

**Company Registration Number 03331929**

**NATIONAL MILK RECORDS PLC**

**Report and Consolidated Financial Statements**

**31 March 2014**

# NATIONAL MILK RECORDS PLC

## REPORT AND FINANCIAL STATEMENTS 2014

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# **NATIONAL MILK RECORDS PLC**

## **DIRECTORS AND PROFESSIONAL ADVISERS**

### **DIRECTORS**

|                   |                 |
|-------------------|-----------------|
| Mr A J Warne      | (Executive)     |
| Mr T Lloyd        | (Non-Executive) |
| Mr P Kirkham      | (Non-Executive) |
| Mr M Butcher      | (Non-Executive) |
| Mr B E C Bartlett | (Executive)     |
| Mr J H Davies     | (Executive)     |

### **SECRETARY**

Mr C G Nuttall

### **REGISTERED OFFICE**

Fox Talbot House  
Unit 4 Greenways Business Park  
Bellinger Close  
Chippenham  
Wiltshire  
SN15 1BN

### **REGISTERED NUMBER**

03331929

### **AUDITOR**

Deloitte LLP  
Bristol

### **BANKERS**

Lloyds Bank  
PO Box 340  
2<sup>nd</sup> Floor  
234 High Street  
Exeter  
Devon  
EX4 3ZB

### **SOLICITORS**

Gowlings (UK) LLP  
15<sup>th</sup> Floor  
125 Old Broad Street  
London  
EC2N 1AR

## NATIONAL MILK RECORDS PLC

### CHAIRMAN'S REPORT

National Milk Records plc (NMR), the ISDX quoted leading supplier of dairy and livestock services, is pleased to announce its audited results for the year ended 31 March 2014.

#### Chairman's Statement

The financial year ended 31 March 2014 has been a year in which NMR has delivered the promised operational savings resulting from the previous investment in our new site at Four Ashes. During the year our operating profit increased by 28% to £893,000 (2013: £698,000) and we have used our improved cash position to pay off the debt of £1,201,000 incurred in building the Four Ashes site and set up costs for Independent Milk Laboratories in Ireland. On 31 March 2014 the Group had £1,443,000 (2013: £1,303,000) of cash at the bank and no further borrowings. The Group's Diluted Earnings per Share for the year ending 31 March 2014 has increased to 9.61 pence per share from 4.65 pence per share for the year ended 31 March 2013.

This strong operating performance is tempered by the worsening position of the defined benefit pension scheme deficit before deferred tax asset which increases to £8,252,000 (2013: £6,774,000). The difference is caused by incorporating the detail of our actual individual pensioner experience rather than estimates based on the previous triennial valuation and strengthening the longevity provisions. The NMR Board is acutely aware of the impact the pension obligations have on the business and is working to mitigate the impact whilst recognising the Group's commitments to pensions and deferred pensioners.

In August 2013 our Vice Chairman, Mr Ian Smith, died following a short illness which kept him from the Board room. I would like to acknowledge the contribution Ian made during his time on the Board. Trevor Lloyd, who is an existing Non-Executive director, has been elected by the Board as the new Vice Chairman. During the period we have improved the balance of Executive to Non-Executive Directors and have welcomed both Mr Ben Bartlett and Mr Jonathan Davies to the Board. Both Ben and Jonathan join the Board from the current NMR organisation where they have been senior managers for a number of years. We also welcome Mr Mark Butcher, who joins the Board as an Independent Non-Executive Director with a wealth of commercial experience. Mark has taken on the role of Chairman of the Audit Committee previously held by Ian. We would like to thank Mrs Janina Marshall and Mrs Sandra Pope for their contribution to the NMR Board during their tenure as Non-Executive Directors. Biographies of each of the current NMR Directors can be found on the NMR website at [www.nmr.co.uk](http://www.nmr.co.uk). Whilst the reported year on year comparison of Board costs appears to have increased as a result of the replacement of two Non-Executive Directors with two Executive Directors, the new Directors were already members of the Senior Management team so the incremental impact of their directorships is not as significant as it may appear.

A more detailed analysis of our business performance is detailed in the Strategic Report. I would like to thank our shareholders for their continued support and all our employees for their hard work during the year.



Philip Kirkham  
Chairman

13 June 2014

# NATIONAL MILK RECORDS PLC

## STRATEGIC REPORT

To the members of National Milk Records Plc

### CAUTIONARY STATEMENT

This Strategic Report has been prepared solely to provide additional information to shareholders to assess the Company's strategies and the potential for those strategies to succeed.

The Strategic Report contains certain forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

The directors, in preparing this Strategic Report, have complied with s414C of the Companies Act 2006.

This Strategic Report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to National Milk Records Plc and its subsidiary undertakings when viewed as a whole.

### The business model

The principal activity of the group in the year under review was the provision of management information to dairy farmers via National Milk Records (NMR) and the provision of milk payment testing services to milk buyers via National Milk Laboratories (NML). Both these services have achieved relatively high market shares in their respective UK sectors. Single digit organic growth is planned by launching new services to existing customers along with development of new farmer customers in geographic territories where market share is relatively low such as Scotland and Northern Ireland. The advent of national control programmes for bovine diseases such as Johne's and Bovine Viral Diarrhoea (BVD) create opportunities for both NMR and NML to develop new testing services.

| Business Area | New services available in 2014/15   |
|---------------|---|
| NMR           | <ul style="list-style-type: none"><li>• Pregnancy testing</li><li>• Energy balance monitoring</li><li>• Individual cow Neospora testing</li></ul>   |
| NML           | <ul style="list-style-type: none"><li>• Every-day testing for farmers</li><li>• Fatty acid profiling and energy balance monitoring</li><li>• BVD testing by Polymerase Chain Reaction (PCR)</li><li>• New range of tests for mastitis pathogens</li><li>• Accredited BVD testing using ear tissue samples</li></ul> |

The Group currently also has two areas of significant potential revenue growth. Independent Milk Laboratories (iML) is a joint venture in Southern Ireland which replicates NML's payment testing services in a market of comparable size to that of the UK. National Livestock Records (NLR) is a wholly owned subsidiary which currently sells identification tags to dairy, beef and sheep farmers but is also engaged in development of management information services to both the beef and sheep sectors. The combined turnover from iML and NLR is currently £1,209,000, just 6% of the Group's total. Improvement in turnover in both iML and NLR is likely to generate a step change in revenue growth. The business model of iML and NLR is largely Business to Business (B2B) in nature.

## **NATIONAL MILK RECORDS PLC**

### **STRATEGIC REPORT (continued)**

#### **A fair review of the business**

The focus of activity in the previous two periods has been the investment in our new operational site at Four Ashes and the closure of the three sites at Harrogate, Wolverhampton and Meaford. Four Ashes is now fully operational and the anticipated savings have been delivered. The Group's operating profit has increased by 28% to £893,000 (2013: £698,000). Total turnover (including share of the joint venture) in the same period has been largely flat at £19,212,000 (2013: £18,828,000) although the mix of revenue has changed during the period. Revenue in both NMR and NML is increasing in line with our planned organic growth; however these increases are masked by lower sales of heat detection systems which we believe was caused by macro-economic factors in the dairy sector resulting from poor cash flow in farming businesses during the first nine months of the period. We believe the improving prospects for dairy farming businesses in 2014 will improve this situation.

#### **Future developments**

The directors will continue to focus on the core business of the Company and its subsidiary undertakings, whilst looking to take advantage of new opportunities as they arise. In general terms the Board believes overall market dynamics in the UK and Irish dairy sectors are favourable which will increase demand for its products. Global demand for dairy products remains strong driven principally by new consumer demand from developing markets such as China. This global consumer demand for dairy products will help support the milk price in the UK which adds value to the services provided by the NMR Group. This value is further supported by increased awareness of food provenance in the UK following the horse meat scandal.

The NMR Group continues to build strategic relationships with food retailers, food suppliers and agricultural bodies to strengthen its value proposition within the food chain. The consolidation process in the UK dairy sector by which fewer dairy farmers tend to have larger, more professionally managed herds creates demand for NMR's management information services. This same consolidation process also creates an opportunity for NMR to broaden its product range as other suppliers find a third party distribution channel is more efficient.

#### **Strategy and objectives**

NMR's market share in the milk recording sector varies between geographic areas between 6% and 64% and areas of lower market share such as Scotland represent opportunities to grow. In areas of higher market share our strategy is to sell additional products to existing customers. Competition is active and challenging in the milk recording sector as well as new product sectors such as heat detection. NMR seeks to differentiate its products by improving service levels.

NML has a 100% market share of the quality testing sector which covers any dairy farmer who sells milk to a third party. Competition in this sector is also challenging and there are a number of companies who have the capability and capacity to enter the market. NML has a number of growth opportunities largely based on increasing the frequency and depth of the quality testing suite of tests.

In both sectors the Group has growth strategies as well as defensive strategies. The Group aims to extend market share by continually providing useful and significant products, services and solutions to markets it already serves and to expand into new areas that build on the Group's competencies and customer interests. The Group aims to be influential in the markets in which it operates.

## NATIONAL MILK RECORDS PLC

### STRATEGIC REPORT (continued)

#### Key performance indicators

The directors monitor the Group's progress against its strategic objectives and the financial performance of the Group's operations on a regular basis. Details of the most significant key performance indicators (KPIs) used by the Group are as follows:

##### *Turnover (growth)*

NMR views change in the market as an opportunity to grow, and to use its profits and ability to develop and produce innovative products, services and solutions that satisfy emerging customer needs. Growth comes from taking considered risks, based on the state of the industry, but also in inducing change in the industry in which NMR operates.

For the year ended 31 March 2014, Group turnover (including share of the joint venture) was £19,212,000 (2013: £18,828,000), which represents a 2% increase on the previous year. NMR has been focusing on stabilising its traditional core business and developing new innovative products and services which should lead to turnover growth over the next few years.

