

# **Lactalis McLelland Limited**

Report and Financial Statements

Year Ended

31 December 2011

Company Number SC014583

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# **Lactalis McLelland Limited**

## **Report and financial statements for the year ended 31 December 2011**

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### **Directors**

D. Jaouen  
O. P. Klein  
J. McGregor  
A. J. Smith  
F. Bouisset  
T. Clement  
R. Ceyrac  
Y. Guerin  
N. Gopal  
M. Peslier

### **Secretary and registered office**

SLC Registrars Limited, The Creamery, Commerce Road, Stranraer, DG9 7DA

### **Company number**

SC014583

### **Auditors**

BDO LLP, 4 Atlantic Quay, 70 York Street, Glasgow, G2 8JX

### **Bankers**

Royal Bank of Scotland PLC, 5th Floor, Kirkstane House, 139 St Vincent Street, Glasgow, G2 5JF

### **Solicitors**

McGrigors, Pacific House, 70 Wellington St, Glasgow, G2 6SB

# **Lactalis McLelland Limited**

## **Report of the directors for the year ended 31 December 2011**

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The directors present their report together with the audited financial statements for the year ended 31 December 2011.

### **Results and dividends**

The profit and loss account is set out on page 6 and shows the profit for the year.

Interim dividends of £88 per share were paid to ordinary shareholders during the year. The directors do not recommend the payment of a final dividend.

### **Principal activities, review of business and future developments**

The group's principal activity is the manufacture, import, sale and trade in cheese and other dairy products. The operating plants within the UK are located at Stranraer (Scotland) and Chard.

The UK operating profit for the year was £8,963,000 compared to £5,473,000 for the year ending 31st December 2010.

Despite the difficult market conditions in 2011, we have continued to invest in our manufacturing facilities to improve efficiencies. We also increased investment in our brands to ensure we retained our market position in the face of high levels of promotional activity by our competitors. Our three main brands Seriously® Strong, Galbani, and President benefited from television advertising and have delivered good growth in 2011.

Brand share for the "Seriously" brand portfolio was boosted in 2011 by continued share growth on the flagship product Seriously® Strong, and the successful innovative Seriously® Strong spreadable, the first spreadable cheese offering the full flavoured taste of an extra mature cheddar in a convenient spreadable format. New flavour formats have been added plus larger pot sizes which have not cannibalised sales of the original product, further launches of this type of product are anticipated during 2012.

The imported cheese business also performed very well overall with brand renovation work bringing gains on both key brands, President® and Galbani®, with Galbani® again the clear No. 1 brand in Italian cheese. President brie retained its position as the No. 1 branded brie in the UK. Capricorn, our UK produced soft goat cheese, also received above the line investment and maintained its position also as the UK No. 1 goat cheese brand.

Key areas of strategic development and performance of the business include:

- Continuing to work with all farmers who play an important role in our business.
- Improved production capability as a result of continued investment in the major site at Stranraer and Chard.
- Focus on brand Continued the marketing investment in our main brands (Seriously®, President® and Galbani®) including TV advertising.
- Introduce a range of innovative products across all brands
- Continued development of our export sales through the other operating companies of the Lactalis group.
- Continue to be vigilant in relation to costs of operations in view of the ongoing economic difficulties.

### **Principal risks and uncertainties**

- Milk supply – securing the milk requirements for our factories from direct farmers.
- Milk price – the milk price increased substantially during the year with resultant pressure on our selling prices to our customers in a difficult economic climate.
- Increased promotional activity by traded brands have continued to impact on the market and this position is expected to continue during the course of 2012.
- Increased retailer promotional activity as a result of the continued economic conditions will also bring additional pressure to support our branded and own label business.
- Falling commodity prices will inevitably bring downward pressure on milk pricing which may accelerate a reduction in future milk pool available.

# **Lactalis McLelland Limited**

## **Report of the directors for the year ended 31 December 2011 (continued)**

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### **Principal risks and uncertainties (continued)**

- The exchange rate fluctuation against the Euro could have a significant impact on the profitability of our import business as all products imported from the continent (mainly France and Italy) are paid in Euros.

### **Charitable and political contributions**

The group made no political or charitable contributions in either the current or prior year.

### **Employment of disabled persons**

The group is committed to a policy of recruitment and promotion on the basis of aptitude and ability without discrimination of any kind. Management actively pursues both the employment of disabled persons whenever a suitable vacancy arises and the continued employment and retraining of employees who become disabled whilst employed by the company. Particular attention is given to the training, career development and promotion of disabled employees with a view to encouraging them to play an active role in the development of the company.

### **Employee involvement**

The flow of information to staff has been maintained by regular communication. Members of the management team regularly visit subsidiaries and discuss matters of current interest and concern to the business with members of staff.

### **Qualifying third party indemnity provisions**

The company's articles of association contain 'qualifying third party indemnity provisions', as defined in section 234 and 235 of the Companies Act 2006. Under these provisions each director and officer is entitled to be indemnified by the company, so far as permitted by law, in respect of certain liabilities which may attach to him in the exercise of his or her duties.

The company maintains insurance to cover its directors and officers, including non-executive directors, in the discharge of their duties against the loss and legal expenses incurred by each insured person due to a wrongful act. This cover provides for company reimbursement if the company pays the loss and legal expenses arising from any wrongful act of an insured person. The policy does not provide payment where the director or officer has acted fraudulently, maliciously or dishonestly.

### **Directors**

The directors of the company during the year were:

D. Jaouen  
O. P. Klein  
J. McGregor  
A. J. Smith  
F. Bouisset  
T. Clement (appointed 21 February 2011)  
R. Ceyrac  
M. Leonard (resigned 17 March 2011)  
Y. Guerin (appointed 21 February 2011)  
N. Gopal  
M. Peslier

# **Lactalis McLelland Limited**

## **Report of the directors for the year ended 31 December 2011 (*continued*)**

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### **Directors' responsibilities**

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

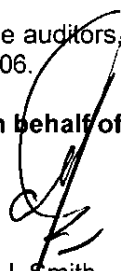
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies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

### **Auditors**

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

The auditors, BDO LLP, are deemed to be re-appointed in accordance with section 487 of the Companies Act 2006.

