

COMPANY REGISTRATION NUMBER 203663

KRAFT FOODS UK LTD.
FINANCIAL STATEMENTS

14 DECEMBER 2008

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KRAFT FOODS UK LTD.

FINANCIAL STATEMENTS

PERIOD ENDED 14 DECEMBER 2008

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KRAFT FOODS UK LTD.

THE DIRECTORS' REPORT

PERIOD ENDED 14 DECEMBER 2008

The directors have pleasure in presenting their report and the financial statements of the group and the company for the period ended 14 December 2008.

Principal activities and business review

The principal activity of the group and company is the manufacture and distribution of food products to the retail, foodservice and vending beverage market places. The business performance for the period reflects the operating environment across the group's key categories of coffee, cheese, confectionery and other foods.

The group's results show a profit after tax for the period of £9,791,000 (2007 - £31,256,000) and sales of £539,266,000 (2007 - £552,958,000). The net assets of the group decreased to £184,415,000 (2007 as restated - £209,100,000).

Business environment, principal risks and uncertainties

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

In order to mitigate this risk the group 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.

Key performance indicators

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

	2008	2007
Continuing operations		
Growth in Sales	6.0%	3.8% Period on period sales growth expressed as a percentage. Sales growth increased in 2008 due to successful new product launches and higher pricing.
Gross margin	31.8%	36.3% Gross margin is the ratio of gross profit to sales expressed as a percentage. Decreased due to rising commodity costs, forex losses and product launch costs.

KRAFT FOODS UK LTD.

THE DIRECTORS' REPORT *(continued)*

PERIOD ENDED 14 DECEMBER 2008

Strategy and future outlook

The outlook for 2009 remains challenging as the group continues to strive for reliable, consistent growth. The key elements to the group's strategy for growth are its brands, people, values and vision. The group aims to achieve this by:

1. Sharing the global vision of its parent company, Kraft Foods Inc., to help people around the world eat and live better continuing the further development of its brand portfolio and focussing on its core power brands where a competitive advantage can be achieved.
2. Maintaining specific values of innovation, quality, safety, respect for communities and the environment, integrity and openness.
3. Recruiting talented and dedicated employees who are focused and passionate about their work.

As noted below the Kraft group of companies undertook a reorganisation in April 2009 and the research and development and production functions of Kraft Foods UK Limited were sold to subsidiaries of the company. The company is focussing on its sales operations from that date.

Results and dividends

The profit for the period, after taxation, amounted to £9,791,000 (2007 - £31,256,000). The directors have not recommended a dividend.

Financial risk management

The group'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

The group is exposed to commodity price risk as a result of its operations. This is managed by the use of forward contracts to purchase commodities.

Foreign currency exchange risk

The group is exposed to foreign exchange risks in the normal course of business primarily with respect to US dollars. The company uses financial instruments to hedge a portion of its foreign currency exposure when purchasing certain commodities.

Credit risk

The group 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 group has sufficient available funds for operations and planned expansions.

Interest rate and cash flow risk

The group 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 ENDED 14 DECEMBER 2008

Research and development

Research and development activities during 2008 continued to be focused on new product development and improvements to established products and processes.

Directors

The directors who served the company during the period were as follows:

N Bunker
B Clarke
J Beaty
J Cook
D Courage
C Jinks
A Jennings

N Bunker was appointed as a director on 31 March 2008.
B Clarke resigned as a director on 31 March 2008.
A Jennings was appointed as a director on 29 August 2008.
J Beaty resigned as a director on 29 August 2008.
C Jinks resigned as a director on 30 September 2008.
D Courage resigned as a director on 20 April 2009.
L Stigant was appointed as a director on 18 May 2009.
M Stanton was appointed as a director on 18 May 2009.
J Pipe was appointed as a director on 1 June 2009.
J Cook resigned as a director on 1 June 2009.

Donations

During the period the company made the following contributions:

	2008 £	2007 £
Charitable	<u>99,000</u>	<u>94,000</u>
	2008 £	2007 £
Community	23,000	44,000
Healthy lifestyle	76,000	40,000
Hunger	-	10,000
	<u>99,000</u>	<u>94,000</u>

Post balance sheet event

In April 2009, a reorganisation of the Kraft group of companies was completed to facilitate the group delivering its strategic goals and achieving sustainable and profitable growth by managing its business by category across its European markets. Further details of this are given in Note 31 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.

KRAFT FOODS UK LTD.

THE DIRECTORS' REPORT *(continued)*

PERIOD ENDED 14 DECEMBER 2008

Employee policies and involvement

It is the group'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 group recognises the need to create and support a flexible working environment, incorporating where possible, family friendly policies.

The group believes in and supports the development of a working environment which encourages employee involvement in the business. Information about the group 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.

