Remote Handling business remain strong.

Interim Management Report continued

USA Engineering

Our USA Engineering business has had a particularly strong start to the year driven by the contracts won last year, including two significant MSIP® contracts won in summer 2018 which run through to FY21. In December 2018 we received confirmation of significant funding from the US Department of Energy to develop our passive cooling technology, which has the potential to be retrofitted on existing nuclear power plants. Work on this project is expected to commence during the second half of the current financial year.

BALANCE SHEET AND CASHFLOW

Net cash generated from operating activities in the first half was £3.8m (H1 2018: £5.5m). Net debt rose to £23.3m from £15.4m at the 2018 financial year end. This is primarily related to the acquisition of Animax and seasonal working capital increases. The Group's defined benefit pension scheme remains in surplus, although that surplus had decreased from £10.1m at 1 September 2018 to £6.8m at 2 March 2019. This was primarily due to market conditions and a charge of £0.8m for GMP equalisation following the High Court case against Lloyds Bank plc and others.

SHAREHOLDERS' EQUITY

Shareholders' equity at 2 March 2019 was £106.7m (1 September 2018: £105.3m), with the increase primarily due to profit retained by the Group for the period offset by the reduction in the Group's pension surplus and dividends paid.

DIVIDEND

A first interim dividend of 1.125 pence per ordinary share (2018: 1.075 pence per ordinary share) will be paid on 31 May 2019 to shareholders on the register on 26 April 2019. The ex-dividend date will be 25 April 2019.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group has a process in place to identify and assess the impact of risks on its business, which is reviewed and updated quarterly. The principal risks and uncertainties for the remainder of the financial year are not expected to change materially from those included on pages 14 to 16 of the Annual Report and Accounts 2018, having been previously identified as follows:

- Brexit
- IT and Cyber Security
- Acquisitions
- Managing Costs
- Reliance on Key Customers
- People
- Strategic Partners
- Customer Demand
- Treasury
- Business Continuity

OUTLOOK

The Group continues to deliver on its strategic objectives of investing in its people and its asset base, focusing on product innovation and expanding its geographic footprint, to ultimately drive growth across both divisions in a safe and sustainable manner.

We remain confident in the medium term prospects of the Agriculture division. In the UK, while there is now greater visibility in relation to farming support post Brexit, uncertainty around the future trade agreements with the EU and the rest of the world has impacted farmer confidence in the immediate term, leading to increased caution among the farming community. The integration of our strategic acquisition of Animax is progressing well and has broadened our product range. In the USA our footprint across the eastern and south eastern states continues to expand.

In our Engineering division, the order books in our UK Manufacturing and USA Engineering businesses are strong, driven by improved manufacturing processes and a strengthened management team, which together have contributed to a significant increase in performance. As expected, in the short term, the order book in our Remote Handling business remains softer, however, the major new contract secured in the USA, which will mainly impact FY20, provides confidence in the medium term.

Despite a number of external factors impacting the Group's performance in the first half, trading in the second half of the year has started in line with expectations, and the Board's outlook for the full year remains unchanged. Recent investments, new product development, geographic expansion and strengthened management teams leave the Group well placed to deliver continued growth. Supporting this, we continue to seek further acquisition opportunities that complement our existing businesses and align with the Group's strategy.

TIM DAVIES
Chief Executive Officer
15 April 2019

Condensed Consolidated Income Statement

For the 26 weeks ended 2 March 2019

	Notes	26 weeks ended 2 March 2019 (unaudited) £'000	(Restated)[2] 26 weeks ended 3 March 2018 (unaudited) £'000	52 weeks ended 1 September 2018 (audited) £'000
Continuing operations				
Revenue	6, 7	**206,210**	200,108	403,192
Cost of sales		**(176,702)**	(171,285)	(349,864)
Gross profit		**29,508**	28,823	53,328
Net operating expenses		**(20,885)**	(19,954)	(40,138)
Share of post-tax results of associates and joint ventures		**2,207**	2,140	3,215
Adjusted[1] operating profit	6	**11,922**	11,330	17,464
Amortisation of acquired intangible assets and non-recurring items	8	**(1,092)**	(321)	(1,059)
Operating profit	6	**10,830**	11,009	16,405
Finance income		**226**	182	358
Finance costs		**(722)**	(576)	(1,261)
Adjusted[1] profit before taxation	6	**11,426**	10,936	16,561
Amortisation of acquired intangible assets and non-recurring items	8	**(1,092)**	(321)	(1,059)
Profit before taxation	6	**10,334**	10,615	15,502
Taxation		**(1,884)**	(1,567)	(1,855)
Profit for the period		**8,450**	9,048	13,647
Profit attributable to:				
Equity shareholders		**7,656**	8,190	11,892
Non-controlling interests		**794**	858	1,755
		8,450	9,048	13,647
Earnings per share (pence)				
Basic	9	**8.3**	9.0	13.0
Diluted	9	**8.1**	8.8	12.7
Adjusted	9	**9.4**	9.2	13.9
Diluted adjusted	9	**9.1**	9.0	13.6

[1] Adjusted results are after adding back amortisation of acquired intangible assets and non-recurring items including acquisition costs

[2] Restated for the inclusion of share of post-tax results of associates and joint ventures within operating profit

