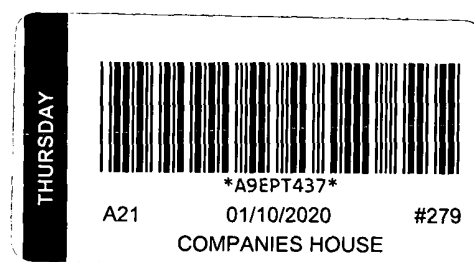


FrieslandCampina UK Limited

**Annual Report and Financial Statements
For the year ended 31 December 2019**

Registered number: 04684097



FrieslandCampina UK Limited

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STRATEGIC REPORT

Strategic report for the year ended 31 December 2019

The directors present their strategic report for the year ended 31 December 2019.

Business review and principal activities

The company's principal activity during the year remains the marketing and sale of dairy products to retailers, wholesalers and cash and carries across the UK and Ireland.

The level of business and the year-end financial position was good despite the turbulent economic situation prevailing in the UK due to Brexit negotiations and the particular impact on exchange rate. Sales growth of 13.4% delivered £52.3M Net Sales for 2019 (£46.1M 2018). Profit for the financial year, after taxation, was at £438,000 (2018: £967,000). Reversal of FX hedging gains of £395,000 reported in the 2018 results have impacted 2019 profit.

The directors expect that the present level of performance will be sustained and have good growth plans for the next 3 years. The Yazoo brand has been in the UK for more than 25 years and continues to do well and outgrow the flavoured milk category. We have strong plans in 2020 focussing on the expansion of our brands and placing additional Private Label products into the market.

The volume growth in kilograms of finished goods was 7% in 2019, an excellent result building on the 2% growth in 2018. Yazoo volume and value share reached record levels at 26.7% and 24.4% respectively [flavoured milk market exc. RTD coffee, IRI 52wk]. The company continued to improve the profitability of Private Label contracts and optimise the value chain in 2019 despite being confronted with an increase of distribution and selling costs and higher standard costs.

The company will continue under the Limited Risk Distributor (LRD) model in 2020, which was reinstalled in 2018.

Future Developments

The Company intends to continue operating in the selling and distribution of dairy based products. With a focus on embedding and expanding the new product development launched in 2019, namely Chocomel and Barista, and to secure further Private Label contracts. The expectation is that the Yazoo volume and value growth will continue in 2020, on the back of focussed distribution drives, limited edition range and marketing investments. In 2019 we gained 26,000 distribution points across the Out Of Home (23,300) and Grocery (2,700) channels through the launch of the Choc Caramel flavour Limited Edition, as well as customer wins in Tesco (both Main Estate and Express) and across our Symbol Group and Independent Retail customers. We are looking to continue this trajectory into 2020.

Principal risks and uncertainties

The Company's activities expose it to a number of financial risks including foreign currency risk and market risk; however, parts of these risks are being covered under the Limited Risk Distributor agreement with the Principal. The company's result of operations and financial condition could be materially affected by any number of external risk factors. The most important risks identified are highlighted below.

Foreign currency risk

The company does not have any foreign currency exposure, due to the fact we are operating under a limited risk distribution agreement. Any foreign currency effects will be absorbed by Royal FrieslandCampina NV

Sales price risk

The company does not have any sales price exposure, due to the fact we are operating under a limited distribution model. Royal FrieslandCampina NV provides us a target letter for the year and based under the limited risk distribution agreement.

STRATEGIC REPORT (CONTINUED)

Brand erosion risk

The company does not see any immediate risk, due to the continuing growth of the Yazoo brand year on year. Longer term the sugar tax could be extended to Dairy Drinks, but we are well placed to manage should this event occur.

Human resources risk

The company does not see any risk to Human Resources in 2020. At the end of 2018 / Q1 2019 we completed a re-organisation to strengthen our business and have since marginally grown in head count as the business has grown. With 2019 strong results and plans for 2020 we plan to invest rather than reduce Human Resources.

