

Lactalis McLelland Limited

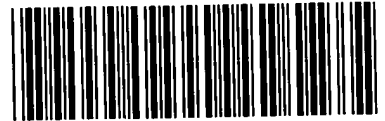
Annual Report and Financial Statements

Year Ended

31 December 2018

Company Number SC014583

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Lactalis McLelland Limited

Company Information

Directors	Daniel Jaouen Michel Peslier Naigee Gopal Hugues Meaudre (appointed 31 July 2018)
Registered number	SC014583
Registered office	The Creamery Commerce Road Stranraer DG9 7DA
Independent auditor	BDO LLP 4 Atlantic Quay 70 York Street Glasgow G2 8JX
Bankers	HSBC Bank PLC P.O.BOX 125 2nd Floor 62-76 Park Street London SE1 9DZ
Solicitors	Pinsent Masons Princess Exchange 1 Earl Grey Street Edinburgh EH3 9AQ

Lactalis McLelland Limited

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Lactalis McLelland Limited

Strategic report For the year ended 31 December 2018

Introduction

The directors present their strategic report together with the audited financial statements for the year ended 31 December 2018.

The group's principal activity is to manufacture, import and market branded and private label cheese and other dairy products.

Business review and key performance indicators

The group's turnover increased by 11.6% versus 2017 and the consolidated profit before taxation for the year ended 31 December 2018 was £6.9m compared to £15.9m for the year ended 31 December 2017.

The group's turnover increase versus the previous year is explained by gains in private label contracts during the year. Profit before taxation was lower than the previous year due to higher cost of sales, which increased by 21%.

The business has continued to support the development of its main brands with advertising and promotional investment during the year. Our main cheddar and continental brands performed well delivering category growth throughout the year. Our branded organic milk, Rachel's suffered volume losses in the year and as a result was no longer viable to continue with milk sales in the UK.

The significant key financial performance indicators are:

- Turnover and profit
- Milk usage and price
- Other input costs per KG
- Product quality
- Health and Safety
- Stock levels.

Principal risks and uncertainties

The business faces a number of risks and uncertainties. The directors review and agree policies as well as strategies to mitigate these on an on-going basis. The main risks facing the business are set out below:

Market and competitive risks

The business operates in a very competitive dairy market environment with the retail sector particularly impacted by the growth of the discounters channel. Lactalis McLelland's Board addresses these by continually reviewing market data, all of its costs and also investment plans for its manufacturing sites. These investment plans are largely aimed at growing capability and improving efficiency as well as productivity. The business will continue to invest in innovations and promote its key brands, President, Galbani, Seriously and Galloway.

Input cost risks

Milk price volatility can impact significantly on the company's margins. We continually monitor the market and our dedicated milk team works closely with farmer representatives to ensure we have a sustainable high quality milk supply. We aim to pay a fair and competitive price to our farmers.

The business also monitors other input costs for all its sites and at head office very closely working with the factory managers, purchasing team and also with all suppliers to reduce our exposure to inflationary linked price changes or other drivers of rising prices. The company has internal procedures in place to communicate changes to our costs to the commercial teams so they can discuss price changes with our customers.

Lactalis McLelland Limited

Group strategic report (continued) For the year ended 31 December 2018

Credit risks

Credit risks are mainly attributed to trade debtors. Management actively assesses these risks, monitoring outstanding debts and takes action for early debt recovery. The group also has credit insurance in place to mitigate risks from its portfolio of smaller debtors.

Foreign exchange risks

The group buys products from other EU countries and is therefore exposed to foreign exchange risk on these imports. Management takes out forward contracts to reduce the risks associated with the Euro.

The decision to leave the EU and the delay in agreeing a trade deal between the UK and the EU is expected to affect our business but, as yet, its full impacts are unclear.

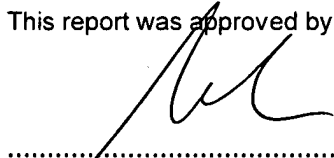
Cashflow and liquidity risks

The Board monitors cash flow projections continually and ensures there are appropriate instruments in place to provide funds for on going operations and investments. These include a combination of bank overdraft and inter- company facilities which can be drawn upon when required.

Commercial opportunities and risks

The group seeks to continue to grow distribution of all products in all channels with focus on fast growing areas such as discounters and online. It will target increased scale, improved and broadened capabilities as well as its ability to balance milk fractions and by products. It will continue to grow its brands as well as own label lines and invest in longer term collaborative relationships with all its customers and suppliers.

This report was approved by the board on 27 August 2019 and signed on its behalf.


.....
Hugues Meaudre
Director

Lactalis McLelland Limited

Directors' report For the year ended 31 December 2018

The directors present their report and the financial statements for the year ended 31 December 2018.

Results and dividends

The profit for the year, after taxation, amounted to £5,398,000 (2017 - £13,982,000).

Following the year end, a dividend of £2,000,000 was declared and will be paid in the year to 31 December 2019.

Directors

The directors who served during the year were:

Daniel Jaouen
Thierry Clement (resigned 25 January 2018)
Mark Taylor (resigned 31 July 2018)
Frederic Bouisset (resigned 25 January 2018)
Patrick Sauvageot (resigned 25 January 2018)
Regis Ceyrac (resigned 25 January 2018)
Michel Peslier
Naigee Gopal
Hugues Meaudre (appointed 31 July 2018)

Future development

The group will continue to grow its brand share for its flagship product Seriously® Strong with more investment in innovations. The focus will also be on its other global brands, President® and Galbani®, with Galbani® to retain the no.1 position and deliver profitable growth. Further investment is planned in marketing support with increased above the line activity supported by ongoing promotional activity. Given the high proportion of retailer own brand sales in the UK market the company also plans to expand its activity in this area to more closely align its model with key customer strategies.

