

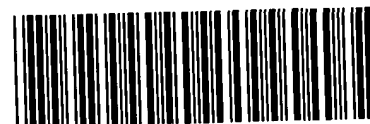
Martin-Brower UK Ltd

Financial Statements

For the year ended

31 December 2018

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COMPANIES HOUSE

Directors

R McGonigle
C McCauley

Company secretary

Vistra Company Secretaries Limited
First Floor, Templeback
10 Temple Back
Bristol
BS1 6FL

Auditor

Deloitte LLP
Statutory Auditor
3 Victoria Square
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United Kingdom
AL1 3TF

Registered Office

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United Kingdom
HP2 4YJ

Company Bankers

Royal Bank of Scotland
Abbey Gardens
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Reading
Berkshire
RG1 3BA

Legal Advisors

Jacksons Law Firm
Innovation House
Yarm Road
Stockton on Tees
TS18 3TN

Strategic report

for the year ended 31 December 2018

This strategic report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to Martin-Brower UK Ltd and its subsidiary undertakings when viewed as a whole.

Review of the business

Results and dividends

The profit for the year, after taxation, amounted to £15,467,000 (2017: profit of £14,186,000) with the main driver of this result being higher product deliveries in all the major operating territories.

Principal activity and review of the business

The principal activities of the Group throughout the year were the sale and distribution of the supplies for the McDonald's systems in the UK, France, Canada, Australia, New Zealand, Malaysia, Singapore and Korea.

The directors are satisfied with the results for the year and do not envisage any major change in the conduct of the business over the next twelve months.

The Group's key financial indicators and other performance indicators during the year were as follows:

	2018	2017
Turnover (£'000)	4,906,362	4,657,574
Profit before tax (£'000)	26,309	25,386
Average number of employees	4,008	3,766

2018 turnover was impacted by world-wide case growth of 6% and offset by a declining value of sterling versus its affiliates' currency values. Group turnover increased by 5.3%. Effective cost management and lower financing costs enabled the Group to exceed prior year pre-tax profit levels. The average number of employees increased 6.4% commensurate with the growth in case volume and turnover.

Group reconstruction

A group reconstruction was completed during 2018. The combining entities are:

Martin-Brower UK Ltd

Martin-Brower Australia Holdings Pty. Ltd

Martin-Brower Malaysia Co. Sdn Bhd

Martin-Brower Singapore Pte Limited

Martin-Brower France Holdings SAS

Martin-Brower of Canada

Korea Food Service Corp (South Korea)

The combination has been accounted for as a merger as permitted by FRS 102.

The date of the combination was 11th May 2018.

Prior to this date, Martin-Brower UK Ltd held 100% of the investment in Martin-Brower France Holdings SAS. All the other combining entities, including Martin-Brower UK Ltd, were previously subsidiaries of Martin-Brower UK Holdings Ltd.

Additionally, investments in associates previously held by Martin-Brower UK Holdings were also transferred to Martin-Brower UK Ltd on 11th May 2018. Martin-Brower UK Holdings Ltd was dissolved on 8th January 2019.

Freehold land and buildings owned by Martin-Brower Properties Ltd were distributed at net book value to Martin-Brower UK Ltd on 22nd May 2018. Martin-Brower Properties Ltd was dissolved on 8th January 2019.

Strategic report (continued)

for the year ended 31 December 2018

Principal risks and uncertainties

Virtually all of the commercial activity of the Group is with McDonalds and its franchisee network. Therefore, customer concentration is a significant risk to the Group. This risk is mitigated by the Group's efforts to deliver continuous superior service levels and competitive pricing.

Future developments and events after the balance sheet date

The directors anticipate that the Group's current activities will continue in the foreseeable future. Future innovation and service developments for existing and extended market segments, supported by continued investment into organisational systems, will underpin the continued profitable growth path.

The overall growth of the Group's key customers in its various geographies continues to be strong. The directors believe the partnership with McDonald's will continue to improve with Martin-Brower's commitments to outstanding service, modernisation and cost control. Significant investments in infrastructure, technology and innovation continue to be made including implementation of an advanced restaurant ordering system. This emphasis on continued innovation and investment, in conjunction with on-going distribution volume growth in all of the service areas, should lead to continued profitable growth for the years ahead.


On 23 June 2016, a referendum in the United Kingdom returned a result in favour of leaving the European Union (commonly referred to as "Brexit"). The longer term political and economic effects of the result are unclear at the date of these financial statements. Overall impacts on the Company and the Group are at this stage anticipated to be minimal. Management is monitoring activities in relation to Brexit, and will continue to evaluate the impact of Brexit on the Company and the Group.

Post Balance Sheet Events

There have been no events between the balance sheet date and the date of approval of these financial statements by the Directors that require inclusion in these financial statements.

In March 2019, April 2019, May 2019 and June 2019, dividends of £1,411,890, £348,009, £2,294,130 and £538,493, respectively, were paid by the Company to its parent, The Martin-Brower Company LLC.

Approved by the Board of Directors and signed on its behalf by:



C. McCauley
Director

Directors' report

for the year ended 31 December 2018

The directors present their report on the affairs of the Group, together with the audited financial statements and auditor's report for the year ended 31 December 2018. Information relating to future developments is included as part of Strategic report. The Strategic report is located on pages 2 and 3 of the annual report and forms part of the Directors' report by cross reference.

Future developments and events after the balance sheet date

Details of future developments and events that have occurred after the balance sheet date can be found in the Strategic Report on page 3 and form part of this report by cross-reference.

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. The Group is in a net liabilities position, primarily due to a loan payable to the immediate parent company, The Martin-Brower Company LLC. The loan cannot be recalled, only in the event of default. The interest rate applied to interest payments in 2018 was 5.2%. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

Financial risk management objectives and policies

The Group's activities expose it to a number of financial risks including credit risk, cash flow risk, foreign exchange risk, and liquidity risk. The use of financial derivatives is governed by the policies approved by Reyes Holdings, the ultimate parent and controlling party, which provide guidelines on the use of financial derivatives to manage these risks. The Group does not use derivative financial instruments for speculative purposes.

