

**Kavli UK Limited**  
**Annual report and financial statements**  
**for the year ended 31 December 2015**

**Registered number 08485608**



# Kavli UK Limited

## Annual report and financial statements

### for the year ended 31 December 2015

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# **Kavli UK Limited**

## **Directors and advisers**

### **Directors**

P R Lewney	Managing director
E Volden	Chairman

### **Company secretary**

L Hayes

### **Registered office**

Kingsway  
Team Valley Trading Estate  
Gateshead  
Tyne and Wear  
NE11 0ST

### **Bankers**

DNB  
8<sup>th</sup> Floor  
The Walbrook Building  
25 Walbrook  
London  
EC4N 8AF

### **Solicitors**

Muckle LLP  
Time Central  
32 Gallowgate  
Newcastle upon Tyne  
NE1 4BF

### **Independent auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Central Square South  
Orchard Street  
Newcastle upon Tyne  
NE1 3AZ

# **Kavli UK Limited**

## **Strategic report for the year ended 31 December 2015**

The directors present their strategic report on the company and group for the year ended 31 December 2015.

### **Principal activities and business review**

Kavli UK Limited is a wholly owned subsidiary of Kavli Holding A/S and operates as part of the Kavli Holding A/S group's (the Kavli Holding group) European division. The Kavli Trust (Kavlifondet) is the sole owner of Kavli Holding A/S which runs the commercial operations of the Scandinavian based Kavli food group. The objective of Kavli Holding A/S is to provide secure, long-term funding to the Kavli Trust so that it can continue to provide financial support to good causes. A proportion of the Kavli food group's profits are reinvested to strengthen and develop the group's operations, while the remainder is passed to the Kavli Trust to make charitable donations in line with its priorities and commitments, the key beneficiaries being humanitarian work and research as well as some cultural activities. All of the prior year profits after taxation of Kavli UK Limited are normally transferred to Kavli Holding A/S for the ultimate benefit of the Kavli Trust other than in years where there are specific cashflow requirements to grow the UK businesses.

The principal activities of the company and its subsidiaries are the manufacture and sale of food products to the retail food and food service industries in the United Kingdom and Europe. There have not been any significant changes in the group's principal activities in the year under review. The directors are not aware, at the date of this report, of any other likely major changes in the group's activities in the next year.

As shown in the consolidated profit and loss account on page 10, the group's turnover has increased by 5.2% against the prior year with a profit on ordinary activities before taxation of £3,035,238 (2014: £1,967,883). The full year impact of the extension of the factory at Castle MacLellan Foods Limited, additional sales with new and existing customers, a more profitable product mix and cost reductions have been the main reasons for the growth in 2015.

The consolidated statement of financial position on page 12 of the financial statements shows that the group's financial position at the year end is, in net asset terms, higher than the prior year due to the improved profitability in 2015 and the repayment of debt. The cash position has improved due to the increased profitability of the group. Details of amounts owed to its parent company are shown in note 14.

# Kavli UK Limited

## Strategic report for the year ended 31 December 2015 (continued)

### Key performance indicators (KPIs)

The group manages its operations using key performance indicators. As the overriding objective of the business is to provide secure, long-term funding to the Kavli Trust, profitability and return on the Kavli Trust's income-generating assets is of paramount importance. The principal financial key performance indicators monitored to ensure achievement of this objective include:

Key performance Indicator	Definition	2015	2014
Profitability	Operating profit in absolute terms and Operating profit margin	£3,579,099 7.6%	£2,313,834 5.2%

Profitability has improved through sales growth with new and existing customers, a more profitable sales mix as well as good cost control.

Return on average capital employed	Operating profit divided by the average of the opening and closing Total assets less current liabilities	10.9%	6.9%
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Although the company's asset base has increased this has allowed the group to make additional sales to new and existing customers, increasing profitability and the return on capital employed.

Average monthly working capital	Average monthly short term assets less average short term liabilities (excluding cash, overdrafts & group balances) as percentage of turnover.	3.3%	2.6%
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The average monthly working capital position has worsened slightly due to the extreme seasonality of the Christmas trading period.

### Principal risks and uncertainties

As with any business, the group faces a number of risks and uncertainties in the course of its day to day operations. The group regularly reviews its principal risks and prioritises them according to the potential impact and likelihood to adversely affect the group. This allows the management team to design appropriate responses and to prioritise actions to the most severe risks facing the group. The principal risks affecting the group include:

Competitive pressure in the United Kingdom is a continuing risk for the group, which could result in it losing sales to its key competitors. The group manages this risk by providing value-added services to its customers, having fast response times not only in supplying products but in handling all customer queries, product development and by maintaining strong relationships with its customers.

Raw material availability/pricing is a risk in respect of key raw materials. The group monitors raw material sources on a national and global basis for key inputs and negotiates forward purchase contracts where appropriate with key suppliers.

## Strategic report for the year ended 31 December 2015 (continued)

### Principal risks and uncertainties (continued)

Operational failure as a result of a major disaster is an inherent risk for the group. This could cause significant disruption to the business and so the group has in place a formal business continuity plan that is regularly reviewed and updated.

Legislative and regulatory compliance is critical for a food manufacturing business. The group monitors current and forthcoming legislation regularly to ensure ongoing compliance.

### Financial risk management

The group's operations expose it to a variety of financial risks that include the effects of changes in price risk, currency risk, credit risk, liquidity risk and interest rate cash flow risk. The group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the group by monitoring levels of debt finance and the related finance costs.

Given the size of the group, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors are implemented by the group's finance department.

### Price risk

The group is exposed to commodity price risk as a result of its operations. However, given the size of the group's operations, the cost of managing exposure to commodity price risk exceeds any potential benefits. The directors will revisit the appropriateness of this policy should the group's operations change in size or nature. The group has no exposure to equity securities price risk as it holds no listed or other equity investments.

### Currency risk

The group's sales in Europe are in Euros and the group purchases some of its raw material inputs and services from European companies. It is therefore exposed to the movement in the Euro to Pound exchange rate. The Kavli Holding group's treasury function takes out contracts to manage this risk at a group level.

### Credit risk

The group has implemented policies that require appropriate credit checks on potential customers before sales are made. The group does not utilise debt finance, relying on its own controls to manage credit risk. The group also recognises it is exposed to the risk of financial institutions becoming insolvent. To reduce this risk deposits are only made with financial institutions which have been credit scored and whose global rating is appropriate.

### Liquidity risk

The group actively maintains a mixture of long-term and short-term debt finance that is designed to ensure the group has sufficient available funds for operations and planned expansions.

### Interest rate cash flow risk

The group has both interest bearing assets and interest bearing liabilities. Interest bearing assets include only cash balances, all of which earn interest at a variable rate. The group has a policy of maintaining low levels of debt to reduce the volatility of future interest cash flows. The directors will revisit the appropriateness of this policy should the group's operations change in size or nature. The group does not have any third party loans and is not therefore exposed to interest rate movements. The company has a short term overdraft from its parent which attracts interest charges at a margin of 0.85% above the UK base rate.

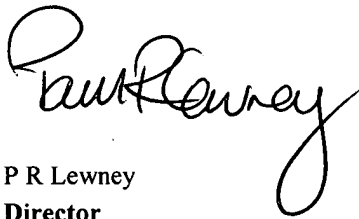
# **Kavli UK Limited**

## **Strategic report for the year ended 31 December 2015 (continued)**

### **Environment**

The Kavli Holding group recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by the group's activities. The group operates in accordance with Kavli Holding group policies which are described in the Kavli Holding group's annual report which does not form part of this report. Initiatives designed to minimise the company's impact on the environment include safe disposal of manufacturing waste, recycling and reducing energy consumption.

On behalf of the board

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

P R Lewney

**Director**

12 February 2016

# **Kavli UK Limited**

## **Directors' report for the year ended 31 December 2015**

The directors present their annual report and the audited consolidated financial statements of the company and group for the year ended 31 December 2015.