##### *Profitability*

In order to be successful, NMR needs to achieve sufficient profit to finance growth, create value for the Group's shareholders and provide the resource needed to achieve any of the Group's other objectives. For the year ended 31 March 2014, gross profit was £6,383,000, equivalent to 34% gross margin. This was up 17% from the year ended 31 March 2013 (£5,446,000, equivalent to 30% gross margin). Operating profit was £893,000 representing a 28% increase on the previous year (2013: £698,000).

##### *Laboratory processing time*

NMR seeks to differentiate its products by improving service levels. An example of improving service is that during 2014 the average laboratory processing time for milk recording samples arriving in the laboratory was 5.5 hours, compared to 8.5 hours in 2013.

#### Principal risks and uncertainties

The Group operates a risk management system that evaluates and prioritises risks and uncertainties. This is principally a function of the Board of Directors lead by the Executive team with oversight by the Audit Committee.

There is a range of risks and uncertainties facing the Group. The list below is not intended to be exhaustive and focuses on those specific risks and uncertainties that the directors believe could have a significant impact on the Group's performance, as analysed by its key performance indicators.

##### *Market conditions and competitive pressures*

The Group operates in a number of different markets that are influenced by economic cycles, the health of the agricultural market, changes in government legislation and environmental factors. These can all lead to changes in profitability of our customers and demand patterns for our products and services.

Through an experienced management team, board oversight and commitment to developing products that are focused on customers' requirements, the Group addresses the risks of increased competition in developed and new markets by protecting and growing market share and margins in increasingly price sensitive areas. Where new markets are identified a joint venture business model has been used after careful selection of appropriate partners to reduce the risk associated with entering these markets.

## NATIONAL MILK RECORDS PLC

### STRATEGIC REPORT (continued)

#### *Finance*

The Group is exposed, along with others, to the risk of failure of a third party member of the Milk Pension Fund under its joint and several terms as well as exposure to costs that result from external factors impacting the size of the pension deficit (e.g. mortality rates, investment values).

This area is actively managed at Board level with appropriate external advice and agreement of actuarial valuations and deficit reduction plans with the pension trustees. Investment strategies are reviewed and the joint and several liability in the Milk Pension Fund is regularly monitored by the Board of Directors.

The Group's activities expose it to limited foreign currency exchange risks due to use of European suppliers and its joint venture based in Ireland.

The Group's objective is to produce continuity of funding at a reasonable cost. To do this it seeks to arrange committed funding that matches the assets or working capital it is designed to fund. Funding comes from a limited number of providers. The Group finances its operations by a mixture of short term overdrafts and finance leases, having paid off its bank loan in the year. It manages its interest rate risk primarily through the use of fixed rate finance leases, matched against the assets being acquired. It does, however, have a floating rate overdraft facility to manage day to day working capital requirements. The Group does not enter into speculative derivative contracts.

The Group's principal finance assets are bank balances, trade and other receivables. The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of cashflows.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

#### *Other risks*

The risk of failure to attract or retain skills and experience within the Executive and Management teams is managed by external consultation on Executive and Senior Management pay levels led by the Remuneration Committee that also monitors senior management performance.

Business continuity plans are in place for IT systems and all key locations to address the risks associated with loss of capability in these areas.

#### **Approval**

This report was approved by the Board of Directors on 13 June 2014 and signed on its behalf by:



**Mr A J Warne**  
Director

13 June 2014



## NATIONAL MILK RECORDS PLC

### DIRECTORS' REPORT

The Directors present their report with the financial statements of the Company and the Group for the year ended 31 March 2014.

#### Corporate and social responsibility

##### *Gender split of employees and approach to human rights issues*

|                 | Total as at<br>31 March 2014 | Female as at<br>31 March 2014 | Male as at<br>31 March 2014 |
|-----------------|------------------------------|-------------------------------|-----------------------------|
| Directors       | 6 (2013: 6)                  | 0 (2013: 2)                   | 6 (2013: 4)                 |
| Senior Managers | 5 (2013: 7)                  | 1 (2013: 1)                   | 4 (2013: 6)                 |
| Organisation    | 272 (2013: 272)              | 143 (2013: 146)               | 129 (2013: 126)             |
| Total           | 283 (2013: 285)              | 144 (2013: 149)               | 139 (2013: 136)             |

As a service company the Group employs a relatively high number of staff in relation to our turnover. The Group's staff are a key resource which it values. The effectiveness of our day to day management of this key asset is an important strategy for the business. The Group's staff policies are formulated and kept up to date by the Group's Human Resources Manager, authorised by the Board and communicated to all employees via the Staff Handbook which is available in hard copy and online. The Group undertakes extensive monitoring of the implementation of all its policies, most notably via our appraisal system, and has not been made aware of any incident in which the Group's activities have resulted in any abuse of human rights.

##### *Disabled employees*

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group and the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

##### *Employee consultation*

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group and the Company. This is achieved through formal and informal meetings, Company bulletins and distribution of the annual financial statements to all employees. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests. The employee share scheme has been running successfully since its inception on 30 April 2004. It is open to all employees and includes provision for matching and free share provided by the Company. In addition, all employees are entitled to receive either commission payments or an annual bonus related to the overall profitability of the Group.

#### Going concern basis

The Group's business activities together with the factors likely to affect its future development, cash flows, liquidity, performance and position are set out in the Strategic report.

The Group meets its day-to-day working capital requirements through £1,443,000 of cash at bank (2013: £1,303,000) and an overdraft facility of £700,000 which is renewable on an annual basis in October.

The pension scheme deficit puts the Group in a net liabilities position, however, a recovery plan was agreed in relation to the Milk Pension Fund (note 28), fixing future pension contributions. These have been included within the Group's cash flow forecasts.

## NATIONAL MILK RECORDS PLC

### DIRECTORS' REPORT (continued)

The Group's forecasts and projections, which allow for reasonable possible changes in trading performance, show that the Group has adequate headroom against the committed facility across the forecast period. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the financial statements.

#### Corporate Governance

The Company is listed on the ISDX Growth Market and is not required to comply with the provisions set out in the UK Combined Code.

##### *Board of Directors*

The Board currently comprises three executive directors and three non-executive directors, two of whom are farmers. The roles of the Chairman, who is non-executive and elected on an annual basis by the Board, and the Managing Director, are separated. The Managing Director, supported by the Company Secretary, is responsible for the operating performance of the Company.

A formal schedule of matters requiring Board approval is maintained, and covers such areas as future strategy, approval of budgets, financial results, board appointments and dividend policy. The Board normally meets on a monthly basis and additional meetings are called if required. It is considered that adequate information is provided to allow directors to discharge their duties and they may take independent advice at the Company's expense. They seek to understand the views of shareholders about the Company.

All directors are subject to retirement by rotation and their re-election is a matter for the shareholders.

##### *Remuneration Committee*

The Remuneration Committee at 31 March 2014 comprised P Kirkham, T Lloyd and M Butcher, with T Lloyd as Chairman. Its task is to determine the remuneration and other benefits of the Company's Chairman, Managing Director, and other executive directors and designated senior managers. Remuneration of the non-executive directors is determined by the Chairman and Managing Director.

##### *Audit Committee*

The Audit Committee at 31 March 2014 comprised T Lloyd, P Kirkham and M Butcher, with M Butcher as Chairman. Its principal role is to monitor the integrity of the financial statements of the Group, reviewing significant reporting issues and judgements which they contain. It also monitors the major risks which face the Group.

##### *Nomination Committee*

The Nomination Committee comprises T Lloyd, M Butcher, A Warne and P Kirkham with P Kirkham as Chairman. Its remit is to review the size, skills and composition of the Board, and to carry out succession planning for it and the senior executives, identifying candidates where appropriate.

## NATIONAL MILK RECORDS PLC

### DIRECTORS' REPORT (continued)

#### *Board attendance of directors*

Number of meetings in year ended 31 March 2014: 9

The attendance of directors, who served throughout the year except as noted, were as follows:

|                   |                             |      |
|-------------------|-----------------------------|------|
| Mr A J Warne      |                             | 100% |
| Mrs J L Marshall  | (Resigned 8 November 2013)  | 100% |
| Mr T Lloyd        |                             | 100% |
| Mr P Kirkham      |                             | 100% |
| Mrs S J Pope      | (Resigned 2 May 2013)       | 100% |
| Mr H I Smith      | (Deceased 15 August 2013)   | -    |
| Mr M Butcher      | (Appointed 2 May 2013)      | 100% |
| Mr B E C Bartlett | (Appointed 28 October 2013) | 100% |
| Mr J H Davies     | (Appointed 28 October 2013) | 100% |

#### **Substantial shareholding**

Schedule of shareholders at 5 June 2014 with shareholding of greater than 3%

|   |           |       |
|---|-----------|-------|
| HSBC Global Custody Nominee (UK) Ltd      | 2,173,104 | 29.3% |
| Hargreaves Lansdown Nominee Ltd           | 460,651   | 6.2%  |
| National Milk Records Trustee Company Ltd | 364,800   | 4.9%  |
| TD Direct Investing Nominee (Europe) Ltd  | 324,000   | 4.4%  |
| Forest Nominee Ltd                        | 250,000   | 3.4%  |
| Equiniti Corporate Nominee Ltd            | 248,626   | 3.3%  |

#### **Dividends**

The directors do not recommend the payment of a dividend in relation to the year ended 31 March 2014 (2013: £nil). Earnings per ordinary share are disclosed in the profit and loss account.

#### **Directors' qualifying third party indemnity provision**

The Company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

#### **Political donations**

No political donations were made in the current or prior year.

## NATIONAL MILK RECORDS PLC

### DIRECTORS' REPORT (continued)

#### Auditor

Deloitte LLP was appointed as the Company's auditor during the period.

