Carr's Group plc

GROWTH THROUGH INNOVATION & TECHNOLOGY

Half year report

2020

Carr's is an international business at the forefront of innovation and technology.

The Group is a global leader in the supply of value-adding products and services to customers in the Agriculture and Engineering Sectors.

Contents

Agriculture

The Agriculture division includes a livestock supplementation business which manufactures feed blocks, boluses and other trace element supplements from locations across the UK, USA and Europe.

These products are supplied through an extensive distribution network to farming customers across the globe.

In the UK the division also sells animal feed, fertiliser, animal health products, oil, farm machinery and rural supplies from a network of over 40 country stores and depots.

Engineering

The Engineering division designs and manufactures specialist equipment and components, robotic goods and remote handling equipment, and provides technical services, from five sites in the UK, one site in Germany and two sites in the USA.

These highly specialised products and services are supplied predominately into the nuclear, defence and oil and gas markets.

INTERIM MANAGEMENT REPORT

Introduction

We are pleased to present our results for the first half of the financial year. Set out on the following pages is a detailed update on trading across our Agriculture and Engineering divisions, together with information on how the Group is managing the ongoing effects of COVID-19.

> The Group has delivered a resilient performance in challenging market conditions affecting both divisions

TIM DAVIES
Chief Executive Officer

COVID-19

The impact of the COVID-19 pandemic on the Group remains under close and constant review by the Board. To date, we have not seen any material adverse direct impact, but there remains significant global uncertainty. The Group has implemented a range of measures and planned contingencies across both divisions which are designed to minimise the impact of the pandemic.

The health, safety and well-being of our employees and customers is of paramount importance. We are following government guidelines and have implemented rigorous social distancing controls, hygiene measures and shift-working practices across all locations, and our people are working effectively from home where possible.

In Agriculture, measures have been taken to ensure that all of our UK and overseas manufacturing facilities can remain operational, and that our network of UK retail outlets can be used to supply our core ranges of feeds, supplements, animal health products, fuels, machinery, retail products and services to our farming customers, who are critical to the UK's food supply chain. We are carefully monitoring our stock levels, together with our supply and distribution channels, to ensure that we remain operational.

In Engineering, the majority of our facilities remain operational as we continue to supply products and services in connection with projects of national importance, particularly across the nuclear decommissioning and nuclear defence sectors. Our range of current and future contracts across the division is being closely monitored and we continue to communicate openly with our supply chain partners in order to minimise any potential negative impact.

The Group remains in a strong financial position. Net debt, excluding leases, was £25.4m at the period end (excluding finance leases, H1 2019: £20.5m; FY2019: £20.9m), representing 1.2 times adjusted EBITDA. We also had undrawn facilities at the period end of £22.4m, with our main banking facilities maturing between 2021 and 2023.

As part of its response to the COVID-19 crisis, the Group has ensured it has a rigorous short term weekly and longer-term monthly cash forecasting process in place. These have been stress tested on a number of different, but realistic, scenarios including the temporary closure of several businesses and, predominantly in Agriculture, modelling the impact of delays in debt collections. In each of these scenarios, the Group has sufficient funding in place within its current facilities. Measures have also been taken to restrict capital expenditure, including the deferral of all non-time critical expenditures to the next financial year, and the Board has taken the decision to defer the payment of an interim dividend until the full effects of the pandemic have become clearer. The Group is keeping under review the opportunity to appropriately utilise government assistance schemes where these provide additional flexibility.

We are moving decisively on all fronts to address the challenges presented by COVID-19 and consider the Group to be well placed to endure this period of material uncertainty.

INTERIM MANAGEMENT REPORT
CONTINUED

Half year performance
In challenging market conditions, Carr's has delivered a resilient performance in the period.

During the 26 weeks ended 29 February 2020 Group revenues were £200.0m, slightly down on the prior year (H1 2019: £206.2m).

Adjusted Group operating profit of £10.3m (H1 2019: £11.9m) was 13.4% behind the prior year, and reported operating profit was 3.8% ahead of the prior year at £11.2m (H1 2019: £10.8m). Adjusted 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. The reduction in operating profits is mainly attributable to challenging market conditions and the impact of weather in Agriculture, and contract phasing in Engineering.

Adjusted profit before tax decreased by 16.0% to £9.6m (H1 2019: £11.4m). Reported profit before tax after amortisation and non-recurring items was £10.5m (H1 2019: £10.3m).

Amortisation and non-recurring items were a credit of £0.9m (H1 2019: charge of £1.1m) and related mainly to adjustments to contingent consideration partly offset by amortisation of intangible assets.

On an adjusted basis, earnings per share decreased by 14.9% to 8.0p (H1 2019: 9.4p). Basic earnings per share increased by 12.0% from 8.3p to 9.3p.

Agriculture
Trading during the first half of 2020 was slower than the prior year. Challenging market conditions, which continue to impact farm incomes, and continued unseasonal weather affected both the UK and the USA.

During the period, revenue was down 5.5% to £175.0m (H1 2019: £185.2m). Adjusted operating profit was down 15.5% to £9.0m (H1 2019: £10.7m) and reported operating profit was down 5.8% to £10.0m (H1 2019: £10.6m).

Supplements
Total global feed block sales volumes were broadly in line with the same period last year.

In the UK, feed block and supplement sales were lower than anticipated owing to market pressures and continued unseasonal weather. In the period, we improved procurement and manufacturing processes in order to maximise efficiencies, including realising buying synergies on key raw materials and introducing least cost formulation software at UK manufacturing sites, which helped to partially mitigate the effect of the difficult trading conditions on profitability.

In the USA, our low moisture feed block plant in Shelbyville, Tennessee delivered a good performance. Volumes from the plant grew during the period as we continue to expand our geographic footprint across the eastern and south eastern states. Earlier this year we also launched FesCool® following a period of extensive trials in conjunction with Kansas State University. FesCool® is a new low moisture feed block proven to improve the performance of grazing cattle by reducing the impact of fescue toxicity. Our initial launch of the product has been successful.

