Corporate Governance Report

"Good governance is central to the integrity, reputation and performance of the Group. The Board remains committed to maintaining high standards."

CHRIS HOLMES
CHAIRMAN

CHAIRMAN'S 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.

The Board is pleased to describe its approach to governance in the following report, which describes how the Group has integrated the main principles of the UK Corporate Governance Code (the "Code"). In 2017, the Board reviewed its membership of the Audit and Remuneration Committees. As a result, I stood down from both Committees to ensure that they are comprised exclusively of Non-Executive Directors considered by the Board to be independent. I am pleased to report that as a result of this change in 2017, the Board considers that it is in full compliance with the Code.

During the year, the Board and its Committees considered the FRC's Consultation on the Proposed Revisions to the UK Corporate Governance Code and, subsequently, the 2018 Corporate Governance Code which was published on 16 July 2018. The 2018 Code will apply to the Group from September 2019. During the current financial year, the Board will continue its review of the 2018 Code with a view to taking any steps required to ensure that the Group's governance framework remains robust, effective and reflective of good governance practice.

CHRIS HOLMES DL
Chairman
19 November 2018

STATEMENT OF COMPLIANCE WITH UK CORPORATE GOVERNANCE CODE

The UK Corporate Governance Code dated April 2016 and issued by the Financial Reporting Council 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 1 September 2018, 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 Company for its shareholders. In determining long-term strategy and objectives of the Group, the Board is mindful of its duties and responsibilities to shareholders as well as employees and other stakeholders. The Board reviews management and financial performance, and monitors strategic delivery and achievement of business objectives.

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

OUTLINE OF MATTERS FOR BOARD

Strategy
- Setting strategic targets.
- Reviewing new business developments and opportunities including potential acquisitions.
- Research and technology.

Finance
- Budget approval.
- Monitoring financial performance.
- Oversight of the preparation and management of the financial statements.
- Dividend policy.
- Pensions strategy.

Risk
- Group's risk and internal control framework.

Stakeholder engagement
- AGM and other shareholder feedback.
- Investor calls, meetings and roadshows.

Governance
- Legal updates and new disclosure requirements.
- Internal Board review.
- Succession planning.

Safety
- Health and Safety monthly updates and management review.

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 1 September 2018, the Board comprised 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 page 21.

The Board met 11 times throughout the year. In addition to the regular scheduled meetings, unscheduled supplementary meetings may also take place as and when necessary. During this financial year it was not necessary for any unscheduled meetings to take place. 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 its authority to the Audit, Remuneration, and Nominations Committees to carry out certain tasks as defined in their written terms of reference approved by the Board; these are also available on the Company'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 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 development 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 day-to-day management of the Group's business;
- leading the business and the rest of the management team in accordance with the strategy agreed by the Board;
- leading the development of the Group's strategy with input from the rest of the Board;
- leading the management team in the implementation of the Group's strategy; and
- bringing matters of particular significance to the Chairman for discussion and consideration by the Board if appropriate.

Elections

The Company's Articles of Association provide that one third of the Directors retire by rotation each year at the Annual General Meeting, however, the Company considers it best practice to require all the 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 meetings of, and members' attendance at, the Board, Audit, Remuneration and Nominations Committees during the period are set out in the table below.

MEETING ATTENDANCE

	Board	Audit Committee	Remuneration Committee	Nominations Committee
No. of meetings	11	3	6	1
Chris Holmes	11	3*	6*	1
Tim Davies	11	3*	N/A	1*
Neil Austin	11	3*	N/A	1*
Alistair Wannop	11	3	6	1
John Worby	11	3	6	1
Ian Wood	11	3	6	1

*Attended meeting in full or part by invitation

Corporate Governance Report (continued)

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. During 2017 the Board conducted an independent external review which was facilitated by Independent Audit Limited. That review covered the whole Board, together with its Audit, Nominations 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 review commenced with discussions between Independent Audit and the Chairman and Company Secretary. Those discussions led to the design of detailed and bespoke questionnaires which were subsequently disseminated to the Board, certain other senior executives and, in the case of the evaluation of the Audit Committee, the Company's auditors (PwC). The questionnaires were completed, entirely in confidence, and a draft report was produced by Independent Audit analysing the feedback provided. Following further discussions between Independent Audit and the Chairman and Company Secretary, a full report was produced and presented to the Board by Independent Audit which drew positive conclusions including that the Board and its Committees were performing effectively and are 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.

During 2018, the Board carried out an internal review which built upon the 2017 external review. The internal review was led by the Chairman with the assistance of the Company Secretary. It commenced with discussions between the Chairman and the Company Secretary, a review of the findings of the 2017 external review and of progress made during the year against its recommendations. 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 together with progress made to date against previous recommendations. That report was the subject of a detailed and constructive discussion by the Board.

