

Lactalis McLelland Limited

Annual Report and Financial Statements

Year Ended

31 December 2019

Company Number SC014583



Lactalis McLelland Limited

Company Information

Directors
Daniel Jaouen
Michel Peslier
Naigee Gopal
Michael Chatters

Registered number SC014583

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Lactalis McLelland Limited

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Lactalis McLelland Limited

Strategic report For the year ended 31 December 2019

Introduction

The directors present their strategic report together with the audited financial statements for the year ended 31 December 2019.

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 was flat against 2018 and the consolidated profit before taxation for the year ended 31 December 2019 was £0.6m compared to £6.9m for the year ended 31 December 2018.

This years' profit before taxation was impacted by higher cost of sales, which increased by 4% over the previous year while turnover remained the same.

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.

The significant key financial performance indicators are:

	<u>2019</u>	<u>2018</u>
Turnover (£m)	223.4	223.1
Gross Profit /Turnover	87.5%	84.6%
Overhead (£m)	28.56	29.39
Operating Profit (£m)	1.55	7.57
Net Current Assets (£m)	12.2	79.8
Net Operating Cash flows (£m)	8.5	5.9

The significant non financial performance indicators are:

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

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Group strategic report (continued) For the year ended 31 December 2019

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 undergoing major structural changes driven by the growth of the Discount, Convenience and Online channels. The UK Board addresses these by continually reviewing consumer trends, market data, its cost base 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, our biggest input cost, is influenced by demand and supply and price volatility which can impact significantly on the company's margins. Our dedicated milk team works closely with our farmer representatives to ensure we have a sustainable high quality milk supply and we aim to pay a fair and competitive price to our farmers.

All other input costs are closely monitored and the company has internal procedures in place to communicate changes to our costs to the commercial teams so they can discuss the impact on prices with our customers.

COVID-19

At the date of signing the accounts, the UK economy is severely impacted by the effects of the spread of COVID-19, and the measures taken by the government to prevent the continued spread of the virus. The group, in line with businesses in many industries, has been impacted by these measures however the impact to the business has thankfully not been significant. The group has considered the implications of COVID-19 through the 'lenses' of operational capability, market-based demand and structural finance.

Operations across the group have not been significantly affected albeit procedures have been put in place to promote the health of our employees and stakeholders. We have put in place appropriate sanitising and social distancing guidelines. The management team are monitoring the operational situation regularly and have contingency plans in place should an outbreak occur in a facility that would result in a short shut-down at worst. There has been no significant impact on the group and company's supply chain.

Market-based demand for the group's products has remained strong given the sectors in which the group operate. The company and its subsidiaries have continued to work through the pandemic and also ensured that their customers are supported. The group's revenue comes from predominately major retailers with limited exposure to food service customers. Whilst the directors consider that the outbreak is likely to cause some continued disruption to the existing profile of business, the focus on domestic consumers will mitigate the impact. The directors will continue to work closely with all partners to minimize any supply chain risks.

The group finances its short to medium term funding requirements through a combination of third party bank funding (net nil overdraft facility with sister companies) and rolling funding from a group cash pooling facility. The access to the cash pooling is given to subsidiaries of the parent entity to help manage day to day cash requirement. This facility replaced a loan with the group last year. The group and company is dependent on ongoing financial support from the parent company for the group treasury facility. The parent entity has provided a letter of support which is not legally binding (see going concern note below).

The group has completed a range of forecasts including stress testing to assess the impact of COVID-19 on the company and group's liquidity and ability to continue as a going concern. A reverse stress test is not considered appropriate given demand is holding up for the group and company's products. There is of course a credit risk associated with the group's debtor book but the directors have assessed that their customers are also in good financial health, the risk is diversified and a portion of the book is covered by credit insurance.

Based on the above, the directors are confident that the actions and strategies in place, results in the group and

Lactalis McLelland Limited

Group strategic report (continued) For the year ended 31 December 2019

company being able to mitigate business threats as they arise – see further details in the going concern note below.

Credit risks

Credit risks are mainly attributed to trade debtors. Management actively assesses these risks by monitoring outstanding debts and taking actions for early debt recovery. The company has credit insurance in place for a number of customers to mitigate any risks.

Foreign exchange risks

The UK group buys and sells products to /from other countries, mainly the EU, and is therefore exposed to foreign exchange risks. Management takes out forward contracts to reduce the risks associated with the Euro. Brexit, with the introduction of increased documentation and the potential introduction of tariffs, is expected to affect our business for both imports and exports. The business has established a project team to ensure that full preparations are made in advance although the full requirements are not yet fully defined.

Cashflow and liquidity risks

The Board monitors cash flow projections continually and ensures there are appropriate instruments in place to provide funds for day to day operations and its capital investments. These include a combination of bank overdraft and intercompany facilities from the parent company which can be drawn upon when required.