Condensed Consolidated Statement of Comprehensive Income

For the 26 weeks ended 2 March 2019

	Notes	**26 weeks ended 2 March 2019 (unaudited) £'000**	26 weeks ended 3 March 2018 (unaudited) £'000	52 weeks ended 1 September 2018 (audited) £'000
Profit for the period		**8,450**	9,048	13,647
Other comprehensive (expense)/income				
Items that may be reclassified subsequently to profit or loss:				
Foreign exchange translation losses arising on translation of overseas subsidiaries		**(1,487)**	(1,936)	(505)
Net investment hedges		**177**	53	111
Taxation charge on net investment hedges		**(33)**	(10)	(21)
Items that will not be reclassified subsequently to profit or loss:				
Actuarial (losses)/gains on retirement benefit asset:				
– Group	14	**(2,640)**	698	4,836
– Share of associate		**—**	—	1,194
Taxation credit/(charge) on actuarial movement on retirement benefit asset:				
– Group		**449**	(119)	(822)
– Share of associate		**—**	—	(203)
Other comprehensive (expense)/income for the period, net of tax		**(3,534)**	(1,314)	4,590
Total comprehensive income for the period		**4,916**	7,734	18,237
Total comprehensive income attributable to:				
Equity shareholders		**4,122**	6,876	16,482
Non-controlling interests		**794**	858	1,755
		4,916	7,734	18,237

Condensed Consolidated Balance Sheet
As at 2 March 2019

	Notes	As at 2 March 2019 (unaudited) £'000	As at 3 March 2018 (unaudited) £'000	As at 1 September 2018 (audited) £'000
Non-current assets				
Goodwill	11	**28,138**	24,228	24,272
Other intangible assets	11	**2,737**	2,048	2,223
Property, plant and equipment	11	**40,029**	36,775	38,484
Investment property	11	**167**	173	170
Investment in associates		**13,783**	12,209	13,129
Interest in joint ventures		**8,980**	7,359	8,004
Other investments		**74**	72	74
Financial assets				
- Non-current receivables		**20**	627	21
Retirement benefit asset	14	**6,841**	5,969	10,146
		100,769	89,460	96,523
Current assets				
Inventories		**51,542**	43,701	42,371
Contract assets		**6,958**	—	—
Trade and other receivables		**59,553**	69,967	67,516
Current tax assets		**554**	116	119
Financial assets				
- Derivative financial instruments		**—**	—	26
- Cash and cash equivalents	12	**29,239**	33,835	24,632
		147,846	147,619	134,664
Total assets		**248,615**	237,079	231,187
Current liabilities				
Financial liabilities				
- Borrowings	12	**(28,507)**	(27,269)	(34,994)
- Derivative financial instruments		**—**	(127)	—
Contract liabilities		**(441)**	—	—
Trade and other payables		**(65,020)**	(67,349)	(64,290)
Current tax liabilities		**(1,296)**	(1,612)	(175)
		(95,264)	(96,357)	(99,459)
Non-current liabilities				
Financial liabilities				
- Borrowings	12	**(24,012)**	(22,661)	(4,997)
Deferred tax liabilities		**(3,737)**	(3,006)	(3,981)
Other non-current liabilities		**(2,696)**	(3,864)	(1,784)
		(30,445)	(29,531)	(10,762)
Total liabilities		**(125,709)**	(125,888)	(110,221)
Net assets		**122,906**	111,191	120,966
Shareholders' equity				
Share capital	15	**2,298**	2,285	2,285
Share premium	15	**9,149**	9,141	9,141
Other reserves		**4,411**	3,885	5,888
Retained earnings		**90,878**	80,792	87,967
Total shareholders' equity		**106,736**	96,103	105,281
Non-controlling interests		**16,170**	15,088	15,685
Total equity		**122,906**	111,191	120,966