Cash flow and foreign exchange risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency prices and energy costs. The Group uses foreign exchange forward contracts and forward fuel purchase contracts to hedge these exposures.

Interest bearing assets and liabilities are held at fixed rate to ensure certainty of cash flows.

Credit Risk

The Group's principal financial assets are bank balances, cash, 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.

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

The Group has no significant concentration of credit risk with exposure spread over a large number of counterparties and franchisees within the McDonalds system in the various countries serviced by the Group.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Company uses a mixture of long-term and short-term debt finance.

Directors' report (continued)

for the year ended 31 December 2018

Creditor payment policy

The Company policy in each country of operation is to determine terms and conditions of payments with suppliers when negotiating each transaction, to ensure that suppliers are made aware of the terms and how disputes are to be settled, and to abide by the terms of payment.

The number of days credit taken by the Group for trade purchases at 31 December 2018 was 39 days (2017: 37). The number of days credit taken by the Company for trade purchases at 31 December 2018 was 18 days (2017: 20).

Dividends

The directors have paid total interim dividends of £39,338,571 (£39,732 per ordinary share) in 2018 (2017: £16,099,047). The directors have not proposed a final dividend.

Directors

The directors who served during the year and up to the date of signing are listed on page 1.

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Charitable and political contributions

During the year the Group made charitable donations of £215,307 (2017: £197,445). The Company made no political contributions.

Employees

The Group recognises the importance of encouraging all employees to contribute to the achievements of the Group. It has a comprehensive set of employment practices designed to achieve that objective. In particular the Group's equal opportunities policy is designed to create an environment in which all employees are encouraged to develop their individual potential whatever their sex, race, religion, colour, age or disability. The same opportunities for training, career development and promotion are available to all employees including those with disabilities, in so far as that disability does not prevent them from performing their job or any suitable alternative available job. Applications for employment by disabled persons are always fully considered bearing in mind the respective aptitudes and 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.

Consultation with employees or their representatives takes place at all levels. There is a UK Employment Forum (which satisfies the requirements of the European Works Council Directive) and other communication processes appropriate to the Group's businesses. These are designed to ensure that employees' views are taken into account when decisions are made that are likely to affect their interests.

The Group attaches great importance to the quality of its communication with all employees. Employees are provided with information about the performance of the Group through a variety of briefing mechanisms appropriate to their circumstances.

Directors' report (continued)

for the year ended 31 December 2018

Auditor

Each of the persons who are a director at the date of the approval of this report confirms that:

- So far as the director is aware, there is no relevant audit information (as defined in the Companies Act 2006) 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 information is given and should be interpreted in accordance with the provisions of s.418 of the Companies Act 2006.

Deloitte LLP has expressed its willingness to be reappointed for another term and appropriate arrangements have been put in place for it to be deemed reappointed as auditors in the absence of an Annual General Meeting.

Approved by the Board of Directors and signed on its behalf by:



C. McCauley
Director

Directors' responsibility statement

for the year ended 31 December 2018

Directors' responsibilities statement in the auditor's report

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 financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MARTIN-BROWER UK LTD

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Martin-Brower UK Ltd (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 31 December 2018 and of the group's profit for the year then ended;
- the group 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 and loss account
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statement of changes in equity;
- the consolidated cash flow statement;
- the related notes 1 to 27.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MARTIN-BROWER UK LTD (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the directors' report and strategic report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MARTIN-BROWER UK LTD (continued)

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

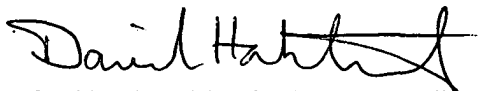
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

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.



David Halstead (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

St Albans, England

15 November 2019

Consolidated profit and loss account

for the year ended 31 December 2018

	<i>Notes</i>	2018 £000	2017 £000
Turnover	3	4,906,362	4,657,574
Cost of sales		(4,727,501)	(4,479,883)
Gross profit		<u>178,861</u>	<u>177,691</u>
Administration expenses		(94,129)	(95,059)
Distribution costs		(53,388)	(51,775)
Operating profit	4	<u>31,344</u>	<u>30,857</u>
Share of results of associated undertakings		1,672	1,459
Finance costs (net)	7,8	(6,707)	(6,930)
Profit before taxation		<u>26,309</u>	<u>25,386</u>
Tax on profit	10	(10,842)	(11,200)
Profit for the financial year		<u><u>15,467</u></u>	<u><u>14,186</u></u>
Profit for the financial year attributable to:			
Non-controlling interest		179	195
Equity shareholders of the company		<u>15,288</u>	<u>13,991</u>
		<u><u>15,467</u></u>	<u><u>14,186</u></u>

All amounts in the current year were derived from continuing activities.

