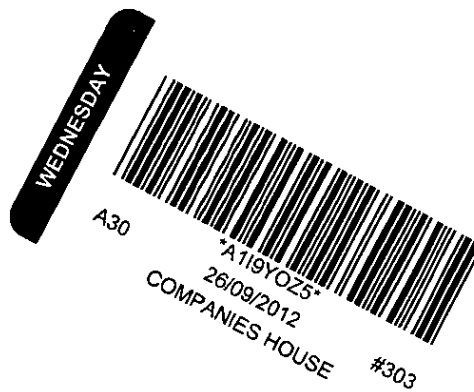


COMPANY REGISTRATION NUMBER 0199171

**KELLOGG COMPANY OF GREAT BRITAIN,  
LIMITED**

**FINANCIAL STATEMENTS**

**31 DECEMBER 2011**



# **KELLOGG COMPANY OF GREAT BRITAIN, LIMITED**

## **THE DIRECTORS' REPORT**

### **YEAR ENDED 31 DECEMBER 2011**

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The Directors have pleasure in presenting their report and the financial statements of the Company for the period from 2 January 2011 to 31 December 2011 (the "year ended 31 December 2011")

#### **PRINCIPAL ACTIVITIES AND BUSINESS REVIEW**

The principal activity of the Company during the year was the consignment manufacturing of cereal-based food products on behalf of another group company

The Company has entered into a 12 month extension to the agreement, which ran to 31 December 2011, to provide consignment manufacturing services to an Irish group undertaking, Kellogg Europe Trading Limited

In response to increasing cost pressures and in order to optimise the Company's cost base, in recent years the Company embarked on a programme of efficiency savings in its manufacturing operations with the intention of putting the Company in a position to remain competitive when its consignment manufacturing contract comes up for renewal

The programme of efficiency savings, which will take several years to implement, continued during 2011 and includes voluntary redundancies, shift changes and some retirement of machinery

As part of a continuing programme of capital investment, £21 million (2010 £16 million) was invested by the Company during the financial year in tangible fixed assets

#### **Future outlook**

The Directors expect the current level of business to be sustained for the next 12 months. The Company's consignment manufacturing agreement with Kellogg Europe Trading Limited is due for renewal by 31 December 2012. The Company is confident that its continued cost efficiencies will help secure its renewal.

#### **Principal risks and uncertainties**

The Company is largely dependent on a fellow group undertaking for its business and needs to ensure its cost base is competitive in comparison to alternative sources of supply.

#### **Key performance indicators**

The Company's key financial measures concern its turnover and operating profit, with the performance in the year being measured against prior year and also budget, both measures in 2011 performed satisfactorily.

#### **RESULTS AND DIVIDENDS**

The trading results for the year and the Company's financial position at the end of the year are shown in the attached financial statements.

During the year the Company received a dividend of £20,900,900 from its dormant subsidiary Kelmill Limited by way of a dividend in specie equal to the entire intercompany balance between the two companies.

The Directors do not recommend the payment of a dividend (2010 £nil).

#### **FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Company's operations expose it to a variety of financial risks that include the effects of changes in debt, foreign exchange risk, credit risk, liquidity and interest rate risk. The Company has in place risk management programmes that seek to manage the financial exposures of the Company by monitoring levels of debt finance and the related finance costs and managing interest rate risks. Hedging would be considered should circumstances warrant it.

# KELLOGG COMPANY OF GREAT BRITAIN, LIMITED

## THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2011

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### **Liquidity risk**

The Company maintains a suitable profile of debt finance that is designed to ensure the Company should always have sufficient available liquid funds for its operations

### **DIRECTORS**

The Directors who served the Company during the Year and up to the date of signing the financial statements were as follows, except where noted

N Jaynes  
J Gregory  
J N Ainley  
C Ridler  
F Roquet-Jalmar  
A O'Brien  
S Hopwood  
S Thomas-Berry

J N Ainley resigned as a director on 6 May 2011

S Thomas-Berry resigned as a director on 30 June 2011

### **DIRECTORS' INDEMNITIES**

The ultimate holding Company maintains liability insurance for the Directors and officers of the group. This is a qualifying third party indemnity provision for the purposes of the Companies Act 2006

### **DIRECTORS' RESPONSIBILITIES STATEMENT**

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to

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

# KELLOGG COMPANY OF GREAT BRITAIN, LIMITED

## THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2011

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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.

### DISCLOSURE OF INFORMATION TO AUDITORS

In so far as the Directors are aware

- there is no relevant audit information of which the Company's auditors are unaware, and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

### EMPLOYEES

Established consultative structures continued to provide a framework for trade union and employee involvement and for discussion of an extensive range of issues of mutual interest. The Company's programme of employee communication was continued with the staging of employee conferences at which Directors and senior management presented a financial and business review and highlighted plans for the future.

