

COMPANY REGISTRATION NUMBER 203663

KRAFT FOODS UK LTD.
FINANCIAL STATEMENTS
11 DECEMBER 2010

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KRAFT FOODS UK LTD.

FINANCIAL STATEMENTS

PERIOD FROM 13 DECEMBER 2009 TO 11 DECEMBER 2010

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KRAFT FOODS UK LTD.

THE DIRECTORS' REPORT

PERIOD FROM 13 DECEMBER 2009 TO 11 DECEMBER 2010

The directors have pleasure in presenting their report and the audited financial statements of the company for the period from 13 December 2009 to 11 December 2010

Principal activities and business review

The company operates as a sales and distribution company of Kraft Foods products into the existing United Kingdom markets and customers. These markets include the retail, foodservice and vending beverage sectors. The company operates within the Kraft group of companies with the aim of facilitating the group delivering its strategic goals and achieving sustainable and profitable growth.

The business performance for the period reflects the operating environment across the company's sales categories of coffee, cheese, confectionery, biscuits and other foods.

The company's results show sales of £526.2 million (2009 - £564.4 million) and a pre-tax profit for the period of £3.4 million (2009 - £10.0 million). The net assets of the company increased to £88.4 million (2009 - £82.4 million) primarily due to the business returning its expected pre-tax profit for the period and a net actuarial gain on its pension scheme of £6.6 million (2009 - net actuarial loss £28.1 million).

Key performance indicators

The key performance indicators during the period, together with historical trend data, are set out in the table below.

	2010	2009
Continuing operations		
(Reduction) / Growth in Sales	(6.8)%	4.7% Period on period sales growth expressed as a percentage. After adjusting for one-off and non-recurring sales of £70.6 million in 2009, sales to third parties increased by 6.6% in 2010 as a result of promotional activities and price increases.
Gross margin	9.1%	16.1% Gross margin is the ratio of gross profit to sales expressed as a percentage. Decrease due to costs of increased promotional activity and impact of reorganisation in 2009.

KRAFT FOODS UK LTD.

THE DIRECTORS' REPORT *(continued)*

PERIOD FROM 13 DECEMBER 2009 TO 11 DECEMBER 2010

Strategy and future outlook

The outlook for 2011 remains challenging as the company continues to strive for reliable, consistent growth. In line with Kraft Foods group's global higher purpose to 'Make Today Delicious' the key strategies to achieving this growth are as follows, to

- 1 Win with our people by creating a performance driven, values led culture
- 2 Grow with our customers by becoming a partner of choice and building joint value together
- 3 Connect with our consumers by making our brands irresistible and creating engaging communications
- 4 Protect our planet by taking responsibility for our social, economic and environmental impact, leading the way in sustainable agriculture, preserving resources and cutting waste

Business environment, principal risks and uncertainties

The business environment in which the company operates is highly competitive, particularly around product pricing, quality and health and wellness issues

In order to mitigate this risk the company continues to monitor market prices, improve product nutrition and the quality and quantity of consumer information, to market products responsibly and to encourage healthy lifestyles for people and their communities

Results and dividends

The loss for the period, after taxation, amounted to £356,000 (2009 – profit £5,100,000). The directors have not recommended a dividend (2009 - £1,231 per share amounting to £100,000,000)

Financial risk management

The company's operations expose it to a variety of financial risks that include price risk, the effects of foreign currency exchange rates, credit risks, liquidity, interest rates and cash flow. The directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The risk management procedures are implemented by the company's finance department and approved by the parent company. The department has specific guidelines to manage financial risk. The company does not use financial instruments speculatively.

Price risk and foreign currency exchange risk

Following the Kraft group re-organisation in April 2009 the company has limited exposure to price risk and foreign currency exchange risk.

Credit risk

The company has implemented policies that require appropriate credit checks on potential and existing customers, before sales are made. The amount of any exposure to any individual counterparty is subject to a limit which is reassessed regularly.

Liquidity risk

The company managed liquidity risk by monitoring the balance sheet position, net intercompany balance and funding requirements from group to ensure that the company has access to sufficient available funds for operations and planned expansions.

Interest rate and cash flow risk

The company has interest bearing assets and interest bearing liabilities. The interest bearing assets are cash balances and inter-company loans. Interest is earned at variable rates. The only interest bearing liabilities are finance lease agreements which are at fixed rates.

KRAFT FOODS UK LTD.

THE DIRECTORS' REPORT *(continued)*

PERIOD FROM 13 DECEMBER 2009 TO 11 DECEMBER 2010

Research and development

The company's research and development activities were transferred to Kraft Foods UK R&D Limited, a subsidiary company, in April 2009. From this date the company is now charged for research and development activities undertaken in respect of its core products.

Directors

The directors who served the company during the period, and up to the date of signing the financial statements, were as follows:

N Bunker
A Jennings
L Stigant
M Stanton
J Pipe

J Pipe resigned as a director on 13 June 2011.
D Pogson was appointed a director on 13 June 2011.

Statement of directors' responsibilities

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.

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 each of the directors are aware:

- there is no relevant audit information of which the company's auditor is unaware, and
- each director has taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

KRAFT FOODS UK LTD.

