

BOARD OF DIRECTORS



Chris Holmes

Non-Executive Chairman

Chris joined Carr's in 1991 as the Managing Director of the Agriculture business, having previously worked for J Bibby & Sons. Chris was appointed Chief Executive in 1994, and remained in that role until he was appointed Chairman in 2013. He is currently Chairman of Carlisle Youth Zone, having been appointed in 2013. Chris will be standing down as Non-Executive Chairman and from the Board at the conclusion of the Company's AGM in January 2020.



Tim Davies

Chief Executive Officer

Tim joined Carr's in March 2013 as Chief Executive. Tim was formerly the Group Managing Director at Openfield. Prior to this, he progressed from Sales Director to Managing Director of Grainfarmers plc in 2005. He subsequently led the successful merger of Grainfarmers plc and Centaur Grain Ltd in 2008, forming Openfield, the largest farmer-owned grain marketing business in the UK. Tim continued in his role as Group Managing Director until 2013. He was a Director of the Agricultural Industries Confederation between 2003-2016.

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Neil Austin

Group Finance Director

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

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John Worby

Senior Independent Director

John was appointed a Non-Executive Director in April 2015. John is currently Senior Independent Director and Chairman of the Audit Committee of Hilton Food Group plc. He was previously the Finance Director of Genus plc and a Non-Executive Director of Cranswick plc and Fidessa Group plc. John is a chartered accountant and a member of the Financial Reporting Review Panel.

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Committee membership

- N Nomination
- A Audit
- None
- R Remuneration
- Chairman



Alistair Wannop
Non-Executive Director

Alistair was appointed a Non-Executive Director in 2005. Alistair has been the Chairman of both the County NFU and the MAFF northern regional advisory panel. He has served as a Director of The English Farming and Food Partnership, Rural Regeneration Cumbria, and Cumbria Vision. Alistair is a fellow of the Royal Agricultural Society of England and between 2017-2018 held office as High Sheriff of Cumbria. In 2019, Alistair was appointed as the Board's Non-Executive Director for Employee Engagement.



Ian Wood
Non-Executive Director

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

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Peter Page
Non-Executive Director and Chairman Designate

Peter was appointed a Non-Executive Director in November 2019. Peter will take over as Non-Executive Chairman upon Chris Holmes standing down from the Board at the Company's AGM in January 2020. Peter was previously Chief Executive Officer of Devro plc, a position he held for 11 years until 2018, and brings to the Board his extensive international experience and knowledge of agriculture sectors.

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Matthew Ratcliffe
Company Secretary and Legal Counsel

Matthew joined Carr's in November 2016 as Company Secretary and Legal Counsel. Matthew is a solicitor with a breadth of experience working alongside both international and local businesses in corporate, commercial and contentious matters. He began his career with Pinsent Masons before joining a Cumbrian law firm in 2009 and being appointed a Director in 2014.

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CORPORATE GOVERNANCE REPORT



CHRIS HOLMES
Chairman

Dear Shareholder

On behalf of the Board, I am pleased to present our Corporate Governance report for the financial year ended 31 August 2019.

Corporate Governance Highlights

- Appointment of Alistair Wannop as the Group's Non-Executive Director for Employee Engagement.
- Appointment of Peter Page as Non-Executive Director and Chairman Designate.
- KPMG's first year as external auditor to the Group following appointment at January 2019 AGM.
- Alignment of the Group's governance framework with the new Corporate Governance Code 2018.

Overview

The Group's governance framework is designed to safeguard its long-term success for the benefit of shareholders and other stakeholders. It continues to evolve as the Group develops and promotes transparency, respect and accountability. It ensures that the Board can operate in a culture of openness which, coupled with its wealth of expertise and the collaborative attitude which permeates the Group, optimises its effectiveness.

This report describes how the Group adopts the principles of the UK Corporate Governance Code 2016, which applied to the Group in the financial year ended 31 August 2019, and I am pleased to report that the Group remained in full compliance throughout.

In this report we also describe the steps that have been taken so far in order to align the Group's governance framework with the Corporate Governance Code 2018. The 2018 Code applies to the Group for the financial year ending 2020 and will be reported on fully in our Annual Report and Accounts next year.

Given the new rules on Chairman tenure set out in the 2018 Code, we announced in December 2018 that I would be standing down as Non-Executive Chairman, and from the Board, at the conclusion of the forthcoming AGM in January 2020. I am delighted that the Board has been able to appoint Peter Page to take on the role when I step down, and I wish him well in leading the Group as it continues to grow.

In readiness for the 2018 Code, the Board has formalised its processes for engaging with our growing workforce, with Alistair Wannop taking on the role of Board Representative for Employee Engagement. The Board has also revisited the Group's policy on diversity and inclusion, as we strive to ensure that there is an appropriate balance of skills and backgrounds both at Board level and within management teams across the Group.

Good governance is central to the integrity, reputation and performance of the Group. As best practice continues to develop, the Board remains committed to maintaining its high standards.

CHRIS HOLMES DL
Chairman
20 November 2019

Statement of Compliance with the UK Corporate Governance Code

The UK Corporate Governance Code 2016 sets out standards of good practice in relation to issues such as:

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

We are required to state how we have applied the principles contained in the Code and explain any areas where compliance has not been possible during the year.

The Board considers that the Company has, during the year ended 31 August 2019, complied with the requirements of the Code in their entirety.

The Board

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

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

| Strategy | Risk | Governance |
|---|---|--|
| Setting strategic aims and objectives. | Oversight of the Group's risk and internal control framework. | Compliance with legal, regulatory and disclosure requirements. |
| Setting organisational cultures and behaviours. | Consideration of feedback from external and internal audit. | Determination of matters reserved for the Board and terms of reference for Board Committees. |
| Reviewing new business developments and opportunities including potential acquisitions. | | Board and Committee performance evaluation. |
| Investing in research and technology. | | Succession planning and Board appointments. |
| Finance | Stakeholder engagement | Health, Safety and Environmental |
| Approving budgets. | Engagement with employees, shareholders and other stakeholders and consideration of feedback. | Consideration of Health, Safety and Environmental reports from management. |
| Monitoring financial performance. | | Providing support where appropriate to drive continuous improvement. |
| Oversight of the preparation and management of the financial statements. | Approval of public announcements. | |
| Approving major capital projects or materially significant contracts. | Consideration of feedback from investor meetings and roadshows. | |
| Determining dividend policy. | | |
| Determining pensions strategy. | | |

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

During the year ended 31 August 2019, the Board comprised of two Executive Directors, a Non-Executive Chairman, and three Non-Executive Directors. There is a Company Secretary to the Board. The biographies of the Board can be found on pages 38 to 39. Subsequent to the year end, Peter Page was appointed to the Board as Non-Executive Director and Chairman Designate.

CORPORATE GOVERNANCE REPORT

CONTINUED

The Board met on 12 scheduled occasions throughout the year. In addition to regular scheduled meetings, a number of conference calls took place during the year in order to deal with specific business arising. Board agendas are set by the Chairman in consultation with the Executive Directors and with the assistance of the Company Secretary. All Directors are expected to attend scheduled Board meetings and relevant Committee meetings in addition to the Annual General Meeting unless they are prevented from doing so by prior work or extenuating personal commitments. Directors who are unable to attend a particular meeting receive relevant briefing papers and are given the opportunity to discuss any issues with the Chairman, the Chief Executive or the Group Finance Director.

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

The Board is responsible for:

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

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

The Code stipulates that there should be a clear division of responsibility between Board governance and executive management.

The Chairman is responsible for:

- providing effective leadership of the Board;
- promoting ethical behaviours and high standards of corporate governance;
- ensuring the effectiveness of the Board in determining and developing strategy, and in fulfilling its responsibilities;
- setting the Board agenda;
- ensuring that members of the Board are well informed to enable the Board to make sound and effective decisions and ensure constructive discussion;
- ensuring effective communication with shareholders and other stakeholders;
- identifying and meeting (in conjunction with the Company Secretary) the developments needs of the Board and for each Director; and
- providing strategic insight and a sounding board for the Chief Executive on key business decisions, and challenging proposals where appropriate.

The Chief Executive is responsible for:

- the executive management of the Group's business, to deliver the strategy and commercial objectives agreed by the Board;
- researching and proposing the Group's strategy and commercial objectives, which are developed in conjunction with the Chairman;
- effecting the decisions of the Board and its Committees;
- maintaining and protecting the reputations of the Group and its subsidiaries;
- establishing an annual budget consistent with the agreed strategy to be agreed by the Board;
- managing the performance of the Group against the agreed budget;
- ensuring that dialogue is maintained with the Chairman on important issues facing the Group;
- providing information and advice on succession planning to the Board, and managing executive succession planning;
- providing information and advice to the Board on health, safety and environmental issues and overseeing the Group's strategy on such matters; and
- setting the Group's culture, values and behaviours and conducting the affairs of the Group adhering to the highest standards of integrity and good governance.

