

Cereform Limited

*Annual report and financial statements for the
52 week period ended 26 August 2017*

Company number 00346958



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Strategic Report for the 52 week period ended 26 August 2017

The directors present their annual report and the audited financial statements for the 52 week period ended 26 August 2017.

Principal activities

The principal activity of the Company is the manufacture and sale of bakery ingredients.

Business review

Turnover increased by £1.5m to £77.1m (2016: £75.6m). Gross profit decreased compared to the prior year being £17.1m (2016: £17.3m). The business was impacted by currency movements and commodity price changes during 2017.

Administration and distribution costs were £10.1m combined, an increase of 6.6% (£0.6m). This was primarily driven by administration costs as staff numbers increased and the increase of day to day expenses in the current financial year. Operating profit of £7.0m was down by £0.8m on 2016.

Net assets increased by £5.9m year on year attributable to the retained profits with a zero dividend being declared.

The average number of employees increased from 201 to 205.

The results for the period are set out on page 11.

Principle risks and uncertainties

The principal uncertainties facing the Company are:

- Continued pressure on margins from cost reduction initiatives driven by the majority of Food Retailers;
- The impact of fluctuating exchange rates on purchases and sales denominated in foreign currencies; and
- The management of credit risk in a rapidly changing market with pressure on liquidity.

Financial risk management

The company's operations expose it to a variety of financial risks, which include price risk, credit risk, liquidity risk and foreign exchange risk. Given the size of the Company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors are implemented by the Company's finance department.

Commodity price risk

The commercial implications of commodity price movements are continuously assessed and, where appropriate, are reflected in the pricing of our products.

Credit risk

Credit risk is the risk customers will default on their obligation to make payment for the product or services supplied. The Company has implemented policies that require appropriate credit checks on potential customers before sales are made. In some circumstances advance payments are required. Credit control procedures are implemented if customers exceed their agreed terms.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The risk is mitigated as the Company has access to inter group finance that is designed to ensure the company has sufficient available funds for operations and planned expansions.

Strategic Report for the 52 week period ended 26 August 2017 (continued)

Financial risk management (continued)

Foreign exchange risk

The company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar and Euro. Foreign exchange risk arises from commercial transactions.

Where there is a significant forecast net position in any foreign currency a proportion of that risk is covered by forward contract hedging arrangements, as appropriate.

Key performance indicators

| | 2017 - £,000 | 2016 - £,000 |
|-------------------------------------|--------------|--------------|
| Revenue (continuing operations) | 77,084 | 75,633 |
| Operating profit | 6,997 | 7,794 |
| Profit for the financial year | 5,840 | 6,312 |
| Shareholder's Funds | 15,607 | 9,767 |
| Gross profit margin | 22% | 23% |
| Operating profit margin | 9% | 10% |
| Working capital - % 3rd Party Sales | 15% | 1% |

By order of the board



I Smith
Director

Weston Centre
10 Grosvenor Street
London
England
W1K 4QY

Directors' Report for the 52 week period ended 26 August 2017

Dividends

The Directors did not recommended the payment of a dividend (*2016: £5,787,000*) during the period. No final dividend is proposed.

Research and Development

Cereform have a substantial new product development resource which focuses on the development of new recipes, and the use of new ingredients. The department supports field technical projects and works with our customers and other technical centres within the group.

Employees

Employees are a key resource and the Company is committed to offering equal opportunities to all in recruitment, training and career development. Full and fair consideration is given to applicants with disabilities. Health and safety are considered equal in importance to that of any function of the Company and its business objectives accentuated by additional resource placed in this area this financial year.

The Company will brief and consult employees on all relevant matters on a regular basis in order to understand their views and to achieve an awareness of the financial and economic factors affecting the performance of the Company.

Directors

The Directors, who held office during the period, and since the end of the period, were:

A M Pollard
M Devenuto
I S Smith
V G Buttle (Resigned 21 July 2017)

Secretary

R Schofield

United Kingdom charitable and political contributions

There were charitable donations of £9,000 (*2016: £7,000*) paid during the period. There were no political contributions paid (*2016: Nil*).