Market Risk

The Company's principal customers, major food retailers, have had a difficult year with increased competition from the discounters and Aldi and Lidl, and Brexit which created foreign currency depreciation. Additionally, many of our customers continue with a strong preference for British milk supplies. In 2019 we have seen the continued development in the markets after a number of big customer integrations, such as Tesco/Booker and Coop/Nisa in 2018. To address this risk the Company is adapting its portfolio of products to expand its opportunities across the total food and drink sector.

The UK market has also experienced a surge in negative press surrounding sugar. The company addressed this concern by launching Yazoo 'No Added' sugar' in Q4 2016 and built upon its success with the brand being rebranded as Yazoo kids in 2019.

Key performance indicators

	2019	2018	Change
	£'000	£'000	%
Profit financial year	438	967	-54.7%
Gross profit %	13.3%	18.6%	-28.2%
Yazoo value share	24.4%	23.4%	3.9%
Yazoo volume share	26.7%	25.3%	5.4%

On behalf of the board

William Jones
DIRECTOR



Date

7/8/20

DIRECTORS' REPORT

Directors' report for the year ended 31 December 2019

The directors have pleasure in presenting their report and the audited financial statements of the Company for the year ended 31 December 2019.

Results and dividends

The company's profit for the financial year is £438,000 (2018: £967,000).

The directors do not recommend the payment of a dividend during the year (2018: nil).

Future developments

Details of future developments are provided in the strategic report on page 3.

Directors

The directors who held office during the year and up to the date of signing these financial statements were as follows:

J Alghawaly (appointed 1st January 2019)
W Jones (appointed 14th June 2019)
T Ozguner (appointed 21st February 2020)
G J Blair (resigned 14th June 2019)
S Nijenhuis (resigned 1st January 2020)
E W G Koerkamp (resigned 1st January 2019)

Going Concern

The Company has considerable resources together with long standing relationships and contracts with a number of customers. As a consequence, the directors believe that the Company 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 operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Covid-19 impact

Friesland Campina UK have continued to trade profitability throughout the COVID-19 pandemic. Despite an adverse volume impact to our Out Of Home and Foodservice business during lockdown we continued to deliver year on year volume growth across the total business. Friesland Campina UK operate as a Limited Risk Distributer in the UK for the wider Friesland Campina group, who have continued to trade profitability in 2020 year to date.

As a result, we don't consider there to be a significant impact on the ongoing viability of the business. We continue to monitor our working capital requirements and our relationships with key customers.

DIRECTORS' REPORT (CONTINUED)

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

Directors' confirmations

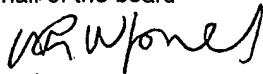
In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers LLP have indicated their willingness to continue in office. A resolution concerning their re-appointment will be proposed at the Annual General Meeting.

On behalf of the board



William Jones
DIRECTOR

Registered Office: Denne House, Denne Road, Horsham, West Sussex RH12 1JF

Dated: 7/8/20

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FRIESLANDCAMPINA UK LIMITED

Opinion

In our opinion, FrieslandCampina UK Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: The Balance Sheet as at 31 December 2019, the Statement of Comprehensive Income, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which 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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FRIESLANDCAMPINA UK LIMITED
(CONTINUED)

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.

Auditors' 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 auditors' 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.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FRIESLANDCAMPINA UK LIMITED
(CONTINUED)

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

M. Haverson

Matthew Haverson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Gatwick

July 2020
7 August

PROFIT AND LOSS ACCOUNT

Profit and loss account for the year ended 31 December 2019

	<u>NOTE</u>	<u>2019</u> <u>£000</u>	<u>2018</u> <u>£000</u>
Turnover	5	52,252	46,088
Cost of sales		<u>(45,278)</u>	<u>(37,516)</u>
Gross profit		6,974	8,572
Administrative expenses		<u>(6,531)</u>	<u>(7,409)</u>
Operating profit	6	443	1,163
Interest income		25	20
Net pension finance income		<u>12</u>	<u>15</u>
Profit before taxation		480	1,198
Tax on profit	9	(42)	(231)
Profit for the financial year		<u>438</u>	<u>967</u>

All items in the profit and loss account relate to continuing operations.