Employee involvement

The group is committed to developing our people and encourages employee involvement which is done through appropriate communication channels to deliver key business messages, regular business performance updates and conducts employees' surveys to actively seek feedback about opportunities for improvement. Members of the management team regularly visit subsidiaries to present progress reports and discuss matters of current interest to the business with colleagues.

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 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 group.

Lactalis McLelland Limited

Directors' report (continued) For the year ended 31 December 2018

Qualifying third party indemnity provisions

The company's articles of associations 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 group 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.

Disclosure of information to auditor


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

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

Auditor

The auditor, BDO LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 27 August 2019 and signed on its behalf.



Hugues Meaudre
Director

Lactalis McLelland Limited

Directors' responsibilities statement

The directors are responsible for preparing the strategic report, 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 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 Company and the Group and of the profit or loss of the Company and 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 judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions, to disclose with reasonable accuracy at any time the financial position of the company and to 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.

Lactalis McLelland Limited

Independent Auditor's report to the members of Lactalis McLelland Limited

Opinion

We have audited the financial statements of Lactalis McLelland Limited ("the Parent Company") and its subsidiaries ("the Group") for the year ended 31 December 2018 which comprise Consolidated statement of comprehensive income, Consolidated and Company balance sheets, Consolidated and Company statement of changes in equity and Consolidated statement of cash flows, and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- 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 2018 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Lactalis McLelland Limited

Independent Auditor's report to the members of Lactalis McLelland Limited (continued)

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Strategic report and Directors' report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Director's report.

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

- adequate accounting records have not been kept 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.

Lactalis McLelland Limited

Independent Auditor's report to the members of Lactalis McLelland Limited (continued)

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Bao LP

28 August 2019

Martin Gill (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Glasgow
United Kingdom

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

Lactalis McLelland Limited

Consolidated statement of comprehensive income For the year ended 31 December 2018

	Note	2018 £000	2017 £000
Turnover	4	223,111	199,854
Cost of sales		(188,756)	(156,123)
Gross profit		34,355	43,731
Administrative expenses		(29,387)	(29,780)
Other operating income		2,599	2,587
Operating profit	5	7,567	16,538
Share of (loss)/profit of associates		(14)	125
Total operating profit		7,553	16,663
Interest receivable and similar income	9	338	336
Interest payable and expenses	10	(1,034)	(1,128)
Other finance income		(7)	(15)
Profit before taxation		6,850	15,856
Tax on profit	12	(1,452)	(1,874)
Profit for the financial year		5,398	13,982
Actuarial gains on defined benefit pension scheme		199	20
Gain/(loss) on foreign exchange hedge		132	(679)
Movement of deferred tax relating to pension scheme		(38)	(5)
Other comprehensive income for the year		293	(664)
Total comprehensive income for the year		5,691	13,318
Profit for the year attributable to:			
Owners of the parent company		5,398	13,982
		5,398	13,982
Total comprehensive income for the year attributable to:			
Owners of the parent company		5,691	13,318
		5,691	13,318

The notes on pages 20 to 49 form part of these financial statements.

Lactalis McLelland Limited

Registered number: SC014583

Consolidated balance sheet As at 31 December 2018

	Note	2018 £000	2017 £000
Fixed assets			
Intangible assets	13	709	808
Tangible assets	14	26,482	27,351
Investments	15	1,692	1,706
Investment property	16	1,430	1,430
		<u>30,313</u>	<u>31,295</u>
Current assets			
Stocks	17	83,332	73,546
Debtors: amounts falling due after more than one year	18	1,706	-
Debtors: amounts falling due within one year	18	36,064	42,164
Cash at bank and in hand	19	12,495	11,148
		<u>133,597</u>	<u>126,858</u>
Creditors: amounts falling due within one year	20	(53,807)	(57,581)
Net current assets		<u>79,790</u>	<u>69,277</u>
Total assets less current liabilities		<u>110,103</u>	<u>100,572</u>
Creditors: amounts falling due after more than one year	21	(64,404)	(60,149)
Provisions for liabilities			
Deferred tax	23	(1,257)	(1,151)
		<u>(1,257)</u>	<u>(1,151)</u>
Accruals and deferred income		(11)	(59)
Net assets excluding pension liability/asset		<u>44,431</u>	<u>39,213</u>
Pension asset/(liability)		36	(437)
Net assets		<u><u>44,467</u></u>	<u><u>38,776</u></u>

Lactalis McLelland Limited
Registered number: SC014583

Consolidated balance sheet (continued)
As at 31 December 2018

	Note	2018 £000	2017 £000
Capital and reserves			
Called up share capital	25	17	17
Share premium account	26	2	2
Other reserves	26	178	46
Profit and loss account	26	44,270	38,711
		<u>44,467</u>	<u>38,776</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

27 August 2019.


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Hugues Meaudre
Director

The notes on pages 20 to 49 form part of these financial statements.