Creditor payment policy

It is the Company's policy to agree terms of business with suppliers prior to the supply of goods and services. In the absence of any dispute, the Company pays in accordance with these terms. At the period end there were 68 days (*2016: 93 days*) purchases in trade creditors.

Health and Safety

The company aims for its employees to Stay Accident Free Everyday (SAFE). The company encourages its people to enjoy their work and to carry it out in a safe and comfortable environment and minimise the environmental impact of their business activities. Cereform provides leadership, policies, training and guidance on what is expected to ensure that its aims are met, wherever people work and whatever their position in the organisation.

The company keeps its safety, health and environmental performance and levels of legal compliance under regular review and ensures that its risk management controls are appropriate and effective. The company's board of directors reviews these at least annually, as does the board of Associated British Foods plc

Cereform encourages its people to help monitor the effectiveness of its approach by drawing attention to any failings or weaknesses in systems or procedures so that together they can continually improve performance. The company believe that success in its health, safety and environmental performance is reliant on an effective partnership approach.

Directors' Report for the 52 week period ended 26 August 2017 (continued)

Health and Safety (continued)

Each site has a representative committee able to address health, safety and environmental issues at the local level and ensure ongoing legal compliance. We encourage everyone to be proactively involved in their own and others' health and safety.

Going Concern

The Company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, details of its financial instruments and derivative activities and its exposure to price are described in the strategic report on pages 3-4.

The Company and the Group to which it belongs has considerable financial resources together with long-term relationships with suppliers and customers. As a consequence, the directors believe that Cereform is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Disclosure of information to auditors

The Directors who held office at the date of approval of this Director's report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

Ernst & Young LLP were appointed by the board of directors effective from 23 November 2017 as the Company's auditor for the financial year ended 25 August 2018 in terms of Section 487 of the Companies Act 2006.

By order of the board



I Smith
Director

Weston Centre
10 Grosvenor Street
London
W1K 4QY

Date:

Statement of Directors' responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework'.

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 Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CEREFORM LIMITED

Opinion

We have audited the financial statements of Cereform Limited for the 52 weeks ended 26 August 2017 which comprise the Income Statement, the Statement of comprehensive income, the Balance Sheet, the Statement of changes in equity and the related notes 1 to 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 26 August 2017 and of its profit for the 52 weeks then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Strategic Report and the Directors report set out on pages 3 to 6, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CEREFORM LIMITED (Continued)

Other information (continued)

material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the period for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

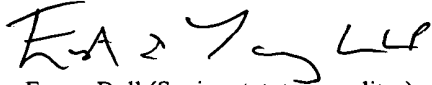
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CEREFORM LIMITED (Continued)

Auditor's responsibilities for the audit of the financial statements (continued)

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.



Fraser Bull (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Cambridge, United Kingdom

24 November 2017

Income Statement

for the 52 week period ended 26 August 2017

| | | 52 week period ended 26 August 2017 £'000 | 52 week period ended 27 August 2016 £'000 |
|--|-------------|---|---|
| | <i>Note</i> | | |
| Turnover | 3 | 77,084 | 75,633 |
| Cost of sales | <i>12</i> | (59,969) | (58,354) |
| | | <hr/> | <hr/> |
| Gross profit | | 17,115 | 17,279 |
| Distribution costs | | (3,683) | (3,634) |
| Administration expenses | | (6,435) | (5,851) |
| | | <hr/> | <hr/> |
| Operating profit | | 6,997 | 7,794 |
| Other interest income/(expense) | <i>7</i> | 20 | (20) |
| Dividend Income | <i>4</i> | 2,223 | - |
| Impairment of Investment | <i>10</i> | (1,892) | - |
| | | <hr/> | <hr/> |
| Profit on ordinary activities before taxation | 4 | 7,348 | 7,774 |
| Tax on profit on ordinary activities | <i>8</i> | (1,508) | (1,462) |
| | | <hr/> | <hr/> |
| Profit for the financial period | | 5,840 | 6,312 |
| | | <hr/> | <hr/> |

