Registered number: 121700

NESTLÉ PURINA UK MANUFACTURING OPERATIONS LIMITED (FORMERLY NESTLÉ PURINA PETCARE (U.K.) LIMITED)

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

NESTLÉ PURINA UK MANUFACTURING OPERATIONS LIMITED (FORMERLY NESTLÉ PURINA PETCARE (U.K.) LIMITED)

COMPANY INFORMATION

Directors	A Fernandez Gil (appointed 4 September 2019, resigned 1 March 2020) J Khandige (appointed 4 September 2019) C Macrae (resigned 31 December 2019) D McDaniel (resigned 31 December 2019) M Chandler (resigned 13 December 2019) J Gorst (appointed 1 March 2020)
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 UK MANUFACTURING OPERATIONS LIMITED (FORMERLY NESTLÉ PURINA PETCARE (U.K.) LIMITED)

CONTENTS

STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

Business review

The performance achieved during the period is set out in the Profit and Loss account on page 7.

The results of the Company show a pre-tax profit of £23,085,000 (2018 - £37,076,000) for the year and turnover of £554,659,000 (2018 - £521,952,000).

The Company has total assets less current liabilities of £181,101,000 (2018 - £90,154,000).

The Company sold the sales and distribution business to its fellow subsidiary, Nestlé Purina UK Commercial Operations Limited on 31 December 2019.

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.

During this unprecedented time, our purpose of enhancing quality of life and contributing to a healthier future is now more important than ever. From our supply chain, to our factories, and right through to your homes, we're working around the clock to ensure that we continue to meet the nutritional needs of your families and pets during this difficult time.

STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

Stakeholder review

Under section 172 of the UK Companies Act 2006 ('Section 172') directors must act in the way that they consider, in good faith, would be most likely to promote the success of their Company. In doing so, our directors must have regard to stakeholders and the other matters set out in Section 172. The following section is our Section 172 statement, which describes how the directors of this Company have had regard to these matters when performing their duty.

Nestlé stands for Good food, Good life. Quality of food and quality of life go together. What and how we eat and drink is fundamental to our health and wellness, today and for the future. Our Nutrition, Health and Wellness journey is guided by our Creating Shared Value approach to business. We live by our purpose and responsibilities to our shareholders, the communities in which we operate and the planet on which we live. We aim to be trusted and dependable. That means responsibly manufacturing our products and managing our supply chain, bringing meaningful innovations to market, and building brands that delight and do good. We do this in a way that is true to the values that our company has been built on for more than 150 years. Because Good food and Good life are good business. Creating Shared Value is fundamental to how we do business at Nestlé. We believe that our Company can only be successful in the long term by creating value both for our shareholders and for society. Our activities and products should make a positive difference to society while contributing to Nestlé's ongoing success.

In order to achieve these ambitions, Nestlé as a group have formulated a series of public commitments that we operationalize across our business. These commitments are central to this company's strategy and Nestlé Group reports on our progress every year. Particular emphasis is on global initiatives to promote healthier lives for children, help young people access economic opportunities and demonstrate our protection of water resources. We also act decisively to tackle the current plastic pollution challenge and are working to become carbon neutral.

The 2019 Nestlé SA Annual Review gives further details of how the Nestlé Group of companies enhances the quality of life and contributes to a healthier future in the following areas:

- for individuals and families - enabling healthier and happier lives
- for our communities - helping develop thriving, resilient communities
- for the planet - stewarding resources and the environment

Further information can be found on the Nestle SA website.
https://www.nestle.com/

This report was approved by the board on 22 May 2020 and signed on its behalf.

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Jamadagni Khandige
Date: 2020.05.22 11:29:45
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J Khandige
Director

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

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

Principal activity

The Company is engaged in the manufacture of pet food.

Results and dividends

The profit for the year, after taxation, amounted to £18,119,000 (2018 - £29,921,000).

The directors have proposed the payment of a dividend of £18,156,000 (2018 - £NIL).

A final dividend of £28,876,000 (2018 - £18,757,000) was paid during 2019.