Consolidated statement of comprehensive income

for the year ended 31 December 2018

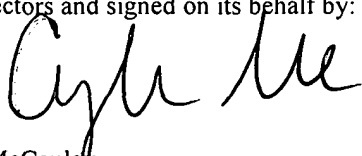
	2018 £000	2017 £000
<i>Profit for the financial year</i>	15,467	14,186
Currency translation differences on foreign currency net investments	316	1,085
<i>Total comprehensive income</i>	<u>15,783</u>	<u>15,271</u>
Total comprehensive income for the year attributable to:		
Non-controlling interest	65	(45)
Equity shareholders of the company	<u>15,718</u>	<u>15,316</u>
	<u>15,783</u>	<u>15,271</u>

Consolidated balance sheet

as at 31 December 2018

	<i>Notes</i>	2018 £000	2017 £000
Fixed assets			
Goodwill	12	81,813	88,457
Tangible assets	13	72,524	71,699
Investments	14	10,291	10,229
Total fixed assets		164,628	170,385
Current assets			
Stocks	15	136,019	124,804
Debtors:	16		
amounts falling due within one year		201,468	199,458
amounts falling due after year		3,589	4,551
		205,057	204,009
Cash at bank and in hand		135,356	115,282
		476,432	444,095
Creditors: amounts falling due within one year	17	(513,725)	(461,687)
Net current (liabilities)		(37,293)	(17,592)
Total assets less current liabilities		127,335	152,793
Creditors: amounts falling due after more than one year	18	(148,594)	(150,343)
Provisions for liabilities	20	(4,979)	(5,132)
Net (liabilities)		(26,238)	(2,682)
Capital and reserves			
Called up share capital	21	990	990
Share premium account		29,191	29,191
Profit and loss account		6,491	30,542
Merger reserve		(66,672)	(66,672)
Cumulative translation adjustment		2,654	2,224
Shareholders' funds		(27,346)	(3,725)
Non-controlling interest		1,108	1,043
Total capital employed		(26,238)	(2,682)

The financial statements were approved and authorised for issue on 15 November 2019 by the board of directors and signed on its behalf by:



C McCauley
Director

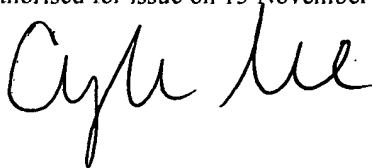
Company balance sheet

as at 31 December 2018

	Notes	2018 £000	2017 £000
Fixed assets			
Tangible assets	13	27,242	15,753
Investments	14	154,017	47,879
Total fixed assets		<u>181,259</u>	<u>63,632</u>
Current assets			
Stocks	15	28,421	19,038
Debtors:	16		
amounts falling due within one year		30,971	56,448
amounts falling due after year		38,756	135
		<u>69,727</u>	<u>56,583</u>
Cash at bank and in hand		25,989	31,010
		<u>124,137</u>	<u>106,631</u>
Creditors: amounts falling due within one year	17	(112,959)	(120,823)
Net current assets/(liabilities)		<u>11,178</u>	<u>(14,192)</u>
Total assets less current liabilities		192,437	49,440
Creditors: amounts falling due after more than one year	18	(145,763)	(3,564)
Provisions for liabilities	20	(1,774)	(1,694)
Net assets		<u>44,900</u>	<u>44,182</u>
Capital and reserves			
Called up share capital	21	990	990
Share premium account		29,191	29,191
Profit and loss account		14,719	14,001
Shareholders' funds		<u>44,900</u>	<u>44,182</u>

The profit for the financial year dealt with in the financial statements of the parent company was £41,145k (2017: £9,617k).

The financial statements of Martin-Brower UK Ltd registration number 01601427 were approved and authorised for issue on 15 November 2019 by the board of directors and signed on its behalf by:



C McCauley
Director

Consolidated statement of changes in equity
 for the year ended 31 December 2018

	Notes	Called up Share capital £000	Share premium £000	Merger reserve £000	Profit and loss Account £000	Translation Adjustment £000	Total £000	Non- controlling interest £000	Total share- holder's funds £000
At 1 January 2017		990	29,191	(66,672)	32,650	899	(2,942)	1,088	(1,854)
Profit for the financial year		-	-	-	13,991	-	13,991	195	14,186
Currency translation difference on foreign currency net investments		-	-	-	-	1,325	1,325	(240)	1,085
Total comprehensive income		-	-	-	13,991	1,325	15,316	(45)	15,271
Dividend paid	9	-	-	-	(16,099)	-	(16,099)	-	(16,099)
At 31 December 2017		990	29,191	(66,672)	30,542	2,224	(3,725)	1,043	(2,682)
Profit for the year		-	-	-	15,288	-	15,288	179	15,467
Currency translation difference on foreign currency net investments		-	-	-	-	430	430	(114)	316
Total comprehensive income		-	-	-	15,288	430	15,718	65	15,783
Dividends paid	9	-	-	-	(39,339)	-	(39,339)	-	(39,339)
At 31 December 2018		990	29,191	(66,672)	6,491	2,654	(27,346)	1,108	(26,238)

All recognised gains and losses in the current and prior year are included in the Statement of Changes in Equity.

Company statement of changes in equity**for the year ended 31 December 2018**

	<i>Notes</i>	Called up Share capital £000	Share premium £000	Profit and loss Account £000	Total share- holder's funds £000
At 1 January 2017		990	29,191	8,588	38,769
Profit for the financial year		-	-	9,617	9,617
Total comprehensive income		-	-	9,617	9,617
Dividend paid	9	-	-	(4,204)	(4,204)
At 31 December 2017		990	29,191	14,001	44,182
Profit for the year		-	-	41,145	41,145
Total comprehensive income		-	-	41,145	41,145
Other distributions to owners	21	-	-	(1,088)	(1,088)
Dividends paid	9	-	-	(39,339)	(39,339)
At 31 December 2018		990	29,191	14,719	44,900

All recognised gains and losses in the current and prior year are included in the Statement of Changes in Equity.