There are no material differences between the profit before taxation and the profit for the financial year as stated above and their historical cost equivalents for both the current year and the prior year. The notes on pages 14 to 27 form part of these financial statements.

FrieslandCampina UK Limited

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2019

	<u>2019</u>	<u>2018</u>
	<u>£000</u>	<u>£000</u>
Profit for the financial year	438	967
Other comprehensive income:	47	-
Items that cannot be reclassified to profit or loss:	-	-
Actuarial gain / (loss) on pension scheme (net of tax)	123	(199)
Other comprehensive income / (loss) for the year	<u>170</u>	<u>(199)</u>
Total comprehensive income for the year	<u>608</u>	<u>768</u>

FrieslandCampina UK Limited

BALANCE SHEET

As at 31 December 2019

	<u>NOTE</u>	<u>2019</u> <u>£000</u>	<u>2018</u> <u>£000</u>
Fixed assets			
Tangible assets	10	250	-
Intangible assets	10	20	-
Defined benefit pension	20	588	428
		<u>858</u>	<u>428</u>
Current assets			
Debtors amounts falling due within one year	11	11,688	14,347
Cash at bank and in hand		11,741	-
		<u>23,429</u>	<u>14,347</u>
Creditors amounts falling due within one year	12	<u>(13,736)</u>	<u>(5,184)</u>
Net current assets		<u>9,693</u>	<u>9,163</u>
Total assets less current liabilities		<u>10,551</u>	<u>9,591</u>
Provisions			
Deferred tax liability	13	(82)	-
Provision for other liabilities		(321)	(51)
		<u>10,148</u>	<u>9,540</u>
Net assets		<u>10,148</u>	<u>9,540</u>
Capital and Reserves			
Called up share capital	15	5,301	5,301
Profit and loss account		4,847	4,239
		<u>10,148</u>	<u>9,540</u>
Total shareholders' funds		<u>10,148</u>	<u>9,540</u>

The notes on pages 14 to 27 form part of these financial statements.

The financial statements on pages 10 to 27 were approved by the board of directors on ~~July~~ 2020 and were signed on its behalf by:

7 August



William Jones

Director

Registered Number: 04684097

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019

	Called up share capital £000	Profit and loss account £000	Total shareholders' funds £000
Balance as at 1 January 2018	5,301	3,471	8,772
Profit for the financial year	-	967	967
Other comprehensive loss for the year	-	(199)	(199)
Total comprehensive income as at 31 December 2018	5,301	4,239	9,540
Balance as at 1 January 2019	5,301	4,239	9,540
Profit for the financial year	-	438	438
Other comprehensive income for the year	-	170	170
Total comprehensive income as at 31 December 2019	5,301	4,847	10,148

NOTES TO THE FINANCIAL STATEMENTS

1 General information

The company's principal activity during the year was the marketing and sale of dairy products to retailers, wholesalers and cash and carries.

The company is a private company limited by shares and is incorporated and domiciled in England, United Kingdom. The address of its registered office is Denne House, Denne Road, Horsham, West Sussex RH12 1JF.

2 Statement of compliance

The individual financial statements of the company have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 101, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 101") and the Companies' Act 2006.

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These financial statements have been prepared on the going concern basis, and under the historical cost convention. The preparation of financial statements in accordance with the Companies Act 2006 as applicable to companies using FRS101 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 discussed on page 17.

Exemptions for qualifying entities under FRS 101

FRS 101 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of, and no objection to, the use of exemptions by the Company's shareholders.

