

Company Registration No. 03799817 (England and Wales)

FRANCIS FLOWER (NORTHERN) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 DECEMBER 2018



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FRANCIS FLOWER (NORTHERN) LIMITED

COMPANY INFORMATION

Directors	D Wilson R Wheatley M Forsberg R Elliott	(Appointed 3 December 2018) (Appointed 15 March 2019) (Appointed 15 March 2019) (Appointed 15 March 2019)
Secretary	R Wheatley	
Company number	03799817	
Registered office	C/O LKAB Minerals Limited Raynesway Derby England DE21 7BE	
Auditor	Old Mill Audit LLP Leeward House Fitzroy Road Exeter Business Park Exeter Devon EX1 3LJ	

FRANCIS FLOWER (NORTHERN) LIMITED

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FRANCIS FLOWER (NORTHERN) LIMITED

STRATEGIC REPORT

FOR THE PERIOD ENDED 31 DECEMBER 2018

The directors present the strategic report for the period ended 31 December 2018.

Fair review of the business

The company has experienced continued demand for all its products. This has been facilitated through investment in the productive capacity at our operating sites. Increased competition in certain areas has seen some price pressure.

The company gross margin decreased from 24.1% to 21.1% in the year. Operating profit decreased from £4,411,952 to £3,365,106. This is as a result of price pressure through competition and the increased cost of importing raw material.

The company profit for the year, after taxation was £2,295,947 (2018: £3,027,041). Particulars of dividends paid are detailed in Note 11 to the Financial Statements. The net assets at the balance sheet date were £15,589,610 (2018: £13,746,412).

Principal risks and uncertainties

The key performance indicators for the business are cash flow and profitability and hence the most significant risks to the business are those that directly affect these, which are correlated with general economic activity and commodity pricing.

The Board consider the following risks to be the most material or significant for the management of the business. These issues do not purport to be a complete list or explanation of all the risk factors facing the company.

In particular, the company's performance may be affected by any significant changes in the market and/or economic climate and changes in legal, regulatory or tax requirement legislation.

Price risk

The business may be affected by rising costs of inputs, although purchasing policies and practices seek to mitigate, where applicable, such risks. There has been significant inflation in UK energy costs in 2018.

Competitive Risk

The business is exposed to competitive activity from around the world. The Board concentrate on areas where there is a realistic hope of maintaining a competitive advantage. Offering an excellent quality service is of paramount importance to the Board.

Credit risk

Credit risk arises on assets such as trade debtors. Policies and procedures exist to ensure that the trade debtors are monitored closely and new accounts are vetted

Liquidity risk

The company has bank and cash balances of £7,436,3758 at the year-end (2018: £6,827,804). The Board are confident that the current funding structure is appropriate to allow the company to trade profitably and achieve its financial targets in the future.

Brexit

The Board are concerned at the economic uncertainty caused by Brexit paralysis. A large part of the supply chain, British Steel, has got into difficulties in 2019 quoting Brexit as a key factor. The possible delaying effect on large public infrastructure projects, e.g HS2 is also a concern to the Board.

FRANCIS FLOWER (NORTHERN) LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2018

Future Developments

Following the acquisition of Francis Flower (Northern) by LKAB Minerals Limited in December 2018, there is to be a group re-structuring and Francis Flower (Northern) will be the group operating company but under the name LKAB Minerals Limited. This is planned for late 2019. The new group intend to focus on further growth, both organic and by acquisition.

Research & Development

The board believe that focusing on core competencies will ensure that the company maintains a stable profitable base, and seeks opportunities to grow within these. In order to assist this growth and development the company seeks to continuously explore and invest within new areas. All research and development costs incurred in connection with this are written off in the period in which they relate.

On behalf of the board



D Wilson

Director

05/07/19

FRANCIS FLOWER (NORTHERN) LIMITED

DIRECTORS' REPORT

FOR THE PERIOD ENDED 31 DECEMBER 2018

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

Principal activities

The principal activity of the company continued to be that of the milling of recycled mineral products.