Consolidated cash flow statement

for the year ended 31 December 2018

	<i>Notes</i>	2018 £000	2017 £000
Net cash flows from operating activities	23	73,399	34,652
Cash flows from investing activities			
Proceeds from sale of equipment		541	3,057
Purchase of equipment		(13,858)	(7,156)
Dividends received from associates		1,207	1,276
Net cash flows from investing activities		<u>(12,110)</u>	<u>(2,823)</u>
Cash flows from financing activities			
Dividends paid		(39,339)	(16,099)
Drawdown on borrowings		-	3,274
Repayments of borrowings		(1,252)	-
Repayments of obligations under finance lease		(752)	(715)
Net cash flows from financing activities		<u>(41,343)</u>	<u>(13,540)</u>
Net increase in cash and cash equivalents		<u>19,946</u>	<u>18,289</u>
Cash and cash equivalents at beginning of year		115,282	96,535
Effect of foreign exchange rate changes		128	458
Cash and cash equivalents at end of year		<u>135,356</u>	<u>115,282</u>
Reconciliation to cash at bank and in hand:			
Cash at bank and in hand		135,356	115,282
Cash equivalents		-	-
Cash and cash equivalents		<u>135,356</u>	<u>115,282</u>

Notes to the financial statements

for the year ended 31 December 2018

1. Accounting policies

Company information

The Company is a private limited liability entity limited by shares incorporated in the United Kingdom and registered in England and Wales with its registered office at Third Floor (South Wing), One Park Lane, Hemel Hempstead, Hertfordshire, United Kingdom, HP2 4YJ.

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 2 to 3.

Basis of preparation

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

The functional currency of the Group 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.

Martin-Brower UK Ltd meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to financial instruments, presentation of a cash flow statement and remuneration of key management personnel.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings from the inception of the Company up to 31 December 2018. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the purchase method. The reconstruction during the year to 31 December 2018 has been accounted for as a merger as permitted by FRS 102.

Going concern

The Group's business activities, together with factors likely to affect its future development, its financial position, financial risk management objectives and its exposure to price, credit, liquidity and cash flow risk are described in the Strategic Report. The Group has one significant customer which accounts for the majority of their sales, the Directors' are satisfied that this relationship will continue for the foreseeable future and that the growth in this customer's business will continue to be strong. The Group has considerable financial resources in the form of cash and the ability to obtain funding from other group companies. The Group is in a net liabilities position, primarily due to a loan payable to the immediate parent company, The Martin-Brower Company LLC. The loan cannot be recalled, only in the event of default. The interest rate applied to interest payments in 2018 was 5.2%. Significant investments in infrastructure, technology and innovation continue to be made including implementation of warehouse management systems. Continued innovation and investment, in conjunction with on-going distribution volume growth, will lead to continued profitable growth for the years ahead. As a consequence the directors believe that the Company is well placed to manage the business risks successfully despite the current uncertain economic outlook. After making enquiries the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing these financial statements.

Intangible assets – goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight-line basis over its useful economic life, which is 20 years. Provision is made for any impairment.

Notes to the financial statements (continued)

for the year ended 31 December 2018

1. Accounting policies (continued)

Revenue recognition

Revenue is recognised to the extent that the Company obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty. When revenue transactions reflect the conditions of the sale being made as an agent the revenue is recognised net (commission only recognised as revenue), where the conditions reflect the sale as a principal the revenue is recognised gross (commission and product value recognised as turnover).

In making its judgement, management considered the detailed criteria for the recognition of revenue from the sale of goods set out in FRS 102 Section 23 *Revenue* and, in particular, whether the company had transferred to the buyer the significant risks and rewards of ownership of the goods.

Interest income generates from the back to back loans. Interest rates are set annually and the income is collected monthly.

Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid.

Tangible fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value on a straight line basis over the useful economic life of that asset as follows:

Land	–	not depreciated
Buildings	–	five to forty years
Leasehold improvements	–	five to twenty years
Plant, machinery and vehicles	–	three to ten years

Interest on borrowings for fixed assets is not capitalised and is taken to the profit and loss account.

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.

Assets in the course of construction are not depreciated.

Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell, which is equivalent to the net realisable value. Cost includes materials, direct labour and an attributable proportion of overheads based on normal levels of activity. Cost is calculated using the FIFO (first-in, first-out) method. Provision is made for obsolete, slow-moving or defective items where appropriate.

Operating lease agreements

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. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight line basis over the term of the lease.

Current taxation

A current tax liability is recognised for tax payable on taxable profits for the current and past periods. A current tax asset is recognised if the amount of tax paid for the current and past periods exceeds the amount of tax payable for those periods. The tax rates and laws enacted or substantively enacted by the reporting date are used to calculate the amount of tax payable or recoverable.

Notes to the financial statements (continued)

for the year ended 31 December 2018

1. Accounting policies (continued)

Deferred taxation

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, with the following exceptions:

- Unrelieved tax losses and other deferred tax assets are recognised only to the extent that the directors consider that it is probable that they will be recovered against the reversal of deferred tax liabilities or future taxable profits. More likely than not that there will be suitable taxable profits from which the future reversal of 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.

Financial Instruments

(i) Financial assets and liabilities

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

Financial liabilities and equity investments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all 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 that have no stated interest rate (and do not constitute financing transaction) and are classified as payable or receivable within one year are initially measured at an undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

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.
- (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.

Notes to the financial statements (continued)

for the year ended 31 December 2018

1. Accounting policies (continued)

Financial Instruments (continued)

(i) Financial assets and liabilities (continued)

- (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).

With the exception of some hedging instruments, other debt instruments not meeting these conditions are measured at fair value through profit or loss.

Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less 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 Company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Company, 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.

(ii) Investments

Investments in non-convertible preference shares and non-puttable ordinary or preference shares (where shares are publicly traded or their fair value is reliably measurable) are measured at fair value through profit or loss. Where fair value cannot be measured reliably, investments are measured at cost less impairment.

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.

(iii) Equity instruments

Equity instruments issued by the Company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

(iv) Interest expense

Interest rates on intercompany loans are set annually and interest is paid monthly.

Derivative Financial instruments

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

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value, using quoted prices for identical assets, at each reporting date. The resulting gain or loss is recognised in profit or loss immediately

Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

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.