- a) the requirements of IFRS 7 *Financial Instruments: Disclosures*;
- b) the requirements of paragraphs 91-99 of IFRS 13 *Fair Value Measurement*;
- c) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - i. paragraph 79(a)(iv) of IAS 1;
 - ii. paragraph 73(e) of IAS 16 *Property, Plant and Equipment*;
- d) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 *Presentation of Financial Statements*;
- e) the requirements of IAS 7 *Statement of Cash Flows*;
- f) the requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;
- g) the requirements of paragraph 17 of IAS 24 *Related Party Disclosures*;
- h) the requirements in IAS 24 *related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- i) the requirement of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135 (e) of IAS 36 *Impairment of Assets*.

The consolidated financial statements of Royal FrieslandCampina NV, within which this Company is included, can be obtained from the address given in note 18.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Summary of significant accounting policies (continued)

New standards, interpretations and amendments

IFRS 16 is a new accounting standard that is effective for the year end 31 December 2019 and has had an immaterial impact on the company's financial statements.

The company has adopted IFRS 16 Leases retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.5%. For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date. This resulted in measurement adjustments of £8,000 for residual value guarantees and £4,000 for variable lease payments based on an index or rate. The remeasurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

Foreign currency translation

The company's financial statements are presented in sterling, which is also the company's functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Non-derivative financial instruments

Non-derivative financial instruments comprise trade, other debtors and other creditors.

Trade and other debtors

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other creditors

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Derivative financial instruments and hedging activities

The company has not applied hedge accounting, all derivatives are measured at fair value through profit and loss.

Interest receivable and interest payable

Interest payable and similar charges include interest payable and net foreign exchange losses that are recognised in the profit and loss account. Other interest receivable and similar income include interest receivable and net foreign exchange gains.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Summary of significant accounting policies (continued)

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

Tangible fixed assets and depreciation

Equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Depreciation on all equipment is charged to the profit & loss account on a straight-line basis over their estimated useful economic lives as follows:

Office Equipment - 5 years
Computer Hardware - 3 years
Rights of Use assets (IFRS16) – 1 to 5 years

Leases

On adoption of IFRS 16, the company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.5%. For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date. This resulted in measurement adjustments of £8,000 for residual value guarantees and £4,000 for variable lease payments based on an index or rate. The remeasurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

Post-retirement benefits

The company operates two pension schemes, a Defined Benefit Pension Scheme and a Defined Contribution Scheme. The Defined Benefit Scheme provides benefits based on final pensionable pay. The assets of both schemes are held separately from those of the company, being invested with insurance companies. Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high-quality corporate bond of equivalent term and currency to the liability. Any pension surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses. Contributions to the pension scheme are charged to the profit and loss account in the period to which they relate.

Research and development expenditure

Expenditure is only on market research data and this written off to the profit and loss account in the year in which it is incurred. The company does not have any development costs incurred.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Summary of significant accounting policies (continued)

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed at the accounting date, except as otherwise required by FRS 19.

Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Turnover

Turnover represents the invoiced value of goods and services supplied, excluding value added tax. It is presented net of trade discounts. Turnover is recognised once the title of the relevant goods has passed.

The company's activities relate to one class of business, being its principal activity. Turnover and profit were mainly derived in the United Kingdom.

Critical accounting judgement and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historic experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. The company considers there to be no significant judgements in the year ended 31 December 2019.

Critical accounting estimates and assumptions:

The company makes estimates and assumptions concerning the future. The resulting estimates, by definition, will seldom agree to the related actual results. The estimates and assumptions that have moderate risk of causing a material adjustment in the next financial year are with regard to the defined pension scheme, please refer to the definitions below and note 20.

Pension and other post-employment benefits

The cost of defined benefit pensions plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long-term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates for the respective country. Further details are given in note 20.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4 Financial instruments

The company has no financial liabilities measured at fair value through profit or loss. The company has the following financial assets measured at fair value through profit or loss.