THE DIRECTORS' REPORT *(continued)*

PERIOD FROM 13 DECEMBER 2009 TO 11 DECEMBER 2010

Donations

The Kraft group of companies continue to make charitable contributions but these are now facilitated by a fellow subsidiary entity of the Kraft Foods Europe group and not directly by Kraft Foods UK Limited. In 2009 the company made charitable contributions of £90,000 for the following causes: community £15,000, healthy lifestyle £73,000, hunger £2,000.

Post balance sheet event

Further to the announcement in May 2010 of the proposal to integrate the office network in the UK, integration with the Cadbury business continued in 2011 including a major systems and business reorganisation in June 2011. Further details of this are given in Note 26 to the financial statements.

Disabled employees

The company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

Employee policies and involvement

It is the company's policy to ensure that no employee or job applicant is treated less favourably than another on the grounds of religion, sexual orientation, disability, race, creed, colour, nationality, ethnic or national origins, sex or marital status.

The company recognises the need to create and support a flexible working environment, incorporating where possible, family friendly policies.

The company believes in and supports the development of a working environment which encourages employee involvement in the business. Information about the company and its business is provided to all employees on matters likely to be of concern to them in team briefings, a company newsletter, an annual report and by other communications. Trade Union representatives and other employee groups regularly receive information about the business.


There are formal agreements with Trade Unions regarding consultation, discussion and negotiation. Joint consultative committees discuss safety and pension matters. Ad hoc consultative working parties consider particular issues.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution to re-appoint them will be proposed at the Annual General Meeting.

Registered office
St George's House
Bayshill Road
Cheltenham
Gloucestershire
GL50 3AE

Signed on behalf of the board


Director N. BUNKER

Approved by the directors on 23 June 2011

KRAFT FOODS UK LTD.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF KRAFT FOODS UK LTD.

We have audited the financial statements of Kraft Foods UK Ltd for the period ended 11 December 2010 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses 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 page 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 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 directors, and the overall presentation of the financial statements.

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 11 December 2010 and of its loss for the period 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 period for which the financial statements are prepared is consistent with the financial statements.

KRAFT FOODS UK LTD.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF KRAFT FOODS UK LTD. (continued)

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



STEVE FISH (Senior Statutory Auditor)
For and on behalf of
PRICEWATERHOUSECOOPERS LLP
Chartered Accountants & Statutory Auditors

31 Great George Street
Bristol
BS1 5QD

23 June 2011

KRAFT FOODS UK LTD.

PROFIT AND LOSS ACCOUNT

PERIOD FROM 13 DECEMBER 2009 TO 11 DECEMBER 2010

	Note	2010 £000	2009 £000
Turnover	2	526,241	564,369
Cost of sales		<u>(478,424)</u>	<u>(473,680)</u>
Gross profit		47,817	90,689
Distribution costs		(1,051)	(11,413)
Administrative expenses		<u>(42,775)</u>	<u>(67,474)</u>
Operating profit	3	3,991	11,802
Interest receivable and similar income		174	478
Interest payable and similar charges	6	<u>(733)</u>	<u>(2,312)</u>
Profit on ordinary activities before taxation		3,432	9,968
Tax on profit on ordinary activities	7	<u>(3,788)</u>	<u>(4,868)</u>
(Loss)/profit for the financial period		<u>(356)</u>	<u>5,100</u>

All of the activities of the company are classed as continuing

The notes on pages 11 to 30 form part of these financial statements.

KRAFT FOODS UK LTD.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

PERIOD FROM 13 DECEMBER 2009 TO 11 DECEMBER 2010

	2010	2009
	£000	£000
(Loss)/Profit for the financial period	(356)	5,100
Actuarial gain/(loss) in respect of defined benefit pension scheme	9,642	(39,028)
Deferred tax in respect of defined benefit pension scheme	(3,075)	10,928
Total recognised gains and losses relating to the period	<u>6,211</u>	<u>(23,000)</u>

There is no difference between the profit on ordinary activities before taxation and the retained profit for the financial period stated above and their historical cost equivalents

The notes on pages 10 to 29 form part of these financial statements


KRAFT FOODS UK LTD.

BALANCE SHEET

AS AT 11 DECEMBER 2010

	Note	11 Dec 10 £000	12 Dec 09 £000
Fixed assets			
Intangible assets	9	19,618	25,862
Tangible assets	10	22,768	25,589
Investments	11	84,072	84,072
		<u>126,458</u>	<u>135,523</u>
Current assets			
Debtors	12	175,924	154,708
Cash at bank		8,755	7,592
		<u>184,679</u>	<u>162,300</u>
Creditors: Amounts falling due within one year	13	<u>(189,426)</u>	<u>(172,380)</u>
Net current liabilities		<u>(4,747)</u>	<u>(10,080)</u>
Total assets less current liabilities		<u>121,711</u>	<u>125,443</u>
Creditors: Amounts falling due after more than one year	14	(1,034)	(2,106)
Provisions for liabilities and charges	16	(9,267)	(6,970)
Net assets excluding pension liability		<u>111,410</u>	<u>116,367</u>
Defined benefit pension scheme liability	18	(23,040)	(33,973)
Net assets including pension liability		<u>88,370</u>	<u>82,394</u>
Capital and reserves			
Called-up share capital	22	1,581	1,581
Share premium account	23	42,311	42,311
Profit and loss account	24	44,478	38,502
Total shareholder's funds	25	<u>88,370</u>	<u>82,394</u>

These financial statements were approved by the board and authorised for issue on 23 June 2011 and are signed on their behalf by


Director N. Bunke

Company Registration Number 203663

The notes on pages 10 to 29 form part of these financial statements.

