

LACTALIS NESTLÉ CHILLED DAIRY COMPANY LIMITED
REGISTERED NUMBER 5849220

ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017



**LACTALIS NESTLÉ CHILLED DAIRY COMPANY LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

COMPANY INFORMATION

Directors;	Marc Ducre (Resigned : 22 March 2018) Michel Peslier Anthony Sharpe Alan Prior Jean-Paul Mouchotte (Appointed : 22 March 2018)
Registered number;	5849220
Registered office;	Red Central, 60 High Street, Redhill, Surrey, RH1 1SH
Independent auditors;	KPMG LLP, Statutory Auditor Chartered Accountants 15 Canada Square Canary Wharf London E14 5GL

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LACTALIS NESTLÉ CHILLED DAIRY COMPANY LIMITED
STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

BUSINESS REVIEW

Group turnover for the year amounted to £127,474,000 which was a 2% decrease from £129,855,000 in 2016, reflecting the business performance in a declining market. The profit before tax also decreased to £1,076,000 from £3,086,000 achieved in 2016, mainly driven by the full effect of the deteriorating foreign exchange rates that significantly reduced our profit margins despite continued efforts to decrease costs and promotional activities.

Our sustained investment in improving the quality of our products increased customer satisfaction and was reflected in a reduction in customer complaints. We achieved over 98% (2016 : 99%) for fulfilment and on time delivery of all customer orders.

The Group had total assets of £51,369,000 as at 31 December 2017 (2016: £41,398,000).

PRINCIPAL RISKS AND UNCERTAINTIES

The management of the Group and the execution of its strategy are subject to a number of risks and uncertainties, including current economic conditions and a declining market with strong competitive environment. The Group can rely upon a portfolio of strong brands and a well placed programme of promotion and innovation activities to mitigate these.

Changes in customer demands & profitability

Risk area and potential impact

We operate in extremely competitive markets. If we fail to compete effectively or are subject to higher input prices that cannot be recovered by raising selling prices without losing volumes we could lose sales and profits. Ultimate customers could move away from dairy products for economic and other reasons, leading to lower sales and profits.

Mitigating controls

We continually strive to widen our customer base and range of listings in various customers. Despite challenging trading conditions we have significant investment in marketing our key brands. We continue to generate new products that appeal to customers whilst maintaining high quality levels. We recognise the importance of strong customer relationships and executive management play an active part in maintaining and developing these and are also involved in major customer negotiations.

Consequences on the organisation of the UK exit from the EU

Risk area and potential impact

At this stage, there remains significant uncertainty about the withdrawal process; its timeframe; and the outcome of the negotiations about the future trading arrangements between the UK and the EU. As a result of the uncertainty, exposure to foreign currency risk for the Company has increased. The impact of leaving the single market and customs union will likely impact our supply chain.

Mitigating controls

A risk assessment will be undertaken once key elements are known. Transactional currency exposures that could significantly impact the Group are managed, typically using forward purchases of foreign currencies.

Credit Risk

Risk area and potential impact

Credit risk is the risk of loss due to the inability or unwillingness of a counterparty to meet their obligations as and when they fall due. Credit risk arises from trading and is an inherent part of the Group's business.

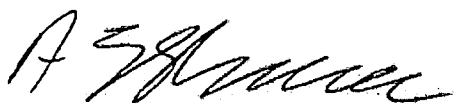
Mitigating controls

The Group monitors the exposure, credit ratings and outlook of all significant counterparties on a regular basis.

FUTURE OUTLOOK

The market is still challenging and we don't expect this to change in the immediate future. Over the next 12 months our focus is achieving a balance between profitability and volume, maintaining relationships with our customers and building a path to future growth. A continuous improvement mentality to cost savings will also be a key area of focus in 2018.

This report was approved by the board on 11 May 2018 and signed on its behalf.



Anthony Sharpe
Director

LACTALIS NESTLÉ CHILLED DAIRY COMPANY LIMITED
DIRECTOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

The Directors present their report and the consolidated financial statements for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The Company is the principal trading company of the Lactalis Nestlé Group in the United Kingdom and is engaged in the import, manufacturing and sale of chilled dairy products. Our objective is to continue to grow in the chilled dairy sector and drive value in this category.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £1,317,000 (2016 : £2,897,000).
The Directors do not recommend payment of a dividend (2016 : £NIL).