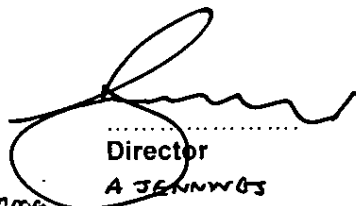
There are formal agreements with Trade Unions regarding consultation, discussion and negotiation. Joint consultative committees discuss safety and pension matters. Ad hoc consultative working parties consider particular issues.

Auditor

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 by order of the directors



Director
A JENNINGS

Approved by the directors on 20 OCTOBER 2009

KRAFT FOODS UK LTD.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

PERIOD ENDED 14 DECEMBER 2008

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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 group will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware:

- there is no relevant audit information of which the group's auditor is 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 auditor is aware of that information.

Signed on behalf of the directors by:



Director

N BUNKER

KRAFT FOODS UK LTD.

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

PERIOD ENDED 14 DECEMBER 2008

We have audited the group and parent company financial statements ("the financial statements") of Kraft Foods UK Ltd. for the period ended 14 December 2008, which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditor

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, and all of the other information listed on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

KRAFT FOODS UK LTD.

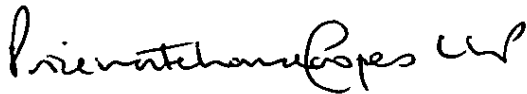
INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF KRAFT FOODS UK LTD. (continued)

PERIOD ENDED 14 DECEMBER 2008

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 14 December 2008 and of the group's profit for the period then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.



PRICEWATERHOUSECOOPERS LLP
Chartered Accountants & Registered Auditor
Bristol
20 October 2009

KRAFT FOODS UK LTD.

GROUP PROFIT AND LOSS ACCOUNT

PERIOD ENDED 14 DECEMBER 2008

		2008	2007
	Note	£000	£000
Turnover			
Continuing operations		539,266	507,547
Discontinued operations		—	45,411
Group Turnover		<u>539,266</u>	<u>552,958</u>
Cost of sales	3	(367,978)	(358,577)
Gross profit		<u>171,288</u>	<u>194,381</u>
Net operating expenses	3	(154,417)	(166,013)
Exceptional item		(6,591)	—
Operating profit:	5		
Continuing operations		10,280	29,773
Discontinued operations		—	(1,405)
Group operating profit		<u>10,280</u>	<u>28,368</u>
Interest receivable and similar income	8	7,574	9,316
Interest payable and similar charges	9	(1,258)	(1,402)
Profit on ordinary activities before taxation		<u>16,596</u>	<u>36,282</u>
Tax on profit on ordinary activities	10	(6,805)	(5,026)
Profit for the financial period		<u>9,791</u>	<u>31,256</u>

The company has taken advantage of section 230 of the Companies Act 1985
not to publish its own Profit and Loss Account.

The notes on pages 12 to 37 form part of these financial statements.

KRAFT FOODS UK LTD.

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

PERIOD ENDED 14 DECEMBER 2008

	2008	2007 (restated*)
	£000	£000
Profit for the financial period		
attributable to the shareholder of the parent company	9,791	31,256
Actuarial gain/(loss) in respect of defined benefit pension scheme	(46,972)	5,944
Current and deferred tax in respect of defined benefit pension scheme	13,152	(1,954)
Total recognised gains and losses relating to the period	(24,029)	35,246
Prior year adjustment (see Note 12)	(321)	3,129
Total gains and losses recognised since the last annual report	(24,350)	38,375

*See Note 1

The notes on pages 12 to 37 form part of these financial statements.

KRAFT FOODS UK LTD.

GROUP BALANCE SHEET

14 DECEMBER 2008

	Note	2008 £000	2007 (restated*) £000
Fixed assets			
Intangible assets	13	12,086	23,234
Tangible assets	14	118,357	128,476
		<u>130,443</u>	<u>151,710</u>
Current assets			
Stocks	16	45,038	45,176
Debtors	17	167,760	168,287
Cash at bank		18,971	4,213
		<u>231,769</u>	<u>217,676</u>
Creditors: Amounts falling due within one year	18	<u>(141,275)</u>	<u>(151,332)</u>
Net current assets		<u>90,494</u>	<u>66,344</u>
Total assets less current liabilities		<u>220,937</u>	<u>218,054</u>
Creditors: Amounts falling due after more than one year	19	(3,382)	(5,254)
Provisions for liabilities			
Deferred taxation	22	(23,010)	(19,980)
Net assets excluding pension (liability)/asset		<u>194,545</u>	<u>192,820</u>
Defined benefit pension scheme (liability)/asset	24	(10,130)	16,280
Net assets including pension (liability)/asset		<u>184,415</u>	<u>209,100</u>
Capital and reserves			
Called-up equity share capital	28	81	81
Share premium account	29	42,311	42,311
Profit and loss account	29	142,023	166,708
Shareholder's funds	30	<u>184,415</u>	<u>209,100</u>

*See Note 1

These financial statements were approved by the directors and authorised for issue on 20 October 2009, and are signed on their behalf by:


Director

N. BUNKER

The notes on pages 12 to 37 form part of these financial statements.

