NMR

Information Partnerships

NATIONAL MILK RECORDS PLC

Annual Report and Consolidated Financial Statements for the year ended 30 June 2019

Contents

Directors and Professional Advisors

DIRECTORS

Mr T Lloyd	*(Non-Executive)*
Mr M Butcher	*(Non-Executive)*
Mr A J Warne	*(Executive)*
Mr M C Frankcom	*(Executive)*
Mr M Gallacher	*(Non-Executive)*

SECRETARY

Mrs L Ward

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Chairman's Report

National Milk Records plc (NMR), the NEX Exchange Growth Market traded leading supplier of dairy and livestock information services, is pleased to announce its audited accounts for the 12-month period ended 30 June 2019.

This has been a good financial year for NMR and also we have made good progress in following our strategic development plan as well as making significant investments in our operational efficiency and capacity. I am pleased to report that we have delivered progressive development in revenue and Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) as well as improving our net debt position. Our Strategy Committee, has further developed our aspirational strategic plan which demonstrates NMR's potential to deliver significant capital growth from organic development and step wise projects.

The NMR Board is recommending a dividend payment of 1.25 pence per share (2019: 2.5 pence per share) for all shareholdings on the register on 18 October 2019, with an ex-dividend date of 17 October 2019. This level of dividend payment allows for further significant investment in our operational capacity and robustness during the financial year July 2019 to June 2020. If approved by shareholders at the AGM, the final dividend is expected to be paid on 21 November 2019.

The story from NMR is about investing in future growth and shareholders wishing to align with this strategy can join our Dividend Re-Investment Plan (DRIP). This plan gives shareholders the option to reinvest their dividend payments to buy more shares in the Company. It's an efficient low-cost scheme and more details can be found on page 11.

In my previous Chairman's statement, I reported on the fact that the UK dairy industry had been remarkably resilient to the 'Beast from the East' and the unusually hot and dry summer in 2018. I reported that NMR did not anticipate issues to arise from the fact that going into the winter of 2018/19 feed stocks were at an all-time low. This optimism was shown to be correct and Agriculture Horticultural Development Board (AHDB) has reported that overall milk production in the UK during 2019/20 was in fact at a 29-year high. This high level of production was in part caused by farmers feeding high energy purchased feed to their herds to replace the lack of home-grown forage.

I am writing this statement in a period of uncertainty over the timing and the terms of the UK's exit from the EU. You will be reading this statement in mid-October prior to planned Brexit day and our AGM will be held after the planned Brexit day. I wonder if at either date we will be any the wiser. Hopefully shareholders will understand my difficulty in answering the question; "How will Brexit affect NMR?". To try and give shareholders an understanding on whether Brexit will be good or bad for NMR I will first say as an integrated and integral service provider to the UK dairy industry the prosperity of NMR is closely aligned to the health of the UK dairy industry. I will focus on the things we do know rather than the things we don't.

Investment is all about the long term and so my comments are aimed at the next 3 years rather than next 3 weeks. The UK dairy sector is one of the most efficient in Europe and is competitive globally. On a global scale the per capita consumption of dairy is growing. There are exciting and innovative dairy products and markets to develop around the globe. UK dairy processors are investing in UK processing capacity and require good quality and efficient dairy farmers to provide the raw material for processing. Over a 3 year period the NMR board is optimistic in the future of the UK dairy sector and is investing appropriately to capitalise on this optimism.

I am sure the UK dairy sector will not be immune from short term issues regarding uncertainty and confusion particularly if there is a no deal Brexit. As an example, in the event of no deal the current understanding is that UK would not impose any tariff on cheese imported from the EU but the EU would levy 45% on cheese imported from the UK. As another example there are approximately 80 road tankers of raw liquid milk which move from Northern Ireland into the Republic of Ireland each day to be processed. Both examples demonstrate there is plenty of work to be done in the run up to Brexit day.

All markets must be aware of the needs and concerns of their ultimate consumer. UK grocery shoppers are discerning and demanding. The increased pressure for food provenance and safety as well as animal welfare and environmental awareness increases the demand for NMR services at the farm gate level. NMR's direct relationship with the UK grocery retailers as well as the UK's dairy farmers gives NMR a unique position to capitalise on this increased demand.

This is my second statement as Chairman of NMR and I am proud of our continuing achievements. I would like to thank all the NMR employed staff and self-employed milk recorders for their hard work during the year.

Trevor Lloyd
Chairman

9 October 2019

Directors' Biographies

From left to right: Andy Warne, Mike Gallacher, Trevor Lloyd, Mark Butcher and Mark Frankcom

Andy Warne – Managing Director

Andy joined NMR as the Managing Director in 2002 and at the same time joined the Milk Pension Fund acting as a Trustee. He acted as the Chairman of the Milk Pension Fund between 2009 and 2013. Andy's previous managerial roles include the European Managing Director of TNT Container Logistics and Managing Director of Arca Systems UK. Andy graduated with a BSC in Applied Biology. Whilst at NMR Andy has managed the process by which the business has restructured to focus on its core competence in milk recording and built a new business offering based on payment testing.

Mike Gallacher – Non-Executive Director

Mike was CEO of First Milk Limited, the UK's largest Dairy Cooperative, and Managing Director of Mars Petcare, part of Mars Inc. He also worked in regional leadership positions in both Asia Pacific and Europe. Mr Gallacher holds an honours degree in Economics and attended the Royal Military Academy Sandhurst, serving for eight years as a Captain. Mike holds postgraduate qualifications from Cranfield University and Henley Management College. Mike is also Chief Executive Officer of Safestyle UK plc.

Trevor Lloyd – Chairman

Trevor has over 10 years experience as a non-executive director on various dairy industry boards and is a partner in a dairy farming business, currently milking 350 cows in North Wales. He was appointed by the Minister for Farming to serve on the Milk Development Council from 2003-2007 and then Dairy Co. from 2006-2009 and was also Chairman of MDCel. He has extensive experience of agricultural politics serving for 15 years in various industry organisations including the National NFU Dairy Board, Welsh NFU Dairy Board and the NFU Welsh Council. Trevor is currently a regional director of the NFU Mutual Insurance Society Ltd.

Mark Butcher – Independent Non-Executive Director

Mark has over 20 years experience working in the City, he was an executive director of GPG (UK) Holdings plc as well as a non-executive director for a number of public and private companies. He has wide experience in international accounting, corporate finance and banking transactions and has served on the Boards of Autologic Holdings plc, Newbury Racecourse plc and Nationwide Accident Repair Services plc. He graduated with a Bachelor of Commerce degree from the University of Cape Town and qualified as a Chartered Accountant in South Africa.

Mark Frankcom – Finance Director

Mark joined NMR in September 2016. He qualified as an accountant in 1993, and has experience across a broad range of industries, including FMCG, telecoms and motor trade. In 2005 Mark joined Milk Link as a Director of Finance, having senior responsibility for financial stewardship and restructuring during a time of critical changes in the UK dairy industry. More recently Mark has been co-owner and Managing Director of an award-winning micro-brewery. In 2008 Mark was admitted as a fellow of the institute of management accountants becoming FCMA.

Strategic Report – Managing Director’s Review

To the members of National Milk Records plc

Cautionary Statement

This Strategic Report has been prepared to provide additional information to shareholders to assess the Group’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 reasonable 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.

The business model

The NMR Group comprises four key revenue streams: Farm services including milk recording and disease testing; Processor services including payment testing; Traceability services mainly ear tags; and Reproductive services including heat detection and genomics. We also have a Joint Venture in the Republic of Ireland, iML, providing predominantly payment testing and disease services for the island of Ireland.