DIRECTORS

The Directors who served during the year were:

Marc Ducre (Resigned : 22 March 2018)

Michel Pestier

Anthony Sharpe

Alan Prior

Jean-Paul Mouchotte (Appointed : 22 March 2018)

The Directors have no interest in the share capital of Lactalis Nestlé Chilled Dairy Limited as at 31 December 2017 (2016 : £NIL).

POLITICAL CONTRIBUTIONS

The Group made no political or charitable donations or incurred any political expenditure during the year (2016 : £NIL).

RESEARCH AND DEVELOPMENT ACTIVITIES

There were a number of research and development projects across the year that have resulted in either new product launches or minor process improvements.

EMPLOYEE INVOLVEMENT

Employees are recognised as key assets of the Group and their quality and motivation are essential for the Group to compete successfully in its markets. To help achieve corporate aims and objectives the Group maintains and develops formal and informal systems of communication with its employees to discuss matters of mutual interest. Information on matters of concern to employees is given through bulletins, meetings reports and newsletters, and includes information to enable them to gain awareness of financial and economic factors affecting the Group.

The Group fully supports the rights of individuals to seek, obtain and hold employment without discrimination on the grounds of race, colour, religion, origin, sex, sexual orientation, disability or marital status. The Group seeks to provide a working environment free of any harassment or intimidation. Policies relating to training, career development and succession are applied equally to disabled and able-bodied employees. Employees who become disabled are retained, where possible, through redeployment and retraining, to enable them to perform work identified as appropriate to their aptitudes and abilities.

MATTERS COVERED IN THE STRATEGIC REPORT

The business review and principle risks and uncertainties for the Group are now included in the Strategic Report on page 2.

DISCLOSURE OF INFORMATION TO AUDITOR

Each of the persons who are Directors at the time when this Directors' report is approved has confirmed that:

- so far as that Director is aware, there is no relevant audit information of which the Group's auditor is unaware; and
- that Director has taken all the steps that ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Group and the Group's auditor is aware of that information.

LACTALIS NESTLÉ CHILLED DAIRY COMPANY LIMITED
DIRECTOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

AUDITOR

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

This report was approved by the board of Directors and signed on its behalf.

A handwritten signature in black ink, appearing to read 'A. Sharpe', written in a cursive style.

Anthony Sharpe
Director

Registered Address:
60 Red Central
High Street
Redhill
Surrey RH1 1SH
Date: 11 May 2018

LACTALIS NESTLÉ CHILLED DAIRY COMPANY LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF
THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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

Group law requires the directors to prepare consolidated financial statements for each financial year. Under that law the directors have elected to prepare the consolidated financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"). Under Group law the directors must not approve the consolidated financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the profit and loss of the Group for that period. In preparing these consolidated financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting 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 consolidated financial statements; and
- prepare the consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LACTALIS NESTLÉ CHILLED DAIRY COMPANY LIMITED

Opinion

We have audited the consolidated financial statements of Lactalis Nestlé Chilled Dairy Company Limited ("the company") for the year ended 31 December 2017 which comprise of the consolidated statement of comprehensive income, consolidated statement of financial position, company statement of financial position, consolidated statement of changes in equity, cash flow statement and related notes, including the accounting policies in note 2.

In our opinion the consolidated financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 (The Financial Reporting Standard applicable in the UK and Republic of Ireland); 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the consolidated financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our consolidated financial statements audit work, the information therein is materially misstated or inconsistent with the consolidated financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the consolidated financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 5, the directors are responsible for: the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent 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 they either intend to liquidate the group or parent company or to cease operations, or have no realistic alternative but to do so.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LACTALIS NESTLÉ CHILLED DAIRY
COMPANY LIMITED (continued)**

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.