Condensed Consolidated Statement of Changes in Equity

For the 26 weeks ended 2 March 2019

	Share Capital £'000	Share Premium £'000	Treasury Share Reserve £'000	Equity Compensation Reserve £'000	Foreign Exchange Reserve £'000	Other Reserve £'000	Retained Earnings £'000	Total Shareholders' Equity £'000	Non-Controlling Interests £'000	Total Equity £'000
As previously reported at 1 September 2018 (audited)	**2,285**	**9,141**	**—**	**1,427**	**4,259**	**202**	**87,967**	**105,281**	**15,685**	**120,966**
Effect of IFRS 15 adoption	**—**	**—**	**—**	**—**	**—**	**—**	**(124)**	**(124)**	**—**	**(124)**
At 2 September 2018 (restated)[3] (unaudited)	**2,285**	**9,141**	**—**	**1,427**	**4,259**	**202**	**87,843**	**105,157**	**15,685**	**120,842**
Profit for the period	**—**	**—**	**—**	**—**	**—**	**—**	**7,656**	**7,656**	**794**	**8,450**
Other comprehensive expense	**—**	**—**	**—**	**—**	**(1,343)**	**—**	**(2,191)**	**(3,534)**	**—**	**(3,534)**
Total comprehensive (expense)/income	**—**	**—**	**—**	**—**	**(1,343)**	**—**	**5,465**	**4,122**	**794**	**4,916**
Dividends paid	**—**	**—**	**—**	**—**	**—**	**—**	**(3,139)**	**(3,139)**	**(343)**	**(3,482)**
Equity-settled share based payment transactions	**—**	**—**	**—**	**(133)**	**—**	**—**	**721**	**588**	**34**	**622**
Allotment of shares	**13**	**8**	**—**	**—**	**—**	**—**	**—**	**21**	**—**	**21**
Purchase of own shares held in trust	**—**	**—**	**(13)**	**—**	**—**	**—**	**—**	**(13)**	**—**	**(13)**
Transfer	**—**	**—**	**13**	**—**	**—**	**(1)**	**(12)**	**—**	**—**	**—**
At 2 March 2019 (unaudited)	**2,298**	**9,149**	**—**	**1,294**	**2,916**	**201**	**90,878**	**106,736**	**16,170**	**122,906**
At 3 September 2017 (audited)	2,285	9,130	—	386	4,674	205	74,802	91,482	14,441	105,923
Profit for the period	—	—	—	—	—	—	8,190	8,190	858	9,048
Other comprehensive (expense)/income	—	—	—	—	(1,893)	—	579	(1,314)	—	(1,314)
Total comprehensive (expense)/income	—	—	—	—	(1,893)	—	8,769	6,876	858	7,734
Dividends paid	—	—	—	—	—	—	(2,788)	(2,788)	(245)	(3,033)
Equity-settled share based payment transactions	—	—	—	514	—	—	8	522	34	556
Allotment of shares	—	11	—	—	—	—	—	11	—	11
Transfer	—	—	—	—	—	(1)	1	—	—	—
At 3 March 2018 (unaudited)	2,285	9,141	—	900	2,781	204	80,792	96,103	15,088	111,191
At 3 September 2017 (audited)	2,285	9,130	—	386	4,674	205	74,802	91,482	14,441	105,923
Profit for the period	—	—	—	—	—	—	11,892	11,892	1,755	13,647
Other comprehensive (expense)/income	—	—	—	—	(415)	—	5,005	4,590	—	4,590
Total comprehensive (expense)/income	—	—	—	—	(415)	—	16,897	16,482	1,755	18,237
Dividends paid	—	—	—	—	—	—	(3,770)	(3,770)	(588)	(4,358)
Equity-settled share based payment transactions	—	—	—	1,041	—	—	8	1,049	76	1,125
Excess deferred taxation on share based payments	—	—	—	—	—	—	27	27	1	28
Allotment of shares	—	11	—	—	—	—	—	11	—	11
Transfer	—	—	—	—	—	(3)	3	—	—	—
At 1 September 2018 (audited)	2,285	9,141	—	1,427	4,259	202	87,967	105,281	15,685	120,966

[3] Restated for the adoption of IFRS 15 (note 19)

Condensed Consolidated Statement of Cash Flows

For the 26 weeks ended 2 March 2019

	Notes	26 weeks ended 2 March 2019 (unaudited) £'000	26 weeks ended 3 March 2018 (unaudited) £'000	52 weeks ended 1 September 2018 (audited) £'000
Cash flows from operating activities				
Cash generated from continuing operations	17	5,015	6,947	14,980
Interest received		86	119	226
Interest paid		(596)	(560)	(1,210)
Tax paid		(734)	(978)	(2,511)
Net cash generated from operating activities		3,771	5,528	11,485
Cash flows from investing activities				
Acquisition of subsidiaries (net of overdraft/cash acquired)	16	(4,717)	(1,562)	(1,522)
Contingent/deferred consideration paid		(155)	(561)	(2,617)
Net costs of disposal of associate		-	-	(90)
Dividend received from associate and joint ventures		343	245	704
Loan repaid by associate		-	164	1,008
Other loans		53	59	59
Purchase of intangible assets		(550)	(61)	(325)
Proceeds from sale of property, plant and equipment		362	174	189
Purchase of property, plant and equipment		(1,851)	(1,846)	(4,488)
Purchase of own shares held in trust		(13)	-	-
Redemption of preference shares in joint venture		-	-	20
Net cash used in investing activities		(6,528)	(3,388)	(7,062)
Cash flows from financing activities				
Proceeds from issue of ordinary share capital		21	11	11
New bank loans and movement on RCF		8,394	2,943	(2,076)
Finance lease principal repayments		(641)	(501)	(997)
Repayment of borrowings		(1,628)	(1,951)	(3,241)
Increase in other borrowings		3,766	10,159	8,934
Dividends paid to shareholders		(3,139)	(2,788)	(3,770)
Dividends paid to related party		(343)	(245)	(588)
Net cash generated from/(used in) financing activities		6,430	7,628	(1,727)
Effects of exchange rate changes		(538)	(528)	(305)
Net increase in cash and cash equivalents		3,135	9,240	2,391
Cash and cash equivalents at beginning of the period		21,005	18,614	18,614
Cash and cash equivalents at end of the period		24,140	27,854	21,005
Cash and cash equivalents consist of:				
Cash and cash equivalents per the balance sheet		29,239	33,835	24,632
Bank overdrafts included in borrowings		(5,099)	(5,981)	(3,627)
		24,140	27,854	21,005

Statement of Directors' Responsibilities

We confirm that to the best of our knowledge:

- the condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU; and

- the interim management report includes a fair review of the information required by:

(a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed consolidated financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

The Directors are listed in the Annual Report and Accounts 2018. A list of current Directors is maintained on the website: www.carrsgroup.com

On behalf of the Board

Tim Davies
Chief Executive
15 April 2019

Neil Austin
Group Finance Director
15 April 2019

Unaudited Notes to Condensed Interim Financial Information

1. GENERAL INFORMATION

The Group operates across two divisions of Agriculture and Engineering. The Company is a public limited company, which is listed on the London Stock Exchange and is incorporated and domiciled in the UK. The address of the registered office is Old Croft, Stanwix, Carlisle, Cumbria CA3 9BA.