Elections

The Company's Articles of Association provide that one third of the Directors retire by rotation each year at the Annual General Meeting. The Board consider it best practice however to require all Directors to retire and stand for re-election annually.

Attendance and Agenda

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

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

| Meeting Attendance | Board | Audit Committee | Remuneration Committee | Nomination Committee |
|--------------------|-------|-----------------|------------------------|----------------------|
| No. of meetings | 12 | 3 | 6 | 5 |
| Chris Holmes | 12 | 3* | 6* | 5 |
| Tim Davies | 12 | 3* | N/A | 5* |
| Neil Austin | 12 | 3* | N/A | 5* |
| Alistair Wannop | 12 | 3 | 6 | 5 |
| John Worby | 12 | 3 | 6 | 5 |
| Ian Wood | 12 | 3 | 6 | 5 |

* Attended meeting in full or part by invitation

Support

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

Directors' Conflicts of Interest

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

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

Board Evaluation

Each year the Board undertakes a review of its effectiveness. The Board last undertook an independent external review in 2017, which was conducted by Independent Audit Limited. That review covered the whole Board, together with its Audit, Nomination and Remuneration Committees which were each considered separately. Particular focus was given to the effectiveness and appropriateness of the composition of the Board and of the Committees. Scrutiny was also applied to the question of the continued independence of Non-Executive Directors. The external review drew positive conclusions including that the Board and its Committees were performing effectively and were appropriately constituted. The report went on to make certain further recommendations including the planning of agendas to include further business-specific reviews and increasing the focus on succession planning and people issues more generally. The 2017 external review was supplemented by an internal review in 2018.

In 2019, the Board carried out a further internal review which built upon the previous external and internal reviews. This was led by the Chairman with the assistance of the Company Secretary. The review commenced with discussions between the Chairman and the Company Secretary, together with a review of the findings of prior reviews and of progress made during the year against recommendations for improvements. The discussions led to the design of a questionnaire which was disseminated to members of the Board. Responses to the questionnaires were collated by the Company Secretary and a report presented to the Board detailing any views expressed by members of the Board on an anonymous basis, together with progress made to date against previous recommendations. That report was the subject of a detailed and constructive discussion by the Board.

CORPORATE GOVERNANCE REPORT

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The 2019 review demonstrated that good progress had been made towards addressing the recommendations previously made. In particular, the Board agenda continues to include regular site visits across the Group, which gives the Board greater exposure to senior management and a deeper understanding of operations. Greater focus is now also placed on succession, diversity and people issues both by the Board and the Nomination Committee. The 2019 review confirmed the conclusions drawn in 2017 and 2018 that the Board and its Committees were performing effectively and were appropriately constituted. The review also noted the increased level of internal audit activity and that financial KPIs in the Engineering division were now being well reported, following the recommendation of the 2018 review. Further actions agreed by the Board following the 2019 review included continuing to place further emphasis on succession planning, continuing the Board's review of the Group's corporate governance framework in the light of the Corporate Governance Code 2018 and increasing the level of internal audit activity across the Group.

During the year, the Chairman also evaluated the performance of the Directors through informal discussions and observations. The Senior Independent Non-Executive Director and the other Non-Executive Directors have met, without the Chairman present, to appraise his performance.

Overall the Board considered the performance of each Director to be effective and concluded that the Board and its Committees provide effective leadership and that appropriate governance and controls are in place. The Board will continue to review its procedures, effectiveness and development in the future.

Non-Executive Director Independence

The Board's views on Non-Executive Director independence were also reconsidered as part of the 2019 internal review. This was afforded greater focus owing to Alistair Wannop serving as a Non-Executive Director for more than nine years. In carrying out a detailed assessment, the Board considered the findings of the previous external and internal Board evaluation reports which did not highlight any issues or concerns. In particular, the Board again noted that Alistair Wannop had no material business relationships with the Company, does not hold a significant shareholding, does not represent any shareholder, does not have any family connections with the Company, and has not served the Company in any capacity other than as a Non-Executive Director. The Board accordingly determined that the independence of Alistair Wannop was not compromised by his tenure, and that there were no circumstances which could give rise to his independence being questioned. The Board was entirely satisfied that Alistair Wannop continued to exercise the level of objectivity and challenge that would be expected of an independent Non-Executive Director and that his knowledge of the Group and the markets in which it operates remained of significant benefit to the Board.

The Board is accordingly entirely satisfied that Alistair Wannop, Ian Wood and John Worby are independent. Upon his appointment as Non-Executive Director and Chairman Designate on 1 November 2019, Peter Page was assessed by the Board to be independent. The question of Non-Executive Director independence is a matter which is kept under review and thoroughly assessed annually by the Board.

Board Committees

Audit Committee

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

The Audit Committee comprises three independent Non-Executive Directors: John Worby (Chairman), Ian Wood and Alistair Wannop. The Board considers that the Committee meets the requirements of the Code and is appropriate for a company its size. In particular, the three members bring financial, agricultural and engineering experience to the Committee together with a good understanding of the businesses within the Group and the risks that they face. The work, responsibilities and governance of the Audit Committee are set out on pages 46 to 48. The Chairman of the Audit Committee will be available at the AGM to answer any shareholder questions on the Committee and its activities.

Remuneration Committee

The Remuneration Committee's primary role is to review and set the reward structures for Executive Directors and other senior management to ensure that these promote the correct behaviours and are appropriate when considered in conjunction with the levels of pay and benefits offered across the Group.

During the year, the Remuneration Committee comprised three independent Non-Executive Directors: Ian Wood (Chairman), John Worby and Alistair Wannop. On 1 November 2019, Peter Page also became a member of the Committee which accordingly now comprises four independent Non-Executive Directors. The work, responsibilities and governance of the Remuneration Committee are set out on pages 52 to 64. The Chairman of the Remuneration Committee will be available at the AGM to answer any shareholder questions on the Committee and its activities.

Nomination Committee

The role of the Nomination Committee is to ensure that an appropriate balance of skills, experiences and backgrounds is achieved across the Board, and that the Group is properly prepared for the succession of members of the Board and senior management.

During the year the Nomination Committee comprised of Chris Holmes (Chairman), Alistair Wannop, John Worby and Ian Wood. The work, responsibilities and governance of the Nomination Committee are set out on pages 49 to 51. On 1 November 2019, Peter Page also became a member of the Committee. The Chair of the Nomination Committee will be available at the AGM to answer any shareholder questions on the Committee and its activities.

Relations with Shareholders

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

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

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

Fair, Balanced and Understandable

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

Internal Control

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

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

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

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

The management of the Group's businesses identified the key business risks within their operations, considered the financial implications and assessed the effectiveness of the control processes in place to mitigate these risks. The Audit Committee also reviewed the effectiveness of the risk management and internal control systems. The Board reviewed a summary of the findings and this, along with direct involvement in the strategies of the businesses, investment appraisal and budgeting process, enabled the Board to report on the effectiveness of internal control. A summary of the risk management framework and key risks to the business are set out on pages 30 to 32.

By order of the Board



MATTHEW RATCLIFFE

Company Secretary
Carlisle
CA3 9BA
20 November 2019

AUDIT COMMITTEE REPORT



JOHN WORBY

Chair of the Audit Committee

Dear Shareholder

On behalf of the Audit Committee, I am pleased to present this report to shareholders which highlights the areas of review during the year and explains how the Committee has reviewed and discharged its responsibilities.

Audit Committee Highlights

- First full year of Group's internal audit function.
- KPMG's first audit following its appointment as external auditor at the AGM in January 2019.
- New accounting standards IFRS 9 and IFRS 15 adopted in the financial year and preparation for adoption of IFRS 16.

Introduction

This has been the first year in which KPMG LLP ('KPMG') has acted as the Group's auditor, having been appointed by Shareholders at the AGM on 8 January 2019 following the recommendation of the Board and the tender process conducted by the Committee in the spring of 2018.

Composition of Committee and Meetings

The Audit Committee comprises three Non-Executive Directors, John Worby, who is Chairman of the Committee and Ian Wood and Alistair Wannop. The Chairman of the Committee has recent and relevant financial experience and collectively the members of the Committee have experience of the agricultural and engineering industries. Details of Committee members' qualifications can be found on pages 38 to 39.

The Audit Committee met three times during the year, and has an agenda linked to the Group financial calendar. It invites the Chairman, the Chief Executive, the Group Finance Director, the Head of Group Finance, the Head of Business Finance, the Head of Internal Audit and the external auditor to attend its meetings. The Committee met with the Head of Internal Audit and the external auditor without the Executive Directors being present.

The Committee has met once since the end of the financial year to consider the results and the Annual Report for the year ended 31 August 2019.