Directors

The directors who served during the year were:

A Fernandez Gil (appointed 4 September 2019, resigned 1 March 2020)
J Khandige (appointed 4 September 2019)
C Macrae (resigned 31 December 2019)
D McDaniel (resigned 31 December 2019)
M Chandler (resigned 13 December 2019)
J Gorst (appointed 1 March 2020)

Impact of Brexit

In 2019 the main focus of the Company's Brexit work was on preparing for a potential "no deal" exit scenario. This included putting plans in place to build import and export stocks for a period around the expected exit dates (initially 29 March 2019 and then 12 April 2019, 31 October 2019 and finally 31 January 2020), as well as preparations for using alternative supply routes into the UK to avoid anticipated congestion at the port of Dover. This work has been coordinated by the management of the Company, headed by the CEO and involving all of the key functions and business units.

The UK having left the EU with a deal on 31 January 2020, the focus of the Company's work has now shifted to preparations for the end of the transition period on 31 December 2020. Again, uncertainty remains about the scenario the country will face at that point, so mitigation plans remain ready for activation should they be needed if the transition period ends without a free trade agreement with the EU in place.

Impact of COVID-19

The COVID-19 (Coronavirus) public health emergency continues to evolve. Nestlé has a COVID-19 Committee in place, to coordinate local actions to safeguard employee health and initiate Business Continuity Plans (see note 25). Despite this health emergency, at the signing date, the Company continues to maintain a strong position and performance financially.

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 the 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

Following the sale of the sales and distribution business to its fellow subsidiary, Nestlé Purina UK Commercial Operations Limited, the Company will now act as a limited risk manufacturer.

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

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 or retraining, to enable them to perform work identified as appropriate to their aptitudes and abilities.

Business relationship engagement

The Company seeks to develop business practices and behaviour that meet the highest standards of responsibility towards all stakeholders.

Our global stakeholder network includes investors, multilateral organizations, governments, NGOs, academia, local communities, suppliers, consumers and customers. One way we engage with our stakeholders is through regular convenings, providing opportunities to highlight issues that are important to them. The outcomes of these convenings are then communicated to senior management so actions can be taken to address concerns.

Matters covered in the strategic report

The business review, principal risks and uncertainties for the Company, Strategic Management and a S172 statement 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.

Auditor

As a result of a tender exercise completed in 2019 by the Company's parent company, Nestlé S.A., KPMG LLP will resign after issuing the 2019 independent auditor's report and will be replaced by EY LLP, who will fill the vacancy.

This report was approved by the board on 22 May 2020 and signed on its behalf.

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Jamadagni Khandige
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J Khandige
Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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.

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

Opinion

We have audited the financial statements of Nestlé Purina UK Manufacturing Operations Limited (formerly Nestlé Purina Petcare (U.K.) Limited) ("the Company") for the year ended 31 December 2019 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 2019 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

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

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 a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

Other information

The directors are responsible for the other information, which comprises the Strategic Report and the 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.

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

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.

Directors' reponsibilities

As explained more fully in their statement set out on page 5, 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 misstatment, 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 reponsibilities

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
22 May 2020

22 May 2020

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £000	2018 £000
Turnover	2	**554,659**	521,952
Cost of sales		**(455,545)**	(405,906)
Gross profit		**99,114**	116,046
Distribution costs		**(31,579)**	(32,596)
Administrative expenses		**(44,454)**	(46,134)
Operating profit	3	**23,081**	37,316
Interest receivable and similar income	7	**174**	85
Interest payable and similar charges	8	**(170)**	(325)
Profit before taxation		**23,085**	37,076
Taxation on profit/(loss) on ordinary activities	9	**(4,966)**	(7,155)
Profit for the year		**18,119**	29,921

The notes on pages 14 to 30 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 £000	2018 £000
Profit for the financial year	**18,119**	29,921
OTHER COMPREHENSIVE INCOME:		
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS:		
Effective portion of changes in fair value of cash flow hedges	**(1,214)**	463
Tax on fair value adjustment	**215**	(88)
	(999)	375
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**17,120**	30,296

The notes on pages 14 to 30 form part of these financial statements.