KRAFT FOODS UK LTD.

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 13 DECEMBER 2009 TO 11 DECEMBER 2010

1 Accounting policies

Basis of accounting

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

The financial statements are also prepared on the going concern basis and in accordance with the Companies Act 2006. The principal accounting policies which have been applied consistently throughout the period are set out below

Consolidation

The company was, at the end of the period, a wholly-owned subsidiary of another company incorporated outside the EEA and in accordance with Section 401 of the Companies Act 2006, is not required to produce, and has not published, consolidated accounts

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes a consolidated cash flow statement

Turnover

Turnover comprises the selling value, after deduction of any allowances and taxes, of goods sold in the ordinary course of business. Revenue is recognised on delivery of the goods to the customer

Research and development

Research and development expenditure is written off in the year in which it is incurred

Goodwill

Goodwill arises where the purchase consideration exceeds the value of the underlying net assets

Amortisation

Amortisation 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

Goodwill	- 20 years
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Tangible fixed assets

Tangible fixed assets are stated at historic cost less depreciation. 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

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 buildings	- 25 to 40 years
Plant & Machinery	- 3 to 20 years

KRAFT FOODS UK LTD.

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 13 DECEMBER 2009 TO 11 DECEMBER 2010

1. Accounting policies *(continued)*

Depreciation (continued)

Capital work in progress and freehold land are not depreciated

Fixed asset investments in subsidiary undertakings

Investments in subsidiary undertakings are recorded at cost plus incidental expenses less any provision for impairment. Impairment reviews are performed by the directors when there has been an indication of potential impairment.

Impairment

The company carries out an impairment review of its tangible and intangible assets when a change in circumstances or situation indicates that those assets may have suffered an impairment loss. Impairment is measured by comparing the carrying amount of the asset with the recoverable amount of the associated income generating unit on a value-in-use basis. Value-in-use is calculated by discounting the expected future cash flows.

Finance lease agreements

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated in accordance with the above depreciation policies. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account on a straight line basis, and the capital element which reduces the outstanding obligation for future instalments.

Operating lease agreements

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

Pension costs and other post-retirement benefits

The company operates a defined benefit type pension plan for the benefit of the majority of its employees, the assets of which are held separately from those of the company in independently administered funds. The assets of the plan are measured at market value at the balance sheet date and the liabilities are measured using the Projected Unit method. The increase in the present value of the liabilities of the company's defined benefit pension scheme expected to arise from employee service in the period is charged to operating profit. The expected return on the schemes' assets and the increase during the period in the present value of the schemes' liabilities arising from the passage of time are included in other finance income. Actuarial gains and losses are recognised in the consolidated statement of total recognised gains and losses. The resulting pension scheme surplus or deficit is recognised immediately on the balance sheet net of the related deferred tax.

KRAFT FOODS UK LTD.

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 13 DECEMBER 2009 TO 11 DECEMBER 2010

1 Accounting policies *(continued)*

Deferred taxation

Deferred taxation 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 not recognised to the extent that the transfer of economic benefits in the future is uncertain. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which 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

Transactions denominated in foreign currencies are translated into sterling at average exchange rates in operation when the transaction occurred. Exchange gains and losses on settled transactions are reported in the profit and loss account. Monetary assets and liabilities in foreign currencies have been expressed in sterling at the rates ruling at the end of the period, except when covered by an open foreign exchange contract in which case the rate of exchange specified in the contract is used, and any gains or losses reported in the profit and loss account.

Share-based payments

Equity-settled share-based payment transactions for employee services received are measured at fair value and recognised as an expense spread over the service periods for share awards expected to vest. The fair value is measured by reference to the number and market value of the equity instruments at the date of grant. At each balance sheet date the company revises its estimates of the number of awards that are expected to vest and recognises the impact in the income statement with a corresponding adjustment to equity.

Recharges made to the company when the share awards have vested are recognised when paid and accounted for as a decrease in equity.

Provision is also made for the cost of stock option awards, granted by the ultimate parent company before November 2002, based on the market value of outstanding stock options at the end of the period. The costs of stock options exercised during the period are recharged to the company based on the spread between the issue and exercise price of those options.

2 Turnover

The company operates as a sales and distribution company of Kraft Foods products into the existing United Kingdom markets and customers.

KRAFT FOODS UK LTD.

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 13 DECEMBER 2009 TO 11 DECEMBER 2010

3. Operating profit

Operating profit is stated after charging

	2010 £000	2009 £000
Amortisation of intangible assets	6,244	6,244
Research and development expenditure written off	–	615
Depreciation of owned fixed assets	1,266	4,241
Depreciation of assets held under finance lease agreements	1,465	1,922
Loss on disposal of fixed assets	340	1,409
Operating lease costs		
- Plant and equipment	571	471
- Other	–	383
Auditor's remuneration - other fees	40	38
	<u>11 Dec 10</u>	<u>12 Dec 09</u>
	£000	£000
Auditor's remuneration - other fees		
- Audit of company pension scheme	40	38

Audit fees for the company are now borne on behalf of the UK group by a fellow subsidiary undertaking and not separately recharged to the company. An estimated allocation of the audit fee for the period is £295,000 (2009 - £310,000).

The company's auditor acted as auditor to the Kraft Foods Retirement Benefits Plan. The appointment of auditors to the pension scheme and the fees paid in respect of this audit are agreed by the trustees of the scheme who act independently of the company.