Each of the persons who is a director at the date of approval of this report confirms 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 he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

A resolution to reappoint Deloitte LLP will be proposed at the forthcoming Annual General Meeting.

Approved by the Board and signed on its behalf by:

A handwritten signature in black ink that reads "A J Warne." The signature is written in a cursive style and is positioned on a light blue rectangular background.

**Mr A J Warne**  
Director

13 June 2014

## **NATIONAL MILK RECORDS PLC**

### **DIRECTORS' RESPONSIBILITIES STATEMENT**

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 judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company 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.

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

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NATIONAL MILK RECORDS PLC**

We have audited the financial statements of National Milk Records Plc for the year ended 31 March 2014 which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes 1 to 34. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

### **Respective responsibilities of directors and auditor**

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent Company's affairs as at 31 March 2014 and of the Group's profit for the year 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.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

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 by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### **Mark Hill BSc FCA (Senior Statutory Auditor) for and on behalf of Deloitte LLP**

Chartered Accountants and Statutory Auditor  
Bristol, United Kingdom

13 June 2014

## NATIONAL MILK RECORDS PLC

### CONSOLIDATED PROFIT AND LOSS ACCOUNT Year ended 31 March 2014

|   | Note | 2014<br>£'000 | 2013<br>£'000 |
|---|------|---------------|---------------|
| <b>TURNOVER</b>   |      |               |               |
| Group and share of joint ventures                               |      | 19,212        | 18,828        |
| Less: share of joint ventures' group turnover                   |      | (545)         | (415)         |
|   |      | <u>18,667</u> | <u>18,413</u> |
| Cost of sales   |      | (12,284)      | (12,967)      |
| Gross profit  |      | 6,383         | 5,446         |
| Administrative expenses   |      | (5,490)       | (4,748)       |
| <b>OPERATING PROFIT</b>   | 4    | 893           | 698           |
| Share of operating profit/(loss) in joint ventures              |      | 88            | (11)          |
| Profit on sale of tangible fixed assets                         |      | -             | 243           |
| Costs of fundamental restructuring of continuing operations     |      | -             | (246)         |
| <b>PROFIT ON ORDINARY ACTIVITIES BEFORE FINANCE CHARGES</b>     |      | 981           | 684           |
| Finance charges (net)   | 5    | 202           | 137           |
| <b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>            |      | 1,183         | 821           |
| Tax on profit on ordinary activities                            | 6    | (485)         | (486)         |
| <b>PROFIT FOR THE FINANCIAL YEAR</b>                            | 21   | <u>698</u>    | <u>335</u>    |
| <b>Earnings per share expressed in pence per share (note 9)</b> |      |               |               |
| Basic   |      | 9.99          | 4.83          |
| Diluted   |      | 9.61          | 4.65          |

The profit and loss account has been prepared on the basis that all operations are continuing operations.

**NATIONAL MILK RECORDS PLC**

**CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
Year ended 31 March 2014

|   | <b>Note</b> | <b>2014<br/>£'000</b> | <b>2013<br/>£'000</b> |
|---|-------------|-----------------------|-----------------------|
| <b>PROFIT FOR THE FINANCIAL YEAR</b>                  | 21          | 698                   | 335                   |
| Actuarial losses on pension scheme                    | 28          | (1,858)               | (2,097)               |
| Movement on deferred tax relating to pension scheme   |             | 371                   | 482                   |
| <b>TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR</b> |             | <u>(789)</u>          | <u>(1,280)</u>        |



**NATIONAL MILK RECORDS PLC**

**CONSOLIDATED BALANCE SHEET**

At 31 March 2014

|   | Note | 2014    |                | 2013    |                |
|---|------|---------|----------------|---------|----------------|
|   |      | £'000   | £'000          | £'000   | £'000          |
| <b>FIXED ASSETS</b>                                   |      |         |                |         |                |
| Goodwill  | 10   |         | -              |         | 31             |
| Tangible assets                                       | 11   |         | 3,185          |         | 3,669          |
| Investments   | 12   |         |                |         |                |
| Interest in joint venture                             |      |         |                |         |                |
| Share of gross assets                                 |      | 270     |                | 254     |                |
| Share of gross liabilities                            |      | (61)    |                | (133)   |                |
|   |      |         | 209            |         | 121            |
| Other investments                                     |      |         | 5              |         | 5              |
|   |      |         | <u>3,399</u>   |         | <u>3,826</u>   |
| <b>CURRENT ASSETS</b>                                 |      |         |                |         |                |
| Stock   | 13   | 244     |                | 554     |                |
| Debtors   | 14   | 1,848   |                | 1,821   |                |
| Cash at bank and in hand                              |      | 1,443   |                | 1,303   |                |
|   |      |         | 3,535          |         | 3,678          |
| <b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b> | 15   | (2,763) |                | (2,967) |                |
| <b>NET CURRENT ASSETS</b>                             |      |         | <u>772</u>     |         | <u>711</u>     |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>          |      |         | 4,171          |         | 4,537          |
| <b>CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR</b>  | 16   |         | (452)          |         | (1,606)        |
| <b>PROVISIONS FOR LIABILITIES</b>                     | 19   |         | (342)          |         | (185)          |
| <b>NET ASSETS EXCLUDING PENSION LIABILITY</b>         |      |         | <u>3,377</u>   |         | <u>2,746</u>   |
| <b>PENSION LIABILITY</b>                              | 28   |         | (6,602)        |         | (5,216)        |
| <b>NET LIABILITIES</b>                                |      |         | <u>(3,225)</u> |         | <u>(2,470)</u> |
| <b>CAPITAL AND RESERVES</b>                           |      |         |                |         |                |
| Called up share capital                               | 20   |         | 742            |         | 735            |
| Share premium   | 21   |         | 25             |         | -              |
| Share option reserve                                  | 21   |         | 22             |         | 20             |
| Profit and loss account                               | 21   |         | (4,014)        |         | (3,225)        |
| <b>SHAREHOLDERS' DEFICIT</b>                          | 22   |         | <u>(3,225)</u> |         | <u>(2,470)</u> |

The financial statements of National Milk Records Plc, registered number 03331929, were approved by the Board of Directors and authorised for issue on 13 June 2014.

Signed on behalf of the Board of Directors



**Mr A J Warne**  
Director

**NATIONAL MILK RECORDS PLC**

**COMPANY BALANCE SHEET**  
At 31 March 2014

|   | Note | 2014                  | 2013                  |
|---|------|-----------------------|-----------------------|
|   |      | £'000                 | £'000                 |
| <b>FIXED ASSETS</b>                                   |      |                       |                       |
| Tangible assets                                       | 11   | 2,096                 | 2,262                 |
| Investments   | 12   | 2,419                 | 2,419                 |
|   |      | <u>4,515</u>          | <u>4,681</u>          |
| <b>CURRENT ASSETS</b>                                 |      |                       |                       |
| Stock   | 13   | 101                   | 410                   |
| Debtors – falling due within one year                 | 14   | 1,108                 | 1,830                 |
| Cash at bank and in hand                              |      | 189                   | 593                   |
|   |      | <u>1,398</u>          | <u>2,833</u>          |
| <b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b> | 15   | <u>(2,457)</u>        | <u>(2,858)</u>        |
| <b>NET CURRENT LIABILITIES</b>                        |      | <u>(1,059)</u>        | <u>(25)</u>           |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>          |      | 3,456                 | 4,656                 |
| <b>CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR</b>  | 16   | (452)                 | (1,606)               |
| <b>PROVISIONS FOR LIABILITIES</b>                     | 19   | (334)                 | (185)                 |
| <b>PENSION LIABILITY</b>                              | 28   | <u>(6,602)</u>        | <u>(5,216)</u>        |
| <b>NET LIABILITIES</b>                                |      | <u><u>(3,932)</u></u> | <u><u>(2,351)</u></u> |
| <b>CAPITAL AND RESERVES</b>                           |      |                       |                       |
| Called up share capital                               | 20   | 742                   | 735                   |
| Share premium   | 21   | 25                    | -                     |
| Share option reserve                                  | 21   | 22                    | 20                    |
| Profit and loss account                               | 21   | <u>(4,721)</u>        | <u>(3,106)</u>        |
| <b>SHAREHOLDERS' DEFICIT</b>                          | 22   | <u><u>(3,932)</u></u> | <u><u>(2,351)</u></u> |

The financial statements of National Milk Records Plc, registered number 03331929, were approved by the Board of Directors and authorised for issue on 13 June 2014.

Signed on behalf of the Board of Directors



**Mr A J Warne**  
Director

**NATIONAL MILK RECORDS PLC**

**CONSOLIDATED CASH FLOW STATEMENT**  
**Year ended 31 March 2014**

|  | <b>Note</b> | <b>2014</b>  | <b>2013</b>  |
|--|-------------|--------------|--------------|
|  |             | <b>£'000</b> | <b>£'000</b> |
| <b>Net cash inflow from operating activities</b>                           | 23          | 1,989        | 1,102        |
| Return on investment and servicing of finance                              | 24          | (61)         | (78)         |
| Taxation   |             | (240)        | (25)         |
| Capital expenditure and financial investment                               | 24          | (188)        | 773          |
| Equity dividends   |             | -            | (147)        |
|  |             | <u>(489)</u> | <u>523</u>   |
| <b>Cash inflow before management<br/>of liquid resources and financing</b> |             | 1,500        | 1,625        |
| Financing  | 24          | (1,360)      | (458)        |
| <b>Increase in cash in the year</b>  | 25          | <u>140</u>   | <u>1,167</u> |

**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 31 March 2014**

**1. ACCOUNTING POLICIES**

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

**Basis of accounting and consolidation**

The financial statements have been prepared under the historical cost convention, and in accordance with applicable accounting standards.