	<u>2019</u> <u>£000</u>	<u>2018</u> <u>£000</u>
Derivative financial instruments	319	395

The company enters into forward foreign currency contracts to mitigate the exchange rate risk for certain foreign currency payables.

Hedge	Period	Average rate	Percentage of need hedged	Amount (000)
One	January to June / 6 months ended 30 June 2020	88%	50%	€ 13,800
Two (a)	January to June / 6 months ended 30 June 2020	85%	25%	€ 6,900
Two (b)	Jun to December / year ended 31 December 2020	85%	50%	€ 13,800

At 31 December 2019, the outstanding contracts all mature within 12 months (2018: 6 months) of the year end.

The forward currency contracts are measured at fair value, which is determined using valuation techniques that utilise observable inputs. The key assumptions using in valuing the derivatives are the exchange rate for GBP: EUR which was 88% for hedge one and 85% for hedge two.

5 Turnover

The turnover and profit before taxation were attributable to the Company's principal activity.

The geographical analysis of turnover by market which originates in the UK is:

	<u>2019</u> <u>£000</u>	<u>2018</u> <u>£000</u>
U.K.	52,252	46,088

6 Operating profit

	<u>2019</u> <u>£000</u>	<u>2018</u> <u>£000</u>
Is arrived at after charging/(crediting):		
Operating lease costs:		
- Operating lease payments	107	117
Services provided by the company's auditors:		
- fee payable for the audit	38	17
Amounts payable to defined pension scheme (note 20)	123	131
Net foreign currency exchange differences	(81)	326
Directors' remuneration (note 8)	258	386
	<u>445</u>	<u>977</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Employee Information

The average monthly number of employees of the Company during the year was:

	<u>2019</u>	<u>2018</u>
By activity:	Number	Number
General	2	2
Marketing & Sales	16	18
Logistics	6	9
Finance	4	6
Total	<u>28</u>	<u>35</u>

Their payroll costs were:

	<u>2019</u>	<u>2018</u>
	<u>£000</u>	<u>£000</u>
Wages and salaries	1,797	2,169
Social security costs	247	238
Other pension costs	123	131
	<u>2,167</u>	<u>2,538</u>

8 Directors' Emoluments

	<u>2019</u>	<u>2018</u>
	<u>£000</u>	<u>£000</u>
Directors' remuneration	<u>258</u>	<u>386</u>
Amounts receivable under long term incentive plans	-	21
Number of directors accruing benefits under:	-	2
Defined pension schemes		
	<u>2019</u>	<u>2018</u>
	<u>£000</u>	<u>£000</u>
In respect of highest paid director:		
Aggregate remuneration	<u>104</u>	<u>286</u>
Accrued pension at the end of the year	-	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

9 Tax on profit	<u>2019</u>	<u>2018</u>
(a) Tax expense included in profit or loss	<u>£000</u>	<u>£000</u>
Current tax		
UK corporation tax charge	94	242
Adjustments in respect of previous periods	(62)	1
Total current tax	<u>32</u>	<u>243</u>
Deferred tax		
Current year	-	(12)
Adjustments in respect of previous periods	10	-
Total deferred tax	<u>10</u>	<u>(12)</u>
Total tax charge to the profit and loss account for the year	<u>42</u>	<u>231</u>

(b) Reconciliation of tax charge

The tax expense in the profit and loss account for the year is the standard rate of corporation tax in the UK of 19%. The differences are reconciled below:

	<u>2019</u>	<u>2018</u>
	<u>£000</u>	<u>£000</u>
Profit before taxation	<u>480</u>	<u>1,198</u>
Corporation tax at 19%	91	228
Adjustments in respect of previous periods	(52)	-
Permanent disallowable and non-taxable items	3	3
Total tax charge for the year	<u>42</u>	<u>231</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