KRAFT FOODS UK LTD.

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 13 DECEMBER 2009 TO 11 DECEMBER 2010

4 Particulars of employees

The average monthly number of staff employed by the company during the financial period amounted to

	2010 Number	2009 Number
Production	–	186
Distribution	–	9
Sales and marketing	215	243
Administration	29	94
	<u>244</u>	<u>532</u>

The aggregate payroll costs of the above were

	2010 £000	2009 £000
Wages and salaries	13,799	26,858
Social security costs	960	2,493
Other pension costs	2,335	5,714
Equity-settled share-based payments	574	1,059
	<u>17,668</u>	<u>36,124</u>

Other pension costs are amounts charged to operating profit and do not include amounts charged to finance costs (see note 6) and amounts recognised in the statement of recognised gains and losses

5. Directors' remuneration

The directors' aggregate remuneration in respect of qualifying services were

	2010 £000	2009 £000
Remuneration receivable	1,124	1,119
Amounts receivable under long-term incentive schemes	101	–
Money receivable	<u>1,225</u>	<u>1,119</u>

Remuneration of highest paid director:

	2010 £000	2009 £000
Total remuneration (excluding pension contributions)	<u>539</u>	<u>426</u>

Benefits are accruing under a defined benefits pension scheme and, at the year end the accrued pension amounted to £41,000 (2009 - £40,000)

KRAFT FOODS UK LTD.

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 13 DECEMBER 2009 TO 11 DECEMBER 2010

5. Directors' remuneration *(continued)*

The number of directors who accrued benefits under company pension schemes was as follows

	2010 Number	2009 Number
Defined benefit schemes	<u>5</u>	<u>7</u>

The number of directors who exercised share options and received shares under a long term incentive scheme during the period were as follows

	2010 Number	2009 Number
Directors who exercised share options	2	-
Directors who received shares under a long term incentive scheme	<u>4</u>	<u>4</u>

6. Interest payable and similar charges

	2010 £000	2009 £000
Finance charges	482	753
Other interest payable and similar charges	35	49
Net finance costs in respect of defined benefit pension schemes	216	1,510
	<u>733</u>	<u>2,312</u>

KRAFT FOODS UK LTD.

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 13 DECEMBER 2009 TO 11 DECEMBER 2010

7 Tax on profit on ordinary activities

(a) Analysis of charge in the period

	2010 £000	2009 £000
Current tax		
In respect of the period		
UK Corporation tax based on the results for the period at 28% (2009 - 28%)	199	4,049
Adjustment in respect of prior period	517	902
	<u>716</u>	<u>4,951</u>
Amount payable in respect of group relief	1,187	-
Total current tax	<u>1,903</u>	<u>4,951</u>
Deferred tax		
Origination and reversal of timing differences	(285)	(1,875)
Other deferred tax movement relating to pension scheme	1,615	1,656
Adjustment in respect of prior period	803	136
Effect of changed tax rate on opening balance	(248)	-
Total deferred tax (note 16)	<u>1,885</u>	<u>(83)</u>
Tax on profit on ordinary activities	<u>3,788</u>	<u>4,868</u>

The corporation tax payable for the year has been reduced by £1,187,000 because of group relief which will be available from a fellow subsidiary for which a payment of £1,187,000 will be made in 2011

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the period is higher than the standard rate of corporation tax in the UK of 28% (2009 - 28%)

	2010 £000	2009 £000
Profit on ordinary activities before taxation	<u>3,432</u>	<u>9,968</u>
Profit on ordinary activities multiplied by standard rate of tax	961	2,791
Expenses not deductible for tax purposes	1,935	1,978
Capital allowances for period less than depreciation	471	629
Other timing differences	(175)	(417)
Adjustment in respect of prior period	517	902
Non taxable items	-	(112)
Pension contribution relief in excess of pension cost charge	(1,675)	(1,656)
Group relief not charged	(131)	-
Chargeable gains	-	836
Total current tax (note 7(a))	<u>1,903</u>	<u>4,951</u>

KRAFT FOODS UK LTD.

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 13 DECEMBER 2009 TO 11 DECEMBER 2010

7. Tax on profit on ordinary activities *(continued)*

(c) Factors that may affect future tax charges

No provision has been made for deferred tax on gains rolled over net of unrelieved capital losses. Rollover relief is available provided the proceeds arising on the relevant sales, giving rise to the gains, are reinvested in qualifying assets in a period one year before and three years after the sale.

In July 2010 The Finance (No 2) Act 2010 was substantively enacted and reduced the rate of corporation tax from 28 per cent to 27 per cent from 1 April 2011. The deferred tax liability has been calculated using this rate.

A number of further changes to the UK Corporation tax system were announced in the March 2011 Budget Statement. A decrease in the corporation tax rate to 26%, effective from 1 April 2011, was substantively enacted on 29 March 2011 under the Provisional Collection of Taxes Act 1968. Further reductions to the main rate are proposed to reduce the rate by 1 per cent per annum to 23 per cent by 1 April 2014. These changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

If it had been enacted at the balance sheet date, the estimated effect of the changes enacted in the Finance (No 2) Act 2010 would be to decrease the deferred tax liability provided at 11 December 2010 by £268,000, to decrease the deferred tax asset arising on the pension liability by £316,000 and to decrease reserves by £48,000.