The 2018 review demonstrated that progress had been made towards implementing the recommendations made in 2017. In particular, the Board agenda continues to include a number of site visits each year and greater focus has been placed on succession and people issues both by the Board and the Nominations Committee. The review confirmed the conclusions drawn in 2017 that the Board and its Committees were performing effectively and were appropriately constituted. Further actions agreed by the Board following the 2018 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 2018 Code, increasing internal audit activity during this financial year and further developing the information reported to the Board in respect of KPIs in the Engineering division.

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 outcomes from the external review in 2017 and the internal review in 2018 also enabled the Board to confirm its views in relation to Non-Executive Director independence. This was given greater focus due to the tenure of Alistair Wannop being more than nine years. The reports did not highlight or give rise to any issues or concerns in relation to the independence of any Directors and confirmed the Board's view that independence cannot be determined solely by reference to the tenure of any Director, particularly in the absence of any other circumstances or matters (including those detailed at paragraph B.1.1. of the Code) which could give rise to independence being questioned.

The Board 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 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 Company and the markets in which it operates was of enormous benefit to the Board. The Board has therefore determined that Alistair Wannop, Ian Wood and John Worby are independent. The question of Non-Executive Director independence is a matter which is kept under review and thoroughly assessed 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 30-32. 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 comprises three independent Non-Executive Directors: Ian Wood (Chairman), John Worby and Alistair Wannop. The work, responsibilities and governance of the Remuneration Committee are set out on pages 33-43. The Chairman of the Remuneration Committee will be available at the AGM to answer any shareholder questions on the Committee and its activities.

Nominations Committee

During the year the Nominations Committee comprised Chris Holmes (Chairman), Alistair Wannop, John Worby and Ian Wood. The work, responsibilities and governance of the Nominations Committee are set out on page 44-45. The Chair of the Nominations Committee will be available at the AGM to answer any shareholder questions on the Committee and its activities.

RELATIONS WITH SHAREHOLDERS

The Board recognises and values the importance of good communications with all shareholders. The Group maintains dialogue with 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 AGM 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. The Company aims to send notices of AGMs 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 system of internal control and for reviewing its effectiveness, including: financial, operational and compliance controls and risk management, which safeguard the shareholders' investment and the Group's assets. Such 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, which accord with the Turnbull guidance, have been fully operative throughout the year and up to the date of the Annual Report being approved. These include: a process to identify and evaluate business risk; a strong control environment; an information and communication process; a monitoring system and a regular Board review for effectiveness. The Group Finance Director is responsible for overseeing the Group's internal controls.

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

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

By order of the Board

MATTHEW RATCLIFFE
Company Secretary
Carlisle
CA3 9BA
19 November 2018

Audit Committee Report

During the year, the Committee conducted an audit tender whilst continuing its focus on contract accounting and the enhancement of controls within the Engineering division.

JOHN WORBY
CHAIRMAN OF THE AUDIT COMMITTEE

INTRODUCTION

On behalf of the Audit Committee, I am pleased to present this report to shareholders. The purpose of the report is to highlight the areas that the Committee has reviewed and how we have discharged our responsibilities effectively during the year. This has been a significant year for the Committee, having conducted an external audit tender process during the spring.

The report sets out full details of the external audit tender and selection process which resulted in KPMG LLP ('KPMG') being selected as auditors subject to approval at the AGM in January 2019.

Given the historic association with the Group, having first been appointed in 1909, and in the spirit of the UK corporate governance framework, PwC were not invited to re-tender for the audit.

On behalf of the Board and the Audit Committee, I would like to thank PwC for their level of diligent service to the Group over what has been a remarkable period.

I would also like to welcome KPMG to the role from next year and we look forward to working alongside them in 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 auditors, making recommendations to the Board in relation to their appointment, remuneration and terms of engagement;
- monitor and review the effectiveness of the external audit including the external auditors' independence, objectivity and effectiveness and to approve the policy on the engagement of the external auditors to supply non-audit services; and
- monitor and review the internal audit activities in the Company.

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

COMPOSITION OF COMMITTEE AND MEETINGS

The Audit Committee comprises the three Non-Executive Directors, John Worby, who is Chairman of the Committee, 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 page 21.

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 and the external auditors to attend its meetings. The Committee met with the external auditors at the conclusion of the audit without the Executive Directors being present.

The Committee has met once since the end of the financial year to consider the results and the Annual Report for the year ended 1 September 2018.