	Turnover £’000s	
	2018	**2019**
Farm	15,527	16,190 (+ 4.3%)
Processor	4,028	4,034 (+ 0.1%)
Traceability	1,087	1,435 (+ 32%)
Reproductive	763	1,139 (+ 49.3%)

Trading Report and KPIs

The general market and trading conditions for the UK dairy sector in the last 12 months have been somewhat unique. Overall production of raw milk was at a 29 year high as dairy farmers fed high energy alternative feeds to their cows due to the low levels of home-grown forage carried into the winter. This high level of production was achieved with 2% fewer cows each producing 1.5% more milk. Our charging model is linked to cow numbers rather than production and our direct milk recording revenues have suffered from the reduced cow numbers albeit supplemented by added value services such as Johnes disease screening.

NMR’s strategic plan is based on the market environment assumption that continued consumer pressure will lead to increasing scrutiny of animal welfare and food safety. This will lead to increased demand for the recording services provided by NMR. We believe the services NMR offers are essential to ensuring a profitable future for a dairy farm. It is often an overused adage but what you “can’t manage what you can’t measure” applies to a dairy farm. Using regular milk recording to measure the performance and individual traits for individual cows supports breeding decisions which demonstrably improve individual and herd profitability. As UK dairy continues to consolidate and modernise, NMR’s services improve on-farm decision-making as farmers increasingly rely on data to make the best investment decisions.

Herdwise is NMR’s screening service for managing Johne’s disease, a pervasive and wasting infection of cattle. In June 2019, NMR had 2,051 herds regularly using our Johne’s screening services compared to 1,952 a year earlier. Red Tractor is an assurance scheme to which 98% of GB dairy farmers comply. Red Tractor has recently announced a requirement for participating farmers to follow a recognised Johnes control strategy in the next 12 months. NMR is anticipating the pace of Herdwise registrations to continue.

Supporting dairy processors with testing, assurance and provenance services is also an area of growth and opportunity. The demands of retailers is increasing and we are partnering with processors under the NML brand with innovative services such as using our own software developments to match payment data to collection volumes, and testing for thermoduric bacteria which reduce shelf life of fresh milk. In addition, we are examining how we support the processors with their desire for greater transparency for managing anti-microbial resistance (AMR).

NMR cannot be complacent about the fact pure milk recording revenue has slipped despite a favourable market environment. Cow numbers have played a role however we must be proactive in organising our Field resources to sell and support new services to existing customers and create new relationships with new recording customers. We cannot simply wait for cow numbers to increase or for non-recording customers to contact us. Our national field based infra-structure is an asset for NMR and we need to ensure we evolve our field structure to reflect the consolidating and more demanding profile of UK dairy farms.

Strategic Report – Managing Director's Review (continued)

Investment in new laboratory equipment is designed to deliver increased resilience, capacity and efficiency. During the year we have invested in £1.262 million (2018 £0.801 million) including new liquid handling robots as well as continuing to renew our fleet of milk analysis equipment. This investment programme has contributed to an improvement in % EBITDA to 12.1% (2018: 11.2%).

A key activity in the year has been our investment in IT resources. Three key projects are the implementation of a new Laboratory Information Management system, a new Enterprise Resource Planning system and an upgrade to Office 365. This work will continue during the next financial period to improve the robustness, effectiveness and efficiency of our operations.

In addition to our Key Financial Indicators, Laboratory Processing Time (LPT) is a key performance indicator for the group as it differentiates us from our main competitor. In the 12 month period to June 2019, Lab processing time was 6.7 hours, slightly higher than the previous year (5.9 hours).

Future Developments

The genomic testing of dairy animals is a key development area for NMR. There is a strategic fit between NMR's core competence in providing management information to dairy farmers and this emerging technology. As well as an established customer base we have the lab processing capability and the strategic relationship with key suppliers which enable us to deliver growth in this sector. Genomics also enables NMR to plan new areas of development which will provide innovation in our core milk recording sector.

Our strategic plan is based on organic growth and innovation in our two core market sectors; milk processors and dairy farmers. Growth is provided by both increasing market share and an anticipated increasing market size due to a greater requirement for testing services.

Approval

This report was approved by the Board of Directors on 9 October 2019 and is signed on its behalf by:

Andy Warne
Managing Director

Strategic Report – Group Financial Review

Summary

- Group revenue of £22.8 million, up 6.5% on 2018
- EBITDA of £2.8 million, up 16%
- Profit Before Tax of £2.4 million, up 21%
- Diluted EPS of 9.4 pence (2018: 8.6 pence)
- Net debt down to £1.7 million, only 0.6 times EBITDA
- Proposed dividend of 1.25 pence per share

Group Results

Group revenue increased by 6.5% to £22.8 Million (2018: £21.4 million). Key drivers included a genomics contract and grant-aided purchases of heat-detection systems both in the first quarter of the financial year in addition, we have seen sustained growth in our core farm services sector, and traceability services following the growth of BVD testing, a wasting disease of cattle. Operating Profit increased by 19.8% to £2.269 million, efficiently converting £0.4 million of the £1.4 million of revenue growth into profit.

The tax charge in the year is £0.42 million, giving an Effective tax rate of 17.5% (2018: 8.4%). The principal difference year on year being the impact of the reduced future corporation tax rate on our deferred tax asset.

Basic earnings per share (EPS) has increased by 0.8 pence to to 9.5 pence, and with no change in shares in issue or their dilution, diluted EPS has grown to 9.4 pence (2018: 8.6 pence). The proposed full year dividend per share is 1.25 pence (2018: 2.5 pence). The proposed reduction is to support an accelerated investment programme of replacement and efficiency projects in our two laboratories, and the digital transformation programme to replace our primitive Finance and CRM systems with Microsoft Dynamics 365.

Balance Sheet Summary

Net Assets increased in the year by 65% to £4.033 million (2018: £2.443 million). This reflects the sound trading performance during the year, with profits of £1.988 million (2018: £1.827 million) less dividend paid of £0.521 million (2018: Nil).

Working capital shows a slight increase, up by £0.074 million in the year. The uplift in stocks reflects the decision to carry a greater level of consumables supplied from Europe as we have managed stock in advance of the various Brexit deadlines over the last 6 months or so. In addition, year-end trade creditors balance has fallen as we have tightened up supplier payments and moved the payment schedule forward by about a week. These two working capital requirements are partially offset by the tax losses carried forward from the MPF exit being utilised to settle the FY19 tax charge, resulting in a £0.445 million reduction in this deferred tax asset (and no Corporation Tax paid).

Net debt at June 2019 was £1.656 million (2018: £2.147 million), a reduction of £0.491 million, and now represents only 0.6 times EBITDA, down from 0.9x in 2018.

Cashflow and banking facilities

NMR has had a significant year in terms of cashflow. We have generated EBITDA of £2.761 million (2018: £2.400 million), invested £1.262 million in new capital projects (2018: £0.801 million), paid a £0.521 million dividend (2018: Nil) and still reduced net debt by £0.491 million. Debt facilities comprise a 7-year term loan taken out to help finance the exit from the Milk Pension Fund in June 2017 (MPF exit), a small balance on asset finance agreed with the bank as part of the MPF exit, finance lease balances of our fleet vehicles on cars and small vans, and a small overdraft facility which was not utilised in 2019.