The financial statements consolidate the financial statements of National Milk Records Plc and all of its subsidiary undertakings, together with the Group's share of interests in joint ventures made up to 31 March each year. They are prepared using uniform accounting policies. All intra-group balances, transactions, income and expenses are eliminated on consolidation. Joint ventures are accounted for using the gross equity method.

**Going concern**

Despite the defined benefit pension scheme liability included in the Group's balance sheet, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Further details regarding the adoption of the going concern basis can be found in the Directors' Report.

**Turnover**

Turnover is stated net of value added tax and trade discounts and represents amounts invoiced to third parties. Turnover is attributable to the supply of services to the agricultural market. All turnover is derived from ordinary activities and has arisen within the United Kingdom. Turnover from the sale of goods is recognised when the goods are physically delivered to the customer. Turnover from the supply of services represents the value of services provided under contracts to the extent that there is a right to consideration and is recorded at the value of the consideration due.

**Intangible assets – goodwill**

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is 10 years. Provision is made for any impairment.

**Tangible fixed assets**

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight line basis over its expected useful life, as follows:

|                                  |           |
|----------------------------------|-----------|
| Freehold buildings               | 2.5%      |
| Leasehold buildings              | 20% – 33% |
| Computer equipment and machinery | 10 – 33%  |
| Motor vehicles                   | 25%       |

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Land is not depreciated.

**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 31 March 2014**

**1. ACCOUNTING POLICIES (continued)**

**Government grants**

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received.

**Stock**

Stock is stated at the lower of cost and net realisable value. Provision is made for obsolete, slow-moving or defective items where appropriate.

**Taxation**

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax. Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

**Research and development**

Expenditure on research and development is written off in the year in which it is incurred.

**Foreign currencies**

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result.

The results of the overseas joint ventures are translated at the average annual exchange rate for turnover and profits. The balance sheets of overseas joint ventures are translated at year end exchange rates. The resulting exchange differences are dealt with through reserves.

**Hire purchase and leasing commitments**

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 31 March 2014**

**1. ACCOUNTING POLICIES (continued)**

**Fixed asset investments**

Fixed asset investments are stated at cost less provision for impairment.

**Financial liabilities and equity**

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 Group after deducting all of its liabilities.

**Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group 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 balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**Pension costs**

The Group operates a defined benefit pension scheme and a defined contribution scheme. The Group decided to move the defined benefit scheme to a defined contribution scheme during 2007. In order to avoid triggering a debt event within the scheme, the Group had two active members both of whom are members of the Board.

For defined benefit schemes the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

**NOTES TO THE FINANCIAL STATEMENTS**  
Year ended 31 March 2014

**1. ACCOUNTING POLICIES (continued)**

**Share options**

The Company issues equity-settled share options to certain employees. Equity-settled share options are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Fair value is measured by use of the Black Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

**2. STAFF COSTS**

The average monthly number of employees in the Group (including executive directors) was:

|                      | <b>2014</b>   | <b>2013</b>   |
|----------------------|---------------|---------------|
|                      | <b>Number</b> | <b>Number</b> |
| Field staff          | 68            | 67            |
| Administration staff | 222           | 225           |
|                      | <u>290</u>    | <u>292</u>    |

Their aggregate remuneration comprised:

|                       | <b>2014</b>  | <b>2013</b>  |
|-----------------------|--------------|--------------|
|                       | <b>£'000</b> | <b>£'000</b> |
| Wages and salaries    | 6,410        | 6,375        |
| Social security costs | 548          | 516          |
| Other pension costs   | 180          | 135          |
| Redundancy costs      | 105          | 276          |
|                       | <u>7,243</u> | <u>7,302</u> |

The average monthly number of employees in the Company (including executive directors) was:

|                      | <b>2014</b>   | <b>2013</b>   |
|----------------------|---------------|---------------|
|                      | <b>Number</b> | <b>Number</b> |
| Field staff          | 68            | 67            |
| Administration staff | 119           | 139           |
|                      | <u>187</u>    | <u>206</u>    |

Their aggregate remuneration comprised:

|                       | <b>2014</b>  | <b>2013</b>  |
|-----------------------|--------------|--------------|
|                       | <b>£'000</b> | <b>£'000</b> |
| Wages and salaries    | 4,453        | 4,691        |
| Social security costs | 416          | 389          |
| Other pension costs   | 130          | 98           |
| Redundancy costs      | 87           | 276          |
|                       | <u>5,086</u> | <u>5,454</u> |

**NOTES TO THE FINANCIAL STATEMENTS**  
Year ended 31 March 2014

**3. DIRECTORS' REMUNERATION**

|  | <b>2014</b><br><b>£'000</b> | <b>2013</b><br><b>£'000</b> |
|--|-----------------------------|-----------------------------|
| Directors' remuneration                                    | 295                         | 214                         |
| Directors' pension contributions to money purchase schemes | 12                          | 13                          |
|  | <u>          </u>           | <u>          </u>           |

The number of directors to whom retirement benefits were accruing was as follows:

|                        | <b>2014</b><br><b>Number</b> | <b>2013</b><br><b>Number</b> |
|------------------------|------------------------------|------------------------------|
| Money purchase schemes | 3                            | 1                            |
|                        | <u>          </u>            | <u>          </u>            |

Information regarding the highest paid director is as follows:

|  | <b>2014</b><br><b>£'000</b> | <b>2013</b><br><b>£'000</b> |
|--|-----------------------------|-----------------------------|
| Directors' remuneration                                    | 169                         | 132                         |
| Directors' pension contributions to money purchase schemes | 6                           | 13                          |
|  | <u>          </u>           | <u>          </u>           |

**4. OPERATING PROFIT**

|  | <b>2014</b><br><b>£'000</b> | <b>2013</b><br><b>£'000</b> |
|--|-----------------------------|-----------------------------|
| Operating profit is stated after charging/(crediting): |                             |                             |
| Depreciation – owned assets                            | 602                         | 517                         |
| Depreciation – leased assets                           | 253                         | 353                         |
| Profit on disposal of fixed assets                     | (37)                        | (27)                        |
| Amortisation of goodwill                               | 31                          | 208                         |
| Government grants received                             | (156)                       | (78)                        |
| Operating lease rentals – other                        | 28                          | 30                          |
|  | <u>          </u>           | <u>          </u>           |

|   | <b>2014</b><br><b>£</b> | <b>2013</b><br><b>£</b> |
|---|-------------------------|-------------------------|
| <b>Fees payable to the Company's auditor:</b>                 |                         |                         |
| for the audit of the Company's annual accounts                | 5                       | 5                       |
| for the audit of the Company's subsidiaries and consolidation | 35                      | 36                      |
|   | <u>          </u>       | <u>          </u>       |
| <b>Total audit fees</b>                                       | <b>40</b>               | <b>41</b>               |
|   | <u>          </u>       | <u>          </u>       |
| Tax services  | 8                       | 2                       |
|   | <u>          </u>       | <u>          </u>       |
| <b>Total non-audit fees</b>                                   | <b>8</b>                | <b>2</b>                |
|   | <u>          </u>       | <u>          </u>       |

The disclosures above are for the Group. The Company is not required, in its individual financial statements, to disclose separately information about fees for non-audit services provided to the Company because the consolidated financial statements are required to disclose such fees on a consolidated basis.



**NATIONAL MILK RECORDS PLC**

**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 31 March 2014**

| <b>5. FINANCE CHARGES (NET)</b>        | <b>2014</b>  | <b>2013</b>  |
|--|--------------|--------------|
|  | <b>£'000</b> | <b>£'000</b> |
| Interest receivable and similar income | -            | 1            |
| Net return on pension scheme (note 28) | 263          | 215          |
|  | <hr/>        | <hr/>        |
| Investment income                      | 263          | 216          |
|  | <hr/>        | <hr/>        |
| Bank loan and overdraft interest       | 13           | 44           |
| Finance lease interest                 | 48           | 35           |
|  | <hr/>        | <hr/>        |
| Interest payable and similar charges   | 61           | 79           |
|  | <hr/>        | <hr/>        |
| Net finance charges                    | 202          | 137          |
|  | <hr/>        | <hr/>        |

**6. TAX ON PROFIT ON ORDINARY ACTIVITIES**

**Analysis of the tax charge**

The tax charge comprises:

|   | <b>2014</b>  | <b>2013</b>  |
|---|--------------|--------------|
|   | <b>£'000</b> | <b>£'000</b> |
| <b>Current tax</b>                                  |              |              |
| UK corporation tax                                  | 199          | 240          |
| Adjustments in respect of prior years               | (20)         | -            |
|   | <hr/>        | <hr/>        |
| Total current tax                                   | 179          | 240          |
| <b>Deferred tax</b>                                 |              |              |
| Origination and reversal of timing differences      | 59           | (9)          |
| Changes in tax rates                                | (32)         | (17)         |
| Deferred tax on pension scheme                      | 31           | 164          |
| Deferred tax on pension scheme – change in tax rate | 248          | 108          |
|   | <hr/>        | <hr/>        |
| Total deferred tax                                  | 306          | 246          |
|   | <hr/>        | <hr/>        |
| <b>Total tax on profit on ordinary activities</b>   | <b>485</b>   | <b>486</b>   |
|   | <hr/>        | <hr/>        |

**NOTES TO THE FINANCIAL STATEMENTS**  
Year ended 31 March 2014

**6. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)**

**Factors affecting the tax charge**

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

|   | <b>2014</b> | <b>2013</b> |
|---|-------------|-------------|
|   | <b>£</b>    | <b>£</b>    |
| Profit on ordinary activities before tax  | 1,183       | 821         |
| Tax on Group profit on ordinary activities at standard UK corporation tax rate of 23% (2013: 24%) | 272         | 197         |
| Effects of:   |             |             |
| Expenses not deductible for tax purposes  | 5           | 52          |
| Depreciation in excess of capital allowances  | 15          | 45          |
| Utilisation of tax losses   | -           | (19)        |
| FRS17 adjustment  | (61)        | (172)       |
| Marginal relief/benefit of lower rates  | (3)         | (4)         |
| Non-trading profits   | (29)        | (55)        |
| Capital gains   | -           | 196         |
| Adjustments in respect of prior years   | (20)        | -           |
| <b>Group current tax charge for year</b>  | <b>179</b>  | <b>240</b>  |

The Finance Act 2013 which was enacted on 17 July 2013 reduced the main rate of corporation tax from 23% to 21% from 1 April 2014 and from 21% to 20% from 1 April 2015. The Directors are not aware of any other factors that will materially affect the future tax charge.

