

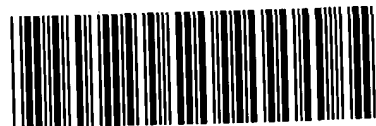
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NESTLÉ PURINA PETCARE (U.K.) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

WEDNESDAY



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COMPANIES HOUSE

NESTLÉ PURINA PETCARE (U.K.) LIMITED

COMPANY INFORMATION

DIRECTORS

P Vernon (resigned 1 April 2017)
R Watson (resigned 21 June 2017)
C Macrae (appointed 1 July 2017)
D McDaniel (appointed 15 April 2016)
M Chandler (appointed 1 July 2017)

REGISTERED NUMBER

121700

REGISTERED OFFICE

1 City Place
Gatwick
West Sussex
RH6 0PA

INDEPENDENT AUDITOR

KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL

NESTLÉ PURINA PETCARE (U.K.) LIMITED

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NESTLÉ PURINA PETCARE (U.K.) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

BUSINESS REVIEW

The performance achieved during the period is set out in the Profit and Loss account on page 6.

The results of the Company show a pre-tax profit of £23,307,000 (2016 - £30,978,000) for the year and turnover of £502,205,000 (2016 - £514,837,000).

The Company has total assets less current liabilities of £64,322,000 (2016 - £72,219,000).

In April 2018 Nestle Purina Petcare group acquired a majority stake in Tails.com a direct-to-consumer, tailor made dog nutrition business. With the rapid growth of personalised pet nutrition this offers significant growth opportunities for both companies.

PRINCIPAL RISKS AND UNCERTAINTIES

The management of the business of the Company and the execution of its strategy are subject to a number of risks and uncertainties, including a difficult economic environment, a strong competitive environment, currency fluctuations, further trade consolidation, product innovation, employee retention and volatility in input costs.

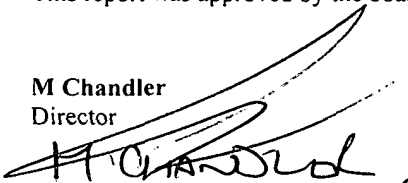
The directors of the Company are aware of these risks and strategic decisions are made to manage these risks appropriately. These will include monitoring the performance of key brands, review of costs and the credit exposure to customers. The decision-making process and the assessment of business performance is supported by the experience of the management team, regular sales volume and value data and monthly management accounts, split by business channel.

The Company has an exposure to the risk of currency fluctuations. This risk is managed by the regular monitoring of fluctuations in key currencies and entering into forward currency contracts to hedge future requirements as appropriate.

The group internal audit department monitors the operational risks of all parts of the business on a rotational/sample basis and will recommend improvements to business processes and controls to assist in the mitigation of identified business risks.

This report was approved by the board on 27 June 2018 and signed on its behalf.

M Chandler
Director



NESTLÉ PURINA PETCARE (U.K.) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

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

PRINCIPAL ACTIVITY

The Company is engaged in the manufacture and sale of pet foods. It continues to focus on adding incremental sales whilst reducing costs to add value for its shareholders.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £18,757,000 (2016 - £24,218,000).

The directors recommend the payment of a dividend on ordinary shares of £18,757,000 (2016 - £24,218,000).

IMPACT OF BREXIT

On 29 March 2017, the UK government invoked Article 50 of the Treaty of Lisbon, notifying the European Council of its intention to withdraw from the European Union (the "EU"). There was an initial two-year timeframe for the UK and the EU to reach an agreement on the withdrawal and the future UK and EU relationship, although this timeframe can be extended.

Following the UK referendum vote to leave the EU in June 2016, the value of sterling weakened against major currencies, resulting in an adverse foreign exchange impact, particularly on purchases from the Eurozone.

One year on from the decision, there is still significant uncertainty about the withdrawal process, its timeframe and the outcome of the negotiations about the future arrangements between the UK and the EU. As a result of this uncertainty, the performance of the Company may be adversely affected.