Lourens De Villiers (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL
Date: 11 May 2018

LACTALIS NESTLÉ CHILLED DAIRY COMPANY LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 £000	2016 £000
Turnover	3	127,474	129,855
Cost of sales	4	<u>(96,756)</u>	<u>(94,796)</u>
Gross profit		30,718	35,059
Distribution expenses		(13,684)	(14,126)
Other income		383	188
Administrative expenses	5	<u>(16,314)</u>	<u>(18,029)</u>
Operating profit		1,103	3,092
Interest receivable and similar income	8	4	6
Interest payable and similar charges	9	<u>(31)</u>	<u>(12)</u>
Profit on ordinary activities before taxation		1,076	3,086
Current tax expense/(credit)	10	<u>241</u>	<u>(189)</u>
Profit for the financial year		<u>1,317</u>	<u>2,897</u>
Other comprehensive income/(loss)			
Effective portion of changes in fair value of cash flow hedges		-	-
Net change in fair value of cash flow hedges recycled to profit or loss		<u>323</u>	<u>(895)</u>
Other comprehensive income/(loss) for the year, net of income tax		<u>323</u>	<u>(895)</u>
Total comprehensive income for the year		<u>1,640</u>	<u>2,002</u>

All amounts related to continuing operations.

The notes on pages 14 to 25 form part of these consolidated financial statements

LACTALIS NESTLÉ CHILLED DAIRY COMPANY LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Note	2017 £000	2016 £000
ASSETS			
Non current assets			
Intangible assets	11	13,401	14,867
Property, plant and equipment	12	6,960	3,753
		<u>20,361</u>	<u>18,620</u>
Current assets			
Inventories	14	3,732	2,846
Trade and other receivables	15	17,791	12,818
Financial assets	21	1,005	554
Deferred tax assets	18	116	57
Cash at bank and in hand		8,364	6,503
		<u>31,008</u>	<u>22,778</u>
Total assets		<u>51,369</u>	<u>41,398</u>
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables	16	34,533	26,099
Government grants received	17	35	101
		<u>34,568</u>	<u>26,200</u>
Non current liabilities			
Government grants received	17	154	191
		<u>154</u>	<u>191</u>
Total liabilities		<u>34,722</u>	<u>26,391</u>
Equity			
Share capital	20	74,327	74,327
Other reserves		810	487
Retained earnings		<u>(58,490)</u>	<u>(59,807)</u>
		<u>16,647</u>	<u>15,007</u>
TOTAL EQUITY AND LIABILITIES		<u>51,369</u>	<u>41,398</u>

These consolidated financial statements were approved by the board of Directors on 11 May 2018 and were signed on its behalf by;



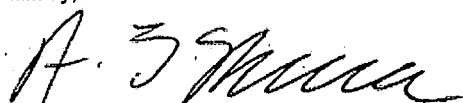
Anthony Sharpe
Director

The notes on pages 14 to 25 form part of these consolidated financial statements

LACTALIS NESTLÉ CHILLED DAIRY COMPANY LIMITED
COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Note	2017 £000	2016 £000
ASSETS			
Non current assets			
Intangible assets	11	12,238	13,623
Investment in a subsidiary	13	3,924	3,924
		<u>16,162</u>	<u>17,547</u>
Current assets			
Inventories	14	2,294	1,717
Trade and other receivables	15	18,646	14,165
Financial assets	21	1,005	554
Cash at bank and in hand		8,361	4,074
		<u>30,306</u>	<u>20,510</u>
Total assets		<u>46,468</u>	<u>38,057</u>
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables	16	30,011	24,470
Total liabilities		<u>30,011</u>	<u>24,470</u>
Equity			
Share capital	20	74,327	74,327
Other reserves		810	487
Retained earnings		(58,680)	(61,227)
		<u>16,457</u>	<u>13,587</u>
TOTAL EQUITY AND LIABILITIES		<u>46,468</u>	<u>38,057</u>

These consolidated financial statements were approved by the board of Directors on 11 May 2018 and were signed on its behalf by;



Anthony Sharpe
Director

The notes on pages 14 to 25 form part of these consolidated financial statements

LACTALIS NESTLÉ CHILLED DAIRY COMPANY LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital £000	Retained earnings £000	Cash flow hedge reserves £000	Total £000
Balance at 1 January 2016	74,327	(62,704)	1,382	13,005
<i>Total comprehensive income for the year</i>				
Profit for the year	-	2,897	-	2,897
Other comprehensive loss	-	-	(895)	(895)
Balance at 31 December 2016	74,327	(59,807)	487	15,007
At 1 January 2017	74,327	(59,807)	487	15,007
<i>Total comprehensive income for the year</i>				
Profit for the year	-	1,317	-	1,317
Other comprehensive income	-	-	323	323
Balance at 31 December 2017	74,327	(58,490)	810	16,647