All revenue and operating profit is derived from continuing activities. The notes on pages 14 to 28 form part of these financial statements

Statement of comprehensive income
for the 52 weeks ended 26 August 2017

| | 52 weeks ended 26 August 2017 | 52 weeks ended 27 August 2016 |
|--|-------------------------------------|-------------------------------------|
| | £000 | £000 |
| Profit for the financial period | 5,840 | 6,312 |
| Other comprehensive income | - | - |
| Total comprehensive income for the year attributable to equity shareholders | 5,840 | 6,312 |

Balance sheet
at 26 August 2017
Registered No: 00346958

| | Notes | 26 August 2017 | | 27 August 2016 | |
|---|-------|--------------------|--------|--------------------|--------|
| | | £'000 | £'000 | £'000 | £'000 |
| Fixed Assets | | | | | |
| Investments | 10 | | - | | 1,892 |
| Tangible assets | 11 | | 7,985 | | 8,016 |
| | | | <hr/> | | <hr/> |
| | | | 7,985 | | 9,908 |
| Current assets | | | | | |
| Stocks | 12 | 4,854 | | 4,652 | |
| Debtors | 13 | 17,947 | | 12,776 | |
| Cash at bank and in hand | | 36 | | 84 | |
| | | <hr/> | | <hr/> | |
| Creditors: amounts falling due within one year | 14 | 22,837 (14,793) | | 17,512 (17,221) | |
| | | <hr/> | | <hr/> | |
| Net current asset/(liabilities) | | | 8,044 | | (291) |
| | | | <hr/> | | <hr/> |
| Total assets less current liabilities | | | 16,029 | | 10,199 |
| Provisions for liabilities and charges | 15 | | (422) | | (432) |
| | | | <hr/> | | <hr/> |
| Net assets | | | 15,607 | | 9,767 |
| | | | <hr/> | | <hr/> |
| Capital and reserves | | | | | |
| Called up share capital | 16 | | 100 | | 100 |
| Profit and loss account | | | 15,507 | | 9,667 |
| | | | <hr/> | | <hr/> |
| Shareholders' funds | | | 15,607 | | 9,767 |
| | | | <hr/> | | <hr/> |

Notes on pages 14 to 28 form part of the financial statements.

These financial statements were approved by the board of Directors on 22nd November 2017 and were signed on its behalf by:



Ian Smith
Director

Statement of changes in equity
for the 52 weeks ended 26 August 2017

| | Share Capital (Note 16) £'000 | Profit and Loss account £'000 | Total Equity £'000 |
|---|--|--|--------------------------|
| At 29 August 2015 | 100 | 9,142 | 9,242 |
| Total comprehensive income for the year | - | 6,312 | 6,312 |
| Equity dividends paid (Note 9) | - | (5,787) | (5,787) |
| At 27 August 2016 | 100 | 9,667 | 9,767 |
| Total comprehensive income for the year | - | 5,840 | 5,840 |
| Equity dividends paid (Note 9) | - | - | - |
| At 26 August 2017 | 100 | 15,507 | 15,607 |

Notes to the Financial Statements for the 52 week period ended 26 August 2017

1 Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of Cereform Limited for the 52 weeks ended 26 August 2017 were authorised for issue by the board of directors on 23 November 2017. Cereform Limited is incorporated and domiciled in England and Wales.

The results of Cereform Limited are included in the consolidated financial statements of Associated British Foods plc which are available at Weston Centre, 10 Grosvenor Street, London, W1K 4QY.

The principal accounting policies adopted by the Company are set out in note 2.

2 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of preparation

The financial statements of Cereform Limited have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and in accordance with the Companies Act 2006.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below.