### **Company number**

Registered number 08485608

### **Branches outside the UK**

There are no branches outside the UK.

### **Dividends**

No dividend was paid during the year ended 31 December 2015 by Kavli UK Limited (2014: nil).

### **Research and development**

The group continues to invest in research and development in its products and processes. This has resulted in a number of updates to existing products and processes as well as the launch of new products. The directors regard research and development investment as necessary for continuing success in the medium to long term future.

### **Future developments**

The directors are not aware, at the date of this report, of any other likely major changes in the group's activities in the next year.

### **Post balance sheet events**

There are no significant events since the balance sheet date.

### **Financial risk management**

Details of the group's financial risk management objectives and its exposure to related risks are disclosed on page 4 of the Strategic report.

### **Directors**

The directors who held office during the year and up to the date of signing the financial statements are given below:

P R Lewney

E Volden



## Directors' report for the year ended 31 December 2015 (continued)

### Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, Directors report and the group and parent company financial statements (the "financial statements") in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102").

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's transactions and disclose with reasonable accuracy at any time the financial position of the company and 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 company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Disclosure of information to auditors

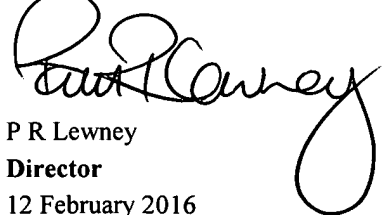
In accordance with Section 418, directors' reports shall include a statement, in the case of each director in office at the date the directors' report is approved, that:

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

### Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution that they be reappointed will be proposed at the annual general meeting.

On behalf of the board



P R Lewney

Director

12 February 2016

# **Kavli UK Limited**

## **Independent auditors' report to the members of Kavli UK Limited**

### **Report on the financial statements**

#### **Our opinion**

In our opinion, Kavli UK Limited's group financial statements and parent company financial statements (the "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 2015 and of the group's profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **What we have audited**

The financial statements, included within the Annual report and financial statements (the "Annual Report"), comprise:

- the Consolidated statement of financial position and Company statement of financial position as at 31 December 2015;
- the Consolidated profit and loss account and Consolidated statement of comprehensive income for the year then ended;
- the Consolidated statement of cash flows for the year then ended;
- the Consolidated statement of changes in equity and Company statement of changes in equity for the year then ended;
- the Statement of accounting policies; and
- the notes to the financial statements, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Other matters on which we are required to report by exception**

#### **Adequacy of accounting records and information and explanations received**

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 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.

We have no exceptions to report arising from this responsibility.

#### **Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

# Kavli UK Limited

## Independent auditors' report to the members of Kavli UK Limited (continued)

### Responsibilities for the financial statements and the audit

#### Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the parent 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.

#### What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Michael Jeffrey (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Newcastle upon Tyne  
12 February 2016

## Kavli UK Limited

### Consolidated profit and loss account for the year ended 31 December 2015

	Note	2015 £	2014 £
<b>Turnover</b>	1	<b>47,190,702</b>	44,853,576
Net operating expenses	2	(43,611,603)	(42,539,742)
<b>Operating profit</b>		<b>3,579,099</b>	2,313,834
Interest receivable and similar income	4	86,710	2,821
Interest payable and similar charges	5	(640,571)	(370,772)
Other finance income	19	10,000	22,000
<b>Profit on ordinary activities before taxation</b>		<b>3,035,238</b>	1,967,883
Tax on profit on ordinary activities	7	(1,135,092)	(1,017,231)
<b>Profit for the financial year</b>		<b>1,900,146</b>	950,652

All of the operations of the group are continuing.

# Kavli UK Limited

## Consolidated statement of comprehensive income for the year ended 31 December 2015

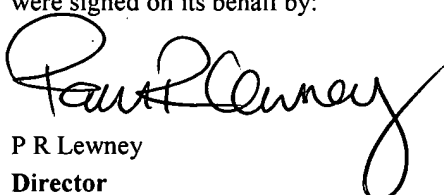
	Note	2015 £	2014 £
<b>Profit for the financial year</b>		<b>1,900,146</b>	<b>950,652</b>
<b>Other comprehensive income/(expenses):</b>			
Remeasurements of net defined benefit obligation	19	189,000	(518,000)
Impact of restriction on recognisable surplus	19	(481,000)	216,000
Total tax on components of other comprehensive income	17	58,400	60,400
Other comprehensive expenses for the year, net of tax		(233,600)	(241,600)
<b>Total comprehensive income for the year</b>		<b>1,666,546</b>	<b>709,052</b>

# Kavli UK Limited

## Consolidated statement of financial position as at 31 December 2015

	Note	2015 £	2015 £	2014 £	2014 £
<b>Fixed assets</b>					
Intangible assets	9		18,925,214		21,915,350
Tangible assets	10		9,086,170		9,828,196
Investments	11		2,512,500		2,512,500
			30,523,884		34,256,046
<b>Current assets</b>					
Stocks	12	3,750,252		3,825,092	
Debtors	13	9,447,608		9,332,795	
Cash at bank and in hand		1,811,908		5,565	
		15,009,768		13,163,452	
<b>Creditors: amounts falling due within one year</b>	14	(12,835,663)		(14,279,495)	
<b>Net current assets/(liabilities)</b>			2,174,105		(1,116,043)
<b>Total assets less current liabilities</b>			32,697,989		33,140,003
<b>Creditors: amounts falling due after more than one year</b>	15		(4,450,922)		(6,480,228)
<b>Provisions for liabilities</b>	17		(232,811)		(312,065)
<b>Net assets</b>			28,014,256		26,347,710
<b>Capital and reserves</b>					
Called up share capital	20		20,234,886		20,234,886
Revaluation reserve			916,398		916,398
Share premium account			1,056,987		1,056,087
Profit and loss account			5,805,985		4,139,439
<b>Total equity</b>			28,014,256		26,347,710

The financial statements on pages 10 to 48 were approved by the board of directors on 12 February 2016 and were signed on its behalf by:

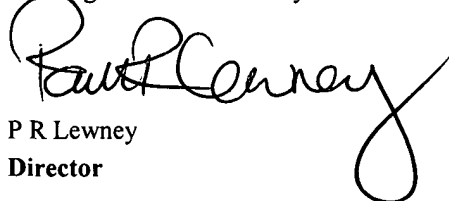
  
P R Lewney  
Director

# Kavli UK Limited

## Company statement of financial position as at 31 December 2015

	Note	2015 £	2015 £	2014 £	2014 £
<b>Fixed assets</b>					
Intangible assets	9		1,937,500		2,687,500
Tangible assets	10		739,036		805,474
Investments	11		29,496,883		29,496,883
			<b>32,173,419</b>		<b>32,989,857</b>
<b>Current assets</b>					
Stocks	12	-		-	
Debtors	13	1,861,593		406,152	
Cash at bank and in hand		1,573,043		223,426	
		<b>3,434,636</b>		<b>629,578</b>	
<b>Creditors: amounts falling due within one year</b>	14	<b>(3,221,190)</b>		<b>(2,768,603)</b>	
<b>Net current assets/(liabilities)</b>			<b>213,446</b>		<b>(2,139,025)</b>
<b>Total assets less current liabilities</b>			<b>32,386,865</b>		<b>30,850,832</b>
<b>Creditors: amounts falling due after more than one year</b>	15		<b>(4,297,500)</b>		<b>(6,256,669)</b>
<b>Provisions for liabilities</b>	17		-		-
<b>Net assets</b>			<b>28,089,365</b>		<b>24,594,163</b>
<b>Capital and reserves</b>					
Called up share capital	20		20,234,886		20,234,886
Share premium account			1,056,987		1,056,987
Profit and loss account			6,797,492		3,302,290
<b>Total equity</b>			<b>28,089,365</b>		<b>24,594,163</b>

The financial statements on pages 10 to 48 were approved by the board of directors on 12 February 2016 and were signed on its behalf by:

  
P R Lewney  
Director

# Kavli UK Limited

## Consolidated statement of changes in equity as at 31 December 2015

	Note	Called-up share capital £	Profit and loss account £	Revaluation reserve £	Share premium account £	Total equity £
Balance as at 1 January 2014		20,234,886	3,430,387	916,398	1,056,987	25,638,658
Profit for the year		-	950,652	-	-	950,652
Other comprehensive expense for the year		-	(241,600)	-	-	(241,600)
Total comprehensive income for the year		-	709,052	-	-	709,052
Dividends	8	-	-	-	-	-
Total transactions with owners, recognised directly in equity		-	-	-	-	-
Balance as at 31 December 2014		20,234,886	4,139,439	916,398	1,056,987	26,347,710
<b>Balance as at 1 January 2015</b>		<b>20,234,886</b>	<b>4,139,439</b>	<b>916,398</b>	<b>1,056,987</b>	<b>26,347,710</b>
Profit for the year		-	1,900,146	-	-	1,900,146
Other comprehensive expense for the year		-	(233,600)	-	-	(233,600)
Total comprehensive income for the year		-	1,666,546	-	-	1,666,546
Dividends	8	-	-	-	-	-
Total transactions with owners, recognised directly in equity		-	-	-	-	-
<b>Balance as at 31 December 2015</b>		<b>20,234,886</b>	<b>5,805,985</b>	<b>916,398</b>	<b>1,056,987</b>	<b>28,014,256</b>

The profit and loss reserve represents cumulative profits or losses, net of dividends paid and other adjustments.

Pre-1998 goodwill: The cumulative amount of goodwill resulting from acquisitions which has been written off to the profit and loss account is £1,094,873 (2014: £1,094,873).

The revaluation reserve represents the effect of the revaluation of freehold land and buildings in November 1988 (see note 10).

The share premium account represents the premium paid over the face value of the ordinary shares issued.



# Kavli UK Limited

## Company statement of changes in equity as at 31 December 2015

	Note	Called-up share capital £	Profit and loss account £	Share premium account £	Total equity £
Balance as at 1 January 2014		20,234,886	1,761,302	1,056,987	23,053,175
Profit for the year		-	156,590	-	156,590
Total comprehensive income for the year		-	156,590	-	156,590
Dividends	8	-	1,384,398	-	1,384,398
Total transactions with owners, recognised directly in equity		-	1,384,398	-	1,384,398
Balance as at 31 December 2014		20,234,886	3,302,290	1,056,987	24,594,163
<b>Balance as at 1 January 2015</b>		<b>20,234,886</b>	<b>3,302,290</b>	<b>1,056,987</b>	<b>24,594,163</b>
Profit for the year		-	391,942	-	391,942
Total comprehensive income for the year		-	391,942	-	391,942
Dividends	8	-	3,103,260	-	3,103,260
Total transactions with owners, recognised directly in equity		-	3,103,260	-	3,103,260
<b>Balance as at 31 December 2015</b>		<b>20,234,886</b>	<b>6,797,492</b>	<b>1,056,987</b>	<b>28,089,365</b>

The profit and loss reserve represents cumulative profits or losses, net of dividends paid and other adjustments.

The share premium account represents the premium paid over the face value of the ordinary shares issued.

# Kavli UK Limited

## Consolidated statement of cash flows as at 31 December 2015

	Note	2015 £	2015 £	2014 £	2014 £
<b>Net cash inflow from operating activities</b>	21	<b>8,392,254</b>		<b>5,197,802</b>	
Taxation paid		(965,806)		(850,564)	
<b>Net cash generated from operating activities</b>			<b>7,426,448</b>		<b>4,347,238</b>
<b>Cash flow from investing activities</b>					
Purchase of subsidiary		-		51,373	
Purchase of tangible assets		(921,924)		(5,202,317)	
Proceeds from disposals of tangible assets		13,625		41,701	
Interest received		86,710		2,821	
<b>Net cash used in investing activities</b>			<b>(821,589)</b>		<b>(5,106,422)</b>
<b>Cash flow from financing activities</b>					
Repayment of obligations under finance leases		(39,304)		(39,453)	
Repayment of loan obligations		(2,000,000)		(2,000,000)	
Interest paid		(529,740)		(119,938)	
<b>Net cash used in financing activities</b>			<b>(2,569,044)</b>		<b>(2,159,391)</b>
<b>Net increase in cash and cash equivalents</b>			<b>4,035,815</b>		<b>(2,918,575)</b>
<b>Cash and cash equivalents at the beginning of the year</b>			<b>(2,223,907)</b>		<b>694,668</b>
<b>Cash and cash equivalents at the end of the year</b>	21		<b>1,811,908</b>		<b>(2,223,907)</b>
<b>Cash and cash equivalents consisting:</b>					
Cash at bank and in hand			<b>1,811,908</b>		<b>5,565</b>
Bank overdrafts			-		<b>(2,229,472)</b>
<b>Cash and cash equivalents at the end of the year</b>	21		<b>1,811,908</b>		<b>(2,223,907)</b>

# **Kavli UK Limited**

## **Statement of accounting policies**

### **General information**

Kavli UK Limited is a private company limited by shares and is incorporated and domiciled in the United Kingdom. The registered office is Kingsway, Team Valley Trading Estate, Gateshead, Tyne and Wear, NE11 0ST.

The principal activities of the company and its subsidiaries are the manufacture and sale of food products to the retail food and food service industries in the United Kingdom and Europe.

### **Statement of compliance**

The group and company financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006. The principal accounting policies applied in the preparation of these consolidated and company financial statements are set out below. These policies have been applied consistently in the current and prior year, unless otherwise stated. Details of the transition to FRS 102 are disclosed in note 26.

Kavli UK Limited constitutes a public benefit entity as it is a part of a group which is a public benefit entity ("PBE") as defined by FRS 102. An entity within a PBE group is subject to the PBE accounting treatment despite not being a PBE itself.

### **Basis of preparation**

These consolidated and company financial statements are prepared on a going concern basis, under the historical cost convention and are in accordance with the applicable accounting standards. The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group and company accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in critical accounting estimates, assumptions and judgements in applying the accounting policies.

### **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 business review which forms part of the strategic report. The strategic report also describes the financial position of the group; its financial risk management objectives; and its exposure to credit risk and liquidity risk. The group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the group should be able to operate within the level of its current facility. The directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### **Basis of consolidation**

The consolidated financial statements include the results of the company and its subsidiary undertakings as at 31 December 2015. The results of the subsidiaries are included in the consolidated profit and loss account from the date control passed. Intra-group transactions and balances are eliminated fully on consolidation. Uniform accounting policies are adopted across the group.

# Kavli UK Limited

## Statement of accounting policies (continued)

### Basis of consolidation (continued)

On acquisition of a subsidiary, all of the subsidiary's assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. All changes of those assets and liabilities, and the resulting gains and losses, that arise after the group has gained control of the subsidiary are charged to the post-acquisition profit and loss account.

### Exemptions for qualifying entities under FRS 102

FRS 102 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.

The company has taken advantage of the following exemptions:

- (i) from preparing a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flows, included in these financial statements, includes the company's cash flows;
- (ii) from the financial instrument disclosures, required under FRS 102 paragraphs 11.39 to 11.48A and paragraphs 12.26 to 12.29, as the information is provided in the consolidated financial statement disclosures; and
- (iii) from disclosing the company's key management personnel compensation, as required by FRS 102 paragraph 33.7.

### Tangible fixed assets and depreciation

Tangible fixed assets are held at historic cost (or deemed cost) less accumulated depreciation and impairment losses. Cost, other than in relation to certain land and buildings, includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use, together with any incidental costs of acquisition.

Land and buildings include freehold and long leasehold property. Land and buildings are stated at cost (or deemed cost for land and buildings held at valuation at the date of transition to FRS 102) less accumulated depreciation and impairment losses.