Going Concern

We have reviewed the current liquidity and debt facilities against the projected budget for 2020 and financial plan for 2021 and have run various sensitivity analyses, including trading, investment, and financing cashflows. Based on this assessment, the Directors have a reasonable expectation that the Group has adequate resources to continue its operational existence for the foreseeable future and for a period of at least 12 months from the date of this report. Accordingly, the Directors continue to adopt and consider appropriate the going concern basis in preparing the Annual Report.

Mark Frankcom
Finance Director

The directors present their report with the financial statements of the Company and the Group for the year ended 30 June 2019.

Principal Risks and Uncertainties

The Group's principal financial assets are buildings, plant and equipment, 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 cash flows.

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 a cyber security breach is very real and crystallised In September 2019 with a virus attack on core NMR systems that resulted in an interruption to NMR services to customers and a corresponding risk to earnings. This was reported in a market announcement on 25 September 2019. NMR's management of these risks is to accelerate our programme of digital transformation; including upgrade of Finance and CRM systems to Dynamics 365, launch of new cloud-based HR and payroll system, and moving all user account management to a new domain controller. The acceleration of the transformation is accompanied by the fortification and consolidation of our Disaster Recovery and Business Continuity capability: the business approach must be to expect an attack and be ready to respond in the most effective way possible.

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.

Corporate and social responsibility

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 people management is an important strategy for the business. The Group's staff policies are formulated and kept up to date by the Group Human Resources Manager, authorised by the Board and communicated to all employees via the Staff Handbook and various news channels which are 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.

Gender split of employees:

	Total 2019	Female 2018	Male 2018
Directors	**5**	**0**	**5**
	(2018: 5)	(2018: 0)	(2018: 5)
Senior Managers	**4**	**1**	**3**
	(2018: 4)	(2018: 1)	(2018: 3)
Other employees	**270**	**145**	**125**
	(2018: 273)	(2018: 145)	(2018: 128)
TOTAL	**279**	**146**	**133**
	(2018: 282)	(2018: 146)	(2018: 136)

Corporate Governance

Following the change of ownership of NEX Exchange in July 2019, and in order to comply with the new rules of the exchange, the Directors elected to adopt the Quoted Companies Alliance Corporate Governance Code ('the QCA code') insofar as appropriate in relation to the nature and size of the company. We believe that the Company already adopts most of the principles of the QCA code, and we are working with our Corporate Advisors to assure and better articulate our compliance.

Board of Directors

The Board comprises two executive directors and three non-executive directors, one of whom is a farmer. 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 Finance Director, 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 appointment 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.

A full list of directors serving during the period is included on page 9.

Remuneration Committee

The Remuneration Committee at 30 June 2019 comprised T Lloyd, M Butcher and M Gallacher with T Lloyd as Chairman. Its task is to determine the remuneration and other benefits of the Company's Chairman, Managing Director, Finance Director and designated senior managers. Remuneration of the non-executive directors is determined by the Chairman and Managing Director.

Audit Committee

The Audit Committee at 30 June 2019 comprised T Lloyd, M Gallacher and M Butcher with M Butcher as the Chairman. The committee is always attended by the Finance Director and Managing Director. Its principal role is to monitor the integrity of the financial statements of the Group, reviewing significant reporting issues and judgements which they contain, and to review a register of the principal risks of the business together with their associated management and mitigation.

Nomination Committee

The Nomination Committee at 30 June 2019 comprised T Lloyd, M Butcher, A Warne and M Gallacher, with T Lloyd acting 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.

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 the distribution of the annual and interim 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 in 2004. It is open to all employees and includes provision for matching and free shares provided by the Company.

Board attendance of directors

Number of meetings in period ended 30 June 2019: 11 (2018: 8).

The attendance of directors, who served during the year and subsequently to the date of this report were as follows:

Mr T Lloyd	100%
Mr M Butcher	100%
Mr A J Warne	100%
Mr M C Frankcom	100%
Mr M Gallacher	100%

Substantial Shareholdings

Schedule of Shareholders at 30 June 2019 and 30 June 2018 with shareholdings of greater than 3%:

	2019		*2018*	
	Shares	***%***	*Shares*	*%*
Aurora Nominees Limited	**6,310,000**	**29.71**	6,310,000	29.71
Livestock Improvement Corporation (UK) Ltd	**4,194,880**	**19.75**	4,194,880	19.75
PH Nominees Limited	**2,120,000**	**9.98**	2,120,000	9.98
ROY Nominees Limited	**1,692,334**	**7.97**	2,942,334	13.85
Hargreaves Lansdown (Nominees) Limited	**872,093**	**4.10**	655,607	3.09

Dividends

As outlined in the Chairman's statement, the directors are recommending the payment of a final dividend in relation to the period ended 30 June 2019 of 1.25 pence per share (2018: 2.5 pence), an aggregate amount of £265,000 (2018: £531,000). The full timetable for payment of the dividend is included on page 11. Earnings per ordinary share are disclosed on the face of the Consolidated Profit and Loss Account and in Note 8 to the accounts.

Directors' qualifying third party indemnity provision

The Group and 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 the Directors' Report.

Political donations

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

Directors' Report (continued)

Auditor

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 ought to have taken as a director in order to make himself 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 2019 Annual General Meeting.

Approved by the Board and signed on its behalf by:

AJWarne

Mr A J Warne
Director

9 October 2019

Annual General Meeting and Dividend Timetable 2019

10 October	Approve and sign balance sheet and Publish Report and Accounts
17 October	ex-Dividend date
18 October	Record date
31 October	Closing date for DRIP election
05 November	Annual General Meeting
21 November	Dividend payment date

Subject to approval of the ordinary resolution, paying a dividend for the second year in succession demonstrates the reliability of NMR's earnings. The reduction in pence per share proposed, reflects the ambition of the Board to take the opportunities we have in front of us for future growth and efficiency. For a large number of NMR shareholders who hold 320 shares, a 1.25 pence dividend means a payment of £4.00.

We encourage shareholders to sign up to the DRIP scheme which means reinvesting their dividend payment to buy more shares and avoids both us and the shareholder having to process a relatively small payment. We have enclosed a leaflet about the DRIP scheme which we ask you to read and sign if you agree this is an efficient way to receive the dividend. It's also a convenient and low-cost way to keep investing in NMR.

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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and group and of the profit or loss of the company and group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's and group's transactions and disclose with reasonable accuracy at any time the financial position of the company and group 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 group 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.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with United Kingdom Generally Accepted Accounting Practice, FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report together with the Group Financial Review present a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole
- the Directors' Report includes a description of the principal risks and uncertainties that the business faces; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.

This responsibility statement was approved by the board of directors on 9th October 2019 and is signed on its behalf by:

Mr A J Warne
Director

Independent Auditor's Report to the Members of National Milk Records plc

Report on the audit of the financial statements

Opinion

In our opinion:

- **the financial statements of National Milk Records plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2019 and of the group's profit for the year then ended;**
- **the group financial statements and parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and**
- **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements which comprise:

- the consolidated profit & loss account;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated statement of cash flows; and
- the related notes 1 to 29.

The financial reporting framework that has been applied in the preparation of the group financial statements and parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • *Revenue – occurrence of sales as recorded in the last month of the financial year and completeness of the year end credit note provision*.
Materiality	The materiality that we used for the group financial statements was £190,000 (2018: £320,000) which was determined on the basis of profit before tax.
Scoping	The group audit team has carried out a full audit on the parent entity, National Milk Records plc which accounts for all of the group's revenue, profit and net assets (excluding investments and the share of profit in joint ventures – see below).