We increased our presence in Canada to address the local beef market, appointing key distribution partners, expanding our sales presence and completing product registrations. This market will be serviced out of our existing facility in Belle Fourche, South Dakota ensuring that maximum efficiencies are achieved.

Challenges in the agriculture market have particularly affected Animax, our manufacturer of trace element supplements for livestock, where market pressures coupled with milder weather have led to a temporary reduction in customer demand. During the period we appointed a new commercial sales director in the business and continued to make good progress in automating manufacturing processes.

Feed block sales in our German joint venture business, Crystalyx Products GmbH, were impacted by similar weather conditions experienced in the UK, with volumes down 2% compared to the prior year. During the period we started commercial production at our new Pick Block plant in Oldenburg, Germany and sales volumes are beginning to grow. Pick Block is an innovative range of products designed to enhance poultry welfare standards.

UK Agriculture
The sustained mild winter and ongoing market pressures have resulted in total compound feed volumes declining by 10% against the previous year. This reduction is in line with the decline seen nationally, which has placed margins under pressure. Volumes in our fuel distribution business were less impacted and were down 6% on last year.

Our retail business performed resiliently during the period with like-for-like sales up 2%. Overall sales increased by 1% against the same period last year following further store rationalisation, largely resulting from the acquisition of Pearson Farm Supplies in 2017. Machinery revenues were marginally ahead of management's expectations and increased by 20% against the prior year. Last year's performance was attributable to reduced farmer confidence in the period leading up to the original Brexit date.

Engineering
The Engineering division had a slow start to the financial year due to contract phasing. Adjusted operating profit was down 39.6% at £1.2m (H1 2019: £2.0m); reported operating profit was £1.1m (H1 2019: £1.9m).

As announced in our March trading update, while the Group originally expected the strength of its pipeline to offset this slow start during the second half of the year, delays to certain significant orders into our next financial year means that this is no longer the case.

UK Service and Manufacturing
Our UK Manufacturing business performed well during the period, benefitting from strong order books across each of our chosen markets.

Our most recent acquisition, NW Total, acquired in June 2019, has been fully integrated into the broader Engineering division and is performing well. The business has a strong order book and is well placed to benefit from significant opportunities in nuclear decommissioning and nuclear defence, in particular the UK's £31 billion Dreadnought submarine programme.

NW Total complements the range of products and services offered across the rest of our Engineering division and is now collaborating with our other engineering businesses on projects in the UK and USA, realising synergies identified in the Board's acquisition strategy. As previously reported, our new divisional management team has overseen a focus on closer collaboration, including in new business development, where we have aligned our products and services with our customers and markets, and through enhancements in procurement.

Global Robotics

Our Global Robotics business has experienced delays to contract awards, primarily on projects in Japan and China. While this is expected to result in lower levels of activity than anticipated during the second half of the financial year, the medium-term prospects for the Global Robotics business remain robust, supported by a strong and diverse global pipeline.

As part of our investment in new business development, we have recently opened a new showroom in Mooresville, Charlotte to demonstrate our range of robotics equipment, including Wälischmiller products, to customers based in the USA.

Global Technical Services

As previously reported, our Global Technical Services business experienced lower levels of activity during the period, owing to the phasing of several significant multi-year patented MSIP® technology projects. These contracts will mainly benefit H2 2020 and FY2021 and are progressing as planned. In the medium term, the business has a strong order book and opportunity pipeline, including a $6.2m MSIP® contract secured during the period to be delivered into Switzerland in 2021.

Work on our project to develop passive cooling technology, following funding awarded by the US Department of Energy, is progressing well. This technology has the potential to be retrofitted to existing nuclear power plants to reduce the risk of a catastrophic incident.

Balance sheet and cashflow

Net cash generated from operating activities in the first half was £4.9m (H1 2019: £3.8m). Net debt, excluding leases, rose to £25.4m from £20.9m, excluding finance leases, at the 2019 financial year end. This is primarily related to seasonal working capital increases, the payment of contingent consideration in relation to the acquisition of NuVision, and the payment of dividends. The Group's defined benefit pension scheme remains in surplus, although that surplus had decreased from £7.8m at 31 August 2019 to £6.6m at 29 February 2020. This was primarily due to market conditions.

During the period, the Group implemented IFRS 16, which has resulted in right-of-use assets of £15.9m and related lease liabilities of £15.2m at 29 February 2020. IFRS 16 has had a minimal impact on profit before tax.

Shareholders' equity

Shareholders' equity at 29 February 2020 was £114.5m (31 August 2019: £114.3m), with the increase primarily due to profit retained by the Group for the period offset by the reduction in the Group's pension surplus, foreign exchange translation losses and dividends paid.

Dividend

Given the uncertainty associated with the COVID-19 pandemic, and in order to provide the Group with maximum flexibility during these unprecedented times, the Board considers it prudent to defer the payment of an interim dividend until such time as the full effects of the pandemic have become clearer. The position will be revisited at the time of the Group's trading update expected in July 2020.

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 31 to 32 of the Annual Report and Accounts 2019 (available on the Company's website at http://investors.carrsgroup.com) with the exception of the potential impact of COVID-19, further details relating to which are set out above.

Outlook

As reported in our trading update on 12 March 2020, challenges across both divisions, unrelated to COVID-19, led to a reduction in the Board's expectations for the current financial year. Based on recent activity, and whilst remaining acutely aware of possible interruptions due to COVID-19, the Board still anticipates a full-year outcome broadly in line with those revised expectations.

We continue to monitor the effects of COVID-19 very closely, taking steps where necessary to protect operations and planning contingencies to limit any negative impact on the Group's performance. The Board is extremely grateful to all colleagues for their commitment, dedication and ingenuity in ensuring that operations continue.

The Board remains confident that the Group is well placed for growth in the longer term.