Directors

The directors who held office during the period and up to the date of signature of the financial statements were as follows:

A H Willmott	(Resigned 3 December 2018)
J Symonds-Willmott	(Resigned 3 December 2018)
D T Balch	(Resigned 28 February 2019)
D Wilson	(Appointed 3 December 2018)
R Wheatley	(Appointed 15 March 2019)
M Forsberg	(Appointed 15 March 2019)
R Elliott	(Appointed 15 March 2019)

Results and dividends

The results for the period are set out on page 8.

Ordinary dividends were paid amounting to £452,749. The directors do not recommend payment of a final dividend.

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

On behalf of the board



D Wilson
Director

Date: 05/07/19

FRANCIS FLOWER (NORTHERN) LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE PERIOD ENDED 31 DECEMBER 2018

The directors are responsible for preparing the annual 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 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 judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

FRANCIS FLOWER (NORTHERN) LIMITED

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FRANCIS FLOWER (NORTHERN) LIMITED

Opinion

We have audited the financial statements of Francis Flower (Northern) Limited (the 'company') for the period ended 31 December 2018 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, the 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 FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. 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 our audit:

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

FRANCIS FLOWER (NORTHERN) LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF FRANCIS FLOWER (NORTHERN) LIMITED

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the 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 where the Companies Act 2006 requires us 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.

Responsibilities of directors

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

In preparing the financial statements, the directors are responsible for assessing the 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 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: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

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.

FRANCIS FLOWER (NORTHERN) LIMITED
INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TO THE MEMBERS OF FRANCIS FLOWER (NORTHERN) LIMITED

Old Mill Audit LLP

Mark Neath (Senior Statutory Auditor)
for and on behalf of Old Mill Audit LLP

10/07/19

Statutory Auditor

Leeward House
Fitzroy Road
Exeter Business Park
EXETER
Devon
EX1 3LJ

FRANCIS FLOWER (NORTHERN) LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 31 DECEMBER 2018

		Period ended 31 December 2018 £	Year ended 31 January 2018 £
	Notes		
Turnover	3	51,036,593	50,737,009
Cost of sales		(40,239,684)	(38,483,324)
Gross profit		<u>10,796,909</u>	<u>12,253,685</u>
Administrative expenses		(7,431,803)	(7,841,733)
Operating profit	6	<u>3,365,106</u>	<u>4,411,952</u>
Interest receivable and similar income	9	7,879	3,818
Interest payable and similar expenses	8	(577,767)	(675,361)
Profit before taxation		<u>2,795,218</u>	<u>3,740,409</u>
Tax on profit	10	(499,271)	(713,368)
Profit for the financial period		<u><u>2,295,947</u></u>	<u><u>3,027,041</u></u>

FRANCIS FLOWER (NORTHERN) LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2018

		2018		2018	
	Notes	£	£	£	£
Fixed assets					
Negative goodwill	12		(1,129,300)		(1,783,105)
Other intangible assets	12		6,301,667		9,950,000
			5,172,367		8,166,895
Total intangible assets					
Tangible assets	13		12,007,392		11,436,197
			17,179,759		19,603,092
Current assets					
Stocks	14	2,299,454		3,669,668	
Debtors	15	13,599,914		7,959,391	
Cash at bank and in hand		7,436,378		6,827,804	
			23,335,746		18,456,863
Creditors: amounts falling due within one year	16	(21,828,979)		(10,482,725)	
			1,506,767		7,974,138
Net current assets					
Total assets less current liabilities			18,686,526		27,577,230
Creditors: amounts falling due after more than one year	17		-		(9,857,901)
Provisions for liabilities	19		(3,096,916)		(3,972,917)
Net assets			15,589,610		13,746,412
Capital and reserves					
Called up share capital	22		100		100
Profit and loss reserves			15,589,510		13,746,312
Total equity			15,589,610		13,746,412

The financial statements were approved by the board of directors and authorised for issue on 05/07/19 and are signed on its behalf by:



D Wilson

Director

Company Registration No. 03799817

FRANCIS FLOWER (NORTHERN) LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2018

	Notes	Share capital £	Profit and loss reserves £	Total £
Balance at 1 February 2017		100	11,578,139	11,578,239
Period ended 31 January 2018:				
Profit and total comprehensive income for the period		-	3,027,041	3,027,041
Dividends	11	-	(858,868)	(858,868)
Balance at 31 January 2018		100	13,746,312	13,746,412
Period ended 31 December 2018:				
Profit and total comprehensive income for the period		-	2,295,947	2,295,947
Dividends	11	-	(452,749)	(452,749)
Balance at 31 December 2018		100	15,589,510	15,589,610