Commercial opportunities and risks

The business is focused on growing the distribution of its products in all channels with particular focus on fast growing areas such as Foodservice, Convenience and online. It will target new consumer trends within the cheese category via improved and broadened capabilities in our factories as well as its ability to balance milk fractions. The focus is to continue to grow its brands as well as own label lines and invest in longer term collaborative relationships with customers and suppliers.

Directors' statement of compliance with duty to promote the success of the Group (s.172 statement)

The Companies (Miscellaneous Reporting) Regulations 2018 ('2018 MRR') require Directors to explain how they considered the interests of key stakeholders and the broader matters set out in section 172(1) of the Companies Act 2006 ('S172') when performing their duty to promote the success of the Company under S172. This includes considering the interest of other stakeholders which will have an impact on the long-term success of the company.

The Directors have an in depth understanding of the business and the fast evolving business environment in which we operate. This is primarily the moving consumer goods in the dairy category which is a very competitive industry operating on small margins. To continue to deliver growth and long term success, we build strong mutual beneficial relationships with our key stakeholders including our customers, our milk producers, our suppliers and colleagues in the wider Lactalis Group as well government and industry bodies.

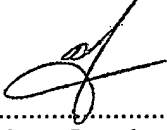
The UK Board is also committed to ensuring our strategies are aligned with the long term vision and values of the Group. Our commitment to continuous improvement is demonstrated through the numerous projects we have in place such as improving animal health, reducing food waste, and packaging improvements to reduce the use of plastics & increase recyclability.

The company regards its employees as its most valuable asset and the success of our business depends on attracting, retaining and motivating our people. We undertake to remain a responsible employer, from pay and benefits to our health, safety and workplace environment and have procedures in place to encourage personal growth and development. We engage with our employees on a regular basis via meetings, business updates, employee surveys and newsletters.

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Group strategic report (continued)
For the year ended 31 December 2019

This report was approved by the board on 5 November 2020 and signed on its behalf.



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Naigee Gopal
Director

Lactalis McLelland Limited

Directors' report For the year ended 31 December 2019

The directors present their report and the financial statements for the year ended 31 December 2019.

Results and dividends

The profit for the year, after taxation, amounted to £518,000 (2018 - £5,398 thousand).

Dividends of £2,000,000 (2018 - £Nil) was declared and paid in the year to 31 December 2019.

Directors

The directors who served during the year were:

Daniel Jaouen
Michel Peslier
Naigee Gopal
Hugues Meaudre (resigned 1 June 2020)
Michael Chatters

Future development

The group will continue to grow its brand share for its flagship product Seriously® with more investment in product innovations to broaden the reach of the brand. The focus will also be on driving its other global brands, President® and Galbani®. President growth will be driven by expansion into new segments whilst continuing to drive Galbani® to retain its no.1 position in the mozzarella market. The business will continue to invest in marketing support with increased above the line activity supported by targeted shopper marketing and promotional activity within the retail channels. Given the high proportion of retailer own brand sales in the UK market the company will continue to expand its activity in this area to more closely align its model with key customer strategies

Engagement with employees

The group is committed to developing our people and encouraging employee involvement via a variety of communication channels to deliver key business messages and regular business performance updates. It also conducts employees' surveys to actively seek feedback about opportunities for improvement in all areas of the business. Members of the management team regularly visit subsidiaries to present progress reports and discuss matters of current interest to the business with colleagues.

We were delighted that our commitment to employee engagement was recognised by being declared the UK & Europe winner of the Top Engaged workplaces category at the 2019 Employee Engagement awards.

Engagement with suppliers, customers and others

Maintaining and building relationships with our farmers, suppliers and customers are vital for the success of our business. The group has worked closely with our farmer suppliers to develop a new Lactalis Sourcing standard as well as conducting audits to establish a baseline to help them reduce carbon emissions to help manage climate change. The Commercial leadership team has focused on building strong long term partnerships across a number of key UK retailers based on detailed consumer & shopper insights, strong commercial propositions & a leading edge supply chain network.

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.

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Directors' report (continued) For the year ended 31 December 2019

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.

Going concern

As detailed in the strategic report, the directors have completed an assessment of the impact of Covid-19, including scenario forecasting until December 2021 and stress testing. The directors have assessed that the cash pooling facilities available, group support provided and the actions and strategies available to them to mitigate business threats under stress testing. The forecasts demonstrated that the group may need additional funding from the group cash pooling facility to that provided at 31 December 2019.

However, the entity places significant reliance on the ultimate controlling party not recalling amounts owing to them and on this entity to provide further funds at times when required. The support provided by the ultimate parent company is not legally binding and the directors' have not been able to obtain sufficient evidence that the ultimate parent company can provide the support. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the ability of the company to continue as a going concern and therefore its ability to realise its assets and discharge its liabilities in the normal course of business.