**On behalf of the board**



**A. J. Smith  
Director**

1 June 2012

# **Lactalis McLelland Limited**

## **Independent auditor's report**

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### **To the member of Lactalis McLelland Limited**

We have audited the financial statements of Lactalis McLelland Limited for the year ended 31 December 2011 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's member 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 member 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 member, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

As explained more fully in the statement of directors' responsibilities, 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). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2011 and of the group's profit 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.

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

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Lactalis McLelland Limited**

### **Independent auditor's report (*continued*)**

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#### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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 directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

*BDO LLP*

*Neil Craig (senior statutory auditor)*

*For and on behalf of BDO LLP, statutory auditor*

*Glasgow*

*United Kingdom*

1 June 2012

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# Lactalis McLelland Limited

## Consolidated profit and loss account for the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
<b>Turnover</b>	2	<b>209,201</b>	181,865
Cost of sales		<b>179,143</b>	152,904
<b>Gross profit</b>		<b>30,058</b>	28,961
Administrative expenses		<b>23,660</b>	25,552
		<b>6,398</b>	3,409
Other operating income		<b>2,565</b>	2,064
<b>Group operating profit</b>	3	<b>8,963</b>	5,473
Share of operating profit in associated undertakings		<b>212</b>	618
<b>Profit on ordinary activities before interest and other income</b>		<b>9,175</b>	6,091
Interest receivable and similar income - group	7	<b>797</b>	431
Interest payable and similar charges - group	8	<b>(4,603)</b>	(3,396)
Other finance charges	9	<b>(20)</b>	(44)
<b>Profit on ordinary activities before taxation</b>		<b>5,349</b>	3,082
Taxation on profit on ordinary activities	11	<b>1,239</b>	1,158
<b>Profit on ordinary activities after taxation</b>		<b>4,110</b>	1,924
Minority interest		-	154
<b>Profit for the financial year</b>	23	<b>4,110</b>	2,078

All amounts relate to continuing activities.

The notes on pages 13 to 37 form part of these financial statements.



# Lactalis McLelland Limited

## Consolidated statement of total recognised gains and losses for the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
<b>Consolidated statement of total recognised gains and losses</b>			
Profit for the financial year			
- group		3,954	1,633
- associated undertaking		156	445
		<hr/>	<hr/>
Actuarial (loss) / gain on pension scheme		4,110	2,078
Taxation in respect of gain on pension scheme		(540)	48
		135	(13)
		<hr/>	<hr/>
<b>Total recognised gains and losses for the financial year</b>		<b>3,705</b>	<b>2,113</b>
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 13 to 37 form part of these financial statements.

# Lactalis McLelland Limited

## Consolidated balance sheet at 31 December 2011

<i>Company number SC014583</i>	<i>Note</i>	<b>2011 £'000</b>	<b>2011 £'000</b>	<b>2010 £'000</b>	<b>2010 £'000</b>
<b>Fixed assets</b>					
Intangible assets	12		<b>1,305</b>		1,393
Tangible assets	13		<b>26,783</b>		28,216
Investment in associates	14		<b>1,767</b>		1,641
			<hr/>		<hr/>
			<b>29,855</b>		31,250
<b>Current assets</b>					
Stocks	15	<b>92,632</b>		87,303	
Debtors	16	<b>31,745</b>		34,969	
Cash at bank and in hand		<b>10,784</b>		4,825	
		<hr/>		<hr/>	
		<b>135,161</b>		127,097	
<b>Creditors: amounts falling due within one year</b>	17	<b>50,517</b>		48,297	
		<hr/>		<hr/>	
<b>Net current assets</b>			<b>84,644</b>		78,800
			<hr/>		<hr/>
<b>Total assets less current liabilities</b>			<b>114,499</b>		110,050
<b>Creditors: amounts falling due after more than one year</b>	18	<b>69,586</b>		66,887	
<b>Provisions for liabilities</b>	19	<b>1,517</b>		1,848	
<b>Accruals and deferred income</b>	20	<b>2,017</b>		2,370	
		<hr/>		<hr/>	
			<b>73,120</b>		71,105
			<hr/>		<hr/>
<b>Net assets excluding pension scheme liabilities</b>			<b>41,379</b>		38,945
<b>Pension scheme liabilities</b>	21		<b>(543)</b>		(314)
			<hr/>		<hr/>
<b>Net assets including pension scheme liabilities</b>			<b>40,836</b>		38,631
			<hr/>		<hr/>

The notes on pages 13 to 37 form part of these financial statements.

# Lactalis McLelland Limited

## Consolidated balance sheet at 31 December 2011 (*continued*)

	Note	2011 £'000	2011 £'000	2010 £'000	2010 £'000
<b>Capital and reserves</b>					
Called up share capital	22		17		17
Share premium account	23		2		2
Other reserves	23		18		18
Profit and loss account	23		40,799		38,594
			<hr/>		<hr/>
<b>Shareholder's funds</b>	24		40,836		38,631
			<hr/>		<hr/>

The financial statements were approved by the board of directors and authorised for issue on 1 June 2012.

  
A.J. Smith  
Director

The notes on pages 13 to 37 form part of these financial statements.