	The group audit team has also carried out a review and specified procedures on the joint venture, Independent Milk Laboratories Ltd, which makes up the share of profit in joint ventures within the consolidated profit & loss account, and 96% of the group's NBV of fixed asset investments.
Significant changes in our approach	In the current year a new key audit matter has been identified. This is occurrence of sales as recorded in the last month of the financial year and completeness of the year end credit note provision. In addition, a different basis for determining materiality was used. In the current year, profit before tax was used as the new basis, compared to the prior period in which revenue was used.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where: • the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or • the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.	**We have nothing to report in respect of these matters.**

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

A new key audit matter was identified in the current year around the occurrence of sales as recorded in the last month of the financial year and completeness of the year end credit note provision. In addition, the key audit matter from the prior year around the accuracy and occurrence of credit notes has not been included in the current year as a key audit matter.

Revenue - Occurrence of sales as recorded in the last month of the financial year and completeness of the year end credit note provision	
Key audit matter description	The nature of the business results in a large number of invoices being raised. Subscription customers are generally invoiced in advance at the beginning of the month based on the number of cows within the herd at the last recording. This inevitably fluctuates from the tests that are actually performed. The average monthly value of subscription invoices raised in advance is £1.2m. Management does provide for these variances within the credit note provision to avoid cut-off issues. However, there is a risk of material misstatement around the occurrence of sales as recorded in the last month of the financial year and that the credit note provision at year end is not complete and sufficient to cover these fluctuations in actual herd numbers tested.

	In addition, the process for raising credit notes is highly manual and reliant upon sales representatives informing finance of the necessary adjustment by ad hoc method which further increases the risk around revenue occurrence and completeness of the credit note provision at year end. For further details see accounting policies note 1 and note 2 on revenue.
How the scope of our audit responded to the key audit matter	We performed the following procedures: • Tested the design and implementation of controls around revenue recognition • Agreed a sample of credit notes issued post-year-end to supporting documentation from sales representatives and then reviewed the sufficiency of the credit note provision in light of post-year-end credit notes raised relating to FY19 income • Selected a sample of credit notes issued during the year and agreed them to the original credit note, monthly laboratory reports, and requests from farmers to raise the credit note. We have then assessed the level of these which related to the prior year to gain an expectation for the current year end credit note provision. • Tested a sample of invoices that had not yet been settled in cash, reconciled them to information from the milk recorder and the information held in the lab system in order to prove that a test has taken place and that tests for the revenue recognised have occurred. • Critically assessed the company's revenue accounting policies for each revenue stream and tested their application
Key observations	Based on the work performed we concluded that revenue is appropriately stated and noted no issues with the occurrence of revenue or completeness of the credit note provision at year end. In addition, the disclosures within the financial statements are appropriate.

Our application of materiality

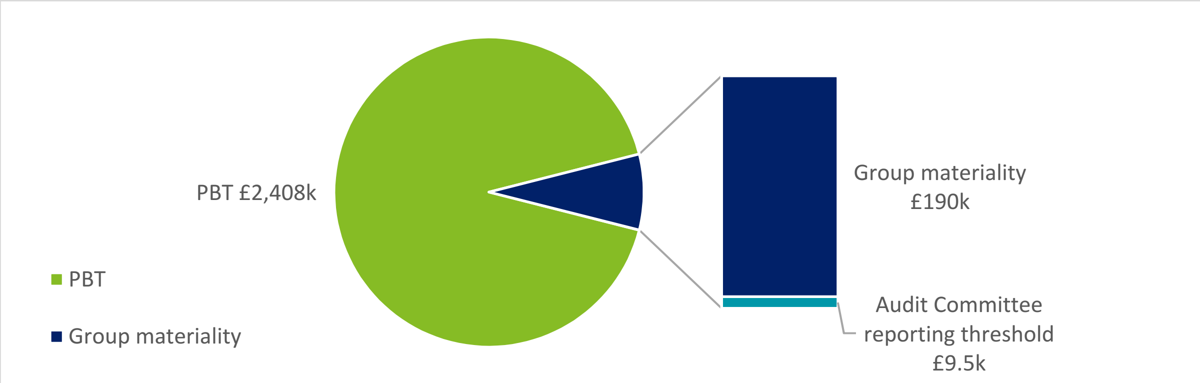
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£190,000 (2018: £320,000)	£169,000 (2018: £316,800)
Basis for determining materiality	In the current year audit we determined group materiality based on 8.00% of group pre-tax profit. In the prior year audit group materiality was determined based on 1.50% of group revenue.	In the current year audit, parent company materiality represented 7.02% of group pre-tax profit. In the prior year audit parent company materiality represented 1.48% of revenue. Materiality was capped at 99.00% of group materiality in both years.

Independent Auditor’s Report (continued)

Rationale for the benchmark applied	In the current year we determined materiality based on pre-tax profit as there is increased focus in the current year on this metric by management, and this is a key metric to investors, analysts and lenders.

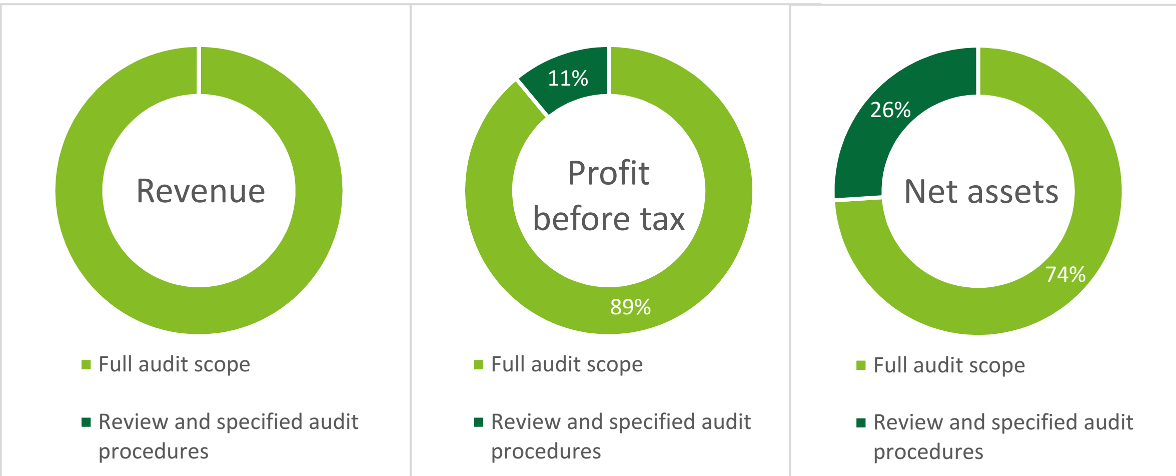


We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £9,500 (2018: £16,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. In the current year the active components of the group were the parent company, National Milk Records plc, and joint venture, Independent Milk Laboratories Limited. The group is also made up of a number of subsidiary undertakings which were dormant within the current year.

The parent company is located in the United Kingdom, and audited directly by the group audit team. The parent company accounts for all profits and net assets within the current year, excluding the share of profits from the joint venture IML, and the investments. The joint venture is located within Ireland, and the group audit team have completed a review and specific procedures on this entity. There were no component auditors used during the audit.