**7. PROFIT ATTRIBUTABLE TO THE COMPANY**

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the parent Company is not presented as part of these financial statements. The parent Company's loss for the financial year was £128,000 (2013: £45,000 profit).

**8. DIVIDENDS**

|                               | <b>2014</b>  | <b>2013</b>  |
|-------------------------------|--------------|--------------|
|                               | <b>£'000</b> | <b>£'000</b> |
| Ordinary shares of £0.10 each |              |              |
| Interim                       | -            | 147          |

National Milk Records Trustee Company Limited waived its right to receive the dividend due on its shareholding.

In October 2012 a dividend of 2.1 pence per share was paid to shareholders of the Company with the exception of National Milk Records Trustee Company Limited. The total dividend amounted to £147,000, of which £1,760 was paid to directors, or to companies in which the directors have interests, and who at the time of payment held 1.1% of the issued share capital. This dividend, along with a proposed dividend for 2013, is considered unlawful under the Companies Act 2006 due to insufficient distributable reserves caused by an actuarial loss on the pension scheme.

**NOTES TO THE FINANCIAL STATEMENTS**  
Year ended 31 March 2014

**8. DIVIDENDS (continued)**

The directors became aware of these errors in late August 2013 and sought remedial action and legal advice immediately. The directors do not plan to seek recovery of the paid dividends and will seek alternative means to rectify the position. The directors believe that the Company will continue to generate distributable profits and thereby create sufficient distributable reserves over time in order to normalise the situation.

**9. EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated using the weighted average number of shares adjusted to assume the conversion of all dilutive potential ordinary shares.

The shares held by the Employee Share Option Plan are deducted from total shares in arriving at the weighted average number of ordinary shares used in the earnings per share calculation.

Reconciliations are set out below.

|  | <b>Earnings<br/>£'000</b> | <b>2014<br/>Weighted<br/>average<br/>number<br/>of shares</b> | <b>Earnings<br/>per share<br/>pence</b> |
|--|---------------------------|---|---|
| <b>Basic EPS</b>                               |                           |   |   |
| Earnings attributable to ordinary shareholders | 698                       | 6,989,779   | 9.99                                    |
| <b>Effect of dilutive securities</b>           |                           |   |   |
| Options  | -                         | 270,000   | -                                       |
|  | <hr/>                     | <hr/>   | <hr/>                                   |
| <b>Diluted EPS</b>                             |                           |   |   |
| Adjusted earning                               | 698                       | 7,259,779   | 9.61                                    |
|  | <hr/> <hr/>               | <hr/> <hr/>   | <hr/> <hr/>                             |
|  |                           |   |   |
|  | <b>Earnings<br/>£'000</b> | <b>2013<br/>Weighted<br/>average<br/>number<br/>of shares</b> | <b>Earnings<br/>per share<br/>pence</b> |
| <b>Basic EPS</b>                               |                           |   |   |
| Earnings attributable to ordinary shareholders | 335                       | 6,938,780   | 4.83                                    |
| <b>Effect of dilutive securities</b>           |                           |   |   |
| Options  | -                         | 270,000   | -                                       |
|  | <hr/>                     | <hr/>   | <hr/>                                   |
| <b>Diluted EPS</b>                             |                           |   |   |
| Adjusted earning                               | 335                       | 7,208,780   | 4.65                                    |
|  | <hr/> <hr/>               | <hr/> <hr/>   | <hr/> <hr/>                             |

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

## NATIONAL MILK RECORDS PLC

### NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2014

#### 10. GOODWILL

| <b>Group</b>            | <b>£'000</b> |
|-------------------------|--------------|
| <b>Cost</b>             |              |
| At 1 April 2013         | 3,864        |
| Additions               | -            |
|                         | <hr/>        |
| At 31 March 2014        | 3,864        |
|                         | <hr/>        |
| <b>Amortisation</b>     |              |
| At 1 April 2013         | 3,833        |
| Charge for the year     | 31           |
|                         | <hr/>        |
| At 31 March 2014        | 3,864        |
|                         | <hr/>        |
| <b>Net book value</b>   |              |
| <b>At 31 March 2014</b> | -            |
|                         | <hr/>        |
| At 31 March 2013        | 31           |
|                         | <hr/> <hr/>  |

#### 11. TANGIBLE FIXED ASSETS

| <b>Group</b>          | <b>Land and<br/>buildings<br/>£'000</b> | <b>Computer<br/>equipment<br/>and<br/>machinery<br/>£'000</b> | <b>Motor<br/>vehicles<br/>£'000</b> | <b>Total<br/>£'000</b> |
|-----------------------|---|---|-------------------------------------|------------------------|
| <b>Cost</b>           |   |   |                                     |                        |
| At 1 April 2013       | 1,588                                   | 4,747   | 1,332                               | 7,667                  |
| Additions             | -                                       | 286   | 180                                 | 466                    |
| Disposals             | (32)                                    | (776)   | (254)                               | (1,062)                |
|                       | <hr/>                                   | <hr/>   | <hr/>                               | <hr/>                  |
| At 31 March 2014      | 1,556                                   | 4,257   | 1,258                               | 7,071                  |
|                       | <hr/> <hr/>                             | <hr/> <hr/>   | <hr/> <hr/>                         | <hr/> <hr/>            |
| <b>Depreciation</b>   |   |   |                                     |                        |
| At 1 April 2013       | 252                                     | 2,948   | 798                                 | 3,998                  |
| Charge for the year   | 93                                      | 509   | 253                                 | 855                    |
| Disposals             | (32)                                    | (697)   | (238)                               | (967)                  |
|                       | <hr/>                                   | <hr/>   | <hr/>                               | <hr/>                  |
| At 31 March 2014      | 313                                     | 2,760   | 813                                 | 3,886                  |
|                       | <hr/> <hr/>                             | <hr/> <hr/>   | <hr/> <hr/>                         | <hr/> <hr/>            |
| <b>Net book value</b> |   |   |                                     |                        |
| At 31 March 2014      | 1,243                                   | 1,497   | 445                                 | 3,185                  |
|                       | <hr/> <hr/>                             | <hr/> <hr/>   | <hr/> <hr/>                         | <hr/> <hr/>            |
| At 31 March 2013      | 1,336                                   | 1,799   | 534                                 | 3,669                  |
|                       | <hr/> <hr/>                             | <hr/> <hr/>   | <hr/> <hr/>                         | <hr/> <hr/>            |

Included within Group land and buildings are leasehold improvements with a net book value of £70,000 (2013: £171,000), and land of £250,000 (2013: £250,000).

Included in computer equipment and machinery above are assets held under finance leases with a net book value of £nil (2013: £318,000). All motor vehicles are held under finance lease.

NOTES TO THE FINANCIAL STATEMENTS  
Year ended 31 March 2014

11. TANGIBLE FIXED ASSETS (continued)

| Company               | Land and<br>buildings<br>£'000 | Computer<br>equipment<br>and<br>machinery<br>£'000 | Motor<br>vehicles<br>£'000 | Total<br>£'000 |
|-----------------------|--------------------------------|--|----------------------------|----------------|
| <b>Cost</b>           |                                |  |                            |                |
| At 1 April 2013       | 1,289                          | 1,358  | 1,332                      | 3,979          |
| Additions             | -                              | 133  | 180                        | 313            |
| Disposals             | -                              | (384)  | (362)                      | (746)          |
| At 31 March 2014      | <u>1,289</u>                   | <u>1,107</u>                                       | <u>1,150</u>               | <u>3,546</u>   |
| <b>Depreciation</b>   |                                |  |                            |                |
| At 1 April 2013       | 87                             | 832  | 798                        | 1,717          |
| Charge for the year   | 66                             | 144  | 253                        | 463            |
| Disposals             | -                              | (384)  | (346)                      | (730)          |
| At 31 March 2014      | <u>153</u>                     | <u>592</u>   | <u>705</u>                 | <u>1,450</u>   |
| <b>Net book value</b> |                                |  |                            |                |
| At 31 March 2014      | <u>1,136</u>                   | <u>515</u>   | <u>445</u>                 | <u>2,096</u>   |
| At 31 March 2013      | <u>1,202</u>                   | <u>526</u>   | <u>534</u>                 | <u>2,262</u>   |

Included in computer equipment and machinery above are assets held under finance leases with a net book value of £nil (2013: £284,000). All motor vehicles are held under finance lease.