Recruitment is based on achieving and maintaining a workforce including disabled persons who can reasonably be expected to become effective employees. Selection is according to ability, acceptability to training, character, dependability and potential for future advancement within the Company. All employment is without discrimination on grounds of sex, marital status, sexual orientation, racial group, religion or belief, age or disability.

Whilst in employment, the Company ensures that all employees, including disabled persons, are given the opportunity to apply for and are considered for vacancies based on their abilities to fulfill the job requirements. Special guidance ensures that disabled employees receive full and training opportunities for career development within the Company. Newly disabled persons will, wherever possible, be retained within the workforce and in their original activity, subject to medical approval.

Employees are encouraged to participate in the success of the business through profit sharing and employee share purchase schemes.

# KELLOGG COMPANY OF GREAT BRITAIN, LIMITED

## THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2011

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### INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP are deemed to be re-appointed under section 487(2) of the Companies Act 2006

Signed on behalf of the Directors



N Jaynes  
Director

Approved by the Directors on

21 September 2012

**KELLOGG COMPANY OF GREAT BRITAIN, LIMITED**  
**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KELLOGG**  
**COMPANY OF GREAT BRITAIN, LIMITED**  
**YEAR ENDED 31 DECEMBER 2011**

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We have audited the financial statements of Kellogg Company of Great Britain, Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, Statement of Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR**

As explained more fully in the Directors' Responsibilities Statement set out on pages 2 to 3, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS**

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

**OPINION ON FINANCIAL STATEMENTS**

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006**

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

**KELLOGG COMPANY OF GREAT BRITAIN, LIMITED**  
**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KELLOGG**  
**COMPANY OF GREAT BRITAIN, LIMITED** *(continued)*

**YEAR ENDED 31 DECEMBER 2011**

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**MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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



**Nicholas Gower (Senior Statutory Auditor)**

For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Manchester

21 September 2012

# KELLOGG COMPANY OF GREAT BRITAIN, LIMITED

## PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 DECEMBER 2011

	Note	Year ended 31 December 2011 £000	Year ended 1 January 2011 £000
<b>TURNOVER</b>	<b>2</b>	<b>107,151</b>	109,568
Cost of sales		<u>(113,037)</u>	<u>(113,306)</u>
<b>OPERATING LOSS</b>	<b>3</b>	<b>(5,886)</b>	(3,738)
Income from shares in group undertakings	<b>6</b>	<b>20,901</b>	—
Interest receivable and similar income		<b>14</b>	12
Interest payable and similar charges	<b>7</b>	<b>(117)</b>	(99)
Other finance income	<b>17</b>	<b>16,380</b>	11,710
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>31,292</b>	7,885
Tax on profit on ordinary activities	<b>8</b>	<b>(3,485)</b>	(12,737)
<b>PROFIT/(LOSS) FOR THE FINANCIAL YEAR</b>	<b>21</b>	<b><u>27,807</u></b>	<b><u>(4,852)</u></b>

All of the activities of the Company are classed as continuing

There is no material difference between the profit on ordinary activities before taxation and the profit/(loss) for the year stated above and their historical cost equivalents

The statement of accounting policies and notes on pages 10 to 30 form part of these financial statements



**KELLOGG COMPANY OF GREAT BRITAIN, LIMITED**  
**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
**YEAR ENDED 31 DECEMBER 2011**

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		Year ended 31 December 2011 £000	Year ended 1 January 2011 £000
	Note		
Profit/(loss) for the financial year attributable to the shareholders		27,807	(4,852)
Actuarial (loss)/gain in respect of defined benefit pension scheme	17	(67,310)	31,330
Deferred tax in respect of actuarial gain/(loss)	16	16,828	(8,459)
Total gains and losses recognised since the last annual report		<u>(22,675)</u>	<u>18,019</u>

The statement of accounting policies and notes on pages 10 to 30 form part of these financial statements

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# KELLOGG COMPANY OF GREAT BRITAIN, LIMITED