Responsibilities

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

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

monitor the integrity of the financial statements of the Company including the appropriateness of the accounting policies adopted and whether the Annual Report was fair, balanced and understandable;

review, understand and evaluate the Company's internal financial risk, and other internal controls and risk management systems;

appraise the Board on how the Company's prospects are assessed;

oversee the relationship with the external auditor, making recommendations to the Board in relation to its appointment, remuneration and terms of engagement;

monitor and review the effectiveness of the external audit including the external auditor's independence, objectivity and effectiveness and to approve the policy on the engagement of the external auditor to supply non-audit services; and

review and approve the mandate of the internal auditor, evaluate the work and monitor the effectiveness of the internal auditor, and approve the appointment or removal of the Head of Internal Audit.

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

Main Activities During the Year

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

Financial Reporting

During the year the Audit Committee reviewed reports and information provided by the Group Finance Director, the Head of Internal Audit and the external auditor in respect of the half year and annual financial report.

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

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

- Contract risks in the Engineering division, including the risks associated with the judgemental nature of revenue and profit recognition over time. The Committee reviewed a selection of significant active contracts, challenging management's forecast outturns and profit recognition assessments and examining commercial processes and controls in order to test the recoverability of contract balances. The Committee determined that the judgements adopted by management were appropriate.
- Potential goodwill impairment. The Committee challenged the reasonableness of the future business performance assumptions adopted by management in the light of historical performance and industry benchmarks, and determined that no such impairment was necessary.
- Brexit and the associated increased levels of uncertainty of outcomes. The Committee considered the Directors' assessment of Brexit-related sources of risk and their potential impact on the going concern assessment and viability statement. Potential sensitivities were challenged against the full range of reasonably possible scenarios, and adjustments were considered to discount rates for forecast cash flows for any residual uncertainties. The Committee also reviewed the reasonableness of disclosures made in the strategic report relating to Brexit. The Committee determined that the assessments made by management were appropriate and that the narrative disclosures were reasonable.
- Appropriateness of pension assumptions. The Committee considered whether the assumptions used by the Company's adviser were appropriate to use to derive the assets, liabilities and resultant net surplus in the Company's defined benefit pension scheme, and concluded that they were. The basis of calculation for the additional cost relating to GMP equalisation and its disclosure as non-recurring were also reviewed.

- Adoption of new accounting standards. The Committee considered the impact of adopting the new accounting standards IFRS 9 and IFRS 15, and concluded they had been appropriately implemented and disclosed. In respect of IFRS 16, which will apply to the year ending 29 August 2020, the Committee considered the intended method of adoption and agreed it was appropriate. The Committee also reviewed the disclosure in the 2019 annual report of the expected impact and determined it was appropriate.
- Acquisition accounting, including the fair values attributed to assets and liabilities. The Committee challenged management's assessments of fair value, identified intangibles and the assessment of future liabilities, including the value placed on the contingent consideration likely to be payable as potential earn-out payments for the NuVision, Animax and NW Total acquisitions and determined that such assessments were appropriate.

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

To make this assessment, the Committee reviewed a report prepared by the Group Finance Director outlining the relevant key matters worthy of consideration. The Committee was satisfied that, where relevant, all the key events and issues which have been reported to the Board in the CEO's monthly reports during the year, both good and bad, have been adequately referenced or reflected within the annual report.

The Committee has also reviewed the Group's going concern and viability statement disclosures. It received a written report prepared by the Group Finance Director which enabled it to review the base assumptions and various sensitised scenarios throughout the forecast period. As noted above, particular attention was given to sensitivities relating to Brexit. The Committee was comfortable with the disclosures made.

Internal Control and Risk Management

During the year the Committee continued to monitor the effectiveness of the Group's internal control and risk management systems and at the end of the year carried out a review of the effectiveness of such systems.

The Committee reported to the Board that it had reviewed, and was satisfied with, the effectiveness of the Company's internal control and risk management systems.

AUDIT COMMITTEE REPORT

CONTINUED

External Audit

KPMG was appointed as external auditor of the Group at the AGM in January 2019. The appointment followed the proposal of the Board and a competitive tender process managed by the Audit Committee in the spring of 2018. KPMG's current engagement partner is Nick Plumb, who has been in place since commencement of the audit for the 2019 financial year. The Audit Committee assessed the qualifications, expertise and independence of KPMG as auditors as part of the tender process and updated its assessment during the year.

Following approval by shareholders to appoint KPMG in January 2019, the Audit Committee reviewed and approved the terms of engagement and remuneration of the external auditors for the 2019 financial year.

Audit Effectiveness

The effectiveness of the external audit process is dependent on appropriate audit risk identification at the start of the audit cycle. KPMG presented its detailed audit plan to the Committee in June 2019, identifying their assessment of these key risks.

The assessment of the effectiveness and quality of the audit process and addressing these key risks is formed by, amongst other things, the reporting from the auditors. In addition, each year, the Audit Committee assesses its performance and the effectiveness of the external auditor through a questionnaire completed by Audit Committee members and members of the Group's senior finance team. The output of that review in relation to PwC's final audit was considered in detail and any relevant points were communicated to the new auditors, KPMG. The Committee concluded that it was satisfied with the effectiveness of the external audit. At the conclusion of KPMG's first audit, the Committee again reviewed and was satisfied with the effectiveness of the external audit process.

Auditor Independence

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

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

The Audit Committee annually reviews the Company's non-audit services policy, updating and approving the policy where appropriate. The objective of the policy is to ensure that the provision of any such services does not impair, or is not perceived to impair, the external auditors' independence or objectivity. The policy imposes guidance on the areas of work that the external auditors may be asked to undertake and those assignments where the external auditors should not be involved.

There is a further category of services for which a case-by-case decision is necessary. The policy can be viewed on the Company's website www.carrsgroup.com.

In order to ensure that the policy is effective, and the level of non-audit fees is kept under review, all non-audit services must be approved by the Group Finance Director and reported to the Committee. Prior approval of the Committee is also required before the external auditor is engaged to provide non-audit services costing in excess of £25,000 in aggregate. During the 2019 financial year, there was no non-audit work undertaken by the Group's external auditor.

Internal Audit

Following the acquisitions of NuVision Engineering, Inc and STABER GmbH it was determined in 2017 by the Committee to be appropriate, given the increased diversity and geographic spread of the Group's engineering division, for an internal audit function to be established.

In 2018, the Group appointed an individual to the position of Head of Internal Audit and established the framework under which internal audit will operate, including an internal audit charter and a risk assessed internal audit plan which was approved by the Committee. In the 2019 financial year, the three-year Internal Audit Plan was reviewed and approved and the detailed plan for work in 2019 was agreed. Reviews were received for Engineering relating to UK Service & Manufacturing, and for Agriculture in UK Agriculture and UK Supplements. While some areas for improvement were identified, no significant control deficiencies were noted from these reviews.

Other Activities

The Committee also reviewed its terms of reference, its effectiveness, the Group's policies on whistleblowing, business ethics and on the prevention of bribery and modern slavery.

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



JOHN WORBY

Audit Committee Chairman
20 November 2019

NOMINATION COMMITTEE REPORT



CHRIS HOLMES DL
Chair of the Nomination Committee

Dear Shareholder

On behalf of the Nomination Committee, I am pleased to present this report which highlights the role of the Committee and its key activities during the year.

Nomination Committee Highlights

- Recruitment process completed for successor Non-Executive Chairman overseen by Senior Independent Director.
- Consideration of diversity across the Group and the Group's policy on diversity and inclusion.
- Another active year in senior management succession across the Group.

Introduction

The Nomination Committee plays an important role in ensuring that the Board and senior management teams possess the right balance of skills, experience and knowledge to support the Group's strategy. Central to this is making sure that effective succession plans are in place to fill vacancies on the Board, and in management teams, alongside robust and transparent procedures for identifying suitable candidates.

This has been a busy year of succession planning across the Group, with several key management appointments being made in both divisions. In December 2018, the Board also announced that I would be standing down as Chairman, and from the Board, in January 2020. During 2019 the Board's Senior Independent Director, John Worby, therefore chaired the Committee in leading a recruitment process which led to the appointment of Peter Page as a Non-Executive Director and Chairman Designate with effect from 1 November 2019. Subject to the approval of the shareholders, Peter will take over as Non-Executive Chairman and Chair of the Nomination Committee when I stand down in January 2020. More information about the Committee's process is set out below.

Role of the Committee

The primary responsibilities of the Nomination Committee are:

- reviewing the structure, size and composition of the Board and monitoring the range of skills, knowledge and experience required for the Board to operate effectively and to deliver the Group's strategy;
- overseeing Board and senior management succession planning, including setting objective selection criteria and transparent recruitment processes, and making recommendations to the Board in relation to the appointment of Executive and Non-Executive Directors; and
- setting the Group's policy on diversity and inclusion and overseeing its implementation in succession planning across the Group.