Long leasehold property was the subject of a professional revaluation as at 30 November 1988 and is stated at this amount, less accumulated depreciation and impairment. The company has adopted the transition exemption under FRS 102 paragraph 35.10(d) and has elected to use the previous revaluation as deemed cost at the date of transition.

Depreciation is calculated so as to write off the cost, or valuation, of fixed assets less their estimated residual values, on a straight line basis, over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Buildings	2.5% - 5%
Plant and machinery	10% - 33.33%
Motor vehicles	20% - 33.33%

Freehold land is not depreciated. Leasehold land is depreciated over the term of the lease.

# **Kavli UK Limited**

## **Statement of accounting policies (continued)**

### **Intangible assets**

Intangible assets i.e. acquired brands and trademarks, are stated at cost less accumulated amortisation and accumulated impairment losses. Trademarks are amortised over their estimated useful life of 5 years on a straight line basis.

The assets are reviewed for impairment if there are changes that indicate that the carrying amount may be impaired. Costs of intangible assets previously recognised as an expense are not recognised as an asset in subsequent periods.

### **Business combinations and goodwill**

Business combinations are accounted for by applying the purchase method.

The cost of a business combination is the fair value of the consideration given, liabilities incurred or assumed and of equity instruments issued plus the costs directly attributable to the business combination. Where control is achieved in stages the cost is the consideration at the date of each transaction.

Contingent consideration is initially recognised at estimated amounts where the consideration is probable and can be measured reliably. Where (i) the contingent consideration is not considered probable or cannot be reliably measured but subsequently becomes probable and measureable or (ii) contingent consideration previously measured is adjusted, the amounts are recognised as an adjustment to the cost of the business combination.

On acquisition of a business, fair values are attributed to the identifiable assets and liabilities unless the fair value cannot be measured reliably, in which case the value is incorporated in goodwill.

Goodwill recognised represents the excess of the fair value and directly attributable costs of the purchase consideration over the fair values of the Group's interest in the identifiable net assets, liabilities and contingent liabilities acquired.

On acquisition, goodwill is allocated to cash-generating units ('CGU's') that are expected to benefit from the combination.

Goodwill is amortised over its expected useful life of 10 years. Goodwill has arisen from the acquisition of the entire issued share capital of St Helen's Farm Limited. The business appraisal undertaken at the time of the acquisition delivered a positive net present value in excess of 10 years which is not unusual given one of the group's core values is long-term thinking. The St Helen's Farm brand has been in existence since 1986 and has been the brand leader for a number of years with a loyal customer base, high barriers to market entry and therefore a 10 year expected useful life appears reasonable.

Goodwill is assessed for impairment when there are indicators of impairment and any impairment is charged to the income statement. Reversals of impairment are recognised when the reasons for the impairment no longer apply.

### **Fixed asset investments**

Investment in a subsidiary company is held at cost less accumulated impairment losses. Impairment reviews are performed by the directors when there has been an indication of potential impairment.

Investments where no control, joint control or significant influence are held i.e other investments, are measured at fair value with movements going through profit and loss. Where fair value cannot be measured reliably, investments are measured at cost less impairment.

# **Kavli UK Limited**

## **Statement of accounting policies (continued)**

### **Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

### **Stocks**

Stocks are stated at the lower of cost and estimated selling price, less cost to complete and sell, including any provision for obsolete or slow moving stock.

Cost comprises the invoiced value of goods purchased plus direct labour and attributable overheads, where applicable, and is determined on an average cost basis.

At the end of each reporting period, stocks are assessed for impairment. If an item of inventory is impaired, the identified inventory is reduced to its selling price less costs to complete and sell, and an impairment charge is recognised in the profit and loss account. Where a reversal of the impairment is required, the impairment charge is reversed, up to the original impairment loss, and is recognised as a credit in the profit and loss account.

### **Finance costs**

Finance costs are charged to profit over the term of the debt so that the amount charged is at a constant rate on the carrying amount.

### **Foreign currencies/exchange**

The group and company financial statements are presented in pound sterling. The functional and presentation currency is pound sterling.

Monetary assets and liabilities arising in overseas currencies are converted into sterling at the exchange rate ruling on the transaction date. Payments are converted at the actual rates incurred. The resulting exchange differences are charged or credited to the profit and loss account in the period in which they arise. At the end of the financial year foreign currency monetary assets and liabilities are translated into sterling at the rate of exchange ruling at that date.

### **Turnover**

Turnover, which excludes value added tax and intercompany sales, represents amounts receivable for goods provided in the normal course of business, less returns. Turnover is recognised at the point at which goods are received by the customer.

### **Government grants**

The entity recognises government grants using the accrual model. An entity applying the accrual model shall classify grants either as a grant relating to revenue or a grant relating to assets.

Grants relating to revenue shall be recognised in income on a systematic basis over the periods in which the entity recognises the related costs for which the grant is intended to compensate.

Grants relating to assets are recognised over the expected useful life of the asset. Where part of a grant relating to an asset is deferred, it is recognised as deferred income.

# Kavli UK Limited

## Statement of accounting policies (continued)

### Employee benefits

The group provides a range of benefits to employees, including paid holiday arrangements and defined benefit and defined contribution pension plans.

#### *Short term benefits*

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

#### *Defined contribution pension plans*

The group operates nine (2014: three) defined contribution plans for its employees. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. Once the contributions have been paid the group has no further payment obligations. The contributions are recognised as an expense in the profit and loss account in the year in which they are incurred. Amounts not paid are shown in accruals in the statement of financial position. The assets of the plan are held separately from the group in independently administered funds.

#### *Defined benefit pension plan*

The group operates a defined benefit pension scheme. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The liability recognised in the statement of financial position in respect of the defined benefit plan is the present value of the defined benefit obligation at the reporting date less the fair value of the plan assets at the reporting date. The defined benefit obligation is calculated using the projected unit credit method every three years by a professional qualified independent actuary, the rates of contribution payable being determined by the actuary. In the intervening years the actuary reviews the continuing appropriateness of the rates, and updates these as necessary. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating the estimated period of the future payments ('discount rate').

The fair value of plan assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the group's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income.

The cost of the defined benefit plan, recognised in profit or loss account as employee costs, except where included in the cost of an asset, comprises:

- (a) the increase in pension benefit liability arising from employee service during the period; and
- (b) the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in profit or loss account as 'finance expense'.

# **Kavli UK Limited**

## **Statement of accounting policies (continued)**

### **Hire purchase agreements**

Assets held under hire purchase agreements are capitalised and disclosed under tangible fixed assets at their fair value. The capital element of the future payments is treated as a liability and the interest is charged to the profit and loss account on a straight line basis.

### **Operating leases**

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term.

### **Taxation**

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current tax, including United Kingdom corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax is provided in full on timing differences which result in an obligation at the statement of financial position date to pay more tax or a right to pay less tax at a future date at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those which are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not they will be recovered. Deferred tax assets and liabilities are measured at the average tax rates that are expected to apply and are on an undiscounted basis.

### **Research and development**

Costs in respect of research and development activities are charged to the profit and loss account as they are incurred.

### **Dilapidations provisions**

Funds received from tenants in relation to dilapidations for major repair and maintenance costs on termination of property leases are treated as provisions which are then credited to the profit and loss account in line with the costs to which they relate.

### **Incoming resources from non-exchange transactions**

The entity, as a public benefit entity within the public benefit entity group, may apply simplified accounting where resources are received before the revenue recognition criteria are satisfied, and a liability is recognised.

### **Financial instruments**

The Group has chosen to adopt sections 11 and 12 of FRS 102 in respect of financial instruments.

### ***Financial assets***

Basic financial assets, including trade and other receivables and cash and bank balances are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method.



## Statement of accounting policies (continued)

### Financial instruments (continued)

#### *Financial assets (continued)*

At the end of each reporting period, financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

#### *Financial liabilities*

Basic financial liabilities, including trade and other payables, bank loans and loans from fellow group companies, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan, to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

The group does not hold or issue derivative financial instruments for trading purpose.