Other information

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

We have nothing to report in respect of these matters.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of directors

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

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- 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.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

Use of our report

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

Andrew Wright, FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Bristol, United Kingdom
9th October 2019

Consolidated Profit & Loss Account
Year ended 30 June 2019

	Note	*2019* *£'000*	*2018* *£'000*
Revenue	2	**22,798**	21,405
Cost of sales		**(13,066)**	(10,125)
Gross Profit		**9,732**	11,280
Administrative expenses		**(7,463)**	(9,387)
Operating Profit	5	**2,269**	1,893
Share of profit in joint ventures	11	**265**	243
		2,534	2,136
Net finance cost	6	**(126)**	(145)
Other gains and losses		**—**	3
Profit Before Tax		**2,408**	1,994
Tax	7	**(420)**	(167)
Profit for the Year		**1,988**	1,827
Earnings per share (pence)	8		
Basic		**9.5**	8.7
Diluted		**9.4**	8.6

Consolidated Statement of Comprehensive Income
Year ended 30 June 2019

	2019	*2018*
	£'000	*£'000*
Profit for the Year	**1,988**	1,827
Exchange rate gain	**7**	4
Total Comprehensive Income for the Year	**1,995**	1,831

Consolidated Balance Sheet
At 30 June 2019

	Note	2019 £'000	2019 £'000	2018 £'000	2018 £'000
FIXED ASSETS					
Intangible assets	9		**803**		358
Tangible assets	10		**2,849**		2,524
Investments	11		**1,081**		862
			4,733		3,744
CURRENT ASSETS					
Stock	12	**417**		222	
Debtors – due within one year	13	**2,878**		2,896	
Debtors – due after one year	13	**1,316**		1,761	
Cash at bank and in hand		**1,412**		1,551	
		6,023		6,430	
CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR	14	**(4,026)**		(4,507)	
NET CURRENT ASSETS			**1,997**		1,923
TOTAL ASSETS LESS CURRENT LIABILITIES			**6,730**		5,667
CREDITORS AMOUNTS FALLING DUE AFTER ONE YEAR	15		**(2,416)**		(2,968)
PROVISION FOR LIABILITIES	18		**(281)**		(256)
NET ASSETS			**4,033**		2,443
CAPITAL AND RESERVES					
Called-up share capital	19		**53**		53
Own Shares	20		**(195)**		(195)
Profit and loss account	20		**4,175**		2,585
SHAREHOLDERS' FUNDS			**4,033**		2,443

The financial statements of National Milk Records Plc, registered number 03331929, were approved by the Board of Directors and authorised for issue on 9 October 2019.

Signed on behalf of the Board of Directors

Mr A J Warne
Director

Company Balance Sheet
At 30 June 2019

	Note	2019 £'000	2019 £'000	2018 £'000	2018 £'000
FIXED ASSETS					
Intangible assets	9		**803**		358
Tangible assets	10		**2,849**		2,524
Investments	11		**221**		221
			3,873		3,103
CURRENT ASSETS					
Stock	12	**417**		222	
Debtors – due within one year	13	**2,878**		2,896	
Debtors – due after one year	13	**1,316**		1,761	
Cash at bank and in hand		**1,412**		1,551	
		6,023		6,430	
CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR	14	**(4,026)**		(4,507)	
NET CURRENT ASSETS			**1,997**		1,923
TOTAL ASSETS LESS CURRENT LIABILITIES			**5,870**		5,026
CREDITORS AMOUNTS FALLING DUE AFTER ONE YEAR	15		**(2,416)**		(2,968)
PROVISION FOR LIABILITIES	18		**(281)**		(256)
NET ASSETS			**3,173**		1,802
CAPITAL AND RESERVES					
Called-up share capital	19		**53**		53
Own Shares	20		**(195)**		(195)
Profit and loss account	20		**3,315**		1,944
SHAREHOLDERS' FUNDS			**3,173**		1,802

The financial statements of National Milk Records Plc, registered number 03331929, were approved by the Board of Directors and authorised for issue on 9 October 2019.

As permitted by Section 408 of the Companies Act 2006, the profit and loss account and statement of comprehensive income of the parent Company is not separately presented as part of these financial statements. The parent Company's profit for the financial year was £1,776,000 (2018: £3,532,000, including £3,508,000 following the hive-up of subsidiary companies).

Signed on behalf of the Board of Directors

AJWarne

Mr A J Warne
Director

Consolidated Statement of Changes in Equity
Year ended 30 June 2019

GROUP	*Called-up share capital £'000*	*Share premium £'000*	*Share option reserve £'000*	*Own Shares £'000*	*Profit and loss account £'000*	*Total £'000*
At 30 June 2017	2,124	7,426	22	(195)	(8,830)	547
Capital reduction of par value from 10p to 0.25p per ordinary share	(2,071)	—	—	—	2,071	—
Cancellation of share premium account	—	(7,426)	—	—	7,426	—
Reclassify share option reserve	—	—	(22)	—	22	—
Credit to equity for equity-settled share-based payments	—	—	—	—	65	65
Profit for the year	—	—	—	—	1,827	1,827
Other comprehensive income for the year	—	—	—	—	4	4
Total comprehensive income for the year	—	—	—	—	1,831	1,831
At 30 June 2018	53	—	—	(195)	2,585	2,443
Credit to equity for equity-settled share-based payments	—	—	—	—	116	116
Profit for the year	—	—	—	—	1,988	1,988
Other comprehensive income for the year	—	—	—	—	7	7
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**1,995**	**1,995**
Dividends	—	—	—	—	(521)	(521)
At 30 June 2019	**53**	**—**	**—**	**(195)**	**4,175**	**4,033**

Company Statement of Changes in Equity
Year ended 30 June 2019

COMPANY	*Called-up share capital £'000*	*Share premium £'000*	*Share option reserve £'000*	*Own Shares £'000*	*Profit and loss account £'000*	*Total £'000*
At 30 June 2017	2,124	7,426	22	(195)	(11,176)	(1,799)
Capital reduction of par value from 10p to 0.25p per ordinary share	(2,071)	—	—	—	2,071	—
Cancellation of share premium account	—	(7,426)	—	—	7,426	—
Reclassify share option reserve	—	—	(22)	—	22	—
Credit to Equity for equity-settled share-based payments	—	—	—	—	65	65
Profit for the year	—	—	—	—	3,532	3,532
Other comprehensive income for the year	—	—	—	—	4	4
Total comprehensive income for the year	—	—	—	—	3,536	3,536
At 30 June 2018	53	—	—	(195)	1,944	1,802
Credit to equity for equity-settled share-based payments	—	—	—	—	116	116
Profit for the year	—	—	—	—	1,776	1,776
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**1,776**	**1,776**
Dividends	—	—	—	—	(521)	(521)
At 30 June 2019	**53**	**—**	**—**	**(195)**	**3,315**	**3,173**

Consolidated Statement of Cash Flows
Year ended 30 June 2019

		2019		2018	
	Note	£'000	£'000	£'000	£'000
Cash flows from operating activities					
Operating Profit	5		**2,269**		1,893
Amortisation of intangible assets	9	**43**		8	
Write off intangible assets		**—**		126	
Share option vesting expense		**—**		13	
Amortisation of loan expenses		**11**		12	
Depreciation of tangible assets	10	**449**		507	
Profits on disposal of tangible assets		**—**		(23)	
Increase of warranty provision		**—**		45	
Increase in trade and other debtors		**(97)**		(140)	
Increase in stocks		**(195)**		(38)	
(Decrease)/Increase in creditors		**(403)**		392	
			(192)		902
Income taxes refunds received			**188**		—
Cash from operations			**2,265**		2,795
Cash flows from investing activities					
Dividend received from Associate	11	**53**		52	
Purchase of tangible assets	10	**(774)**		(801)	
Purchase of intangible assets	9	**(488)**		—	
Proceeds from sale of tangible assets		**—**		47	
			(1,209)		(702)
Cash flows from financing activities					
New bank loans raised		**—**		251	
Dividends paid		**(521)**		—	
Lease finance paid down		**(148)**		(173)	
Interest paid		**(129)**		(145)	
Loan repayments		**(513)**		(986)	
Proceeds on exercise of share options		**116**		52	
			(1,195)		(1,001)
Net (decrease)/increase in cash and cash equivalents			**(139)**		1,092
Cash and cash equivalents at beginning of year			**1,551**		459
Cash and cash equivalents at end of year			**1,412**		1,551

Notes to the Financial Statements
Year ended 30 June 2019

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

National Milk Records Plc (the Company) is a Company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the Company's registered office is shown on page 2.