Lactalis McLelland Limited

Registered number: SC014583

Company balance sheet As at 31 December 2018

	Note	2018 £000	2017 £000
Fixed assets			
Intangible assets	13	75	92
Tangible assets	14	205	270
Investments	15	13,861	13,861
Investment property	16	1,430	1,430
		<u>15,571</u>	<u>15,653</u>
Current assets			
Stocks	17	2,841	3,901
Debtors: amounts falling due after more than one year	18	65,016	63,310
Debtors: amounts falling due within one year	18	34,776	47,715
		<u>102,633</u>	<u>114,926</u>
Creditors: amounts falling due within one year	20	(23,166)	(43,094)
Net current assets		<u>79,467</u>	<u>71,832</u>
Total assets less current liabilities		<u>95,038</u>	<u>87,485</u>
Creditors: amounts falling due after more than one year	21	(64,404)	(60,149)
Net assets excluding pension liability/asset		<u>30,634</u>	<u>27,336</u>
Pension asset/(liability)		36	(437)
Net assets		<u><u>30,670</u></u>	<u><u>26,899</u></u>

Lactalis McLelland Limited

Registered number: SC014583

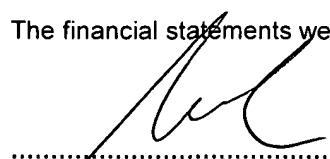
Company balance sheet (continued) As at 31 December 2018

	Note	2018 £000	2017 £000
Capital and reserves			
Called up share capital	25	17	17
Share premium account	26	2	2
Other reserves	26	178	46
Profit and loss account	26	30,473	26,834
		<u>30,670</u>	<u>26,899</u>

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements. The profit after tax of the parent Company for the year was £3,478,000 (2017 - £9,591,000).

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

27 August 2019


.....
Hughes Meaudre
Director

The notes on pages 20 to 49 form part of these financial statements.

Lactalis McLelland Limited

Consolidated statement of changes in equity For the year ended 31 December 2018

	Called up share capital £000	Share premium account £000	Other reserves £000	Profit and loss account £000	Total equity £000
At 1 January 2018	17	2	46	38,711	38,776
Comprehensive income for the year					
Profit for the year	-	-	-	5,398	5,398
Actuarial gains on pension scheme	-	-	-	199	199
Hedge effective portion of change in fair value of designated hedging instrument	-	-	132	-	132
Deferred tax movements	-	-	-	(38)	(38)
Other comprehensive income for the year	-	-	132	161	293
Total comprehensive income for the year	-	-	132	5,559	5,691
At 31 December 2018	17	2	178	44,270	44,467

The notes on pages 20 to 49 form part of these financial statements.

Lactalis McLelland Limited

Consolidated statement of changes in equity For the year ended 31 December 2017

	Called up share capital £000	Share premium account £000	Other reserves £000	Profit and loss account £000	Total equity £000
At 1 January 2017	17	2	725	24,714	25,458
Comprehensive income for the year					
Profit for the year	-	-	-	13,982	13,982
Actuarial gains on pension scheme	-	-	-	20	20
Hedge effective portion of change in fair value of designated hedge instrument	-	-	(679)	-	(679)
Deferred tax movements	-	-	-	(5)	(5)
Other comprehensive income for the year	-	-	(679)	15	(664)
Total comprehensive income for the year	-	-	(679)	13,997	13,318
At 31 December 2017	17	2	46	38,711	38,776

The notes on pages 20 to 49 form part of these financial statements.

Lactalis McLelland Limited

Company statement of changes in equity For the year ended 31 December 2018

	Called up share capital £000	Share premium account £000	Other reserves £000	Profit and loss account £000	Total equity £000
At 1 January 2018	17	2	46	26,834	26,899
Comprehensive income for the year					
Profit for the year	-	-	-	3,478	3,478
Actuarial gains on pension scheme	-	-	-	199	199
Hedge effective portion of change in fair value of designated hedging instrument	-	-	132	-	132
Deferred tax movements	-	-	-	(38)	(38)
Other comprehensive income for the year	-	-	132	161	293
Total comprehensive income for the year	-	-	132	3,639	3,771
At 31 December 2018	17	2	178	30,473	30,670

The notes on pages 20 to 49 form part of these financial statements.

Lactalis McLelland Limited

Company statement of changes in equity For the year ended 31 December 2017

	Called up share capital £000	Share premium account £000	Other reserves £000	Profit and loss account £000	Total equity £000
At 1 January 2017	17	2	725	17,228	17,972
Comprehensive income for the year					
Profit for the year	-	-	-	9,591	9,591
Actuarial gains on pension scheme	-	-	-	20	20
Hedge effective portion of change in fair value of designated hedging instrument	-	-	(679)	-	(679)
Deferred tax movements	-	-	-	(5)	(5)
Other comprehensive income for the year	-	-	(679)	15	(664)
Total comprehensive income for the year	-	-	(679)	9,606	8,927
Total transactions with owners	-	-	-	-	-
At 31 December 2017	17	2	46	26,834	26,899

The notes on pages 20 to 49 form part of these financial statements.