The process and the eventual outcome of the negotiations will also introduce exposures to the economy as a whole, to which the performance of the Company is inherently linked. In the short term there is some exposure to an upturn in inflation connected to the weakened sterling. This inflationary impact has begun to be seen in 2017. The medium to long term exposures are currently uncertain and will depend on the outcome of exit negotiations in the next year.

DIRECTORS

The directors who served during the year were:

P Vernon (resigned 1 April 2017)
R Watson (resigned 21 June 2017)
C Macrae (appointed 1 July 2017)
D McDaniel (appointed 15 April 2016)
M Chandler (appointed 1 July 2017)

ENVIRONMENTAL MATTERS

The Company seeks to develop business practices and behaviour, which meet the highest standards of responsibility towards the environment. The Company sees conservation and development as mutually reinforcing each other in pursuit of sustainable growth. The Company seeks to go beyond mere compliance with the law, which it willingly embraces, to achieve, in particular, savings of energy and resources, and the reduction of waste and effluent in all its forms.

FUTURE DEVELOPMENTS

The external environment is expected to remain competitive and challenging in 2018. Higher commodity prices and other costs will continue to put significant pressure on the Company.

NESTLÉ PURINA PETCARE (U.K.) LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017**

EMPLOYEE INVOLVEMENT

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

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

MATTERS COVERED IN THE STRATEGIC REPORT

The business review and principal risks and uncertainties for the Company are disclosed in the Strategic Report.

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'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's auditor is aware of that information.

POST BALANCE SHEET EVENTS

There have been no significant events affecting the Company since the year end.

AUDITOR

The auditor, KPMG LLP, Statutory Auditor, will be proposed for reappointment in accordance with section 487 of the Companies Act 2006

This report was approved by the board on 27 June 2018 and signed on its behalf.



M Chandler
Director

NESTLÉ PURINA PETCARE (U.K.) LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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 of the profit or loss of the company 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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

NESTLÉ PURINA PETCARE (U.K.) LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NESTLÉ PURINA PETCARE (U.K.) LIMITED

Opinion

We have audited the financial statements of Nestlé Purina Petcare (U.K.) Limited ("the Company") for the year ended 31 December 2017 which comprise the Profit and Loss Account, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

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

Other information

The directors are responsible for the other information, which comprises the Strategic Report and Directors' Report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

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

- we have not identified material misstatements in the other information;
- in our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

We have nothing to report in these respects.

NESTLÉ PURINA PETCARE (U.K.) LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NESTLÉ PURINA PETCARE (U.K.) LIMITED

Directors' responsibilities

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

Hugh Green (Senior Statutory Auditor)
for and on behalf of
KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL
27 June 2018



NESTLÉ PURINA PETCARE (U.K.) LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 £000	2016 £000
Turnover	2	502,205	514,837
Cost of sales		(402,397)	(419,201)
Gross profit		99,808	95,636
Distribution costs		(32,182)	(32,372)
Administrative expenses		(44,392)	(32,096)
Operating profit		23,234	31,168
Interest receivable and similar income	7	92	60
Interest payable and similar charges	8	(19)	(250)
Profit before taxation		23,307	30,978
Taxation on profit/(loss)	9	(4,550)	(6,760)
Profit for the year		18,757	24,218

There were no recognised gains and losses for 2017 or 2016 other than those included in the profit and loss account.

The notes on pages 12 to 28 form part of these financial statements.