## BALANCE SHEET

AS AT 31 DECEMBER 2011

		31 December 2011 £000	1 January 2011 £000
	Note		
<b>FIXED ASSETS</b>			
Tangible assets	9	179,881	176,899
Investments	10	185	185
		<u>180,066</u>	<u>177,084</u>
<b>CURRENT ASSETS</b>			
Stocks	11	6,691	6,249
Debtors	12	67,208	17,983
Cash at bank and in hand		4,103	875
		<u>78,002</u>	<u>25,107</u>
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>	13	<u>(236,073)</u>	<u>(194,538)</u>
<b>NET CURRENT LIABILITIES</b>		<u>(158,071)</u>	<u>(169,431)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>21,995</u>	<u>7,653</u>
<b>CREDITORS: Amounts falling due after more than one year</b>	14	(1,883)	(1,487)
<b>PROVISIONS FOR LIABILITIES</b>			
Deferred taxation	16	<u>(3,223)</u>	<u>(752)</u>
<b>NET ASSETS EXCLUDING PENSION ASSET</b>		<u>16,889</u>	<u>5,414</u>
Defined benefit pension scheme asset	17	41,468	75,607
<b>NET ASSETS INCLUDING PENSION ASSET</b>		<u>58,357</u>	<u>81,021</u>
<b>CAPITAL AND RESERVES</b>			
Called-up equity share capital	20	1	1
Share premium account	21	188	188
Share options reserve	21	247	236
Profit and loss account	21	57,921	80,596
<b>TOTAL SHAREHOLDERS' FUNDS</b>	22	<u>58,357</u>	<u>81,021</u>

21 September 2012 These financial statements on pages 7 to 30 were approved by the Directors and authorised for issue on 21 September 2012, and are signed on their behalf by

  
N. Jaynes

Director

Company Registration Number 0199171

The statement of accounting policies and notes on pages 10 to 30 form part of these financial statements

# KELLOGG COMPANY OF GREAT BRITAIN, LIMITED

## STATEMENT OF ACCOUNTING POLICIES

YEAR ENDED 31 DECEMBER 2011

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### **Basis of accounting**

The financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with the Companies Act 2006 and with accounting standards applicable in the United Kingdom. The accounting policies have been applied consistently throughout the year, and are as stated below.

### **Going concern**

The directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of ultimate parent company, Kellogg Company. The directors have received confirmation that the Kellogg Company intends to support the company for at least one year after these financial statements are signed.

### **Cash flow statement**

The Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 "Cash flow Statements" (revised 1996) on the grounds that a group cash flow statement is included in the consolidated financial statements of its ultimate parent undertaking, Kellogg Company, whose financial statements are publicly available (note 23) and include the results of the Company.

### **Related parties transactions**

As a 100% owned subsidiary, the Company is exempt under FRS 8 "Related party disclosures" from disclosing separately transactions with other entities in the group. Consolidated financial statements of Kellogg Company, which incorporate the financial statements of the Company, are publicly available (note 23). The Company was not involved in any other related party transactions during the financial year.

### **Turnover**

Turnover, which excludes value added tax, represents the value of services supplied, and is recognised when the service is performed.

### **Fixed assets**

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Freehold property	- 50 years
Plant and machinery	- from 3 to 20 years

Fixed assets are stated at their historical cost. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation commences on a straight line basis, when an asset is available for use, at which time the asset ceases to be classified as construction in progress. If at any time there is a permanent diminution in the value of an asset and the net book amount is considered not to be recoverable in full, the net book amount is written down to the estimated recoverable amount.

### **Stocks**

Consumable stocks of engineering parts are stated at the lower of average cost and estimated net realisable value. Provision is made where appropriate for slow moving or obsolete parts.

# **KELLOGG COMPANY OF GREAT BRITAIN, LIMITED**

## **STATEMENT OF ACCOUNTING POLICIES** *(continued)*

**YEAR ENDED 31 DECEMBER 2011**

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### **Finance lease agreements**

Lease agreements which transfer to the Company substantially all the benefits and risks of ownership of an asset are treated as if the asset were owned outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as a liability. The lease rentals are treated as consisting of capital and interest elements, the interest element being calculated on a 'sum of the digits' basis so as to give a constant periodic rate of return on the net cash investment in the lease. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

### **Operating leases**

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are expensed on a straight line basis over the lease term.

### **Fixed asset investments**

Investments in group undertakings are recorded at cost less any provision for impairment. Impairment reviews are performed by the Directors when there has been an indication of potential permanent impairment in the carrying value of the investment.

# KELLOGG COMPANY OF GREAT BRITAIN, LIMITED

## STATEMENT OF ACCOUNTING POLICIES *(continued)*

YEAR ENDED 31 DECEMBER 2011

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### **Pension costs and other post-retirement benefits**

#### **Defined contribution scheme**

Employees whose employment commenced after 1 April 2004 can apply for membership of the Kellogg Group's UK defined contribution pension scheme to which both employees and employer contribute

The assets of the scheme are independently administered and are held separately from those of the Company  
The pension expense arising in these financial statements equates to the contributions paid by the employer

#### **Defined benefit scheme**

Employees whose employment commenced before 1 April 2004 were eligible to apply for membership of a defined benefit pension scheme. The assets of the scheme are held separately from those of the Company

Pension scheme liabilities are measured on an actuarial basis using a projected unit method and are discounted to their present value using AA-rated corporate bonds of appropriate term and currency

Pension scheme assets are valued at bid price at the balance sheet date

The pension scheme surplus (being the excess of the fair value of the scheme assets over the present value of obligations in respect of pensionable service) is recognised in full on the balance sheet