Management and the directors have assessed the group and company's ability to be able to continue as a going concern and it is their opinion that the ultimate controlling party will continue to support the group and company. Considering this, the going concern basis of preparation is deemed appropriate.

The financial statements do not include any adjustments that would arise should the group and company be unable to continue as a going concern.

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.

Post balance sheet events

The outbreak of COVID-19 in early 2020 has affected business and economic activity around the world. The company considers this outbreak to be a non-adjusting post balance sheet event as of 31 December 2019. Details of the potential impact on the group and company are detailed in the Strategic Report.

Lactalis McLelland Limited

Directors' report (continued) For the year ended 31 December 2019

Auditor

Under section 487(2) of the Companies Act 2006, BDO LLP will be deemed to have been reappointed as auditor 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

This report was approved by the board on 5 November 2020 and signed on its behalf.



Naigee Gopal
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 2019, which comprise the consolidated statement of comprehensive income, the consolidated balance sheet, the company balance sheet, the consolidated statement of changes in equity, the company statement of changes in equity, the consolidated statement of cash flows and 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:

- 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 2019 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.

Material uncertainty related to going concern

We draw attention to note 2.4 to the financial statements, which indicates that the group and parent company is reliant on the ongoing support of the ultimate controlling party to enable it to continue as a going concern. However, the group and parent company places significant reliance on the ultimate controlling party not recalling amounts owing to them and on this entity to provide further funds at times when required. The support provided by the ultimate parent company is not legally binding and the directors have not been able to obtain sufficient evidence that the ultimate parent company can provide the support. These conditions along with other matters noted in note 2.4 indicate the existence of a material uncertainty which may cast significant doubt about the ability of the group and company to continue as a going concern. Our opinion is not modified in respect of this matter.

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 Group 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 Group strategic report and Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Group 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 the directors' 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 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 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.

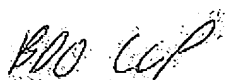
Auditor's responsibilities for the audit of the financial statements

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 on the Financial Reporting Council's website at: 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.



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

5 November 2020

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 2019

	Note	2019 £000	2018 £000
Turnover	4	223,433	223,111
Cost of sales		(195,543)	(188,756)
Gross profit		27,890	34,355
Administrative expenses		(28,549)	(29,387)
Other operating income		2,212	2,599
Operating profit	5	1,553	7,567
Share of (loss)/profit of associates		118	(14)
Total operating profit		1,671	7,553
Interest receivable and similar income	9	402	338
Interest payable and expenses	10	(1,503)	(1,034)
Other finance income		5	(7)
Profit before taxation		575	6,850
Tax on profit	12	(57)	(1,452)
Profit for the financial year		518	5,398
Actuarial gains on defined benefit pension scheme		16	199
Gain/(loss) on foreign exchange hedge		(833)	132
Movement of deferred tax relating to pension scheme		(55)	(38)
Other comprehensive income for the year		(872)	293
Total comprehensive income for the year		(354)	5,691
Profit for the year attributable to:			
Owners of the parent company		518	5,398
		518	5,398
Total comprehensive income for the year attributable to:			
Owners of the parent company		(354)	5,691
		(354)	5,691

The notes on pages 24 to 53 form part of these financial statements.

Lactalis McLelland Limited
Registered number: SC014583

Consolidated balance sheet
As at 31 December 2019

	Note	2019 £000	2018 £000
Fixed assets			
Intangible assets	14	601	709
Tangible assets	15	27,146	26,482
Investments	16	1,788	1,692
Investment property	17	1,430	1,430
		<u>30,965</u>	<u>30,313</u>
Current assets			
Stocks	18	76,457	83,332
Debtors: amounts falling due after more than one year	19	-	1,706
Debtors: amounts falling due within one year	19	39,441	36,064
Cash at bank and in hand	20	15,966	12,495
		<u>131,864</u>	<u>133,597</u>
Creditors: amounts falling due within one year	21	(119,665)	(53,807)
Net current assets		<u>12,199</u>	<u>79,790</u>
Total assets less current liabilities		<u>43,164</u>	<u>110,103</u>
Creditors: amounts falling due after more than one year	22	-	(64,404)
Provisions for liabilities			
Deferred tax	24	(1,386)	(1,257)
		<u>(1,386)</u>	<u>(1,257)</u>
Accruals and deferred income		(8)	(11)
Pension asset		343	36
Net assets		<u><u>42,113</u></u>	<u><u>44,467</u></u>

Lactalis McLelland Limited

Registered number: SC014583

Consolidated balance sheet (continued) As at 31 December 2019

	Note	2019 £000	2018 £000
Capital and reserves			
Called up share capital	26	17	17
Share premium account	27	2	2
Other reserves	27	(655)	178
Profit and loss account	27	42,749	44,270
		<u>42,113</u>	<u>44,467</u>

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

5 November 2020



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Naigee Gopal
Director

The notes on pages 24 to 53 form part of these financial statements.