FRANCIS FLOWER (NORTHERN) LIMITED

STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 31 DECEMBER 2018

	Notes	2018	£	2018	£
Cash flows from operating activities					
Cash generated from operations	30		3,652,886		5,728,633
Interest paid			(360,943)		(230,860)
Income taxes paid			(680,000)		(1,276,188)
Net cash inflow from operating activities			2,611,943		4,221,585
Investing activities					
Payment of deferred consideration		(1,000,000)		(1,000,000)	
Purchase of tangible fixed assets		(1,604,171)		(787,153)	
Proceeds on disposal of tangible fixed assets		7,468		33,606	
Interest received		7,879		3,818	
Net cash used in investing activities			(2,588,824)		(1,749,729)
Financing activities					
Proceeds from borrowings		14,004,380		-	
Repayment of bank loans and associated costs		(12,966,176)		(4,634,450)	
Dividends paid		(452,749)		(564,868)	
Net cash generated from/(used in) financing activities			585,455		(5,199,318)
Net increase/(decrease) in cash and cash equivalents			608,574		(2,727,462)
Cash and cash equivalents at beginning of period			6,827,804		9,555,266
Cash and cash equivalents at end of period			7,436,378		6,827,804

FRANCIS FLOWER (NORTHERN) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 DECEMBER 2018

1 Accounting policies

Company information

Francis Flower (Northern) Limited is a company limited by shares incorporated in England and Wales. The registered office is C/O Lkab Minerals Limited, Raynesway, Derby, DE21 7BE.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements have been prepared with early application of the FRS 102 Triennial Review 2017 amendments in full.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared on the historical cost convention. The principal accounting policies adopted are set out below.

The company has taken advantage of the exemption under section 400 of the Companies Act 2006 not to prepare consolidated accounts. The financial statements present information about the company as an individual entity and not about its group.

Francis Flower (Northern) Limited is a wholly owned subsidiary of LKAB, a company registered in Sweden, and the results of Francis Flower (Northern) Limited are included in the consolidated financial statements of LKAB, which are available from LKAB, box 952, SE-97128, Lulea, Sweden.

1.2 Going concern

At the time of approving the financial statements, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

1.3 Reporting period

The company has chosen to reduce the reporting period and has prepared financial statements for the 11 month period ended 31 December 2018. The reason for this was to align the accounting reporting period for all companies within the group.

1.4 Turnover

Turnover is recognised at the fair value of the consideration received or receivable for goods and services provided in the normal course of business, and is shown net of VAT and other sales related taxes. The fair value of consideration takes into account trade discounts, settlement discounts and volume rebates.

When cash inflows are deferred and represent a financing arrangement, the fair value of the consideration is the present value of the future receipts. The difference between the fair value of the consideration and the nominal amount received is recognised as interest income.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer (usually on dispatch of the goods), the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

FRANCIS FLOWER (NORTHERN) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

1.5 Research and development expenditure

Research expenditure is written off against profits in the year in which it is incurred.

1.6 Intangible fixed assets - goodwill

Goodwill represents the excess of the cost of acquisition of unincorporated businesses over the fair value of net assets acquired. Where the fair value of net assets acquired is greater than cost of acquisition of an unincorporated business negative goodwill will be recognised. It is initially recognised as an asset at cost and is subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is considered to have a finite useful life and is amortised on a systematic basis over its expected life, which is 5 years.

For the purposes of impairment testing, goodwill is allocated to the cash-generating units expected to benefit from the acquisition. Cash-generating units to which goodwill has been allocated are tested for impairment at least annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

1.7 Intangible fixed assets other than goodwill

Intangible assets acquired separately from a business are recognised at cost and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets acquired on business combinations are recognised separately from goodwill at the acquisition date where it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the fair value of the asset can be measured reliably; the intangible asset arises from contractual or other legal rights; and the intangible asset is separable from the entity.