Lactalis McLelland Limited

Consolidated statement of cash flows For the year ended 31 December 2018

	2018 £000	2017 £000
Cash flows from operating activities		
Profit for the financial year	5,398	13,982
Adjustments for:		
Amortisation of intangible assets	109	123
Depreciation of tangible assets	2,821	2,636
Interest paid	1,041	1,128
Interest received	(338)	(336)
Taxation charge	1,452	1,874
(Increase) in stocks	(9,786)	(21,804)
Decrease/(increase) in debtors	3,228	(5,424)
Decrease in amounts owed by groups	1,298	17,894
(Decrease)/increase in creditors	(3,154)	6,083
Increase/(decrease) in amounts owed to groups	5,875	(10,500)
Corporation tax (paid)	(1,590)	(1,143)
Movement in defined benefit pension scheme	(191)	(10)
Contributions to defined benefit pension scheme	(282)	(282)
Net cash generated from operating activities	5,881	4,221
Cash flows from investing activities		
Purchase of intangible fixed assets	(10)	(43)
Purchase of tangible fixed assets	(1,977)	(3,725)
Sale of tangible fixed assets	25	18
Interest received	338	336
Net cash from investing activities	(1,624)	(3,414)

Lactalis McLelland Limited

Consolidated statement of cash flows (continued) For the year ended 31 December 2018

	2018 £000	2017 £000
Cash flows from financing activities		
Interest paid	(1,041)	(1,128)
Share of profit of associate	14	(125)
Net cash used in financing activities	<u>(1,027)</u>	<u>(1,253)</u>
Net increase/(decrease) in cash and cash equivalents	<u>3,230</u>	<u>(446)</u>
Cash and cash equivalents at beginning of year	(9,834)	(9,388)
Cash and cash equivalents at the end of year	<u><u>(6,604)</u></u>	<u><u>(9,834)</u></u>
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	12,495	11,148
Bank overdrafts	(19,099)	(20,982)
	<u><u>(6,604)</u></u>	<u><u>(9,834)</u></u>

The notes on pages 20 to 49 form part of these financial statements.

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2018

1. General information

Lactalis McLelland Limited is a private company limited by shares incorporated in Scotland under the Companies Act. The address of the registered office is given on the company information page and the nature of the group's operations and its principal activities are set out in the strategic report.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

These financial statements are prepared in GBP and rounded to the nearest thousand pound.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires group management to exercise judgment in applying the group's accounting policies (see note 3).

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements.

The following principal accounting policies have been applied:

2.2 Basis of consolidation

The consolidated financial statements present the results of the Company and its own subsidiaries ("the Group") as they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date control ceases.

2.3 Associates

An entity is treated as an associated undertaking where the Group exercises significant influence in that it has the power to participate in the operating and financial policy decisions.

In the consolidated accounts, interests in associated undertakings are accounted for using the equity method of accounting. Under this method an equity investment is initially recognised at the transaction price (including transaction costs) and is subsequently adjusted to reflect the investors share of the profit or loss, other comprehensive income and equity of the associate. The consolidated statement of comprehensive income includes the Group's share of the operating results, interest, pre-tax results and attributable taxation of such undertakings applying accounting policies consistent with those of the Group. 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.

Any premium on acquisition is dealt with in accordance with the goodwill policy.

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2018

2. Accounting policies (continued)

2.4 Going concern

The Group working capital is met through group loans and an overdraft facility. Forecasts and projections are prepared and performance is monitored against these. The directors consider there to be adequate resources available to the Group. The Group retains the support of its parent and a letter of support has been provided. As a result, the financial statements have been prepared on a going concern basis.

2.5 Foreign currency translation

Functional and presentation currency

The company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within 'other operating income'.

On consolidation, the results of overseas operations are translated into Sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income.

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2018

2. Accounting policies (continued)

2.6 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the group has transferred the significant risks and rewards of ownership to the buyer;
- the group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the group will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

2.7 Operating leases: the group as lessee

Rentals paid under operating leases are charged to the consolidated statement of comprehensive income on a straight line basis over the lease term.

2.8 Other operating income

Interest income is recognised in the statement of comprehensive income using the effective interest method.

2.9 Finance costs

Finance costs are charged to the statement of comprehensive income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.10 Borrowing costs

All borrowing costs are recognised in the statement of comprehensive income in the year in which they are incurred.

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2018

2. Accounting policies (continued)

2.11 Pensions

Defined contribution pension plan

The Group operates a defined contribution plan 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 statement of comprehensive income when they fall due. Amounts not paid are shown in accruals as a liability in the balance sheet. The assets of the plan are held separately from the Group in independently administered funds.

Group pension plan

The group operates a defined benefit pension plan. The difference between the fair value of the asset's 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 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.

Changes in the defined benefit pension scheme asset or liability arising from factors other than cash contributions by the group are recognised in profit or loss or other comprehensive income in accordance with FRS 102.

2.12 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the company and the group operate and generate income.

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

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where they relate to timing differences in respect of interests in subsidiaries, associates, branches and joint ventures and the group can control the reversal of the timing differences and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2018

2. Accounting policies (continued)

2.13 Investment properties

Investment property is carried at fair value determined periodically by external valuers and derived from the current market rents and investment property yields for comparable real estate, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided. Changes in fair value are recognised in profit or loss.

2.14 Foreign currency translation

The company's functional and presentational currency is Sterling.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in statement of comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the profit or loss within 'administrative expenses'.

2.15 Government grants

Grants are accounted for under the accruals model as permitted by FRS 102. Grants relating to expenditure of tangible fixed assets are credited to the profit and loss account at the same rate as the depreciation on the assets to which the grant relates. The deferred element of grants is included in creditors as deferred income.

Grants of a revenue nature are recognised in the statement of comprehensive income in the same period as the related expenditure.

2.16 Intangible assets

Goodwill

Goodwill represents the difference between amounts paid on the cost of a business combination and the acquirer's interest in the fair value of the group's share of its identifiable assets and liabilities of the acquiree at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight line basis to the consolidated statement of comprehensive income over its useful economic life.

Other intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed ten years.