10 Tangible and intangible assets

Tangible assets

	Computer Hardware	Office Equipment	Rights of Use assets	Total
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Costs:				
At 1 January 2019	2	93	-	95
Recognition on transition	-	-	372	372
At 31 December 2019	2	93	372	467
Accumulated depreciation:				
At 1 January 2019	2	93	-	95
Depreciation current year	-	-	122	122
At 31 December 2019	2	93	122	217
Net book amount as at 31 December 2019	-	-	250	250

Intangible assets

	Software	Total
	<u>£000</u>	<u>£000</u>
Costs:		
At 1 January 2019	-	-
Additions	24	24
At 31 December 2019	24	24
Accumulated depreciation:		
At 1 January 2019	-	-
Depreciation current year	4	4
At 31 December 2019	4	4
Net book amount as at 31 December 2019	20	20

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 Debtors – amounts falling due within one year	<u>2019</u>	<u>2018</u>
	<u>£000</u>	<u>£000</u>
Amounts falling due within one year:		
Trade debtors	9,631	7,731
Provision for doubtful debts	(95)	(154)
Amounts owed by group undertakings	1,802	6,130
Derivative financial instruments	-	395
Other debtors	258	66
Prepayments and accrued income	92	179
Total	<u>11,688</u>	<u>14,347</u>

Amounts owed by group undertakings due within one year relate to trading balances that are settled on a monthly basis according to usual credit terms, and are unsecured, interest free and repayable on demand.

12 Creditors	<u>2019</u>	<u>2018</u>
	<u>£000</u>	<u>£000</u>
Amounts falling due within one year:		
Trade creditors	646	654
Amounts owed to group undertakings	8,658	1,407
Derivatives from group companies	319	-
Corporation tax	-	261
Lease liabilities	244	-
Accruals and deferred income	3,869	2,862
Total	<u>13,736</u>	<u>5,184</u>

Amounts owed to group undertakings relate to trading balances that are settled on a monthly basis according to usual credit terms, and are unsecured, interest free and repayable on demand.

13 Deferred tax liability	<u>2019</u>	<u>2018</u>
	<u>£000</u>	<u>£000</u>
Deferred tax liabilities		
Provision at start of period	-	-
Deferred tax previously unrecognised	47	-
Adjustment in respect of prior years	10	-
Charged to the income statement	-	-
Charged directly to other comprehensive income	25	-
Provision at end of period	<u>82</u>	<u>-</u>

In his budget on 11 March 2020, the Chancellor of the Exchequer confirmed that the UK corporation tax rate would remain at 19% on 1 April 2020 and would no longer reduce to 17%. As this announcement was not substantively enacted at the company's balance sheet date, deferred tax has correctly been recognised at 17%.

NOTES TO THE FINANCIAL STATEMENTS (continued)**14 Financial commitments**

The Company has entered into commercial leases on certain properties, motor vehicles and items of machinery. These leases have an average duration of between 1 - 4 years. Only the property lease agreements contain an option for renewal. The company has the following lease payments under non-cancellable operating leases for each of the following periods.

Operating lease commitments	Land & Buildings	Other	Land & Buildings	Other
	2019	2019	2018	2018
	£000	£000	£000	£000
Operating leases which expire:				
Within one year	105	2	131	36
In two to five years	131	3	236	17
After more than five years	-	-	-	-
	236	5	367	53

15 Called up share capital

	2019	2019	2018	2018
	Number	£000	Number	£000
	'000		'000	
Allotted, called up and fully paid				
Ordinary shares of £1 each	5,301	5,301	5,301	5,301

16 Cash Flow Statement

The company has taken advantage of the exemption from preparing a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flows, in the parent company's financial statements, includes the Company's cash flows. The Company's shareholders have been notified, and have no objection to, the use of this exemption by the Company's shareholders.

17 Related Party Transactions

During the year the Company entered into purchase transactions, in the ordinary course of business, with other related parties. The Company has taken advantage of the exemption under paragraph 8(k) of FRS101 not to disclose transactions with fellow wholly owned subsidiaries.