Lactalis McLelland Limited
Registered number: SC014583

**Company balance sheet
As at 31 December 2019**

	Note	2019 £000	2018 £000
Fixed assets			
Intangible assets	14	49	75
Tangible assets	15	230	205
Investments	16	13,861	13,861
Investment property	17	1,430	1,430
		<u>15,570</u>	<u>15,571</u>
Current assets			
Stocks	18	4,143	2,841
Debtors: amounts falling due after more than one year	19	-	65,016
Debtors: amounts falling due within one year	19	100,298	34,776
		<u>104,441</u>	<u>102,633</u>
Creditors: amounts falling due within one year	21	(94,302)	(23,166)
		<u>10,139</u>	<u>79,467</u>
Net current assets		<u>10,139</u>	<u>79,467</u>
Total assets less current liabilities		<u>25,709</u>	<u>95,038</u>
Creditors: amounts falling due after more than one year	22	-	(64,404)
Provisions for liabilities			
Deferred taxation	24	(75)	-
		<u>(75)</u>	<u>-</u>
Net assets excluding pension asset		<u>25,634</u>	<u>30,634</u>
Pension asset		343	36
Net assets		<u><u>25,977</u></u>	<u><u>30,670</u></u>

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Registered number: SC014583

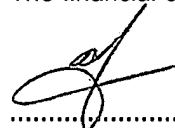
Company balance sheet (continued) As at 31 December 2019

	Note	2019 £000	2018 £000
Capital and reserves			
Called up share capital	26	17	17
Share premium account	27	2	2
Other reserves	27	(655)	178
Profit and loss account	27	26,613	30,473
		<u>25,977</u>	<u>30,670</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 loss after tax of the parent Company for the year was £1,821,000 (2018 - £3,478,000 profit).

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

5 November 2020



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Naigee Gopal
Director

The notes on pages 24 to 53 form part of these financial statements.

Lactalis McLelland Limited

Consolidated statement of changes in equity For the year ended 31 December 2019

	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	178	44,270	44,467
Comprehensive income for the year					
Profit for the year	-	-	-	518	518
Actuarial gains on pension scheme	-	-	-	16	16
Hedge effective portion of change in fair value of designated hedging instrument	-	-	(833)	-	(833)
Deferred tax movements	-	-	-	(55)	(55)
Other comprehensive income for the year	-	-	(833)	(39)	(872)
Total comprehensive income for the year	-	-	(833)	479	(354)
Dividends: Equity capital	-	-	-	(2,000)	(2,000)
At 31 December 2018	17	2	(655)	42,749	42,113

The notes on pages 24 to 53 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	Share premium account	Other reserves	Profit and loss account	Total equity
	£000	£000	£000	£000	£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 hedge 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 24 to 53 form part of these financial statements.

Lactalis McLelland Limited

Company statement of changes in equity For the year ended 31 December 2019

	Called up share capital £000	Share premium account £000	Other reserves £000	Profit and loss account £000	Total equity £000
At 1 January 2019	17	2	178	30,473	30,670
Comprehensive income for the year					
Loss for the year	-	-	-	(1,821)	(1,821)
Actuarial gains on pension scheme	-	-	-	16	16
Hedge effective portion of change in fair value of designated hedging instrument	-	-	(833)	-	(833)
Deferred tax movements	-	-	-	(55)	(55)
Other comprehensive income for the year	-	-	(833)	(39)	(872)
Total comprehensive income for the year	-	-	(833)	(1,860)	(2,693)
Contributions by and distributions to owners					
Dividends: Equity capital	-	-	-	(2,000)	(2,000)
At 31 December 2019	17	2	(655)	26,613	25,977

The notes on pages 24 to 53 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
Total transactions with owners	-	-	-	-	-
At 31 December 2018	17	2	178	30,473	30,670

The notes on pages 24 to 53 form part of these financial statements.