NESTLÉ PURINA PETCARE (U.K.) LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

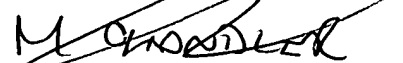
	2017 £000	2016 £000
Profit for the financial year	18,757	24,218
OTHER COMPREHENSIVE INCOME:		
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS:		
Transfer between Revaluation reserve and OCI for depreciation	17	17
Effective portion of changes in fair value of cash flow hedges	207	(1,244)
Tax on fair value adjustment	(40)	243
	184	(984)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	18,941	23,234

NESTLÉ PURINA PETCARE (U.K.) LIMITED
REGISTERED NUMBER:121700

BALANCE SHEET
AS AT 31 DECEMBER 2017

	Note	2017 £000	2016 £000
Intangible assets	10	383	54
Tangible assets	11	94,425	96,338
		94,808	96,392
CURRENT ASSETS			
Stocks	12	30,025	26,773
Debtors: amounts falling due within one year	13	76,907	81,900
Cash at bank and in hand		-	324
		106,932	108,997
Creditors: amounts falling due within one year	14	(137,418)	(133,170)
NET CURRENT LIABILITIES		(30,486)	(24,173)
TOTAL ASSETS LESS CURRENT LIABILITIES		64,322	72,219
Creditors: amounts falling due after more than one year	15	-	(2,513)
		64,322	69,706
PROVISIONS FOR LIABILITIES			
Deferred taxation	17	(1,546)	(1,666)
Other provisions	18	(232)	(202)
		(1,778)	(1,868)
NET ASSETS		62,544	67,838
CAPITAL AND RESERVES			
Called up share capital	19	44,000	44,000
Revaluation reserve	20	63	80
Other reserves	20	(310)	(477)
Profit And Loss Account	20	18,791	24,235
		62,544	67,838

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 27 June 2018.



M Chandler
Director

The notes on pages 12 to 28 form part of these financial statements.

NESTLÉ PURINA PETCARE (U.K.) LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Called up share capital	Revaluation reserve	Other reserves	Profit and loss account	Total equity
	£000	£000	£000	£000	£000
At 1 January 2017	44,000	80	(477)	24,235	67,838
COMPREHENSIVE INCOME FOR THE YEAR					
Profit for the year	-	-	-	18,757	18,757
Tax on fair value adjustments	-	-	(40)	-	(40)
Transfer between revaluation reserve and P/L account for depreciation	-	(17)	-	17	-
Currency hedging fair value adjustment	-	-	207	-	207
OTHER COMPREHENSIVE INCOME FOR THE YEAR	-	(17)	167	17	167
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	(17)	167	18,774	18,924
Dividends	-	-	-	(24,218)	(24,218)
TOTAL TRANSACTIONS WITH OWNERS	-	-	-	(24,218)	(24,218)
AT 31 DECEMBER 2017	44,000	63	(310)	18,791	62,544

NESTLÉ PURINA PETCARE (U.K.) LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Called up share capital	Revaluation reserve	Other reserves	Profit and loss account	Total equity
	£000	£000	£000	£000	£000
At 1 January 2016	44,000	97	524	20,171	64,792
COMPREHENSIVE INCOME FOR THE YEAR					
Profit for the year	-	-	-	24,218	24,218
Tax on fair value adjustments	-	-	243	-	243
Transfer between revaluation reserve and P/L account for depreciation	-	(17)	-	17	-
Currency hedging fair value adjustment	-	-	(1,244)	-	(1,244)
OTHER COMPREHENSIVE INCOME FOR THE YEAR	-	(17)	(1,001)	17	(1,001)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	(17)	(1,001)	24,235	23,217
Dividends	-	-	-	(20,171)	(20,171)
TOTAL TRANSACTIONS WITH OWNERS	-	-	-	(20,171)	(20,171)
AT 31 DECEMBER 2016	44,000	80	(477)	24,235	67,838

The notes on pages 12 to 28 form part of these financial statements.

NESTLÉ PURINA PETCARE (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. ACCOUNTING POLICIES

1.1 Basis of preparation of financial statements

Nestlé Purina Petcare (U.K.) Limited is a company incorporated and domiciled in the United Kingdom. These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The amendments to FRS 101 (2013/14 Cycle) issued in July 2015 and effective immediately have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

1.2 Financial reporting standard 101 - reduced disclosure exemptions

The Company's ultimate parent undertaking, Nestlé S.A includes the Company in its consolidated financial statements. The consolidated financial statements of Nestlé S.A are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Nestlé Headquarters, CH1800, Vevey, Switzerland.