NESTLÉ PURINA UK MANUFACTURING OPERATIONS LIMITED (FORMERLY NESTLÉ PURINA PETCARE (U.K.) LIMITED)
REGISTERED NUMBER: 121700

BALANCE SHEET
AS AT 31 DECEMBER 2019

	Note		2019 £000		2018 £000
FIXED ASSETS					
Intangible assets	11		-		432
Tangible assets	12		**91,032**		106,781
			91,032		107,213
CURRENT ASSETS					
Stocks	13	**12,739**		28,974	
Debtors: amounts falling due within one year	14	**183,489**		111,571	
Cash at bank and in hand		**263**		183	
		196,491		140,728	
Creditors: amounts falling due within one year	15	**(106,422)**		(157,787)	
NET CURRENT ASSETS/(LIABILITIES)			**90,069**		(17,059)
TOTAL ASSETS LESS CURRENT LIABILITIES			**181,101**		90,154
Creditors: amounts falling due after more than one year	16		**(5,132)**		(13,347)
			175,969		76,807
PROVISIONS FOR LIABILITIES					
Deferred taxation	17	**(1,615)**		(1,612)	
Other provisions	18	**(230)**		(2,208)	
			(1,845)		(3,820)
NET ASSETS			**174,124**		72,987
CAPITAL AND RESERVES					
Called up share capital	19		**44,000**		44,000
Revaluation reserve	20		**9**		46
Other reserves	20		**112,893**		-
Hedging reserve	20		**(934)**		65
Profit and loss account	20		**18,156**		28,876
			174,124		72,987

**BALANCE SHEET (CONTINUED)
AS AT 31 DECEMBER 2019**

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 22 May 2020.

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Date: 2020.05.22
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J Khandige
Director

The notes on pages 14 to 30 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Called up share capital	Revaluation reserve	Others reserve	Hedging reserve	Profit and loss account	Total equity
	£000	£000	£000	£000	£000	£000
At 1 January 2019	44,000	46	-	65	28,876	72,987
COMPREHENSIVE INCOME FOR THE YEAR						
Profit for the year	-	-	-	-	18,119	18,119
Taxation in respect of items of other comprehensive income	-	-	-	215	-	215
Transfer between revaluation reserve and P&L account for depreciation	-	(37)	-	-	37	-
Currency hedging fair value adjustment	-	-	-	(1,214)	-	(1,214)
OTHER COMPREHENSIVE INCOME FOR THE YEAR	-	(37)	-	(999)	37	(999)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	(37)	-	(999)	18,156	17,120
Dividends paid	-	-	-	-	(28,876)	(28,876)
Gain on transfer of business	-	-	112,893	-	-	112,893
TOTAL TRANSACTIONS WITH OWNERS	-	-	112,893	-	(28,876)	84,017
AT 31 DECEMBER 2019	44,000	9	112,893	(934)	18,156	174,124

The notes on pages 14 to 30 form part of these financial statements.

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

	Called up share capital	Revaluation reserve	Other reserves	Profit and loss account	Total equity
	£000	£000	£000	£000	£000
At 1 January 2018 (as previously stated)	44,000	63	(310)	18,791	62,544
Prior year adjustment	-	-	-	(1,096)	(1,096)
At 1 January 2018 (as restated)	44,000	63	(310)	17,695	61,448
COMPREHENSIVE INCOME FOR THE YEAR					
Profit for the year	-	-	-	29,921	29,921
Taxation in respect of items of other comprehensive income	-	-	(88)	-	(88)
Transfer between revaluation reserve and P&L account for depreciation	-	(17)	-	17	-
Currency hedging fair value adjustment	-	-	463	-	463
OTHER COMPREHENSIVE INCOME FOR THE YEAR	-	(17)	375	17	375
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	(17)	375	29,938	30,296
Dividends paid	-	-	-	(18,757)	(18,757)
TOTAL TRANSACTIONS WITH OWNERS	-	-	-	(18,757)	(18,757)
AT 31 DECEMBER 2018	44,000	46	65	28,876	72,987

The notes on pages 14 to 30 form part of these financial statements.

1. Accounting policies

1.1 Basis of preparation of financial statements

Nestlé Purina Petcare (U.K.) Limited changed its name to Nestlé Purina UK Manufacturing Operations Limited on 2 January 2020. The Company is 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 Nestle 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 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

1. **Accounting policies (continued)**

1.3 Going concern

The Company currently has net current assets of £90,069,000 (2018 - net liabilities of £17,059,000), including amounts owed to other Nestlé S.A. group undertakings of £12,676,000 (2018 - £34,816,000). 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.