Lactalis McLelland Limited

Consolidated statement of cash flows For the year ended 31 December 2019

	2019 £000	2018 £000
Cash flows from operating activities		
Profit for the financial year	518	5,398
Adjustments for:		
Amortisation of intangible assets	109	109
Depreciation of tangible assets	2,859	2,821
Interest paid	1,503	1,041
Interest received	(402)	(338)
Taxation charge	57	1,452
Decrease/(increase) in stocks	6,874	(9,786)
(Increase)/decrease in debtors	(2,512)	3,228
Decrease in amounts owed by groups	710	1,298
(Decrease) in creditors	(450)	(3,154)
Increase in amounts owed to groups	595	5,875
Corporation tax (paid)	(796)	(1,590)
Movement in defined benefit pension scheme	(307)	(191)
Contributions to defined benefit pension scheme	(282)	(282)
Net cash generated from operating activities	8,476	5,881
Cash flows from investing activities		
Purchase of intangible fixed assets	-	(10)
Purchase of tangible fixed assets	(3,587)	(1,977)
Sale of tangible fixed assets	-	25
Interest received	402	338
Net cash from investing activities	(3,185)	(1,624)
Cash flows from financing activities		
New loans from group companies	91	-
Dividends paid	(2,000)	-
Interest paid	(1,503)	(1,041)
Share of profit of associate	-	14
Net cash used in financing activities	(3,412)	(1,027)
Net increase in cash and cash equivalents	1,879	3,230
Cash and cash equivalents at beginning of year	(6,604)	(9,834)
Cash and cash equivalents at the end of year	(4,725)	(6,604)
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	15,966	12,495

Lactalis McLelland Limited

Consolidated statement of cash flows (continued) For the year ended 31 December 2019

	2019 £000	2018 £000
Bank overdrafts	(20,691)	(19,099)
	<u>(4,725)</u>	<u>(6,604)</u>

The notes on pages 24 to 53 form part of these financial statements.

Lactalis McLelland Limited

Consolidated Analysis of Net Debt For the year ended 31 December 2019

	At 1 January 2019 £000	Cash flows £000	At 31 December 2019 £000
Cash at bank and in hand	12,495	3,471	15,966
Bank overdrafts	(19,099)	(1,592)	(20,691)
Debt due after 1 year	(64,404)	(52)	(64,456)
Debt due within 1 year	-	-	-
	<u>(71,008)</u>	<u>1,827</u>	<u>(69,181)</u>

The notes on pages 24 to 53 form part of these financial statements.

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2019

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.

In preparing the separate financial statements of the parent company, advantage has been taken of the following disclosure exemptions available in FRS 102:

- No cash flow statement has been presented for the parent company;
- Disclosures in respect of the parent company's financial instruments have not been presented as equivalent disclosures have been provided in respect of the group as a whole;
- No disclosure has been given for related party transactions entered into between two or more members of the group; and
- No disclosure has been given for the aggregate remuneration of the key management personnel of the parent company as their remuneration is included in the totals for the group as a whole.

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2019

2. Accounting policies (continued)

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.

2.4 Going concern

As detailed in the strategic report, the directors have completed an assessment of the impact of Covid-19, including scenario forecasting until December 2021 and stress testing. The directors have assessed that the cash pooling facilities available, group support provided and the actions and strategies available to them to mitigate business threats under stress testing. The forecasts demonstrated that the group may need additional funding from the group cash pooling facility to that provided at 31 December 2019.

However, the entity places significant reliance on the ultimate controlling party not recalling amounts owing to them and on this entity to provide further funds at times when required. The support provided by the ultimate parent company is not legally binding and the directors' have not been able to obtain sufficient evidence that the ultimate parent company can provide the support. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the ability of the company to continue as a going concern and therefore its ability to realise its assets and discharge its liabilities in the normal course of business.

Management and the directors have assessed the group and company's ability to be able to continue as a going concern and it is their opinion that the ultimate controlling party will continue to support the group and company. Considering this, the going concern basis of preparation is deemed appropriate.

The financial statements do not include any adjustments that would arise should the group and company be unable to continue as a going concern.

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2019

2. Accounting policies (continued)

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.

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.

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2019

2. Accounting policies (continued)

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.

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.

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2019

2. Accounting policies (continued)

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.

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'.

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2019

2. Accounting policies (continued)

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.

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.

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2019

2. Accounting policies (continued)

2.17 Tangible fixed assets (continued)

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.

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.

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2019

2. Accounting policies (continued)

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.

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.

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2019

2. Accounting policies (continued)

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.

2.24 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2019

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 29. 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 2019

4. Turnover

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

Analysis of turnover by country of destination:

	2019 £000	2018 £000
United Kingdom	195,259	203,923
Rest of Europe	26,086	18,534
Rest of the world	2,088	654
	<u>223,433</u>	<u>223,111</u>

5. Operating profit

The operating profit is stated after charging:

	2019 £000	2018 £000
Depreciation of tangible fixed assets	2,923	2,821
Amortisation of intangible assets, including goodwill	108	109
Release of deferred government grants	-	(57)
Operating lease rentals - land and buildings	479	524
Operating lease rentals - other assets	204	527
Exchange differences	188	70
Defined contribution pension cost	730	831
	<u>730</u>	<u>831</u>