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2018

2. Accounting policies (continued)

2.17 Tangible fixed assets

Tangible fixed assets, other than investment properties, are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Group adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the Group. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Major spare parts and servicing equipment are recognised as tangible fixed assets when the company anticipates that they will be used over more than one period. Major spare parts and servicing equipment which can only be used in connection with an item of property, plant or equipment are also regarded as a tangible fixed asset.

Assets in the course of construction are not depreciated.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line and reducing balance methods.

Depreciation is provided on the following basis:

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

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated statement of comprehensive income.

2.18 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

2.19 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each balance sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

Spare parts which are anticipated to be used over a short period of time, normally less than a year, are recognised within engineering spares in stock at the year end. These parts are released to cost of sales as and when used in production.

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2018

2. Accounting policies (continued)

2.20 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the consolidated statement of cash flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the group's cash management.

2.21 Financial instruments

The group only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade payables or receivables, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration, expected to be paid or received. However if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the statement of comprehensive income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate, which is an approximation of the amount that the group would receive for the asset if it were to be sold at the balance sheet date.

Financial assets and liabilities are offset and the net amount reported in the balance sheet 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.

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form.

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2018

2. Accounting policies (continued)

2.22 Provisions for liabilities

Provisions are made where an event has taken place that gives the group a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the statement of comprehensive income in the year that the group becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the balance sheet.

2.23 Hedge accounting

The group uses foreign currency forward contracts to manage its exposure to fair value risk on its foreign currency transactions. These derivatives are measured at fair value at each balance sheet date.

To the extent the cash flow hedge is effective, movements in fair value are recognised in other comprehensive income and presented in a separate cash flow hedge reserve. Any ineffective portions of those movements are recognised in profit or loss for the year.

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2018

3. Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, the directors have made the following judgements:

- Determine whether leases entered into by the group either as a lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.

- Determine whether there are indicators of impairment of the group's tangible and intangible assets, including goodwill. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.

Other key sources of estimation uncertainty:

- Tangible fixed assets

Tangible fixed assets, other than investment properties, are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

Investment properties are professionally valued on a regular basis using a yield methodology. This uses market rental values capitalised at a market capitalisation rate but there is an inevitable degree of judgement involved in that each property is unique and value can only ultimately be reliably tested in the market itself.

- Stock

The carrying value of stock includes an absorption of overhead costs incurred in the production of stock. This absorption is based on the volume of production of stock in a year relative to the level of overheads incurred in stock production. The absorption rate is re-assessed annually to ensure that the correct amount of overhead costs are reflected in the carrying value of stock at any given year end.

- Investments

The most critical estimates, assumptions and judgements relate to the determination of carrying value of unlisted investments at fair value through profit and loss. In determining this amount, the Group applies the overriding concept that fair value is the amount for which an asset can be exchanged between knowledgeable willing parties in an arm's length transaction. The nature, facts and circumstance of the investment drives the valuation methodology.

- Debtors

Determine whether any bad debt provision is required via review of trade debtors, with debts provided for on a specific basis. Factors considered include customer payment history and agreed credit terms.

- Pension

The assumptions used by the group actuary in preparing the defined benefit pension actuarial valuation are detailed at note 28. A change in any of the pension scheme could have a significant impact on the scheme valuation.

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2018

4. Turnover

The whole of the turnover is attributable to one class of business.

Analysis of turnover by country of destination:

	2018 £000	2017 £000
United Kingdom	203,923	175,912
Rest of Europe	18,534	22,791
Rest of the world	654	1,151
	<u>223,111</u>	<u>199,854</u>

5. Operating profit

The operating profit is stated after charging:

	2018 £000	2017 £000
Depreciation of tangible fixed assets	2,821	2,636
Amortisation of intangible assets, including goodwill	109	123
Release of deferred government grants	(57)	(222)
Operating lease rentals - land and buildings	524	612
Operating lease rentals - other assets	527	423
Exchange differences	70	112
Defined contribution pension cost	831	772
	<u>831</u>	<u>772</u>

6. Auditor's remuneration

	2018 £000	2017 £000
Fees payable to the group's auditor for the audit of the group's annual financial statements	27	27
	<u>27</u>	<u>27</u>

Fees payable to the group's auditor in respect of:

Audit of the Group's subsidiaries' annual financial statements	46	46
Taxation compliance services	23	24
All other non-audit services not included above	10	-
	<u>79</u>	<u>70</u>

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2018

7. Employees

Staff costs, including directors' remuneration, were as follows:

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Wages and salaries	17,242	14,746	6,883	5,981
Social security costs	1,557	1,395	745	703
Cost of defined contribution scheme	831	772	397	412
	<u>19,630</u>	<u>16,913</u>	<u>8,025</u>	<u>7,096</u>

The average monthly number of employees, including the directors, during the year was as follows:

	2018 No.	2017 No.
Administration and management	143	151
Production, warehouse and distribution	296	267
	<u>439</u>	<u>418</u>

The average monthly company number of employees, including directors, during the year was as follows: administration and management 116 (2017 - 124).

8. Directors' remuneration

	2018 £000	2017 £000
Directors' emoluments	808	542
Company contributions to defined contribution pension schemes	40	34
	<u>848</u>	<u>576</u>

During the year retirement benefits were accruing to 3 directors (2017 - 2) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £445 thousand (2017 - £373 thousand).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £6 thousand (2017 - £16 thousand).