#### *Offsetting*

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

## Statement of accounting policies (continued)

### Critical judgements in applying the accounting policies

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### *Control of Yorkshire Dairy Goats ('YDG')*

Assessing whether the group controls YDG required judgement. The group holds only 24% of the voting rights but the remaining 76% is owned by one single party. Given that the operating and financial management of YDG is undertaken by the majority shareholder, the group considers that the group does not control YDG.

#### *Exemptions on transition to FRS 102*

The group has elected to use the previous UK GAAP valuation of certain items of land and buildings as the deemed cost on transition to FRS 102. The items are being depreciated from the valuation date (30 November 1988) in accordance with the company's accounting policies.

### Critical accounting estimates and assumptions

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

#### *i) Impairment of intangible assets and goodwill (note 9)*

The group considers whether intangible assets and/or goodwill are impaired. Where an indication of impairment is identified the estimation of recoverable value requires estimation of the recoverable value of the cash generating unit (CGUs). This requires estimation of the future cashflows from the CGUs and also selection of appropriate discount rates in order to calculate the net present value of those cash flows.

#### *ii) Useful economic lives of tangible assets*

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, future investments, economic utilisation and the physical condition of the assets. See note 10 for the carrying amount of the property, plant and machinery and above for the useful economic lives for each class of assets.

#### *iii) Inventory provisioning*

The group manufactures food products which are perishable. As a result it is necessary to consider the recoverability of the cost of inventory and the associated provisioning required. When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated saleability of finished goods and future usage of raw materials. See note 12 for the net carrying amount of the inventory and associated provision.

#### *iv) Defined benefit pension scheme*

The group has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 19 for the disclosures relating to the defined benefit scheme.

# Kavli UK Limited

## Notes to the financial statements for the year ended 31 December 2015

### 1 Turnover

All of the turnover derives from operations based in the United Kingdom and relates to the sale of food products. Turnover by destination has been split as follows:

	2015	2014
	£	£
United Kingdom	46,046,936	43,829,940
Europe	1,143,766	1,023,636
	47,190,702	44,853,576

### 2 Net operating expenses

	2015	2014
	£	£
Operating profit is stated after charging/(crediting):		
Change in stocks of finished goods and in work in progress	21,110	(677,778)
Raw materials and consumables	22,336,915	23,260,476
Staff costs (note 6)	7,830,598	7,264,173
Other operating income	(16,773)	(9,382)
Depreciation charge for the year:		
Tangible fixed assets – owned (note 10)	1,502,556	1,191,006
Tangible fixed assets – held under finance leases (note 10)	-	32,672
Amortisation of intangibles (note 9)	750,000	750,000
Amortisation of goodwill (note 9)	2,240,136	2,237,998
Amortisation of government grants (note 18)	(93,042)	(93,078)
Other operating charges	8,627,600	8,190,351
Operating leases	116,280	118,093
Research and development costs	241,924	219,391
Auditors' remuneration:		
For the audit of the company's annual financial statements	6,395	6,257
For the audit of the subsidiary company's annual financial	30,605	29,943
For the provision of tax compliance services to the company	-	15,000
For the provision of advisory services to the company	12,000	1,300
Loss on sale of tangible fixed assets	5,299	3,320
	43,611,603	42,539,742

# Kavli UK Limited

## Notes to the financial statements for the year ended 31 December 2015 (continued)

### 3 Profit for the financial year

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the parent company has not been included in these financial statements. The parent company's profit for the financial year was £3,495,202 (2014: £1,540,988)

### 4 Interest receivable and similar income

	2015	2014
	£	£
Other financial income	86,710	2,821

### 5 Interest payable and similar charges

	2015	2014
	£	£
Bank interest payable	15,055	38,236
Other interest payable	250,831	332,536
Other financial expenses payable to group companies	360,070	-
Other financial expenses	14,615	-
	640,571	370,772

# Kavli UK Limited

## Notes to the financial statements for the year ended 31 December 2015 (continued)

### 6 Information regarding directors and employees

The directors of Kavli UK Limited are also directors of Kavli UK Limited's subsidiaries. The directors received total emoluments during the year as described below from Kavli UK Limited and its subsidiaries, but it is not practical to allocate this between their services as executives of Kavli UK Limited and their services as directors of its subsidiaries.

	2015	2014
	£	£
<b>Directors' remuneration</b>		
Aggregate emoluments (including benefits in kind)	222,217	220,351
Payments to personal pension plan	40,000	40,000
	<b>262,217</b>	<b>260,351</b>

Fees and other emoluments include amounts paid to:

	2015	2014
	£	£
<b>The highest-paid director</b>		
Aggregate emoluments and benefits	222,217	220,351
Payments to personal pension plan	40,000	40,000
	<b>262,217</b>	<b>260,351</b>

As at 31 December 2015, retirement benefits were accruing to one (2014: one) director under a personal pension plan to which the company contributes.

# Kavli UK Limited

## Notes to the financial statements for the year ended 31 December 2015 (continued)

### 6 Information regarding directors and employees (continued)

The average monthly number of persons (including executive directors) employed during the year was:

	2015	2014
	Number	Number
<b>Group</b>		
Production	235	221
Sales and marketing	13	11
Administration	25	25
	273	257

	2015	2014
	Number	Number
<b>Company</b>		
Production	1	2
Sales and marketing	7	7
Administration	17	16
	25	25

#### Key management compensation:

Key management includes the directors and members of senior management. The compensation paid or payable to key management for employee services is shown below.

	2015	2014
	£	£
Aggregate emoluments (including benefits in kind)	608,248	482,906
Post-employment benefits	85,641	77,021
	693,889	559,927

# Kavli UK Limited

## Notes to the financial statements for the year ended 31 December 2015 (continued)

### 6 Information regarding directors and employees (continued)

	2015	2014
	£	£
<b>Group</b>		
<b>Staff costs during the year (including executive directors):</b>		
Wages and salaries	6,760,158	6,216,778
Social security costs	620,729	585,906
Other pension costs (note 19)	449,711	461,489
	<b>7,830,598</b>	<b>7,264,173</b>

	2015	2014
	£	£
<b>Company</b>		
<b>Staff costs during the year (including executive directors):</b>		
Wages and salaries	1,245,382	1,113,120
Social security costs	142,378	129,918
Other pension costs	157,716	151,643
	<b>1,545,476</b>	<b>1,394,681</b>

# Kavli UK Limited

## Notes to the financial statements for the year ended 31 December 2015 (continued)

### 7 Tax on profit on ordinary activities

#### (a) Tax expense included in profit or loss

	2015	2014
	£	£
<b>Current tax:</b>		
UK corporation tax on profits for the year	1,159,714	941,149
Adjustments in respect of prior years	(3,768)	-
<b>Total current tax</b>	<b>1,155,946</b>	<b>941,149</b>
<b>Deferred tax:</b>		
Origination and reversal of timing differences	(25,222)	77,252
Effects of changes in tax rates	1,018	(1,170)
Adjustments in respect of prior years	3,350	-
<b>Total deferred tax (note 17)</b>	<b>(20,854)</b>	<b>76,082</b>
<b>Tax on profit on ordinary activities</b>	<b>1,135,092</b>	<b>1,017,231</b>

#### (b) Tax amounts included in other comprehensive income

	2015	2014
	£	£
<b>Deferred tax current year credit (note 17)</b>	<b>58,400</b>	<b>60,400</b>



# Kavli UK Limited

## Notes to the financial statements for the year ended 31 December 2015 (continued)

### 7 Tax on profit on ordinary activities (continued)

#### (c) Reconciliation of tax charge

The tax assessed for the year is higher (2014: higher) than the standard rate of corporation tax in the UK of 20.25% (2014: 21.49%).