# Lactalis McLelland Limited

## Company balance sheet at 31 December 2011

<b>Company number SC014583</b>	<b>Note</b>	<b>2011 £'000</b>	<b>2011 £'000</b>	<b>2010 £'000</b>	<b>2010 £'000</b>
<b>Fixed assets</b>					
Intangible assets	12		97		103
Tangible assets	13		1,520		1,760
Fixed asset investments	14		13,861		13,861
			15,478		15,724
<b>Current assets</b>					
Stocks	15	4,738		6,552	
Debtors - due within one year	16	47,189		41,565	
Debtors - due after more than one year	16	67,533		67,983	
		114,722		109,548	
Total debtors					
Cash at bank and in hand		1,755		1	
		121,215		116,101	
<b>Creditors: amounts falling due within one year</b>	17	35,648		34,859	
		85,567		81,242	
<b>Net current assets</b>					
			101,045		96,966
<b>Total assets less current liabilities</b>					
<b>Creditors: amounts falling due after more than one year</b>	18	69,585		66,887	
<b>Provisions for liabilities</b>	19	8		49	
<b>Accruals and deferred income</b>	20	110		126	
		69,703		67,062	
<b>Net assets excluding pension scheme liabilities</b>			31,342		29,904
<b>Pension scheme liabilities</b>	21		(543)		(314)
			30,799		29,590
<b>Net assets including pension scheme liabilities</b>					

The notes on pages 13 to 37 form part of these financial statements.

# Lactalis McLelland Limited

## Company balance sheet at 31 December 2011 (*continued*)

	Note	2011 £'000	2011 £'000	2010 £'000	2010 £'000
<b>Capital and reserves</b>					
Called up share capital	22		17		17
Share premium account	23		2		2
Other reserves	23		18		18
Profit and loss account	23		30,762		29,553
			<u>          </u>		<u>          </u>
<b>Shareholder's funds</b>	24		30,799		29,590
			<u>          </u>		<u>          </u>

The financial statements were approved by the board of directors and authorised for issue on 1 June 2012.

  
A. J. Smith  
Director

The notes on pages 13 to 37 form part of these financial statements.

# Lactalis McLelland Limited

## Consolidated cashflow statement for the year ended 31 December 2011

	Note	2011 £'000	2011 £'000	2010 £'000	2010 £'000
<b>Net cash inflow from operating activities</b>	25		11,531		1,871
<b>Dividends from joint ventures and associated undertakings</b>					
From associated undertakings			30		30
<b>Returns on investments and servicing of finance</b>					
Interest received		797		431	
Interest paid: bank loans		(526)		(176)	
Interest paid: other loans		(4,077)		(3,219)	
Interest paid: hire purchase		-		(1)	
<b>Net cash outflow from returns on investments and servicing of finance</b>			(3,806)		(2,965)
<b>Taxation</b>					
Corporation tax paid			(560)		(830)
<b>Capital expenditure and financial investment</b>					
Payments to acquire intangible fixed assets		(8)		-	
Payments to acquire tangible fixed assets		(2,211)		(3,081)	
Receipts from sale of tangible fixed assets		-		39	
<b>Net cash outflow from capital expenditure and financial investment</b>			(2,219)		(3,042)
<b>Acquisitions and disposals</b>					
Purchase of business operations			-		(988)
<b>Dividends paid</b>			(1,500)		(2,500)
<b>Cash inflow/(outflow) before use of financing</b>			3,476		(8,424)
<b>Financing</b>					
Capital element of finance leases repaid			-		(54)
<b>Increase/(Decrease) in cash</b>	26		3,476		(8,478)

The notes on pages 13 to 37 form part of these financial statements.

# **Lactalis McLelland Limited**

## **Notes forming part of the financial statements for the year ended 31 December 2011**

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### **1 Accounting policies**

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and are in accordance with applicable accounting standards.

The following principal accounting policies have been applied:

#### *Basis of consolidation*

The consolidated financial statements incorporate the results of Lactalis McLelland Limited and all of its subsidiary undertakings as at 31 December 2011 using the acquisition or merger method of accounting as required. Where the acquisition method is used, the results of subsidiary undertakings are included from the date of acquisition.

#### *Goodwill and other intangibles*

Goodwill arising on an acquisition of a subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. Positive goodwill is capitalised and amortised through the profit and loss account over the directors' estimate of its useful economic life of 20 years.

Impairment tests on the carrying value of goodwill are undertaken:

- at the end of the first full financial year following acquisition;
- in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Other intangibles consist of trademarks and other brand related costs that are capitalised where the directors consider them to have an enduring economic benefit. These are amortised over the directors' estimate of their useful economic life of 10 years.

#### *Associates*

An entity is treated as an associated undertaking where the group has a participating interest and exercises significant influence over its operating and financial policy decisions.

In the group accounts, interests in associated undertakings are accounted for using the equity method of accounting. The consolidated profit and loss account includes the group's share of the operating results, interest, pre-tax results and attributable taxation of such undertakings based on audited financial statements. In the consolidated balance sheet, the interests in associated undertakings are shown as the group's share of the identifiable net assets, including any unamortised premium paid on acquisition.

The premium on acquisition is dealt with under the goodwill policy.

#### *Turnover*

Turnover represents sales to external customers at invoiced amounts less Value Added Tax. Turnover is recognised when goods are dispatched and title passes to the customer.

#### *Other operating income*

Other operating income comprises management charges relating to services provided to other Lactalis Group companies.

#### *Liquid resources*

For the purposes of the cash flow statement, liquid resources are defined as current asset investments and short term deposits.

# Lactalis McLelland Limited

## Notes forming part of the financial statements for the year ended 31 December 2011 (*continued*)

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### 1 Accounting policies (*continued*)

#### *Tangible fixed assets and depreciation*

Depreciation is provided to write off the cost less estimated residual values of all tangible fixed assets, except for freehold land, investment properties, assets held for resale and assets in the course of construction, evenly over their expected useful lives. It is calculated at the following rates:

Freehold property	- 4% straight line and 2.5% straight line
Plant and machinery	- 4% - 25% per annum
Fixtures, fittings and equipment	- 5% - 50% per annum on the reducing balance and straight line methods

#### *Investment properties*

In accordance with SSAP 19 'Accounting for investment properties', investment properties are revalued annually to open market value and no depreciation is provided. The directors consider that this accounting policy results in the financial statements giving a true and fair view. The effect of this departure from the Companies Act 2006 has not been quantified because it is impracticable and, in the opinion of the directors, would be misleading.