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2018

9. Interest receivable

	2018 £000	2017 £000
Interest receivable from group companies	94	59
Bank interest receivable	244	277
	<u>338</u>	<u>336</u>

10. Interest payable and similar expenses

	2018 £000	2017 £000
Bank interest payable	317	289
Loans from group undertakings	717	839
	<u>1,034</u>	<u>1,128</u>

11. Other finance costs

	2018 £000	2017 £000
Net interest on net defined benefit liability	(7)	(15)
	<u>(7)</u>	<u>(15)</u>

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2018

12. Taxation

	2018 £000	2017 £000
Corporation tax		
Current tax on profits for the year	1,393	1,686
Adjustments in respect of previous periods	(9)	(55)
Foreign tax		
Foreign tax on income for the year	-	24
	<u>-</u>	<u>24</u>
Total current tax	<u>1,384</u>	<u>1,655</u>
Deferred tax		
Origination and reversal of timing differences	17	161
Adjustments in respect of previous periods	(1)	-
Deferred tax on pension scheme liability	52	58
	<u>68</u>	<u>219</u>
Total deferred tax	<u>68</u>	<u>219</u>
	<u>1,452</u>	<u>1,874</u>
Taxation on profit on ordinary activities	<u>1,452</u>	<u>1,874</u>

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2018

12. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2017 - lower than) the standard rate of corporation tax in the UK of 19.00% (2017 - 19.25%). The differences are explained below:

	2018 £000	2017 £000
Profit on ordinary activities before tax	6,850	15,856
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (2017 - 19.25%)	1,302	3,052
Effects of:		
Expenses not deductible for tax purposes	24	(63)
Capital allowances for year in excess of depreciation	140	50
Utilisation of tax losses	-	(1,277)
Adjustments to tax charge in respect of prior periods	(10)	(55)
Other differences leading to an decrease in taxation	7	47
Non-taxable income	(63)	(11)
Associate tax	-	23
Pension adjustment	52	(51)
Deferred tax	-	159
Total tax charge for the year	1,452	1,874

Factors that may affect future tax charges

There were no factors that may affect future tax charges.

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2018

13. Intangible assets

Group

	Trademarks £000	Goodwill £000	Total £000
Cost			
At 1 January 2018	266	4,798	5,064
Additions	10	-	10
At 31 December 2018	276	4,798	5,074
Amortisation			
At 1 January 2018	174	4,082	4,256
Charge for the year	27	82	109
At 31 December 2018	201	4,164	4,365
Net book value			
At 31 December 2018	75	634	709
At 31 December 2017	92	716	808

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2018

13. Intangible assets (continued)

Company

	Trademarks £000	Goodwill £000	Total £000
Cost			
At 1 January 2018	266	3,160	3,426
Additions	10	-	10
At 31 December 2018	276	3,160	3,436
Amortisation			
At 1 January 2018	174	3,160	3,334
Charge for the year	27	-	27
At 31 December 2018	201	3,160	3,361
Net book value			
At 31 December 2018	75	-	75
At 31 December 2017	92	-	92

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2018

14. Tangible fixed assets

Group

	Freehold property £000	Plant and machinery £000	Fixtures and fittings £000	Assets under construction £000	Total £000
Cost or valuation					
At 1 January 2018	19,515	45,714	1,790	97	67,116
Additions	8	1,384	92	493	1,977
Disposals	-	-	(25)	-	(25)
Transfers between classes	-	590	-	(590)	-
At 31 December 2018	19,523	47,688	1,857	-	69,068
Depreciation					
At 1 January 2018	5,692	32,563	1,510	-	39,765
Charge for the year on owned assets	625	2,076	120	-	2,821
At 31 December 2018	6,317	34,639	1,630	-	42,586
Net book value					
At 31 December 2018	13,206	13,049	227	-	26,482
At 31 December 2017	13,823	13,151	280	97	27,351

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2018

Company

	Plant and machinery £000	Fixtures and fittings £000	Total £000
Cost or valuation			
At 1 January 2018	87	1,542	1,629
Additions	-	88	88
Disposals	-	(25)	(25)
At 31 December 2018	87	1,605	1,692
Depreciation			
At 1 January 2018	70	1,289	1,359
Charge for the year on owned assets	17	111	128
At 31 December 2018	87	1,400	1,487
Net book value			
At 31 December 2018	-	205	205
At 31 December 2017	17	253	270

15. Fixed asset investments

Group

	Investments in associates £000
Cost or valuation	
At 1 January 2018	1,706
Share of profit/(loss)	(14)
At 31 December 2018	1,692

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2018

15. Fixed asset investments (continued)

Company

	Investments in subsidiary companies £000	Investments in associates £000	Total £000
Cost or valuation			
At 1 January 2018	13,631	230	13,861
At 31 December 2018	13,631	230	13,861

Subsidiary and associated undertakings

The following were undertakings of the Company:

Name	Registered office	Class of shares	Holding
The Caledonian Cheese Company Limited	The Creamery, Commerce Road, Stranraer, DG9 7DA	Ordinary	100%
McLelland Cheese Packing Limited	The Creamery, Commerce Road, Stranraer, DG9 7DA	Ordinary	100%
Lubborn Cheese Limited	Red Central, 60 High Street, Redhill, Surrey, RH1 1SH	Ordinary	100%
The Fresh Milk Company Limited	Red Central, 60 High Street, Redhill, Surrey, RH1 1SH	Ordinary	100%
Orkney Cheese Company Limited	Crowness Road, Hatston Industrial Estate, Kirkwall, Orkney, KW15 1RG	Ordinary	20%
Dairy Solutions Limited	Englesea House, Barthomley Road, Crewe, Cheshire, CW1 5UF	Ordinary	30%