6. Auditor's remuneration

	2019 £000	2018 £000
Fees payable to the group's auditor for the audit of the group's annual financial statements	<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	26	23
All other non-audit services not included above	7	10
	<u>79</u>	<u>79</u>

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2019

7. Employees

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

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Wages and salaries	16,570	17,344	6,736	6,985
Social security costs	1,565	1,557	740	745
Cost of defined contribution scheme	848	831	386	397
	<u>18,983</u>	<u>19,732</u>	<u>7,862</u>	<u>8,127</u>

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

	Group 2019 No.	Group 2018 No.	Company 2019 No.	Company 2018 No.
Administration and management	148	143	123	116
Production, warehouse and distribution	299	296	-	-
	<u>447</u>	<u>439</u>	<u>123</u>	<u>116</u>

8. Directors' remuneration

	2019 £000	2018 £000
Directors' emoluments	574	910
Company contributions to defined contribution pension schemes	49	40
	<u>623</u>	<u>950</u>

During the year retirement benefits were accruing to 2 directors (2018 - 3) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £408 thousand (2018 - £445,000).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £30,000 (2018 - £6,000).

The total remuneration, including employers NIC, paid to key management personnel was £680,000 (2018 - £944,000).

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2019

9. Interest receivable

	2019 £000	2018 £000
Interest receivable from group companies	69	94
Bank interest receivable	333	244
	<u>402</u>	<u>338</u>

10. Interest payable and similar expenses

	2019 £000	2018 £000
Bank interest payable	464	317
Loans from group undertakings	1,035	717
Other interest payable	4	-
	<u>1,503</u>	<u>1,034</u>

11. Other finance costs

	2019 £000	2018 £000
Net interest on net defined benefit liability	5	(7)
	<u>5</u>	<u>(7)</u>

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2019

12. Taxation

	2019 £000	2018 £000
Corporation tax		
Current tax on profits for the year	-	1,393
Adjustments in respect of previous periods	(36)	(9)
Foreign tax		
Foreign tax on income for the year	22	-
	<u>22</u>	<u>-</u>
Total current tax	<u>(14)</u>	<u>1,384</u>
Deferred tax		
Origination and reversal of timing differences	71	17
Adjustments in respect of previous periods	-	(1)
Deferred tax on pension scheme liability	-	52
Total deferred tax	<u>71</u>	<u>68</u>
Taxation on profit on ordinary activities	<u>57</u>	<u>1,452</u>

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2019

12. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2018 - higher than) the standard rate of corporation tax in the UK of 19.00% (2018 - 19.00%). The differences are explained below:

	2019 £000	2018 £000
Profit on ordinary activities before tax	575	6,850
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (2018 - 19.00%)	109	1,302
Effects of:		
Expenses not deductible for tax purposes	21	24
Capital allowances for year in excess of depreciation	142	140
Adjustments to tax charge in respect of prior periods	(36)	(10)
Other differences leading to an decrease in taxation	-	7
Non-taxable income	(62)	(63)
Other	25	-
Pension adjustment	-	52
Change in deferred tax rate	(142)	-
Total tax charge for the year	57	1,452

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 2019

13. Dividends

	2019 £000	2018 £000
Dividends of £117.65 per share	2,000	-
	<u>2,000</u>	<u>-</u>

14. Intangible assets

Group

	Trademarks £000	Goodwill £000	Total £000
Cost			
At 1 January 2019	276	4,798	5,074
At 31 December 2019	<u>276</u>	<u>4,798</u>	<u>5,074</u>
Amortisation			
At 1 January 2019	201	4,164	4,365
Charge for the year on owned assets	26	82	108
At 31 December 2019	<u>227</u>	<u>4,246</u>	<u>4,473</u>
Net book value			
At 31 December 2019	<u>49</u>	<u>552</u>	<u>601</u>
At 31 December 2018	<u>75</u>	<u>634</u>	<u>709</u>

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2019

14. Intangible assets (continued)

Company

	Trademarks £000	Goodwill £000	Total £000
Cost			
At 1 January 2019	276	3,160	3,436
At 31 December 2019	276	3,160	3,436
Amortisation			
At 1 January 2019	201	3,160	3,361
Charge for the year	26	-	26
At 31 December 2019	227	3,160	3,387
Net book value			
At 31 December 2019	49	-	49
At 31 December 2018	75	-	75

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2019

15. Tangible fixed assets

Group

	Freehold property £000	Plant and machinery £000	Fixtures and fittings £000	Total £000
Cost or valuation				
At 1 January 2019	19,523	47,688	1,857	69,068
Additions	14	3,318	255	3,587
At 31 December 2019	19,537	51,006	2,112	72,655
Depreciation				
At 1 January 2019	6,317	34,639	1,630	42,586
Charge for the year on owned assets	626	2,139	158	2,923
At 31 December 2019	6,943	36,778	1,788	45,509
Net book value				
At 31 December 2019	12,594	14,228	324	27,146
At 31 December 2018	13,207	13,049	227	26,483