Notes to the financial statements (continued)

for the year ended 31 December 2018

1. Accounting policies (continued)

Associates

In the Group financial statements, investments in associates are accounted for using the equity method. Investments in associates are initially recognized at the transaction price (including transaction costs) and are subsequently adjusted to reflect the Group's share of the profit or loss and other comprehensive income of the associate. Goodwill arising on the acquisition of associates is accounted for in accordance with the policy set out above. Any unamortised balance of goodwill is included in the carrying value of the investment in associates.

In the Company financial statements, investments in associates are accounted for at cost less impairment.

Foreign currencies

Transactions in foreign currency are translated into sterling at the rates of exchange ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date or at composite rates where forward cover exists.

The results of overseas operations are translated at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations are reported in other comprehensive income and accumulated in equity.

Other exchange differences are recognised in profit or loss in the period in which they arise.

Provisions for liabilities

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

A provision has been recognised for the decommissioning costs of a new distribution centre. Interest is charged annually to the profit and loss account to adjust for the effect of the time value of money.

Retirement benefits

The Company is a member of the Group pension plan with an insurance company and makes contributions into employee accounts on a money purchase basis. The assets in the scheme are held separately from those of the Company in an independently administered fund. The amount charged in the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Notes to the financial statements (continued)

for the year ended 31 December 2018

2. 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 have made the following critical judgement, apart from those involving estimations (which are dealt with separately below), in the process of applying the Group's accounting policies and it has the most significant effect on the amounts recognised in the financial statements.

Revenue Recognition

Revenue is presented gross as the Company acts as principal in its dealing with McDonalds' restaurants and franchisees. Due to the high volume and frequency of transactions, sales and costs of sales are recorded at cost and no critical judgement has been required to change this.

Key source of estimation uncertainty - impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was £81,813k. There were no impairment charges in 2018.

Notes to the financial statements (continued)

for the year ended 31 December 2018

3. Turnover

Turnover represents the amounts derived from the provision of goods which fall within the Company's ordinary activity, stated net of value added tax.

Turnover attributable to overseas markets amounted to 72% in the current year. Segmental information has not been provided because the directors believe that it would be prejudicial to the interests of the Company.

4. Operating profit

Operating profit is stated after charging/(crediting)

	2018 £000	2017 £000
Depreciation – tangible fixed assets	12,555	12,981
Amortisation of goodwill	6,448	6,569
(Gain) on disposal of fixed assets	(125)	(112)
Foreign exchange loss	30	4
Operating lease costs		
- plant and equipment	24,282	23,010
- land and buildings	14,702	14,015
Fees payable to the company's auditor		
- Audit of the consolidated financial statements	893	617
- Audit of the company's subsidiaries	60	56

Amortisation of intangible assets is included in administrative expenses.

No impairment gains or losses on stocks have been recognised in the profit and loss account.

Notes to the financial statements (continued)

for the year ended 31 December 2018

5. Staff costs

Staff costs for the Group and Company consist of:

	Group		Company	
	2018 £000	2017 £000	2018 £000	2017 £000
Wages and salaries	164,582	155,933	46,708	41,374
Social security costs	13,408	12,832	4,516	4,069
Other pension costs (see note 22)	4,987	4,212	1,935	1,648
	<u>182,977</u>	<u>172,977</u>	<u>53,159</u>	<u>47,091</u>

The average number of employees, including directors, within the Group and Company during the year was:

	Group		Company	
	2018 No.	2017 No.	2018 No.	2017 No.
Selling and distribution	3,167	2,969	1,135	1,038
Administration	841	797	174	160
	<u>4,008</u>	<u>3,766</u>	<u>1,309</u>	<u>1,198</u>

6. Directors' remuneration

During the year no directors received remuneration (2017 – £nil) or pension benefits (2017 – £nil) from the Group, in respect of their services provided.

The directors are considered to be the key management personnel of the reporting entity. No director has a direct or indirect interest in any transaction, arrangement or agreement which, in the opinion of the directors, requires disclosure. Directors who served the Group during the year have been remunerated from other group companies.

Pensions

No directors (2017 – none) who served during the year were members of the pension plan.

7. Interest receivable

	2018 £000	2017 £000
Bank interest receivable	1,381	574
Other interest receivable	-	-
	<u>1,381</u>	<u>574</u>

8. Interest payable and similar charges

	2018 £000	2017 £000
Interest payable to group undertakings	7,442	6,930
Other interest payable	646	574
	<u>8,088</u>	<u>7,504</u>

Notes to the financial statements (continued)

for the year ended 31 December 2018

9. Dividends

	2018 £000	2017 £000
Ordinary shares		
Interim dividends paid of £39.73 (2017 - £16.26) per share	39,339	16,099
	<u>39,339</u>	<u>16,099</u>

10. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2018 £000	2017 £000
<i>Current tax</i>		
UK corporation tax on profit for the year	3,713	2,162
Foreign tax	6,613	9,266
	<u>10,326</u>	<u>11,428</u>
<i>Deferred tax</i>		
Deferred tax (10(c))	516	(228)
	<u>10,842</u>	<u>11,200</u>
Tax on profit on ordinary activities		

(b) Factors affecting the current tax credit

The tax for the year varies from the standard rate of corporation tax in the UK of 19% (2017 – 19.25%). The differences are explained below:

	2018 £000	2017 £000
Profit on ordinary activities before tax	26,309	25,386
Profit on ordinary activities at the standard rate of corporation tax in the UK of 19% (2017 – 19.25%)	4,999	4,887
Net expenses not deductible for corporation tax purposes	1,024	1,689
Timing differences on fixed assets	115	484
Other timing differences	998	863
Adjustments to tax in respect of prior years	218	(890)
Withholding taxes on interest and dividends	1,082	932
Higher rates on overseas tax rates	2,406	3,235
	<u>10,842</u>	<u>11,200</u>
Total tax		

The UK Government announced as part of the Finance (No 2) Act 2015, which received Royal Assent on 18 November 2015 that the main rate of corporation tax rate would be reduced from 20% to 19% from 1 April 2017. As part of the Finance Act 2016, a further reduction to 17% (effective from 1 April 2020) was substantially enacted on 6 September 2016 and received Royal Assent on 15 September 2016. These rate reductions are reflected in the calculation of deferred tax at the balance sheet date.