MAIN ACTIVITIES DURING THE YEAR

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

FINANCIAL REPORTING

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

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 areas of judgement across the Group.

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

- The assumptions adopted for the accounting valuation of our defined benefit pension scheme. The Committee concluded that the assumptions used were appropriate;
- Potential impairment of assets including goodwill particularly in relation to the UK Engineering businesses of Bendalls and Chirton, given the performances of these businesses in the prior year. The Committee noted that the performance of Chirton was significantly better than the prior year and ahead of expectations. The Committee also noted that there had been improvements made to the controls in operation across both businesses. Whilst the performance of Bendalls was much improved, it was below original expectations. In the light of this, the Committee determined that an impairment of the goodwill associated with Bendalls should be made totalling £0.5m. The Committee was satisfied that the remaining carrying value of the Bendalls business was recoverable. In relation to Chirton, it was determined that, given its financial performance during the year, no further impairment of goodwill was required over and above that made in 2017;
- Provisioning policies in relation to accounts receivable, particularly in the Agriculture division, and for certain disputes and potential claims/ liabilities. The Committee determined that the judgments made were appropriate to justify the provisions held at 1 September 2018;
- Accounting for long term contracts. The Committee reviewed performance on certain contracts in the Engineering division which were only part complete at the year end and agreed with management's judgements; and
- Finalisation of the valuation of certain intangible assets of NuVision following its acquisition in August 2017. The Committee concluded the valuations 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. The Committee was comfortable with the disclosures made.

INTERNAL CONTROL AND RISK MANAGEMENT

During the year the Committee continued to review the effectiveness of the Group's internal control and risk management systems. The Committee noted that work done by internal audit, as discussed below, confirmed that recommendations made in the prior year to improve controls in the UK Engineering business had been implemented.

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.

EXTERNAL AUDIT

PwC and its predecessor firms have been the external auditors for Carr's Group plc since 1909. The Audit Committee annually assesses the qualification, expertise and independence of the auditors and the effectiveness of the audit process. PwC's current engagement partner is Bill MacLeod, and he has been in place since being appointed for the Group's 2014 year end.

Following approval by shareholders to re-appoint PwC at last year's AGM, the Audit Committee reviewed and approved the terms of engagement and remuneration of the external auditors for the 2018 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. PwC present their detailed audit plan to us each year identifying their assessment of these key risks.

Our assessment of the effectiveness and quality of the audit process and addressing these key risks is formed by, amongst other things, the reporting from the auditors. 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 was considered in detail, discussed by the Audit Committee and discussed with the external auditors. The Committee was satisfied with the review process, the performance of the Committee and the effectiveness of the external audit.

EXTERNAL AUDIT TENDER

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

As indicated in our 2017 Annual Report and Accounts, and in accordance with regulatory requirements, the Committee initiated and supervised a tender process with a view to appointing a new external auditor for the 2019 year end following the conclusion of the five year term of the current audit partner.

As explained above, PwC were not invited to tender due to their length of service to the Group. Following a detailed shortlisting process, three audit firms were selected which were considered to have suitable experience across both of the Group's divisions and in each of the Group's geographies. The process was overseen by the Audit Committee Chair, who also chaired the selection panel.

The tender process commenced in December 2017 with the establishment of a secure data room accessible to tendering firms. Invitations to tender were issued in January 2018 and meetings with the Chairman of the Company, Audit Committee Chairman and key management across the Group took place during February and March 2018. Tender proposals were submitted in March 2018 which were followed by presentations being delivered by tendering firms to the selection panel, which comprised the Audit Committee Chairman and key Group management in April 2018.

Audit Committee Report (continued)

The selection process was carried out using rigorous scoring criteria determined at the outset of the tendering process which included consideration of each firm's:

- quality of service, approach and expertise;
- independence, effectiveness and efficiency;
- commitment and proactivity;
- culture and the potential for relationship building;
- clarity of communication;
- audit quality procedures; and
- proposed fees, and ability to deliver value.

The respective merits of the tendering firms were subsequently debated by the Committee and each of the members of the selection panel. Ultimately, the Committee recommended KPMG, with Nick Plumb as lead audit partner, to the Board as the Group's new external auditors as it was considered that they were best placed to fulfil the selection criteria and deliver an effective audit service to the Group.

The Board's proposed appointment of KPMG to act as the Group's auditors for the 2019 financial year was announced on 27 April 2018. KPMG's appointment will be put to shareholders at the AGM which will take place on 8 January 2019.

As part of KPMG's preparations for their engagment as external auditors, KPMG attended the 2018 year end Audit Commitee meeting.