The deferred tax relating to a defined benefit asset is offset against the defined benefit asset and not included with other deferred tax assets or liabilities

The current service cost of the defined benefit pension scheme is charged to operating profit as are past service costs including enhancements to scheme benefits that are already vested

Other finance income in respect of the scheme represents the excess of the expected return on scheme assets over the unwinding discount on scheme liabilities

Actuarial gains and losses are recognised in full in the statement of total recognised gains and losses along with the related deferred taxation

# KELLOGG COMPANY OF GREAT BRITAIN, LIMITED

## STATEMENT OF ACCOUNTING POLICIES *(continued)*

YEAR ENDED 31 DECEMBER 2011

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### **Current tax**

Corporation tax is provided on the assessable profits of the Company at the rate of tax prevailing during the period

### **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 that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted. Deferred tax is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

### **Foreign currencies**

Monetary assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the date of the balance sheet or at the agreed contractual rate.

Non-monetary assets expressed in foreign currencies are translated into sterling at the historic rate of exchange ruling at the date of the original transaction. They are not retranslated at the balance sheet date.

Transactions in foreign currency are converted to sterling at the rate ruling at the date of the transaction. All differences on exchange are taken to the profit and loss account.

### **Share-based payments**

The Company's ultimate parent undertaking issues equity-settled share-based payments to certain employees (including Directors). Equity-settled share-based payments 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, together with a corresponding increase in equity, based upon the Company's estimate of the shares that will eventually vest. Once exercised the options are settled in equity by the ultimate parent company, which then recharges the Company.

Fair value is measured using the Black-Scholes 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.

Where an equity-settled transaction is cancelled, it is treated as if it had vested on the date of the cancellation, and any expense not yet recognised for the transaction is recognised immediately.

# KELLOGG COMPANY OF GREAT BRITAIN, LIMITED

## STATEMENT OF ACCOUNTING POLICIES *(continued)*

YEAR ENDED 31 DECEMBER 2011

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### **Consolidated financial statements**

Consolidated financial statements have not been prepared as the Company is a wholly-owned subsidiary undertaking of Kellogg Company, (which is incorporated in the United States of America), and which itself prepares consolidated financial statements, that are publicly available. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 401 of the Companies Act 2006.

# KELLOGG COMPANY OF GREAT BRITAIN, LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2011

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### 1. PERIOD COVERED

The financial statements cover the period from 2 January 2011 to 31 December 2011 (the "year ended 31 December 2011") (2010 the period was from 3 January 2010 to 1 January 2011)

### 2. TURNOVER

Turnover arose from sales in the United Kingdom relating to the Company's sole class of business

### 3. OPERATING LOSS

Operating loss is stated after charging/(crediting)

	Year ended 31 December 2011 £000	Year ended 1 January 2011 £000
Equity-settled share-based payments	62	30
Loss on disposal of fixed assets	625	239
Depreciation of owned fixed assets	14,335	14,110
Depreciation of assets held under finance lease agreements	227	227
Auditor's remuneration		
- as auditor	—	34
Operating lease and other hire costs		
- plant and machinery	2,025	2,341
- other	<u>1,719</u>	<u>1,669</u>

In 2011 audit fees are borne by a fellow group company and have not been reflected in the financial statements



# KELLOGG COMPANY OF GREAT BRITAIN, LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### YEAR ENDED 31 DECEMBER 2011

#### 4 PARTICULARS OF EMPLOYEES

The average number of staff employed by the Company during the financial year amounted to

	Year ended 31 December 2011 No	Year ended 1 January 2011 No
Number of production staff	730	890
Number of administrative staff	340	181
	<u>1,070</u>	<u>1,071</u>

Employee numbers include executive Directors whose primary employer is the Company, and is adjusted for staff on secondment from and to group undertakings

The aggregate payroll costs of the above were

	Year ended 31 December 2011 £000	Year ended 1 January 2011 £000
Wages and salaries	43,933	42,541
Social security costs	3,918	3,486
Pension costs - defined benefit scheme	8,620	10,410
Pension costs - defined contribution scheme	779	594
	<u>57,250</u>	<u>57,031</u>

Pension costs - defined benefit scheme are amounts charged to operating profit and do not include amounts credited to finance income and amounts recognised in the statement of recognised gains and losses

#### 5. DIRECTORS' EMOLUMENTS

	Year ended 31 December 2011 £000	Year ended 1 January 2011 £000
Aggregate emoluments	688	718
Company contributions to money purchase pension scheme	12	6
Compensation for loss of directorship	68	—
	<u>768</u>	<u>724</u>

Highest paid Director

	Year ended 31 December 2011 £000	Year ended 1 January 2011 £000
Total emoluments	<u>227</u>	<u>245</u>

# KELLOGG COMPANY OF GREAT BRITAIN, LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2011

### 5. DIRECTORS' EMOLUMENTS *(continued)*

Five Directors, including the highest paid Director, (2010 five excluding the highest paid Director) were members of the U K group defined benefit pension scheme. One Director (2010 two) is accruing retirement benefits under money purchase pension schemes. Six Directors (2010 seven) are entitled to shares under the share option scheme operated by the ultimate parent company. Five Directors (2010 three) exercised share options during the year.