KRAFT FOODS UK LTD.

COMPANY BALANCE SHEET

14 DECEMBER 2008

	Note	2008 £000	2007 (restated*) £000
Fixed assets			
Intangible assets	13	32,106	46,590
Tangible assets	14	118,357	128,476
		<u>150,463</u>	<u>175,066</u>
Current assets			
Stocks	16	45,038	45,176
Debtors	17	167,760	168,287
Cash at bank		18,971	4,213
		<u>231,769</u>	<u>217,676</u>
Creditors: Amounts falling due within one year	18	<u>(142,011)</u>	<u>(152,068)</u>
Net current assets		<u>89,758</u>	<u>65,608</u>
Total assets less current liabilities		<u>240,221</u>	<u>240,674</u>
Creditors: Amounts falling due after more than one year	19	(3,382)	(5,254)
Provisions for liabilities			
Deferred taxation	22	(23,010)	(19,980)
Net assets excluding pension (liability)/asset		<u>213,829</u>	<u>215,440</u>
Defined benefit pension scheme (liability)/asset	24	(10,130)	16,280
Net assets including pension (liability)/asset		<u>203,699</u>	<u>231,720</u>
Capital and reserves			
Called-up equity share capital	28	81	81
Share premium account	29	42,311	42,311
Profit and loss account	29	161,307	189,328
Shareholder's funds		<u>203,699</u>	<u>231,720</u>

*See Note 1

These financial statements were approved by the directors and authorised for issue on ~~20 October 2009~~ and are signed on their behalf by:


 Director
 A. BUNKER

The notes on pages 12 to 37 form part of these financial statements.

KRAFT FOODS UK LTD.

NOTES TO THE FINANCIAL STATEMENTS

PERIOD ENDED 14 DECEMBER 2008

1. Accounting policies

Basis of accounting

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

The financial statements are also prepared on the going concern basis and in accordance with the Companies Act 1985. The principal accounting policies which have been applied consistently throughout the period, except where noted, are set out below.

Changes in accounting policies

The company has adopted the amendment to FRS17, 'Retirement Benefits', in these financial statements. As a result of this quoted securities held as plan assets in the defined benefit pension scheme are now valued at bid price rather than mid-market value. The effect of this change is that the value of plan assets at 15 December 2007 has been restated from £495,665,000 to £495,219,000, a decrease of £446,000. There is a corresponding increase in deferred tax of £125,000 and the net pension surplus at 15 December 2007 decreased by £321,000. Current and prior period profits have been unaffected by this change as the movements are through the statement of total recognised gains and losses.

Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the company and its subsidiary undertakings made up to 14 December 2008. The results of subsidiaries sold or acquired are included in the consolidated profit and loss account up to, or from, the date control passes. Intra-group sales and profits are eliminated fully on consolidation.

On acquisition of a subsidiary, all of the subsidiary's assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. All changes to those assets and liabilities, and the resulting gains and losses that arise after the group has gained control of the subsidiary are charged to the post acquisition profit and loss account.

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.

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.

KRAFT FOODS UK LTD.

NOTES TO THE FINANCIAL STATEMENTS

PERIOD ENDED 14 DECEMBER 2008

1. Accounting policies *(continued)*

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 - estimated useful life

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:

Buildings	- 25 to 40 years
Leasehold assets	- shorter of useful economic life and lease term
Plant & machinery	- 3 to 20 years

Capital work in progress and freehold land are not depreciated.

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 of goodwill

The Group carries out an impairment review of its 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.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost comprises the direct cost of materials and labour, and a proportion of relevant overheads. Net realisable value is the price at which stocks can be sold in the normal course of business, after allowing for the cost of realisation and, where appropriate, the cost of conversion from their existing state to a finished condition. Provision is made where necessary for obsolete, slow moving and defective stocks.

Work in progress

Work in progress is valued on the basis of direct costs plus attributable overheads based on normal level of activity. Provision is made for any foreseeable losses where appropriate. No element of profit is included in the valuation of work in progress.

KRAFT FOODS UK LTD.

NOTES TO THE FINANCIAL STATEMENTS

PERIOD ENDED 14 DECEMBER 2008

1. Accounting policies *(continued)*

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 group 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 group 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 group's defined benefit pension schemes 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 year 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.

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.

KRAFT FOODS UK LTD.

NOTES TO THE FINANCIAL STATEMENTS

PERIOD ENDED 14 DECEMBER 2008

1. Accounting policies *(continued)*

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.

Financial instruments

The company uses financial instruments to hedge a portion of its foreign currency exposure when purchasing certain commodities. Forward currency contracts entered into as hedges in foreign currencies are not recognised until they mature. At maturity gains and losses are included in the profit and loss account.