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based payment
- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

1.3 Going concern

The Company currently has net current liabilities of £25,776,000 (2016 - net current liabilities of £24,173,000), including amounts owed to other Nestlé S.A. group undertakings of £14,996,000 (2016 - £16,680,000). Nestlé UK Ltd., the immediate parent company, has provided an undertaking that for at least twelve months from the date of approval of these financial statements, it will continue to provide financial and other support to enable the Company to continue in operational existence for the foreseeable future and that repayment of its liabilities loans will not be sought if it would impede the Company's ability to meet its obligations to third parties and operate as a going concern.

The directors, having assessed the responses of the directors of Nestlé UK Ltd. have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

NESTLÉ PURINA PETCARE (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. ACCOUNTING POLICIES (CONTINUED)

1.4 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company 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 Company has transferred the significant risks and rewards of ownership to the buyer;
- the Company 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 Company 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.

1.5 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.

1.6 Tangible fixed assets

Tangible fixed assets under the cost model 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.

At each reporting date the company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

The Company 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 Company. 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.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, SELECT OR ENTER METHOD.

Depreciation is provided on the following basis:

Freehold property	- 3% - 7%
Plant & machinery	- 10% - 33%
Computer equipment	- 33%

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 Profit and Loss Account.

NESTLÉ PURINA PETCARE (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. ACCOUNTING POLICIES (CONTINUED)

1.7 Operating leases: the Company as lessee

Rentals paid under operating leases are charged to the Profit and Loss Account on a straight line basis over the lease term.

1.8 Impairment of fixed assets and goodwill

Assets that are subject to depreciation or amortisation are assessed at each balance sheet date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets that have been previously impaired are reviewed at each balance sheet date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

1.9 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.

1.10 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

1.11 Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.12 Hedge accounting

The Company has entered into hedging contract through the group companies to manage its exposure to foreign currencies. These derivatives are measured at fair value at each balance sheet date. To the extent the 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 period.

NESTLÉ PURINA PETCARE (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. ACCOUNTING POLICIES (CONTINUED)

1.13 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 Profit and Loss Account 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 Profit and Loss Account within 'finance income or costs'. All other foreign exchange gains and losses are presented in the Profit and Loss Account within 'other operating income'.

1.14 Finance costs

Finance costs are charged to the Profit and Loss Account 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.

1.15 Equity compensation plans

The company has equity-settled share-based payments transactions. The share-based transactions are settled with shares or with reference to shares of Nestlé S.A. and not Nestlé Purina Petcare (U.K.) Limited.

Equity-settled share-based transactions are recognised in the Profit and Loss account over the vesting period. They are fair valued at grant date and measured using generally accepted pricing models. The cost of equity settled share-based payment transactions is adjusted annually by the expectations of vesting, for the forfeitures of the participants' rights that no longer satisfy the plan conditions as well as for early vesting.

Nestlé S.A. recharges Nestlé Purina Petcare (U.K.) Limited on an annual basis based on its yearly capital contribution to the Company's share-based payment arrangement. Per IFRS 2, the existence of a recharge arrangement between Nestlé S.A. and the Company does not change the character of the share-based payment transaction (equity-settled), as Nestlé S.A. is still obliged to settle the transaction by the issuance of shares at the vesting date. However, the Company recognises a recharge liability for the expected charge from the parent company in respect of the share-based payments, instead of a usual share-based payment reserve.

1.16 Pensions

Group pensions

Where the risks of a defined benefit plan are shared between entities under common control, the net defined benefit cost is recognised in the financial statements of the Group entity which is legally responsible for the plan and all other Group entities recognise a cost equal to their contribution payable for the period.