TIM DAVIES
Chief Executive Officer
15 April 2020

CONDENSED CONSOLIDATED INCOME STATEMENT

For the 26 weeks ended 29 February 2020

	Notes	**26 weeks ended 29 February 2020 (unaudited) £'000**	26 weeks ended 2 March 2019 (unaudited) £'000	52 weeks ended 31 August 2019 (audited) £'000
Continuing operations				
Revenue	6, 7	**199,957**	206,210	403,905
Cost of sales		**(172,924)**	(176,702)	(349,798)
Gross profit		**27,033**	29,508	54,107
Net operating expenses		**(17,685)**	(20,885)	(39,289)
Adjusted[1] share of post-tax results of associate and joint ventures		**1,892**	2,207	2,683
Non-recurring items	8	**–**	–	(306)
Share of post-tax results of associate and joint ventures		**1,892**	2,207	2,377
Adjusted[1] operating profit	6	**10,322**	11,922	18,930
Amortisation of acquired intangible assets and non-recurring items	8	**918**	(1,092)	(1,735)
Operating profit	6	**11,240**	10,830	17,195
Finance income		**178**	226	463
Finance costs		**(905)**	(722)	(1,349)
Adjusted[1] profit before taxation	6	**9,595**	11,426	18,044
Amortisation of acquired intangible assets and non-recurring items	8	**918**	(1,092)	(1,735)
Profit before taxation	6	**10,513**	10,334	16,309
Taxation		**(1,382)**	(1,884)	(2,685)
Profit for the period		**9,131**	8,450	13,624
Profit attributable to:				
Equity shareholders		**8,565**	7,656	12,049
Non-controlling interests		**566**	794	1,575
		9,131	8,450	13,624
Earnings per share (pence)				
Basic	9	**9.3**	8.3	13.1
Diluted	9	**9.1**	8.1	12.8
Adjusted[1]	9	**8.0**	9.4	14.6
Diluted adjusted[1]	9	**7.9**	9.1	14.2

1 Adjusted results are after adding back amortisation of acquired intangible assets and non-recurring items

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 26 weeks ended 29 February 2020

	Notes	**26 weeks ended 29 February 2020 (unaudited) £'000**	26 weeks ended 2 March 2019 (unaudited) £'000	52 weeks ended 31 August 2019 (audited) £'000
Profit for the period		**9,131**	8,450	13,624
Other comprehensive (expense)/income				
Items that may be reclassified subsequently to profit or loss:				
Foreign exchange translation (losses)/gains arising on translation of overseas subsidiaries		**(2,778)**	(1,487)	1,857
Net investment hedges		**210**	177	37
Taxation charge on net investment hedges		**(40)**	(33)	(7)
Items that will not be reclassified subsequently to profit or loss:				
Actuarial losses on retirement benefit asset:				
– Group	14	**(1,187)**	(2,640)	(1,845)
– Share of associate		**–**	–	(88)
Taxation credit on actuarial losses on retirement benefit asset:				
– Group		**202**	449	314
– Share of associate		**–**	–	15
Other comprehensive (expense)/income for the period, net of tax		**(3,593)**	(3,534)	283
Total comprehensive income for the period		**5,538**	4,916	13,907
Total comprehensive income attributable to:				
Equity shareholders		**4,972**	4,122	12,332
Non-controlling interests		**566**	794	1,575
		5,538	4,916	13,907

CONDENSED CONSOLIDATED BALANCE SHEET

As at 29 February 2020

	Notes	**As at 29 February 2020 (unaudited) £'000**	As at 2 March 2019 (unaudited) £'000	As at 31 August 2019 (audited) £'000
Non-current assets				
Goodwill	11	**32,070**	28,138	32,877
Other intangible assets	11	**9,315**	2,737	9,318
Property, plant and equipment	11	**36,767**	40,029	41,917
Right-of-use assets	11	**15,870**	–	–
Investment property	11	**161**	167	164
Investment in associate		**13,846**	13,783	13,392
Interest in joint ventures		**10,392**	8,980	9,671
Other investments		**74**	74	76
Financial assets				
– Non-current receivables		**21**	20	22
Retirement benefit asset	14	**6,643**	6,841	7,769
Deferred tax assets		**410**	–	410
		125,569	100,769	115,616
Current assets				
Inventories		**48,915**	51,542	46,270
Contract assets		**8,412**	6,958	9,466
Trade and other receivables		**60,537**	59,553	56,349
Current tax assets		**328**	554	–
Financial assets				
– Cash and cash equivalents	12	**29,318**	29,239	28,649
		147,510	147,846	140,734
Total assets		**273,079**	248,615	256,350
Current liabilities				
Financial liabilities				
– Borrowings	12	**(26,855)**	(28,507)	(23,856)
– Leases	12	**(2,557)**	–	–
Contract liabilities		**(2,351)**	(441)	(1,269)
Trade and other payables		**(62,520)**	(65,020)	(62,653)
Current tax liabilities		**(158)**	(1,296)	(1,010)
		(94,441)	(95,264)	(88,788)
Non-current liabilities				
Financial liabilities				
– Borrowings	12	**(27,896)**	(24,012)	(28,586)
– Leases	12	**(12,666)**	–	–
Deferred tax liabilities		**(4,634)**	(3,737)	(4,987)
Other non-current liabilities		**(2,537)**	(2,696)	(2,999)
		(47,733)	(30,445)	(36,572)
Total liabilities		**(142,174)**	(125,709)	(125,360)
Net assets		**130,905**	122,906	130,990
Shareholders' equity				
Share capital	15	**2,312**	2,298	2,299
Share premium	15	**9,165**	9,149	9,165
Other reserves		**4,379**	4,411	7,922
Retained earnings		**98,655**	90,878	94,864
Total shareholders' equity		**114,511**	106,736	114,250
Non-controlling interests		**16,394**	16,170	16,740
Total equity		**130,905**	122,906	130,990

The comparative periods presented have not been restated for the adoption of IFRS 16.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 26 weeks ended 29 February 2020