AUDITOR INDEPENDENCE

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

In accordance with the Auditing Practices Board Ethical Standards, 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 Carr's. 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 reviewed and approved the non-audit services policy, the objective of which is to ensure that the provision of such services does not impair, or is not perceived to impair, the external auditors' independence or objectivity. The policy imposes guidance on the areas of work that the external auditors may be asked to undertake and those assignments where the external auditors should not be involved. There is a further category of services for which a case-by-case decision is necessary. 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, major work to be awarded to the audit firm must be agreed in advance by the Audit Committee Chairman. For the 2018 financial year end, there was no non-audit work undertaken by the Group's auditors.

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.

During the year, 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. During the year, the internal audit work was focused on reviewing the controls in the UK Engineering business and ensuring appropriate implementation of the controls recommendations from the 2017 review.

In view of its establishment during the year, no formal review of internal audit was undertaken in the year but it is planned this will be undertaken in the year ahead when the internal audit function is anticipated to be in full operation.

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
19 November 2018

Remuneration Committee Report

IAN WOOD
CHAIRMAN OF THE
REMUNERATION COMMITTEE

ANNUAL STATEMENT FROM THE CHAIR OF THE REMUNERATION COMMITTEE

On behalf of the Remuneration Committee and the Board, I am pleased to present the Report of the Remuneration Committee for the year ended 1 September 2018.

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

1. This Annual Statement, which summarises the key considerations of the Committee during the year and forms part of the Annual Report on Remuneration.
2. 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 for 2018/19.
3. The Annual Report on Remuneration, which sets out how the Remuneration Policy has been applied in 2017/18, the remuneration received by Directors for the year and how the policy will be applied in 2018/19. The Annual Report on Remuneration will be subject to an advisory shareholder vote at the AGM.

Performance and Remuneration in 2017/18

As described in the Strategic report, the Group's financial performance in the year under review was better than the Board's original expectations. Overall, reported profit before tax was up 55.0% to £15.5m (2017: £10.0m) and adjusted earnings per share was up 56.2% to 13.9p (2017: 8.9p). In addition to this strong financial performance, good progress was made towards achieving the Group's strategic targets and in 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 2017/2018

The current Directors' Remuneration Policy was approved by shareholders at the AGM which took place on 9 January 2018. As promised in the Remuneration Report for 2017, which was also approved at that AGM, the Committee has spent time during the last year considering the performance measures currently used by the Committee in relation to LTIP. In particular, the Committee has considered a number of financial and market performance measures with a view to ensuring that the long-term incentives offered to Executive Directors and Senior Management best align with the interests of the Group and its shareholders.
After a detailed consideration, involving independent advice from remuneration consultants and consultation with certain shareholders, the Committee determined that growth in adjusted earnings per share (EPS) remained the most appropriate measure against which the long-term performance of the Group should be assessed. This is because growth in adjusted EPS directly measures improvement in the Group's underlying financial performance and is visible to shareholders. No changes to the Committee's Remuneration Policy are therefore proposed this year.

How the policy will be implemented in 2018/19

The Remuneration Committee continually reviews the Directors' Remuneration Policy to ensure it promotes the attraction, retention and incentivisation of high calibre executives to deliver the Group's strategy.

For 2018/19, the maximum annual bonus for the Executive Directors' will remain 100% of salary, with 25% of any bonus 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 2018 of 2.5%. This is consistent with the rest of the 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
19 November 2018

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 8 January 2019.

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 and the Secretary.

Key responsibilities include:

- determining the framework for the remuneration of the Group's Executive Directors and Chairman;
- determining the total remuneration packages, authorise terms and conditions, and issue 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 is it 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 shareholder 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 shareholders.

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. During both 2017 and 2018, detailed discussions took place with certain major shareholders and proxy agencies with a view to formulating this policy and any changes that might be required to be made to it. The Committee continues to welcome feedback from shareholders received at each AGM in addition to any feedback received throughout the year.

REMUNERATION POLICY TABLE

Element	Purpose and link to strategy	Policy and approach	Opportunity
Base salary	To attract and retain the best talent. Reflects an individual's experience, performance and responsibilities within the Group.	Salary levels (and subsequent salary increases) are set taking into consideration a number of factors, including: • 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). Salaries are normally reviewed annually with any increase effective 1 September each year.	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. Current salary levels are disclosed in the Annual Report on Remuneration.
Pension	Provides a competitive and appropriate pension package.	Executive Directors are entitled to participate in a defined contribution pension arrangement or to receive a cash alternative to those contributions. 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.	Up to 15% of base salary.
Benefits	To aid retention and remain competitive in the market place.	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. 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).	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.