The charge for the year can be reconciled to the profit in the profit and loss account as follows:

	2015	2014
	£	£
<b>Profit on ordinary activities before taxation</b>	<b>3,035,238</b>	<b>1,967,883</b>
Profit multiplied by standard rate of tax in the UK of 20.25% (2014: 21.49%)	<b>614,532</b>	<b>422,898</b>
Effects of:		
Expenses not deductible for tax purposes	<b>520,679</b>	<b>599,952</b>
Changes in tax rates or laws	<b>2,299</b>	<b>(5,619)</b>
Adjustments in respect of prior years – current tax	<b>(3,768)</b>	<b>-</b>
Adjustments in respect of prior years – deferred tax	<b>3,350</b>	<b>-</b>
Pensions adjustment	<b>(2,000)</b>	<b>-</b>
<b>Total tax charge for the year</b>	<b>1,135,092</b>	<b>1,017,231</b>

#### (d) Tax rate changes

The tax rate for the current period is lower than the prior period due to changes in the UK corporation tax rate which decreased from 21% to 20% from 1 April 2015.

Further reductions to UK corporation tax rates were substantively enacted as part of the Finance Bill 2015 on 18 November 2015. These reduce the main rate to 19% from 1 April 2017 and to 18% from 1 April 2020. Given the changes are some time in the future, the deferred tax assets and liabilities reflect the current rate of 20%.

### 8 Dividends

	2015	2014
	£	£
Final dividend of nil pence per share (2014: nil pence per share)	-	-

## Kavli UK Limited

### Notes to the financial statements for the year ended 31 December 2015 (continued)

#### 9 Intangible assets

	Company Intellectual property rights £	Group Goodwill £	Group Total £
<b>Cost</b>			
<b>At 1 January and 31 December 2015</b>	<b>3,750,000</b>	<b>22,401,379</b>	<b>26,151,379</b>
<b>Accumulated amortisation</b>			
At 1 January 2015	1,062,500	3,173,529	4,236,029
Charge for year	750,000	2,240,136	2,990,136
<b>At 31 December 2015</b>	<b>1,812,500</b>	<b>5,413,665</b>	<b>7,226,165</b>
<b>Net book value</b>			
<b>At 31 December 2015</b>	<b>1,937,500</b>	<b>16,987,714</b>	<b>18,925,214</b>
At 31 December 2014	2,687,500	19,227,850	21,915,350

# Kavli UK Limited

## Notes to the financial statements for the year ended 31 December 2015 (continued)

### 10 Tangible assets

Group	Land and buildings £	Plant and machinery £	Motor vehicles £	Total £
<b>Cost or valuation</b>				
At 1 January 2015	8,563,828	15,211,008	412,143	24,186,979
Additions	129,177	650,277	-	779,454
Disposals	(44,567)	(70,970)	-	(115,537)
<b>At 31 December 2015</b>	<b>8,648,438</b>	<b>15,790,315</b>	<b>412,143</b>	<b>24,850,896</b>
<b>Accumulated depreciation</b>				
At 1 January 2015	2,845,289	11,265,785	247,709	14,358,783
Charge for the year	298,455	1,102,776	101,325	1,502,556
Disposals	(28,676)	(67,937)	-	(96,613)
<b>At 31 December 2015</b>	<b>3,115,068</b>	<b>12,300,624</b>	<b>349,034</b>	<b>15,764,726</b>
<b>Net book value</b>				
<b>At 31 December 2015</b>	<b>5,533,370</b>	<b>3,489,691</b>	<b>63,109</b>	<b>9,086,170</b>
At 31 December 2014	5,718,539	3,945,223	164,434	9,828,196
<b>Cost or valuation at 31 December 2015 is represented by:</b>				
Valuation	1,800,000	-	-	1,800,000
Cost	6,848,438	15,790,315	412,143	23,050,896
	<b>8,648,438</b>	<b>15,790,315</b>	<b>412,143</b>	<b>24,850,896</b>

Land and buildings at net book value comprise:

	2015 £	2014 £
Freeholds	4,110,279	4,227,252
Long leaseholds	1,423,091	1,491,287
	<b>5,533,370</b>	<b>5,718,539</b>

# Kavli UK Limited

## Notes to the financial statements for the year ended 31 December 2015 (continued)

### 10 Tangible assets (continued)

Company	Land and buildings £	Motor vehicles £	Total £
<b>Cost or valuation</b>			
At 1 January 2015	828,760	50,000	878,760
Additions	-	-	-
<b>At 31 December 2015</b>	<b>828,760</b>	<b>50,000</b>	<b>878,760</b>
<b>Accumulated depreciation</b>			
At 1 January 2015	58,703	14,583	73,286
Charge for the year	41,438	25,000	66,438
<b>At 31 December 2015</b>	<b>100,141</b>	<b>39,583</b>	<b>139,724</b>
<b>Net book value</b>			
<b>At 31 December 2015</b>	<b>728,619</b>	<b>10,417</b>	<b>739,036</b>
At 31 December 2014	770,057	35,417	805,474

All the company's tangible assets are held at historical cost.

Land and buildings at net book value comprise:

	2015 £	2014 £
Freeholds	728,619	770,057

#### Hire purchase agreements

Included within the group's net book value of plant and machinery of £3,489,691 is £nil (2014: £59,900) relating to assets held under hire purchase agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £nil (2014: £32,672).

# Kavli UK Limited

## Notes to the financial statements for the year ended 31 December 2015 (continued)

### 11 Investments

	Group		Company	
	2015	2014	2015	2014
	£	£	£	£
<b>Cost and net book value</b>				
Subsidiary undertakings	-	-	29,496,883	29,496,883
Other investments	2,512,500	2,512,500	-	-
<b>Total investments</b>	<b>2,512,500</b>	<b>2,512,500</b>	<b>29,496,883</b>	<b>29,496,883</b>

#### Principal Group investments

The Company and the Group have investments in the following subsidiary undertakings and other investments which principally affected the profits or net assets of the Group.

Subsidiary undertakings	Country of incorporation	Principal activity	Holding	%
Primula Limited	England	Manufacture and sale of cheese and other food products	Ordinary £5.50 shares	100%
Castle MacLellan Foods Limited	Scotland	Manufacture and sale of pâte	Ordinary £1 shares	100%
St Helen's Farm Limited	England	Manufacture and sale of dairy products	Ordinary £0.01 shares	100%
Kavli Investments Limited	England	Investment company	Ordinary £1 shares	100%
<b>Other Investments</b>				
Yorkshire Dairy Goats	England	Goat farming	Ordinary £0.01 shares	24%

The directors believe that the carrying value of the investments is supported by their underlying net assets.

# Kavli UK Limited

## Notes to the financial statements for the year ended 31 December 2015 (continued)

### 11 Investments (continued)

#### Subsidiary undertakings

	£
<b>Cost</b>	
At 1 January 2015 and 31 December 2015	29,496,883
<b>Provisions for impairment</b>	
At 1 January 2015 and 31 December 2015	-
<b>Net book value</b>	
At 1 January 2015 and 31 December 2015	29,496,883

All subsidiary companies are included in these consolidated financial statements.

### 12 Stocks

	<b>Group</b>		<b>Company</b>	
	2015	2014	2015	2014
	£	£	£	£
Raw materials	1,282,031	1,424,020	-	-
Packaging materials	437,151	348,892	-	-
Work in progress	80,672	54,564	-	-
Finished goods and goods for resale	1,950,398	1,997,616	-	-
	3,750,252	3,825,092	-	-

There is no difference between the carrying amount of inventory and the replacement cost.