NESTLÉ PURINA PETCARE (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. ACCOUNTING POLICIES (CONTINUED)

1.17 Interest income

Interest income is recognised in the Profit and Loss Account using the effective interest method.

1.18 Borrowing costs

All borrowing costs are recognised in the Profit and Loss Account in the year in which they are incurred.

1.19 Provisions for liabilities

Provisions are made where an event has taken place that gives the Company 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 Profit and Loss Account in the year that the Company 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.

1.20 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Profit and Loss Account, 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 operates and generates 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; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

NESTLÉ PURINA PETCARE (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

2. TURNOVER

Analysis of turnover by country of destination:

	2017 £000	2016 £000
United Kingdom	426,608	425,991
Rest of Europe	75,336	88,733
Rest of the world	261	113
	<u>502,205</u>	<u>514,837</u>

All turnover and profits before tax are derived from the sale of pet food.

3. OPERATING PROFIT

The operating profit is stated after charging:

	2017 £000	2016 £000
Depreciation of tangible fixed assets	12,232	11,690
Impairment of tangible fixed assets	-	(182)
Other operating lease rentals	2,684	2,688
Loss on sale of tangible assets	451	417
	<u>451</u>	<u>417</u>

4. AUDITORS' REMUNERATION

The Company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the Company:

	2017 £000	2016 £000
Fees for the audit of the Company	110	108
One off audit fees	-	7
	<u>110</u>	<u>115</u>

NESTLÉ PURINA PETCARE (U.K.) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

5. EMPLOYEES

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

	2017	2016
	£000	£000
Wages and salaries	50,470	48,065
Social security costs	6,165	5,559
Cost of defined benefit scheme	18,921	13,042
	<u>75,556</u>	<u>66,666</u>

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

	2017	2016
	No.	No.
Production	876	897
Administration, distribution and sales	318	305
	<u>1,194</u>	<u>1,202</u>

6. DIRECTORS' REMUNERATION

	2017	2016
	£000	£000
Directors' emoluments	657	517
	<u>657</u>	<u>517</u>

The highest paid director received remuneration of £174,533 (2016 - £356,339).

During the year retirement benefits were accruing to 1 director (2016 - 2) in respect of defined benefit pension schemes.

The value of the company's contributions paid to a defined benefit pension scheme in respect of the highest paid director amounted to £nil (2016 - £8,984).

During the year 2 directors received shares under the long term incentive schemes (2016 -2)

7. INTEREST RECEIVABLE

	2017	2016
	£000	£000
Interest receivable from group companies	92	60
	<u>92</u>	<u>60</u>

The total of £92,000 (2016 - £60,000) is wholly in respect of group cash pooling arrangements.

NESTLÉ PURINA PETCARE (U.K.) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

8. INTEREST PAYABLE AND SIMILAR CHARGES

	2017	2016
	£000	£000
Loans from group undertakings	19	250
	19	250
	19	250

The total of £19,000 (2016 - £250,000) is wholly in respect of group cash pooling arrangements.

9. TAXATION

	2017	2016
	£000	£000
CORPORATION TAX		
Current tax on profits for the year	4,750	6,321
Adjustments in respect of previous periods	(40)	(98)
	4,710	6,223
	4,710	6,223
TOTAL CURRENT TAX		
	4,710	6,223
DEFERRED TAX		
Origination and reversal of timing differences	(60)	516
Decrease in tax rates	(170)	(70)
Deferred tax relating to prior years	70	91
	(160)	537
	(160)	537
TAXATION ON PROFIT		
	4,550	6,760

NESTLÉ PURINA PETCARE (U.K.) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

9. TAXATION (CONTINUED)

RECONCILIATION OF EFFECTIVE TAX RATE

The tax assessed for the year is higher than (2016 - higher than) the standard rate of corporation tax in the UK of 19.25% (2016 - 20.00%). The differences are explained below:

	2017	2016
	£000	£000
Profit before tax	23,307	30,978
Profit multiplied by standard rate of corporation tax in the UK of 19.25% (2016 - 20.00%)	4,486	6,196
EFFECTS OF:		
Expenses not deductible for tax purposes	110	179
Transfer to unrecognised deferred tax asset	94	462
Adjustments to tax charge in respect of prior periods	30	(7)
Other differences	(170)	(70)
TOTAL TAX CHARGE FOR THE YEAR	4,550	6,760

NESTLÉ PURINA PETCARE (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

9. TAXATION (CONTINUED)

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

The main rate of UK corporation tax reduced from 20% to 19%, effective since 1 April 2017. A further reduction to the main rate of corporation tax from 19% to 17% with effect from 1 April 2020, was included in Finance (No. 2) Act 2015 and Finance Act 2016. The effect of the rate reductions on the deferred tax balances as at 31 December 2017 has been considered in calculating the figures above.

The Company has an unrecognised deferred tax asset of £556,000 (2016 - £462,000) at the year end. This amount has not been recognised as the Directors are of the opinion that recoverability of this deferred tax asset is uncertain.

The Company also has an unrecognised temporary difference in respect of gross capital losses of £591,739 (2016 - £591,739). These losses have not been recognised as there is considered insufficient evidence of future capital profits against which the losses can be offset. These losses have no expiry date.

10. INTANGIBLE ASSETS

	System development costs £000
COST	
At 1 January 2017	17,672
Additions - external	329
At 31 December 2017	<u>18,001</u>
AMORTISATION	
At 1 January 2017	<u>17,618</u>
At 31 December 2017	<u>17,618</u>
NET BOOK VALUE	
At 31 December 2017	<u><u>383</u></u>
At 31 December 2016	<u><u>54</u></u>

NESTLÉ PURINA PETCARE (U.K.) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

11. TANGIBLE FIXED ASSETS

	Freehold property £000	Plant & machinery £000	Total £000
COST OR VALUATION			
At 1 January 2017	46,692	211,743	258,435
Additions	974	9,797	10,771
Disposals	(74)	(2,161)	(2,235)
At 31 December 2017	<u>47,592</u>	<u>219,379</u>	<u>266,971</u>
DEPRECIATION			
At 1 January 2017	18,090	144,007	162,097
Charge for the year on owned assets	1,289	10,943	12,232
Disposals	(15)	(1,768)	(1,783)
At 31 December 2017	<u>19,364</u>	<u>153,182</u>	<u>172,546</u>
NET BOOK VALUE			
At 31 December 2017	<u><u>28,228</u></u>	<u><u>66,197</u></u>	<u><u>94,425</u></u>
At 31 December 2016	<u><u>28,602</u></u>	<u><u>67,736</u></u>	<u><u>96,338</u></u>

Land and buildings include professional revaluation of £4,750,000. This relates to fixed assets revaluation on Wisbech and Aintree factory sites.

12. STOCKS

	2017 £000	2016 £000
Raw materials and consumables	10,100	9,675
Finished goods and goods for resale	19,925	17,098
	<u><u>30,025</u></u>	<u><u>26,773</u></u>

NESTLÉ PURINA PETCARE (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

13. DEBTORS

	2017 £000	2016 £000
Trade debtors	45,801	32,077
Amounts owed by group undertakings	27,299	43,269
Other debtors	3,389	3,658
Prepayments and accrued income	418	2,896
	<u>76,907</u>	<u>81,900</u>

Amounts owed by group undertakings include £20,891,000 (2016 - £35,018,000) in respect of cash pooling arrangement.

14. CREDITORS: Amounts falling due within one year

	2017 £000	2016 £000
Bank overdrafts	14,591	1,329
Trade creditors	51,766	56,716
Amounts owed to group undertakings	14,996	16,680
Corporation tax	4,759	6,533
Obligations under finance lease and hire purchase contracts	4,069	930
Other creditors	34,968	36,891
Accruals and deferred income	12,269	14,091
	<u>137,418</u>	<u>133,170</u>

Amounts owed to group undertakings include £nil (2016 - £nil) in respect of group cash pooling arrangements.