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2019

Company

	Plant and machinery £000	Fixtures and fittings £000	Total £000
Cost or valuation			
At 1 January 2019	87	1,605	1,692
Additions	-	171	171
At 31 December 2019	87	1,776	1,863
Depreciation			
At 1 January 2019	87	1,400	1,487
Charge for the year on owned assets	-	146	146
At 31 December 2019	87	1,546	1,633
Net book value			
At 31 December 2019	-	230	230
At 31 December 2018	-	205	205

16. Fixed asset investments

Group

	Investments in associates £000
Cost or valuation	
At 1 January 2019	1,692
Share of profit/(loss)	96
At 31 December 2019	1,788

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2019

16. Fixed asset investments (continued)

Company

	Investments in subsidiary companies £000	Investments in associates £000	Total £000
Cost or valuation			
At 1 January 2019	13,631	230	13,861
At 31 December 2019	13,631	230	13,861

Subsidiary and associated undertakings

The following were subsidiary 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 2019

17. Investment property

Group and Company

	Freehold investment property £000
Valuation	
At 1 January 2019	1,430
At 31 December 2019	1,430

The Group's investment property is held in the Parent company

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 2019 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:

	2019 £000	2018 £000
Historic cost	2,141	2,141
Accumulated depreciation and impairments	(1,016)	(1,016)
	1,125	1,125

18. Stocks

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Raw materials and consumables	3,489	3,989	-	-
Work in progress (goods to be sold)	151	101	-	-
Finished goods and goods for resale	72,817	79,242	4,143	2,841
	76,457	83,332	4,143	2,841

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

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2019

19. Debtors

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Due after more than one year				
Amounts owed by group undertakings	-	1,706	-	65,016
	<u>-</u>	<u>1,706</u>	<u>-</u>	<u>65,016</u>
	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Due within one year				
Trade debtors	27,870	25,950	24,704	24,756
Amounts owed by group undertakings	10,105	9,109	74,965	9,624
Other debtors	878	473	363	64
Prepayments and accrued income	588	328	266	128
Financial instruments - forward contract	-	204	-	204
	<u>39,441</u>	<u>36,064</u>	<u>100,298</u>	<u>34,776</u>

20. Cash and cash equivalents

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Cash at bank and in hand	15,966	12,495	-	-
Less: bank overdrafts	(20,691)	(19,099)	(9,313)	(4,228)
	<u>(4,725)</u>	<u>(6,604)</u>	<u>(9,313)</u>	<u>(4,228)</u>

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Notes to the financial statements For the year ended 31 December 2019

21. Creditors: Amounts falling due within one year

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Bank overdrafts	20,691	19,099	9,313	4,228
Trade creditors	17,494	18,109	3,178	3,848
Amounts owed to group undertakings	68,698	3,608	70,922	4,786
Corporation tax	3	869	-	195
Other taxation and social security	475	625	206	414
Other creditors	100	367	100	332
Accruals and deferred income	11,711	11,130	10,090	9,363
Financial instruments	493	-	493	-
	<u>119,665</u>	<u>53,807</u>	<u>94,302</u>	<u>23,166</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 £20,691,000 (2018 - £19,100,000).

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

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Amounts owed to group undertakings	-	64,404	-	64,404
	<u>-</u>	<u>64,404</u>	<u>-</u>	<u>64,404</u>

Amounts owed to group undertakings in the prior year were due to be settled 12 months after the year end and were therefore categorised as long term creditors. Inter-company funding is now provided via a group cash pool facility with rolling terms hence has been shown as a creditor within one year. This is not deemed to be a cash movement per the cashflow statement.

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Notes to the financial statements For the year ended 31 December 2019

23. Financial instruments

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Financial assets				
Financial assets measured at fair value through profit or loss/other comprehensive income	343	240	343	240
Financial assets that are debt instruments measured at amortised cost	55,819	49,733	99,402	99,460
	<u>56,162</u>	<u>49,973</u>	<u>99,745</u>	<u>99,700</u>
Financial liabilities				
Financial liabilities measured at amortised cost	(118,694)	(116,717)	(93,603)	(86,961)

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.