Amortisation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Supply contracts	Straight line over 5 years
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1.8 Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Leasehold land and buildings	15 years straight line
Plant and machinery	3 - 15 years straight line
Computers and software	3 - 10 years straight line
Motor vehicles	3 - 4 years straight line

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

FRANCIS FLOWER (NORTHERN) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

1.9 Impairment of fixed assets

At each reporting period end date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

1.10 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the stocks to their present location and condition.

Stocks held for distribution at no or nominal consideration are measured at the lower of replacement cost and cost, adjusted where applicable for any loss of service potential.

At each reporting date, an assessment is made for impairment. Any excess of the carrying amount of stocks over its estimated selling price less costs to complete and sell is recognised as an impairment loss in profit or loss. Reversals of impairment losses are also recognised in profit or loss.

1.11 Cash at bank and in hand

Cash at bank and in hand are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

1.12 Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally 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.

FRANCIS FLOWER (NORTHERN) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

Basic financial assets

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

Other financial assets

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Trade debtors, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

Impairment of financial assets

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

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

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

FRANCIS FLOWER (NORTHERN) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

Basic financial liabilities

Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

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

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

Other financial liabilities

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless hedge accounting is applied and the hedge is a cash flow hedge.

Debt instruments that do not meet the conditions in FRS 102 paragraph 11.9 are subsequently measured at fair value through profit or loss. Debt instruments may be designated as being measured at fair value through profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Derecognition of financial liabilities

Financial liabilities are derecognised when the company's contractual obligations expire or are discharged or cancelled.

1.13 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1.14 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

FRANCIS FLOWER (NORTHERN) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE PERIOD ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

1.15 Provisions

Provisions are recognised when the company has a legal or constructive present obligation as a result of a past event, it is probable that the company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting end date, taking into account the risks and uncertainties surrounding the obligation. Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value. When a provision is measured at present value, the unwinding of the discount is recognised as a finance cost in profit or loss in the period in which it arises.

1.16 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

1.17 Retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

1.18 Leases

Rentals payable under operating leases, including any lease incentives received, are charged to profit or loss on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the leases asset are consumed.

1.19 Foreign exchange

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation are included in the profit and loss account for the period.

FRANCIS FLOWER (NORTHERN) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2018

2 Judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

Key sources of estimation uncertainty

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows.

Valuation of intangible asset

Where relevant the company applies judgement in arriving at the fair value of intangible assets. Independent third parties were consulted in arriving at the fair value of the intangible assets in the year of recognition and the directors have sufficient knowledge and experience to ensure that the valuations were accurate. At the point of acquisition the fair value of intangible assets acquired was £19,900,000. At 31 December 2018, the carrying value of the intangible assets was £6,301,667 (2018 - £9,950,000).

Estimated useful lives

In determining the estimated useful lives of tangible fixed assets the company considers the expected usage (capacity or physical output) of the asset, expected physical wear and tear of the asset and expected technical advancements in the industry that could lead to obsolescence of the asset. Each year the company reviews the above to establish if there is any change in expected useful life of tangible assets.

Calculation of residual values of tangible assets

The estimated residual value of tangible assets is reviewed annually, with consideration given to any changes in market prices and improvements in technology that would alter demand for such tangible assets.

3 Turnover and other revenue

An analysis of the company's turnover is as follows:

	2018	2018
	£	£
Turnover analysed by geographical market		
UK	50,850,044	50,470,431
Overseas	186,549	266,578
	<u>51,036,593</u>	<u>50,737,009</u>

FRANCIS FLOWER (NORTHERN) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2018

4 Auditor's remuneration

	2018	2018
	£	£
Fees payable to the company's auditor and associates:		
For audit services		
Audit of the financial statements of the company	15,000	14,200
	<u> </u>	<u> </u>
For other services		
Taxation compliance services	3,000	3,000
All other non-audit services	3,000	3,000
	<u> </u>	<u> </u>
	<u>6,000</u>	<u>6,000</u>

5 Employees

The average monthly number of persons (including directors) employed by the company during the period was:

	2018	2018
	Number	Number
Production	49	53
Administration and support	10	10
	<u> </u>	<u> </u>
	<u>59</u>	<u>63</u>

Their aggregate remuneration comprised:

	2018	2018
	£	£
Wages and salaries	1,956,285	2,123,463
Social security costs	322,908	348,676
Pension costs	216,709	238,618
	<u> </u>	<u> </u>
	<u>2,495,902</u>	<u>2,710,757</u>