Terms and conditions of transactions with related parties

Purchases from related parties are made on an arm's length basis. Outstanding balances with entities other than subsidiaries are unsecured, interest free and cash settlement is expected within 30 days of invoice.

18 Ultimate Parent Company

This Company's immediate parent company is FrieslandCampina International Holding BV which is incorporated and registered in the Netherlands.

The ultimate parent company is Royal FrieslandCampina NV which is incorporated and registered in the Netherlands and is the smallest and largest group to consolidate these financial statements. The Company is included within these group financial statements which are publicly available. Copies of the Royal FrieslandCampina NV financial statements can be obtained from Royal FrieslandCampina NV, Stationsplein 4, 3818 LE Amersfoort, the Netherlands.

NOTES TO THE FINANCIAL STATEMENTS (continued)

19 Post balance sheet event

There were no significant events after the balance sheet date. COVID-19 had only minimal impact on sales and performance, as the market in which FrieslandCampina UK Limited operates remained relatively stable. Covid-19 is a non-adjusting event.

20 Pension and other post-employment benefits

(a) Defined Contribution Pension Scheme

The Company operates a defined contribution pension scheme. The pension charge for the year represents contributions payable by the Company to the scheme and amounted to £123k (2018: £131k). There were no outstanding or prepaid contributions at the end of the financial year.

(b) Defined Benefit Scheme

The company sponsors the scheme which is a funded defined benefit arrangement. This is a separate trustee administered fund holding the pension plan assets to meet long term pension liabilities for some 24 past and present employees. The level of retirement benefit is principally based on salary earned in the last three years of employment prior to leaving active service and is linked to changes in inflation up to retirement.

The scheme is subject to the funding legislation, which came into force on 30 December 2005, outlined in the Pensions Act 2004. This, together with documents issued by the Pension Regulator, and Guidance Notes adopted by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension plans in the UK.

The trustees of the scheme are required to act in the best interest of the scheme's beneficiaries. The appointment of the trustees is determined by the scheme's trust documentation. It is policy that one third of all trustees should be nominated by the members.

A full actuarial valuation was carried out as at 31 December 2019 in accordance with the scheme funding requirements of the Pension Act 2004 and the funding of the scheme is agreed between the company and the trustees in line with those requirements. These in particular require the surplus/deficit to be calculated using prudent, as opposed to best estimate actuarial assumptions.

The results of the actuarial valuation as at 31 December 2019 showed a surplus of £588,000 (2017 surplus of £324,000). The scheme's expenses and levies due to the Pension Protection Fund are payable separately by the company. The company may also pay additional contributions of any amount and at any time from those set out above.

For the purposes of IAS19, the preliminary results of the actuarial valuation as at 31 December 2017, which was carried out by a qualified independent actuary, has been updated on an approximate basis to 31 December 2019. There have been no changes in the valuation methodology adopted for this period's disclosures compared to the previous period's disclosures

	<u>2019</u>	<u>2018</u>
	<u>£000</u>	<u>£000</u>
Fair value of plan assets	3,615	3,168
Present value of defined benefit obligation	3,027	2,740
Surplus in scheme	<u>588</u>	<u>428</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

20 Pension and other post-employment benefits (continued)

The amounts recognised in the profit and loss account and in the statement of Comprehensive Income for the year are analysed as follows:

	<u>2019</u> <u>£000</u>	<u>2018</u> <u>£000</u>
Net interest income	12	15
Defined benefit income recognised in profit or loss	<u>12</u>	<u>15</u>
Taken to the Statement of Comprehensive Income:		
	<u>2019</u> <u>£000</u>	<u>2018</u> <u>£000</u>
Return on plan assets loss/ (gain)	408	(326)
Actuarial loss/ (gain) arising from:		
Experience adjustment	-	(39)
Changes in demographic assumptions	1	25
Changes in financial assumptions	<u>(261)</u>	<u>157</u>
Total amount recognised in other comprehensive income	<u>148</u>	<u>(183)</u>