On the basis of their assessment of the Company's financial position and performance, and of enquiries made to Nestlé UK Ltd., the Company's directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future.

1.4 Revenue

Revenue is recognised when control is transferred to a customer. Factors that may indicate the point in time at which control is transferred include, but are not limited to:

- the Company has a present right to payment for the asset;
- the customer has legal title to the asset;
- the Company has transferred physical possession of the asset;
- the customer has the significant risks and rewards related to the ownership of the asset; and
- the customer has accepted the asset.

Revenue is measured as the amount of consideration which the Company expects to receive, based on the list price applicable to a given distribution channel after deduction of returns, sales taxes, pricing allowances, other trade discounts and couponing and price promotions to consumers.

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.

1. **Accounting policies (continued)**

1.6 Tangible fixed assets (continued)

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

1.7 Leases: the Company as lessee

The Company assesses whether a contract is or contains a lease at inception of the contract. This assessment involves the exercise of judgement about whether it depends on a specified asset, whether the Company obtains substantially all the economic benefits from the use of that asset, and whether the Company has the right to direct the use of the asset.

The Company recognises a right-of-use (ROU) asset and lease liability at the lease commencement date, except for short term leases of 12 months or less which are expensed in the Profit and Loss account on a straight-line basis over the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease.

At inception, the ROU asset comprises the initial lease liability, initial indirect costs and the obligations to refurbish the asset, less any incentives granted by the lessors. The ROU asset is depreciated over the shorter of the lease term or the useful life of the underlying asset. The ROU asset is subject to testing for impairment if there is an indicator for impairment, as for owned assets.

RoU assets are included in the headings "Long term leasehold property" and "Long term leasehold plant and machinery" and the lease liability is included in the headings "Current financial debt" and "Non-current financial debt".

1.8 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.

1.9 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. Accounting policies (continued)

1.10 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.

1.11 Hedge accounting

The Company has entered into hedging contract through the group companies to manage its exposure to foreign currrencies.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.

1.12 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'.

1.13 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.

1.14 Dividends

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

1. **Accounting policies (continued)**

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 UK Manufacturing Operations 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 the Company 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.

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. Accounting policies (continued)

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 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.

2. Turnover

Analysis of turnover by country of destination:

	2019 £000	2018 £000
United Kingdom	**441,134**	433,519
Rest of Europe	**113,345**	88,170
Rest of the world	**180**	263
	554,659	521,952

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

3. Operating profit

The operating profit is stated after charging:

	2019 £000	2018 £000
Depreciation of tangible fixed assets	**15,617**	15,239
Loss on disposal of tangible assets	**641**	480
Amortisation of intangible assets, including goodwill	**192**	144
Defined benefit pension cost	**22,063**	20,726

4. Auditor's 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:

	2019 £000	2018 £000
The auditing of accounts of associates of the Company pursuant to legislation	**107**	104
	107	104

5. Employees

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

	2019 £000	2018 £000
Wages and salaries	**48,340**	49,735
Social security costs	**6,035**	6,161
Cost of defined benefit scheme	**22,063**	20,726
	76,438	76,622

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

	2019 No.	2018 No.
Production	**773**	863
Administration, distribution and sales	**279**	286
	1,052	1,149

The headcount of the Company as at 31 December 2019 was 750 due to 256 employees being transferred to a fellow subsidiary company on that date.

6. Directors' remuneration

	2019 £000	2018 £000
Directors' emoluments	**744**	567
	744	567

The highest paid director received remuneration of £375,192 (2018 - £334,698).

The value of the company's contributions paid to a defined benefit pension scheme in respect of the highest paid director amounted to £5,618 (2018 - £5,508).

During the year 2 directors received shares under the long term incentive schemes (2018 - 2).

The total accrued pension provision of the highest paid director at 31 December 2019 amounted to £62,330 (2018 - £59,104).

7. Interest receivable

	2019 £000	2018 £000
Interest receivable from group companies	**174**	85
	174	85

The total of £174,000 (2018 - £85,000) is wholly in respect of group cash pooling arrangements.