Element	Purpose and link to strategy	Policy and approach	Opportunity
Annual bonus	Designed to reward delivery of key strategic priorities during the year.	Bonus levels and appropriateness of performance measures and weighting are reviewed annually to ensure they continue to support our strategy. 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. 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%. The cash element of the bonus is usually paid in November each year for performance in the previous financial year. Dividends will accrue on deferred 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. 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.	Maximum of 100% of base salary.
Save As You Earn (SAYE)	To encourage employee involvement and encourage 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.	Annual awards of performance shares which normally vest after three years subject to performance conditions. 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. Awards are based upon an EPS growth measure. During 2018 the Committee considered the potential introduction of one or more additional LTIP performance measures in consultation with certain major shareholders. Following such consultation, it was determined that EPS remained the most appropriate measure for assessing performance for the purpose of the LTIP and so no changes to the LTIP are proposed this year. 25% vests at threshold performance. There is straight line vesting between threshold and maximum. Two year post-vesting holding period applies to the net of tax shares for awards granted in 2018 and beyond. 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.	Maximum of 100% of base salary.
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 DIRECTORS REMUNERATION

Element	Purpose and link to strategy	Policy and approach	Opportunity
Non-Executive Director fees	To attract and retain a high-calibre Chairman and Non-Executive Directors by offering market-competitive fee levels.	Remuneration reflects: • the time commitment and responsibility of their roles; • market rate; and • that they do not participate in any bonus, pension or share based scheme. 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. 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. The Non-Executive Directors will not participate in the Group's share, bonus or pension schemes. Non-Executive Directors are engaged for terms of one year subject to appointment and reappointment at the Company's AGM.	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 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. 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 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.

Effective dates of service contracts and first appointment to the Board for all Directors are given below.

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.

	Effective 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	2 September 2018	7 January 1992
Alistair Wannop	2 September 2018	1 September 2005
John Worby	2 September 2018	1 April 2015
Ian Wood	2 September 2018	1 October 2015

ESTIMATES OF TOTAL FUTURE POTENTIAL REMUNERATION FROM 2018/2019 PAY PACKAGES

The tables below and opposite provide estimates of the potential future remuneration of each Executive Director based on the remuneration opportunity granted in the 2018/2019 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 2018.

Benefits are valued using the figures in the total remuneration for the 2018 financial year table, adjusted for any benefits that will not be provided during 2019.

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

	Base £'000	Benefits £'000	Pension £'000	Total £'000
Tim Davies	280	1	42	323
Neil Austin	207	1	31	239

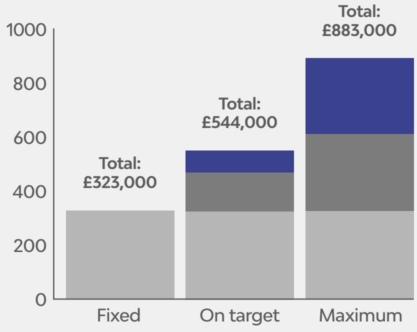
On target

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

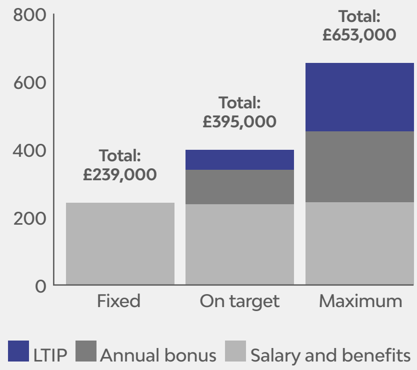
Maximum

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

Tim Davies, Chief Executive Officer



Neil Austin, Group Finance Director



ANNUAL REPORT ON REMUNERATION

This part of the Directors' Remuneration Report sets out a summary of how the Directors' Remuneration Policy was applied during 2017/18.

Remuneration Committee

The Remuneration Committee comprises Ian Wood (Chairman), John Worby and Alistair Wannop. The Committee met on 6 occasions during the year with all members in attendance (see page 27). The greater frequency of meetings in the current year can be attributed to the implementation of changes which were introduced to the Committee's Remuneration Policy and approved at the January 2018 AGM.

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:

- levels of basic pay for Executive Directors, the Chairman and senior management;
- financial and strategic bonus targets for the Executive Directors;
- 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 in relation to long term incentive performance measures and remuneration policy generally.

2018 Remuneration

In this section we summarise the pay packages awarded to our Executive Directors for performance in the 2018 financial year versus 2017. The table on the next page shows all remuneration that was earned by each individual during the year and includes a single total remuneration figure for the year.