Notes to the financial statements (continued)

for the year ended 31 December 2018

10. Tax (continued)

(c) Deferred tax

The deferred tax liability recognised in the financial statements is as follows:

	2018 £000	2017 £000
Acceleration of capital allowances over depreciation	115	(484)
Other timing differences	401	256
	<u>516</u>	<u>(228)</u>

The movement on deferred tax is as follows:

	£'000
At 1 January 2018 (note 20)	4,083
Charged to profit and loss account	516
Exchange difference	(695)
	<u>3,904</u>
At 31 December 2018 (note 20)	<u>3,904</u>

No reversal of the deferred tax liability is expected before 31 December 2018.

11. Profit attributable to the Company

The gain for the financial year dealt with in the financial statements of the parent company was £41,145k (2017 £9,617k). As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account or statement of comprehensive income is presented in respect of the parent company

12. Intangible fixed assets

Group	Total £000
Cost:	
At 1 January 2018	123,823
Exchange adjustment	(778)
	<u>123,045</u>
At 31 December 2018	<u>123,045</u>
Amortisation:	
At 1 January 2018	(35,366)
Provided for the year	(6,047)
Exchange adjustment	181
	<u>(41,232)</u>
At 31 December 2018	<u>(41,232)</u>
Net book value:	
At 31 December 2018	<u>81,813</u>
At 31 December 2017	<u>88,457</u>

Notes to the financial statements (continued)

for the year ended 31 December 2018

13. Tangible fixed assets

Group

	Land and buildings £000	Leasehold improvements £000	Plant machinery and vehicles £000	Total £000
Cost:				
At 1 January 2018	39,314	26,770	77,084	143,168
Additions	313	4,078	9,467	13,858
Disposals	(54)	(968)	(4,460)	(5,482)
Translation adjustment	181	(36)	(601)	(456)
At 31 December 2018	39,754	29,844	81,490	151,088
Depreciation:				
At 1 January 2018	10,138	11,404	49,927	71,469
Provided for the year	1,283	2,041	9,231	12,555
Disposals	(54)	(965)	(4,047)	(5,066)
Translation adjustment	10	10	(414)	(394)
At 31 December 2018	11,377	12,490	54,697	78,564
Net book value:				
At 31 December 2018	28,377	17,354	26,793	72,524
At 31 December 2017	29,176	15,366	27,157	71,699

No impairment losses have been recognised on any of the fixed assets within the Group.

The Group has assets in the course of construction included within land and buildings with a value of £108,369 (2017 – £nil) and within plant, machinery and vehicles with a value of £2,627,932 (2017 – £1,475,997), which are not depreciated.

Within land and buildings, the Group has freehold assets of £17,487,602 (2017 - £18,019,238) and short leasehold assets of £10,810,629 (2017 - £11,157,144).

Notes to the financial statements (continued)

for the year ended 31 December 2018

13. Tangible fixed assets (continued)

Company

	Land and Buildings £000	Leasehold improvements £000	Plant machinery and vehicles £000	Total £000
Cost:				
At 1 January 2018	-	11,356	31,073	42,429
Transfer from group company	8,445	-	-	8,445
Additions	-	2,371	4,240	6,611
Disposals	-	-	(1,264)	(1,264)
At 31 December 2018	8,445	13,727	34,049	56,221
Depreciation:				
At 1 January 2018	-	5,658	21,018	26,676
Provided for the year	158	594	2,813	3,565
Disposals	-	-	(1,262)	(1,262)
At 31 December 2018	158	6,252	22,569	28,979
Net book value:				
At 31 December 2018	8,287	7,475	11,480	27,242
At 31 December 2017	-	5,698	10,055	15,753

The Company has assets in the course of construction included within plant, machinery and vehicles with a value of £1,818,374 (2017 – £1,428,694), which are not depreciated.

Land and buildings were transferred from Martin-Brower Properties Ltd at net book value as a result of the group reconstruction.

Notes to the financial statements (continued)

for the year ended 31 December 2018

14. Fixed asset investments

	Group		Company	
	2018 £000	2017 £000	2018 £000	2017 £000
Subsidiary undertakings	-	-	141,789	47,879
Associates	10,291	10,229	12,228	-
At 31 December	<u>10,291</u>	<u>10,229</u>	<u>154,017</u>	<u>47,879</u>

Subsidiary undertakings

	Company £000
At 1 January 2018	47,879
Transfers	93,910
At 31 December 2018	<u>141,789</u>

Associates

	Group £000	Company £000
At 1 January 2018	10,229	-
Transfers	-	12,228
Share of retained profit for the year	1,672	-
Dividends from associates	(1,207)	-
Amortisation of goodwill	(402)	-
At 31 December 2018	<u>10,291</u>	<u>12,228</u>

The transfers of subsidiary undertakings and associates are a result of the group reconstruction as explained in the strategic report.