The Company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated. The Company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare group accounts as it is a wholly owned subsidiary of Associated British Foods plc.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1; and
 - (ii) paragraph 73(e) of IAS 16 Property, plant and equipment.
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d), (statement of cash flows);
 - 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements);
 - 16 (statement of compliance with all IFRS);
 - 38A (requirement for minimum of two primary statements, including cash flow statements);
 - 38B-D (additional comparative information);
 - 40A-D (requirements for a third statement of financial position);
 - 111 (cash flow statement information); and
 - 134-136 (capital management disclosures)
- IAS 7, 'Statement of cash flows';

Notes to the Financial Statements for the 52 week period ended 26 August 2017 (continued)

Accounting policies (Continued)

- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation); and
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.
- The requirements of IFRS 7 'Financial Instruments: Disclosures'.
- The requirements of paragraphs 91-99 of IFRS13, 'Fair Value Measurement'.

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of a cash flow statement, presentation of comparative information in respect of certain assets, standards not yet effective, impairment of assets, business combinations, discontinued operations and related party transactions.

Going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Business Review section of the Strategic Report. The Company is expected to continue to generate positive cash flows for the foreseeable future.

The Directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Company to continue as a going concern or its ability to continue with the current banking arrangements.

On the basis of their assessment of the Company's financial position, the Directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future. The Directors therefore believe that it remains appropriate to prepare the financial statements on a going concern basis.

Turnover

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Company recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Company; and when specific criteria have been met for each of the Company's activities, as described below. The Company bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the period. Revenue on the sale of goods is recognised at the point of delivery. Revenue on provision of technical services is recognised at point of delivery.

Investments

Investments in subsidiary undertakings, associates and joint ventures are stated at cost less amounts written off.

Fixed assets and depreciation

Depreciation, calculated on cost, is provided on a straight line basis over the expected useful economic life of the asset as follows:

| | | |
|---|---|--------------|
| Freehold buildings | - | 50 years |
| Plant, machinery, fixtures and fittings | - | 2 – 12 years |
| Vehicles | - | 3 years |

Notes to the Financial Statements for the 52 week period ended 26 August 2017 (continued)

2 Accounting policies (continued)

Fixed assets and depreciation (continued)

No depreciation is provided on freehold land.

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Leases

Operating lease rentals are charged to the income statement account on a straight line basis over the period of the lease.

Foreign currencies

Transactions denominated in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the income statement account.

Research and development

Expenditure in respect of research and development is written off in the period in which it is incurred. This amounted to £1,265,000 (2016: £1,239,000).

Stocks

Stocks are valued at the lower of cost and net realisable value after making due provision against obsolete and slow-moving items and a first in first out basis. In the case of finished goods manufactured by the Company, the term 'cost' includes ingredients, direct production labour and an appropriate proportion of attributable production overheads and is a weighted average cost.

Taxation

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Notes to the Financial Statements for the 52 week period ended 26 August 2017 (continued)

Accounting policies (continued)

Taxation (continued)

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted, or substantively enacted at the balance sheet date.

Group relief

It is the policy of the group to which the Company belongs, to charge for tax losses surrendered by way of group relief at a rate of UK corporation tax enacted at the date the companies' profits were earned.

Pension costs

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged to the income statement account represents the contributions payable to the scheme in respect of the accounting period.

The Company is also a member of the Associated British Foods plc pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company. As the Company is unable to identify its share of the scheme's assets and liabilities on a consistent and reasonable basis, as permitted by FRS 101, the scheme has been accounted for as if it were a defined contribution scheme. The pension charge for the period represents the contributions payable by the Company to the scheme.

Financial instruments

Initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset. After initial measurement, such financial assets are subsequently measured at amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in administration expense. Loans and receivable are derecognised when repaid.

This category generally applies to debtors and cash at bank and in hand.

b) Financial liabilities carried at amortised cost

All financial liabilities are recognised initially at fair value net of directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category applies to creditors.

Notes to the Financial Statements for the 52 week period ended 26 August 2017 (continued)

Accounting policies (continued)

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss.

The Company uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments, as well as forward commodity contracts for its exposure to volatility in the commodity prices. The ineffective portion relating to foreign currency contracts is recognised in finance costs and the ineffective portion relating to commodity contracts is recognised in other operating income or expenses.

Amounts recognised as OCI are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as OCI are transferred to the initial carrying amount of the non-financial asset or liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in OCI remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met.