The notes on pages 14 to 25 form part of these consolidated financial statements

LACTALIS NESTLÉ CHILLED DAIRY COMPANY LIMITED
COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital £000	Retained earnings £000	Cash flow hedge reserves £000	Total £000
Balance at 1 January 2016	74,327	(63,708)	1,382	12,001
<i>Total comprehensive income for the year</i>				
Profit for the year	-	2,481	-	2,481
Other comprehensive loss	-	-	(895)	(895)
Balance at 31 December 2016	74,327	(61,227)	487	13,587
At 1 January 2017	74,327	(61,227)	487	13,587
<i>Total comprehensive income for the year</i>				
Profit for the year	-	2,547	-	2,547
Other comprehensive income	-	-	323	323
Balance at 31 December 2017	74,327	(58,680)	810	16,457

The notes on pages 14 to 25 form part of these consolidated financial statements

LACTALIS NESTLÉ CHILLED DAIRY COMPANY LIMITED
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 £000	2016 £000
Cash flows from operating activities			
Profit before tax		1,076	3,086
Adjustments for:			
- Amortisation	11	1,466	1,466
- Depreciation	12	850	610
- Gain / (loss) on sale of property, plant and equipment		(17)	-
- Other income and foreign exchange loss/(gain)		(128)	48
- Net finance costs		27	6
		<u>3,274</u>	<u>5,216</u>
Changes in:			
- Trade and other receivables		(4,790)	2,590
- Inventories		(886)	378
- Trade and other payables		8,434	(10,278)
- Grant releases		<u>(103)</u>	<u>(105)</u>
		2,655	(7,415)
Cash generated from operating activities		5,929	(2,199)
Interest paid		(31)	(12)
Interest received		4	6
Income taxes paid		<u>(1)</u>	<u>(266)</u>
Net cash from operating activities		<u>5,901</u>	<u>(2,471)</u>
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		40	-
Acquisition of property plant and equipment	12	<u>(4,080)</u>	<u>(1,216)</u>
Net cash used in investing activities		<u>(4,040)</u>	<u>(1,216)</u>
Net cash from financing activities		-	-
Net increase/(decrease) in cash and cash equivalents		1,861	(3,687)
Cash and cash equivalents at 1 January		<u>6,503</u>	<u>10,190</u>
Cash and cash equivalents at 31 December		<u><u>8,364</u></u>	<u><u>6,503</u></u>

The notes on pages 14 to 25 form part of these consolidated financial statements

LACTALIS NESTLÉ CHILLED DAIRY COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

1. GENERAL INFORMATION

Lactalis Nestlé Chilled Dairy Company Limited (the "Company") and its subsidiary (together "the Group") is primarily involved in the manufacture, import, marketing and sale of chilled dairy products.

The Company and its subsidiary are incorporated and domiciled in the United Kingdom.

Basis of accounting

These consolidated financial statements were prepared in accordance with Financial Reporting Standard 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") as issued in August 2014. The amendments to FRS102 issued in July 2015 and effective immediately have been applied. They were authorised for issue by the Group's board of directors on 11 May 2018.

Functional and presentation currency

The consolidated financial statements are presented in sterling, which is the Group's functional currency. All amounts in the consolidated financial statements have been rounded to the nearest thousand, unless otherwise indicated.

2 ACCOUNTING POLICIES

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

2.1 Measurement convention

The consolidated financial statements are prepared on the historical cost basis.

2.2 Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report on page 2. At 31 December 2017 the Group had net assets of £16,647,000 (2016: £15,007,000). The Directors have strategies in place to ensure the business meets its objectives for 2018. The Directors have prepared cash flow forecasts for the period to 31 December 2018 and are satisfied that the Group will be able to meet its liabilities as they fall due.

The immediate parent entity, Lactalis Nestlé Produits Frais S. A. S. has provided the Company with an undertaking that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the Company and in particular will not seek repayment of the amounts currently made available. This should allow the Company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. As with any company placing its reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe it will not do so.