FRANCIS FLOWER (NORTHERN) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2018

6	Operating profit	2018	2018
	Operating profit for the period is stated after charging/(crediting):	£	£
	Exchange losses/(gains)	(5,738)	(39,610)
	Research and development costs	4,478	1,324
	Depreciation of owned tangible fixed assets	1,032,698	1,087,071
	Profit on disposal of tangible fixed assets	(7,188)	(11,606)
	Amortisation of intangible assets	2,994,527	3,266,757
	Cost of stocks recognised as an expense	18,089,021	21,131,863
	Operating lease charges	286,938	375,794
		<u> </u>	<u> </u>
7	Directors' remuneration	2018	2018
		£	£
	Remuneration for qualifying services	94,489	74,334
	Company pension contributions to defined contribution schemes	6,083	5,447
		<u> </u>	<u> </u>
		<u>100,572</u>	<u>79,781</u>
8	Interest payable and similar expenses	2018	2018
		£	£
	Interest on financial liabilities measured at amortised cost:		
	Interest on bank overdrafts and loans	360,943	230,860
	Other finance costs:		
	Other interest	216,824	444,501
		<u> </u>	<u> </u>
		<u>577,767</u>	<u>675,361</u>
9	Interest receivable and similar income	2018	2018
		£	£
	Interest income		
	Interest on bank deposits	1,566	3,601
	Other interest income	6,313	217
		<u> </u>	<u> </u>
	Total income	<u>7,879</u>	<u>3,818</u>

FRANCIS FLOWER (NORTHERN) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE PERIOD ENDED 31 DECEMBER 2018

10 Taxation

	2018	2018
	£	£
Current tax		
UK corporation tax on profits for the current period	680,694	889,350
Adjustments in respect of prior periods	(62,922)	-
	<u>617,772</u>	<u>889,350</u>
Deferred tax		
Origination and reversal of timing differences	(118,501)	(175,982)
	<u>(118,501)</u>	<u>(175,982)</u>
Total tax charge	<u>499,271</u>	<u>713,368</u>

The actual charge for the period can be reconciled to the expected charge for the period based on the profit or loss and the standard rate of tax as follows:

	2018	2018
	£	£
Profit before taxation	2,795,218	3,740,409
	<u>2,795,218</u>	<u>3,740,409</u>
Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2018: 19.16%)	531,091	716,724
Tax effect of expenses that are not deductible in determining taxable profit	31,296	42,932
Effect of change in corporation tax rate	-	1,497
Depreciation on assets not qualifying for tax allowances	3,009	-
Amortisation on assets not qualifying for tax allowances	(41,739)	(45,921)
Research and development tax credit	(4,056)	-
Under/(over) provided in prior years	(62,922)	-
Deferred tax adjustments in respect of prior years	(2,075)	-
Capital in revenue	3,343	-
Revenue in Capital	-	(1,864)
Other	41,324	-
	<u>499,271</u>	<u>713,368</u>
Taxation charge for the period	<u>499,271</u>	<u>713,368</u>

11 Dividends

	2018	2018
	£	£
Interim paid	452,749	858,868
	<u>452,749</u>	<u>858,868</u>

FRANCIS FLOWER (NORTHERN) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2018

12 Intangible fixed assets

	Negative goodwill £	Supply contracts £	Total £
Cost			
At 1 February 2018 and 31 December 2018	(3,566,212)	19,900,000	16,333,788
Amortisation and impairment			
At 1 February 2018	(1,783,106)	9,950,000	8,166,894
Amortisation charged for the period	(653,806)	3,648,333	2,994,527
At 31 December 2018	(2,436,912)	13,598,333	11,161,421
Carrying amount			
At 31 December 2018	(1,129,300)	6,301,667	5,172,367
At 31 January 2018	(1,783,105)	9,950,000	8,166,895

The remaining amortisation period on intangible assets is 2 years.