The aggregate surplus or deficit arising on revaluation is transferred to the revaluation reserve except where a deficit is deemed to represent a permanent diminution in value, in which case it is charged to the profit and loss account.

#### *Valuation of investments*

Investments held as fixed assets are stated at cost less any provision for impairment. Investments held as current assets are stated at the lower of cost and net realisable value.

#### *Stocks*

Stocks are valued at the lower of cost and net realisable value on a consistent basis year by year. The cost of finished goods includes all raw materials and direct overheads together with the attributable proportion of indirect overheads (for each category of stock) based on the normal level of activity.

Net realisable value is based on estimated selling price less additional costs to completion and disposal.

#### *Foreign currency and forward contracts*

Foreign currency transactions of individual companies are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet dates except where matching forward currency contracts are in place to fix the Sterling amount receivable or payable, in which case the assets and liabilities are translated at the forward rate. Any differences are taken to the profit and loss account.

Forward currency contracts are entered into for hedging purposes. Where not already matched to existing foreign currency monetary assets and liabilities, these forward contracts are revalued to the rates of exchange at the balance sheet date and, where material, any gains or losses arising to that date are taken to the profit and loss account. The portion of the premium arising on such contracts is also recognised in the profit and loss account.



# Lactalis McLelland Limited

## Notes forming part of the financial statements for the year ended 31 December 2011 (*continued*)

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### 1 Accounting policies (*continued*)

#### *Deferred taxation*

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except that:

- deferred tax is not recognised on timing differences arising on revalued properties unless the group has entered into a binding sale agreement and is not proposing to take advantage of rollover relief; and
- the recognition of deferred tax assets is limited to the extent that the group anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

#### *Government grants*

Grants are credited to deferred revenue. Grants towards capital expenditure are released to the profit and loss account over the expected useful life of the assets to which they relate. Grants towards revenue expenditure are released to the profit and loss account as the related expenditure is incurred.

#### *Leased assets*

Where assets are financed by leasing agreements that give rights approximating to ownership (finance lease and hire purchase contracts), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account over the shorter of estimated useful economic life and the period of the lease.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the profit and loss account over the period of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

#### *Pension costs*

Contributions to the group's defined contribution pension scheme are charged to the profit and loss account in the year in which they become payable.

The difference between the fair value of the assets held in the group's defined benefit pension scheme and the scheme's liabilities measured on an actuarial basis using the projected unit method are recognised in the group's balance sheet as a pension asset or liability as appropriate. The carrying value of any resulting pension scheme asset is restricted to the extent that the group is able to recover the surplus either through reduced contributions in the future or through refunds from the scheme. The pension scheme balance is recognised net of any related deferred tax balance, with the recognition of any deferred tax asset following the principles described in the deferred tax accounting policy above.

Changes in the defined benefit pension scheme asset or liability arising from factors other than cash contribution by the group are charged to the profit and loss account or the statement of total recognised gains and losses in accordance with Financial Reporting Standard 17 'Retirement benefits'.

# Lactalis McLelland Limited

## Notes forming part of the financial statements for the year ended 31 December 2011 (continued)

### 2 Turnover

	2011 £'000	2010 £'000
Analysis by geographical market:		
United Kingdom	195,036	170,159
European Union	14,165	11,706
	<u>          </u>	<u>          </u>

Turnover is wholly attributable to the principal activity of the group.

### 3 Operating profit

	2011 £'000	2010 £'000
This is arrived at after charging/(crediting):		
Depreciation of tangible fixed assets	3,603	3,599
Amortisation of positive goodwill	82	82
Amortisation of other intangible fixed assets	14	14
Hire of plant and machinery - operating leases	213	350
Hire of other assets - operating leases	433	-
Auditors' remuneration:		
- group audit services	79	80
- group taxation compliance and advisory	34	40
- group other	5	5
Defined benefit pension cost (see below)	-	1
Government grants released	(353)	(354)
	<u>          </u>	<u>          </u>

Depreciation includes £nil (2010: £32,000) charged on assets held under finance lease and hire purchase contracts.

Included within the group audit fee is amounts payable in respect of the company of £25,000 (2010: £25,000). Amounts paid to the company's auditor in respect of services other than the audit of the company's financial statements have not been disclosed as the information is required instead to be given on a consolidated basis.

	2011 £'000	2010 £'000
Defined benefit pension costs charged in arriving at the operating loss comprise the following:		
Current service cost	-	1
	<u>          </u>	<u>          </u>

# Lactalis McLelland Limited

Notes forming part of the financial statements  
for the year ended 31 December 2011 (*continued*)

## 4 Dividends

	2011 £'000	2010 £'000
<i>Ordinary shares</i>		
Interim paid in respect of 2011 of £88.24 (2010: £147.06) per share	1,500	2,500

## 5 Employees

Staff costs (including directors) consist of:

	Group 2011 £'000	Group 2010 £'000
Wages and salaries	13,764	13,592
Social security costs	1,212	1,140
FRS17 and other pension costs	457	462
	15,433	15,194

The average number of employees (including directors) during the year was as follows:

	Group 2011 Number	Group 2010 Number
Administration and management	120	110
Production, warehouse and distribution	304	307
	424	417

Included in staff costs are agency staff costs of £497,000 (2010: £841,000).

## 6 Directors' remuneration

	2011 £'000	2010 £'000
Directors' emoluments	751	1,003
Company contributions to money purchase pension schemes	70	68

There were 3 directors in the group's defined contribution pension scheme during the year (2010: 3).

The total amount payable to the highest paid director in respect of emoluments was £228,000 (2010: £239,000). Company pension contributions of £40,000 (2010: £38,000) were made to a money purchase scheme on his behalf.