	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 31 August 2019 (audited)	2,299	9,165	–	1,577	6,146	199	94,864	114,250	16,740	130,990
Effect of IFRS 16 adoption	–	–	–	–	–	–	(1,093)	(1,093)	(615)	(1,708)
At 1 September 2019 (restated)[1] (unaudited)	2,299	9,165	–	1,577	6,146	199	93,771	113,157	16,125	129,282
Profit for the period	–	–	–	–	–	–	8,565	8,565	566	9,131
Other comprehensive expense	–	–	–	–	(2,608)	–	(985)	(3,593)	–	(3,593)
Total comprehensive (expense)/income	–	–	–	–	(2,608)	–	7,580	4,972	566	5,538
Dividends paid	–	–	–	–	–	–	(3,344)	(3,344)	(294)	(3,638)
Equity-settled share based payment transactions	–	–	–	(933)	–	–	659	(274)	(3)	(277)
Allotment of shares	13	–	–	–	–	–	–	13	–	13
Purchase of own shares held in trust	–	–	(13)	–	–	–	–	(13)	–	(13)
Transfer	–	–	12	–	–	(1)	(11)	–	–	–
At 29 February 2020 (unaudited)	2,312	9,165	(1)	644	3,538	198	98,655	114,511	16,394	130,905
At 2 September 2018 (audited)	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 2 September 2018 (audited)	2,285	9,141	–	1,427	4,259	202	87,843	105,157	15,685	120,842
Profit for the period	–	–	–	–	–	–	12,049	12,049	1,575	13,624
Other comprehensive income/(expense)	–	–	–	–	1,887	–	(1,604)	283	–	283
Total comprehensive income	–	–	–	–	1,887	–	10,445	12,332	1,575	13,907
Dividends paid	–	–	–	–	–	–	(4,173)	(4,173)	(588)	(4,761)
Equity-settled share based payment transactions	–	–	–	53	–	–	759	812	68	880
Allotment of shares	14	24	–	–	–	–	–	38	–	38
Purchase of own shares held in trust	–	–	(13)	–	–	–	–	(13)	–	(13)
Reclassified from liabilities	–	–	–	97	–	–	–	97	–	97
Transfer	–	–	13	–	–	(3)	(10)	–	–	–
At 31 August 2019 (audited)	2,299	9,165	–	1,577	6,146	199	94,864	114,250	16,740	130,990

1 Restated for the adoption of IFRS 16 (note 19)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the 26 weeks ended 29 February 2020

	Notes	26 weeks ended 29 February 2020 (unaudited) £'000	26 weeks ended 2 March 2019 (unaudited) £'000	52 weeks ended 31 August 2019 (audited) £'000
Cash flows from operating activities				
Cash generated from continuing operations	16	**7,840**	5,015	16,004
Interest received		**111**	86	178
Interest paid		**(897)**	(596)	(1,276)
Tax paid		**(2,139)**	(734)	(2,306)
Net cash generated from operating activities		**4,915**	3,771	12,600
Cash flows from investing activities				
Acquisition of subsidiaries (net of overdraft/cash acquired)		**–**	(4,717)	(9,868)
Contingent/deferred consideration paid		**(1,596)**	(155)	(379)
Dividends received from associate and joint ventures		**294**	343	711
Other loans		**382**	53	79
Purchase of intangible assets		**(845)**	(550)	(1,310)
Proceeds from sale of property, plant and equipment		**141**	362	831
Purchase of property, plant and equipment		**(2,569)**	(1,851)	(4,471)
Purchase of own shares held in trust		**(13)**	(13)	(13)
Net cash used in investing activities		**(4,206)**	(6,528)	(14,420)
Cash flows from financing activities				
Proceeds from issue of ordinary share capital		**13**	21	38
New bank loans and movement on RCF		**2,500**	8,394	14,430
Lease principal repayments		**(1,569)**	(641)	(1,278)
Repayment of borrowings		**(1,247)**	(1,628)	(2,493)
Increase/(decrease) in other borrowings		**114**	3,766	(1,352)
Dividends paid to shareholders		**(3,344)**	(3,139)	(4,173)
Dividends paid to related party		**(294)**	(343)	(588)
Net cash (used in)/generated from financing activities		**(3,827)**	6,430	4,584
Effects of exchange rate changes		**(410)**	(538)	526
Net (decrease)/increase in cash and cash equivalents		**(3,528)**	3,135	3,290
Cash and cash equivalents at beginning of the period		**24,295**	21,005	21,005
Cash and cash equivalents at end of the period		**20,767**	24,140	24,295
Cash and cash equivalents consist of:				
Cash and cash equivalents per the balance sheet		**29,318**	29,239	28,649
Bank overdrafts included in borrowings		**(8,551)**	(5,099)	(4,354)
		20,767	24,140	24,295

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 2019. A list of current Directors is maintained on the website: www.carrsgroup.com

On behalf of the Board

TIM DAVIES
Chief Executive Officer
15 April 2020

NEIL AUSTIN
Group Finance Director
15 April 2020

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 2020.

The comparative figures for the financial year ended 31 August 2019 are not the company's statutory accounts for that financial year. Those accounts have been reported on by the company's auditor and delivered to the Registrar of Companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

2. Basis of preparation

These condensed interim financial statements for the 26 weeks ended 29 February 2020 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 31 August 2019, 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 potential impact of COVID-19 is discussed further in the interim management report. 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:

Taxation

Income taxes are accrued based on management's estimate of the weighted average annual income tax rate expected for the full financial year based on enacted or substantively enacted tax rates at 29 February 2020.

IFRS 16 'Leases'

The Group adopted IFRS 16 with effect from 1 September 2019 and has applied the standard using the modified retrospective approach under which the cumulative effect of initially applying the standard is recognised at the date of initial application. The Group has restated its opening total equity position as at 1 September 2019 by a charge of £1.7m. Comparative information has not been restated and is therefore still reported under IAS 17 'Leases' and related interpretations. To assist comparability, note 19 shows the balance sheet as at 29 February 2020 had the Group continued to adopt IAS 17 and related interpretations.

Under the modified retrospective approach used, the Group has recognised right-of-use assets at their carrying amounts as if the standard had been applied since the commencement date, but discounted using the Group's incremental borrowing rate at the date of initial application. The liability has been recognised at an amount equal to the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The incremental borrowing rates used range between 1.3% - 3.88%. In addition to existing finance leased assets with a net book value of £4.4m being transferred to right-of-use assets on transition, £11.5m of right-of-use assets were recognised on transition in respect of leases previously accounted for as operating leases under IAS 17. An additional lease obligation of £12.7m was recognised on transition in respect of leases previously accounted for as operating leases. Prepayments and accruals totalling £0.5m have been removed from the balance sheet on transition.