Activities of the Committee

The Committee met on five occasions during the year to consider the following matters:

- the Committee's terms of reference to ensure they appropriately reflect the Committee's remit;
- the succession plans in place for the Board and senior management across the Group;
- the structure, size, composition and diversity of the Board, its committees and senior management across the Group;
- the Group's policy on diversity and inclusion; and
- the Group's talent management, training and development programmes.

NOMINATION COMMITTEE REPORT

CONTINUED

Attendance at meetings was as follows:

| Members | Meetings attended | Percentage attended |
|----------------------|-------------------|---------------------|
| Chris Holmes – Chair | 5 | 100% |
| John Worby | 5 | 100% |
| Ian Wood | 5 | 100% |
| Alistair Wannop | 5 | 100% |

Changes to the Board and its Committees

There were no changes in the membership of the Board or its committees during the year ended 31 August 2019. In May 2019, the Board announced the appointment of Alistair Wannop to a new role as the Board's Representative for Employee Engagement.

In November 2019, Peter Page was appointed as a Non-Executive Director and Chairman Designate, with a view to taking on the role of Chairman upon Chris Holmes standing down in January 2020. More information about this is set out below. Peter Page became a member of the Nomination Committee on appointment to the Board.

Board Evaluation

In 2017, the size, composition and effectiveness of the Board and its Committees were the subject of an external evaluation facilitated by corporate governance specialists, Independent Audit Limited. That review, which generated positive feedback, confirmed that the Board and its Committees were appropriately constituted and provided effective management of the Group as a whole. The review also involved a consideration of the continued independence of the Non-Executive Directors and the commitment required from each in order to properly fulfil their duties. Following the review, and in consideration of all circumstances, it was determined by the Board that all Directors committed sufficient time to properly fulfil their responsibilities and that John Worby, Ian Wood and Alistair Wannop were considered to be independent.

In 2019, the Board conducted an internal review building upon the 2017 external evaluation and an internal review carried out in 2018. This involved a detailed consideration of the effectiveness of the Board and its committees together with a review of diversity and the range of skills, knowledge and experience required to effectively deliver the Group's strategy. The 2019 review also considered the continued independence of the Non-Executive Directors. That review concluded that the Board and its Committees are indeed appropriately constituted, and that John Worby, Ian Wood and Alistair Wannop remain independent.

Succession Planning and Development

The Group's succession strategy was developed in 2014. Efforts have since focused upon ensuring that appropriate and sufficient employees are recruited or developed internally to meet the future management and leadership needs of the Group, taking into account continued growth and Group strategy. Recruitment processes for leadership and senior positions across the Group are managed under the supervision of the Group's Head of HR inviting both internal and external candidates. Independent recruitment consultants are also appointed where appropriate taking into account the requirements of the Group.

Since 2017, the Group has made significant progress in the implementation of its senior management succession plans. This progress continued during 2019, with the restructuring of our Engineering division and the strengthening of its central management team under the leadership of the divisional Managing Director. Our Agriculture division also saw significant change; strengthening business development in our Supplements business and successfully appointing a new Managing Director for our UK Agriculture business.

Across the Group our career pathway and employee development initiatives continue to evolve which are designed to attract, retain and develop the best talent. Further details of those initiatives are described on page 35.

In December 2018, the Company announced that Chris Holmes would stand down from the Board at the AGM in January 2020 as part of the Board's succession planning and in the light of changes to the UK corporate governance framework introduced by the 2018 Code. During 2019, under the chairmanship of John Worby as Senior Independent Director, the Nomination Committee therefore planned and undertook a rigorous recruitment process involving the development of suitable appointment criteria, the selection of external recruitment consultants, the shortlisting of suitable candidates and the arrangement of candidate meetings with Board members. A number of external consultants were invited to tender in connection with the process which ultimately resulted in the appointment of Independent Search to advise and assist the Committee.

In selecting candidates, the Committee considered a broad range of important skills and characteristics. The Committee also considered the balance of skills, experience and knowledge present across the Board, the culture of the Group and the benefits of diversity.

Following a rigorous process, the Committee recommended the appointment of Peter Page to the position of Non-Executive Director and Chairman Designate which was agreed by the Board and announced on 9 October 2019. As a result, Peter Page was appointed on 1 November 2019 and, subject to shareholder approval at the AGM in January 2020, will take on the role of Non-Executive Chairman and Chair of the Nomination Committee immediately upon Chris Holmes standing down as proposed.

Diversity and Inclusion

The Group's principal concern when making employment decisions is ensuring that candidates possess the skills, knowledge and experience, or the potential to develop the required skills, knowledge and experience, to meet the requirements of the Group. The Board also recognises the benefits of diversity which are given due consideration when determining the requirements of the Group and in reaching recruitment decisions. Accordingly, every effort is made to ensure that candidate lists suitably reflect diversity.

The Group operates a strict equal opportunities policy. All appointments are made on the basis of merit and the requirements of the Group regardless of factors such as race, colour, nationality, religion or belief, gender, marital or civil partnership status, family status, pregnancy, sexual orientation, gender identity, gender reassignment, disability or age. There are no differences in pay structures for persons of different genders performing similar roles.

Gender Breakdown

| | | |
|------------------------------------|---------------|-------|
| Group employees | Total | 1,241 |
| | Male | 904 |
| | Female | 337 |
| Senior managers: | Total | 13 |
| | Male | 9 |
| | Female | 4 |
| Direct reports to senior managers: | Total | 49 |
| | Male | 31 |
| | Female | 18 |

The Board recognises the current absence of gender diversity at Board level and is conscious that it was not possible to address this during the succession process undertaken in 2019. Whilst the Company is not currently subject to any requirements in this regard, the Board is aware of the benefits of diversity, including gender diversity, and of the recommendations of the Hampton Alexander Review. The Committee and the Board will continue to focus on the issue of gender diversity in their planning for future Board succession.

Re-Election

Save for Chris Holmes, who will stand down, and Peter Page, who will stand for election for the first time since his appointment on 1 November 2019, all Board Directors will stand for re-election at the Annual General Meeting on 7 January 2020 in accordance with best practice under the Corporate Governance Code. The Board will set out in the Notice of Annual General Meeting its reasons for supporting the re-election of each Director. Their biographical details on pages 38 to 39 demonstrate the range of experience and skills which each brings to the benefit of the Company.

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

On behalf of the Board



CHRIS HOLMES DL

Chair of the Nomination Committee
20 November 2019

REMUNERATION COMMITTEE REPORT



IAN WOOD

Chair of the Remuneration Committee

Dear Shareholder

On behalf of the Remuneration Committee, I am pleased to present the Report of the Remuneration Committee for the year ended 31 August 2019.

Remuneration Committee Highlights

- Introduction of CEO pay ratio reporting.
- Preparation for the adoption of the Corporate Governance Code 2018.
- Appointment of Peter Page as Non-Executive Director and Chairman Designate.

The Committee's report is presented in the following sections:

Section

01

The Chair's Annual Statement, which summarises the key considerations of the Committee during the year and forms part of the Annual Report on Remuneration.

 See page 53

Section

02

The Directors' Remuneration Policy, which sets out the Policy for the Executive Directors, Chairman and Non-Executive Directors. The Directors' Remuneration Policy was approved at the AGM which took place on 9 January 2018. There are no changes to the Directors' Remuneration Policy proposed for 2019/20.

 See page 54

Section

03

The Annual Report on Remuneration, which sets out how the Remuneration Policy has been applied in 2018/19, the remuneration received by Directors for the year and how the policy will be applied in 2019/20. The Annual Report on Remuneration will be subject to an advisory shareholder vote at the AGM. on 7 January 2020

 See page 60

Section 01

Annual Statement from the Chair of the Remuneration Committee

Performance and Remuneration in 2018/19

As described in the Strategic report, and despite some external challenges affecting the Agriculture division, the Group's overall financial performance in the year under review was ahead of the Board's original expectations. In the year, adjusted¹ profit before tax was up to £18.0m (2018: £16.6m) and adjusted¹ Earnings Per Share was up to 14.6p (2018: 13.9p). In addition to this strong financial performance, significant progress was also made in delivering the Board's strategy and positioning the business well for future growth.

The financial and strategic targets set by the Remuneration Committee, together with the resulting remuneration payable to the Executive Directors, are detailed in the Remuneration Committee's Report which follows.

Key matters for consideration in 2018/2019

The Committee maintains a schedule of matters for consideration which aligns with its terms of reference and ensures that changes to the corporate governance framework and remuneration best practice are considered by the Committee when appropriate. The areas of focus for the Committee are set out in the Annual Report on Remuneration set out on the pages which follow.

Key additional considerations for the Committee this year included the impact of the Corporate Governance Code 2018, which applies to the Group from 1 September 2019, and the new requirement to report ratios comparing CEO remuneration to that of the wider workforce. Whilst we are not required to report these ratios until next year, the Committee has chosen to do so voluntarily in this year's report.