13 Tangible fixed assets

	Leasehold land and buildings £	Plant and machinery £	Computers and software £	Motor vehicles £	Total £
Cost					
At 1 February 2018	354,272	15,022,315	194,187	58,515	15,629,289
Additions	-	1,604,171	-	-	1,604,171
Disposals	-	(37,439)	-	(23,399)	(60,838)
At 31 December 2018	354,272	16,589,047	194,187	35,116	17,172,622
Depreciation and impairment					
At 1 February 2018	323,377	3,735,525	77,860	56,328	4,193,090
Depreciation charged in the period	1,898	995,057	33,556	2,187	1,032,698
Eliminated in respect of disposals	-	(37,159)	-	(23,399)	(60,558)
At 31 December 2018	325,275	4,693,423	111,416	35,116	5,165,230
Carrying amount					
At 31 December 2018	28,997	11,895,624	82,771	-	12,007,392
At 31 January 2018	30,894	11,286,790	116,326	2,187	11,436,197

FRANCIS FLOWER (NORTHERN) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE PERIOD ENDED 31 DECEMBER 2018

14	Stocks		2018	2018
			£	£
	Finished goods		2,299,454	3,669,668
			<u> </u>	<u> </u>
15	Debtors		2018	2018
	Amounts falling due within one year:		£	£
	Trade debtors		8,404,450	6,848,275
	Other debtors		4,423,225	718,803
	Prepayments and accrued income		772,239	392,313
			<u> </u>	<u> </u>
			<u>13,599,914</u>	<u>7,959,391</u>
16	Creditors: amounts falling due within one year		2018	2018
		Notes	£	£
	Bank loans and overdrafts	18	-	3,108,275
	Trade creditors		3,648,803	2,870,460
	Corporation tax		302,745	364,972
	Other taxation and social security		422,304	286,058
	Other creditors		14,577,710	626,943
	Accruals and deferred income		2,877,417	3,226,017
			<u> </u>	<u> </u>
			<u>21,828,979</u>	<u>10,482,725</u>
17	Creditors: amounts falling due after more than one year		2018	2018
		Notes	£	£
	Bank loans and overdrafts	18	-	9,857,901
			<u> </u>	<u> </u>

FRANCIS FLOWER (NORTHERN) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE PERIOD ENDED 31 DECEMBER 2018

18	Loans and overdrafts		2018	2018
			£	£
	Bank loans		-	12,966,176
	Payable within one year		-	3,108,275
	Payable after one year		-	9,857,901

19	Provisions for liabilities		2018	2018
			£	£
		Notes		
	Deferred consideration		1,455,500	2,213,000
	Deferred tax liabilities	20	1,641,416	1,759,917
			<u>3,096,916</u>	<u>3,972,917</u>

Movements on provisions apart from retirement benefits and deferred tax liabilities:

	Deferred consideration
	£
At 1 February 2018	2,213,000
Utilisation of provision	(1,000,000)
Unwinding of discount	242,500
At 31 December 2018	<u>1,455,500</u>

20 **Deferred taxation**

Deferred tax assets and liabilities are offset where the company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	Liabilities	Liabilities
	2018	2018
	£	£
Balances:		
Accelerated capital allowances	1,645,869	1,740,431
Other timing differences	(4,453)	19,486
	<u>1,641,416</u>	<u>1,759,917</u>

FRANCIS FLOWER (NORTHERN) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE PERIOD ENDED 31 DECEMBER 2018

20	Deferred taxation	(Continued)
		2018
	Movements in the period:	£
	Liability at 1 February 2018	1,759,917
	Credit to profit or loss	(118,501)
		<hr/>
	Liability at 31 December 2018	1,641,416
		<hr/> <hr/>

The deferred tax liability relating to fixed asset acquisitions as set out above is not expected to reverse within 12 months as they are expected to mature over the same period as the assets are depreciated.

21	Retirement benefit schemes	2018	2018
		£	£
	Defined contribution schemes		
	Charge to profit or loss in respect of defined contribution schemes	216,709	238,618
		<hr/>	<hr/>

The company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

22	Share capital	2018	2018
		£	£
	Ordinary share capital		
	Issued and fully paid		
	7,500 Ordinary A shares of 1p each	75	95
	2,000 Ordinary B shares of 1p each	20	5
	500 Ordinary C shares of 1p each	5	-
	100 Ordinary D shares of 0.1p each	-	-
		<hr/>	<hr/>
		100	100
		<hr/> <hr/>	<hr/> <hr/>

The company has three classes of ordinary shares which carry equal voting rights and no right to fixed income.