8. Dividends

Equity dividends

	2010 £000	2009 £000
Paid during the year		
Dividends on ordinary shares (2009 – £1,231 per share)	<u>–</u>	<u>100,000</u>

9 Intangible fixed assets

	Goodwill £000
Cost	
At 13 December 2009 and 11 December 2010	<u>154,208</u>
Accumulated amortisation	
At 13 December 2009	128,346
Charge for the period	6,244
At 11 December 2010	<u>134,590</u>
Net book value	
At 11 December 2010	<u>19,618</u>
At 12 December 2009	<u>25,862</u>

Goodwill is being amortised on a straight-line basis over twenty years, being the period over which the directors estimate that the values of the underlying businesses acquired are expected to exceed the values of the underlying assets.

KRAFT FOODS UK LTD.

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 13 DECEMBER 2009 TO 11 DECEMBER 2010

10 Tangible fixed assets

	Freehold land and buildings £000	Plant and machinery £000	Total £000
Cost			
At 13 December 2009	34,138	18,460	52,598
Additions	–	250	250
Disposals	(248)	(5,201)	(5,449)
At 11 December 2010	33,890	13,509	47,399
Accumulated depreciation			
At 13 December 2009	13,439	13,570	27,009
Charge for the period	800	1,931	2,731
On disposals	(72)	(5,037)	(5,109)
At 11 December 2010	14,167	10,464	24,631
Net book value			
At 11 December 2010	19,723	3,045	22,768
At 12 December 2009	20,699	4,890	25,589

The cost and depreciation figures brought forward from 2009 have been revised to correct the allocation between asset classes and transfers to other business units following the business reorganisation and transfers in 2009. This has no effect on the total net book values.

Finance lease agreements

Included within the net book value of plant and machinery is £1,530,000 (2009 - £2,837,000) relating to assets held under finance lease agreements. The depreciation charged to the financial statements in the period in respect of such assets amounted to £1,465,000 (2009 - £1,922,000).

11. Fixed asset investments

	Total £000
Cost	
At 13 December 2009 and 11 December 2010	84,072
Net book value	
At 11 December 2010 and 12 December 2009	84,072

KRAFT FOODS UK LTD.

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 13 DECEMBER 2009 TO 11 DECEMBER 2010

11. Fixed asset investments *(continued)*

Subsidiary undertakings

	Country of incorporation	Holding	% of voting rights and shares held	Nature of business
Kraft Foods Middle East & Africa Ltd	England	Ordinary shares	100%	Dormant
Kenco Coffee Company Ltd	England	Ordinary shares	100%	Dormant
Kraft Foods UK Production Ltd	England	Ordinary shares	100%	Food and beverage production
Kraft Foods UK R&D Ltd	England	Ordinary shares	100%	Research & development
Kraft Foods UK Intellectual Property Ltd	England	Ordinary shares	100%	Trademark owner

The investments in Kraft Foods Middle East & Africa Ltd and The Kenco Coffee Company Limited have been fully written off in previous periods and have a net book value of £Nil

	11 Dec 10 £000	12 Dec 09 £000
Aggregate capital and reserves		
Kraft Foods Middle East & Africa Ltd (dormant)	1,050	1,050
Kenco Coffee Company Ltd (dormant)	87	87
Kraft Foods UK Production Ltd	75,695	73,661
Kraft Foods UK R&D Ltd	34,774	33,741
Kraft Foods UK Intellectual Property Ltd	1,988	817
Profit for the year		
Kraft Foods Middle East & Africa Ltd (dormant)	-	-
Kenco Coffee Company Ltd (dormant)	-	-
Kraft Foods UK Production Ltd	2,033	1,114
Kraft Foods UK R&D Ltd	1,141	2,121
Kraft Foods UK Intellectual Property Ltd	1,171	817

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

Under the provision of section 401 of the Companies Act 2006 the company is exempt from preparing consolidated accounts and has not done so, therefore the accounts show information about the company as an individual entity

KRAFT FOODS UK LTD.

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 13 DECEMBER 2009 TO 11 DECEMBER 2010

12 Debtors

	11 Dec 10	12 Dec 09
	£000	£000
Trade debtors	99,110	96,702
Amounts owed by group undertakings	73,888	53,941
Other debtors	2,043	103
Prepayments and accrued income	883	3,962
	<u>175,924</u>	<u>154,708</u>

Amounts owed by fellow subsidiary companies include non trading balances which are unsecured, earn interest at the London Interbank Mean Rate less 0.25% and are repayable on demand

13. Creditors Amounts falling due within one year

	11 Dec 10	12 Dec 09
	£000	£000
Trade creditors	900	1,766
Amounts owed to group undertakings	113,683	92,600
Corporation tax	2,675	3,643
Finance lease agreements	1,107	1,590
Other creditors	648	1,209
Accruals and deferred income	70,413	71,572
	<u>189,426</u>	<u>172,380</u>

14. Creditors. Amounts falling due after more than one year

	11 Dec 10	12 Dec 09
	£000	£000
Finance lease agreements	<u>1,034</u>	<u>2,106</u>

15. Commitments under finance lease agreements

Future commitments under finance lease agreements are as follows

	11 Dec 10	12 Dec 09
	£000	£000
Amounts payable within 1 year	1,107	1,590
Amounts payable between 1 and 2 years	722	1,156
Amounts payable between 3 and 5 years	312	950
	<u>2,141</u>	<u>3,696</u>

KRAFT FOODS UK LTD.