## NATIONAL MILK RECORDS PLC

### NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2014

#### 12. FIXED ASSET INVESTMENTS

##### Group

|                                | Interest<br>in joint<br>venture<br>£'000 | Unlisted<br>investments<br>£'000 | Total<br>£'000 |
|--------------------------------|--|----------------------------------|----------------|
| <b>Cost and net book value</b> |  |                                  |                |
| At 1 April 2013                | 121                                      | 5                                | 126            |
| Share of post-tax results      | 88                                       | -                                | 88             |
|                                | <hr/>                                    | <hr/>                            | <hr/>          |
| At 31 March 2014               | 209                                      | 5                                | 214            |
|                                | <hr/> <hr/>                              | <hr/> <hr/>                      | <hr/> <hr/>    |

##### Company

|                                    | Subsidiary<br>undertakings<br>£'000 | Joint<br>venture<br>£'000 | Unlisted<br>investments<br>£'000 | Total<br>£'000 |
|------------------------------------|-------------------------------------|---------------------------|----------------------------------|----------------|
| <b>Cost</b>                        |                                     |                           |                                  |                |
| At 1 April 2013 and 31 March 2014  | 5,941                               | 177                       | 5                                | 6,123          |
|                                    | <hr/>                               | <hr/>                     | <hr/>                            | <hr/>          |
| <b>Provision for impairment</b>    |                                     |                           |                                  |                |
| At 1 April 2013 and 31 March 2014  | 3,704                               | -                         | -                                | 3,704          |
|                                    | <hr/>                               | <hr/>                     | <hr/>                            | <hr/>          |
| <b>Net book value</b>              |                                     |                           |                                  |                |
| At 31 March 2013 and 31 March 2014 | 2,237                               | 177                       | 5                                | 2,419          |
|                                    | <hr/> <hr/>                         | <hr/> <hr/>               | <hr/> <hr/>                      | <hr/> <hr/>    |

##### Subsidiary undertakings

The Company has investments in the following subsidiary undertakings, which principally affected the profit or net assets of the Group.

| Name                               | Country of<br>incorporation | Holding          | Activity   |
|------------------------------------|-----------------------------|------------------|--|
| National Livestock Records Limited | England and Wales           | 100%<br>ordinary | Services to the red meat industry                  |
| National Milk Laboratories Limited | Scotland                    | 100%<br>ordinary | Management information to the milk buying industry |
| Nordic Star Limited                | England and Wales           | 100%<br>ordinary | Dormant  |

## NATIONAL MILK RECORDS PLC

### NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2014

#### 12. FIXED ASSET INVESTMENTS (continued)

All subsidiary undertakings are held directly by National Milk Records Plc, except for Nordic Star Limited.

##### Joint ventures

The Company has a participating interest in the following undertakings, and the Group recognises them on an equity accounting basis.

| Name                                  | Country of incorporation | Holding      | Activity   |
|---------------------------------------|--------------------------|--------------|--|
| Independent Milk Laboratories Limited | Ireland                  | 50% ordinary | Management information to the milk buying industry |

Independent Milk Laboratories Limited prepares accounts to 31 December. Its most recent financial statements cover the year ended 31 December 2013.

National Milk Records Plc also owns approximately 1% of the share capital of Uniform Agri BV, a company registered in The Netherlands.

#### 13. STOCKS

|             | Group<br>2014<br>£'000 | Group<br>2013<br>£'000 | Company<br>2014<br>£'000 | Company<br>2013<br>£'000 |
|-------------|------------------------|------------------------|--------------------------|--------------------------|
| Consumables | 244                    | 554                    | 101                      | 410                      |

There is no material difference between the balance sheet value of stocks and their replacement cost.

#### 14. DEBTORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

|  | Group<br>2014<br>£'000 | Group<br>2013<br>£'000 | Company<br>2014<br>£'000 | Company<br>2013<br>£'000 |
|--|------------------------|------------------------|--------------------------|--------------------------|
| Trade debtors                            | 1,532                  | 1,555                  | 657                      | 868                      |
| Amounts due from Group undertakings      | -                      | -                      | 281                      | 797                      |
| Amounts due from joint venture (note 31) | 61                     | -                      | -                        | -                        |
| Prepayments and accrued income           | 241                    | 266                    | 170                      | 165                      |
|  | 1,834                  | 1,821                  | 1,108                    | 1,830                    |

#### DEBTORS – AMOUNTS FALLING DUE AFTER ONE YEAR

|  |       |       |       |       |
|--|-------|-------|-------|-------|
| Amounts due from joint venture (note 31) | 14    | -     | -     | -     |
|  | 1,848 | 1,821 | 1,108 | 1,830 |

**NATIONAL MILK RECORDS PLC**

**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 31 March 2014**

**15. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR**

|  | <b>Group<br/>2014<br/>£'000</b> | <b>Group<br/>2013<br/>£'000</b> | <b>Company<br/>2014<br/>£'000</b> | <b>Company<br/>2013<br/>£'000</b> |
|--|---------------------------------|---------------------------------|-----------------------------------|-----------------------------------|
| Bank loans and overdrafts (see note 17)        | -                               | 273                             | -                                 | 273                               |
| Obligations under finance leases (see note 18) | 208                             | 77                              | 208                               | 77                                |
| Trade creditors                                | 618                             | 877                             | 582                               | 1,143                             |
| Amounts owed to Group undertakings             | -                               | -                               | 442                               | -                                 |
| Corporation tax                                | 199                             | 240                             | 5                                 | 197                               |
| Other taxation and social security             | 852                             | 766                             | 661                               | 630                               |
| Accruals and deferred income                   | 886                             | 734                             | 559                               | 538                               |
|  | <u>2,763</u>                    | <u>2,967</u>                    | <u>2,457</u>                      | <u>2,858</u>                      |

**16. CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

|  | <b>Group<br/>2014<br/>£'000</b> | <b>Group<br/>2013<br/>£'000</b> | <b>Company<br/>2014<br/>£'000</b> | <b>Company<br/>2013<br/>£'000</b> |
|--|---------------------------------|---------------------------------|-----------------------------------|-----------------------------------|
| Bank loans and overdrafts (see note 17)        | -                               | 928                             | -                                 | 928                               |
| Obligations under finance leases (see note 18) | 452                             | 678                             | 452                               | 678                               |
|  | <u>452</u>                      | <u>1,606</u>                    | <u>452</u>                        | <u>1,606</u>                      |

**17. LOANS**

|                                      | <b>Group<br/>2014<br/>£'000</b> | <b>Group<br/>2013<br/>£'000</b> | <b>Company<br/>2014<br/>£'000</b> | <b>Company<br/>2013<br/>£'000</b> |
|--------------------------------------|---------------------------------|---------------------------------|-----------------------------------|-----------------------------------|
| Bank loans are repayable as follows: |                                 |                                 |                                   |                                   |
| Between one and two years            | -                               | 73                              | -                                 | 73                                |
| Between two and five years           | -                               | 855                             | -                                 | 855                               |
|                                      | <u>-</u>                        | <u>928</u>                      | <u>-</u>                          | <u>928</u>                        |
| On demand or within one year         | -                               | 273                             | -                                 | 273                               |
|                                      | <u>-</u>                        | <u>1,201</u>                    | <u>-</u>                          | <u>1,201</u>                      |

The bank loan in the prior year was secured by a fixed and floating charge over the assets and undertakings of the Company.



**NOTES TO THE FINANCIAL STATEMENTS**  
Year ended 31 March 2014

**18. OBLIGATIONS UNDER FINANCE LEASES**

|   | Group<br>2014<br>£'000 | Group<br>2013<br>£'000 | Company<br>2014<br>£'000 | Company<br>2013<br>£'000 |
|---|------------------------|------------------------|--------------------------|--------------------------|
| Net obligations are repayable as follows: |                        |                        |                          |                          |
| Within one year                           | 208                    | 77                     | 208                      | 77                       |
| Between one and two years                 | 157                    | 236                    | 157                      | 236                      |
| Between two and five years                | 295                    | 442                    | 295                      | 442                      |
|   | <u>660</u>             | <u>755</u>             | <u>660</u>               | <u>755</u>               |

The finance lease liabilities are secured on the corresponding motor vehicles, computer equipment and machinery.

**19. PROVISIONS FOR LIABILITIES**

|   | Group<br>2014<br>£'000 | Group<br>2013<br>£'000                 | Company<br>2014<br>£'000                | Company<br>2013<br>£'000 |
|---|------------------------|--|---|--------------------------|
| Deferred tax – accelerated capital allowances | <u>212</u>             | <u>185</u>                             | <u>204</u>                              | <u>185</u>               |
| <b>Group</b>                                  |                        | <b>Deferred<br/>taxation<br/>£'000</b> | <b>Product<br/>warranties<br/>£'000</b> | <b>Total<br/>£'000</b>   |
| At 1 April 2013                               |                        | 185                                    | -                                       | 185                      |
| Charge to the profit and loss account         |                        | 27                                     | 130                                     | 157                      |
| At 31 March 2014                              |                        | <u>212</u>                             | <u>130</u>                              | <u>342</u>               |
| <b>Company</b>                                |                        | <b>Deferred<br/>taxation<br/>£'000</b> | <b>Product<br/>warranties<br/>£'000</b> | <b>Total<br/>£'000</b>   |
| At 1 April 2013                               |                        | 185                                    | -                                       | 185                      |
| Charge to the profit and loss account         |                        | 19                                     | 130                                     | 149                      |
| At 31 March 2014                              |                        | <u>204</u>                             | <u>130</u>                              | <u>334</u>               |

The provision for product warranties relates to expected warranty claims on products sold in the last three years. It is expected that this expenditure will all be incurred within three years of the balance sheet date.

## NATIONAL MILK RECORDS PLC

### NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2014

#### 20. CALLED-UP SHARE CAPITAL

|   | 2014<br>£'000 | 2013<br>£'000 |
|---|---------------|---------------|
| <b>Allotted, called-up and fully paid</b>                 |               |               |
| 7,423,329 (2013: 7,348,329) Ordinary Shares of £0.10 each | 742           | 735           |
| 90 (2013: 90) Deferred Shares of £1 each                  | -             | -             |
|   | <u>742</u>    | <u>735</u>    |

During the year 75,000 ordinary shares were issued.