The principal activities of the Company and its subsidiaries (the Group) and the nature of the Group's operations are set out in the strategic report on pages 5 to 7.

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of National Milk Records Plc is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates. The consolidated financial statements are also presented in pounds sterling. Foreign operations are included in accordance with the policies set out below.

The following dormant subsidiaries of the Company have taken advantage of the Companies Act 2006 Section 394A exemption from preparing individual accounts. These subsidiaries are exempt from the requirement to prepare individual accounts by virtue of this section.

Subsidiary Name	*Companies House Registration Number*
National Livestock Records Limited	03191216
National Milk Laboratories Limited	SC145660
Nordic Star Limited	03231923

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary and joint venture undertakings drawn up to 30 June each year.

The joint venture is accounted for using the equity method in the consolidated accounts and using the cost-method in the company balance sheet.

Going concern

The directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Therefore, 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 Group Financial Review.

Turnover

Turnover is stated net of value added tax and trade discounts. 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 joint venture originates from other EU countries. 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.

1. ACCOUNTING POLICIES (continued)

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, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Freehold buildings	5% – 10%
Leasehold buildings	20% – 33%
Computer equipment and machinery	10% – 33%
Motor vehicles	over the term of the lease

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.

Intangible fixed assets

Research expenditure is written off as incurred. Development costs have been capitalised in accordance with FRS 102 Section 18 Intangible Assets other than Goodwill and are therefore not treated, for dividend purposes, as a realised loss. This includes software development. In such cases the identifiable asset is amortised on a straight-line basis over the period during which the Group is expected to benefit. This period is between three and five years. Provision is made for any impairment.

Grant income

Grant income is 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.

Impairment of assets

Non-financial assets

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Financial assets

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

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.

1. ACCOUNTING POLICIES (continued)

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 Other Comprehensive Income.

Hire purchase and leasing commitments

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the group. All other leases are classified as operating leases.

Assets held under finance leases are recognised initially at the fair value of the leased asset (or, if lower, the present value of minimum lease payments) at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation using the effective interest method so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are deducted in measuring profit or loss. Assets held under finance leases are included in tangible fixed assets and depreciated and assessed for impairment losses in the same way as owned assets.

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.

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 reasonably certain that reimbursement will be received, and the amount of the receivable can be measured reliably.

Provisions against receivables

Provisions are made specifically against debtors where these is evidence of a dispute or an inability to pay. An additional provision is made on an analysis of balances by age.

1. ACCOUNTING POLICIES (continued)

Pension costs

At the balance sheet date, the Group operates a defined contribution pension scheme. 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.

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.

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

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.

Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt instruments which meet the following conditions are subsequently measured at amortised cost using the effective interest method:

a. The contractual return to the holder is (i) a fixed amount; (ii) a positive fixed rate or a positive variable rate; or (iii) a combination of a positive or a negative fixed rate and a positive variable rate.

b. The contract may provide for repayments of the principal or the return to the holder (but not both) to be linked to a single relevant observable index of general price inflation of the currency in which the debt instrument is denominated, provided such links are not leveraged.

c. The contract may provide for a determinable variation of the return to the holder during the life of the instrument, provided that (i) the new rate satisfies condition (a) and the variation is not contingent on future events other than (1) a change of a contractual variable rate; (2) to protect the holder against credit deterioration of the issuer; (3) changes in levies applied by a central bank or arising from changes in relevant taxation or law; or (ii) the new rate is a market rate of interest and satisfies condition (a).

d. There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.

1. ACCOUNTING POLICIES (continued)

Financial instruments (continued)

e. Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in levies applied by a central bank or arising from changes in relevant taxation or law.

f. Contractual provisions may permit the extension of the term of the debt instrument, provided that the return to the holder and any other contractual provisions applicable during the extended term satisfy the conditions of paragraphs (a) to (c).

Debt instruments that are classified as payable or receivable within one year on initial recognition and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Group transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Group, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Investments

In the Company balance sheet, investments in subsidiaries and associates are measured at cost less impairment. For investments in subsidiaries acquired for consideration including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value of the shares issued plus fair value of other consideration. Any premium is ignored.

Derivative financial instruments

The Group uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. Any resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgements in applying the Group's accounting policies

The Directors do not believe any critical judgements have been made in the process of applying the Group's accounting policies.

Notes to the Financial Statements (continued)

1. ACCOUNTING POLICIES (continued)

Provisions against receivables

Using information available at the balance sheet date, including ageing, the Directors make estimations based on experience regarding the level of provision required to account for potentially uncollectible receivables.

2. TURNOVER

An analysis of group turnover is as follows:

	2019 £'000	2018 £'000
Farm services including milk recording	16,190	15,527
Payment testing services	4,034	4,028
Traceability services	1,435	1,087
Reproductive services	1,139	763
	22,798	21,405

All turnover is derived within the UK.

3. STAFF COSTS

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

	2019	2018
Field Staff	63	65
Administration Staff	223	215
	286	280

Their aggregate remuneration comprised:

	2019 £'000	2018 £'000
Wages and salaries	7,517	7,188
Social security costs	652	585
Other pension costs	277	266
	8,446	8,039

4. DIRECTORS' REMUNERATION

	2019 £'000	2018 £'000
Directors' remuneration	430	538
Directors' pension contributions to money purchase schemes	20	21
The number of directors to whom retirement benefits were accruing was:	4	7

The figures for the highest paid director were:

	2019 £'000	2018 £'000
Directors' remuneration	206	201
Directors' pension contributions to money purchase schemes	7	7

Notes to the Financial Statements (continued)

4. DIRECTORS' REMUNERATION (continued)

Key management compensation

In addition to directors, the following amounts were paid or payable to key management within the Group.

	2019 £'000	2018 £'000
Salaries and other short-term benefits	310	356
Contributions paid into defined contribution pension scheme	7	9

5. OPERATING PROFIT

Operating Profit is stated after charging/(crediting):

	2019 £'000	2018 £'000
Depreciation of owned assets	301	338
Depreciation of leased assets	148	169
Profit on disposal of fixed assets	—	(23)
Amortisation of intangible assets	43	8
Operating lease rentals	156	170
Foreign exchange losses	8	—
Charge for additional provision for doubtful debts	20	16
Cost of stock recognised as an expense	3,339	3,531

Included within administrative expenses is expenditure on research and development projects in both the year to 30 June 2019 and the year to 30 June 2018.

Fees payable to the company's auditor:

	2019 £'000	2018 £'000
for the audit of the company's annual accounts	66	33
for the audit of the company's subsidiaries and consolidation	10	28
Total audit fees	76	61
Tax services	16	14
Total non-audit fees	16	14

No services were provided pursuant to contingent fee arrangements.

The disclosures in this table 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.