Judgements and key sources of estimates

The preparation of the financial statements requires management to make judgements, estimates and assumptions that effect the amount reported for assets, liabilities, revenues and expenses. However, the nature of estimation means that the actual outcomes may differ from the estimates. The key judgement and uncertainty arises from:

- Impairment of stock – the company holds significant levels of stock. Management makes judgements about the net realisable value of stock, thereby identifying the need for an impairment provision.
- Bad debt provision – management make judgements about the recoverability of debtors and provide according for any specific bad debts based on the probability of the customers' ability to pay using past history and specific industry credit reports.
- Rebates – the Company provides for rebates based on signed negotiated commercial terms with customers. Management are required to estimate the liability based on these terms.

Notes to the Financial Statements for the 52 week period ended 26 August 2017 (continued)

3 Segmental information

The table below sets out turnover for each of the Company's geographic areas of operation:

| | 52 week period ended 26 August 2017 £'000 | 52 week period ended 27 August 2016 £'000 |
|----------------|---|---|
| UK | 71,878 | 68,288 |
| Rest of Europe | 5,169 | 6,300 |
| Rest of World | 37 | 1,045 |
| | <hr/> 77,084 <hr/> | <hr/> 75,633 <hr/> |

In the opinion of the Directors, the Company operates in only one business segment, being the manufacture and sale of food products.

4 Profit on ordinary activities before taxation

| | 52 week period ended 26 August 2017 £'000 | 52 week period ended 27 August 2016 £'000 |
|--|---|---|
| <i>Profit on ordinary activities is stated after charging/(crediting):</i> | | |
| Depreciation and other amounts written off fixed tangible assets: | | |
| - Owned | 1,571 | 1,445 |
| Rentals payable under operating leases | | |
| - hire of plant and machinery | 116 | 104 |
| - other leases | 357 | 339 |
| Research & development expenditure | 1,265 | 1,239 |
| Net foreign exchange loss / (gain) | 2 | (275) |
| Dividend received from wholly owned subsidiary | 2,223 | - |
| | <hr/> | <hr/> |
| Amounts receivable by the auditors and their associates in respect of: | | |
| - the audit of these financial statements | 34 | 37 |
| | <hr/> | <hr/> |

Notes to the Financial Statements for the 52 week period ended 26 August 2017 (continued)

5 Directors and employees

The average number of persons employed by the Company (excluding Directors) during the period was:

| | 52 week period ended 26 August 2017 | 52 week period ended 27 August 2016 |
|-----------------------------|--|--|
| Direct | 88 | 8 |
| Administrative | 117 | 114 |
| | <hr/> | <hr/> |
| Average number of employees | 205 | 201 |
| | <hr/> <hr/> | <hr/> <hr/> |

The aggregate staff costs of these persons were as follows:

| | £'000 | £'000 |
|-----------------------|-------------|-------------|
| Wages and salaries | 7,504 | 7,845 |
| Social security costs | 936 | 819 |
| Other pension costs | 966 | 1,040 |
| | <hr/> | <hr/> |
| | 9,406 | 9,704 |
| | <hr/> <hr/> | <hr/> <hr/> |

In the current and prior periods two Directors were remunerated for their services to the Company.

The remaining Directors who held office during the current and prior periods are employed and remunerated by other companies within the ABF group. None of their remuneration was deemed to be directly for their services to Cereform Limited.

| | £'000 | £'000 |
|------------------------------|-------------|-------------|
| <i>Directors' emoluments</i> | | |
| Remuneration | 493 | 219 |
| Pension contributions | 39 | 39 |
| | <hr/> | <hr/> |
| | 532 | 258 |
| | <hr/> <hr/> | <hr/> <hr/> |

During the current and prior periods two of the Directors participated in a defined benefit pension scheme.

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid Director was £278,515 (2016: £238,707), and Company pension contributions of £29,888 (2016: £36,354) were made to a defined benefit scheme, under which his accrued pension at the year-end was £37,806 (2016: £34,445).

Notes to the Financial Statements for the 52 week period ended 26 August 2017 (continued)

5 Directors and employees (continued)

Cereform Limited net holiday accrued not yet taken was £95,000 (2016: £30,000). The company operates a calendar year holiday model, employees are required to have taken all holidays by 31 December.