# Lactalis McLelland Limited

Notes forming part of the financial statements  
for the year ended 31 December 2011 (*continued*)

## 7 Interest receivable and similar income

	2011 £'000	2010 £'000
Bank deposits	373	182
Loans to group companies	424	249
	<u>797</u>	<u>431</u>

## 8 Interest payable and similar charges

	2011 £'000	2010 £'000
Bank loans and overdrafts	526	176
Loans from group companies	4,077	3,184
Finance lease and hire purchase contracts	-	1
Other interest payable	-	35
	<u>4,603</u>	<u>3,396</u>

## 9 Other finance charges

	2011 £'000	2010 £'000
Expected return on pension scheme assets	(84)	(61)
Interest on pension scheme liabilities	104	105
	<u>20</u>	<u>44</u>

## 10 Profit for the financial year

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own profit and loss account in these financial statements. The group profit for the year includes a profit after tax of £3,114,000 (2010: £2,046,000) which is dealt with in the financial statements of the parent company.

# Lactalis McLelland Limited

Notes forming part of the financial statements  
for the year ended 31 December 2011 (*continued*)

## 11 Taxation on profit on ordinary activities

	2011 £'000	2010 £'000
<i>UK Corporation tax</i>		
Current tax on profits of the year	1,441	953
Adjustment in respect of previous periods	2	1
	<hr/>	<hr/>
Total current tax	1,443	954
	<hr/>	<hr/>
<i>Deferred tax</i>		
Origination and reversal of timing differences	(219)	34
Adjustment in respect of previous periods	27	-
Effect of tax rate change on opening balance	(139)	(66)
Charge on FRS 17 pension movement	71	63
	<hr/>	<hr/>
Movement in deferred tax provision	(260)	31
	<hr/>	<hr/>
<i>Other tax</i>		
Share of associated undertakings' tax charge	56	173
	<hr/>	<hr/>
Taxation on profit on ordinary activities	1,239	1,158
	<hr/>	<hr/>

The tax assessed for the year differs from the applicable rate of corporation tax in the UK applied to profit before tax. The differences are explained below:

	2011 £'000	2010 £'000
Profit on ordinary activities before tax	5,349	3,082
	<hr/>	<hr/>
Profit on ordinary activities at the applicable rate of corporation tax in the UK of 26% (2010 - 28%)	1,417	863
Effect of:		
Expenses not deductible for tax purposes	50	162
Capital allowances for period compared to depreciation	409	326
Income not taxable	(332)	(101)
Adjustment to tax charge in respect of previous periods	2	1
Share of associated companies' result	(56)	(173)
FRS 17 adjustment	(65)	(63)
Other short term timing differences	18	(61)
	<hr/>	<hr/>
Current tax charge for the year	1,443	954
	<hr/>	<hr/>

# Lactalis McLelland Limited

Notes forming part of the financial statements  
for the year ended 31 December 2011 (*continued*)

## 12 Intangible fixed assets

### Group

	Goodwill on consolidation £'000	Trademarks £'000	Total £'000
<i>Cost or valuation</i>			
At 1 January 2011	1,638	139	1,777
Additions	-	8	8
	<hr/>	<hr/>	<hr/>
At 31 December 2011	<b>1,638</b>	<b>147</b>	<b>1,785</b>
	<hr/>	<hr/>	<hr/>
<i>Amortisation</i>			
At 1 January 2011	348	36	384
Provided for the year	82	14	96
	<hr/>	<hr/>	<hr/>
At 31 December 2011	<b>430</b>	<b>50</b>	<b>480</b>
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
At 31 December 2011	<b>1,208</b>	<b>97</b>	<b>1,305</b>
	<hr/>	<hr/>	<hr/>
At 31 December 2010	1,290	103	1,393
	<hr/>	<hr/>	<hr/>

# Lactalis McLelland Limited

Notes forming part of the financial statements  
for the year ended 31 December 2011 *(continued)*

## 12 Intangible fixed assets *(continued)*

### Company

	Trademarks £'000
<i>Cost</i>	
At 1 January 2011	139
Additions	8
	<hr/>
At 31 December 2011	<b>147</b>
	<hr/>
<i>Amortisation</i>	
At 1 January 2011	36
Provided for the year	14
	<hr/>
At 31 December 2011	<b>50</b>
	<hr/>
<i>Net book value</i>	
At 31 December 2011	<b>97</b>
	<hr/>
At 31 December 2010	103
	<hr/>

# Lactalis McLelland Limited

Note forming part of the financial statements  
for the year ended 31 December 2011 (*continued*)

<b>13 Tangible fixed assets</b>							
<b>Group</b>	<b>Freehold land and buildings £'000</b>	<b>Plant and machinery £'000</b>	<b>Freehold investment properties £'000</b>	<b>Fixtures and fittings £'000</b>	<b>Assets held for sale £'000</b>	<b>Assets in course of construction £'000</b>	<b>Total £'000</b>
<i>Cost or valuation</i>							
At 1 January 2011	13,682	33,111	-	1,179	2,125	605	50,702
Additions	116	710	-	9	16	1,360	2,211
Disposals	-	(5)	-	-	-	(41)	(46)
Transfers	177	130	2,141	-	(2,141)	(307)	-
Revaluations	-	-	(1,016)	-	-	-	(1,016)
At 31 December 2011	<u>13,975</u>	<u>33,946</u>	<u>1,125</u>	<u>1,188</u>	<u>-</u>	<u>1,617</u>	<u>51,851</u>
<i>Depreciation</i>							
At 1 January 2011	1,653	19,319	-	499	1,015	-	22,486
Provided for the year	465	2,857	-	280	1	-	3,603
Disposals	-	(5)	-	-	-	-	(5)
Transfers	-	-	1,016	-	(1,016)	-	-
Revaluations	-	-	(1,016)	-	-	-	(1,016)
At 31 December 2011	<u>2,118</u>	<u>22,171</u>	<u>-</u>	<u>779</u>	<u>-</u>	<u>-</u>	<u>25,068</u>
<i>Net book value</i>							
At 31 December 2011	<u>11,857</u>	<u>11,775</u>	<u>1,125</u>	<u>409</u>	<u>-</u>	<u>1,617</u>	<u>26,783</u>
At 31 December 2010	<u>12,029</u>	<u>13,792</u>	<u>-</u>	<u>680</u>	<u>1,110</u>	<u>605</u>	<u>28,216</u>