Notes to the Financial Statements (continued)

6. NET FINANCE COST

	2019 £'000	2018 £'000
Interest Receivable and similar income	2	—
	2	—
Finance lease interest	(20)	(21)
Loan interest	(108)	(124)
	(128)	(145)
Net Finance cost	(126)	(145)

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

Analysis of the tax charge

The tax charge comprises:

	2019 £'000	2018 £'000
Current tax		
UK corporation tax	320	333
Adjustments in respect of prior years	(51)	(170)
Total current tax	269	163
Deferred tax		
Origination and reversal of timing differences	25	4
Impact on deferred tax asset of tax rate reduction to 17%	126	—
Total deferred tax	151	4
Total tax on profit	420	167

7. 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:

	2019 £'000	2018 £'000
Group profit	2,408	1,994
Tax on Group profit on ordinary activities at standard UK Corporation tax rate of 19% (2018 19%)	458	394
Effects of:		
Depreciation in excess of capital allowances	(91)	(52)
Non-trading profits	(50)	(9)
Adjustments in respect of prior periods	(51)	(170)
Origination of timings differences	25	4
Impact on deferred tax asset of tax rate reduction to 17%	126	—
Expenditure disallowed for tax	3	—
Total tax charge for the year	420	167

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017, enacted on 26 October 2015) and further to 17% (effective from 1 April 2020) with the Finance Act 2016 are included in these Financial Statements. This will reduce the Group's future tax charge accordingly. The deferred tax balances at 30 June 2019 have been calculated using these rates.

The directors believe that £425,000 of the deferred tax asset is likely to unwind within 12 months of the balance sheet date.

8. 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 Benefit Trust are deducted from total shares in arriving at the weighted average number of ordinary shares used in the earnings per share calculation.

	Earnings £'000	2019 Weighted average number of Shares	EPS pence
Basic	1,988	20,939,702	9.5
Dilution	—	300,000	—
Diluted EPS	1,988	21,239,702	9.4

8. EARNINGS PER SHARE (continued)

	Earnings £'000	2018 Weighted average number of Shares	EPS pence
Basic	1,827	20,939,702	8.7
Dilution	—	300,000	—
Diluted EPS	1,827	21,239,702	8.6

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

9. INTANGIBLE ASSETS

Group and Company

	Software development & licences £'000	***Total £'000***
Cost		
At 30 June 2018	366	366
Additions	488	488
At 30 June 2019	**854**	**854**
Amortisation		
At 30 June 2018	8	8
Charge for the period	43	43
At 30 June 2019	**51**	**51**
Net book value		
At 30 June 2018	358	358
At 30 June 2019	**803**	**803**

The amortisation charge is included within Administrative expenses on the Consolidated Profit & Loss Account.

Notes to the Financial Statements (continued)

10. TANGIBLE FIXED ASSETS

Group and Company

	Land and Buildings £'000	*Computer equipment and machinery £'000*	*Motor Vehicles £'000*	*Total £'000*
Cost				
At 30 June 2018	1,613	5,024	804	7,441
Additions	—	657	117	774
Disposals	—	—	(252)	(252)
At 30 June 2019	**1,613**	**5,681**	**669**	**7,963**
Depreciation				
At 30 June 2018	686	3,808	423	4,917
Disposals	—	—	(252)	(252)
Charge for the period	3	298	148	449
At 30 June 2019	**689**	**4,106**	**319**	**5,114**
Net book value				
At 30 June 2018	927	1,216	381	2,524
At 30 June 2019	**924**	**1,575**	**350**	**2,849**

Include in Land and Buildings is land with a net book value of £250,000 (2018: £250,000). There is no property held under leasehold.

All Motor Vehicles are held under finance leases.

11. FIXED ASSET INVESTMENTS

Group

	IML JV £'000	*Other investments £'000*	*Total £'000*
Net book value			
At 30 June 2018	819	43	862
Share of pre-tax results	297	—	297
Share of tax charge	(32)	—	(32)
Dividend received	(53)	—	(53)
Exchange gain	7	—	7
At 30 June 2019	**1,038**	**43**	**1,081**

11. FIXED ASSET INVESTMENTS (continued)

Company

	Interest in joint ventures £'000	*Other investments £'000*	*Total £'000*
Cost			
At 30 June 2018 and 30 June 2019	178	43	221
Provision for impairment			
At 30 June 2018 and 30 June 2019	—	—	—
Net book value			
At 30 June 2018 and 30 June 2019	178	43	221

Subsidiary undertakings

The Company has investments in the following subsidiary undertakings:

Name	Country of incorporation	Holding	Registered office
National Livestock Records Limited	England and Wales (03191216)	100% ordinary	Fox Talbot House Greenways Business Park Chippenham Wilts SN15 1BN
National Milk Laboratories Limited	Scotland (SC 145660)	100% ordinary	Fox Talbot House Greenways Business Park Chippenham Wilts SN15 1BN
Nordic Star Limited	England and Wales (032319253)	100% ordinary	Fox Talbot House Greenways Business Park Chippenham Wilts SN15 1BN
Genimex Holding BV	The Netherlands (34137102)	100% ordinary	BrederStraat 62 6851 JT Huissen Lingewaard Arnhem Netherlands

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

Joint ventures

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

Name	Country of incorporation	Holding	Registered office
Independent Milk Laboratories Limited	Ireland (488027)	50% ordinary	Kylemore Road Bluebell Dublin 12

Independent Milk Laboratories Limited prepares its accounts to 31 December. Their most recent financial statements cover the year ended 31 December 2018. The amounts included in these consolidated financial statements relate to the year ended 30 June 2019.

Notes to the Financial Statements (continued)

12. STOCKS

Group and Company

	2019 *£'000*	*2018* *£'000*
Consumables	**417**	222

13. DEBTORS

Group and Company

	2019 *£'000*	*2018* *£'000*
AMOUNTS FALLING DUE WITHIN ONE YEAR		
Trade debtors	**2,489**	2,070
Amounts due from joint venture	**7**	5
Other debtors	**7**	61
Corporation tax refund	**—**	115
Prepayments and accrued income	**375**	645
	2,878	2,896
AMOUNTS FALLING DUE AFTER ONE YEAR		
Deferred tax asset	**1,316**	1,761
	1,316	1,761

14. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

Group and Company

	Note	*2019* *£'000*	*2018* *£'000*
AMOUNTS FALLING DUE WITHIN ONE YEAR			
Bank loans		**518**	501
Obligations under finance leases	17	**134**	132
Trade creditors		**906**	1,454
Other taxation and social security		**933**	916
Accruals and deferred income		**1,468**	1,463
Other creditors		**20**	6
Amounted owed to joint venture		**47**	35
		4,026	4,507

15. CREDITORS – AMOUNTS FALLING DUE AFTER ONE YEAR

Group and Company

	Note	2019 £'000	2018 £'000
Bank loans		**2,186**	2,705
Obligations under finance leases	17	**230**	263
		2,416	2,968

The bank loan is a term loan repayable over 7 years and six months at a fixed interest rate of 3.54%. Included in bank loans due after one year, £220,000 falls due after five years. The loan is secured by fixed and floating charges over the assets of the Company (see note 16).

16. BORROWINGS

Group and Company

	2019 £'000	2018 £'000
Bank Loans	**2,704**	3,206
Amounts due for settlement within 12 months	**518**	501
Amounts due for settlement after 12 months	**2,186**	2,705
Cash at bank and in hand	**(1,412)**	(1,551)
Finance Leases	**364**	395
Net Debt	**1,656**	2,050

The Group has an overdraft facility of £250,000 (2018: £250,000) which is secured by a fixed and floating charge over the assets of the Group.

The group has two principal bank loans;

(a) A loan of £3.5m taken out on 22 June 2017. Monthly repayments commenced on 24 July 2017 and will continue until 23 December 2024. Security is provided via: a first legal charge over freehold land and buildings at units 26-29 Laches close, Four Ashes with a book value of £929,000; an unlimited debenture from National Milk Records plc. The loan is provided carrying a fixed interest rate charge of 3.54%.