Cereform Ltd, as part of ABF's ongoing commitment to people, participates in paying the Apprentice Levy, commencement in April 2017. A total of £16,312 was paid for the 5 months to year end, (2016 Nil).

6 Pensions

The parent group's final salary pension costs are assessed in accordance with the advice of a qualified actuary on the basis of final pensionable earnings. Particulars of the last actuarial valuation of the scheme are contained in the financial statements of Associated British Foods plc.

The Company is a member of the Associated British Foods plc pension scheme providing benefits based on final pensionable pay. Because the Company is unable to identify its share of the scheme's assets and liabilities on a consistent and reasonable basis, as permitted by FRS 101 the scheme has been accounted for by the Company as if the scheme is a defined contribution scheme. The pension charge for the period represents the contributions payable by the Company to the scheme and amounted to £440,000 (2016: £568,000).

On 30 September 2002 the scheme was closed to new members, with defined contribution arrangements introduced for new members. For the defined contribution scheme, the pension costs are the contributions payable by the Company to the scheme and amounted to £332,000 (2016: £307,000).

The last actuarial valuation of the Associated British Foods Pension Scheme was carried out as at 5 April 2014. At the valuation date the total market value of the assets of the schemes was £3,085m.

Full IAS 19 disclosures can be found within the financial statements of Associated British Foods plc, which may be obtained from Associated British Foods plc, Weston Centre, 10 Grosvenor Street, London, W1K 4QY. The consolidated accounts of Associated British Foods plc are also available for download on the group's website at www.abf.co.uk

Pension costs prepaid at the period end were £nil (2016: £nil).

7 Other interest income/(expense)

| | 52 week period ended 26 August 2017 £'000 | 52 week period ended 27 August 2016 £'000 |
|--|---|---|
| Interest Income/(Expense) from/to group undertakings | 20 | (20) |

Notes to the Financial Statements for the 52 week period ended 26 August 2017 (continued)

8 Taxation

| (a) Analysis of charge in period: | 52 week period ended 26 August 2017 £'000 | 52 week period ended 27 August 2016 £'000 |
|--|---|---|
| <i>UK corporation tax</i> | | |
| Current tax on income for the period | 1,430 | 1,251 |
| Adjustments in respect of prior periods | 193 | 249 |
| | <hr/> | <hr/> |
| Total current tax | 1,623 | 1,500 |
| <i>Deferred tax (see note 15)</i> | | |
| Origination/reversal of timing differences | (37) | (43) |
| Effect of change in tax rate | (19) | (39) |
| Adjustment in respect of previous years | (59) | 44 |
| | <hr/> | <hr/> |
| Tax on profit on ordinary activities | 1,508 | 1,462 |
| | <hr/> <hr/> | <hr/> <hr/> |

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

The current tax charge for the period is different from the standard rate of corporation tax in the UK of 19.6% (2016: 20%). The differences are explained below:

| | 52 week period ended 26 August 2017 £'000 | 52 week period ended 27 August 2016 £'000 |
|--|---|---|
| <i>Current tax reconciliation</i> | | |
| Profit on ordinary activities before tax | 7,348 | 7,774 |
| | <hr/> | <hr/> |
| Current tax at 19.58% (2016: 20%) | 1,439 | 1,555 |
| <i>Effects of:</i> | | |
| Effect of rate change | (10) | (39) |
| Expenses not deductible/(income not taxable) | 10 | (347) |
| Non-taxable dividends from subsidiary company | (435) | - |
| Impairment of investment not deductible | 370 | - |
| Adjustments to tax charge in respect of previous years | 134 | 293 |
| | <hr/> | <hr/> |
| Total tax charge (see above) | 1,508 | 1,462 |
| | <hr/> <hr/> | <hr/> <hr/> |

Notes to the Financial Statements for the 52 week period ended 26 August 2017 (continued)

8 Taxation (continued)

(c) Factors affecting the tax charge for the current period

The UK corporation tax rate was reduced from 20% to 19% with effect from 1 April 2017, with a further reduction to 17% effective from 1 April 2020. The legislation to effect these rate changes had been enacted before the balance sheet date. As deferred tax is measured at the rates that are expected to apply in the periods when the underlying timing differences reverse, closing deferred tax balances have been calculated using a rate of 17%.