15. CREDITORS: Amounts falling due after more than one year

	2017 £000	2016 £000
Net obligations under finance leases and hire purchase contracts	-	2,513
	<u>-</u>	<u>2,513</u>

NESTLÉ PURINA PETCARE (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

16. HIRE PURCHASE AND FINANCE LEASES

Future minimum lease payments for:

	2017 £000	2016 £000
Within one year	4,069	930
Between 1-2 years	-	2,513
	<u>4,069</u>	<u>3,443</u>

The present value of minimum lease payments is analysed as follows:

	2017 £000	2016 £000
Within one year	4,069	833
Between 1-5 years	-	2,129
	<u>4,069</u>	<u>2,962</u>

17. DEFERRED TAXATION

	2017 £000	2016 £000
At beginning of year	(1,666)	(1,372)
Charged to profit or loss	160	(537)
Movement direct to reserves	(40)	243
AT END OF YEAR	<u>(1,546)</u>	<u>(1,666)</u>

The provision for deferred taxation is made up as follows:

	2017 £000	2016 £000
Assets qualifying for capital allowances	(2,028)	(2,245)
Other timing differences	482	579
	<u>(1,546)</u>	<u>(1,666)</u>

NESTLÉ PURINA PETCARE (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

18. PROVISIONS

	2017 £000
At 1 January 2017	202
Charged to profit or loss	30
AT 31 DECEMBER 2017	232

Provisions represent a liability with one of the Company's suppliers in respect of the requirement to reimburse dilapidations arising on their building, once the contract with the supplier expires.

19. SHARE CAPITAL

	2017 £000	2016 £000
Allotted, called up and fully paid		
44,000,000 Ordinary shares of £1 each	44,000	44,000

20. RESERVES

Revaluation reserve

This relates to fixed assets revaluation on Wisbech and Aintree factory sites.

Other reserves

The hedging reserve balance reflects the recognition of the results on effective hedge transactions.

Profit & loss account

This relates to the undistributed profits of the Company.

21. CAPITAL COMMITMENTS

At 31 December 2017 the Company had capital commitments as follows:

	2017 £000	2016 £000
Contracted for but not provided in these financial statements	279	25
	279	25

NESTLÉ PURINA PETCARE (U.K.) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

22. PENSION COMMITMENTS

Nestlé Purina Petcare (U.K.) Limited participates in the Nestlé UK Pension Fund, which includes a defined benefit section and a defined contribution section. Nestlé Purina Petcare (U.K.) Limited made contributions totalling £18,921,246 to the fund during 2017 (2016 - £13,042,173).

Nestlé Purina Petcare (U.K.) Limited is unable to identify its share of the underlying assets and liabilities of the Fund, as each employer is exposed to actuarial risks associated with the current and former employees of other entities participating in the Fund. Contributions to the scheme have therefore been accounted for as if it were a defined contribution scheme. An update of the whole fund was prepared at 31 December 2016 by an independent qualified actuary for the purposes of IAS19. At that date the liabilities exceeded the assets by £334,233,000 (2016 - £692,290,000). The full liability has been disclosed in the accounts of Nestlé UK Ltd.

There were no outstanding or prepaid contributions at the beginning or end of the financial year (2016 - £nil).

NESTLÉ PURINA PETCARE (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

23. EQUITY COMPENSATION PLAN

Certain employees are eligible to receive long-term incentives in the form of equity compensation plans. Each unit granted gives the right to one Nestlé S.A share. Equity compensation plans are settled either by remittance of Nestlé S.A. shares (accounted for as equity-settled share-based payment transactions) or by the payment of an equivalent amount in cash (accounted for as cash-settled share-based payment transactions). As the shares are in Nestlé S.A. and not Nestlé Purina Petcare (U.K.) Limited, all charges for equity compensation plans are accrued in creditors due within one year and the share value is subsequently invoiced to Nestlé Purina Petcare (U.K.) Limited by Nestlé S.A.