# Lactalis McLelland Limited

Notes forming part of the financial statements  
for the year ended 31 December 2011 (continued)

## 13 Tangible fixed assets (continued)

### Company

	Plant and machinery £'000	Freehold investment properties £'000	Fixtures and fittings £'000	Assets held for sale £'000	Total £'000
<i>Cost or valuation</i>					
At 1 January 2011	8	-	1,006	2,125	3,139
Additions	-	-	9	16	25
Transfers	-	2,141	-	(2,141)	-
Revaluations	-	(1,016)	-	-	(1,016)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2011	<b>8</b>	<b>1,125</b>	<b>1,015</b>	<b>-</b>	<b>2,148</b>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>					
At 1 January 2011	6	-	358	1,015	1,379
Provided for the year	-	-	264	1	265
Transfers	-	1,016	-	(1,016)	-
Revaluations	-	(1,016)	-	-	(1,016)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2011	<b>6</b>	<b>-</b>	<b>622</b>	<b>-</b>	<b>628</b>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>					
At 31 December 2011	<b>2</b>	<b>1,125</b>	<b>393</b>	<b>-</b>	<b>1,520</b>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2010	2	-	648	1,110	1,760
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Property held for sale by the group and company as at 1 January 2011 was tenanted during the year and has therefore been reclassified as freehold investment property at the year end. This property is carried at a valuation undertaken by James Barr, Chartered Surveyors, on 8 December 2011. The basis of the valuation was open market value for existing use. The historical cost of the investment property is £2,141,000.

# Lactalis McLelland Limited

Notes forming part of the financial statements  
for the year ended 31 December 2011 (*continued*)

## 14 Fixed asset investments

### Group

	Associated undertakings £'000
<i>Cost</i>	
At 1 January 2011 and 31 December 2011	230
<i>Share of retained profits</i>	
At 1 January 2011	1,411
Profit for the year	126
At 31 December 2011	1,537
<i>Net book value</i>	
At 31 December 2011	1,767
At 31 December 2010	1,641

### Company

	Group undertakings £'000	Associated undertakings £'000	Total £'000
<i>Cost or valuation</i>			
At 1 January 2011 and 31 December 2011	13,631	230	13,861

# Lactalis McLelland Limited

Notes forming part of the financial statements  
for the year ended 31 December 2011 *(continued)*

## 14 Fixed asset investments *(continued)*

*Subsidiary undertakings, associated undertakings and other investments*

The principal undertakings in which the company's interest at the year end is 20% or more are as follows:

	Proportion of voting rights and ordinary share capital held	Nature of business
<i>Subsidiary undertakings</i>		
The Caledonian Cheese Company Limited	100%	Cheese manufacturers
McLelland Cheese Packing Limited	100%	Cheese packing
Lubborn Cheese Limited	100%	Cheese manufacturers
The Fresh Milk Company Limited	100%	Milk procurement and distribution
Farmers Creamery Company Limited	100%	Holding company (in liquidation)
<i>Associated undertakings</i>		
Orkney Cheese Company Limited	20%	Cheese manufacturers
Dairy Solutions Limited	30%	Cheese manufacturers

# Lactalis McLelland Limited

Notes forming part of the financial statements  
for the year ended 31 December 2011 (continued)

## 15 Stocks

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Raw materials and consumables	3,499	2,103	-	-
Work in progress	207	248	-	-
Finished goods and goods for resale	88,926	84,952	4,738	6,552
	<u>92,632</u>	<u>87,303</u>	<u>4,738</u>	<u>6,552</u>

There is no material difference between the replacement cost of stocks and the amounts stated above.

## 16 Debtors

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Amounts receivable within one year				
Trade debtors	27,227	24,512	24,902	22,424
Amounts owed by group undertakings	1,827	8,861	20,612	18,182
Amounts owed by associated undertakings	41	240	41	240
Corporation tax recoverable	-	264	-	264
Prepayments and accrued income	164	378	146	352
Other debtors	2,486	714	1,488	103
	<u>31,745</u>	<u>34,969</u>	<u>47,189</u>	<u>41,565</u>
Amounts receivable after more than one year				
Amounts owed by group undertakings	-	-	67,533	67,983
	<u>31,745</u>	<u>34,969</u>	<u>114,722</u>	<u>109,548</u>

# Lactalis McLelland Limited

Notes forming part of the financial statements  
for the year ended 31 December 2011 (continued)

## 17 Creditors: amounts falling due within one year

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Bank loans and overdrafts (secured)	13,324	10,841	-	467
Trade creditors	12,069	10,539	2,210	1,098
Amounts owed to group undertakings	13,754	12,805	23,742	21,259
Corporation tax	613	97	429	-
Other taxation and social security	323	344	134	152
Other creditors	6,244	6,401	6,225	6,382
Accruals and deferred income	4,190	7,270	2,908	5,501
	<b>50,517</b>	<b>48,297</b>	<b>35,648</b>	<b>34,859</b>

All bank borrowings of the group are secured by a bond and floating charge over the assets of each group company, an intercompany cross guarantee covering the Lactalis McLelland group of companies and Lactalis Nestle Chilled Dairy Company Limited and a letter of comfort from BSA, the group's ultimate parent undertaking.

## 18 Creditors: amounts falling due after more than one year

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Amounts owed to group undertakings	69,586	65,887	69,585	65,887
Other creditors	-	1,000	-	1,000
	<b>69,586</b>	<b>66,887</b>	<b>69,585</b>	<b>66,887</b>

Amounts owed to group undertakings have no fixed repayment date however the directors do not anticipate the amounts to be settled within the next financial year and therefore the amounts have been categorised as long term creditors.