(b) A loan facility of £0.25m taken out on 27 October 2017. Monthly repayments commenced on 1 November 2017 and will continue until 31 October 2020. Security is provided via; a fixed charge over machinery owned by National Milk Records Plc with a book value of £231,000 at 30 June 2019.

The finance lease liabilities are secured on the corresponding motor vehicles. The average lease term is 5 years. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

17. OBLIGATIONS UNDER FINANCE LEASES

Group and Company

	2019 £'000	*2018 £'000*
Net obligations are repayable as follows:		
Within one year	**134**	132
Between one and two years	**110**	109
Between two and five years	**121**	154
	365	395

The finance lease liabilities all relate to motor vehicles and are secured on the corresponding vehicle. The average lease term is five years. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

18. PROVISIONS FOR LIABILITIES

Group and Company

	Deferred taxation £'000	*Product warranties £'000*	*Total £'000*
At 30 June 2018	209	47	256
Charge to profit and loss account	25	—	25
At 30 June 2019	**234**	**47**	**281**

The provision for product warranties relates to expected warranty claims on products sold in the last three years.

The following are the deferred tax liabilities recognised by the Group and by the Company and movements thereon during the current and prior year.

	Accelerated tax depreciation £'000	*Tax losses £'000*	*Total £'000*
At 30 June 2017	205	(2,095)	(1,890)
Charge to profit and loss account	4	—	4
Utilised	—	334	334
At 30 June 2018	209	(1,761)	(1,552)
Charge to profit and loss account	25	126	151
Utilised	—	319	319
At 30 June 2019	**234**	**(1,316)**	**(1,082)**

19. CALLED-UP SHARE CAPITAL

Company

	2019 £'000	2018 £'000
Allotted, called-up and fully paid		
21,239,702 (2018: 21,239,702) Ordinary Shares of £0.0025 each	53	53
	53	53

The company has one class of ordinary shares which carry no right to fixed income.

20. RESERVES

The profit and loss account represents accumulated total comprehensive income.

The own shares reserve represents the cost of shares in National Milk Records plc purchased in the market and valued by an Employee Benefit Trust (EBT), controlled by the Group to satisfy possible employee incentive schemes. The number of ordinary shares held by the EBT at 2019 was 300,000 (2018: 300,000).

The directors have proposed a dividend of 1.25 pence per ordinary share payable on November 21st.

21. LEASING COMMITMENTS

The Group and Company had the following minimum future commitments under non-cancellable operating leases:

Group and Company

	2019 £'000	2018 £'000
Within one year	180	—
Between two and five years	313	225
In more than five years	92	477
	585	702

22. EMPLOYEE BENEFIT OBLIGATIONS

Defined contribution scheme

During the year the Group and Company made employer's contributions to the two defined contribution schemes totalling £277,460 (2018: £266,000).

23. CONTINGENT LIABILITIES

There were no contingent liabilities at 30 June 2019 (2018: £nil).

24. CAPITAL COMMITMENTS

Group and Company

	2019 £'000	2018 £'000
Contracted but not provided for	687	41

Capital commitments at 30 June 2019 relate to orders placed with suppliers not fully commissioned at year end:

	£'000
Motor vehicles	63
Plant and equipment	428
Software development	196

25. RELATED PARTY TRANSACTIONS

The Group provides services to some of its shareholders however due to their insignificant shareholdings they are not considered to be related parties. One of the directors is also a customer of National Milk Records PLC and services provided during the year totalled £8,667 (2018: £22,952 for two directors). The outstanding balance due from directors at 30 June 2019 was £1,401 (2018: £686).

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:

	2019 £'000	2018 £'000
Trade debtors	7	5
Trade creditors	47	35
	54	40

During the year the group traded with IML as follows:

	2019 £'000	2018 £'000
Sales to IML	21	73
Purchases from IML	229	235
	250	308

26. SHARE BASED PAYMENT TRANSACTIONS

In December 2017, the company adopted a new share option plan known as the National Milk Records plc Unapproved Share Option Plan and granted four options under that plan. A total of 226,686 share options were issued at an exercise price of 65 pence. In addition, a further 4 options were granted under the pre-existing Approved Share Option Plan at an exercise price of 90.5 pence, having a total of 73,314 shares under option. Both schemes vest over 3 years and have no performance conditions attached. All eight options have a maximum term of 10 years.

The Company has used the Black Scholes model to establish a fair value of the share options at the Grant Date. It is a straight-forward formula which is widely accepted in the market. The expected volatility is based on share price movement for the 12 months ended 30 June 2018. The expected life is the average expected period to exercise. The risk free rate of return is the yield on UK government 2 year bond.

Number of share options by plan:	*2017 Unapproved Share Option Plan*	*2017 Approved Share Option Plan*
Outstanding as at 30th June 2018	226,686	73,314
Granted During the year	–	–
Exercised during the year	–	–
Forfeited/Expired during the year	–	–
Outstanding as at 30th June 2019	226,686	73,314
Exercisable at the end of the year	–	–

Fair valuation: assumptions	*2017 Unapproved Share Option Plan*	*2017 Approved Share Option Plan*
Grant date	18-Dec-17	18-Dec-17
Share price at grant date	90.50p	90.50p
Exercise price	65.00p	90.50p
Number of employees	4	4
Shares under option	226,686	73,314
Vesting period	3	3
Expected volatility	6.7%	6.7%
Option life (years)	10	10
Expected life (years)	3	7
Risk free interest rate	1.15%	1.15%
Fair value per option	27.70p	10.30p

The Company recognised a total expense of £25,000 (2018: £12,500) in relation to equity-settled share-based payments.

27. FINANCIAL INSTRUMENTS

The carrying values of the Group and Company's financial assets and liabilities are summarised by category below:

Group and Company

	2019 £'000	*2018 £'000*
Financial Assets – measured at undiscounted amount receivable		
Trade and other debtors	**2,871**	2,891
Amounts due from joint ventures	**7**	5
	2,878	2,896
Financial Liabilities - measured at amortised cost		
Bank loans	**2,704**	3,206
Finance Leases	**364**	395
Trade and other creditors	**3,308**	4,341
Amounts due to joint ventures	**47**	35
	6,423	7,977

28. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The directors consider that the Group has no single parent company nor a controlling party.

29. CATEGORISATION OF COSTS WITHIN THE CONSOLIDATED PROFIT & LOSS ACCOUNT

Management has assessed the nature of expenses in the year and as a result has categorised more expenses within Cost of Sales, and less as Administrative Expenses. As the change is one of presentation, the previous year 2018 Profit and Loss account has not been restated. If it had, the revised comparatives (in thousands) would have been Cost of Sales £12,726 and Administrative Expenses £6,786.

Key Financial Indicators

£'000	Six months ended 30 June 2019	Six months ended 31 December 2018	Six months ended 30 June 2018	Six months ended 31 December 2017
Turnover	**11,064**	11,734	10,873	10,532
EBITDA	**1,382**	1,379	1,213	1,187
EBITDA %	**12.5%**	11.8%	11.2%	11.3%
Diluted EPS (pence) (12mth earnings)	**9.4**	—	8.6	—
Net Assets	**4,033**	2,832	2,443	1,043
Net Debt	**(1,656)**	(2,064)	(2,147)	(3,311)
Net Debt: EBITDA (times) (12mth earnings)	**0.6**	0.7	0.9	1.4

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