Changes in the present value of the defined benefit pension obligations are analysed as follows:

	<u>2019</u> <u>£000</u>	<u>2018</u> <u>£000</u>
Defined benefit obligation at start of period	2,740	2,861
Interest expense	76	71
Actuarial losses/(gains) due to:		
Scheme experience	-	39
Changes in demographic assumptions	(1)	(25)
Changes in financial assumptions	261	(157)
Benefits paid & expenses	<u>(49)</u>	<u>(49)</u>
Defined benefit obligation at end of period	<u>3,027</u>	<u>2,740</u>

There have been no scheme amendments, curtailments or settlements in the accounting period.

NOTES TO THE FINANCIAL STATEMENTS (continued)

20 Pension and other post-employment benefits (continued)

Changes in the fair value of plan assets are analysed as follows:

	<u>2019</u>	<u>2018</u>
	<u>£000</u>	<u>£000</u>
Fair value of plan assets at start of period	3,168	3,457
Interest income	88	86
Return on plan assets excluding amounts included in interest income	408	(326)
Benefits paid & expenses	(49)	(49)
Fair value of plan assets at end of period	<u>3,615</u>	<u>3,168</u>

The actual return on the plan assets over the period ended 31 December 2019 was £496,000

It is the policy of the trustees and the company to review the investment strategy at the time of each funding valuation. The trustees' investment objectives and the processes undertaken to measure and manage the risks inherent in the scheme investment strategy are illustrated by the asset allocation as at 31 December 2019.

There are no asset-liability matching strategies currently being used by the scheme.

Significant Actuarial Assumptions

	<u>2019</u>	<u>2018</u>
	<u>£000</u>	<u>£000</u>
Discount Rate	2.10	2.80
Inflation (CPI)	2.05	2.25
Allowance for:		
Revaluation of deferred pensions of CPI or 5% p.a. if less	2.05	2.25
Pension in payment increases of CPI or 5% p.a. if less	2.10	2.25
Pension in payment increases of CPI or 3% p.a. if less	1.80	2.25
	1.65	2.25
Pension in payment increases of CPI or 2.5% p.a. if less		
Commutation of pension for cash at retirement	50% of Post A Day	50% of Post A Day

NOTES TO THE FINANCIAL STATEMENTS (continued)

20 Pension and other post-employment benefits (continued)

The mortality assumptions adopted at 31 December 2018 are 100% of the standard tables S2PxA, Year of Birth, no age rating for males and females, projected using CMI_2017 converging to 1.25% p.a. These imply the following life expectancies:

	Life expectancy at age 65 (Years)
Male retiring in 2019	21.8
Female retiring in 2019	23.6
Male retiring in 2039	23.1
Female retiring in 2039	25.2

Analysis of the sensitivity to the principal assumptions of the present value of the defined benefit obligation is shown below:

	Change in assumption	Change in liabilities
Discount rate	Increase of 0.10% p.a.	Decrease by 1.8%
Rate of inflation	Increase of 0.10% p.a.	Increase by 1.6%
Rate of mortality	Increase in life expectancy of 1 yr.	Increase by 2.9%
Commutation	Members commute an extra 10% of Post A Day pension on retirement	Decrease of 0.3%

The scheme typically exposes the Company to actuarial risks such as investment risk, interest rate risk, mortality risk and longevity risk. A decrease in corporate bond yields, a rise in inflation or an increase in life expectancy would result in an increase to scheme liabilities. This would detrimentally impact the balance sheet position and may give rise to increased charges in future profit and loss account accounts. This effect would be partially offset by an increase in the value of the plan's bond holdings. Additionally, caps on inflationary increases are in place to protect the scheme against extreme inflation. The company is not expected to make any contributions to the scheme for the period commencing 1 January 2020.