2. Segmental information

The group and company undertake one class of business, being the manufacture and distribution of food products to the retail, foodservice and vending beverage market places. The geographical analysis of turnover, profit on ordinary activities before taxation and net assets has been omitted as in the opinion of the directors it would be seriously prejudicial to the interests of the group and company.

3. Analysis of cost of sales and net operating expenses

	Continuing operations £000	Discontinued operations £000	Total £000
Period ended 14 December 2008			
Turnover	539,266	-	539,266
Cost of sales	367,978	-	367,978
	<u>171,288</u>	<u>-</u>	<u>171,288</u>
Distribution costs	38,056	-	38,056
Administrative expenses	116,361	-	116,361
Exceptional item	6,591	-	6,591
Operating profit	<u>10,280</u>	<u>-</u>	<u>10,280</u>

KRAFT FOODS UK LTD.

NOTES TO THE FINANCIAL STATEMENTS

PERIOD ENDED 14 DECEMBER 2008

3. Analysis of cost of sales and net operating expenses (continued)

	Continuing operations £000	Discontinued operations £000	Total £000
Period ended 15 December 2007			
Turnover	507,547	45,411	552,958
Cost of sales	323,476	35,101	358,577
	<u>184,071</u>	<u>10,310</u>	<u>194,381</u>
Distribution costs	33,726	2,600	36,326
Administrative expenses	120,572	9,115	129,687
Operating profit/(loss)	<u>29,773</u>	<u>(1,405)</u>	<u>28,368</u>

4. Discontinued operations

In April 2007 the company sold its Middle East and Africa business operations and net assets to a fellow subsidiary of Kraft Foods Inc. The business was transferred as a going concern and the assets were sold at their net book value. There was no profit or loss arising on the sale. As a result of the group's withdrawal from this geographical market it was treated as a discontinued operation in the 2007 financial statements.

5. Operating profit

Operating profit is stated after charging:

	2008 £000	2007 £000
Amortisation of intangible assets	11,148	4,557
Research and development expenditure written off	2,167	3,199
Depreciation of owned fixed assets	13,032	13,734
Depreciation of assets held under finance lease agreements	2,536	2,902
Loss on disposal of fixed assets	3,706	4,227
Operating lease costs:		
- Plant and equipment	2,047	2,382
- Other	813	967

Depreciation of £392,000 (2007: £518,000) is included in the stock valuation at the period end. This decreased the depreciation charge in the profit and loss account.

Exceptional item

An impairment review was carried out during the period to reflect current cashflow forecasts under FRS10 (Goodwill and intangible Assets) and FRS11 (Impairment of Fixed Assets and Goodwill), which led to a decision to impair the value of the goodwill arising on the purchase of the Terry's business in 1993 by £6,591,000. This amount is included in amortisation of intangible assets.

KRAFT FOODS UK LTD.

NOTES TO THE FINANCIAL STATEMENTS

PERIOD ENDED 14 DECEMBER 2008

Services provided by the group's auditor

	2008	2007
	£000	£000
Auditor's remuneration - audit of the financial statements	<u>292</u>	<u>280</u>
Auditor's remuneration - other fees:		
- Audit of company pension scheme	42	45
- Local statutory audit of subsidiary	-	15
	<u>42</u>	<u>60</u>

The group'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 group.

6. Particulars of employees

The average number of staff employed by the group during the financial period amounted to:

	2008	2007
	No	No
Production	649	665
Distribution	57	86
Sales and marketing	365	528
Administration	121	168
	<u>1,192</u>	<u>1,447</u>

The aggregate payroll costs of the above were:

	2008	2007
	£000	£000
Wages and salaries	51,404	55,504
Social security costs	4,403	5,086
Other pension costs	14,077	15,736
Equity-settled share-based payments	523	1,429
	<u>70,407</u>	<u>77,755</u>

Other pension costs are amounts charged to operating profit and do not include amounts credited to finance income (see note 8) and amounts recognised in the statement of recognised gains and losses.

KRAFT FOODS UK LTD.

NOTES TO THE FINANCIAL STATEMENTS

PERIOD ENDED 14 DECEMBER 2008

7. Directors' emoluments

The directors' aggregate emoluments and other payments, including pension contributions, in respect of qualifying services were:

	2008	2007
	£000	£000
Emoluments receivable	1,260	1,418
Amounts receivable under long-term incentive schemes:		
Money receivable	130	381
Compensation for loss of directorship	469	651
	<u>1,859</u>	<u>2,450</u>

Emoluments of highest paid director:

	2008	2007
	£000	£000
Total emoluments (excluding pension contributions)	<u>314</u>	<u>578</u>

Benefits are accruing under a defined benefits pension scheme and, at the year end the accrued pension amounted to £38,000 (2007 - £Nil).

During the period the highest paid director exercised share options.