These condensed interim financial statements were approved for issue on 15 April 2019.

These condensed interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the 52 weeks ended 1 September 2018 were approved by the Board of Directors on 19 November 2018 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

2. BASIS OF PREPARATION

These condensed interim financial statements for the 26 weeks ended 2 March 2019 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34, 'Interim financial reporting' as adopted by the European Union. The condensed interim financial statements should be read in conjunction with the annual financial statements for the 52 weeks ended 1 September 2018, which have been prepared in accordance with IFRSs as adopted by the European Union.

The Directors have made suitable enquiries and based on financial performance to date and available banking facilities they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its condensed interim financial statements.

3. ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of new standards as detailed below.

Taxes on income in the interim periods are accrued based on management's estimate of the weighted average annual income tax rate expected for the full financial year.

IFRS 9 Financial Instruments

The Group adopted IFRS 9 retrospectively from 2 September 2018. There was no material impact on adoption of this new standard.

IFRS 15 Revenue from Contracts with Customers

The Group adopted IFRS 15 with effect from 2 September 2018 and has applied the standard retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group has restated its opening equity position as at 2 September 2018 by a charge of £0.1m. Comparative information has not been restated and is therefore still reported under IAS 11 and IAS 18. To assist comparability, note 19 shows the balance sheet as at 2 March 2019 had the Group continued to adopt IAS 11 and IAS 18.

Accounting standards not yet adopted by the Group

IFRS 16, "Leases", is effective for periods beginning on or after 1 January 2019, and will therefore first apply to Carr's in the year ending August 2020. The Group continues to assess the impact of the accounting changes that will be required. A further update will be provided in the full year Report and Accounts for year ending 2019.

4. ESTIMATES

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the 52 weeks ended 1 September 2018, with the exception of changes in estimates that are required in determining the provision for income taxes.

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and price risk), credit risk and liquidity risk.

The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements as at 1 September 2018. There have been no changes in risk management practices since the year end.

Unaudited Notes to Condensed Interim Financial Information

CONTINUED

6. OPERATING SEGMENT INFORMATION

The Group's chief operating decision-maker ("CODM") has been identified as the Executive Directors. Management has determined the operating segments based on the information reviewed by the CODM for the purposes of allocating resources and assessing performance.

The CODM considers the business from a product/services perspective. Operating segments have been identified as Agriculture and Engineering. Performance is assessed using operating profit. For internal purposes the CODM assesses operating profit before amortisation of acquired intangible assets and non-recurring items consistent with the presentation of adjusted operating profit in the financial statements. The CODM believes this measure provides a better reflection of the Group's underlying performance. Sales between segments are carried out at arm's length.

The following tables present revenue, profit and asset information regarding the Group's operating segments for the 26 weeks ended 2 March 2019 and the comparative periods.

	Agriculture £'000	Engineering £'000	IAS 19 past service cost £'000	Group £'000
26 weeks ended 2 March 2019				
Total segment revenue	185,179	21,039	–	206,218
Inter segment revenue	(7)	(1)	–	(8)
Revenue from external customers	185,172	21,038	–	206,210
Adjusted[4] EBITDA[5]	9,265	2,899	–	12,164
Depreciation, amortisation and profit/(loss) on disposal of property, plant and equipment	(1,519)	(930)	–	(2,449)
Share of post-tax results of associate and joint ventures	2,207	–	–	2,207
Adjusted[4] operating profit	9,953	1,969	–	11,922
Amortisation of acquired intangible assets and non-recurring items (note 8)	(194)	(103)	(795)	(1,092)
Operating profit	9,759	1,866	(795)	10,830
Finance income				226
Finance costs				(722)
Adjusted[4] profit before taxation				11,426
Amortisation of acquired intangible assets and non-recurring items (note 8)				(1,092)
Profit before taxation				10,334
Segment gross assets	179,969	68,646	–	248,615

[4] Adjusted results are after adding back amortisation of acquired intangible assets and non-recurring items including acquisition costs

[5] Earnings before interest, tax, depreciation, amortisation, profit/(loss) on the disposal of property, plant and equipment and share of post-tax results of associate and joint ventures