In November 2019 Peter Page was appointed to the Board as Non-Executive Director and Chairman Designate with a view to being appointed Non-Executive Chairman upon Chris Holmes standing down at the forthcoming AGM. During the year, the Remuneration Committee undertook a benchmarking exercise to ensure that the remuneration payable to Peter Page was appropriate when compared with similar businesses, the remuneration offered to other Board members and the Group's broader workforce.

The current Directors' Remuneration Policy was approved by the shareholders at the AGM which took place on 9 January 2018. The Remuneration Committee regularly reviews the Directors' Remuneration Policy to ensure it promotes the attraction, retention and incentivisation of high calibre executives to deliver the Group's strategy. The Committee is mindful of the requirements under the 2018 Code, and calls from the Investment Association, in relation to the alignment of pension contributions for Executive Directors with those available to the wider workforce. Whilst no change is proposed for the coming year, the Committee will be considering the position further during the course of the current financial year. A new Directors' Remuneration Policy will be put to the shareholders for approval at the AGM in January 2021. The Committee will also take the opportunity this year to address other emerging aspects of governance, including the requirement under the 2018 Code for Executive Directors to retain shares after they leave the Company's employment.

No changes to the current Directors' Remuneration Policy are proposed this year.

For 2019/20, the maximum annual bonus for the Executive Directors' will remain 100% of salary, with 25% of any amount being deferred for two years in the form of shares. The Committee also intends to grant LTIP awards of 100% of salary, which will be based upon stretching EPS targets.

Salary increases were awarded to the Executive Directors effective 1 September 2019 of 2%, which is consistent with the broader workforce.

I hope that you are able to support the Remuneration Committee's Report at the forthcoming AGM.



IAN WOOD

Chairman of the Remuneration Committee
20 November 2019

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

REMUNERATION COMMITTEE REPORT

CONTINUED

Section

02

Remuneration Policy

This part of the report sets out the remuneration policy for the Group and has been prepared in accordance with The Large and Medium sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (as amended).

The policy was approved by the shareholders at the AGM which took place on 9 January 2018 and is therefore currently in effect. No changes to the policy are proposed for approval at the forthcoming AGM on 7 January 2020.

The role of the Committee

The primary role of the Remuneration Committee is to make recommendations to the Board on the Company's policy for executive remuneration. The Committee also has delegated responsibility for determining the remuneration and benefits of the Chairman, the Executive Directors, the Secretary and senior management.

Key responsibilities include:

- determining the framework for the remuneration of the Group's Executive Directors, Chairman, Secretary and senior management;
- determining the total remuneration packages, authorising terms and conditions, and issuing contracts for the Board;
- approving the design and determining the targets for performance related pay schemes of the Executive Directors;
- reviewing the ongoing appropriateness and relevance of the Remuneration Policy to ensure that it is aligned with the strategy of the Group;
- ensuring that the Group rewards fairly and responsibly, with clear links to both corporate and individual performance; and
- reviewing the design of any share incentive plans for approval by the Board and shareholders.

Overview of policy

When setting the policy for Directors' remuneration, the Committee takes into account the overall business strategy, considering the long-term interests of the Group, with the aim of delivering rewards to shareholders. The remuneration policy is ultimately designed to appropriately incentivise Executive Directors with a view to maximising stakeholder value.

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

The remuneration package is split into two parts:

- a non-performance related element represented by basic salary, benefit and pension; and
- a performance related element in the form of an annual bonus and a Long Term Incentive Plan.

Considerations of conditions elsewhere in the Group

In determining the remuneration of the Group's Directors, the Committee takes into account the pay arrangements and terms and conditions across the Group as a whole. The Committee seeks to ensure that the underlying principles which form the basis for decisions on Directors' pay are consistent with those on which pay decisions for the rest of the workforce are taken. For example, the Committee takes into account the general salary increase for the broader employee population when conducting the salary review for the Executive Directors.

However, there are some differences in the Executive Directors' Remuneration Policy compared to that for the wider workforce, which the Committee believes are necessary to reflect the differing levels of seniority and responsibility. A greater weight is placed on performance-based pay through the quantum and participation levels in incentive schemes to ensure the remuneration of the Executive Directors is aligned with the performance of the Group and the interests of shareholders.

Consideration of shareholder views

In formulating this policy, the Committee took into account guidance issued by shareholders and proxy agencies. Detailed discussions took place with certain major shareholders and proxy agencies prior to the formulation of this policy and subsequently when considering any changes that might be required to be made to it. The views offered to the Committee have been taken into account in the policy below. The Committee continues to welcome feedback from shareholders received at each AGM in addition to any feedback received throughout the year.

Remuneration Policy

| Element | Purpose and link to strategy | Policy and approach | Opportunity |
|-------------|--|---|---|
| Base salary | <p>To attract and retain the best talent.</p> <p>Reflects an individual's experience, performance and responsibilities within the Group.</p> | <p>Salary levels (and any subsequent increases) are set taking into consideration a number of factors, including:</p> <ul style="list-style-type: none"> level of skill, experience and scope of responsibilities of individual; business performance, economic climate and market conditions; increases elsewhere in the Group; and external comparator groups (used for reference purposes only). <p>Salaries are normally reviewed annually with any increase effective 1 September each year.</p> | <p>There is no formal maximum; however, increases will normally align with the general increase for the broader employee population of the Group. More significant increases may be awarded from time to time to recognise, for example, development in role and change in position or responsibility.</p> <p>Current salary levels are disclosed in the Annual Report on Remuneration.</p> |
| Pension | <p>Provides a competitive and appropriate pension package.</p> | <p>Executive Directors are entitled to participate in a defined contribution pension arrangement or to receive a cash alternative to those contributions.</p> <p>Company contributions are up to 15% of base salary. To the extent that pension contributions exceed annual tax-free allowances, Executive Directors will be entitled to receive payment through ordinary payroll in lieu of pension contributions.</p> | <p>Up to 15% of base salary, being the rate available to senior management.</p> |
| Benefits | <p>To aid retention and remain competitive in the market place.</p> | <p>Benefits provided include permanent health insurance, private medical insurance and life assurance. Relocation benefits may also be provided in the case of recruitment of a new Executive Director. The benefits provided may be subject to minor amendment from time to time by the Committee within this policy.</p> <p>The Company may reimburse any reasonable business related expenses incurred in connection with their role (including tax thereon if these are determined to be taxable benefits).</p> | <p>Market rate determines value. There is no prescribed maximum level but the Remuneration Committee monitors the overall cost of benefits to ensure that it remains appropriate.</p> |

REMUNERATION COMMITTEE REPORT

CONTINUED

| Element | Purpose and link to strategy | Policy and approach | Opportunity |
|---------------------------------|---|--|--|
| Annual bonus | Designed to reward delivery of key strategic priorities during the year. | <p>Bonus levels and appropriateness of performance measures and weighting are reviewed annually to ensure they continue to support our strategy. Bonuses are capped at 100% of base salary. 25% of any bonus earned will be deferred into awards over shares, with awards normally vesting after a two-year period.</p> <p>Performance is measured against stretching targets. These may include financial and non-financial measures. Financial measures will account for the majority and will typically include a profit-related target. Performance targets will be disclosed retrospectively. The threshold level of bonus under each measure is 0%.</p> <p>The cash element of the bonus is usually paid in November each year for performance in the previous financial year.</p> <p>Dividends will accrue on deferral awards over the vesting period and be paid out either as cash or as shares on vesting and in respect of the number of shares that have vested.</p> <p>A malus and clawback mechanism applies in specific circumstances including in the event of a material misstatement of the Group's accounts and also for other defined reasons. These provisions apply to both the cash and deferred elements of the bonus.</p> | Maximum of 100% of base salary. |
| Save As You Earn (SAYE) | To encourage employee involvement and greater shareholder alignment. | A HMRC approved SAYE scheme is available to eligible staff, including Executive Directors. | The schemes are subject to the limits set by HMRC from time to time. |
| Long Term Incentive Plan (LTIP) | To motivate and incentivise delivery of sustained performance over the longer term, and to support and encourage greater shareholder alignment. | <p>Annual awards of performance shares which normally vest after three years subject to performance conditions.</p> <p>Award levels and performance conditions required for vesting are reviewed annually to ensure they continue to support the Group's strategy. Awards are capped at the equivalent of 100% of base salary at the date of award.</p> <p>Awards are based upon an EPS growth measure.</p> <p>25% vests at threshold performance. There is straight line vesting between threshold and maximum.</p> <p>Two year post-vesting holding period applies to the net of tax shares for awards granted.</p> <p>A malus and clawback mechanism applies in specific circumstances including in the event of a material misstatement of the Group's accounts and also for other defined reasons.</p> | Maximum of 100% of base salary. |

| Element | Purpose and link to strategy | Policy and approach | Opportunity |
|---|--|---|---|
| Shareholding guidelines | To provide alignment with shareholder interests. | Executive Directors are required to build up a shareholding equivalent to 200% of base salary over a five year period. | N/A |
| Chairman and Non-Executive Director Remuneration | | | |
| Non-Executive Director fees | To attract and retain a high-calibre Chairman and Non-Executive Directors by offering market-competitive fee levels. | <p>Remuneration reflects:</p> <ul style="list-style-type: none"> • the time commitment and responsibility of roles; • market rate; and • that they do not participate in any bonus, pension or share based scheme. <p>Our policy is for the Executive Directors to review the remuneration of Non-Executive Directors annually following consultation with the Chairman. The Chairman's remuneration is reviewed annually by the Remuneration Committee.</p> <p>The Chairman and the Non-Executive Directors are entitled to reimbursement of reasonable expenses. They may also receive limited travel or accommodation-related benefits in connection with their role as a Director.</p> <p>The Non-Executive Directors will not participate in the Group's share, bonus or pension schemes.</p> <p>Non-Executive Directors are engaged for terms of one year subject to appointment and reappointment at the Company's AGM.</p> | Non-Executive Directors receive a single fee for all services to the Company. Levels of fee are reviewed annually with any increases normally aligning with general increases for the broader employee population of the Group. |