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 13 DECEMBER 2009 TO 11 DECEMBER 2010

16 Provisions for liabilities and charges

	Reorganisation provision £000	Deferred taxation £000	Total £000
Balance brought forward	-	6,970	6,970
Provided during period	2,027	-	2,027
Profit and Loss Account movement arising during the period	-	270	270
Balance carried forward	<u>2,027</u>	<u>7,240</u>	<u>9,267</u>

Reorganisation provision

As a result of the business reorganisation following the acquisition of Cadbury by Kraft Foods Inc, and the proposed closure of the Cheltenham office, a severance provision of £2.0 million has been provided for in the accounts. No exceptional item has been disclosed for this amount as it is recoverable, as incurred, from Kraft Foods Europe GmbH.

Deferred taxation

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

	11 Dec 10		12 Dec 09	
	Provided £000	Unprovided £000	Provided £000	Unprovided £000
Excess of taxation allowances over depreciation on fixed assets	2,473	-	2,022	-
Chargeable gains - held over	5,603	-	5,810	-
Other timing differences	(836)	-	(862)	-
Chargeable gains - rolled over	-	6,131	-	6,358
	<u>7,240</u>	<u>6,131</u>	<u>6,970</u>	<u>6,358</u>
	<u>7,240</u>	<u>6,131</u>	<u>6,970</u>	<u>6,358</u>

As part of the 2009 reorganisation and the transfer of assets to other fellow subsidiary entities the company transferred the associated deferred tax liability, arising in respect of accelerated capital allowances, to the relevant entity at net book value.

17. Share-based payments

Performance Incentive Plan

Under a Performance Incentive Plan eligible employees of the company are granted a "Deferred Stock Unit Award" (the "Award") with respect to a number of shares (the "Deferred Shares") of the Common Stock of Kraft Foods Inc. The employee does not have the right to vote the Deferred Shares or receive dividends but is entitled to receive cash payments in lieu of dividends otherwise payable. The Awards are non transferable and may not be assigned, hypothecated or otherwise pledged. The Awards granted to eligible employees have no performance criteria attached to them other than the requirement that the employee remains in employment of the Kraft Foods Inc group from award date to vesting date. If an employee moves within the Kraft Foods Inc group then an inter-group reallocation is made and the charge for the Award is time apportioned. The Awards generally vest on the third anniversary of the grant date.

KRAFT FOODS UK LTD.

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 13 DECEMBER 2009 TO 11 DECEMBER 2010

17 Share-based payments (continued)

Performance Incentive Plan (continued)

Movements in the total number of deferred shares and their weighted-average grant date fair values (WAFV) are as follows

	2010		2009	
	Number of shares	WAFV	Number of shares	WAFV
Opening balance	36,330	£16 74	135,580	£16 36
Granted	14,540	£18 83	47,640	£17 25
Vested	(12,760)	£17 19	(60,283)	£16 40
Forfeited	-	-	(1,077)	£15 39
Inter-group reallocation	-	-	(85,530)	£16 72
Closing balance	<u>38,110</u>	<u>£17 39</u>	<u>36,330</u>	<u>£16 74</u>

The fair value of deferred stock is determined based on the number of shares granted and the market value at date of grant. The total charge for the period relating to employee share-based payments under this plan was £523,000 (2009 - £992,000), all of which related to equity-settled share-based payment transactions.

Executive share option scheme

The company has a share option scheme for eligible employees (including directors). Options are granted at an exercise price equal to the market value of the underlying stock on the date of grant. Share options generally become exercisable one-third each year on the first anniversary of the grant date and have a maximum term of ten years. The options are settled in equity once exercised.

If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are not transferrable and are forfeited if the employee leaves the company before the options are exercised. If an employee moves within the Kraft group then an inter-group re-allocation is made on a time apportioned basis.

Details of the number of share options and the weighted average exercise price (WAEP) during the period are as follows

	2010		2009	
	Number of shares	WAEP	Number of shares	WAEP
Opening balance	197,265	£16 18	267,569	£17 18
Options exercised	(25,719)	£12 42	(36,972)	£9 31
Options cancelled/forfeited	(20,538)	£17 61	(61,060)	£21 80
New options issued in period	61,980	£18 83	154,000	16 52
Inter-group reallocation	-	-	(126,272)	-
Closing balance	<u>212,988</u>	<u>£17 92</u>	<u>197,265</u>	<u>£16 18</u>
Exercisable at the end of the period	<u>100,550</u>	<u>£18 74</u>	<u>144,498</u>	<u>£17 25</u>

KRAFT FOODS UK LTD.

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 13 DECEMBER 2009 TO 11 DECEMBER 2010

17 Share-based payments (continued)

Executive share option scheme (continued)

In February 2010 options were granted at an exercise price of £18.83 (2009 - £16.52). The estimated fair value of the options granted was £2.38 (2009 - £1.87). The fair values were calculated by Kraft Foods Inc using a modified Black Scholes methodology.