6. OPERATING SEGMENT INFORMATION (continued)

	Agriculture £'000	Engineering £'000	Group £'000
26 weeks ended 3 March 2018			
Total segment revenue	178,268	21,867	200,135
Inter segment revenue	(6)	(21)	(27)
Revenue from external customers	178,262	21,846	200,108
Adjusted[6] EBITDA[7]	9,060	2,278	11,338
Depreciation, amortisation and profit/(loss) on disposal of property, plant and equipment	(1,303)	(845)	(2,148)
Share of post-tax results of associates and joint ventures	2,216	(76)	2,140
Adjusted[6] operating profit	9,973	1,357	11,330
Amortisation of acquired intangible assets and non-recurring items (note 8)	(198)	(123)	(321)
Operating profit	9,775	1,234	11,009
Finance income			182
Finance costs			(576)
Adjusted[6] profit before taxation			10,936
Amortisation of acquired intangible assets and non-recurring items (note 8)			(321)
Profit before taxation			10,615
Segment gross assets	167,831	69,248	237,079

	Agriculture £'000	Engineering £'000	Group £'000
52 weeks ended 1 September 2018			
Total segment revenue	359,620	43,618	403,238
Inter segment revenue	(12)	(34)	(46)
Revenue from external customers	359,608	43,584	403,192
Adjusted[6] EBITDA[7]	12,751	6,000	18,751
Depreciation, amortisation and profit/(loss) on disposal of property, plant and equipment	(2,769)	(1,733)	(4,502)
Share of post-tax results of associates and joint ventures	3,396	(181)	3,215
Adjusted[6] operating profit	13,378	4,086	17,464
Amortisation of acquired intangible assets and non-recurring items (note 8)	(386)	(673)	(1,059)
Operating profit	12,992	3,413	16,405
Finance income			358
Finance costs			(1,261)
Adjusted[6] profit before taxation			16,561
Amortisation of acquired intangible assets and non-recurring items (note 8)			(1,059)
Profit before taxation			15,502
Segment gross assets	159,305	71,882	231,187

[6] Adjusted results are after adding back amortisation of acquired intangible assets and non-recurring items including acquisition costs

[7] Earnings before interest, tax, depreciation, amortisation, profit/(loss) on the disposal of property, plant and equipment and share of post-tax results of associates and joint ventures

Unaudited Notes to Condensed Interim Financial Information

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7. DISAGGREGATION OF REVENUE

In accordance with IFRS 15 'Revenue from Contracts with Customers' the following table presents the Group's reported revenue for the 26 weeks ended 2 March 2019 disaggregated based on the timing of revenue recognition. The Group implemented the new standard on 2 September 2018.

Timing of revenue recognition	Total £'000
Over time	**13,098**
At a point in time	**193,112**
	206,210

8. AMORTISATION OF ACQUIRED INTANGIBLE ASSETS AND NON-RECURRING ITEMS

	26 weeks ended 2 March 2019 £'000	26 weeks ended 3 March 2018 £'000	52 weeks ended 1 September 2018 £'000
Amortisation of acquired intangible assets	**150**	204	292
Past service cost (IAS 19)	**795**	—	—
Goodwill impairment	**—**	—	516
Business combination expenses	**147**	117	251
	1,092	321	1,059

For further details of the past service cost of £795,000 see note 14.

Business combination expenses relate to acquisition costs incurred in the period, and in respect of prior periods contingent consideration in relation to the acquisitions of Phoenix Feeds Limited and the business and certain assets of Mortimer Feeds Limited which is explained further below.

Phoenix Feeds Limited was acquired on 1 June 2016. The consideration paid included £490,000 of contingent consideration linked to the continued employment of key personnel and therefore in accordance with IFRS 3 this was not recognised as consideration in the acquisition accounting in the 53 weeks ended 3 September 2016. It is instead being recognised in the income statement over a two year period with £nil (H1 2018: £92,000) recognised in the 26 weeks ended 2 March 2019. Given the nature of the payment it has been recognised as a non-recurring item.

Mortimer Feeds was acquired on 5 June 2017. The consideration paid included £30,000 of contingent consideration linked to the continued employment of key personnel and therefore in accordance with IFRS 3 this was not recognised as consideration in the acquisition accounting in the 52 weeks ended 2 September 2017. It is instead being recognised in the income statement over a one year period with £nil (H1 2018: £20,000) recognised in the 26 weeks ended 2 March 2019. Given the nature of this payment it has been recognised as a non-recurring item.

The goodwill impairment recognised in the year ended 1 September 2018 was against the carrying value of goodwill in respect of the Bendalls engineering business.

9. EARNINGS PER SHARE

Amortisation of acquired intangible assets and non-recurring items that are charged or credited to profit do not relate to the underlying profitability of the Group. The Board believes adjusted profit before these items provides a useful measure of business performance. Therefore, an adjusted earnings per share is presented as follows:

	26 weeks ended 2 March 2019 £'000	26 weeks ended 3 March 2018 £'000	52 weeks ended 1 September 2018 £'000
Earnings	**7,656**	8,190	11,892
Amortisation and non-recurring items:			
Amortisation of acquired intangible assets	**150**	204	292
Past service cost (IAS 19)	**795**	—	—
Goodwill impairment	**—**	—	516
Business combination expenses	**147**	117	251
Taxation effect of the above	**(166)**	(43)	(60)
Non-controlling interest in the above	**—**	(89)	(145)
Earnings – adjusted	**8,582**	8,379	12,746

	26 weeks ended 2 March 2019 Number	26 weeks ended 3 March 2018 Number	52 weeks ended 1 September 2018 Number
Weighted average number of ordinary shares in issue	**91,697,033**	91,401,939	91,402,338
Potentially dilutive share options	**2,821,066**	2,062,033	2,036,269
	94,518,099	93,463,972	93,438,607
Earnings per share (pence)			
Basic	**8.3p**	9.0p	13.0p
Diluted	**8.1p**	8.8p	12.7p
Adjusted	**9.4p**	9.2p	13.9p
Diluted adjusted	**9.1p**	9.0p	13.6p

10. DIVIDENDS

An interim dividend of £982,583 that related to the period to 1 September 2018 was paid on 5 October 2018, and a final dividend of £2,156,098 was paid on 11 January 2019.