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

24. Deferred taxation

Group

	2019 £000	2018 £000
At beginning of year	(1,257)	(1,152)
Charged to the profit or loss	(74)	(59)
Charged to other comprehensive income	(55)	(38)
Utilised in year	-	(8)
At end of year	<u>(1,386)</u>	<u>(1,257)</u>

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Notes to the financial statements For the year ended 31 December 2019

24. Deferred taxation (continued)

Company

	2019 £000	2018 £000
At beginning of year	-	100
Charged to profit or loss	(20)	(52)
Charged to other comprehensive income	(55)	(38)
Utilised in year	-	(10)
At end of year	(75)	-

The provision for deferred taxation is made up as follows:

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Accelerated capital allowances	(1,321)	(1,264)	(10)	(7)
Pension surplus	(65)	7	(65)	7
	(1,386)	(1,257)	(75)	-

25. Accruals and deferred income

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Grant income				
At 1 January 2018	11	68	-	9
Released in the year	-	(57)	-	(9)
	11	11	-	-

26. Share capital

	2019 £000	2018 £000
Allotted, called up and fully paid		
17,000 (2018 - 17,000) Ordinary 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 2019

27. 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.

28. Capital commitments

At 31 December 2019 the group and company had capital commitments as follows:

	Group 2019 £000	Group 2018 £000
Contracted but not provided for	990	78
	<u>990</u>	<u>78</u>

Lactalis McLelland Limited

Notes to the financial statements For the year ended 31 December 2019

29. 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 2019 by a qualified independent actuary. The Group expects to contribute £282,000 to its defined benefit pension scheme in 2020.

Reconciliation of present value of plan liabilities:

	2019 £000	2018 £000
Reconciliation of present value of plan liabilities		
At the beginning of the year	5,708	6,179
Interest cost	157	146
Actuarial (gains)/losses	199	(450)
Benefits paid	(196)	(167)
At the end of the year	5,868	5,708

Composition of plan liabilities:

	2019 £000	2018 £000
Schemes wholly or partly funded	5,868	5,708
Total plan liabilities	5,868	5,708

Reconciliation of present value of plan assets:

	2019 £000	2018 £000
At the beginning of the year	5,744	5,742
Interest income	162	139
Actuarial gains/losses	219	(251)
Contributions	282	282
Benefits paid	(196)	(168)
At the end of the year	6,211	5,744

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Notes to the financial statements For the year ended 31 December 2019

29. Pension commitments (continued)

Composition of plan assets:

	2019 £000	2018 £000
Equity (including property)	1,739	1,557
Bonds and cash	2,494	2,163
Insured pensions	1,979	2,025
Total plan assets	6,212	5,745

	2019 £000	2018 £000
Fair value of plan assets	6,211	5,744
Present value of plan liabilities	(5,868)	(5,708)
Net pension scheme asset	343	36

The amounts recognised in profit or loss are as follows:

	2019 £000	2018 £000
Interest on obligation	5	(7)
Total	5	(7)

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Notes to the financial statements For the year ended 31 December 2019

29. Pension commitments (continued)

The Group expects to contribute £282000 to its defined benefit pension scheme in 2020.

	2019 £000	2018 £000
Analysis of actuarial loss recognised in Other Comprehensive Income		
Actual return less interest income included in net interest income	219	(251)
Experience gains and losses arising on the scheme liabilities	168	(14)
Changes in assumptions underlying the present value of the scheme liabilities	(367)	464
	<u>20</u>	<u>199</u>

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

	2019 %	2018 %
Discount rate	2.00	2.80
Retail price inflation	3.20	3.50
Consumer price inflation	2.20	2.50
Pension increases	3.70	3.80
Deferred pension revaluation (CPI 2.5% cap)	2.20	2.50

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Notes to the financial statements For the year ended 31 December 2019

30. Commitments under operating leases

At 31 December 2019 the group and company had future minimum lease payments under non-cancellable operating leases as follows:

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Not later than 1 year	582	671	555	645
Later than 1 year and not later than 5 years	1,578	2,204	1,545	2,152
Later than 5 years	-	80	-	80
	<u>2,160</u>	<u>2,955</u>	<u>2,100</u>	<u>2,877</u>

31. 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 £29,674,000 (2018 - £25,021,000). Purchases and other charges from fellow members of the B.S.A. group of companies amounted to £75,154,000 (2018 - £61,975,000). The Lactalis McLelland group paid interest of £1,035,000 (2018 - £699,000) and received interest on deposits held with the group of £69,000 (2018 - £78,000).

At the year-end, the total amount owed to the Lactalis McLelland group by fellow members of the BSA group of companies was £10,106,000 (2018 - £8,650,000) and the total amount owed by the Lactalis McLelland group was £68,698,000 (2018 - £68,014,000).

During the year to 31 December 2019 costs amounting to £256,000 (2018 - £279,000) were recharged to Rachel's Dairy Limited.

32. Post balance sheet events

The outbreak of COVID-19 in early 2020 has affected business and economic activity around the world. The group considers this outbreak to be a non-adjusting post balance sheet event as of 31 December 2019. Details of the potential impact on the group are detailed in the strategic report.

33. 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.