# Kavli UK Limited

## Notes to the financial statements for the year ended 31 December 2015 (continued)

### 13 Debtors

	Group		Company	
	2015	2014	2015	2014
	£	£	£	£
<b>Amounts falling due after one year:</b>				
Amounts owed by group undertakings	-	-	931,200	-
<b>Amounts falling due within one year:</b>				
Trade debtors	8,737,801	8,716,277	-	-
Amounts owed by group undertakings	4,857	4,131	899,484	374,337
Deferred tax asset	-	-	8,545	2,124
Other debtors	462,510	366,328	905	1,089
Prepayments and accrued income	242,440	246,059	21,459	28,602
<b>Total falling due within one year</b>	<b>9,447,608</b>	<b>9,332,795</b>	<b>930,393</b>	<b>406,152</b>
<b>Total</b>	<b>9,447,608</b>	<b>9,332,795</b>	<b>1,861,593</b>	<b>406,152</b>

**Notes to the financial statements for the year ended 31 December 2015  
(continued)**

**14 Creditors: amounts falling due within one year**

	Group		Company	
	2015	2014	2015	2014
	£	£	£	£
Bank loans and overdrafts	-	2,229,472	-	-
Trade creditors	4,396,656	3,826,881	28,649	27,483
Amounts owed to group undertakings	336,414	28,300	342,963	97,956
Corporation tax	630,601	440,462	53,904	71,844
Other taxation and social security	344,378	265,610	186,402	38,515
Hire purchase creditor	-	39,304	-	-
Other creditors	292,818	237,396	170,831	84,734
Deferred cash consideration	2,210,000	2,140,000	2,210,000	2,140,000
Accruals	4,556,004	4,982,523	228,441	308,071
Deferred income (note 18)	68,792	89,547	-	-
	12,835,663	14,279,495	3,221,190	2,768,603

Any bank overdraft arising during the year is secured by a guarantee given by Kavli Holding A/S and attracts an interest rate of 0.85% (2014: 0.85%) above the UK base rate. All amounts owed to group undertakings are unsecured, interest free and repayable on demand.

**15 Creditors: amounts falling due after more than one year**

	Group		Company	
	2015	2014	2015	2014
	£	£	£	£
Deferred cash consideration	4,297,500	6,256,669	4,297,500	6,256,669
Deferred income (note 18)	153,422	223,559	-	-
Pension liability (note 19)	-	-	-	-
	4,450,922	6,480,228	4,297,500	6,256,669



# Kavli UK Limited

## Notes to the financial statements for the year ended 31 December 2015 (continued)

### 16 Commitments under hire purchase agreements

Future minimum finance lease commitments under hire purchase agreements are as follows:

	Group		Company	
	2015	2014	2015	2014
	£	£	£	£
Amount payable within 1 year	-	39,304	-	-
Amount payable between 2-5 years	-	-	-	-
Hire purchase creditor	-	39,304	-	-

### 17 Provisions for liabilities

	Dilapidations provision	Deferred taxation	Total
	£	£	£
<b>Group</b>			
At 1 January 2015	105,111	206,954	312,065
Deferred tax in reserves in the year	-	(58,400)	(58,400)
Profit and loss account	-	(20,854)	(20,854)
<b>At 31 December 2015</b>	<b>105,111</b>	<b>127,700</b>	<b>232,811</b>
<b>Company</b>			
At 1 January 2015	-	(2,124)	(2,124)
Profit and loss account	-	(6,421)	(6,421)
<b>At 31 December 2015</b>	<b>-</b>	<b>(8,545)</b>	<b>(8,545)</b>

The dilapidations provision relates to the expected cost of repairs to buildings, which the group is obliged to carry out. Some remedial works were undertaken in 2009, 2010 and 2014. It is expected that the majority of the remaining expenditure will be incurred within two years of the statement of financial position date, although the timing of this expenditure is subject to variation depending on business requirements and priorities.

# Kavli UK Limited

## Notes to the financial statements for the year ended 31 December 2015 (continued)

### 17 Provisions for liabilities (continued)

	2015	2014
	£	£
<b>Group</b>		
Tax effect of timing differences because of:		
Capital allowances in excess of depreciation	218,655	270,658
Short term timing differences	(90,955)	(63,704)
	127,700	(206,954)

	2015	2014
	£	£
<b>Company</b>		
Tax effect of timing differences because of:		
Capital allowances in excess of depreciation	(8,539)	(2,116)
Short term timing differences	(6)	(8)
	(8,545)	(2,124)

The net amount of deferred tax assets and liabilities that are expected to reverse within one year of the statement of financial position date is £39,000 (2014: £79,000). This figure takes account of both the reversal of existing timing differences and the origination of new ones.

#### Deferred taxation relating to pension surplus

An analysis of the deferred taxation balance relating to the pension surplus is as follows:

	2015	2014
	£	£
<b>Group</b>		
At 1 January	-	-
Deferred tax charge in the profit and loss account	(58,400)	(60,400)
Deferred tax credit in other comprehensive income	58,400	60,400
<b>At 31 December</b>	-	-

# Kavli UK Limited

## Notes to the financial statements for the year ended 31 December 2015 (continued)

### 18 Deferred income

	Group		Company	
	2015	2014	2015	2014
	£	£	£	£
<b>Government grants</b>				
At 1 January	313,106	355,321	-	-
Grants received in the year	2,150	50,863	-	-
Amortisation in year	(93,042)	(93,078)	-	-
<b>At 31 December</b>	<b>222,214</b>	<b>313,106</b>	<b>-</b>	<b>-</b>
Within creditors amounts falling due within one year	68,792	89,547	-	-
Within creditors amounts falling due after more than one year	153,422	223,559	-	-
	<b>222,214</b>	<b>313,106</b>	<b>-</b>	<b>-</b>

If the group does not maintain approved headcount numbers, the group may be liable to repay certain government grants.

### 19 Employee benefits

#### Pension arrangements

A subsidiary company operates a funded defined benefit pension scheme and the parent company and three subsidiary companies operate a total of nine funded defined contribution pension schemes. The assets of the schemes are held in separate trustee-administered funds.

The defined benefit pension scheme provides retirement benefits on the basis of members' final salary. On 1 June 1999 the defined benefit pension scheme was closed to new entrants and on 1 May 2007, this scheme was closed to future accrual. One of the defined contribution pension schemes was established on closure of the defined benefit pension scheme to provide benefits to new employees.

Contributions charged in the profit and loss account in the year in respect of the defined contribution schemes totalled £449,711 (2014: £461,489). At 31 December 2015, an accrual of £8,491 (2013: £1,833) was included in the statement of financial position in respect of pension payments owed to the defined contribution schemes.

# Kavli UK Limited

## Notes to the financial statements for the year ended 31 December 2015 (continued)

### 19 Employee benefits (continued)

#### Defined benefit scheme

The latest full actuarial valuation of the Primula Limited Pension and Assurance Scheme (“The Primula Defined Benefit Scheme”), using the projected unit method, was undertaken as at 1 May 2014.

The 2014 valuation was updated to 31 December 2015 by the defined benefit scheme’s qualified actuary. The major assumptions used in the updated valuation were:

	2015	2014
Rate of increase in salaries	0.00%	0.00%
Rate of increase in pensions in payment	3.40%	3.25%
Discount rate	3.65%	3.30%
Inflation assumption - RPI	3.40%	3.25%
Inflation assumption - CPI	2.70%	2.50%

The mortality assumptions used were as follows:

	2015 Years	2014 Years
Longevity at age 65 for current pensioners		
- Men	22.6	22.5
- Women	24.7	24.8
Longevity at age 65 for future pensioners		
- Men	24.7	24.7
- Women	27.0	27.1

# Kavli UK Limited

## Notes to the financial statements for the year ended 31 December 2015 (continued)

### 19 Employee benefits (continued)

#### Reconciliation of scheme assets and liabilities:

	Fair value of plan assets £	Defined benefit obligation £	Benefit liability £
As at 1 January 2015	8,330,000	8,168,000	162,000
Expenses	(15,000)	(15,000)	-
Net interest	277,000	267,000	10,000
<b>Included in profit and loss account</b>	<b>262,000</b>	<b>252,000</b>	<b>10,000</b>
Benefits paid	(132,000)	(132,000)	-
Return on plan assets excluding amounts included in net interest expense	(186,000)	-	(186,000)
Actuarial changes:			
- arising from changes in demographic assumptions	-	(66,000)	66,000
- arising from changes in economic assumptions	-	(474,000)	474,000
Experience adjustments	-	165,000	(165,000)
<b>Included in statement of comprehensive income</b>	<b>(318,000)</b>	<b>(507,000)</b>	<b>189,000</b>
Contributions by employer	282,000	-	282,000
<b>At 31 December 2015</b>	<b>8,556,000</b>	<b>7,913,000</b>	<b>643,000</b>

The average duration of the defined benefit obligation at the end of the reporting period is approximately 21 years (2014: 22 years).