In addition, an interim dividend of 1.125p per share (2018: 1.075p per share) has been approved by the Directors. It is payable to shareholders on the register on 26 April 2019. This interim dividend, amounting to £1,034,223 (2018: £982,578), has not been recognised as a liability in this interim financial information. It will be recognised in shareholders' equity in the 52 weeks to 31 August 2019.

Unaudited Notes to Condensed Interim Financial Information

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11. INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

	Goodwill £'000	Other intangible assets £'000	Property, plant and equipment £'000	Investment property £'000
26 weeks ended 2 March 2019				
Opening net book amount at 2 September 2018	**24,272**	**2,223**	**38,484**	**170**
Exchange differences	**(402)**	**(42)**	**(486)**	**—**
Subsidiary acquired	**4,268**	**226**	**1,868**	**—**
Additions	**—**	**550**	**2,901**	**—**
Disposals	**—**	**—**	**(352)**	**—**
Depreciation and amortisation	**—**	**(220)**	**(2,386)**	**(3)**
Closing net book amount at 2 March 2019	**28,138**	**2,737**	**40,029**	**167**
26 weeks ended 3 March 2018				
Opening net book amount at 3 September 2017	24,241	2,266	37,149	176
Exchange differences	(687)	(109)	(706)	—
Subsidiary acquired	674	34	167	—
Additions	—	61	2,383	—
Disposals	—	—	(45)	—
Depreciation and amortisation	—	(204)	(2,173)	(3)
Closing net book amount as at 3 March 2018	24,228	2,048	36,775	173

Capital commitments contracted, but not provided for, by the Group at the period end amounts to £132,000 (2018: £772,000).

12. BORROWINGS AND LOANS

	As at 2 March 2019 £'000	As at 3 March 2018 £'000	As at 1 September 2018 £'000
Current	**28,507**	27,269	34,994
Non-current	**24,012**	22,661	4,997
Total borrowings and loans	**52,519**	49,930	39,991
Cash and cash equivalents	**(29,239)**	(33,835)	(24,632)
Net debt	**23,280**	16,095	15,359
Undrawn facilities	**21,456**	22,730	27,242

Undrawn facilities include overdraft facilities of £2.5m (2018: £2.5m) that are renewable on an annual basis.

12. BORROWINGS AND LOANS (continued)

Movements in borrowings are analysed as follows:

	£'000
26 weeks ended 2 March 2019	
Opening amount as at 2 September 2018	**39,991**
Exchange differences	**(246)**
Subsidiary acquired	**340**
New bank loans/RCF drawdown and finance leases	**9,444**
Finance lease principal repayments	**(641)**
Repayments of borrowings	**(1,628)**
Increase in other borrowings	**3,766**
Release of deferred borrowing costs	**21**
Net increase to bank overdraft (excluding the effects of acquisitions)	**1,472**
Closing amount as at 2 March 2019	**52,519**
26 weeks ended 3 March 2018	
Opening amount as at 3 September 2017	38,026
Exchange differences	(186)
Subsidiary acquired	554
New bank loans/RCF drawdown and finance leases	3,537
Finance lease principal repayments	(501)
Repayments of borrowings	(1,951)
Increase in other borrowings	10,159
Release of deferred borrowing costs	29
Net increase to bank overdraft (excluding the effects of acquisitions)	263
Closing amount as at 3 March 2018	49,930

13. FINANCIAL INSTRUMENTS

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

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

All derivative financial instruments are measured at fair value using Level 2 inputs. The Group's bankers provide the valuations for the derivative financial instruments at each reporting period end based on mark to market valuation techniques.

Contingent consideration is measured at fair value using Level 3 inputs such as entity projections of future profitability.

Transfers between levels are deemed to have occurred at the end of the reporting period. There were no transfers between levels in the above hierarchy in the period.

Financial instruments recognised at fair value are as follows:

Book value and fair value	**As at 2 March 2019 £'000**	As at 3 March 2018 £'000	As at 1 September 2018 £'000
Derivative financial instruments (asset)	**—**	—	26
Derivative financial instruments (liability)	**—**	(127)	—
Current contingent consideration payable	**(3,417)**	—	(1,956)
Non-current contingent consideration payable	**(2,517)**	(3,629)	(1,576)

The movement on the fair value of current and non-current contingent consideration since 1 September 2018 is mainly due to the acquisition of Animax Limited.