2018 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 or deducting any one-off items outside of normal trading that were not anticipated at the time the performance targets were set, such as acquisition related costs. The Group is committed to disclosing its performance targets retrospectively save where this is prevented due to commercial sensitivities. For the year ended 1 September 2018, the PBT targets were set in accordance with the table below.

	Threshold target £'000	Maximum target £'000
Group	14,700	15,800

Payments are adjusted on a straight line basis between the threshold and maximum PBT targets.

Remuneration Committee Report (continued)

DIRECTOR REMUNERATION 2017/2018 (AUDITED INFORMATION)

	Salary/Fees		Benefits[1]		Bonus[2]		LTIP[3]		Pension		Total	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000	**2018 £'000**	2017 £'000	**2018 £'000**	2017 £'000	**2018 £'000**	2017 £'000	**2018 £'000**	2017 £'000
Executive Directors												
Tim Davies	**274**	267	**1**	1	**274**	0	**271**	0	**41**	40	**861**	308
Neil Austin	**202**	197	**1**	1	**202**	0	**200**	0	**30**	30	**635**	228
Non-Executive Directors												
Chris Holmes	**80**	78	**—**	—	**—**	—	**—**	—	**—**	—	**80**	78
Alistair Wannop	**38**	37	**—**	—	**—**	—	**—**	—	**—**	—	**38**	37
John Worby	**38**	37	**—**	—	**—**	—	**—**	—	**—**	—	**38**	37
Ian Wood	**38**	37	**—**	—	**—**	—	**—**	—	**—**	—	**38**	37

[1] Benefits consist of private medical insurance.

[2] 25% of the bonus awarded in 2018 was deferred in the form of shares.

[3] The performance period for the 2014 LTIP awards ending during 2017 with no shares vesting owing to the performance threshold not being met.

2018 ANNUAL BONUS STRATEGIC TARGETS

Tim Davies Target	**Details**
Delivering growth	Implementing the Board's strategy in relation to the development of the Group's international feed blocks/supplements business in select new territories. Identification of suitable acquisition opportunities, delivery of strategic acquisitions and successful business integration within the Group's wider divisions.
Enhancing structure within Engineering Division	Strengthening of management teams across UK Manufacturing business and implementing planned management succession within NuVision Engineering, Inc. Developing the Group's Remote Handling business in the USA in accordance with the Board's strategy.
Neil Austin Target	**Details**
Developing controls in new territories	Ensuring that new overseas businesses are established with appropriate controls and reporting mechanisms to support the Growth of the Group's international feed blocks/supplements businesses.
Developing Group IT systems	Developing and implementing the Board's IT strategy across the Group including a new Enterprise Resource Planning system.
Enhancing existing controls and reporting mechanisms	Enhancing KPI reporting within the Engineering division to enable better review and assessment of performance and forecasts. Developing further cash flow reporting of business units to enable clearer review and assessment of business performance and forecasts.

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

For the year ending 1 September 2018, adjusted PBT for the Group was £16.6m. This performance was ahead of the maximum bonus target and therefore the full 80% was payable in connection with the Group's financial targets.

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 on page 40.

At the end of the financial year, the Committee noted that substantial progress had been made against the strategic targets. A decision was therefore made to pay the full 20% bonus in relation to this element of the scheme.

In accordance with the Remuneration Policy, 25% of the bonus payable for 2018 was deferred for two years in the form of shares.

LONG TERM INCENTIVE PLAN

The awards made to Executive Directors in 2015 were subject to Average EPS growth targets over three year period ending on 1 September 2018. Threshold vesting was set at 3% average annual growth. The Average EPS growth over the three year period was 13.6% and, accordingly, 100% of shares under the long-term awards made to Executive Directors in 2015 vested.

LONG TERM INCENTIVE PLAN AWARDS DURING THE YEAR (AUDITED)

Long-term awards for 2018 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	220,398	100% of salary	274	25%	August 2020
Neil Austin	163,095	100% of salary	202	25%	August 2020

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.