REMUNERATION COMMITTEE REPORT

CONTINUED

Remuneration Committee discretions

The Committee will operate the annual bonus plan and LTIP according to their respective rules. To ensure the efficient operation and administration of these plans, the Committee retains discretion in relation to a number of areas. This is consistent with market practice and these include (but are not limited to) the following:

- the participants;
- the timing of grant and/or payment;
- the size of grants and/or payments (within the limits set out in the Policy table);
- the determination of vesting based on the assessment of performance;
- the determination of a "good leaver" and where relevant the extent of vesting in the case of the share-based plans;
- treatment in exceptional circumstances such as a change of control;
- making the appropriate adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events, variation of capital and special dividends);
- cash settling awards; and
- the annual review of performance measures, weightings and setting targets for the discretionary incentive plans from year to year.

The Committee also retains the ability to adjust existing performance conditions for exceptional events so that they can still fulfil their original purpose. Any varied performance condition would not be materially less difficult to satisfy in the circumstances.

Performance measures and targets

Our Group strategy and business objectives are the primary consideration when we are selecting performance measures for incentive plans. The annual bonus is based on performance against a stretching combination of financial and non-financial measures. Adjusted profit before tax reflects the Group's strategic objective to increase profit. In addition, Executive Directors are assessed on strategic objectives as agreed by the Committee at the beginning of the year. The LTIP is assessed against growth in adjusted Earnings Per Share as it rewards improvement in the Group's underlying financial performance and is a measure of the Group's overall financial success and is visible to shareholders.

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

Approach to recruitment remuneration

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

Buy-out awards

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

Maximum level of variable pay

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

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

Base salary and relocation expenses

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

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

Appointment of Non-Executive Directors

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

Executive Directors' terms of employment and loss of office

The Group's current policy is not to enter into employment contracts with any element of notice period in excess of one year. All Non-Executives are appointed for terms of 12 months and stand for re-election annually at the Company's AGM. Copies of Executive Directors' service contracts and Non-Executive Directors' letters of appointment are available for inspection at the Company's registered office during normal hours of business and will be available at the Company's AGM.

Dates of service contracts and first appointment to the Board for all Directors are given above opposite.

| | Date of service contract/ letter of appointment | Date first appointed to the Board |
|--------------------------------|--|--------------------------------------|
| Executive Directors | | |
| Tim Davies | 18 October 2012 | 1 March 2013 |
| Neil Austin | 1 January 2013 | 1 May 2013 |
| Non-Executive Directors | | |
| Chris Holmes | 1 September 2019 | 7 January 1992 |
| Alistair Wannop | 1 September 2019 | 1 September 2005 |
| John Worby | 1 September 2019 | 1 April 2015 |
| Ian Wood | 1 September 2019 | 1 October 2015 |
| Peter Page | 8 October 2019 | 1 November 2019 |

An Executive Director's service contract may be terminated summarily without notice and without any further payment or compensation, except for sums accrued up to the date of termination, if they are deemed to be guilty of gross misconduct or for any other material breach of the obligations under their employment contract.

The Group has the right to terminate contracts by making a payment in lieu of notice. Any such payment will typically reflect the individual's salary, benefits and pension entitlements. The Group has the ability to mitigate costs and phase payments, if alternative employment is obtained.

There will be no automatic entitlement to a bonus if an Executive Director has ceased employment or is under notice. However, the Committee may at its discretion pay a pro-rated bonus in respect of the proportion of the financial year worked. Such payment could be payable in cash and not subject to deferral.

Any share-based entitlements granted to an Executive Director under the Group's share plans will be treated in accordance with the relevant plan rules. Usually, any outstanding awards lapse on cessation of employment. However, in certain prescribed circumstances, such as death, ill-health, injury, disability, redundancy, retirement with the consent of the Committee, or any other circumstances at the discretion of the Committee, "good leaver" status may be applied.

For good leavers under the LTIP, outstanding awards will vest at the original vesting date to the extent that the performance condition has been satisfied and be reduced on a pro-rata basis to reflect the period of time which has elapsed between the grant date and the date on which the participant ceases to be employed by the Group. For good leavers under the deferred bonus plan, unvested awards will usually vest in full upon cessation.

In determining whether a departing Executive Director should be treated as a "good leaver", the Committee will take into account the performance of the individual and Group over the whole period of employment and the reasons for the individual's departure.

In the event of a change of control resulting in termination of office, the Executive Directors are entitled to 12 months' base salary.

The Non-Executive Directors are not entitled to any compensation for loss of office.

Estimates of total future potential remuneration from 2019 pay packages

The tables below provide estimates of the potential future remuneration of each Executive Director based on the remuneration opportunity granted in the 2019/2020 financial year. Potential outcomes based on different scenarios are provided for each Executive Director.

The assumptions underlying each scenario are described below.

Fixed Consists of base salary, pension and other benefits.

Base salaries are as at 1 September 2019.

Benefits are valued using the figures in the total remuneration for the 2019 financial year table, adjusted for any benefits that will not be provided during 2020.

Pensions are valued by applying the appropriate percentage to the base salary.

| | Base £'000 | Benefits £'000 | Pension £'000 | Total £'000 |
|-------------|---------------|-------------------|------------------|----------------|
| Tim Davies | 286 | 1 | 43 | 330 |
| Neil Austin | 211 | 1 | 32 | 244 |

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

Maximum Assumes that the full stretch target for the LTIP are achieved, and maximum performance is obtained under both the financial and non-financial targets set for the annual bonus scheme.

Tim Davies, Chief Executive Officer

Maximum



On target



Fixed



Neil Austin, Group Finance Director

Maximum



On target



Fixed



● Salary and benefits ● Annual bonus ● LTIP

REMUNERATION COMMITTEE REPORT

CONTINUED

Section

03

Annual Report on Remuneration

This part of the Directors' Remuneration Report sets out a summary of how the Directors' Remuneration Policy was applied during 2018/19.

Remuneration Committee

During the 2018/19 year, the Remuneration Committee comprised Ian Wood (Chairman), John Worby and Alistair Wannop. After the year end, in November 2019, Peter Page became a member of the Committee. The Committee met on 6 occasions during the year with all members in attendance (see page 43).

The Executive Directors and the Chairman may attend meetings of the Remuneration Committee by invitation and in an advisory capacity only. No person attends any part of a meeting at which his or her own remuneration is discussed. The Chairman and the Executive Directors determine the remuneration of the other Non-Executive Directors. The Chair of the Committee will be available at the AGM to answer any shareholder questions on the Committee and its activities.

During the year the Committee considered:

- the Committee's terms of reference;
- the new Corporate Governance Code 2018 and its impact on the activities of the Committee and future remuneration policy;
- levels of basic pay for Executive Directors, the Chairman and senior management;
- performance targets, both financial and non-financial, for Executive Director variable pay;
- pay and benefits structures across the broader Group (including CEO pay ratios);
- the outcome of bonus arrangements for Executive Directors and senior management;
- the award, and vesting, of long term incentives for Executive Directors and senior management;
- overall remuneration of Executive Directors; and
- shareholder feedback relating to the Committee's disclosures in relation to performance outcomes against strategic annual bonus targets.

2019 Remuneration (Audited Information)

In this section we summarise the pay packages awarded to our Executive Directors for performance in the 2019 financial year versus 2018. The table below shows all remuneration that was earned by each individual during the year and includes a single total remuneration figure for the year.

| £'000 | Salary/Fees | | Benefits ¹ | | Bonus | | LTIP | | Pension | | Total | |
|--------------------------------|-------------|------|-----------------------|------|-------|------|------|------|---------|------|-------|------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Executive Directors | | | | | | | | | | | | |
| Tim Davies | 280 | 274 | 1 | 1 | 169 | 274 | 271 | 271 | 42 | 41 | 763 | 861 |
| Neil Austin | 207 | 202 | 1 | 1 | 131 | 202 | 200 | 200 | 31 | 30 | 570 | 635 |
| Non-Executive Directors | | | | | | | | | | | | |
| Chris Holmes | 82 | 80 | - | - | - | - | - | - | - | - | 82 | 80 |
| Alistair Wannop | 39 | 38 | - | - | - | - | - | - | - | - | 39 | 38 |
| John Worby | 39 | 38 | - | - | - | - | - | - | - | - | 39 | 38 |
| Ian Wood | 39 | 38 | - | - | - | - | - | - | - | - | 39 | 38 |
| Peter Page ² | N/A | N/A | - | - | - | - | - | - | - | - | N/A | N/A |

¹ Benefits consistent of private medical insurance.