RESTRICTED STOCK UNIT PLAN (RSUP)

Members of Senior Management are awarded Restricted Stock Units (RSU) that entitle participants to receive freely disposable Nestlé S.A. shares (accounted for as equity-settled share-based payment transactions) or an equivalent amount in cash (accounted for as cash-settled share-based payment transactions) at the end of a three-year restriction period subject to service conditions. There were no RSU granted in 2017.

	2017	2016
Number of RSU in units		
Outstanding at 1 January	-	12,905
Settled and transfers in from, or (out to) other Group companies	-	(12,905)
Forfeited	-	-
Outstanding at 31 December	<u>-</u>	<u>-</u>

The fair value of equity-settled RSU is determined on the basis of the market price of Nestlé S.A. shares at grant date, discounted at a risk-free interest rate and adjusted for the dividends that participants are not entitled to receive during the restricted period of three years.

For cash-settled outstanding RSU, the liability is re-measured at each reporting date based on subsequent changes in the market price of Nestlé S.A. shares.

NESTLÉ PURINA PETCARE (U.K.) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

PERFORMANCE SHARE UNIT PLAN (PSUP)

As from 2014, members of Senior Management are awarded Performance Share Units (PSU) that entitle participants to receive freely disposable Nestlé S.A. shares (accounted for as equity-settled share-based payment transactions) or an equivalent amount in cash (accounted for as cash-settled share-based payment transactions) at the end of a three year restriction period.

Upon vesting, the number of shares to be delivered will range from 0% to 200% of the initial grant and be determined by the degree by which the performance measures of the PSUP have been met. These measures are the relative Total Shareholder Return of the Nestlé S.A. share in relation to the STOXX Global 1800 Food & Beverage Net Return Index; and the growth of the underlying earnings per share in constant currencies. Each of the two measures has equal weighting in determining the vesting level of the initial PSU award.

	2017	2016
Number of PSU in units		
Outstanding at 1 January	39,333	25,695
Granted	12,691	13,173
Settled and transfers in from, or (out to) other Group companies	(18,517)	465
Forfeited	(3,864)	-
	<u>29,643</u>	<u>39,333</u>

The fair value of the equity-settled PSU is determined using a valuation model which reflects the probability of overachievement or underachievement on the Total Shareholder Return measure, which is a market condition, and based on five-year historical data. The other inputs incorporated into the valuation model comprise the market price of Nestlé S.A. shares at grant date, discounted at a risk-free interest rate and adjusted for the dividends that participants are not entitled to receive during the restricted period of three years. The weighted average fair value of the equity-settled PSU granted in 2017 is CHF 55.96 (2016: CHF 65.85).

24. COMMITMENTS UNDER OPERATING LEASES

	Land and buildings	Plant and machinery	Land and buildings	Plant and machinery
	2017	2017	2016	2016
	£000	£000	£000	£000
Not later than 1 year	2,264	703	1,983	682
Later than 1 year and not later than 5 years	8,705	1,062	8,843	1,493
Later than 5 years	3,375	-	5,264	-
	<u>14,344</u>	<u>1,765</u>	<u>16,090</u>	<u>2,175</u>

25. POST BALANCE SHEET EVENTS

There have been no significant events affecting the company since the year end that require disclosure in these financial statements.

26. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The Company is a wholly owned subsidiary of Nestlé UK Ltd., a Company incorporated in the United Kingdom. Nestlé S.A. heads the largest and smallest group in which results of the company are included in the consolidated financial statements. The consolidated financial statements of Nestlé S.A. are available to the public and may be obtained from Nestlé Headquarters, CH1800, Vevey, Switzerland.