#### Surplus restriction:

	2015 £	2014 £
As at 1 January	162,000	378,000
Increase/(decrease) in year included in statement of comprehensive income	481,000	(216,000)
<b>As at 31 December</b>	<b>643,000</b>	<b>162,000</b>

# Kavli UK Limited

## Notes to the financial statements for the year ended 31 December 2015 (continued)

### 19 Employee benefits (continued)

Analysis of the amount included in the profit on ordinary activities before taxation is:

	2015	2014
	£	£
Net interest on scheme assets	10,000	22,000

Fair value of plan assets:

	2015	2014
	£	£
Equities	5,174,000	4,615,000
Bonds	1,317,000	1,342,000
Gilts	2,064,000	2,092,000
Cash	1,000	281,000
Total fair value of assets	8,556,000	8,330,000

Scheme assets do not include any of Primula Limited's own financial instruments, or any property occupied by Primula Limited.

Return on plan assets:

	2015	2014
	£	£
Interest income	277,000	313,000
Return on plan assets less interest income	(186,000)	697,000
Total return on plan assets	91,000	1,010,000

The full actuarial valuation at 30 April 2014 showed a deficit of £562,000. The employer, Primula Limited, made contributions to the pension scheme of £280,000 in December 2014 and £282,000 in December 2015 to eliminate this deficit.

# Kavli UK Limited

## Notes to the financial statements for the year ended 31 December 2015 (continued)

### 20 Called up share capital and other reserves

Group and company	2015	2014
	£	£
<b>Authorised</b>		
20,234,886 (2014: 20,234,886) ordinary shares of £1 each	<b>20,234,886</b>	20,234,886
<b>Allotted and fully paid</b>		
20,234,886 (2014: 20,234,886) ordinary shares of £1 each	<b>20,234,886</b>	20,234,886

There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

### 21 Notes to the cash flow statement

	2015	2014
	£	£
Profit for the financial year	<b>1,900,146</b>	950,652
Tax on profit on ordinary activities	<b>1,135,092</b>	1,017,231
Net interest expense	<b>543,861</b>	345,951
<b>Operating profit</b>	<b>3,579,099</b>	2,313,834
Amortisation of intangible assets	<b>2,990,136</b>	2,987,998
Depreciation of tangible assets	<b>1,502,556</b>	1,223,678
Loss on disposal of tangible assets	<b>5,299</b>	3,320
Contributions to defined benefit pension scheme	<b>(282,000)</b>	(280,000)
Working capital movements:		
– (Increase)/decrease in stocks	<b>74,840</b>	(431,837)
– (Increase)/decrease in debtors	<b>(114,813)</b>	(676,938)
– (Decrease)/increase in payables	<b>728,029</b>	160,211
– (Decrease)/increase in provisions	<b>-</b>	(60,249)
– (Decrease)/increase in deferred income	<b>(90,892)</b>	(42,215)
<b>Cash flow from operating activities</b>	<b>8,392,254</b>	5,197,802

# Kavli UK Limited

## Notes to the financial statements for the year ended 31 December 2015 (continued)

### 21 Notes to the cash flow statement (continued)

#### Analysis of changes in net (debt)/funds

	At 1 January 2015 £	Cash flow £	Other non-cash changes £	At 31 December 2015 £
Cash at bank and in hand	5,565	1,806,343	-	1,811,908
Less: bank overdraft	(2,229,472)	2,229,472	-	-
<b>Cash and cash equivalents</b>	<b>(2,223,907)</b>	<b>4,035,815</b>	-	<b>1,811,908</b>
Interest-bearing debt due in one year	(2,000,000)	-	-	(2,000,000)
Interest-bearing debt due after one year	(6,000,000)	2,000,000	-	(4,000,000)
Finance leases	(39,304)	39,304	-	-
<b>Net (debt)/funds</b>	<b>(10,263,211)</b>	<b>6,075,119</b>	-	<b>(4,188,092)</b>

### 22 Financial commitments

At 31 December the group and company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	Group		Company	
	2015	2014	2015	2014
	£	£	£	£
Expiring in less than one year	20,184	7,326	9,570	1,308
Expiring between two and five years	76,671	82,316	12,044	19,912
	96,855	89,642	21,614	21,220

### 23 Capital commitments

	2015 £	2014 £
<b>Group:</b>		
Capital expenditure contracted for but not provided in the financial statements	322,750	494,804



# **Kavli UK Limited**

## **Notes to the financial statements for the year ended 31 December 2015 (continued)**

### **24 Related party transactions**

#### **Group**

There have been no transactions with key management personnel.

See note 6 for disclosure of the directors' remuneration and key management compensation.

#### **Company**

The company has taken advantage of the exemption under paragraph 33.1A from the provisions of Section 33 of FRS 102 'Related party disclosures' on the grounds that it is a wholly owned subsidiary of a group headed by Kavli Holding A/S, whose consolidated financial statements are publicly available.

### **25 Ultimate and immediate parent companies**

The directors regard Kavli Holding A/S, a company incorporated in Norway, as the immediate and the ultimate parent company.

The parent undertaking of the only group which includes the company, and for which consolidated financial statements are prepared, is Kavli Holding A/S.

Copies of the financial statements for this group can be obtained from:

Kavli Holding A/S  
Postboks 7360  
5020 Bergen  
Norway

The ultimate controlling party of Kavli Holding A/S is the Kavli Trust (Kavlifondet), formerly known as O Kavli og Knut Kavli's Almennyttige Fond, a charitable foundation established in Norway.

# Kavli UK Limited

## Notes to the financial statements for the year ended 31 December 2015 (continued)

### 26 Transition to FRS 102

This is the first year that the group and company has presented its results under FRS 102. The last financial statements under old UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2014. Set out below are the changes in accounting policies which reconcile profit for the financial year ended 31 December 2014 and the total equity as at 1 January 2014 and 31 December 2014 between old UK GAAP as previously reported and FRS 102.

#### Transition exemptions

The group has taken the transition exemptions under paragraph 35.10(d) of FRS 102 in respect of using previous GAAP revaluation of long leasehold property at, or before, the date of transition to FRS 102 as its deemed cost going forward.

#### Qualifying entity exemptions

The company has taken advantage of the following qualifying exemptions:

- (iv) from preparing a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flows, included in these financial statements, includes the company's cash flows;
- (v) from the financial instrument disclosures, required under FRS 102 paragraphs 11.39 to 11.48A and paragraphs 12.26 to 12.29, as the information is provided in the consolidated financial statement disclosures; and
- (vi) from disclosing the company's key management personnel compensation, as required by FRS 102 paragraph 33.7.

#### Reconciliation of profit for the year

	<b>Group</b> <b>31 December</b> <b>2014</b> <b>£</b>	<b>Company</b> <b>31 December</b> <b>2014</b> <b>£</b>
Profit for the year as previously reported under UK GAAP	1,021,852	1,540,988
Reduced finance income passing through the profit and loss account on remeasurement of the defined benefit obligation	(89,000)	-
Tax effect of the above	17,800	-
<b>Profit for the year as reported under FRS 102</b>	<b>950,652</b>	<b>1,540,988</b>

The net defined benefit obligation is the same whether it is measured under old UK GAAP or FRS 102. The impact is simply to change where the relevant components are recognised. The reduction in income passing through the profit and loss account has resulted in an increase in the income passing through the statement of comprehensive income. Therefore, there is no change to total comprehensive income for 2014 or to the equity reported as at 31 December 2014 whether presented under old UK GAAP or FRS 102.