8. Interest payable and similar expenses

	2019 £000	2018 £000
Loans from group undertakings	**23**	147
Lease and hire purchase contracts	**147**	178
	170	325

Interest payable of £23,000 (2018 - £147,000) is in respect of group cash pooling arrangements.

9. Taxation

	2019 £000	2018 £000
Corporation tax		
Current tax on profits for the year	**4,830**	7,292
Adjustments in respect of previous periods	**38**	(115)
	4,868	7,177
Total current tax	**4,868**	7,177
Deferred tax		
Origination and reversal of timing differences	**(146)**	17
Decrease in tax rates	**87**	(182)
Deferred tax relating to prior years	**157**	143
Total deferred tax	**98**	(22)
Taxation on profit on ordinary activities	**4,966**	7,155

Factors affecting tax charge for the year

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

	2019 £000	2018 £000
Profit before tax	**23,085**	37,076
Profit multiplied by standard rate of corporation tax in the UK of 19.00% (2018 - 19.00%)	**4,386**	7,044
Effects of:		
Expenses not deductible for tax purposes	**137**	110
Transfer of unrecognised deferred tax asset	**161**	155
Adjustments in respect of prior periods	**195**	28
Change in tax rates	**87**	(182)
Total tax charge for the year	**4,966**	7,155

9. Taxation (continued)

Factors that may affect future tax charges

The main rate of UK corporation tax for the year was 19%, effective since 1 April 2017. Legislation, to further reduce the main rate of corporation tax from 19% to 17% with effect from 1 April 2020, was included in Finance Act 2016, and the deferred tax liability as at 31 December 2019 has been calculated using this rate. In the 11 March 2020 Budget it was announced that the UK corporation tax rate will remain at 19% and not reduce to 17% from 1 April 2020. This will have a consequential effect on the Company's future tax charge.

The Company has an unrecognised deferred tax asset of £876,000 (2018 - £711,000) 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 (2018 - £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. Dividends

	2019 £000	2018 £000
Paid to Nestlé UK Limited	**28,876**	18,757
	28,876	18,757

11. Intangible assets

	System development costs £000
Cost	
At 1 January 2019	**18,194**
Intra-group transfer	**(5,333)**
At 31 December 2019	**12,861**
Amortisation	
At 1 January 2019	**17,762**
Charge for the year on owned assets	**192**
Intra-group transfer	**(5,093)**
At 31 December 2019	**12,861**
Net book value	
At 31 December 2019	**-**
At 31 December 2018	432

12. Tangible fixed assets

	Freehold property £000	L/Term Leasehold Property £000	Plant & machinery £000	Leased plant and machinery £000	Total £000
Cost or valuation					
At 1 January 2019	46,818	40,853	221,380	8,182	317,233
Additions	274	-	7,682	1,786	9,742
Transfers intra group	(579)	(34,124)	(1,794)	(304)	(36,801)
Disposals	(1,676)	-	(13,338)	(1,250)	(16,264)
Transfers between classes	183	-	(183)	-	-
At 31 December 2019	45,020	6,729	213,747	8,414	273,910
Depreciation					
At 1 January 2019	19,152	29,971	158,161	3,168	210,452
Charge for the year on owned assets	1,413	-	10,703	-	12,116
Charge for the year on right-of-use assets	-	2,036	-	1,465	3,501
Transfers intra group	(46)	(26,960)	(480)	(229)	(27,715)
Disposals	(1,462)	-	(12,911)	(1,103)	(15,476)
Transfers between classes	(32)	-	24	8	-
At 31 December 2019	19,025	5,047	155,497	3,309	182,878
Net book value					
At 31 December 2019	25,995	1,682	58,250	5,105	91,032
At 31 December 2018	27,666	10,882	63,219	5,014	106,781

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

13. Stocks

	2019 £000	2018 £000
Raw materials and consumables	**12,739**	10,850
Finished goods and goods for resale	**-**	18,124
	12,739	28,974

14. Debtors

	2019 £000	2018 £000
Trade debtors	**3**	48,422
Amounts owed by group undertakings	**176,448**	50,881
Other debtors	**6,780**	7,277
Prepayments and accrued income	**258**	4,991
	183,489	111,571

Amounts owed by group undertakings include £10,222,000 (2018 - £33,417,000) in respect of cash pooling arrangements.