9 Dividends

| | 52 week period ended 26 August 2017 | 52 week period ended 27 August 2016 |
|--|--|---|
| | £'000 | £'000 |
| Dividends paid in the financial period: | | |
| Dividend on 'A' and 'B' ordinary shares £0 per Share (2016: £57.87 per Share) | - | 5,787 |
| | <u> </u> | <u> </u> |

10 Investments

| | Shares in group undertakings £'000 | Total £'000 |
|--------------------------------------|---|-------------------|
| Cost | | |
| At 28 August 2016 and 26 August 2017 | 1,892 | 1,892 |
| | <u> </u> | <u> </u> |
| Impairment | | |
| At 28 August 2016 | - | - |
| Impairment | 1,892 | 1,892 |
| | <u> </u> | <u> </u> |
| At 26 August 2017 | 1,892 | 1,892 |
| | <u> </u> | <u> </u> |
| Net book value | | |
| At 26 August 2017 | - | - |
| | <u> </u> | <u> </u> |
| At 27 August 2016 | 1,892 | 1,892 |
| | <u> </u> | <u> </u> |

The investment comprised of the 100% ownership of GB Plange UK Limited, a company incorporated in England and Wales. GB Plange UK Limited, is in the process off being struck off which is expected to be concluded by the end of the 2017 calendar year.

The Investment in GB Plange UK was fully impaired in 2017.

Notes to the Financial Statements for the 52 week period ended 26 August 2017 (continued)

11 Tangible fixed assets

| | Land and buildings £'000 | Plant and machinery £'000 | Fixtures and fittings £'000 | Assets in the course of construction £'000 | Total £'000 |
|------------------------|--------------------------------|---------------------------------|-----------------------------------|---|----------------|
| Cost | | | | | |
| At beginning of period | 2,117 | 29,516 | 1,828 | 642 | 34,103 |
| Additions | - | - | - | 1,580 | 1,580 |
| Disposals | - | (224) | - | - | (224) |
| Transfers | - | 924 | 148 | (1,072) | - |
| At end of period | 2,117 | 30,216 | 1,976 | 1,150 | 35,459 |
| Depreciation | | | | | |
| At beginning of period | 890 | 23,602 | 1,595 | - | 26,087 |
| Charge for the period | 37 | 1,430 | 104 | - | 1,571 |
| On disposals | - | (184) | - | - | (184) |
| At end of period | 927 | 24,848 | 1,699 | - | 27,474 |
| Net book value | | | | | |
| At 26 August 2017 | 1,190 | 5,368 | 277 | 1,150 | 7,985 |
| At 27 August 2016 | 1,265 | 6,040 | 199 | 807 | 8,311 |

The gross book value of land and buildings includes £235,000 (2016: £235,000) of non-depreciable assets. These are all owned freehold.

12 Stocks

| | 26 August 2017 £'000 | 27 August 2016 £'000 |
|-------------------------------------|----------------------------|----------------------------|
| Raw materials and consumables | 2,239 | 2,115 |
| Finished goods and goods for resale | 2,615 | 2,537 |
| | 4,854 | 4,652 |

Stocks are carried at cost as cost is lower than the net realizable value of the stocks, no write-down of stocks as of 2017 and 2016. Stock is stated after provisions for impairment of £486,607 (2016: £674,963).

During the year, £60.0m (2016: £58.4m) was recognised as an expense for inventories carried at net realisable value. This is recognised in cost of sales.