In 2011, the highest paid Director was a member of a defined benefit pension scheme and, at the year end, the accrued pension amounted to £17,000 together with a lump sum amounting to £Nil. In 2010, the highest paid Director was a member of a defined contribution pension scheme operated by a fellow group undertaking. Company contributions to the scheme on behalf of the highest paid Director of £11,000 were made by a fellow group Company. During the current and previous financial years the highest paid Director did not exercise options.

### 6. INCOME FROM SHARES IN GROUP UNDERTAKINGS

	Year ended 31 December 2011 £000	Year ended 1 January 2011 £000
Income from group undertakings	20,901	—

During the year the Company received a dividend of £20,900,900 from its dormant subsidiary Kelmill Limited by way of a dividend in specie equal to the entire intercompany balance between the two companies.

### 7. INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 31 December 2011 £000	Year ended 1 January 2011 £000
Bank interest payable	32	—
Finance lease interest	85	99
	117	99

# KELLOGG COMPANY OF GREAT BRITAIN, LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2011

### 8. TAX ON PROFIT ON ORDINARY ACTIVITIES

#### (a) Analysis of tax (credit)/charge in the year

	Year ended 31 December 2011 £000	Year ended 1 January 2011 £000
<b>Current tax:</b>		
In respect of the year		
UK Corporation tax based on the results for the year at 26.50% (To 1 Jan 11 - 28%)	(1,979)	(1,707)
Adjustments in respect of prior periods	306	1,776
Total current tax (credit)/charge(note 8(b))	(1,673)	69
<b>Deferred tax:</b>		
Origination and reversal of timing differences	4,716	3,660
Adjustment in respect of prior periods	2,835	9,409
Effect of changed tax rate on opening balance	(2,393)	(401)
Total deferred tax (note 16)	5,158	12,668
Tax (credit)/charge on profit on ordinary activities	<u>3,485</u>	<u>12,737</u>

Subsequent to year end 2010, the Company reached agreement with HMRC regarding a review of the corporate tax returns (2002 - 2008) of the Kellogg UK Tax group. The agreement resulted in the Company (as taxpayer for the UK Tax Group) utilising capital allowances and accumulated tax losses to offset income adjustments resulting from the review. The impact on the result for the year 2010 and the financial position of the Company was a £9.4m reduction in the carrying value of the Company's deferred tax asset, utilisation of group relief from a fellow UK group undertaking of £0.9m and the recording of a current tax payable of £0.9m, with a corresponding charge to tax expense.

# KELLOGG COMPANY OF GREAT BRITAIN, LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### YEAR ENDED 31 DECEMBER 2011

#### 8 TAX ON PROFIT ON ORDINARY ACTIVITIES *(continued)*

##### (b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower (2010 lower) than the standard effective rate of corporation tax in the UK of 26.50% (To 1 Jan 11 - 28%) for the following reasons

	Year ended 31 December 2011 £000	Year ended 1 January 2011 £000
Profit on ordinary activities before taxation	<u>31,292</u>	<u>7,885</u>
Profit on ordinary activities multiplied by the standard rate of tax	8,292	2,208
Expenses not deductible for tax purposes	60	160
Difference between depreciation and Industrial Buildings Allowances	(76)	(415)
Adjustments in respect of prior periods	306	1,776
Non-taxable income from group undertaking	(5,539)	-
Pensions contributions and other timing differences	<u>(4,716)</u>	<u>(3,660)</u>
Total current tax (note 8(a))	<u>(1,673)</u>	<u>69</u>

##### (c) Factors that may affect future tax charges

A resolution passed by Parliament on 29 March 2011 reduced the main rate of corporation tax to 26% from 1 April 2011. Legislation to reduce the main rate of corporation tax from 26% to 25% from 1 April 2012 was included in the Finance Act 2011. This further expected rate reduction had not been substantively enacted at the balance sheet date and therefore are not included in the financial statements or considered material for disclosure purposes.