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

	2008	2007
	No	No
Defined benefit schemes	<u>7</u>	<u>6</u>

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

	2008	2007
	No	No
Directors who exercised share options	2	3
Directors who received shares under a long term incentive scheme	<u>5</u>	<u>6</u>

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8. Interest receivable and similar income

	2008	2007
	£000	£000
Interest receivable on loans to fellow subsidiary companies	3,263	1,712
Other interest and similar income	-	21
Net finance income in respect of defined benefit pension schemes	4,311	7,583
	<u>7,574</u>	<u>9,316</u>

9. Interest payable and similar charges

	2008	2007
	£000	£000
Finance charges	1,191	1,368
Other interest payable and similar charges	67	34
	<u>1,258</u>	<u>1,402</u>

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10. Taxation on ordinary activities

(a) Analysis of charge in the period

	2008	2007
	£000	£000
Current tax:		
UK Corporation tax based on the results for the period at 28.57% (2007 - 30%)	1,086	-
(Over)/under provision in prior year	(193)	(3,638)
Total current tax	893	(3,638)
Deferred tax:		
Origination and reversal of timing differences	6,122	16,700
Effect of changed tax rate on opening balance	-	(2,456)
	6,122	14,244
Adjustment in respect of previous years:	(210)	(5,580)
Total deferred tax (Note 22)	5,912	8,664
Tax on profit on ordinary activities	6,805	5,026

KRAFT FOODS UK LTD.

NOTES TO THE FINANCIAL STATEMENTS

PERIOD ENDED 14 DECEMBER 2008

10. Taxation on ordinary activities *(continued)*

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the period is lower (2007 – lower) than the standard rate of corporation tax in the UK of 28.57% (2007 - 30%).

	2008	2007
	£000	£000
Profit on ordinary activities before taxation	<u>16,596</u>	<u>36,282</u>
Profit on ordinary activities multiplied by the rate of tax	4,741	10,885
Expenses not deductible for tax purposes	3,506	1,180
Capital allowances for period less than / (in excess of) depreciation	3,276	959
Utilisation of tax losses	(5,745)	9,610
Other timing differences	(1,323)	-
Adjustments to tax charge in respect of previous periods	(193)	(3,638)
Non taxable items	(429)	(510)
Pension contribution relief in excess of pension cost charge	(2,940)	(23,933)
Group relief not charged	-	1,809
Total current tax (note 10(a))	<u>893</u>	<u>(3,638)</u>

(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.

With effect from 1 April 2008 the standard rate of corporation tax was reduced to 28%. There are no other significant factors that may affect future tax charges.

11. Profit attributable to members of the parent company

The profit dealt with in the financial statements of the parent company was £6,455,000 (2007 - £26,190,000).

12. Prior year adjustment

In 2008 the company has adopted the amendment to FRS17, 'Retirement Benefits'. As a result of this quoted securities, held as plan assets in the defined benefit pension scheme, are now valued at bid price rather than mid-market value. The effect of this change is that the pension surplus at 15 December 2007 has decreased by £321,000 with a corresponding reduction in reserves. Current and prior period profit have been unaffected by this change.

In 2007 the company adopted FRS 20 - Share-based payment. The adoption of this standard represented a change in accounting policy and the comparative figures were restated accordingly.

KRAFT FOODS UK LTD.

NOTES TO THE FINANCIAL STATEMENTS

PERIOD ENDED 14 DECEMBER 2008

13. Intangible fixed assets

Group	Goodwill £000
Cost	
At 16 December 2007 and 14 December 2008	<u>91,656</u>
Amortisation	
At 16 December 2007	68,422
Charge for the period	<u>11,148</u>
At 14 December 2008	<u>79,570</u>
Net book value	
At 14 December 2008	<u>12,086</u>
At 15 December 2007	<u>23,234</u>
Company	Goodwill £000
Cost	
At 16 December 2007 and 14 December 2008	<u>154,208</u>
Amortisation	
At 16 December 2007	107,618
Charge for the period	<u>14,484</u>
At 14 December 2008	<u>122,102</u>
Net book value	
At 14 December 2008	<u>32,106</u>
At 15 December 2007	<u>46,590</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.

Impairment

A charge of £6,591,000 arose following an impairment review of the goodwill attributable to the Terry's business purchased in 1993. The recoverable amount of this income generating unit was determined based on a value-in-use calculation using projected cash flows and a discount factor of 8.2%. This amount is included in the amortisation charge for the period.

KRAFT FOODS UK LTD.

NOTES TO THE FINANCIAL STATEMENTS

PERIOD ENDED 14 DECEMBER 2008

14. Tangible fixed assets

Group	Freehold land and buildings £000	Short leasehold assets £000	Plant and machinery £000	Construction work in progress £000	Total £000
Cost					
At 16 December 2007	36,114	3,603	256,474	9,108	305,299
Additions	—	—	799	8,356	9,155
Disposals	(84)	(2,296)	(27,816)	—	(30,196)
Transfers	482	390	3,792	(4,664)	—
At 14 December 2008	36,512	1,697	233,249	12,800	284,258
Depreciation					
At 16 December 2007	16,578	3,398	156,847	—	176,823
Charge for the period	901	237	14,430	—	15,568
On disposals	(64)	(2,269)	(24,157)	—	(26,490)
At 14 December 2008	17,415	1,366	147,120	—	165,901
Net book value					
At 14 December 2008	19,097	331	86,129	12,800	118,357
At 15 December 2007	19,536	205	99,627	9,108	128,476

Finance lease agreements

Included within the net book value of £118,357,000 is £4,916,000 (2007 - £7,109,000) 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 £2,536,000 (2007 - £2,902,000).