Notes to the Financial Statements for the 52 week period ended 26 August 2017 (continued)

13 Debtors

| | 26 August 2017 £'000 | 27 August 2016 £'000 |
|------------------------------------|----------------------------|----------------------------|
| Trade debtors | 9,070 | 8,466 |
| Amounts owed by group undertakings | 7,342 | 3,073 |
| Other debtors | 272 | 291 |
| Prepayments and accrued income | 843 | 767 |
| Derivative assets | 420 | 179 |
| | <hr/> 17,947 <hr/> | <hr/> 12,776 <hr/> |

Trade debtors is stated after bad debt allowances of £283,179 (2016: £444,461). The amounts owed by other group undertakings are unsecured, non-interest bearing and have no fixed repayment date.

14 Creditors: amounts falling due within one year

| | 26 August 2017 £'000 | 27 August 2016 £'000 |
|------------------------------------|----------------------------|----------------------------|
| Trade creditors | 6,823 | 7,099 |
| Amounts owed to group undertakings | 3,005 | 3,282 |
| Corporation tax | 1,430 | 2,692 |
| Other tax and social security | 238 | 235 |
| Accruals and deferred income | 3,029 | 3,844 |
| Other creditors | 233 | 69 |
| Bank Overdraft | 35 | - |
| | <hr/> 14,793 <hr/> | <hr/> 17,221 <hr/> |

The amounts owed to other group undertakings are unsecured, non-interest bearing and have no fixed repayment date.

Notes to the Financial Statements for the 52 week period ended 26 August 2017 (continued)

15 Provisions for liabilities and charges

| | Dilapidations | Restructuring | Deferred taxation | Total |
|--|---------------|---------------|----------------------|-------|
| | £'000 | £'000 | £'000 | £'000 |
| At beginning of the period | - | 82 | 350 | 432 |
| Debit/(Credited) to the income statement for the period | 187 | (82) | (115) | (10) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At end of the period | 187 | - | 235 | 422 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

No provision associated with restructuring was provided for at the end of 2017 (2016: £82,000). During the year the company provided for dilapidations at all leased properties.

The elements of deferred taxation liability is as follows:

| | 26 August 2017 £'000 | 27 August 2016 £'000 |
|--|----------------------------|----------------------------|
| Difference between accumulated depreciation and capital allowances | 235 | 350 |
| | <hr/> | <hr/> |

16 Called up share capital

| | 26 August 2017 | | 27 August 2016 | |
|---|----------------|-------|----------------|-------|
| | Number | £'000 | Number | £'000 |
| <i>Allotted, called up and fully paid</i> | | | | |
| "A" Ordinary shares of £1 each | 75,000 | 75 | 75,000 | 75 |
| "B" Ordinary shares of £1 each | 25,000 | 25 | 25,000 | 25 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 100,000 | 100 | 100,000 | 100 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

The 'A' and 'B' shares have the same rights to dividends, to any surplus on winding up and have one vote per share.

17 Contingent liabilities

There were no contingent liabilities as at 26 August 2017 (2016: £nil).

Notes to the Financial Statements for the 52 week period ended 26 August 2017 (continued)

18 Commitments

There were capital commitments as at 26 August 2017 of £244,000 (2016: £221,000).

Annual commitments under non-cancellable operating leases are as follows:

| | 26 August 2017 | | 27 August 2016 | |
|--|--------------------------------|----------------|--------------------------------|----------------|
| | Land and Buildings £'000 | Other £'000 | Land and Buildings £'000 | Other £'000 |
| Operating leases which expire: | | | | |
| Within one year | 350 | 139 | 343 | 86 |
| In the second to fifth years inclusive | 948 | 192 | 1,437 | 249 |
| Over five years | 265 | - | 282 | 9 |
| | <u>1,563</u> | <u>331</u> | <u>2,062</u> | <u>344</u> |

19 Ultimate parent company and parent undertaking of largest group of which the Company is a member

The ultimate parent company and controlling party is Wittington Investments Limited which is incorporated in Great Britain and registered in England and Wales.

The largest group in which the results of the company are consolidated is that headed by Wittington Investments Limited. The smallest group in which they are consolidated is that headed by Associated British Foods plc which is incorporated in Great Britain and registered in England and Wales.

Copies of the group accounts of Associated British Foods plc are available from Weston Centre, 10 Grosvenor Street, London W1K 4QY.