Notes to the financial statements (continued)

for the year ended 31 December 2018

14. Fixed asset investments (continued)

The parent Company and the Group have investments in the following subsidiary undertakings and associates:

<i>Company</i>	<i>Country of Registration and operation</i>	<i>Principal activity</i>	<i>Holding</i>	<i>%</i>
Martin-Brower Australia Holdings Pty. Ltd	Australia	Intermediate holding company	Ordinary	100
Martin-Brower Australia	Australia	Distribution	Ordinary	100
Martin-Brower Australia Intermediate Holdings Pty Ltd	Australia	Intermediate holding company	Ordinary	100
Martin-Brower New Zealand Holdings	New Zealand	Intermediate holding company	Ordinary	100
Martin-Brower New Zealand	New Zealand	Distribution	Ordinary	100
Martin-Brower Malaysia Co. Sdn Bhd	Malaysia	Distribution	Ordinary	100
Martin-Brower Singapore Pte Limited	Singapore	Distribution	Ordinary	100
Martin-Brower France Holdings SAS	France	Distribution	Ordinary	100
Martin-Brower France SAS	France	Distribution	Ordinary	100
Martin-Brower of Canada	Canada	Distribution	Ordinary	100
MBX Logistics Canada Co.	Canada	Distribution	Ordinary	100
Korea Food Service Corp (South Korea)	South Korea	Distribution	Ordinary	80
Associates and joint ventures				
STI Freight Management GmbH	Germany	Distribution	Ordinary	24.3
STI (Deutschland) GmbH	Germany	Distribution	Ordinary	24.3
STI France S.a.r.l	France	Distribution	Ordinary	24.3
STI Italia S.r.l	Italy	Distribution	Ordinary	24.3
STI Glonet S.L	Slovenia	Distribution	Ordinary	24.3
S.T.I. Polska Sp.zp.o	Poland	Distribution	Ordinary	24.3
STI-Scandinavia AB	Sweden	Distribution	Ordinary	24.3
S.T.I. (U.K.) Ltd	United Kingdom	Distribution	Ordinary	24.3
STI LLC (Russia)	Russia	Distribution	Ordinary	24.3
S.T.I Middle East LLC (UAE)	United Arab Emirates	Distribution	Ordinary	49
Martin-Brower Logistics (UAE)	United Arab Emirates	Distribution	Ordinary	49
OLA – LR S.a.r.l.	France	Distribution	Ordinary	10

Notes to the financial statements (continued)

for the year ended 31 December 2018

15. Stocks

	Group		Company	
	2018	2017	2018	2017
	£000	£000	£000	£000
Raw materials	230	168	230	168
Finished goods and goods held for resale	135,789	124,636	28,191	18,870
	<u>136,019</u>	<u>124,804</u>	<u>28,421</u>	<u>19,038</u>

During the year inventories of £4,423,097,211 (2017 - £4,196,360,438) were recognised as an expense within cost of sales for the Group. The Company recognised inventories of £1,261,199,088 (2017 - £1,109,250,851) as cost of sales.

16. Debtors

	Group		Company	
	2018	2017	2018	2017
	£000	£000	£000	£000
Trade debtors	171,140	172,542	25,527	23,638
Amounts owing by group undertakings	1,405	1,440	39,494	28,690
Amounts due from affiliates	1,059	995	928	884
Other debtors	11,563	4,140	132	195
Prepayments and accrued income	15,301	19,563	3,646	3,176
Corporation tax receivable	1,704	1,628	-	-
Deferred tax	2,885	3,701	-	-
Total debtors	<u>205,057</u>	<u>204,009</u>	<u>69,727</u>	<u>56,583</u>

All amounts shown under debtors are receivable within one year except:

	Group		Company	
	2018	2017	2018	2017
	£000	£000	£000	£000
Amounts owing by group undertakings	-	-	38,635	-
Prepayments and accrued income	274	285	121	135
Other debtors	493	1,769	-	-
Deferred tax	2,822	2,497	-	-
	<u>3,589</u>	<u>4,551</u>	<u>38,756</u>	<u>135</u>

The maturity date for amounts owing by group undertakings is January 2030. The loans may be pre-paid partially or fully at any time without penalty, premium or notice. The interest rate applied to the loans in 2018 was 5.2%.

Notes to the financial statements (continued)

for the year ended 31 December 2018

17. Creditors: amounts falling due within one year

	Group		Company	
	2018	2017	2018	2017
	£000	£000	£000	£000
Trade creditors	411,205	371,313	92,965	80,946
Amounts owing to group undertakings	350	573	57	18,271
Amounts due to affiliates	5,757	5,364	1,904	1,500
Corporation tax	2,369	2,509	1,445	1,021
Taxes and social security	10,550	11,343	2,129	2,565
Other creditors	25,880	17,077	3,724	9,514
Accruals and deferred income	53,972	48,622	10,735	7,006
Current portion of capital leases	799	756	-	-
Short term bank loans	2,843	4,130	-	-
	<u>513,725</u>	<u>461,687</u>	<u>112,959</u>	<u>120,823</u>

18. Creditors: amounts falling after more than one year

	Group		Company	
	2018	2017	2018	2017
	£000	£000	£000	£000
Amounts owing to group undertakings	143,597	144,424	142,849	-
Other creditors	3,407	3,564	2,914	3,564
Long term portion capital leases	1,590	2,355	-	-
	<u>148,594</u>	<u>150,343</u>	<u>145,763</u>	<u>3,564</u>

The maturity date for amounts owing to group undertakings is January 2030. The loans cannot be unilaterally recalled, only in the event of default. The interest rate applied to the loans in 2018 was 5.2%.

Included within other creditors over one year are lease incentives receivable as a result of the lease of a distribution centre, deferred over more than one year of £2,731,151 (2017 - £3,082,685). This is deferred evenly over the duration of the lease. In addition, payments made in advance by a customer have been deferred over the life of an asset; amounts over one year are £182,700 (2017 - £376,087). None of these amounts is interest bearing.