Capital commitments

	2008	2007
	£000	£000
Contracted but not provided for in the financial statements	2,224	1,046

KRAFT FOODS UK LTD.

NOTES TO THE FINANCIAL STATEMENTS

PERIOD ENDED 14 DECEMBER 2008

14. Tangible fixed assets (continued)

Company	Freehold land and buildings £000	Short leasehold assets £000	Plant and machinery £000	Construction work in progress £000	Total £000
Cost					
At 16 December 2007	36,114	3,628	256,437	9,108	305,287
Additions	—	—	799	8,356	9,155
Disposals	(84)	(2,296)	(27,816)	—	(30,196)
Transfers	482	390	3,792	(4,664)	—
At 14 December 2008	36,512	1,722	233,212	12,800	284,246
Depreciation					
At 16 December 2007	16,578	3,423	156,810	—	176,811
Charge for the period	901	237	14,430	—	15,568
On disposals	(64)	(2,269)	(24,157)	—	(26,490)
At 14 December 2008	17,415	1,391	147,083	—	165,889
Net book value					
At 14 December 2008	19,097	331	86,129	12,800	118,357
At 15 December 2007	19,536	205	99,627	9,108	128,476

Finance lease agreements

Included within the net book value of £118,357,000 is £4,916,000 (2007 - £7,109,000) 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 £2,536,000 (2007 - £2,902,000).

Capital commitments

	2008	2007
	£000	£000
Contracted but not provided for in the financial statements	2,224	1,046

KRAFT FOODS UK LTD.

NOTES TO THE FINANCIAL STATEMENTS

PERIOD ENDED 14 DECEMBER 2008

15. Investments in subsidiaries

The company's wholly owned subsidiaries at 14 December 2008 were as follows:

Name of company	Original cost of investment	Description of shares held	Principal Activity
	£'000		
Kraft Foods Middle East & Africa Ltd	1	Ordinary £1	Dormant
The Kenco Coffee Company Limited	87	Ordinary £1	Dormant
Kraft Foods UK Production Limited	-	Ordinary £1	Dormant
Kraft Foods UK Intellectual Property Limited	-	Ordinary £1	Dormant

The investments in Kraft Foods Middle East & Africa Ltd and The Kenco Coffee Company Limited were fully written off in previous periods and have a net book value of £Nil (2007 - £Nil).

On 10 November 2008 the company acquired the sole subscriber shares in Kraft Foods UK Production Limited and Kraft Foods UK Intellectual Property Limited for a consideration of £1.

All the above companies are registered in England and Wales.

16. Stocks

	2008	Group 2007	2008	Company 2007
	£000	£000	£000	£000
Raw materials	9,957	8,056	9,957	8,056
Work in progress	7,863	6,606	7,863	6,606
Finished goods	27,218	30,514	27,218	30,514
	<u>45,038</u>	<u>45,176</u>	<u>45,038</u>	<u>45,176</u>

17. Debtors

	2008	Group 2007	2008	Company 2007
	£000	£000	£000	£000
Trade debtors	71,905	75,735	71,905	75,735
Amounts owed by group undertakings	92,564	86,464	92,564	86,464
Other debtors	-	3,161	-	3,161
Prepayments and accrued income	3,291	2,927	3,291	2,927
	<u>167,760</u>	<u>168,287</u>	<u>167,760</u>	<u>168,287</u>

Amounts owed by fellow subsidiary companies include non trading balances which are unsecured, earn interest at LIMEAN less 0.25% and are repayable on demand.

KRAFT FOODS UK LTD.

NOTES TO THE FINANCIAL STATEMENTS

PERIOD ENDED 14 DECEMBER 2008

18. Creditors: Amounts falling due within one year

	2008	Group 2007	2008	Company 2007
	£000	£000	£000	£000
Trade creditors	24,979	23,573	24,979	23,573
Amounts owed to group undertakings	21,649	19,618	22,786	20,755
Finance lease agreements	2,212	3,016	2,212	3,016
Corporation tax	786	1,002	786	1,002
Other creditors	9,285	10,743	9,285	10,743
Accruals and deferred income	82,364	93,380	81,963	92,979
	<u>141,275</u>	<u>151,332</u>	<u>142,011</u>	<u>152,068</u>

19. Creditors: Amounts falling due after more than one year

	2008	Group 2007	2008	Company 2007
	£000	£000	£000	£000
Finance lease agreements	<u>3,382</u>	<u>5,254</u>	<u>3,382</u>	<u>5,254</u>

20. Commitments under finance leases agreements

Future commitments under finance leases agreements are as follows:

	2008	2007
	£000	£000
Group and Company		
Amounts payable within 1 year	2,212	3,016
Amounts payable between 1 and 2 years	1,577	2,311
Amounts payable between 3 and 5 years	1,805	2,943
	<u>5,594</u>	<u>8,270</u>

KRAFT FOODS UK LTD.