# Lactalis McLelland Limited

Notes forming part of the financial statements  
for the year ended 31 December 2011 *(continued)*

## 19 Provisions for liabilities

### Group

	Deferred taxation £'000
At 1 January 2011	1,848
Utilised in year	(331)
	<hr/>
At 31 December 2011	<b>1,517</b>
	<hr/>

### Company

	Deferred taxation £'000
At 1 January 2011	49
Utilised in year	(41)
	<hr/>
At 31 December 2011	<b>8</b>
	<hr/>

### Deferred taxation

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Accelerated capital allowances	1,558	1,896	47	63
Sundry timing differences	(41)	(48)	(39)	(14)
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>1,517</b>	<b>1,848</b>	<b>8</b>	<b>49</b>
	<hr/>	<hr/>	<hr/>	<hr/>

# Lactalis McLelland Limited

Notes forming part of the financial statements  
for the year ended 31 December 2011 (*continued*)

## 20 Accruals and deferred income

### *Grant income*

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
At 1 January	2,370	2,724	126	143
Released to profit and loss account	(353)	(354)	(16)	(17)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December	2,017	2,370	110	126
	<hr/>	<hr/>	<hr/>	<hr/>

## 21 Pensions

Following the acquisition of Galbani (UK) Limited in 2007, the group acquired a defined benefit pension scheme, the Galbani (UK) Limited Retirement Benefits Scheme.

A full actuarial valuation of the defined benefit scheme was carried out at 1 September 2008 and updated to 31 December 2011 by a qualified independent actuary on an FRS 17 basis.

	2011 £'000	2010 £'000
<i>Reconciliation of present value of plan liabilities</i>		
At the beginning of the year	(1,735)	(1,745)
Current service cost	-	(1)
Interest cost	(104)	(105)
Actuarial (losses)/gains	(374)	45
Benefits paid	11	71
	<hr/>	<hr/>
At the end of the year	(2,202)	(1,735)
	<hr/>	<hr/>
	2011 £'000	2010 £'000
<i>Composition of plan liabilities</i>		
Schemes wholly or partly funded	2,202	1,735
	<hr/>	<hr/>

# Lactalis McLelland Limited

Notes forming part of the financial statements  
for the year ended 31 December 2011 *(continued)*

## 21 Pensions *(continued)*

	2011 £'000	2010 £'000
<i>Reconciliation of fair value of plan assets</i>		
At the beginning of the year	1,304	1,041
Expected rate of return on plan assets	84	61
Actuarial (losses)/gains	(166)	4
Contributions by group	267	269
Benefits paid	(11)	(71)
	<hr/>	<hr/>
At the end of the year	1,478	1,304
	<hr/>	<hr/>
	2011 £'000	2010 £'000
<i>Reconciliation to balance sheet</i>		
Present value of funded obligations	(2,202)	(1,735)
Fair value of plan assets	1,478	1,304
	<hr/>	<hr/>
Plan deficit	(724)	(431)
Related deferred tax asset	181	117
	<hr/>	<hr/>
Net liability	(543)	(314)
	<hr/>	<hr/>
	2011 £'000	2010 £'000
<i>The amounts recognised in profit and loss are as follows:</i>		
<i>Included in administrative expenses:</i>		
Current service cost	-	1
<i>Included in other finance (income)/expense:</i>		
Interest cost	104	105
Expected return of plan assets	(84)	(61)
	<hr/>	<hr/>
	20	45
	<hr/>	<hr/>



# Lactalis McLelland Limited

Notes forming part of the financial statements  
for the year ended 31 December 2011 *(continued)*

## 21 Pensions *(continued)*

	2011 £'000	2010 £'000
<i>Analysis of amount recognised in statement of total recognised gains and losses</i>		
Actual return less expected return on pension plan assets	(166)	4
Experience gains and losses arising on the scheme liabilities	(29)	100
Changes in assumptions underlying the present value of the scheme liabilities	(345)	(55)
	<hr/>	<hr/>
Actuarial (losses)/gains recognised in the statement of total recognised gains and losses	(540)	49
	<hr/>	<hr/>
	2011 £'000	2010 £'000
<i>Cumulative amount of gains/(losses) recognised in the statement of total recognised gains and losses</i>	(1,318)	(778)
	<hr/>	<hr/>
	2011 £'000	2010 £'000
<i>Composition of plan assets</i>		
European equities	859	840
European bonds	315	305
Cash	304	159
	<hr/>	<hr/>
Total plan assets	1,478	1,304
	<hr/>	<hr/>
<i>Narrative description of the basis used to determine the overall expected rate of return of assets</i>		
Overall expected rate of return on plan assets is based upon historical returns of the investment performance adjusted to reflect expectations of future long-term returns by asset class.		
	2011 £'000	2010 £'000
<i>Actual return on plan assets</i>	(82)	65
	<hr/>	<hr/>

# Lactalis McLelland Limited

Notes forming part of the financial statements  
for the year ended 31 December 2011 (*continued*)

## 21 Pensions (*continued*)

	2011 %	2010 %
<i>Principle actuarial assumptions used at the balance sheet date</i>		
Discount rates	5.30	6.00
Expected rates of return on plan assets		
Equities	6.00	7.50
Bonds	4.10	4.80
Cash	0.50	0.50
Future salary increases	3.20	3.30
Future pension increases	3.20	3.20
Inflation assumption	3.20	3.30

	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
<i>Five year history</i>					
Present value of the plan liabilities	(2,202)	(1,735)	(1,745)	(1,766)	(1,380)
Fair value of the plan assets	1,478	1,304	1,041	895	1,234
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Deficit on the pension plan	(724)	(431)	(704)	(871)	(146)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Experience adjustments arising on:</i>					
Plan liabilities	(29)	100	316	(769)	(6)
Plan assets	(166)	4	(39)	(404)	(71)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The group's best estimate of the contributions expected to be paid in the year beginning on the 1 January 2012 is £270,000.