Therefore, after taking into account the above factors, the Directors believe that the Group can manage its business risks successfully and are satisfied that it has sufficient financial resources to enable them to continue operating in the foreseeable future. The Directors therefore continue to adopt the going concern basis in preparing the consolidated financial statements.

2.3 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertaking made up to 31 December 2017. The acquisition method of accounting has been adopted. Under this method, the financial statements of the subsidiary are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

LACTALIS NESTLÉ CHILLED DAIRY COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

2 ACCOUNTING POLICIES (continued)

2.4 Foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction.

Foreign currency differences are generally recognised in profit or loss. However, foreign currency differences arising from the translation of qualifying cash flow hedges to the extent that the hedges are effecting are recognised in other comprehensive income.

2.5 Research and development

Research and development expenditure is written off in the year in which it is incurred.

2.6 Government Grants

Government grants relating to property, plant and equipment are initially recognised as deferred income at fair value. They are then recognised in profit or loss as other income over the expected useful lives of the assets concerned. Other grants are credited to the profit or loss as the related expenditure is incurred.

2.7 Operating leases

Payments made under operating leases are recognised in the profit and loss on a straight line basis over the term of the lease.

2.8 Intangible assets

Goodwill in the Company is the difference between amounts paid on the acquisition of the trade and assets of a business and the fair value of the identifiable assets and liabilities. Goodwill in the Group is the Company goodwill plus the goodwill arising on the acquisition of the subsidiary. Goodwill is amortised on a straight line basis over its useful life. Goodwill has no residual value. the finite useful life of goodwill is estimated to be 20 years. This lifespan is based on discounted cash flow and continued synergies from this transaction.

The Company reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date. Goodwill is tested for impairment in accordance with Section 27 Impairment of assets when there is an indication that goodwill may be impaired.

2.9 Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost, which includes capitalised borrowing costs, less accumulated depreciation and any accumulated impairment losses. If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment. Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows;

Freehold property - 20 years

Dairy equipment - 10 years

Fixtures & fittings - 3 - 10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

LACTALIS NESTLÉ CHILLED DAIRY COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

2 ACCOUNTING POLICIES (continued)

2.10 Inventories

Inventories are measured at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving inventories. In the case of manufactured inventories and work in progress, cost includes all direct costs and an appropriate proportion of fixed and variable overheads.

2.11 Impairment

Non-derivative financial assets (including trade and other receivables)

Financial assets not carried at fair value through profit or loss are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor will enter bankruptcy.

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. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Group would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the entity's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ("CGU") that are expected to benefit from the synergies of the combination.

For the purpose of goodwill impairment testing, if goodwill cannot be allocated to individual CGUs or groups of CGUs on a non-arbitrary basis, the impairment of goodwill is determined using the recoverable amount of the acquired entity in its entirety, or if it has been integrated then the entire group of entities into which it has been integrated.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss is reversed if and only if the reasons for the impairment have ceased to apply. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.12

Basic Financial Instruments

Trade and other receivables and payables

Trade and other receivables are recognised initially at transaction price less attributable transaction costs. Trade and other payables are recognised initially at transaction price plus attributable transaction costs.

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2 ACCOUNTING POLICIES (continued)

2.12 Basic Financial Instruments (continued)

Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade receivables.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

2.13 Hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency exposures. Derivatives are initially measured at fair value; any directly attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in Other comprehensive income and accumulated in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

The amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period or periods during which the hedged item affects profit or loss.

If the forecast transaction is no longer expected to occur, the hedge no longer meets the criteria for hedge accounting, the hedging instrument expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit or loss.

2.14 Turnover

Sale of goods

Turnover comprises revenue recognised by the Group in respect of goods supplied during the year. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. The risks and rewards are transferred on delivery.

Revenue is measured net of returns, trade discounts, volume rebates and net of Value Added Tax.

2.15 Employee Benefits

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss in the periods during which services are rendered by employees.

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2 ACCOUNTING POLICIES (continued)

2.16 Interest receivable and Interest payable

Interest receivable and similar income include interest receivable on funds invested. Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method.

2.17 Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Current tax assets and liabilities are offset only certain criteria are met.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans and the reversal of temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rate that is expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at reporting date, to recover or settle the carrying amount of its assets and liabilities.