Notes to the financial statements (continued)

for the year ended 31 December 2018

19. Financial Instruments

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

	Group		Company	
	2018	2017	2018	2017
	£000	£000	£000	£000
Financial Assets				
Cash	135,356	115,282	25,989	31,010
Equity instrument measured at cost less impairment				
• Fixed assets unlisted investment (see note 14)	10,291	10,229	154,017	47,879
Measured at undiscounted amount receivable				
• Trade and other debtors (see note 16)	182,703	176,682	25,659	23,833
• Amounts due from group undertakings (see note 16)	1,405	1,440	39,494	28,690
• Amounts due from affiliates (see note 16)	1,059	995	928	884
	<u>330,814</u>	<u>304,628</u>	<u>246,087</u>	<u>132,296</u>
Financial Liabilities				
Measured at amortised cost				
• Loans payable (see note 18)	143,597	144,424	142,849	-
• Obligations under finance leases	2,389	3,111	-	-
Measured at undiscounted amount payable				
• Trade and other creditors (see note 17)	437,085	388,390	96,689	90,460
• Amounts owed to group undertakings (see note 17)	350	573	57	18,271
• Amounts due to affiliates (see note 17)	5,757	5,364	1,904	1,500
	<u>589,178</u>	<u>541,862</u>	<u>241,499</u>	<u>110,231</u>

20. Provisions for liabilities

Group

	Deferred tax	Obligations for Restoration	Total
	£000	£000	£000
<i>Cost:</i>			
At 1 January 2018	4,083	1,049	5,132
Provided during the year	516	26	542
Exchange difference	(695)	-	(695)
At 31 December 2018	<u>3,904</u>	<u>1,075</u>	<u>4,979</u>

Notes to the financial statements (continued)

for the year ended 31 December 2018

20. Provisions for liabilities (continued)

Company

	Deferred tax £000	Obligations for Restoration £000	Total £000
<i>Cost:</i>			
At 1 January 2018	645	1,049	1,694
Provided during the year	54	26	80
At 31 December 2018	699	1,075	1,774

In 2007 the Company signed a 20-year lease contract on a new distribution centre. The contract requires the Company to remove any building alterations at the end of the lease, including sprinkler systems and other refrigeration plant. This obligation in year 2027 has been calculated at current prices, as the full cost of decommissioning such assets. This has been capitalised as a directly attributable cost of the relevant asset and is to be charged to the profit and loss account over the term of the lease.

21. Called up share capital

Group and Company

	2018		2017	
	No.	£000	No.	£000
Allotted, called up and fully paid				
990,100 ordinary shares of £1 each	990,100	990	990,100	990

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

The Group and Company's other reserves are as follows:

The share premium reserve contains the premium arising on issue of equity shares, net of issue expenses.

The profit and loss reserve represents cumulative profits or losses net of dividends paid. The profit and loss reserve for the Company includes other distributions to owners as a result of the restructure during the year.

The merger reserve represents the equity increase associated with the contribution of a group member in May 2018.

The cumulative translation adjustment reserve represents the impact of foreign exchange movements on the net equity investments in the Group's subsidiary undertakings.

22. Pensions

Martin-Brower UK Ltd and its subsidiaries are members of a group staff pension plan with an insurance company and makes contributions into employees' accounts on a money purchase basis. The employer's pension cost for the year is set out in note 4 to the financial statements. Included within accruals are outstanding pension contributions of £2,203,000 (2017 - £3,249,000).

Notes to the financial statements (continued)

for the year ended 31 December 2018

23. Cash flow statement

Reconciliation of operating profit to cash generated by operations:

	2018 £000	2017 £000
Profit on ordinary activities before interest	31,344	30,857
Adjustment for:		
Depreciation and other amortisation	12,355	12,981
Goodwill amortisation	6,448	6,569
Profit on sale of tangible fixed assets	(125)	(112)
Operating cash flow before movement in working capital	50,022	50,295
(Increase) in stocks	(10,989)	(7,895)
(Increase) in debtors	(10,146)	(7,513)
Increase in creditors	64,106	15,634
Income taxes paid	(10,325)	(11,429)
Interest paid	(9,269)	(4,440)
Cash generated by operations	73,399	34,652

24. Commitments

i) Capital commitments as at 31 December are as follows:

	2018 £000	2017 £000
Contracted but not provided	30	330

ii) As at 31 December 2018 the Group had total future minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings		Plant and machinery	
	2018 £000	2017 £000	2018 £000	2017 £000
Within one year	12,686	14,101	16,362	16,027
Between one and five years	40,393	47,567	35,340	33,478
After five years	68,091	83,080	6,819	3,924
	121,170	144,748	58,521	53,429

25. Securitisation of assets

The Group has granted security over substantially all of its assets, including bank accounts, insurances, debts and shares and a floating charge over all its assets as a subsidiary within a group funding arrangement.

Notes to the financial statements (continued)

for the year ended 31 December 2018

26. Related parties

The immediate parent company of the Group is The Martin-Brower Company LLC and its ultimate parent undertaking is Reyes Holdings L.L.C..

The Company has taken advantage of the exemption conferred by FRS 102 'Related party disclosures' not to disclose transactions with other wholly owned subsidiaries within the group.

During the year the Group entered into transactions with related parties of the ultimate parent undertaking, Reyes Holdings L.L.C., in the ordinary course of business. Transactions entered into, and balances outstanding as at 31 December, are as follows:

	Sales to related party £000	Purchases from related party £000	Amounts owed to related party £000	Amounts owed by related party £000
STI UK Limited				
2018	3,632	13,833	1,904	910
2017	3,615	11,971	1,500	867
STI Freight Management GmbH				
2018	186	-	-	17
2017	186	-	-	17
STI France S.a.r.l.				
2018	1,133	29,031	3,853	132
2017	1,212	25,918	3,706	107

STI UK Limited, STI Freight Management GmbH and STI France S.a.r.l. are all 24.3% owned subsidiaries of the Company.

The amounts disclosed all relate to unsecured trading balances.

27. Ultimate parent undertaking and controlling party

The Martin-Brower Company LLC is the Company's immediate parent undertaking at the year end.

The Company's ultimate parent company and controlling party is Reyes Holdings L.L.C., a company incorporated in the state of Delaware, in the United States of America. The registered address of Reyes Holdings L.L.C. is The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 1980, United States of America.