15. Creditors: Amounts falling due within one year

	2019 £000	2018 £000
Bank overdrafts	**-**	138
Trade creditors	**52,308**	57,144
Amounts owed to group undertakings	**12,676**	34,816
Corporation tax	**6,049**	8,283
Lease liabilities	**1,984**	3,570
Other creditors	**32,015**	38,279
Accruals and deferred income	**1,390**	15,557
	106,422	157,787

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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

	2019 £000	2018 £000
Lease liabilities	**5,132**	13,347
	5,132	13,347

17. Deferred taxation

	2019 £000	2018 £000
At beginning of year	**(1,612)**	(1,546)
Charged to profit or loss	**(98)**	22
Transfer to group undertaking	**(120)**	-
Movement direct to reserves	**215**	(88)
At end of year	**(1,615)**	(1,612)

The provision for deferred taxation is made up as follows:

	2019 £000	2018 £000
Assets qualifying for capital allowances	**(2,246)**	(2,267)
Other timing differences	**566**	461
Capitalised leased assets	**65**	194
	(1,615)	(1,612)

18. Provisions

	2019 £000
At 1 January 2019	**2,208**
Intra group transfer	**(1,978)**
At 31 December 2019	**230**

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

	2019 £000	2018 £000
Allotted, called up and fully paid		
44,000,000 (2018 - 44,000,000) Ordinary shares of £1.00 each	**44,000**	44,000

20. Reserves

Revaluation reserve

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

Hedging reserve

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

Other reserves

Other reserves of £112,893,000 is a business acquisition reserve representing the difference between the consideration received and the book value of the assets and liabilities transferred to Nestlé Purina UK Commercial Operations Limited. Details of the transaction are outlined in the Strategic report. This is a non-distributable merger reserve.

Profit & loss account

This relates to the undistributed profits of the Company.

21. Capital commitments

At 31 December 2019 the Company had capital commitments as follows:

	2019 £000	2018 £000
Contracted for but not provided in these financial statements	**879**	1,792
	879	1,792

22. Pension commitments

The Company participates in the Nestlé UK Pension Fund, which includes a defined benefit section and a defined contribution section. The Company made contributions totalling £22,063,000 to the fund during 2019 (2018 - £20,726,258).

The Company 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 2019 by an independent qualified actuary for the purposes of IAS19. At that date the assets exceeded liabilities by £5,808,000 (2018 - liabilities exceeded assets by £3,554,000). 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 (2018 - £NIL).

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 the Company, all charges for equity compensation plans are accrued in creditors due within one year and the share value is subsequently invoiced to the Company by Nestlé S.A.

Restricted stock unit plan

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.

	2019 **No.**	2018 No.
Outstanding at 1 January	**10,796**	-
Granted	**8,382**	10,648
Settled and transferred in from, or (out to) other Group companies	**(16,668)**	148
Outstanding at 31 December	**2,510**	10,796

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. The weighted average fair value of the equity-settled RSU granted in 2019 is CHF 81.14 (2018: CHF 66.62).

23. Equity compensation plans (continued)

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.

	2019 No.	2018 No.
Number of PSU in units		
Outstanding at 1 January	**23,020**	29,643
Granted	**2,979**	-
Settled and transfers in from, or (out to) other Group companies	**(24,799)**	(5,233)
Forfeited	**-**	(1,390)
	1,200	23,020

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 2019 is CHF 81.14 (2018: CHF 59.96).

24. Post balance sheet events

On 11 March 2020, the World Health Organization declared the Coronavirus (COVID-19) outbreak to be a pandemic in recognition of its rapid spread across the globe, with over 150 countries now affected. Many governments are taking increasingly stringent steps to help contain or delay the spread of the virus. Currently, there is a significant increase in economic uncertainty which is, for example, evidenced by more volatile asset prices and currency exchange rates.

For the Company's 31 December 2019 financial statements, the Coronavirus outbreak and the related impacts are considered non-adjusting events. Consequently, there is no impact on the recognition and measurement of assets and liabilities. Due to the uncertainty of the outcome of the current events, the Company cannot reasonably estimate the impact these events will have on the Company's financial position, results of operations or cash flows in the future.

25. 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.