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3	TURNOVER	2017	2016
		£000	£000

A geographical analysis of turnover is as follows:

United Kingdom	123,002	125,987
Rest of European Union	4,472	3,868
	<u>127,474</u>	<u>129,855</u>

The Group is engaged in the manufacture, import, marketing and sale of chilled dairy products and therefore, in view of management, operates under only one segment. Therefore no further segmental information is provided.

4	COST OF SALES	2017	2016
		£000	£000

Costs of inventories recognised as an expense	86,788	84,948
Staff costs	2,403	2,099
Other costs	7,565	7,749
	<u>96,756</u>	<u>94,796</u>

5	ADMINISTRATIVE EXPENSES	2017	2016
		£000	£000

Depreciation	850	610
Amortisation	1,466	1,466
Staff costs	4,122	4,184
Auditors' remuneration	60	59
Administrative Expenses	9,816	11,710
	<u>16,314</u>	<u>18,029</u>

There have been no amounts received by the auditors in respect of other services.

6 STAFF COSTS

The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows:

	2017	2016
	No.	No.
Administration	55	53
Production and administration	88	92
Sales	19	16
	<u>162</u>	<u>161</u>

The aggregate payroll costs of these persons were as follows:

	2017	2016
	£000	£000
Wages and salaries	5,686	5,328
Social security costs	501	486
Contributions to defined contribution plans	214	250
Other employee-related expenses	124	220
	<u>6,525</u>	<u>6,284</u>

LACTALIS NESTLÉ CHILLED DAIRY COMPANY LIMITED
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FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 £000	2016 £000
7 DIRECTORS' REMUNERATION		
Directors' remuneration	469	397
Company contributions to money purchase pension plans	10	62
Amounts paid to third parties in respect of directors' services	<u>2</u>	<u>2</u>
	<u>481</u>	<u>461</u>
During the year retirement benefits were accruing to 2 directors (2016 : 2) in respect of defined contribution pension schemes. The highest paid director received remuneration of £261,143 (2016 :£239,242).		
8 INTEREST RECEIVABLE AND SIMILAR INCOME	2017 £000	2016 £000
Interest receivable on financial assets at amortised cost	<u>4</u>	<u>6</u>
Interest receivable and similar income includes income from group undertakings of £4,263 (2016: £5,688)		
9 INTEREST PAYABLE AND SIMILAR CHARGES	2017 £000	2016 £000
Interest payable on loans from group undertakings	<u>(31)</u>	<u>(12)</u>
10 TAXATION	2017 £000	2016 £000
Total tax expense recognised in the profit and loss account.		
Analysis of charge/(credit) for the period		
<i>Current tax</i>		
Current tax on income for the period	(165)	183
Adjustments in respect of prior periods	<u>(17)</u>	<u>-</u>
Total current tax	<u>(182)</u>	<u>183</u>
<i>Deferred tax</i>		
Deferred tax for the current year	(59)	(9)
Adjustments in respect of prior periods	<u>-</u>	<u>15</u>
Total deferred tax	<u>(59)</u>	<u>6</u>
Tax on profit on ordinary activities	<u>(241)</u>	<u>189</u>
Factors affecting tax charge for the year		
The tax assessed for the year is at the standard rate of corporation tax in the UK of 19.25% (2016 : 20%). The differences are explained below:		
	2017 £000	2016 £000
Profit on ordinary activities before tax	<u>1,076</u>	<u>3,086</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016 : 20%)	207	617
Effects of:		
Expenses not deductible for tax purposes	-	37
Deferred tax not recognised	(448)	(465)
Adjustment in respect of prior periods and differences in tax rates	<u>-</u>	<u>-</u>
Total current tax charge/(credit) (see above)	<u>(241)</u>	<u>189</u>
The adjustment to the tax charge in respect of prior periods relates to the availability of consortium relief from related parties from earlier years.		

LACTALIS NESTLÉ CHILLED DAIRY COMPANY LIMITED
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11 INTANGIBLE ASSETS

	Group £000	Company £000
Cost		
At 1 January 2016	65,243	63,621
At 31 December 2016	65,243	63,621
At 31 December 2017	<u>65,243</u>	<u>63,621</u>
Amortisation and impairment		
At 1 January 2016	(48,910)	(48,613)
Amortisation for the year	<u>(1,466)</u>	<u>(1,385)</u>
At 31 December 2016	(50,376)	(49,998)
Amortisation for the year	<u>(1,466)</u>	<u>(1,385)</u>
Balance at 31 December 2017	<u>(51,842)</u>	<u>(51,383)</u>
Net book value		
At 31 December 2016	<u>14,867</u>	<u>13,623</u>
At 31 December 2017	<u>13,401</u>	<u>12,238</u>

Amortisation and impairment charge

The amortisation was recognised in the administrative expenses.