# KELLOGG COMPANY OF GREAT BRITAIN, LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2011

### 9 TANGIBLE FIXED ASSETS

	Freehold property	Construction in progress	Plant & machinery	Assets held for sale	Total
	£000	£000	£000	£000	£000
<b>COST</b>					
At 2 January 2011	191,441	13,282	288,221	2,610	<b>495,554</b>
Additions	—	20,361	680	—	<b>21,041</b>
Disposals	(474)	—	(11,672)	—	<b>(12,146)</b>
Transfers	3,595	(11,301)	8,198	(492)	<b>—</b>
<b>At 31 December 2011</b>	<b>194,562</b>	<b>22,342</b>	<b>285,427</b>	<b>2,118</b>	<b>504,449</b>
<b>ACCUMULATED DEPRECIATION</b>					
At 2 January 2011	100,205	—	218,450	—	<b>318,655</b>
Charge for the Year	4,459	—	10,103	—	<b>14,562</b>
On disposals	(422)	—	(8,227)	—	<b>(8,649)</b>
<b>At 31 December 2011</b>	<b>104,242</b>	<b>—</b>	<b>220,326</b>	<b>—</b>	<b>324,568</b>
<b>NET BOOK VALUE</b>					
<b>At 31 December 2011</b>	<b>90,320</b>	<b>22,342</b>	<b>65,101</b>	<b>2,118</b>	<b>179,881</b>
At 1 January 2011	91,236	13,282	69,771	2,610	<b>176,899</b>

#### Assets held for sale

Assets held for sale are not in use and are intended for sale to fellow subsidiary companies

#### Finance lease agreements

Included within the net book value of £179,881,000 is £1,344,000 (To 1 Jan 11 - £1,552,000) relating to assets held under finance lease agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £227,000 (To 1 Jan 11 - £227,000)

### 10. FIXED ASSET INVESTMENTS

	£000
<b>COST</b>	
At 31 December 2011 and 2 January 2011	<b>185</b>
<b>NET BOOK VALUE</b>	
At 31 December 2011 and 2 January 2011	<b>185</b>

# KELLOGG COMPANY OF GREAT BRITAIN, LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2011

### 10. FIXED ASSET INVESTMENTS *(continued)*

The Company's subsidiaries at 1 January 2011 and 31 December 2011 were as follows

#### Aggregate capital and reserves

	31 December 2011 £000	1 January 2011 £000
Kelcorn Limited	-	-
Kelmill Limited	-	20,901
Kelpac Limited	-	-
Favorite Food Products Limited	133	133
Kelcone Limited	288	288
Saragusa Frozen Foods Limited	(1,826)	(1,826)

All these companies are registered in England, are wholly-owned (with 100% of the ordinary share capital), and did not trade in this or the previous financial year

The directors believe that the book value of investments is supported by their underlying net assets

During the year the Company received a dividend of £20,900,900 from its dormant subsidiary Kelmill Limited by way of a dividend in specie equal to the entire intercompany balance between the two companies

### 11 STOCKS

	31 December 2011 £000	1 January 2011 £000
Consumables	<u>6,691</u>	<u>6,249</u>

### 12 DEBTORS

	31 December 2011 £000	1 January 2011 £000
Trade debtors	198	164
Amounts owed by group undertakings	62,440	12,986
VAT recoverable	2,949	-
Other debtors	114	3,361
Prepayments and accrued income	<u>1,507</u>	<u>1,472</u>
	<u>67,208</u>	<u>17,983</u>

Amounts owed by group undertakings are interest free, unsecured and repayable on demand

# KELLOGG COMPANY OF GREAT BRITAIN, LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2011

### 13 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 December	1 January
	2011	2011
	£000	£000
Trade creditors	13,880	13,359
Finance lease agreements	326	209
Amounts owed to ultimate parent undertaking	48	18
Amounts owed to group undertakings - own subsidiaries	421	21,322
Amounts owed to group undertakings - fellow subsidiaries	213,960	150,747
Other taxation and social security	2,954	3,610
Accruals and deferred income	4,484	5,273
	<u>236,073</u>	<u>194,538</u>

Amounts owed to group undertakings and the ultimate parent undertaking are interest free, unsecured and repayable on demand

### 14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	31 December	1 January
	2011	2011
	£000	£000
Finance lease agreements	<u>1,883</u>	<u>1,487</u>

### 15. COMMITMENTS UNDER FINANCE LEASE AGREEMENTS

Future commitments under finance lease agreements are as follows

	31 December	1 January
	2011	2011
	£000	£000
Finance lease agreements are analysed as follows		
Current obligations	326	209
Non-current obligations	<u>1,883</u>	<u>1,487</u>
	<u>2,209</u>	<u>1,696</u>

# KELLOGG COMPANY OF GREAT BRITAIN, LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2011

### 16. DEFERRED TAXATION

The movement in the deferred taxation provision during the year was

	31 December 2011 £000	1 January 2011 £000
Provision brought forward	(752)	5,070
Adjustment in respect of prior years	(2,835)	(9,409)
Deferred tax charge in profit and loss account	327	3,908
Revaluation of tax asset due to change in future tax rate to 25%	37	(321)
Provision carried forward	<u>(3,223)</u>	<u>(752)</u>