A reconciliation of operating lease commitments disclosed as at 31 August 2019 to the lease liabilities recognised on transition is as follows:

	£'000
Operating lease commitments as at 31 August 2019	**12,917**
Discounted using the incremental borrowing rate at initial application	**(4,365)**
Inclusion of liabilities beyond break clauses	**3,746**
Other	**357**
Lease liabilities (excluding existing finance lease liabilities) at 1 September 2019	**12,655**

Right-of-use assets include properties, motor vehicles, plant and machinery and other equipment. Right-of-use assets are depreciated over the shorter of the asset's useful economic life and the lease term on a straight line basis and are also subject to regular impairment reviews.

3. Accounting policies continued

Leases that commenced during the period ended 29 February 2020 are discounted using the rate implicit in the lease. Where this cannot be determined the Group's incremental cost of borrowing is used. The interest charge recognised in the income statement within finance costs reflects the unwinding of the discounting over the life of the lease. Lease payments are taken to the balance sheet as incurred to reduce the lease liability.

The following table shows the effect of IFRS 16 on the income statement for the period ended 29 February 2020.

	£'000
Reduction in lease expense recognised	1,024
Depreciation on right-of-use assets	(947)
Interest cost of lease liabilities	(183)
Impact on Group profit before tax	(106)

Depreciation and interest costs in the table above exclude amounts in respect of finance leases that would have been recognised in the income statement under IAS 17.

On transition to IFRS 16 the Group has applied the following practical expedients permitted by the standard on a lease-by-lease basis:

- Accounting for leases where the lease term ends within 12 months of the date of initial application as short-term leases;
- Exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Use of hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

The Group is not required to make any transition adjustment for leases previously classified as operating leases under IAS 17 where the underlying asset is of low value.

The Group is also not required to reassess whether a contract is, or contains, a lease at the date of initial application. IFRS 16 permits the Group to apply the standard only to contracts that were previously identified as containing a lease under IAS 17 and IFRIC 4 'Determining whether an arrangement contains a lease'.

4. Significant judgements and 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 31 August 2019, with the exception of judgements made in respect of IFRS 16 'Leases' and changes in estimates that are required in determining the provision for income taxes as explained in note 3.

For IFRS 16 significant judgements are required, principally in respect of property leases, when determining the lease term where the lease contains break clauses or options to extend the term. The Group has several property leases and in valuing these assets the Group has assumed that the right to break or extend the lease is not exercised. The Group will regularly monitor these leases and should this assumption become inappropriate the asset and liability will be revalued accordingly.

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 31 August 2019. The potential impact of COVID-19 is discussed further in the interim management report.

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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. Reportable operating segments have been identified as Agriculture and Engineering. Central comprises the central business activities of the Group's head office, which earns no external revenues. Performance is assessed using operating profit. For internal purposes the CODM assesses operating profit before material non-recurring items and amortisation of acquired intangible assets (note 8) 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 29 February 2020 and the comparative periods.

	Agriculture £'000	Engineering £'000	Central £'000	Group £'000
26 weeks ended 29 February 2020				
Total segment revenue	175,042	24,919	–	199,961
Inter segment revenue	(3)	(1)	–	(4)
Revenue from external customers	175,039	24,918	–	199,957
Adjusted[1] EBITDA[2]	9,051	2,492	195	11,738
Depreciation, amortisation and profit/(loss) on disposal of non-current assets	(1,942)	(1,277)	(89)	(3,308)
Share of post-tax results of associate and joint ventures	1,892	–	–	1,892
Adjusted[1] operating profit	9,001	1,215	106	10,322
Amortisation of acquired intangible assets and non-recurring items (note 8)	994	(76)	–	918
Operating profit	9,995	1,139	106	11,240
Finance income				178
Finance costs				(905)
Adjusted[1] profit before taxation				9,595
Amortisation of acquired intangible assets and non-recurring items (note 8)				918
Profit before taxation				10,513
Segment gross assets	171,050	83,786	18,243	273,079

1 Adjusted results are after adding back amortisation of acquired intangible assets and non-recurring items

2 Earnings before interest, tax, depreciation, amortisation, profit/(loss) on the disposal of non-current assets and share of post-tax results of associate and joint ventures

6. Operating segment information continued

The following tables have been restated to present central costs separately. This is to aid comparability with the segmental information presented for the current period to 29 February 2020.

	Agriculture £'000	Engineering £'000	Central £'000	Group £'000
26 weeks ended 2 March 2019 (restated)				
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[1] EBITDA[2]	9,931	2,931	(698)	12,164
Depreciation, amortisation and profit/(loss) on disposal of non-current assets	(1,485)	(920)	(44)	(2,449)
Share of post-tax results of associate and joint ventures	2,207	–	–	2,207
Adjusted[1] operating profit	10,653	2,011	(742)	11,922
Amortisation of acquired intangible assets and non-recurring items (note 8)	(47)	(103)	(942)	(1,092)
Operating profit	10,606	1,908	(1,684)	10,830
Finance income				226
Finance costs				(722)
Adjusted[1] 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	169,385	64,243	14,987	248,615

	Agriculture £'000	Engineering £'000	Central £'000	Group £'000
52 weeks ended 31 August 2019 (restated)				
Total segment revenue	357,399	46,556	–	403,955
Inter segment revenue	(11)	(39)	–	(50)
Revenue from external customers	357,388	46,517	–	403,905
Adjusted[1] EBITDA[2]	14,914	7,796	(1,554)	21,156
Depreciation, amortisation and profit/(loss) on disposal of non-current assets	(2,946)	(1,879)	(84)	(4,909)
Share of post-tax results of associate (adjusted[1]) and joint ventures	2,683	–	–	2,683
Adjusted[1] operating profit	14,651	5,917	(1,638)	18,930
Amortisation of acquired intangible assets and non-recurring items (note 8)	(531)	65	(1,269)	(1,735)
Operating profit	14,120	5,982	(2,907)	17,195
Finance income				463
Finance costs				(1,349)
Adjusted[1] profit before taxation				18,044
Amortisation of acquired intangible assets and non-recurring items (note 8)				(1,735)
Profit before taxation				16,309
Segment gross assets	157,685	82,436	16,229	256,350

1 Adjusted results are after adding back amortisation of acquired intangible assets and non-recurring items
2 Earnings before interest, tax, depreciation, amortisation, profit/(loss) on the disposal of non-current assets and share of post-tax results of associate and joint ventures

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7. Disaggregation of revenue

The following table presents the Group's reported revenue disaggregated based on the timing of revenue recognition.