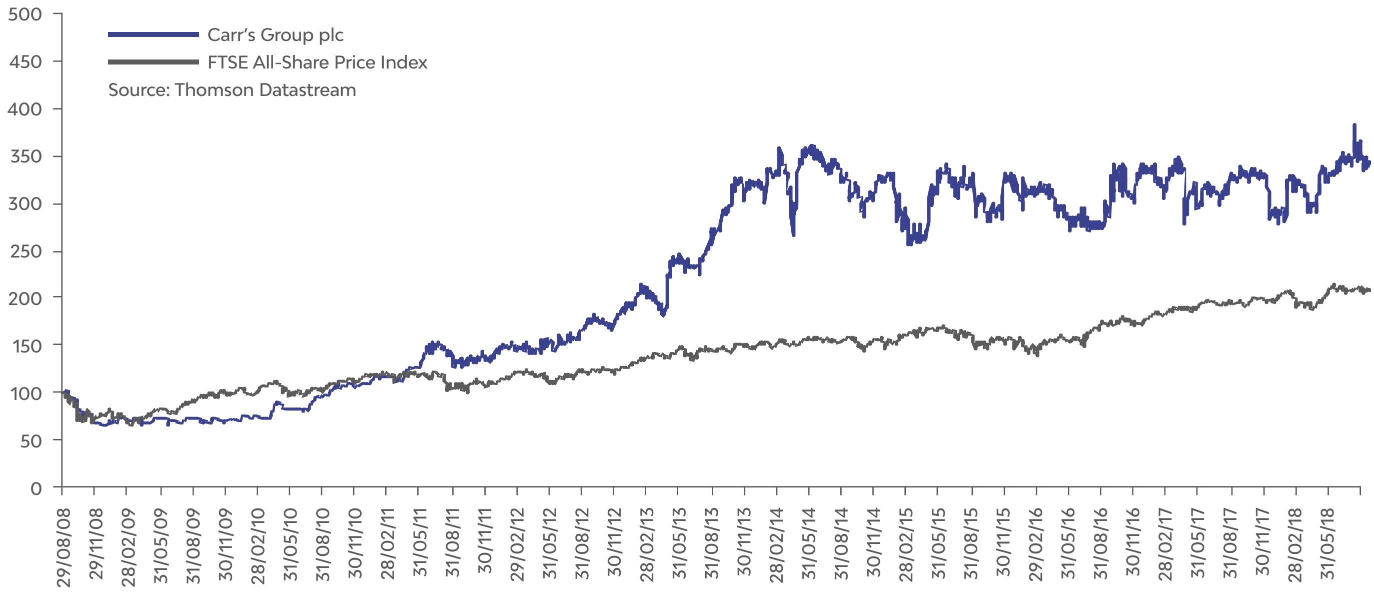
TOTAL PENSION ENTITLEMENTS (AUDITED)

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	–	41
Neil Austin	67	30	–

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.

TEN YEAR HISTORICAL TSR PERFORMANCE



Remuneration Committee Report (continued)

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

A summary of interests in shares and scheme interests of the Directors who served during the year is given below.

	Total number of interests in shares	Vested LTIP	Unvested LTIP	SAYE (unvested without performance conditions)	Unvested deferred bonus shares	% of share-holding guideline achieved*
Executive Directors						
Tim Davies	150,354	180,814	405,557	16,965	43,312	69.0%
Neil Austin	131,329	133,802	300,113	16,965	35,051	77.0%
Non-Executive Directors						
Chris Holmes	778,000	—	—	—	—	n/a
Alistair Wannop	22,610	—	—	—	—	n/a
John Worby	25,000	—	—	—	—	n/a
Ian Wood	10,000	—	—	—	—	n/a

*Excluding all unvested shares.

ASSESSING PAY AND PERFORMANCE

In the table below 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.

	2014 Tim Davies	2015 Tim Davies	2016 Tim Davies	2017 Tim Davies	2018 Tim Davies
Single figure of total remuneration	559	911	531	308	861
Annual variable element (actual award versus maximum opportunity)	100%	100%	55%	0%	100%
Long-term incentive (vesting versus maximum opportunity)	N/A	100%	37.45%	0%	100%

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 table opposite.

PAYMENTS TO PAST DIRECTORS (AUDITED INFORMATION)

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

PAYMENTS FOR LOSS OF OFFICE (AUDITED INFORMATION)

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

PERFORMANCE SHARES (AUDITED INFORMATION)

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

	2015/16 award	2016/17 award	2017/18 award
Tim Davies	180,814	185,159	220,398
Neil Austin	133,802	137,018	163,095

CHANGE IN CHIEF EXECUTIVE'S REMUNERATION

In the table below we show the percentage change in the Chief Executive's remuneration between 2017 and 2018 financial years compared to the other employees.

	Tim Davies	Other UK employees
Base pay	2.5%	2.5%
Benefits	0%	0%
Annual bonus	100%*	21.9%

*No bonus was payable in the 2017 financial year.

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.

RELATIVE SPEND ON PAY

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

	2018 £'000	2017 £'000	% change
Employee costs	43,251	36,520	18.4
Dividends paid to shareholders	3,770	3,471	8.6

EXTERNAL APPOINTMENTS

The Executive Directors did not receive any remuneration in respect of any external appointments in 2017/18.