The provision for deferred taxation consists of the tax effect of timing differences in respect of

	31 December 2011 £000	1 January 2011 £000
Excess of taxation allowances over depreciation on fixed assets	(3,607)	(1,219)
Severance accrued	367	396
Other timing differences	17	71
	<u>(3,223)</u>	<u>(752)</u>

Deferred tax provision relating to pension asset

	31 December 2011 £000	1 January 2011 £000
Balance brought forward	(27,964)	(12,659)
Deferred tax charge in profit and loss account	(5,043)	(7,568)
Deferred tax charged to the statement of total recognised gains and losses	16,828	(8,459)
Revaluation of tax asset due to change in future tax rate to 25%	2,356	722
Balance carried forward	<u>(13,823)</u>	<u>(27,964)</u>



# KELLOGG COMPANY OF GREAT BRITAIN, LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2011

### 17. PENSIONS AND OTHER POST RETIREMENT BENEFITS

#### Defined benefit scheme

The Company is a participating employer in the Kellogg's (Great Britain) Pension Fund ("the Fund"). The cost of accrual is based on the Company's share of the combined salary roll of all participating employers and the contributions over the cost of accrual are based on the Company's split of the Fund's overall liability.

FRS 17 figures disclosed below have been based on the results of the latest formal actuarial valuation of the Fund as at 6 April 2011. The Projected Unit Method is used to calculate the current service cost. The cost will change in the future should the age / salary / sex profile of the membership change. As the Fund is closed to new entrants, the cost of the future accrual as a proportion of the salary roll can be expected to increase as the average age of the membership increases, on a given basis. The requirements of FRS 17 to provide historical information have been complied with.

The major assumptions used by the actuary were

	31 December 2011 %	1 January 2011 %
Inflation	3.20	3.65
Rate of increase in salaries	4.20	4.65
Rate of increase of pensions in payment		
- Post 97/pre 05	2.20	3.65
- Post 05	2.20	2.50
Rate of increase for deferred pensioners	2.20	3.65
Discount rate	4.90	5.45

The mortality assumptions used were as follows

	31 December 2011 Years	1 January 2011 Years
Longevity at age 65 for current pensioners		
- Men	19.1	19.1
- Women	21.3	21.2
Longevity at age 65 for future pensioners		
- Men	20.0	20.0
- Women	22.1	22.0

# KELLOGG COMPANY OF GREAT BRITAIN, LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2011

### 17. PENSIONS AND OTHER POST RETIREMENT BENEFITS *(continued)*

The assets in the scheme and the expected rates of return at the end of the financial year were

	31 December 2011		1 January 2011	
	Long-term rate of return expected	Value	Long-term rate of return expected	Value
	%	£000	%	£000
Equities	7.6	376,525	8.0	420,723
Bonds	4.4	85,598	5.0	97,567
Property	6.7	57,766	7.5	27,070
Others	2.8	5,252	3.9	18,611
Total market value of assets		525,141		563,971
Present value of scheme liabilities		(469,850)		(460,400)
Surplus in the scheme		55,291		103,571
Related deferred tax liability		(13,823)		(27,964)
Net pension asset		41,468		75,607

In line with mandatory amendments to FRS 17 requirements the fund's assets are valued at bid price

# KELLOGG COMPANY OF GREAT BRITAIN, LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2011

### 17. PENSIONS AND OTHER POST RETIREMENT BENEFITS *(continued)*

Reconciliation of present value of scheme liabilities

	31 December 2011 £000	1 January 2011 £000
Balance brought forward	(460,400)	(444,390)
Company share of service cost	(8,620)	(8,300)
Interest cost	(24,680)	(24,680)
Actuarial gain/(loss)	2,990	(730)
Benefits paid from scheme assets	20,930	21,460
Scheme change / past service cost	-	(3,680)
Scheme participants' contributions	(70)	(80)
Balance carried forward	<u>(469,850)</u>	<u>(460,400)</u>

Reconciliation of fair value of scheme assets

	31 December 2011 £000	1 January 2011 £000
Balance brought forward	563,971	489,610
Expected return on assets	41,060	36,390
Actuarial (loss)/gain	(70,300)	32,060
Employer contributions	11,270	25,721
Benefits paid	(20,930)	(21,460)
Special termination benefit contributions	-	1,570
Scheme participants' contributions	70	80
Balance carried forward	<u>525,141</u>	<u>563,971</u>

The Company is one of a number of participating employers in the Fund. The nature of the Fund is such that the assets and liabilities are not segregated and so are allocated to each of the employers in an approximate manner. The allocation of assets and liabilities to each of the employers will be revisited following each formal valuation of the Fund, which will occur at least every three years. The next formal valuation date for the Fund is 6 April 2014. The allocation may also be revisited following events such as any change to the number of employers participating in the Fund.