Timing of revenue recognition	**26 weeks ended 29 February 2020 £'000**	26 weeks ended 2 March 2019 £'000	52 weeks ended 31 August 2019 £'000
Over time	**16,054**	13,098	27,840
At a point in time	**183,903**	193,112	376,065
	199,957	206,210	403,905

8. Amortisation of acquired intangible assets and non-recurring items

	26 weeks ended 29 February 2020 £'000	26 weeks ended 2 March 2019 £'000	52 weeks ended 31 August 2019 £'000
Amortisation of acquired intangible assets (i)	**687**	150	814
Adjustments to contingent consideration (ii)	**(2,147)**	–	(1,126)
Restructuring/closure costs (iii)	**542**	–	437
Business combination expenses (iv)	**–**	147	509
Past service cost – Group (v)	**–**	795	795
Past service cost – share of associate (v)	**–**	–	306
	(918)	1,092	1,735

(i) Amortisation of acquired intangible assets which do not relate to the underlying profitability of the Group.

(ii) Adjustments to contingent consideration arise from the revaluation of contingent consideration in respect of acquisitions to fair value at the period end. Any increase or decrease in fair value is recognised through the income statement. The Group has recognised a decrease in fair value in respect of the contingent consideration payable to the vendors of NuVision Engineering, Inc. and Animax Ltd. The Group has recognised an increase in fair value in respect of the contingent consideration payable to the vendors of NW Total Engineered Solutions Ltd. These movements arise from changes to the expected payments since the previous year end based on actual results and updated forecasts. They do not relate to the underlying profitability of the Group and have therefore been recognised as non-recurring items.

(iii) Restructuring/closure costs include redundancy costs and impairments of assets to recoverable amounts.

(iv) Business combination expenses relate to acquisition costs incurred.

(v) The scheme actuary's estimated effect on the Group's, and share of associate's, pension scheme liabilities following the equalisation of Guaranteed Minimum Pensions (GMPs). Further details can be found in note 14.

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 29 February 2020 £'000	26 weeks ended 2 March 2019 £'000	52 weeks ended 31 August 2019 £'000
Earnings	**8,565**	7,656	12,049
Amortisation and non-recurring items:			
Amortisation of acquired intangible assets	**687**	150	814
Adjustments to contingent consideration	**(2,147)**	–	(1,126)
Restructuring/closure costs	**542**	–	437
Business combination expenses	**–**	147	509
Past service cost – Group	**–**	795	795
Past service cost – share of associate	**–**	–	306
Taxation effect of the above	**(225)**	(166)	(367)
Non-controlling interest in the above	**(29)**	–	(57)
Earnings – adjusted	**7,393**	8,582	13,360

	26 weeks ended 29 February 2020 Number	26 weeks ended 2 March 2019 Number	52 weeks ended 31 August 2019 Number
Weighted average number of ordinary shares in issue	**92,214,566**	91,697,033	91,828,015
Potentially dilutive share options	**1,669,575**	2,821,066	2,519,643
	93,884,141	94,518,099	94,347,658
Earnings per share (pence)			
Basic	**9.3p**	8.3p	13.1p
Diluted	**9.1p**	8.1p	12.8p
Adjusted	**8.0p**	9.4p	14.6p
Diluted adjusted	**7.9p**	9.1p	14.2p

10. Dividends

An interim dividend of £1,034,348 that related to the period to 31 August 2019 was paid on 4 October 2019, and a final dividend of £2,310,140 was paid on 10 January 2020.

Given the uncertainty associated with the COVID-19 pandemic, and in order to provide the Group with maximum flexibility during these unprecedented times, the Board considers it prudent to defer the payment of an interim dividend until such time as the full effects of the pandemic have become clearer. The position will be revisited at the time of the Group's trading update expected in July 2020.

11. Intangible assets, property, plant and equipment, right-of-use assets and investment property

	Goodwill £'000	Other intangible assets £'000	Property, plant and equipment £'000	Right-of-use assets £'000	Investment property £'000
26 weeks ended 29 February 2020					
Opening net book amount at 1 September 2019	**32,877**	**9,318**	**41,917**	**–**	**164**
Transition to IFRS 16 (note 19)	**–**	**–**	**(4,409)**	**15,903**	**–**
Exchange differences	**(807)**	**(99)**	**(911)**	**(48)**	**–**
Additions	**–**	**845**	**2,569**	**1,263**	**–**
Disposals	**–**	**–**	**(90)**	**–**	**–**
Depreciation, amortisation and impairment	**–**	**(749)**	**(2,309)**	**(1,248)**	**(3)**
Closing net book amount at 29 February 2020	**32,070**	**9,315**	**36,767**	**15,870**	**161**
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 as at 2 March 2019	28,138	2,737	40,029	–	167

On transition to IFRS 16 £4,409,000 was transferred from property, plant and equipment to the new category of right-of-use assets in respect of assets held under finance leases. £11,494,000 was recognised on transition in respect of assets held under operating lease arrangements. Further details can be found in note 19.

Capital commitments contracted, but not provided for, by the Group at the period end amounts to £1,559,000 (2019: £132,000).

12. Borrowings and leases

	As at 29 February 2020 £'000	As at 2 March 2019 £'000	As at 31 August 2019 £'000
Current	**26,855**	28,507	23,856
Non-current	**27,896**	24,012	28,586
Total borrowings	**54,751**	52,519	52,442
Cash and cash equivalents as per the balance sheet	**(29,318)**	(29,239)	(28,649)
Net debt (excluding leases under IFRS 16)	**25,433**	23,280	23,793
Leases	**15,233**	–	–
Net debt (including leases)	**40,656**	23,280	23,793
Net debt (excluding leases under IAS 17)		20,514	20,870
Undrawn facilities	**22,412**	21,456	22,191

Current borrowings include bank overdrafts of £8.6m (2019: £5.1m). Undrawn facilities include overdraft facilities of £2.5m (2019: £2.5m) that are renewable on an annual basis.