The goodwill in the company is the difference between the amount paid upon acquisition of the trade and assets of the business, and the fair value of the identifiable assets and liabilities. Goodwill in the Group is the company goodwill plus the goodwill arising on the acquisition of the subsidiary. Both are amortised to the statement of comprehensive income over their estimated useful life of 20 years. The goodwill is tested for impairment annually.

12 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £000	Plant and equipment £000	Fixtures and fittings £000	Construction in progress £000	Total £000
Cost					
At 1 January 2016	2,630	9,850	474	-	12,954
Additions	-	352	-	864	1,216
Disposals	-	(467)	-	-	(467)
At 31 December 2016	2,630	9,735	474	864	13,703
Additions	339	3,722	-	19	4,080
Transfers	385	479	-	(864)	-
Disposals	-	(632)	-	-	(632)
At 31 December 2017	<u>3,354</u>	<u>13,304</u>	<u>474</u>	<u>19</u>	<u>17,151</u>
Depreciation					
At 1 January 2016	(1,542)	(7,801)	(464)	-	(9,807)
Depreciation charge for the year	(108)	(498)	(4)	-	(610)
Disposals	-	467	-	-	467
At 31 December 2016	(1,650)	(7,832)	(468)	-	(9,950)
Depreciation charge for the year	(122)	(727)	(1)	-	(850)
Disposals	-	609	-	-	609
Balance at 31 December 2017	<u>(1,772)</u>	<u>(7,950)</u>	<u>(469)</u>	<u>-</u>	<u>(10,191)</u>
Net book value					
At 31 December 2016	<u>980</u>	<u>1,903</u>	<u>6</u>	<u>864</u>	<u>3,753</u>
At 31 December 2017	<u>1,582</u>	<u>5,354</u>	<u>5</u>	<u>19</u>	<u>6,960</u>

LACTALIS NESTLÉ CHILLED DAIRY COMPANY LIMITED
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13 INVESTMENT IN A SUBSIDIARY

The Company has the following investment in a subsidiary;

Name	Number of shares	Class of shares held	Ownership %
Rachel's Dairy Limited	50,000	Ordinary £1	100
Investment in subsidiary company		2017 £000	2016 £000
Cost		<u>3,924</u>	<u>3,924</u>
Net book value		<u>3,924</u>	<u>3,924</u>

14 INVENTORIES

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Raw materials and consumables	1,407	1,156	-	-
Finished goods	<u>2,325</u>	<u>1,690</u>	<u>2,294</u>	<u>1,717</u>
	<u>3,732</u>	<u>2,846</u>	<u>2,294</u>	<u>1,717</u>

15 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Trade receivables	10,310	11,347	10,283	11,337
Amounts owed by subsidiary undertakings	-	-	1,516	1,460
Amounts owed by other related parties	6,293	975	6,268	1,095
Other debtors	841	360	535	258
Prepayments and accrued income	<u>347</u>	<u>136</u>	<u>44</u>	<u>15</u>
	<u>17,791</u>	<u>12,818</u>	<u>18,646</u>	<u>14,165</u>
Due within one year	17,791	12,818	18,646	14,165
Due after more than one year	-	-	-	-
	<u>17,791</u>	<u>12,818</u>	<u>18,646</u>	<u>14,165</u>

Included in the amounts owed by subsidiary undertakings is a £1,450,000 loan (2016 : £1,450,000) to Rachel's Dairy Limited which is repayable on demand and incurs interest of 0.6% per annum.