#### 21. OTHER RESERVES

| <b>Group</b>                            | <b>Profit and loss account<br/>£'000</b>     | <b>Share option reserve<br/>£'000</b>     |
|---|--|---|
| At 1 April 2013                         | (3,225)                                      | 20  |
| Profit for the year                     | 698  | -   |
| Share option charge                     | -  | 2   |
| Actuarial loss on pension scheme        | (1,858)                                      | -   |
| Deferred tax relating to actuarial loss | 371  | -   |
| At 31 March 2014                        | <u>(4,014)</u>                               | <u>22</u>                                 |
| <br><b>Company</b>                      | <br><b>Profit and loss account<br/>£'000</b> | <br><b>Share option reserve<br/>£'000</b> |
| At 1 April 2013                         | (3,106)                                      | 20  |
| Loss for the year                       | (128)  | -   |
| Share option charge                     | -  | 2   |
| Actuarial loss on pension scheme        | (1,858)                                      | -   |
| Deferred tax relating to actuarial loss | 371  | -   |
| At 31 March 2014                        | <u>(4,721)</u>                               | <u>22</u>                                 |

Following a capital reduction in 2004, consent of the trustees of the Milk Pension Fund is required prior to declaration of a dividend.

As noted in note 20, during the year 75,000 ordinary shares were issued for consideration of £0.43 per share, giving rise to a share premium reserve of £25,000.

The profit and loss account is stated after deducting £274,000 in relation to the purchase of ESOP shares (note 33).

## NATIONAL MILK RECORDS PLC

### NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2014

#### 22. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| <b>Group</b>                                  | <b>2014<br/>£'000</b> | <b>2013<br/>£'000</b> |
|---|-----------------------|-----------------------|
| At beginning of year                          | (2,470)               | (1,051)               |
| Shares issued during the year                 | 32                    | -                     |
| Profit for the financial year                 | 698                   | 335                   |
| Dividends                                     | -                     | (147)                 |
| Share option charge                           | 2                     | 8                     |
| Other gains and losses recognised in the year | (1,487)               | (1,615)               |
| <b>At end of year</b>                         | <b>(3,225)</b>        | <b>(2,470)</b>        |
| <br>  |                       |                       |
| <b>Company</b>                                | <b>2014<br/>£'000</b> | <b>2013<br/>£'000</b> |
| At beginning of year                          | (2,351)               | (642)                 |
| Shares issued during the year                 | 32                    | -                     |
| (Loss)/profit for the financial year          | (128)                 | 45                    |
| Dividends                                     | -                     | (147)                 |
| Share option charge                           | 2                     | 8                     |
| Other gains and losses recognised in the year | (1,487)               | (1,615)               |
| <b>At end of year</b>                         | <b>(3,932)</b>        | <b>(2,351)</b>        |

#### 23. RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

|  | <b>2014<br/>£'000</b> | <b>2013<br/>£'000</b> |
|--|-----------------------|-----------------------|
| Operating profit   | 893                   | 698                   |
| Depreciation and amortisation                            | 886                   | 1,078                 |
| Profit on disposal of fixed assets                       | (37)                  | (27)                  |
| Share options granted                                    | 2                     | 8                     |
| Decrease in stock  | 310                   | 248                   |
| Increase in debtors                                      | (27)                  | (269)                 |
| Increase in creditors                                    | 99                    | 112                   |
| Difference between pension charge and cash contributions | (137)                 | (500)                 |
| Exceptional item – costs of reorganisation               | -                     | (246)                 |
| <b>Net cash inflow from operating activities</b>         | <b>1,989</b>          | <b>1,102</b>          |

NOTES TO THE FINANCIAL STATEMENTS  
Year ended 31 March 2014

24. ANALYSIS OF CASH FLOWS

|  | 2014<br>£'000  | 2013<br>£'000 |
|--|----------------|---------------|
| <b>Returns on investments and servicing of finance</b> |                |               |
| Interest received                                      | -              | 1             |
| Interest paid  | (13)           | (74)          |
| Interest element of finance lease payments             | (48)           | (5)           |
| <b>Net cash outflow</b>                                | <u>(61)</u>    | <u>(78)</u>   |
| <b>Capital expenditure and financial investment</b>    |                |               |
| Purchase of tangible fixed assets                      | (286)          | (1,421)       |
| Sale of tangible fixed assets                          | 98             | 694           |
| Exceptional item – disposal of property                | -              | 1,500         |
| <b>Net cash (outflow)/inflow</b>                       | <u>(188)</u>   | <u>773</u>    |
| <b>Financing</b>                                       |                |               |
| Share capital issued in the year                       | 32             | -             |
| Loan repayments in year                                | (1,201)        | (73)          |
| Capital element of finance lease payments              | (191)          | (385)         |
| <b>Net cash outflow</b>                                | <u>(1,360)</u> | <u>(458)</u>  |

25. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS/(DEBT)

|  | 2014<br>£'000 | 2013<br>£'000 |
|--|---------------|---------------|
| Increase in cash in the year                           | 140           | 1,167         |
| Cash outflow from decrease in debt and lease financing | 1,392         | 458           |
| Change in net debt resulting from cash flows           | 1,532         | 1,625         |
| New finance leases                                     | (96)          | (284)         |
| Movement in net debt in the year                       | 1,436         | 1,341         |
| Net debt at beginning of year                          | (653)         | (1,994)       |
| Net funds/(debt) at end of year                        | <u>783</u>    | <u>(653)</u>  |

**NOTES TO THE FINANCIAL STATEMENTS**  
Year ended 31 March 2014

**26. ANALYSIS OF CHANGES IN NET FUNDS/(DEBT)**

|                          | 1 April<br>2013<br>£'000 | Cash<br>flow<br>£'000 | Other<br>non-cash<br>changes<br>£'000 | 31 March<br>2014<br>£'000 |
|--------------------------|--------------------------|-----------------------|---------------------------------------|---------------------------|
| Cash in hand, at bank    | 1,303                    | 140                   | -                                     | 1,443                     |
| Finance leases           | (755)                    | 191                   | (96)                                  | (660)                     |
| Debt due within one year | (273)                    | 273                   | -                                     | -                         |
| Debt due after one year  | (928)                    | 928                   | -                                     | -                         |
|                          | <u>(1,956)</u>           | <u>1,392</u>          | <u>(96)</u>                           | <u>(660)</u>              |
| Net funds/(debt)         | <u>(653)</u>             | <u>1,532</u>          | <u>(96)</u>                           | <u>783</u>                |

**27. OPERATING LEASE COMMITMENTS**

The Group and Company had the following annual commitments under non-cancellable operating leases for land and buildings as follows:

|                            | Group<br>2014<br>£'000 | Group<br>2013<br>£'000 | Company<br>2014<br>£'000 | Company<br>2013<br>£'000 |
|----------------------------|------------------------|------------------------|--------------------------|--------------------------|
| <i>Leases expiring:</i>    |                        |                        |                          |                          |
| Between one and five years | 45                     | 45                     | 45                       | 45                       |
| In more than five years    | 100                    | 100                    | 70                       | 70                       |
|                            | <u>145</u>             | <u>145</u>             | <u>115</u>               | <u>115</u>               |

**28. EMPLOYEE BENEFIT OBLIGATIONS**

**Defined benefit scheme**

All permanent staff were eligible for membership of The Milk Pension Fund. The Fund is a multi-employer, defined benefit scheme, and is funded by contributions from employees and the participating employers. The principal employer of The Milk Pension Fund is Genus Breeding Limited.

Under the existing multi-employer arrangement, National Milk Records, together with other participating employers, is jointly and severally liable for the Fund's obligations. National Milk Records has accounted for its portion of the Fund deficit, approximately 12%, but has not accounted for any share of the orphan assets and liabilities. Should any employer not be in a position to meet its obligation, through administration or liquidation, the liability is shared amongst the other employers in a proportion determined by the trustee. This contingent liability is included in note 29.

The latest actuarial valuation of the Fund was made by a qualified actuary as at 31 March 2012 using the projected unit method.

**NOTES TO THE FINANCIAL STATEMENTS**  
Year ended 31 March 2014

**28. EMPLOYEE BENEFIT OBLIGATIONS (continued)**

The valuation shows the market value of the total Fund's assets amounted to £312.1 million. The actuarial value of the assets of the total fund was sufficient to cover 68.9 per cent of the value of the benefits that had accrued to members after allowing for assumed increases in earnings. The deficit in the total Fund disclosed by the valuation as a whole was £140.5m. It is being addressed by increased contributions from the participating employers by way of an agreed recovery plan. Under this recovery plan the Group has agreed contributions due in respect of the recovery plan of:

- 1 April 2014 to 31 March 2015 - £672,000
- 1 April 2015 to 31 March 2016 - £726,000
- 1 April 2016 to 31 March 2026 - £858,000 p.a. (each year increasing annually from 1 April 2017 by 3.4% p.a.).

With effect from 1 June 2007, the Company closed its share of the scheme to future accrual although two non-executive directors remained as active members in order that the Group complied with the scheme rules.

The valuation used for FRS 17 disclosures has been based on the actuarial valuation at 31 March 2012 and updated by Barnett Waddingham to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 March 2014 (using the projected unit method). Scheme assets are stated at their market value at 31 March 2014. The Group's contributions paid during the year amounted to £135,000 (2013: £572,000). The analysis below relates specifically to NMR's share of the total scheme.

The amounts recognised in the balance sheet are as follows:

|                                     | <b>2014</b>    | <b>2013</b>    |
|-------------------------------------|----------------|----------------|
|                                     | <b>£'000</b>   | <b>£'000</b>   |
| Present value of funded obligations | (35,246)       | (33,383)       |
| Fair value of plan assets           | 26,994         | 26,609         |
| Deficit                             | (8,252)        | (6,774)        |
| Deferred tax asset                  | 1,650          | 1,558          |
| Net pension liability               | <u>(6,602)</u> | <u>(5,216)</u> |

The amounts recognised in the profit and loss account are as follows:

|   | <b>2014</b>  | <b>2013</b>  |
|---|--------------|--------------|
|   | <b>£'000</b> | <b>£'000</b> |
| Interest cost   | 1,372        | 1,416        |
| Expected return   | (1,635)      | (1,631)      |
| Current service cost                                    | <u>(263)</u> | <u>(215)</u> |
|   | 18           | 72           |
| Total amounts recognised in the profit and loss account | <u>(245)</u> | <u>(143)</u> |
| Actual return on plan assets                            | <u>1,700</u> | <u>2,721</u> |

The current service cost is included within administration expenses. The net impact of the interest cost and expected return on plan assets is included within net finance charges.