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12. Borrowings and leases continued

Movements in borrowings are analysed as follows:	26 weeks ended 29 February 2020 £'000	26 weeks ended 2 March 2019 £'000
Balance at start of period	52,442	39,991
Reclassified to leases on transition to IFRS 16 (note 19)	(2,923)	–
Exchange differences	(362)	(246)
Subsidiary acquired	–	340
New bank loans/RCF drawdown	2,500	8,393
New finance leases (IAS 17)	–	1,051
Finance lease principal repayments (IAS 17)	–	(641)
Repayments of borrowings	(1,247)	(1,628)
Increase in other borrowings	114	3,766
Release of deferred borrowing costs	30	21
Net increase to bank overdraft (excluding the effects of acquisitions)	4,197	1,472
Balance at end of period	54,751	52,519

Movements in leases are analysed as follows:	26 weeks ended 29 February 2020 £'000	26 weeks ended 2 March 2019 £'000
Balance at start of period	–	–
Reclassified from borrowings on transition to IFRS 16 (note 19)	2,923	–
Additional leases recognised on transition to IFRS 16 (note 19)	12,655	–
Exchange differences	(49)	–
New leases	1,263	–
Lease principal repayments	(1,569)	–
Balance at end of period	15,223	–

The comparative period information presented in this note has not been restated for the effects of IFRS 16. Finance lease liabilities in the comparative periods are included within borrowings on the balance sheet.

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 29 February 2020 £'000	As at 2 March 2019 £'000	As at 31 August 2019 £'000
Current contingent consideration payable	(878)	(3,417)	(5,119)
Non-current contingent consideration payable	(2,401)	(2,517)	(2,835)

The movement on the fair value of current and non-current contingent consideration since 31 August 2019 is mainly due to payments made to vendors and changes to expected future payments based on updated forecasts.

14. Retirement benefit asset

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

	26 weeks ended 29 February 2020 £'000	26 weeks ended 2 March 2019 £'000	52 weeks ended 31 August 2019 £'000
Administrative expenses	**9**	11	21
Past service cost	**–**	795	795
Net interest on the net defined benefit asset	**(70)**	(141)	(284)
	(61)	665	532

The past service cost in the prior period of £795,000 represents the scheme actuary's estimated effect on the Group's pension scheme liabilities following the equalisation of Guaranteed Minimum Pensions (GMPs). The Group continues to monitor further clarifications arising from the High Court case of *Lloyds Banking Group Pensions Trustees Ltd v Lloyds Bank plc and others*.

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 29 February 2020 £'000	As at 2 March 2019 £'000	As at 31 August 2019 £'000
Present value of funded defined benefit obligations	**(67,203)**	(61,930)	(68,037)
Fair value of scheme assets	**73,846**	68,771	75,806
Surplus in funded scheme	**6,643**	6,841	7,769

Actuarial losses of £1,187,000 (2019: £2,640,000) have been reported in the Statement of Comprehensive Income. The surplus has decreased over the period since 31 August 2019 due to 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 1 September 2019	**91,942,005**	**2,299**	**9,165**	**11,464**
Proceeds from shares issued:				
– Treasury/LTIP	**513,604**	**13**	**–**	**13**
At 29 February 2020	**92,455,609**	**2,312**	**9,165**	**11,477**
Opening balance 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

No options were exercised under the share save scheme during the period to 29 February 2020 (2019: 7,540 shares), with exercise proceeds of £nil (2019: £8,000). The related weighted average price of the shares exercised in the prior period was £1.061 per share.

In addition, 513,604 shares were issued in the period and held initially as Treasury shares. Except for 49,993 shares that remain held in treasury at the balance sheet date, these shares were subsequently used to satisfy the share awards under the LTIP scheme which were exercised in November 2019.

Since the period end 2,356 shares were issued under the share save scheme with exercise proceeds of £2,500 and a related weighted average exercise price of £1.061 per share.

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16. Cash generated from continuing operations

	26 weeks ended 29 February 2020 £'000	26 weeks ended 2 March 2019 £'000	52 weeks ended 31 August 2019 £'000
Profit for the period from continuing operations	**9,131**	8,450	13,624
Adjustments for:			
Tax	**1,382**	1,884	2,685
Tax credit in respect of R&D	**(240)**	(330)	(526)
Depreciation and impairment of property, plant and equipment	**2,309**	2,386	4,804
Depreciation and impairment of right-of-use assets	**1,248**	–	–
Depreciation of investment property	**3**	3	6
Intangible asset amortisation	**749**	220	943
Profit on disposal of property, plant and equipment	**(51)**	(10)	(30)
Business combination expenses	**–**	147	509
Adjustments to contingent consideration	**(2,147)**	–	(1,126)
Net fair value (credit)/charge on share based payments	**(277)**	503	880
Other non-cash adjustments	**(618)**	(51)	(139)
Interest income	**(178)**	(226)	(463)
Interest expense and borrowing costs	**935**	743	1,399
Share of results of associate and joint ventures	**(1,892)**	(2,207)	(2,377)
IAS 19 income statement charge (excluding interest):			
Administrative expenses	**9**	11	21
Past service cost	**–**	795	795
Changes in working capital (excluding the effects of acquisitions):			
Increase in inventories	**(3,348)**	(6,715)	(670)
Increase in receivables	**(4,976)**	(3,377)	(1,008)
Increase/(decrease) in payables	**5,801**	2,789	(3,323)
Cash generated from continuing operations	**7,840**	5,015	16,004

17. Related party transactions

The Group's significant related parties are its associate and joint ventures, as disclosed in the Annual Report and Accounts 2019.