Unaudited Notes to Condensed Interim Financial Information

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14. RETIREMENT BENEFIT ASSET

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

	26 weeks ended 2 March 2019 £'000	26 weeks ended 3 March 2018 £'000	52 weeks ended 1 September 2018 £'000
Administrative expenses	**11**	–	24
Past service cost	**795**	–	–
Net interest on the net defined benefit asset	**(141)**	(62)	(125)
	665	(62)	(101)

In October 2018 the High Court ruled on the case of *Lloyds Banking Group Pensions Trustees Ltd v Lloyds Bank plc and others*. This ruling required all UK defined benefit pension schemes to equalise Guaranteed Minimum Pensions (GMPs) between males and females. The Scheme's actuary has estimated the effect on the Carr's Group Pension Scheme to be a £795,000 increase in liabilities and this has been recognised as a past service cost through the Income Statement and disclosed as a non-recurring item (note 8).

It is expected that there will be further court hearings from which clarity over the practical application of the ruling will arise. There is also the possibility of the case being taken to appeal.

Net interest on the defined benefit retirement asset is recognised within interest income.

The amounts recognised in the Balance Sheet were as follows:

	As at 2 March 2019 £'000	As at 3 March 2018 £'000	As at 1 September 2018 £'000
Present value of funded defined benefit obligations	**(61,930)**	(66,486)	(60,488)
Fair value of scheme assets	**68,771**	72,455	70,634
Surplus in funded scheme	**6,841**	5,969	10,146

Actuarial losses of £2,640,000 (2018: gains of £698,000) have been reported in the Statement of Comprehensive Income. The surplus has decreased over the period since 1 September 2018 due to the recognition of additional scheme liabilities arising from GMP equalisation as discussed above together with changes in market conditions contributing to an overall reduction in the scheme surplus.

The Group's associate's defined benefit pension scheme is closed to future service accrual and the valuation for this scheme has not been updated for the half year as any actuarial movements are not considered to be material.

15. SHARE CAPITAL

Allotted and fully paid ordinary shares of 2.5p each	**Number of shares**	**Share capital £'000**	**Share premium £'000**	**Total £'000**
Opening balance as at 2 September 2018	**91,403,112**	**2,285**	**9,141**	**11,426**
Proceeds from shares issued:				
- Treasury/LTIP	**520,313**	**13**	**–**	**13**
- share save scheme	**7,540**	**–**	**8**	**8**
At 2 March 2019	**91,930,965**	**2,298**	**9,149**	**11,447**
Opening balance at 3 September 2017	91,395,541	2,285	9,130	11,415
Proceeds from shares issued:				
- share save scheme	7,100	–	11	11
At 3 March 2018	91,402,641	2,285	9,141	11,426

Options exercised under the share save scheme during the period to 2 March 2019 resulted in 7,540 shares being issued (2018: 7,100 shares), with exercise proceeds of £8,000 (2018: £10,792). The related weighted average price of the shares exercised was £1.061 (2018: £1.52) per share.

In addition, 520,313 shares were issued in the period and held initially as Treasury shares. These shares were subsequently used to satisfy the share awards under the LTIP scheme which were exercised in November 2018.

16. ACQUISITION

On 21 September 2018 the Group acquired the entire issued share capital of Animax Limited, a producer of market-leading animal health products, for a total cash consideration of up to £8.5m. As part of the acquisition, the Group also acquired the entire issued share capital of Animax Limited's related party, Clinimax Limited. Clinimax Limited is a manufacturer of specialist disinfectant products for use in the medical industry.

Both businesses were acquired for an initial cash consideration of £6.0m, with an additional cash consideration of up to a maximum of £2.5m payable over the period to November 2020, based on the achievement of agreed financial targets.

The acquisition of Animax Limited aligns with the Group's stated strategy of investing in growing agriculture markets in the UK and internationally.

Goodwill represented the excess of the consideration paid over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

The acquired companies have generated revenue of £3,182,000 and profit before taxation of £398,000 since the date of acquisition.

Total acquisition related costs amounted to £268,000 which have been recognised within non-recurring items in the consolidated income statement. £147,000 has been charged to the income statement in the 26 weeks ended 2 March 2019 and £121,000 has been recognised in prior years as incurred.

Given this is a recent acquisition the fair value accounting exercise has not been fully completed. The fair value disclosures in the table below represent provisional fair values. Finalised disclosures will be presented in the full year Report and Accounts for the year ending 31 August 2019.

The aggregate assets and liabilities provisionally recognised in the acquisition accounting are set out below:

	Provisional fair value £'000
Intangible assets	226
Property, plant and equipment	1,868
Inventories	1,036
Receivables	1,355
Cash at bank	1,430
Payables	(1,224)
Bank loan	(340)
Taxation	
Current tax	21
Deferred tax	(244)
Net assets acquired	4,128
Goodwill	4,268
	8,396
Satisfied by:	
Cash consideration	6,000
Contingent consideration	2,396
Total consideration	8,396

Intangible assets represent the fair value of customer relationships.

Had the acquisition of Animax Limited and Clinimax Limited occurred at the beginning of the accounting period the Group's revenue and profit before taxation for the period would not be materially different to the amounts actually recognised in the consolidated income statement.