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2018

15. Fixed asset investments (continued)

Subsidiary and associated undertakings (continued)

The aggregate of the share capital and reserves as at 31 December 2018 and the profit or loss for the year ended on that date for the subsidiary undertakings were as follows:

Name	Aggregate of share capital and reserves £000	Profit/(Loss) £000
The Caledonian Cheese Company Limited	19,931	1,970
McLelland Cheese Packing Limited	373	(88)
Lubborn Cheese Limited	2,775	(318)
The Fresh Milk Company Limited	1,197	451
Orkney Cheese Company Limited*	4,958	(12)
Dairy Solutions Limited*	2,125	163

*results taken from latest published financial statements at 31 December 2017 for Dairy Solutions Limited and 31 March 2019 for Orkney Cheese Company Limited.

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2018

16. Investment property

Group and Company

	Freehold investment property £000
Valuation	
At 1 January 2018	1,430
At 31 December 2018	<u>1,430</u>

The investment property was valued by Lambert Smith Hampton, Chartered Surveyors on 16 December 2015 on a fair value basis. The directors have reviewed the valuation at 31 December 2018 and consider it to remain appropriate.

If the investment properties had been accounted for under the historic cost accounting rules, the properties would have been measured as follows:

	2018 £000	2017 £000
Historic cost	2,141,000	2,141,000
Accumulated depreciation and impairments	(1,016,000)	(1,016,000)
	<u>1,125,000</u>	<u>1,125,000</u>

17. Stocks

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Raw materials and consumables	3,989	3,928	-	-
Work in progress (goods to be sold)	101	211	-	-
Finished goods and goods for resale	79,242	69,407	2,841	3,901
	<u>83,332</u>	<u>73,546</u>	<u>2,841</u>	<u>3,901</u>

The difference between purchase price or production cost of stocks and their replacement cost is not material.

Stock recognised in cost of sales during the year as an expense was £159,759,000 (2017: 123,526,000).

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2018

18. Debtors

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Due after more than one year				
Amounts owed by group undertakings	1,706	-	65,016	63,310
	<u>1,706</u>	<u>-</u>	<u>65,016</u>	<u>63,310</u>
	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Due within one year				
Trade debtors	25,950	28,729	24,756	27,528
Amounts owed by group undertakings	9,109	12,113	9,624	19,396
Other debtors	473	909	64	343
Prepayments and accrued income	328	378	128	313
Deferred taxation	-	-	-	100
Financial instruments - forward contract	204	35	204	35
	<u>36,064</u>	<u>42,164</u>	<u>34,776</u>	<u>47,715</u>

19. Cash and cash equivalents

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Cash at bank and in hand	12,495	11,148	-	-
Less: bank overdrafts	(19,099)	(20,982)	(4,228)	(19,982)
	<u>(6,604)</u>	<u>(9,834)</u>	<u>(4,228)</u>	<u>(19,982)</u>

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2018

20. Creditors: Amounts falling due within one year

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Bank overdrafts	19,099	20,982	4,228	19,982
Trade creditors	18,109	18,038	3,848	4,510
Amounts owed to group undertakings	3,608	1,988	4,786	5,659
Corporation tax	869	1,113	195	402
Other taxation and social security	625	399	414	209
Other creditors	367	431	332	431
Accruals and deferred income	11,130	14,630	9,363	11,901
	<u>53,807</u>	<u>57,581</u>	<u>23,166</u>	<u>43,094</u>

The group's bank facilities are secured by an intercompany cross guarantee covering the Lactalis McLelland Limited group of companies, Lactalis Nestle Chilled Dairy Company Limited, Groupe Lactalis SE and Lactalis (UK) Limited. The net amount secured is £19,100,000 (2017: £7,200,000).

21. Creditors: Amounts falling due after more than one year

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Amounts owed to group undertakings	64,404	60,149	64,404	60,149
	<u>64,404</u>	<u>60,149</u>	<u>64,404</u>	<u>60,149</u>

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 to the financial statements For the year ended 31 December 2018

22. Financial instruments

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Financial assets				
Financial assets measured at fair value through profit or loss/other comprehensive income	240	35	240	35
Financial assets that are debt instruments measured at amortised cost	49,733	52,899	99,460	110,577
	<u>49,973</u>	<u>52,934</u>	<u>99,700</u>	<u>110,612</u>
Financial liabilities				
Other financial liabilities measured at fair value through profit or loss	-	(437)	-	(437)
Financial liabilities measured at amortised cost	(116,717)	(116,218)	(86,961)	(102,632)
	<u>(116,717)</u>	<u>(116,655)</u>	<u>(86,961)</u>	<u>(103,069)</u>

Financial assets measured at fair value through profit and loss/other comprehensive income comprise financial instruments and pension asset.

Financial assets measured at amortised cost comprise trade debtors, amounts owed by group undertakings, other debtors, accrued income and cash and cash equivalents.

Other financial liabilities measured at fair value through profit and loss comprise the pension liability.

Financial liabilities measured at amortised cost comprise bank overdrafts, trade creditors, amounts owed to group undertakings, other creditors and accruals.