The weighted-average Black-Scholes fair value assumptions were as follows:

Risk-free interest rate	2.82%
Expected life	6 years
Expected volatility	19.86%
Expected dividend yield	4.14%
Fair value at grant date	£2.38

For options outstanding at the end of the period the range of exercise prices and their weighted average remaining life in years (WARL) are as follows:

Range of exercise prices	Number of shares	2010	Number of shares	2009
		WARL		WARL
£0.01 - £5.00	-	-	10,537	0.13
£10.01 - £15.00	51,074	5.44	66,543	6.34
£15.01 - £20.00	161,914	5.77	120,186	4.49
Closing balance	<u>212,988</u>	5.71	<u>197,265</u>	4.93

The weighted average share price during the period for options exercised over the period was £21.71 (2009 - £16.38). The total charge for the period relating to employee share-based payments under this plan was £51,000 (2009 - £67,000), all of which related to equity-settled share-based payment transactions.

The 2009 comparative figures for the WAEP of options exercised, the range of exercise prices and associated WARL have been revised.

KRAFT FOODS UK LTD.

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 13 DECEMBER 2009 TO 11 DECEMBER 2010

18 Pensions and other post retirement benefits

The company is the sponsoring employer to the Kraft Foods Retirement Benefits Plan ("the Plan"), a UK contributory pension scheme. This plan is of a defined benefit type and is funded with the assets being held in a separate trustee administered fund. The Plan provides benefits to employees of the company, its subsidiaries and UK branches of other Kraft entities.

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

	11 Dec 10 £000	12 Dec 09 £000
<i>Amounts charged to operating profit</i>		
Current service cost	2,154	5,261
Past service cost	181	453
Total operating charge	<u>2,335</u>	<u>5,714</u>
<i>Amounts included in other finance cost</i>		
Expected return on scheme assets	(28,106)	(26,348)
Interest on scheme liabilities	28,322	27,858
Other finance cost	<u>216</u>	<u>1,510</u>
Total charge to the profit and loss account	<u>2,551</u>	<u>7,224</u>
Actual return on scheme assets	<u>44,291</u>	<u>60,399</u>

Other finance cost is included in the profit and loss account within interest payable and similar charges.

At 11 December 2010 the cumulative amount of actuarial losses recognised in the statement of total recognised gains and losses is £68.7 million (2009 - £78.4 million).

The amounts recognised in the balance sheet are as follows

	11 Dec 10 £000	12 Dec 09 £000
Present value of funded obligations	(514,744)	(507,671)
Fair value of scheme assets	<u>483,182</u>	<u>460,486</u>
	<u>(31,562)</u>	<u>(47,185)</u>
Related deferred tax asset	8,522	13,212
Net pension liability	<u>(23,040)</u>	<u>(33,973)</u>

KRAFT FOODS UK LTD.

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 13 DECEMBER 2009 TO 11 DECEMBER 2010

18. Pensions and other post retirement benefits *(continued)*

Changes in the present value of the defined benefit obligation scheme are as follows

	11 Dec 10	12 Dec 09
	£000	£000
Opening defined benefit obligation	507,671	424,684
Current service cost	2,154	5,261
Past service cost	181	453
Interest on scheme liabilities	28,322	27,858
Actuarial loss	6,544	73,079
Contributions by scheme participants	85	294
Benefits paid	(30,213)	(23,958)
Closing defined benefit obligation	<u>514,744</u>	<u>507,671</u>

Changes in the fair value of scheme assets are as follows

	11 Dec 10	12 Dec 09
	£000	£000
Opening fair value of scheme assets	460,486	410,614
Expected return on scheme assets	28,106	26,348
Contributions by employer	8,532	13,137
Contributions by scheme participants	85	294
Actuarial gain	16,186	34,051
Benefits paid	(30,213)	(23,958)
Closing fair value of scheme assets	<u>483,182</u>	<u>460,486</u>

The limited company expects to contribute £8,500,000 to its defined benefit pension scheme in 2011

The fair value of the major categories of scheme assets and the expected rate of return at the balance sheet date are as follows

	Expected return		Fair value of assets	
	11 Dec 10	12 Dec 09	11 Dec 10	12 Dec 09
	%	%	£000	£000
Equities	8.00	4.80	228,545	207,219
Bonds	6.00	6.00	252,704	253,267
Other assets	—	—	1,933	—
Fair value of scheme assets			<u>483,182</u>	<u>460,486</u>

KRAFT FOODS UK LTD.

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 13 DECEMBER 2009 TO 11 DECEMBER 2010

18 Pensions and other post retirement benefits *(continued)*

The Scheme assets do not include any of Kraft Foods UK Limited's own financial instruments, or any property occupied by Kraft Foods UK Limited

The expected return on assets is determined by considering the expected returns available on the assets underlying the current investment portfolio. Expected returns on equity investments reflect a 10 year median return. For bonds the expected yield has been calculated based on the redemption yield.

Actuarial assumptions

The full actuarial valuation of the Plan carried out as at 1 April 2007 by Mercer's, actuarial consultants to the Plan, has been updated to 11 December 2010 by Watson Wyatt Limited, actuarial consultants to the company.