NOTES TO THE FINANCIAL STATEMENTS

PERIOD ENDED 14 DECEMBER 2008

21. Financial instruments

Group and company

The net fair values of the group and company derivative cash flow hedges at the balance sheet date were:

	Book Value		Fair Value	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Forward Foreign currency contracts	-	-	-	471

The fair value of the forward currency contracts is an unrecognised gain and has been determined based on market forward exchange rates at the balance sheet date. An analysis of unrecognised gains and losses is as follows:

	Gains	Losses	Net
	£'000	£'000	£'000
Gains and losses on hedges at 16 December 2007			
Change in value from 16 December 2007 to settlement	471	-	471
Unrecognised gains and losses arising before 16 December 2007 and during the period to settlement that were recognised in 2008 income	1,686	-	1,686
Unrecognised gains and losses arising during the period on outstanding contracts at 14 December 2008	(2,157)	-	(2,157)
	-	-	-
Gains and losses on hedges at 14 December 2008			
Gains and losses expected to be included in 2009 income	-	-	-

22. Deferred taxation

The movement in the deferred taxation provision during the period was:

	Group		Company	
	2008	2007	2008	2007
	£000	£000	£000	£000
Provision brought forward	19,980	34,619	19,980	34,619
Increase/(Decrease) in provision	3,030	(14,639)	3,030	(14,639)
Provision carried forward	<u>23,010</u>	<u>19,980</u>	<u>23,010</u>	<u>19,980</u>

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22. Deferred taxation (continued)

The group's provision for deferred taxation consists of the tax effect of timing differences in respect of:

Group	2008		2007	
	Provided	Unprovided	Provided	Unprovided
	£000	£000	£000	£000
Excess of taxation allowances over depreciation on fixed assets	16,735	-	20,754	-
Tax losses available	-	-	(5,855)	-
Chargeable gains - held over	6,794	-	8,622	-
Chargeable gains - rolled over	-	5,432	-	4,668
Other timing differences	(519)	-	(3,541)	-
	<u>23,010</u>	<u>5,432</u>	<u>19,980</u>	<u>4,668</u>

The company's provision for deferred taxation consists of the tax effect of timing differences in respect of:

Company	2008		2007	
	Provided	Unprovided	Provided	Unprovided
	£000	£000	£000	£000
Excess of taxation allowances over depreciation on fixed assets	16,735	-	20,754	-
Tax losses available	-	-	(5,855)	-
Chargeable gains - held over	6,794	-	8,622	-
Chargeable gains - rolled over	-	5,432	-	4,668
Other timing differences	(519)	-	(3,541)	-
	<u>23,010</u>	<u>5,432</u>	<u>19,980</u>	<u>4,668</u>

With effect from 1 April 2008 the corporation tax rate was reduced to 28% and the deferred tax provision has been calculated at this rate. During the previous period, as a result of the change from 30% to 28%, the deferred tax balances were remeasured resulting in a net credit to the profit and loss account in 2007 of £2,456,000 and a charge to the statement of total recognised gains and losses of £169,000.

23. 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.

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NOTES TO THE FINANCIAL STATEMENTS

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23. Share-based payments *(continued)*

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

	2008		2007	
	Number of shares	WAFV	Number of shares	WAFV
Opening balance	199,337	£17.07	257,510	£17.24
Granted	42,040	£15.39	72,000	£17.19
Vested	(76,704)	£17.58	(82,923)	£17.77
Forfeited	(22,903)	£14.54	(26,810)	£17.11
Inter-group reallocation	(6,190)	£16.74	(20,440)	£17.10
Closing balance	<u>135,580</u>	£16.36	<u>199,337</u>	£17.07

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 £389,000 (2007 - £1,429,000), 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.

Following the spin-off of Kraft Foods Inc. from Altria Group Inc. in 2007 the holders of Altria stock options were awarded options in Kraft Foods Inc. at a reduced exercise price and the share movement figures were adjusted accordingly.

KRAFT FOODS UK LTD.