23. Deferred taxation

Group

	2018 £000	2017 £000
At beginning of year	(1,152)	(928)
Charged to the profit or loss	(59)	(243)
Charged to other comprehensive income	(38)	-
Utilised in year	(8)	19
At end of year	<u>(1,257)</u>	<u>(1,152)</u>

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2018

23. Deferred taxation (continued)

Company

	2018 £000	2017 £000
At beginning of year	100	133
Charged to profit or loss	(52)	(63)
Charged to other comprehensive income	(38)	-
Utilised in year	(10)	30
At end of year	-	100

The provision for deferred taxation is made up as follows:

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Accelerated capital allowances	(1,264)	(1,282)	(7)	(29)
Pension surplus	7	83	7	83
Short term timing differences	-	47	-	46
	(1,257)	(1,152)	-	100

24. Accruals and deferred income

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Grant income				
At 1 January 2018	68	290	9	26
Released in the year	(57)	(222)	(9)	(17)
	11	68	-	9

25. Share capital

	2018 £000	2017 £000
Allotted, called up and fully paid		
17,000 (2017 - 17,000) Issued share capital shares of £1.00 each	17	17

Each share has full voting, dividend and capital distribution (including on winding up) rights. They do not confer any rights of redemption.

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2018

26. Reserves

Share premium account

The share premium account includes the premium on issue of equity shares, net of any issue costs.

Other reserves

Other reserves represents a capital redemption reserve (£18k) with the balance being a foreign currency hedge reserve.

Profit and loss account

Profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

27. Capital commitments

At 31 December 2018 the group and company had capital commitments as follows:

	Group 2018 £000	Group 2017 £000
Contracted but not provided for	78	1,532
	<u>78</u>	<u>1,532</u>

At the prior year balance sheet date the group was committed to completing a programme of works in order to comply with improvement works agreed by SEPA and committed to purchase new plant and machinery. Certain costs have already been incurred. The programme of works is scheduled to be completed in 2018.

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2018

28. Pension commitments

The group operates a defined benefit pension scheme.

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 2011 and updated to 31 December 2018 by a qualified independent actuary. The Group expects to contribute £282,000 to its defined benefit pension scheme in 2019.

Reconciliation of present value of plan liabilities:

	2018 £000	2017 £000
Reconciliation of present value of plan liabilities		
At the beginning of the year	6,179	6,055
Interest cost	146	155
Actuarial (gains)/losses	(450)	146
Benefits paid	(167)	(177)
At the end of the year	5,708	6,179

Composition of plan liabilities:

	2018 £000	2017 £000
Schemes wholly or partly funded	5,708	6,179
Total plan liabilities	5,708	6,179

Reconciliation of present value of plan assets:

	2018 £000	2017 £000
At the beginning of the year	5,742	5,326
Interest income	139	140
Actuarial gains/losses	(251)	171
Contributions	282	282
Benefits paid	(168)	(177)
At the end of the year	5,744	5,742

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2018

28. Pension commitments (continued)

Composition of plan assets:

	2018 £000	2017 £000
Equity (including property)	1,557	1,646
Bonds and cash	2,163	1,943
Insured pensions	2,025	2,153
Total plan assets	5,745	5,742

	2018 £000	2017 £000
Fair value of plan assets	5,744	5,742
Present value of plan liabilities	(5,708)	(6,179)
Net pension scheme liability	36	(437)

The amounts recognised in profit or loss are as follows:

	2018 £000	2017 £000
Interest on obligation	(7)	(15)
Total	(7)	(15)

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2018

28. Pension commitments (continued)

The group expects to contribute £282,000 to its defined benefit pension scheme in 2019.

	2018 £000	2017 £000
Analysis of actuarial loss recognised in Other Comprehensive Income		
Actual return less interest income included in net interest income	(251)	171
Experience gains and losses arising on the scheme liabilities	(14)	26
Changes in assumptions underlying the present value of the scheme liabilities	464	(177)
	<u>199</u>	<u>20</u>

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

	2018 %	2017 %
Discount rate	2.80	2.40
Retail price inflation	3.50	3.60
Consumer price inflation	2.50	2.60
Pension increases	3.80	3.80
Deferred pension revaluation (CPI 2.5% cap)	2.50	2.50

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2018

29. Commitments under operating leases

At 31 December 2018 the group and company had future minimum lease payments under non-cancellable operating leases as follows:

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Not later than 1 year	671	643	645	608
Later than 1 year and not later than 5 years	2,204	2,150	2,152	2,072
Later than 5 years	80	549	80	549
	<u>2,955</u>	<u>3,342</u>	<u>2,877</u>	<u>3,229</u>

30. Related party transactions

Related party transactions and balances

The company and its subsidiaries trade with fellow members of the B.S.A. 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 B.S.A. group of companies amounted to £25,021,000 (2017: £24,704,000). Purchases and other charges from fellow members of the B.S.A. group of companies amounted to £61,975,000 (2017: £57,241,000). The Lactalis McLelland group paid interest of £699,000 (2017: £839,000) and received interest on deposits held with the group of £78,000 (2017: £59,000).

At the year-end, the total amount owed to the Lactalis McLelland group by fellow members of the BSA group of companies was £8,650,000 (2017: £11,646,000) and the total amount owed by the Lactalis McLelland group was £68,014,000 (2017: £62,294,000).

During the year to 31 December 2018 costs amounting to £279,000 (2017: £220,000) were recharged to Rachel's Dairy Limited.

31. Post balance sheet events

Following the year end, a dividend of £2,000,000 was declared and will be paid in the year to 31 December 2019.

32. Ultimate parent company and parent undertaking of larger group

The company is a subsidiary of B.S.A. International S.A., which is the ultimate parent company incorporated in Belgium.

The largest group in which the results of the company are consolidated is that headed by B.S.A. International S.A.