17. CASH GENERATED FROM CONTINUING OPERATIONS

	26 weeks ended 2 March 2019 £'000	26 weeks ended 3 March 2018 £'000	52 weeks ended 1 September 2018 £'000
Profit for the period from continuing operations	**8,450**	9,048	13,647
Adjustments for:			
Tax	**1,884**	1,567	1,855
Tax credit in respect of R&D	**(330)**	(90)	(451)
Depreciation of property, plant and equipment	**2,386**	2,173	4,372
Depreciation of investment property	**3**	3	6
Goodwill impairment	**—**	—	516
Intangible asset amortisation	**220**	204	397
(Profit)/loss on disposal of property, plant and equipment	**(10)**	(28)	19
Business combination expenses	**147**	117	251
Net fair value expense on share based payments	**503**	556	1,125
Other non-cash adjustments	**(51)**	112	107
Finance costs:			
Interest income	**(226)**	(182)	(358)
Interest expense and borrowing costs	**743**	605	1,357
Share of results of associates and joint ventures	**(2,207)**	(2,140)	(3,215)
IAS19 income statement charge (excluding interest):			
Administrative expenses	**11**	—	24
Past service cost	**795**	—	—
Changes in working capital (excluding the effects of acquisitions):			
Increase in inventories	**(6,715)**	(6,127)	(5,106)
Increase in receivables	**(3,377)**	(9,623)	(7,015)
Increase in payables	**2,789**	10,752	7,449
Cash generated from continuing operations	**5,015**	6,947	14,980

18. RELATED PARTY TRANSACTIONS

The Group's significant related parties are its associate and joint ventures, as disclosed in the Annual Report and Accounts 2018.

Transactions and balances with the associate and joint ventures were all undertaken on an arm's length basis in the normal course of business and are as follows:

	Sales to £'000	Purchases from £'000	Rent receivable from £'000	Net management charges receivable from £'000	Interest receivable from £'000	Dividends receivable from £'000	Amounts owed from £'000	Amounts owed to £'000
26 weeks to 2 March 2019								
Associates	**356**	**(66,428)**	**10**	**7**	**—**	**343**	**97**	**(26,970)**
Joint ventures	**467**	**(277)**	**—**	**111**	**—**	**—**	**1,772**	**(12)**
26 weeks to 3 March 2018								
Associates	427	(56,318)	10	4	37	245	850	(25,971)
Joint ventures	300	(757)	-	163	—	—	1,720	(82)

19. ADOPTION OF IFRS 15 'REVENUE FROM CONTRACTS WITH CUSTOMERS'

The Group adopted IFRS 15 with effect from 2 September 2018 and has applied IFRS 15 retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. Comparative information has not been restated and is therefore still reported under IAS 11 and IAS 18.

Adjustments to the opening balance sheet arising from the adoption of IFRS 15 are as follows.

	1 September 2018 £'000	Adjustments £'000	2 September 2018 £'000
Current assets			
Inventories	42,371	1,442	43,813
Contract assets	—	6,502	6,502
Trade and other receivables	67,516	(12,128)	55,388
Current liabilities			
Contract liabilities	—	(1,051)	(1,051)
Trade and other payables	(64,290)	5,111	(59,179)
Equity			
Retained earnings	87,967	(124)	87,843
Headline figures			
Non-current assets	96,523	—	96,523
Current assets	134,664	(4,184)	130,480
Total assets	231,187	(4,184)	227,003
Current liabilities	(99,459)	4,060	(95,399)
Non-current liabilities	(10,762)	—	(10,762)
Total liabilities	(110,221)	4,060	(106,161)
Net assets	120,966	(124)	120,842
Total shareholders' equity	105,281	(124)	105,157
Total equity	120,966	(124)	120,842

The adjustments to the opening position reflect the transition impact of £124,000 reduction in retained earnings together with the reclassification of amounts to the new asset and liability categories of 'contract assets' and 'contract liabilities'

To enable users of these accounts to compare the periods presented in this interim report the following table shows the balance sheet of the Group as at 2 March 2019 as though IAS 11 and IAS 18 still applied.

	2 March 2019 (as reported - unaudited) £'000	Adjustments £'000	2 March 2019 (IAS 11 & IAS 18 - unaudited) £'000
Current assets			
Inventories	**51,542**	**(1,207)**	**50,335**
Contract assets	**6,958**	**(6,958)**	**—**
Trade and other receivables	**59,553**	**8,344**	**67,897**
Current liabilities			
Contract liabilities	**(441)**	**441**	**—**
Trade and other payables	**(65,020)**	**(496)**	**(65,516)**
Equity			
Retained earnings	**90,878**	**124**	**91,002**
Headline figures			
Non-current assets	**100,769**	**—**	**100,769**
Current assets	**147,846**	**179**	**148,025**
Total assets	**248,615**	**179**	**248,794**
Current liabilities	**(95,264)**	**(55)**	**(95,320)**
Non-current liabilities	**(30,445)**	**—**	**(30,445)**
Total liabilities	**(125,709)**	**(55)**	**(125,764)**
Net assets	**122,906**	**124**	**123,030**
Total shareholders' equity	**106,736**	**124**	**106,860**
Total equity	**122,906**	**124**	**123,030**

The adjustments reflect the reclassification of amounts to the new asset and liability categories of 'contract assets' and 'contract liabilities'.

Notes

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