16 TRADE AND OTHER PAYABLES

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Amounts falling due within one year				
Trade creditors	4,605	4,664	2,807	2,758
Amounts owed to subsidiary company	-	-	1,385	1,225
Amounts owed to other related parties	18,451	12,237	17,776	11,527
Taxation and social security	163	176	103	90
Accruals and deferred income	8,133	9,022	7,940	8,870
Bank overdraft	<u>3,181</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>34,533</u>	<u>26,099</u>	<u>30,011</u>	<u>24,470</u>

Included in the amounts owed to other related parties is a £3,914,493 loan (2016 : £3,914,493) from Lactalis Nestlé Produits Frais S.A.S. which is repayable on demand and incurs interest of 0.25% per annum.

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17 GOVERNMENT GRANTS

	Group	
	2017	2016
	£000	£000
Government grants received		
The maturity of government grants is as follows:		
Amounts falling due within one year	35	101
Amounts falling due after more than one year up to five years	104	115
Amounts falling due after five years	50	76
	189	292
The movement of government grants can be summarised as follows:		
At beginning of the year	292	397
Release to statement of comprehensive income	(103)	(105)
Total	189	292

18 DEFERRED TAX ASSETS AND LIABILITIES

	Group	
	2017	2016
	£000	£000
The provision for deferred tax is made up as follows:		
Deferred taxation movements		
Deferred tax asset/(liability) at beginning of year	57	63
(Debit)/credit in statement of comprehensive income	59	(6)
Deferred tax asset at end of year	116	57
Deferred taxation analysis		
Deferred taxation provided in the financial statements is as follows;		
Excess of capital allowances over depreciation	(76)	(4)
Movement in government grants	33	58
Other timing differences	159	3
Deferred tax asset/(liability)	116	57

The Group has an unrecognised deferred tax asset of £6,524,000 (2016 : £7,214,000) at the year end. This amount has not been recognised as the directors are of the opinion that recoverability of the deferred tax asset is uncertain.

On 26 October 2015, the government enacted legislation setting the Corporate Tax main rate (for all profits except ring fence profits) at 19% for the years starting 1 April 2017, 2018 and 2019 and at 18% for the year starting 1 April 2020 (previously 20% from 1 April 2015). On 6 September 2016 the government enacted a further reduction to the Corporation Tax main rate (for all profits except ring fence profits) for the year starting 1 April 2020, setting the rate at 17%. The deferred tax asset at 31 December 2017 has been calculated based on these rates.

19 EMPLOYEE BENEFITS

Defined contribution plans

The Group operates a defined contribution pension plan. The total expense relating to these plans in the current year was £214,000 (2016 : £250,000).

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20 SHARE CAPITAL

	2017 £000	2016 £000
Allotted, called up and fully paid		
74,326,895 ordinary shares of £1 each	<u>74,327</u>	<u>74,327</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

21 FINANCIAL ASSETS

The amount of all financial assets and financial liabilities carried at fair value are as follows:

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Forward exchange contract assets	<u>1,005</u>	<u>554</u>	<u>1,005</u>	<u>554</u>

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

22 OPERATING LEASES

	2017 £000	2016 £000
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	80	82
Between one and five years	<u>-</u>	<u>-</u>
	<u>80</u>	<u>82</u>

During the year £122,000 was recognised as an expense in the statement of comprehensive income in respect of operating leases (2016 : £104,000).

23 RELATED PARTIES

During the year the Group entered into transactions, in the ordinary course of business, with other related parties. Transactions entered into, and trading balances outstanding at 31 December 2017, are as follows:

	Sales to		Purchases from	
	2017 £000	2016 £000	2017 £000	2016 £000
Fellow subsidiaries in Lactalis Group	-	158	97,451	90,326
Fellow subsidiaries in Nestlé Group	<u>-</u>	<u>-</u>	<u>3,898</u>	<u>4,115</u>
	<u>-</u>	<u>158</u>	<u>101,349</u>	<u>94,441</u>
	Creditors outstanding			
			2017 £000	2016 £000
Fellow subsidiaries in Lactalis Group			7,320	7,003
Fellow subsidiaries in Nestlé Group			<u>12</u>	<u>21</u>
			<u>7,332</u>	<u>7,024</u>

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24 ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The Company is controlled by Lactalis Nestlé Produits Frais S.A.S. by virtue of its 100% holding of the Company's ordinary share capital. The ultimate parent company is B.S.A. incorporated in France.

The largest group in which the consolidated financial statements are consolidated is that headed by B.S.A. and may be obtained from 33 Avenue du Maine, Montparnasse, 75755 Paris, France.