² Peter Page was appointed to the Board on 1 November 2019 receiving total fees at the rate of £90,000 per annum.

2019 Annual Bonus Payout

The annual bonus is calculated using a combination of financial and strategic performance targets which are set with regard to Group budget, historic performance, market outlook and future strategy.

80% of the bonus was based on Group adjusted profit before tax (PBT). Adjusted PBT is calculated as reported PBT after adding back amortisation of acquired intangibles and non-recurring items that were not anticipated at the time the performance targets were set, such as acquisition related costs. The Group is committed to disclosing its performance targets retrospectively save where this is prevented due to commercial sensitivities. Financial targets are set on the basis that the performance of acquisitions made during the year are excluded. For the year ending 31 August 2019, the PBT targets were set in accordance with the table below.

| Threshold target (0%) £'000 | Basic target (30%) £'000 | Maximum target (80%) £'000 |
|--------------------------------|-----------------------------|-------------------------------|
| 15,950 | 16,790 | 17,630 |

Payments are adjusted on a straight-line basis between the targets set out above. For the year ended 31 August 2019, adjusted PBT for the Group excluding acquisitions was £17.295m. This performance equated to 56.76% of the maximum available in connection with the Group's financial targets, being 45.41% of the available annual bonus.

Strategic targets, which account for 20% of the bonus, were set at the start of the year. Details of certain targets and their performance against them is summarised below

Tim Davies

| Objective | Outcome |
|--|--|
| Successful integration of Animax in accordance with business plan approved by the Board. | Good progress made against strategic plan in all areas including restructuring management team, progressing international growth opportunities and improving efficiencies. Weather in FY19 had the effect of reducing customer demand, which delayed the realisation of some synergy benefits. |
| Identify and deliver suitable acquisitions which align with the Board's strategy. | Good pipeline of acquisition opportunities developed during the year which align with the Board's strategy. All opportunities subjected to detailed appraisal by the Board where appropriate. Three acquisitions completed during financial year. |
| Continued international development of Supplements business in line with Board strategy. | Strategic plan developed and approved by the Board which will see focus on Europe, North America and New Zealand, being markets in which greatest growth opportunities are considered to exist. |
| Continuation of strategic developments across Engineering. | Strong progress made on realisation of synergies between Wälischmiller and NuVision in the USA. Good performance in UK Manufacturing and improved utilisation, measured through KPIs. |

Neil Austin

| Objective | Outcome |
|---|---|
| Integration of Animax into Carr's Group. | Successful integration of financial and support functions and alignment of systems with Group. |
| Successful continuation of Group ERP project. | Project progressing well and broadly in line with the business plan approved by the Board. |
| Support CEO in developing and delivery of acquisition pipeline. | Good acquisition identification process in place. Detailed appraisals of acquisition opportunities have been brought to the Board for consideration where appropriate. Thorough due diligence processes in place. Acquisitions in the year have been well executed. |
| Further develop financial reporting including Engineering KPIs. | Engineering KPIs developed and incorporated into routine management accounts for the Board. Cash flow reporting in Agriculture has improved and plans developed to improve cash flow reporting in Engineering. |

In addition to the above strategic performance indicators, the Committee has a discretion to consider matters such as good corporate governance which can include environmental, social and governance considerations.

At the end of the financial year, the Committee undertook a detailed assessment of performance against the non-financial targets. The outcomes from that review are set out above. The Committee accordingly determined that 75% of the available bonus would be payable to Tim Davies (being 15% of the overall annual bonus) and 90% would be payable to Neil Austin (being 18% of the overall annual bonus).

REMUNERATION COMMITTEE REPORT

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Long term incentive plan

The awards made to Executive Directors in 2016 were subject to Average EPS growth targets over the three year period ending on 31 August 2019. Threshold vesting was set at 3% average annual growth. The Average EPS growth over the three-year period was 14.6% and, accordingly, 100% of shares under the long-term awards made to Executive Directors in 2016 vested.

Long term incentive plan awards during the year (audited)

Long-term awards for 2019 were made to the Executive Directors in line with the remuneration policy.

| | Number of shares | Basis on which the award was made | Face Value of the award £'000 | Threshold vesting | End of performance period |
|-------------|------------------|-----------------------------------|----------------------------------|-------------------|---------------------------|
| Tim Davies | 188,637 | 100% of salary | 280 | 25% | August 2021 |
| Neil Austin | 139,591 | 100% of salary | 207 | 25% | August 2021 |

The performance conditions which govern the vesting of those shares are based on annual average growth in adjusted EPS over a three year period.

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

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

All employee share plans

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

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

Total pension entitlements (audited)

The table below provides details of the Executive Directors' pension benefits:

| | Normal retirement age | Total contributions to DC-type pension plan £'000 | Cash in lieu of contributions to DC-type pension plan £'000 |
|-------------|-----------------------|--|--|
| Tim Davies | 67 | - | 42 |
| Neil Austin | 67 | 31 | - |

Each Executive Director has the right to participate in the Carr's Group defined contribution pension plan or to elect to be paid some or all of their contribution in cash. Pension contributions and/or cash allowances are capped at 15% of salary.

Payments to past Directors (Audited)

No payments to past Directors have been made to Directors during the year.

Payments for loss of office (Audited)

No payments for loss of office have been made to Directors during the year.

Ten year historical TSR performance



Directors' interests in the shares of the company (audited information)

A summary of interests in shares and scheme interests of the Directors as at 31 August 2019 is given below:

| | Total number of interests in shares | Vested LTIP | Unvested LTIP | SAYE (unvested without performance conditions) | Unvested deferred bonus shares | % of shareholding guideline achieved |
|--------------------------------|-------------------------------------|-------------|---------------|--|--------------------------------|--------------------------------------|
| Executive Directors | | | | | | |
| Tim Davies | 245,929 | 185,159 | 409,035 | 16,965 | 43,312 | 92.8% |
| Neil Austin | 202,054 | 137,018 | 302,686 | 16,965 | 35,051 | 101.3% |
| Non-Executive Directors | | | | | | |
| Chris Holmes | 749,000 | - | - | - | - | n/a |
| Alistair Wannop | 22,610 | - | - | - | - | n/a |
| John Worby | 25,000 | - | - | - | - | n/a |
| Ian Wood | 20,000 | - | - | - | - | n/a |

Performance shares (audited information)

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

| | 2016/17 award | 2017/18 award | 2018/19 award |
|-------------|---------------|---------------|---------------|
| Tim Davies | 185,159 | 220,398 | 188,637 |
| Neil Austin | 137,018 | 163,095 | 139,591 |

Assessing pay and performance

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

| | 2015 Tim Davies | 2016 Tim Davies | 2017 Tim Davies | 2018 Tim Davies | 2019 Tim Davies |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|
| Single figure of total remuneration (£'000) | 911 | 531 | 308 | 861 | 763 |
| Annual variable element (actual award versus maximum opportunity) | 100% | 55% | 0% | 100% | 60.41% |
| Long-term incentive (vesting versus maximum opportunity) | 100% | 37.45% | 0% | 100% | 100% |

Change in Chief Executive's Remuneration

In the table opposite we show the percentage change in the Chief Executive's remuneration between 2018 and 2019 financial years compared to the other employees.

| | Tim Davies | Other UK employees |
|--------------|------------|--------------------|
| Base pay | 2.0% | 2.0% |
| Benefits | 0% | 0% |
| Annual bonus | -38.3% | -64.5% |

The Remuneration Committee considers pay across the entire Group when setting Executive Director remuneration. Annual consultations take place across the Group between the Executive Directors, senior management and the Group Head of HR in relation to employee pay. The outcome of that exercise, and any changes to employee pay levels, are considered when determining the appropriateness to changes in Executive Director pay.

Chief Executive Officer Pay Ratio (unaudited)

The table below shows the pay ratio based on the total remuneration of the Chief Executive Officer to the employee on the 25th, 50th and 75th percentile of all permanent UK employees of the Group.

| | 25th percentile | Median | 75th percentile |
|-----------|-----------------|---------|-----------------|
| Total pay | £18,595 | £24,648 | £34,048 |
| Pay ratio | 41 | 31 | 22 |

The Group adopted Option A as defined in The Companies (Miscellaneous Reporting) Regulations 2018, as the calculation methodology for the above ratios. The 25th, median and 75th percentile pay ratios were calculated using the full-time equivalent remuneration for all UK employees as 31 August 2019 being the financial year end.