**NOTES TO THE FINANCIAL STATEMENTS**  
Year ended 31 March 2014

**28. EMPLOYEE BENEFIT OBLIGATIONS (continued)**

Changes in the present value of the Group's share of the defined benefit obligation are as follows:

|                                    | <b>2014</b>   | <b>2013</b>   |
|------------------------------------|---------------|---------------|
|                                    | <b>£'000</b>  | <b>£'000</b>  |
| Opening defined benefit obligation | 33,383        | 30,184        |
| Current service cost               | 18            | 72            |
| Interest cost                      | 1,372         | 1,416         |
| Actuarial losses                   | 1,923         | 3,187         |
| Benefits paid                      | (1,450)       | (1,476)       |
|                                    | <u>35,246</u> | <u>33,383</u> |

Changes in the fair value of the Group's share of the scheme assets are as follows:

|                                     | <b>2014</b>   | <b>2013</b>   |
|-------------------------------------|---------------|---------------|
|                                     | <b>£'000</b>  | <b>£'000</b>  |
| Opening fair value of scheme assets | 26,609        | 24,792        |
| Contributions by employer           | 135           | 572           |
| Expected return                     | 1,635         | 1,631         |
| Actuarial gains                     | 65            | 1,090         |
| Benefits paid                       | (1,450)       | (1,476)       |
|                                     | <u>26,994</u> | <u>26,609</u> |

The amounts recognised in the statement of total recognised gains and losses are as follows:

|                                       | <b>2014</b>     | <b>2013</b>    |
|---------------------------------------|-----------------|----------------|
|                                       | <b>£'000</b>    | <b>£'000</b>   |
| Actuarial losses                      | <u>(1,858)</u>  | <u>(2,097)</u> |
| Cumulative amount of actuarial losses | <u>(10,687)</u> | <u>(8,829)</u> |

The major categories of scheme assets as a percentage of total scheme assets are as follows:

|                    | <b>2014</b> | <b>2013</b> |
|--------------------|-------------|-------------|
|                    | <b>%</b>    | <b>%</b>    |
| Equities           | 32          | 42          |
| Cash               | 1           | 2           |
| Index linked gilts | 7           | 9           |
| Bonds              | 26          | 16          |
| Property           | 13          | 10          |
| Hedge funds        | 21          | 21          |
|                    | <u>100</u>  | <u>100</u>  |

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**28. EMPLOYEE BENEFIT OBLIGATIONS (continued)**

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

|                                  | <b>2014</b> | <b>2013</b> |
|----------------------------------|-------------|-------------|
|                                  | %           | %           |
| Discount rate                    | 4.40        | 4.20        |
| Inflation assumption (RPI)       | 3.30        | 3.30        |
| LPI 5% pension increases         | 3.30        | 3.30        |
| Revaluation in deferment         | 3.30        | 3.30        |
| Expected return on scheme assets | 6.30        | 6.30        |

The mortality assumptions used in the valuation of the defined benefit pension liabilities for the Group are determined using 100% of the S1NxA series tables with the CMI projection and long-term rate of improvement of 1.25% pa based upon the average year of birth of members.

The valuation of the defined benefit pension liabilities assumes members take 90% of their full tax free cash allowance (2013: 90%).

The expected return on plan assets is determined by considering the long-term returns and the balance between risk and reward on the various categories of investment assets held. Expected returns on equity and property investments reflect long-term rates of return experienced in the respective markets. Expected yields on fixed interest investments are based on gross redemption yields at the balance sheet date.

Amounts for the current and previous four periods are as follows:

|   | <b>2014</b> | <b>2013</b> | <b>2012</b> | <b>2011</b> | <b>2010</b> |
|---|-------------|-------------|-------------|-------------|-------------|
|   | £'000       | £'000       | £'000       | £'000       | £'000       |
| Defined benefit obligation                            | (35,246)    | (33,383)    | (30,184)    | (27,163)    | (27,346)    |
| Fair value of share of scheme assets                  | 26,994      | 26,609      | 24,792      | 24,812      | 24,320      |
| Deficit   | (8,252)     | (6,774)     | (5,392)     | (2,351)     | (3,026)     |
| Experience adjustments on share of scheme liabilities | (1,251)     | 45          | (197)       | (383)       | 1,708       |
| Experience adjustments on share of scheme assets      | 65          | 1,090       | (1,026)     | (505)       | 4,399       |

**Defined contribution scheme**

During the year the group made employer's contributions to the two defined contribution schemes totalling £161,000 (2013: £171,000).



## NATIONAL MILK RECORDS PLC

### NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2014

#### 29. CONTINGENT LIABILITIES

The Group has an overdraft facility of £700,000 which is secured by a fixed and floating charge over the assets of the Group. The directors do not anticipate that any material liabilities will arise.

The retirement benefit obligations referred to in note 28 relate to the Milk Pension Fund. NMR, together with other participating employers, is joint and severally liable for the scheme's obligations. As a result of this, NMR has a contingent liability for the scheme's obligations that it has not accounted for.

#### 30. CAPITAL COMMITMENTS

|                                 | <b>Group<br/>2014<br/>£'000</b> | <b>Group<br/>2013<br/>£'000</b> |
|---------------------------------|---------------------------------|---------------------------------|
| Contracted but not provided for | 157                             | -                               |

#### 31. RELATED PARTY TRANSACTIONS

##### Shareholders and directors

The Group provided services to some of its shareholders however due to their insignificant shareholdings they are not considered to be related parties. Two of the directors are also customers of National Milk Records Plc. Services provided to these directors during the year totalled £12,837 (2013: £9,469). The outstanding balance due from these directors at 31 March 2014 was £147 (2013: £nil).

##### Independent Milk Laboratories Limited

During the year the Group traded with Independent Milk Laboratories Limited (IML). This entity is a Joint Venture investment held by National Milk Records Plc and an entity outside the group.

At the year end the following balances arising from sales and purchases of goods and services existed with IML:

|                | <b>2014<br/>£'000</b> | <b>2013<br/>£'000</b> |
|----------------|-----------------------|-----------------------|
| Aged debtors   | 75                    | 175                   |
| Aged creditors | 37                    | 124                   |

During the year the Group traded with IML as follows:

|                              | <b>2014<br/>£'000</b> | <b>2013<br/>£'000</b> |
|------------------------------|-----------------------|-----------------------|
| Sales to IML                 | 113                   | 168                   |
| Sales of fixed assets to IML | 84                    | -                     |
| Purchase from IML            | 208                   | 124                   |

##### Milk Pension Fund

See disclosures in note 28.

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**32. SHARE BASED PAYMENT TRANSACTIONS**

The Company Share Option Plan (CSOP) was introduced in August 2010. Under the scheme, the directors can grant options over shares in the Company to employees of the Group. Options are granted with a fixed exercise price equal to the market price of the shares under the option at the date of grant. The contractual life of the options is ten years, and options granted under the scheme will become exercisable on the third anniversary of the date of grant, subject to continuous employment.

Options were valued using the Black-Scholes option pricing model. No performance conditions were included in the fair value calculations. The fair value per option granted and the assumptions used in the calculation are as follows:

|                           |                |
|---------------------------|----------------|
| Grant date                | 12 August 2010 |
| Share price at grant date | 28.00p         |
| Exercise price            | 28.00p         |
| Number of (ex) employees  | 4              |
| Shares under option       | 270,000        |
| Vesting period            | 3              |
| Expected volatility       | 20%            |
| Option life (years)       | 10             |
| Expected life (years)     | 5              |
| Risk free interest rate   | 5.0%           |
| Fair value per option     | <u>8.16p</u>   |

The expected volatility is based on historical volatility. The expected life is the average expected period to exercise. The risk free rate of return is the yield on a zero-coupon UK government bond of a term consistent with the assumed option life.

All options granted remain outstanding at 31 March 2014, however all have vested and are currently exercisable. The options outstanding at 31 March 2014 have a remaining contractual life of 6.25 years and an exercise price of 28.00p. The weighted average fair value of options granted as at 31 March 2014 was 8.16p. The share price and option exercise price above equate to the weighted average exercise and share price for the period.

The Group recognised a total expense of £1,677 (2013: £8,115) in relation to equity-settled share-based payments.

**33. ESOP TRUST**

The purchase of the shares owned by the Trust was funded by an interest free loan from National Milk Records Plc. All expenses incurred by the Trust are settled directly by National Milk Records Plc and recognised in the financial statements as incurred. The Trust currently holds 364,800 shares (2013: 364,800). At the balance sheet date there were 270,000 shares under option to (ex) employees (2013: 270,000).

The Company adopted UITF Abstract 38 "Accounting for ESOP Trusts" in 2004/05. The UITF requires the cost of shares held by ESOPs to be shown as a deduction from equity shareholders' funds, whereas they were previously shown as investments in the Company balance sheet. The current market value of the shares held by the ESOP Trust is approximately £165,000 (2013: £170,000). The cost of the shares, being £274,000, was deducted from shareholders funds through the profit and loss account.

**NATIONAL MILK RECORDS PLC**

**NOTES TO THE FINANCIAL STATEMENTS**  
Year ended 31 March 2014

**34. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY**

The Directors consider that the Group has no single controlling party.