# KELLOGG COMPANY OF GREAT BRITAIN, LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2011

### 17. PENSIONS AND OTHER POST RETIREMENT BENEFITS *(continued)*

There are no amounts included in the fair value of scheme assets relating to the Company's own financial instruments or property occupied by, or other assets used by the entity

#### Actuarial gains and losses

The cumulative amount of actuarial losses recognised in the statement of recognised gains and losses is £98,670,000

Analysis of the amount charged to profit and loss

	Year ended 31 December 2011 £000	Year ended 1 January 2011 £000
Current service cost	8,620	8,300
Past service cost	-	3,680
Special termination benefits	-	(1,570)
Expected return on pension assets	(41,060)	(36,390)
Interest on pension scheme liabilities	24,680	24,680
Total	(7,760)	(1,300)

Amounts for the current and previous four periods are as follows

	31 December 2011 £000	1 January 2011 £000	2 January 2010 £000	3 January 2009 £000	29 December 2007 £000
Defined benefit obligation	(469,850)	(460,400)	(444,390)	(348,540)	(382,390)
Scheme assets	525,141	563,971	489,610	403,340	465,449
Surplus	55,291	103,571	45,220	54,800	83,059
Experience gain/(loss) on scheme assets	(70,300)	32,060	50,610	(114,400)	(5,230)
Experience gain/(loss) on scheme liabilities	1,160	11,530	(3,520)	1,570	(17,540)
Total gain/(loss) recognised in the statement of total recognised gains and losses	(67,310)	31,330	(35,620)	(52,680)	(9,660)

#### Defined contribution scheme

At the year end there are no amounts prepaid or outstanding in relation to the defined contribution scheme

# KELLOGG COMPANY OF GREAT BRITAIN, LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2011

### 18 COMMITMENTS UNDER OPERATING LEASES

The Company had annual commitments under non-cancellable operating leases as set out below

	Assets other than land and buildings	
	31 December 2011	1 January 2011
	£000	£000
Operating leases which expire		
Within 1 year	10	2
Within 2 to 5 years	17	44
	<u>27</u>	<u>46</u>

In addition, future minimum payments due in the next financial year under operating leases for land and buildings, the commitment expiring after more than 5 years, amount to £1,771,000 (2010 £1,724,000). The Company has also guaranteed certain operating leases entered into by a fellow group undertaking, total commitments over the lives of these leases remaining at the end of the year amounted to £1,565,000 (2010 £1,816,000).

### 19. FINANCIAL COMMITMENTS

At 31 December 2011, there was £6,423,000 capital expenditure contracted for but not provided for (2010 £5,032,000).

# KELLOGG COMPANY OF GREAT BRITAIN, LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2011

### 20. CALLED UP SHARE CAPITAL

Called up authorised share capital:

	31 December 2011	1 January 2011
	£	£
20,200 Ordinary shares of £0.05 each	<u>1,010</u>	<u>1,010</u>

Allotted and fully paid:

	31 December 2011		1 January 2011	
	Number	£	Number	£
Ordinary shares of £0.05 each	<u>20,080</u>	<u>1,004</u>	<u>20,080</u>	<u>1,004</u>

### 21. RESERVES

	Share premium account £000	Share options reserve £000	Profit and loss account £000
Balance brought forward	188	236	80,596
Profit for the financial year	—	—	27,807
Deferred tax in respect of defined benefit pension scheme	—	—	16,828
Actuarial loss in respect of defined benefit pension scheme	—	—	(67,310)
Recognition of equity-settled share-based payments in the year	—	62	—
Exercise of options during the year	—	(51)	—
Balance carried forward	<u>188</u>	<u>247</u>	<u>57,921</u>

# KELLOGG COMPANY OF GREAT BRITAIN, LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2011

### 22. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' (DEFICIT)/FUNDS

	31 December 2011 £000	1 January 2011 £000
Profit/(loss) for the financial Year	27,807	(4,852)
Actuarial loss/(gain) in respect of defined benefit pension scheme	(67,310)	31,330
Deferred tax in respect of defined benefit pension scheme	16,828	(8,459)
Recognition of equity-settled share-based payments in the year	62	30
Exercise of options during the year	(51)	(43)
Recharge by parent in excess of fair value charge	—	(42)
Net (reduction)/addition to shareholders' funds	(22,664)	17,964
Opening shareholders' funds	81,021	63,057
Closing shareholders' funds	58,357	81,021

### 23. ULTIMATE PARENT COMPANY

The Company's immediate parent undertaking is Kellogg U K Holding Company Limited which is registered in England and Wales. The ultimate parent company and controlling party is Kellogg Company, which is incorporated in the United States of America and is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of the financial statements of Kellogg Company can be obtained from One Kellogg Square, P O Box 3599, Battle Creek, Michigan, USA.