IMPLEMENTATION OF THE POLICY IN 2018/19

For 2018, 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 2018 of 2.5%. This is consistent with the rest of the workforce.

EXTERNAL ADVISORS

During the year, New Bridge Street (a part of Aon plc) was appointed as an external consultant to advise the Committee. The total fees incurred in FY2017/18 amounted to £19,980. Such fees were largely attributed to services provided in relation to changes to remuneration policy which were approved at the January 2018 AGM. 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.

2018 AGM

At our AGM in January 2018, the Committee's Annual Report on Remuneration received a 99.8% vote in favour (48,320,745 votes), with 0.1% against (93,548 votes) and 0.1% withheld (73,308 votes). The Directors' Remuneration Policy, which was approved at that AGM, 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
19 November 2018

Nominations Committee Report

Effective leadership and succession planning is critical to the continued success of the Group.

CHRIS HOLMES
CHAIR OF THE NOMINATIONS COMMITTEE

INTRODUCTION

The Nominations Committee has an important role to play in ensuring that the Board has the right balance of experience and skills to develop and support the Group's strategy. Its primary responsibility is the nomination of suitable candidates to fill vacancies on the Board. This involves careful planning for timely and smooth succession. This year the Committee has been active in developing its succession strategies for both Board members and senior management across the Group.

COMPOSITION AND CONSTITUTION

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

ROLE OF THE COMMITTEE

The Committee meets at least once a year. It reviews the structure, size and composition of the Board and considers the optimal level of independence, diversity of skills, knowledge and experience required for the Board to operate effectively. It oversees Board succession planning and is responsible for considering and making recommendations on the appointment of Executive and Non-Executive Directors.

The Committee also evaluates succession planning and recruitment strategy for senior management throughout the Group, taking into account the challenges and opportunities facing the Group and the skills, experience and leadership required across its diverse range of businesses.

In performing its responsibilities, the Committee gives full consideration to the benefits of diversity (whether cultural, ethnic, gender or otherwise) both within the Board and across the Group's leadership teams. Working closely with the Board, the Committee is focused upon ensuring that the Board and the management teams are able to deliver Group strategy.

ACTIVITIES OF THE COMMITTEE

The Committee met once during the year to consider the following matters:

- the Committee's Terms of Reference to ensure they reflect the Committee's remit;
- the succession plans in place for 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 talent management, training and development programmes; and
- the FRC's Consultation on Proposed Changes to the Corporate Governance Code.

Since 1 September 2018, the Nominations Committee has also considered the Corporate Governance Code 2018, which was published on 16 July 2018 and will apply to the Group from September 2019. The Nominations Committee will continue to evaluate the effect of the changes introduced by the 2018 Code during the course of the current financial year.

CHANGES TO THE BOARD AND ITS COMMITTEES

There have been no changes in the membership of the Board during the year which remains comprised of two Executive Directors and four Non-Executive Directors.

BOARD REVIEW

In 2017, the size, composition and effectiveness of the Board and its Committees were the subject of an external review 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.

During 2018, the Board conducted an internal review building upon the 2017 external review. Similarly to the 2017 review, the internal review placed particular emphasis upon the appropriateness and effectiveness of the Board together with its Committees and upon 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 needs of the Group taking into account continued growth and overall Group strategy.

Both 2017 and 2018 represented years of significant change in senior management across the Group. In our Engineering Division, we appointed a Divisional Managing Director to oversee global Engineering operations and strengthened the management team in our UK Manufacturing business. We also oversaw the planned succession of the management team in our USA Engineering business following the acquisition of NuVision in 2017. In our Agriculture division, we saw a number of significant changes due to the retirement of key personnel. In particular, we oversaw the succession of the Managing Directors in each of our UK feed blocks business, our USA feed blocks business and our joint venture feed blocks business in Germany. We are pleased to report that all of the above succession has proceeded smoothly, and that our new management teams have settled in very well.

Across the Group we have established career pathway and employee development initiatives which are designed to attract, retain and develop the best talent. Further details of those initiatives are described on page 23.

DIVERSITY

The company has a strict equal opportunities policy and ensures that appropriate consideration is given to diversity in determining the requirements of the Group and in making recruitment decisions. The Group's principal concern when making appointments 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. All appointments are made on the basis of merit regardless of race, colour, nationality, religion, gender, marital status, family status, sexual orientation, disability or age.

RE-ELECTION

At the Annual General Meeting on 8 January 2019, all the Directors will stand for re-election in accordance with best practice under the UK Corporate Governance Code 2016.

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

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

On behalf of the Board

CHRIS HOLMES DL
Chair of the Nominations Committee
19 November 2018