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 (from)/to £'000	Dividends receivable from £'000	Amounts owed from £'000	Amounts owed to £'000
26 weeks to 29 February 2020							
Associate	**280**	**(55,183)**	**10**	**(69)**	**294**	**214**	**(24,334)**
Joint ventures	**238**	**(143)**	**–**	**80**	**–**	**1,756**	**(2)**
26 weeks to 2 March 2019							
Associate	356	(66,428)	10	7	343	97	(26,970)
Joint ventures	467	(277)	–	111	–	1,772	(12)

18. Alternative performance measures

The Interim Report includes alternative performance measures, which are not defined or specified by IFRSs. These alternative performance measures provide important additional information on the Group's performance.

Alternative performance measure	Definition and comments
Adjusted EBITDA	Earnings before interest, tax, depreciation, amortisation, profit/(loss) on the disposal of non-current assets, share of post-tax results of the associate and joint ventures and excluding non-recurring items. This measure is reconciled to statutory operating profit and statutory profit before taxation in note 6. EBITDA allows the user to assess the profitability of the Group's core operations before the impact of capital structure, debt financing and non-cash items such as depreciation and amortisation.
Adjusted operating profit	Operating profit after adding back items regarded by the Directors as non-recurring and amortisation of acquired intangible assets. This measure is reconciled to statutory operating profit in the income statement and note 6. Adjusted results excluding non-recurring items and amortisation of acquired intangible assets are presented because if included, these items could distort the understanding of the Group's performance for the period and the comparability between the periods presented.
Adjusted profit before taxation	Profit before taxation after adding back items regarded by the Directors as non-recurring and amortisation of acquired intangible assets. This measure is reconciled to statutory profit before taxation in the income statement and note 6. Adjusted results excluding non-recurring items and amortisation of acquired intangible assets are presented because if included, these items could distort the understanding of the Group's performance for the period and the comparability between the periods presented.
Adjusted earnings per share	Profit attributable to the equity holders of the Company after adding back items regarded by the Directors as non-recurring and amortisation of acquired intangible assets after tax divided by the weighted average number of ordinary shares in issue during the period. This is reconciled to basic earnings per share in note 9.
Adjusted diluted earnings per share	Profit attributable to the equity holders of the Company after adding back items regarded by the Directors as non-recurring and amortisation of acquired intangible assets after tax divided by the weighted average number of ordinary shares in issue during the period adjusted for the effects of any potentially dilutive options. Diluted earnings per share is shown in note 9.
Net Debt	The net position of the Group's cash at bank and borrowings. Details of the movement in net debt is shown in note 12.

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19. Adoption of IFRS 16 'Leases'
The Group adopted IFRS 16 with effect from 1 September 2019 and has applied IFRS 16 using the modified retrospective approach 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 17.

Adjustments to the opening balance sheet arising from the adoption of IFRS 16 are as follows.

	31 August 2019 £'000	Adjustments £'000	1 September 2019 £'000
Non-current assets			
Property, plant and equipment	41,917	(4,409)	37,508
Right-of-use assets	–	15,903	15,903
Current assets			
Trade and other receivables	56,349	(776)	55,573
Current liabilities			
Borrowings	(23,856)	1,183	(22,673)
Leases	–	(2,801)	(2,801)
Trade and other payables	(62,653)	229	(62,424)
Non-current liabilities			
Borrowings	(28,586)	1,740	(26,846)
Leases	–	(12,777)	(12,777)
Equity			
Retained earnings	94,864	(1,093)	93,771
Non-controlling interests	16,740	(615)	16,125
Headline figures			
Non-current assets	115,616	11,494	127,110
Current assets	140,734	(776)	139,958
Total assets	256,350	10,718	267,068
Current liabilities	(88,788)	(1,389)	(90,177)
Non-current liabilities	(36,572)	(11,037)	(47,609)
Total liabilities	(125,360)	(12,426)	(137,786)
Net assets	130,990	(1,708)	129,282
Total shareholders' equity	114,250	(1,093)	113,157
Total equity	130,990	(1,708)	129,282

The adjustments to the opening position reflect the recognition of £11.5m right-of-use assets previously accounted for as operating leases under IAS 17 together with £4.4m of existing assets held under finance lease arrangements reclassified to the new balance sheet category of right-of-use assets. Prepayments and accruals in respect of leases recognised on the balance sheet as at 31 August 2019 have been removed and additional lease liabilities of £12.7m have been recognised in respect of leases previously accounted for as operating leases under IAS 17. Finance lease liabilities of £2.9m have been reclassified from borrowings to leases on transition.

19. Adoption of IFRS 16 'Leases' continued

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 29 February 2020 as though IAS 17 still applied.

	29 February 2020 (as reported – unaudited) £'000	Adjustments £'000	29 February 2020 (IAS 17 – unaudited) £'000
Non-current assets			
Property, plant and equipment	36,767	4,923	41,690
Right-of-use assets	15,870	(15,870)	–
Current assets			
Trade and other receivables	60,537	796	61,333
Current liabilities			
Borrowings	(26,855)	(843)	(27,698)
Leases	(2,557)	2,557	–
Trade and other payables	(62,520)	(170)	(62,690)
Non-current liabilities			
Borrowings	(27,896)	(2,247)	(30,143)
Leases	(12,666)	12,666	–
Equity			
Retained earnings	98,655	1,198	99,853
Non-controlling interests	16,394	614	17,008
Headline figures			
Non-current assets	125,569	(10,947)	114,622
Current assets	147,510	796	148,306
Total assets	273,079	(10,151)	262,928
Current liabilities	(94,441)	1,544	(92,897)
Non-current liabilities	(47,733)	10,419	(37,314)
Total liabilities	(142,174)	11,963	(130,211)
Net assets	130,905	1,812	132,717
Total shareholders' equity	114,511	1,198	115,709
Total equity	130,905	1,812	132,717

The adjustments to the reported figures as at 29 February 2020 reflect the de-recognition of right-of-use assets and lease liabilities except for finance leases that would have been capitalised under IAS 17. It also reinstates prepayments in respect of lease premiums paid at the commencement of the lease together with prepayments and accruals in respect of the regular lease payments for those leases that were accounted for as operating leases under IAS 17.

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Carr's Group plc
Old Croft
Stanwix
Carlisle CA3 9BA
United Kingdom