The mortality assumptions used have been aligned with those adopted at the 2007 funding valuation. The tables used and life expectancies for a male aged 65 are

	Table	Life expectancy
Current pensioners	PA92 medium cohort (Year of birth) +2 years	19.8 years
Other members	PA92 medium cohort (Year of birth) +1 year	22.2 years

The principal actuarial assumptions as at the balance sheet date were

	11 Dec 10	12 Dec 09
	%	%
Discount rate	5.75	5.75
Expected return on scheme assets	6.25	6.50
Rate of increase in salaries	4.00	3.75
Rate of increase in deferred pensions	2.75	3.00
Inflation	3.25	3.00
Rate of increase in pensions in payment - LPI 5.0%	3.25	3.00
Rate of increase in pensions in payment - LPI 2.5%	2.25	2.25

Actuarial valuation

The latest full actuarial valuation of the pension Plan was carried out as at 1 April 2007 using the projected unit method. At that date the market value of the assets was £483,500,000 and the actuarial value of those assets represented 96% of the value of the benefits that had accrued to members, after allowing for expected future increases in earnings. Following the valuation, as advised by the Plan actuary and agreed by the Trustees, contributions to the Plan are being made at 20% of pensionable salaries, plus annual contributions of £5.5 million for the period from 1 April 2008 to 30 September 2012 to enable the Plan to meet its liabilities as they fall due. The assets were taken at market value and no allowance was made for discretionary pension increases.

The next actuarial valuation of the Plan is currently being undertaken with an effective date of 1 April 2010.

KRAFT FOODS UK LTD.

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 13 DECEMBER 2009 TO 11 DECEMBER 2010

18. Pensions and other post retirement benefits *(continued)*

Amounts for the current and previous four periods are as follows

	2010	2009	2008	2007	2006
	£000	£000	£000	£000	£000
Defined benefit obligation	(514,744)	(507,671)	(424,684)	(472,608)	(478,297)
Fair value of scheme assets	483,182	460,486	410,614	495,219	415,188
(Deficit)/surplus in the scheme	(31,562)	(47,185)	(14,070)	22,611	(63,109)
Experience adjustments on scheme liabilities (£)	13,247	(1,768)	20,000	(8,421)	2,343
Experience adjustments on scheme assets (£)	(16,185)	(34,051)	110,725	16,646	(11,783)

19 Commitments under operating leases

At 11 December 2010 the company had annual commitments under non-cancellable operating leases as set out below

	Land and buildings	
	11 Dec 10	12 Dec 09
	£000	£000
Operating leases which expire		
Within 1 year	113	112
Within 2 to 5 years	-	575
	<u>113</u>	<u>687</u>

20. Guarantees

The company has provided guarantees of £1,400,000 (2009 - £1,400,000) to HMRC in respect of the import of goods. There are no other guarantees in place at 11 December 2010 (2009 - £Nil)

21. Related party transactions

The company undertakes transactions with subsidiaries and fellow subsidiaries which are eliminated on consolidation in the consolidated financial statements of the ultimate parent company. The company has taken advantage of the exemption under Financial Reporting Standard No. 8 not to disclose such transactions.

There were no other transactions during the period, which were material either to the group or the counterparty, and which are required to be disclosed under the provisions of Financial Reporting Standard No. 8.

22. Called-up share capital

Authorised share capital:

	11 Dec 10	12 Dec 09
	£000	£000
10,000,000 Ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>

KRAFT FOODS UK LTD.

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PERIOD FROM 13 DECEMBER 2009 TO 11 DECEMBER 2010

22 Called-up share capital *(continued)*

Allotted and fully paid:

	11 Dec 10		12 Dec 09	
	Number	£000	Number	£000
1,581,234 Ordinary shares of £1 each	<u>1,581,234</u>	<u>1,581</u>	<u>1,581,234</u>	<u>1,581</u>

23. Share premium account

There was no movement on the share premium account during the financial period

24. Profit and loss account

	2010 £000	2009 £000
Balance brought forward	38,502	161,307
(Loss)/profit for the financial period	(356)	5,100
Equity dividends	–	(100,000)
Defined pension benefit scheme	6,567	(28,100)
Movement in share-based payments	(235)	195
Balance carried forward	<u>44,478</u>	<u>38,502</u>

25. Reconciliation of movements in shareholder's funds

	11 Dec 10 £000	12 Dec 09 £000
(Loss)/Profit for the financial period	(356)	5,100
New ordinary share capital subscribed	–	1,500
Equity dividends	–	(100,000)
Actuarial gain / (loss) on defined benefit pension scheme	6,567	(28,100)
Movement in share-based payments	(235)	195
Net addition/(reduction) to shareholder's funds	<u>5,976</u>	<u>(121,305)</u>
Opening shareholder's funds	<u>82,394</u>	<u>203,699</u>
Closing shareholder's funds	<u>88,370</u>	<u>82,394</u>

26. Post balance sheet events

Further to the announcement by Kraft Foods Inc in May 2010 of the proposal to integrate the office network in the UK, Kraft Foods UK Ltd will complete the closure of its Cheltenham office by the end of 2011. Relevant provisions for severance have been included in the 2010 accounts. Further integration with the Cadbury business has continued in 2011 and will include a major systems and business reorganisation in June 2011. The directors do not anticipate that this will lead to any diminution in the net assets of the company, however, at this stage it is not possible to accurately quantify the full financial impact of these changes.

KRAFT FOODS UK LTD.

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 13 DECEMBER 2009 TO 11 DECEMBER 2010

27. Ultimate parent company

At 11 December 2010 the immediate parent company is Kraft Foods Schweiz Holdings GmbH, a company incorporated in Switzerland. This is the parent company of the smallest group to consolidate these financial statements.

At 11 December 2010 the company's ultimate parent company and controlling party is Kraft Foods Inc., incorporated in the United States of America. This is the parent company of the largest group to consolidate these financial statements. Copies of the consolidated financial statements of Kraft Foods Inc. are available on application from the Company Secretary, St George's House, Bayshill Road, Cheltenham, Gloucestershire, GL50 3AE.