During the year, there was an allotment of 100 Ordinary D shares with an aggregate nominal value of £0.10. These shares have been fully paid. The shares hold no voting rights and no right to fixed income.

FRANCIS FLOWER (NORTHERN) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE PERIOD ENDED 31 DECEMBER 2018

23 Capital commitments

Amounts contracted for but not provided in the financial statements:

	2018	2018
	£	£
Acquisition of tangible fixed assets	1,085,724	-

24 Operating lease commitments

Lessee

At the reporting end date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2018	2018
	£	£
Within one year	489,611	499,974
Between two and five years	1,680,495	1,724,221
In over five years	3,725,631	4,042,653
	<u>5,895,737</u>	<u>6,266,848</u>

25 Events after the reporting date

Following the acquisition of Francis Flower (Northern) Limited by LKAB Minerals Limited in December 2018, a group re-structure is planned for late 2019.

Following the restructure Francis Flower (Northern) will become the group operating company under the name LKAB Minerals Limited and will acquire the trade of several group entities.

26 Related party transactions

Remuneration of key management personnel

The remuneration of key management personnel is as follows.

	2018	2018
	£	£
Aggregate compensation	<u>396,633</u>	<u>382,469</u>

FRANCIS FLOWER (NORTHERN) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE PERIOD ENDED 31 DECEMBER 2018

26 Related party transactions **(Continued)**

Transactions with related parties

During the period the company entered into the following transactions with related parties:

	Sales		Purchases	
	2018	2018	2018	2018
	£	£	£	£
Other related parties	700,993	555,598	380,386	314,729
	<u>700,993</u>	<u>555,598</u>	<u>380,386</u>	<u>314,729</u>

The following amounts were outstanding at the reporting end date:

	2018	2018
	£	£
Amounts due to related parties		
Other related parties	14,022,210	8,509
	<u>14,022,210</u>	<u>8,509</u>

The following amounts were outstanding at the reporting end date:

	2018	2018
	£	£
Amounts due from related parties		
Other related parties	1,420,330	823,810
	<u>1,420,330</u>	<u>823,810</u>

27 Ultimate controlling party

The company is controlled by LKAB Minerals Limited by virtue of their ownership of 100% of the share capital. The Ultimate Parent Company is LKAB, a company registered in Sweden. The consolidated financial statements are available from its registered office, LKAB, box 952, SE-97128, Lulea, Sweden.

FRANCIS FLOWER (NORTHERN) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE PERIOD ENDED 31 DECEMBER 2018

28 Directors' transactions

Dividends totalling £122,977 (2018 - £858,868) were paid in the period in respect of shares held by the company's directors.

Advances or credits have been granted by the company to its directors as follows:

Description	% Rate	Opening balance £	Amounts advanced £	Interest charged £	Closing balance £
Loan	-	-	14,692	31	14,723
		-	14,692	31	14,723

29 Analysis of changes in net funds/(debt)

	1 February 2018 £	Cash flows £	31 December 2018 £
Cash at bank and in hand	6,827,804	608,574	7,436,378
Borrowings excluding overdrafts	(12,966,176)	12,966,176	-
	(6,138,372)	13,574,750	7,436,378

FRANCIS FLOWER (NORTHERN) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE PERIOD ENDED 31 DECEMBER 2018

30 Cash generated from operations	2018 £	2018 £
Profit for the period after tax	2,295,947	3,027,041
Adjustments for:		
Taxation charged	499,271	713,368
Finance costs	603,443	419,360
Investment income	(7,879)	(3,818)
Gain on disposal of tangible fixed assets	(7,188)	(11,606)
Amortisation and impairment of intangible assets	2,994,527	3,266,757
Depreciation and impairment of tangible fixed assets	1,032,698	1,087,071
Increase in provisions	242,500	188,500
Movements in working capital:		
Decrease/(increase) in stocks	1,370,214	(2,313,945)
(Increase)/decrease in debtors	(5,640,523)	399,282
Increase/(decrease) in creditors	269,876	(1,043,377)
Cash generated from operations	<u><u>3,652,886</u></u>	<u><u>5,728,633</u></u>