REMUNERATION COMMITTEE REPORT

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Relative spend on pay

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

| | 2019 £'000 | 2018 £'000 | % change |
|--------------------------------|---------------|---------------|----------|
| Employee costs | 48,397 | 43,673 | 10.8% |
| Dividends paid to shareholders | 4,173 | 3,770 | 10.7% |

External appointments

The Executive Directors did not receive any remuneration in respect of any external appointments in 2018/19.

Implementation of the policy in 2019/20

For 2019, the maximum annual bonus for the Executive Directors will remain 100% of salary. 25% of any bonus will be deferred for two years in the form of shares. Performance will be assessed against stretching targets which will be 80% financial and 20% strategic. Financial targets will be based upon adjusted PBT for the Group only and will not have any divisional splits. All annual bonus targets will vest at thresholds of 0%. Targets will be disclosed respectively in next year's report.

The Committee intends to grant LTIP awards of 100% of salary, with future vesting conditional upon stretching targets based upon an adjusted EPS growth measure. Awards will vest at a threshold of 25% for average growth of 3% per annum and will rise on a straight line basis to the maximum 100% for average growth of 10% per annum during the performance period.

Salary increases were awarded to the executive Directors effective 1 September 2019 of 2%. This is consistent with the rest of the workforce.

External advisors

During the year, it was not considered necessary for any external consultants to be appointed to advise the Committee and so no fees were incurred. In 2017/18, the Committee appointed New Bridge Street (a part of AON) as an external consultant to advise the Committee in connection with the current Directors' Remuneration Policy. New Bridge Street is a signatory to the Remuneration Consultants' Code of Conduct, which requires that its advice be objective and impartial. New Bridge Street has no other connection with the Group and provides no other services to the Group.

2019 AGM

At our AGM in January 2019, the Committee's Annual Report on Remuneration received a 99.8% vote in favour (43,461,299 votes), with 0.1% against (141,679 votes) and 0.1% withheld (207,442 votes). The Directors' Remuneration Policy, which was approved at our AGM in January 2018, received a 99.7% vote in favour (48,274,652 votes), with 0.2% against (138,890 votes) and 0.1% withheld (74,059 votes).

By Order of the Board.



IAN WOOD

Chairman of the Remuneration Committee
20 November 2019

DIRECTORS' REPORT

The Directors submit their report and the audited accounts of the Company for the year ended 31 August 2019.

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

Results and dividends

A review of the results can be found on pages 16-17.

| | 2019 | 2018 |
|--|--------|--------|
| First Interim dividend per share paid | 1.125p | 1.075p |
| Second Interim dividend per share paid | 1.125p | 1.075p |
| Final dividend per share proposed | 2.5p | 2.35p |

Subject to approval at the Annual General Meeting, the final dividend will be paid on 10 January 2020 to members on the register at the close of business on 29 November 2019. Shares will be ex-dividend on 28 November 2019.

The Group profit from continuing activities before taxation was £16.3 million (2018: £15.5 million). After taxation charge of £2.7 million (2018: £1.9 million), the profit for the year is £13.6 million (2018: £13.6 million).

Pensions

Estimates of the amount and timing of future funding obligations for the Group's pension plans are based on various assumptions including, among other things, the actual and projected market performance of the pension plan assets, future long-term corporate bond yields, longevity of members and statutory requirements.

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

Details of the Group's pension plans are in note 27 in the Notes to the Financial Statements.

Employment policies and employees

The Company is committed to its employees and further details on the Company's policies and commitment can be found in the Corporate Responsibility Report on pages 34 to 35.

Environment

The Company's report on sustainability including carbon footprint is on pages 36 to 37.

Political and charitable donations

During the period ended 31 August 2019 the Group contributed £41,000 (2018: £28,800) in the UK for charitable purposes. Further details have been included with the Corporate Responsibility statement on page 37. There were no political donations during the year (2018: £Nil).

Share capital

The Company has a single class of share capital which is divided into Ordinary Shares of £0.025 each. The movement in the share capital during the year is detailed in note 28 to the financial statements.

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

Allot Shares – this gives Directors the authority to allot shares and maintains the flexibility in respect of the Company's financing arrangements. The nominal value of ordinary shares which the Directors may allot in the period up to the next Annual General Meeting to be held on 7 January 2020, is limited to £758,430.44 which is approximately 33 percent of the nominal value of the issued share capital on 22 November 2018. The directors do not have any present intention of exercising this authority other than in connection with the issue of ordinary shares in respect of the Company's share option plans. This authority will expire at the end of the Annual General Meeting to be held on 7 January 2020.

Disapplication of rights of pre-emption – this disapplies rights of pre-emption on the allotment of shares by the Company and the sale by the Company of treasury shares. The authority will allow the Directors to allot equity securities for cash pursuant to the authority to allot shares mentioned above, and to sell treasury shares for cash without a pre-emptive offer to existing shareholders, up to an aggregate nominal amount of £114,913.70, representing approximately 5 percent of the Company's issued share capital as at 22 November 2018. This authority will expire at the end of the Annual General Meeting to be held on 7 January 2020.

To buy own shares – this authority allows the Company to buy its own shares in the market, as permitted under the Articles of Association of the Company, up to a limit of 9,193,096 Ordinary shares being approximately 10 per cent of the Company's issued share capital at 22 November 2018. The price to be paid for any share must not be less than £0.025, being the nominal value of a share, and must not exceed 105 percent of the average middle market quotations for the ordinary shares of the Company as derived from the London Stock Exchange Daily Official List for the 5 business days immediately preceding the day on which the ordinary shares are purchased. The Directors have no immediate plans to exercise the powers of the Company to purchase its own shares and undertaken that the authority would only be exercised if the Directors were satisfied that a purchase would result in an increase in expected earnings per share and was in the best interests of the Company at the time. This authority will expire at the end of the Annual General Meeting to be held on 7 January 2020.

DIRECTORS' REPORT

CONTINUED

The Directors would consider holding any of its own shares that it purchases pursuant to this authority as treasury shares.

The interests of the Directors, as defined by the Companies Act 2006, in the ordinary shares of the Company, other than in respect of options to acquire ordinary shares (which are detailed in the analysis of options included in the Directors' Remuneration Report on pages 60 to 64), are as follows:

| | At 31 August 2019 Ordinary Shares | At 1 September 2018 Ordinary Shares |
|--------------|---|---|
| T J Davies | 245,929 | 150,354 |
| N Austin | 202,054 | 131,329 |
| C N C Holmes | 749,000 | 778,000 |
| A G M Wannop | 22,610 | 22,610 |
| J G Worby | 25,000 | 25,000 |
| I Wood | 20,000 | 10,000 |

All the above interests are beneficial. There have been no changes to the above interests in the period from 1 September 2019 to 15 November 2019.

To enable the vesting of shares under the Group's Long Term Incentive Plan, on 15 November 2019 a total of 513,607 ordinary shares of 2.5 pence each were held in treasury.

Rights and obligations attaching to shares

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

Full details of the deadlines for exercising voting rights in respect of the resolutions to be considered at the Annual General Meeting to be held on 7 January 2020 will be set out in the Notice of Annual General Meeting.

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

Major shareholders

The Company has been informed of the following interests at 15 November 2019 in the 92,455,609 ordinary shares of the Company, as required by the Companies Act 2006:

| | Number of shares | % of issued share capital |
|--|---------------------|------------------------------|
| Heygate & Sons Ltd | 12,652,870 | 13.69 |
| BBHISL Nominees Ltd (130227) | 4,270,320 | 4.62 |
| Nortrust Nominees Ltd | 4,166,105 | 4.51 |
| Rathbone Nominees Ltd | 2,951,780 | 3.19 |
| Goldman Sachs Securities (Nominees) Ltd (ILSEG) | 2,794,894 | 3.02 |

Change of control

There are a number of significant agreements across the Group with provisions that take effect, alter or terminate upon a change of control of the Company, such as bank facility agreements, agreements with strategic partners (including joint venture agreements), employee share scheme rules and certain project contracts within the Engineering division. The Directors are not aware of any agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment that occurs solely because of a change of control.

Directors' responsibilities

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

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent Company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' statement as to disclosure of information to auditors

The Directors who were members of the Board at the time of approving the Directors' Report are listed on pages 38 to 39. Having made enquiries of fellow Directors, each of the Directors at the date of this report confirms that:

- he is not aware of any relevant audit information of which the Company's auditors are unaware; and
- he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Responsibility statement of the directors in respect of the annual financial report

Each of the Directors confirms that, to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Each of the Directors considers the annual report and accounts, taken as a whole, to be fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By Order of the Boards



MATTHEW RATCLIFFE

Company Secretary
20 November 2019