The group also operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. The pension charge amounted to £457,000 (2010: £461,000). There were no outstanding or prepaid contributions at either the beginning or end of the financial year other than December payroll amounts paid in January.

# Lactalis McLelland Limited

Notes forming part of the financial statements  
for the year ended 31 December 2011 *(continued)*

## 22 Share capital

	2011 £'000	2010 £'000
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	17	17
	<u>17</u>	<u>17</u>

## 23 Reserves

### Group

	Share premium account £'000	Other reserves £'000	Profit and loss account £'000
At 1 January 2011	2	18	38,594
Profit for the year	-	-	4,110
Dividends	-	-	(1,500)
Actuarial loss on pension scheme liabilities net of related taxation	-	-	(405)
	<u>2</u>	<u>18</u>	<u>40,799</u>
At 31 December 2011	2	18	40,799

### Company

	Share premium account £'000	Other reserves £'000	Profit and loss account £'000
At 1 January 2011	2	18	29,553
Profit for the year	-	-	3,114
Dividends	-	-	(1,500)
Actuarial loss on pension scheme liabilities net of related taxation	-	-	(405)
	<u>2</u>	<u>18</u>	<u>30,762</u>
At 31 December 2011	2	18	30,762

# Lactalis McLelland Limited

Notes forming part of the financial statements  
for the year ended 31 December 2011 *(continued)*

## 24 Reconciliation of movements in shareholder's funds

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Profit for the year	4,110	2,078	3,114	2,046
Dividends	(1,500)	(2,500)	(1,500)	(2,500)
	<u>2,610</u>	<u>(422)</u>	<u>1,614</u>	<u>(454)</u>
Actuarial (loss) / gain on pension scheme liabilities net of related deferred taxation	(405)	35	(405)	35
	<u>2,205</u>	<u>(387)</u>	<u>1,209</u>	<u>(419)</u>
Net additions to/(deductions from) shareholder's funds	2,205	(387)	1,209	(419)
Opening shareholder's funds	38,631	39,018	29,590	30,009
	<u>40,836</u>	<u>38,631</u>	<u>30,799</u>	<u>29,590</u>
Closing shareholder's funds	40,836	38,631	30,799	29,590

## 25 Reconciliation of operating profit to net cash inflow from operating activities

	2011 £'000	2010 £'000
Operating profit	8,963	5,473
Amortisation of intangible fixed assets	96	96
Depreciation of tangible fixed assets	3,603	3,599
Government grants released	(353)	(354)
Increase in stocks	(5,329)	(10,489)
Decrease/(increase) in debtors	2,960	(8,212)
Increase in creditors	1,858	12,026
FRS 17 Pension charge	-	1
Defined benefit pension scheme contributions	(267)	(269)
	<u>11,531</u>	<u>1,871</u>
Net cash inflow from operating activities	11,531	1,871

# Lactalis McLelland Limited

Notes forming part of the financial statements  
for the year ended 31 December 2011 *(continued)*

## 26 Reconciliation of net cash flow to movement in net (debt)/funds

	2011 £'000	2010 £'000
Increase/(decrease) in cash	3,476	(8,478)
Cash inflow from changes in debt	-	54
Movement in net debt	3,476	(8,424)
Opening net (debt)/funds	(6,016)	2,408
Closing net debt	(2,540)	(6,016)

## 27 Analysis of net debt

	At 1 January 2011 £'000	Cash flow £'000	At 31 December 2011 £'000
Cash at bank and in hand	4,825	5,959	10,784
Bank overdrafts	(10,841)	(2,483)	(13,324)
Total	(6,016)	3,476	(2,540)

# Lactalis McLelland Limited

Notes forming part of the financial statements  
for the year ended 31 December 2011 (continued)

## 28 Commitments under operating leases

The group had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings 2011 £'000	Other 2011 £'000	Land and buildings 2010 £'000	Other 2010 £'000
Operating leases which expire:				
Within one year	-	18	-	50
In two to five years	433	146	271	124
	<u>433</u>	<u>164</u>	<u>271</u>	<u>174</u>

The company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings 2011 £'000	Other 2011 £'000	Land and buildings 2010 £'000	Other 2010 £'000
Operating leases which expire:				
Within one year	-	18	-	50
In two to five years	433	146	271	75
	<u>433</u>	<u>164</u>	<u>271</u>	<u>125</u>

## 29 Related party disclosures

### *Related party transactions and balances*

The company and its subsidiaries trade with fellow members of the BSA group of companies. All transactions are at arms length on a commercial basis.

Sales and management charges by the Lactalis McLelland group during the year to fellow members of the BSA group of companies amounted to £14,451,000 (2010: £11,570,000). Purchases and other charges from fellow members of the BSA group of companies amounted to £57,089,000 (2010: £59,745,000). The Lactalis McLelland group paid interest of £4,077,000 (2010: £3,184,000) and received interest on deposits held with the group of £424,000 (2010: £249,000).

At the year-end, the total amount owed to the Lactalis McLelland group by fellow members of the BSA group of companies was £1,772,000 (2010: £8,861,000) and the total amount owed by the Lactalis McLelland group was £83,340,000 (2010: £78,692,000).

# Lactalis McLelland Limited

Notes forming part of the financial statements  
for the year ended 31 December 2011 *(continued)*

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## 30 Ultimate parent company and parent undertaking of larger group

The company is a subsidiary of BSA, which is the ultimate parent company incorporated in France.

The largest group in which the results of the company are consolidated is that headed by BSA. The smallest group in which they are consolidated is that headed by Lactalis McLelland Limited.

## 31 Capital commitments

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Contracted but not provided for	3,572	449	-	-

At the balance sheet date the group was committed to completing a programme of works in order to comply with improvement works agreed with SEPA at its manufacturing site in Stranraer. Management estimate that the completion of these works will cost between £3.35 million and £4.35 million, in addition to the commitments noted above. The programme of works is due to be completed by the end of 2013.