NOTES TO THE FINANCIAL STATEMENTS

PERIOD ENDED 14 DECEMBER 2008

23. Share-based payments (continued)

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

	2008		2007	
	Number of shares	WAEP	Number of shares	WAEP
Opening balance	352,705	£17.30	540,318	£25.35
Options exercised	(34,675)	£20.94	(90,196)	£21.93
Options cancelled/forfeited	(24,076)	£15.73	(500)	£22.58
Options issued following spin-off	-	-	167,608	£10.04
New options issued in period	158,361	£14.89	-	-
Altria group adjustment	(159,599)		(242,817)	
Inter-group reallocation	(25,417)		(21,708)	
Closing balance	<u>267,569</u>	£17.18	<u>352,705</u>	£17.30
Exercisable at the end of the period	<u>188,447</u>	£18.14	<u>352,705</u>	£17.30

In February 2008 options were granted at an exercise price of £14.89. The estimated fair value of the options granted was £2.27. The fair values were calculated by Kraft Foods Inc using a modified Black Scholes methodology. No options were granted in the period ended 15 December 2007.

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

Risk-free interest rate:	3.08%
Expected life:	6 years
Expected volatility:	21.04%
Expected dividend yield:	3.66%
Fair value at grant date:	£2.27

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:

	2008		2007	
	Number of shares	WARL	Number of shares	WARL
Range of exercise prices				
£0.01 - £5.00	6,373	1.12	21,823	2.12
£5.01 - £10.00	17,829	0.55	54,158	1.09
£10.01 - £15.00	140,815	7.86	70,556	2.34
£20.01 - £25.00	102,552	2.50	206,168	3.50
Closing balance	<u>267,569</u>	4.87	<u>352,705</u>	3.14

The weighted average share price during the period for options exercised over the period was £21.49. The total charge for the period relating to employee share-based payments under this plan was £143,000 (2007 - £Nil), all of which related to equity-settled share-based payment transactions.

KRAFT FOODS UK LTD.

NOTES TO THE FINANCIAL STATEMENTS

PERIOD ENDED 14 DECEMBER 2008

24. Pensions and other post retirement benefits

The group operates a contributory pension scheme, the Kraft Foods Retirement Benefits Plan ("the Plan"). This plan is of a defined benefit type. The Plan is funded with the assets being held in a separate trustee administered fund. The Plan provides benefits to employees of the group and also to employees of Kraft Foods International (EU) Ltd, a fellow subsidiary company of Kraft Foods International Inc.

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

	2008	2007
	£000	£000
<i>Amounts charged to operating profit:</i>		
Current service cost	11,382	12,491
Past service cost	3,795	3,245
Gains on settlements and curtailments	(1,100)	–
Total operating charge	<u>14,077</u>	<u>15,736</u>
<i>Amounts included in other finance income:</i>		
Expected return on scheme assets	(32,291)	(31,744)
Interest on scheme liabilities	27,980	24,161
Other finance income	(4,311)	(7,583)
Total charge to the profit and loss account	<u>9,766</u>	<u>8,153</u>
Actual return on scheme assets	<u>(78,434)</u>	<u>15,098</u>

Other finance income is included in the profit and loss account within interest receivable and similar income. Actuarial losses of £46,972,000 (2007 – Gains £5,944,000) have been recognised in the statement of total recognised gains and losses. At 14 December 2008 the cumulative amount of actuarial gains recognised in the statement of total recognised gains and losses is £39,301,000.

The amounts recognised in the balance sheet are as follows:

	2008	2007
	£000	(restated*) £000
Present value of funded obligations	(424,683)	(472,608)
Fair value of scheme assets	410,614	495,219
	(14,069)	22,611
Related deferred tax asset/(liability)	3,939	(6,331)
Net pension (liability)/asset	<u>(10,130)</u>	<u>16,280</u>

*See Note 1

Following the adoption of the amendment to FRS17 the net pension surplus at 15 December 2007 has been restated from £16,601,000 to £16,280,000, a decrease of £321,000.

KRAFT FOODS UK LTD.

NOTES TO THE FINANCIAL STATEMENTS

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

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

	2008	2007
	£000	£000
Opening defined benefit obligation	472,608	478,297
Current service cost	11,382	12,491
Past service cost	3,795	3,245
Gains on curtailments	(1,100)	—
Interest on scheme liabilities	27,980	24,161
Actuarial gain	(63,753)	(22,590)
Contributions by scheme participants	441	536
Benefits paid	(26,670)	(23,532)
Closing defined benefit obligation	<u>424,683</u>	<u>472,608</u>

Changes in the fair value of scheme assets are as follows:

	2008	2007
	£000	(restated*) £000
Opening fair value of scheme assets	495,219	415,188
Expected return on scheme assets	32,291	31,744
Contributions by employer	20,058	87,929
Contributions by scheme participants	441	536
Actuarial loss	(110,725)	(16,646)
Benefits paid	(26,670)	(23,532)
Closing fair value of scheme assets	<u>410,614</u>	<u>495,219</u>

*See Note 1

The limited company expects to contribute £18,262,000 to its defined benefit pension scheme in 2009.

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	
	2008	2007	2008	2007
	%	%	£000	(restated*) £000
Equities	8.25	7.90	160,139	272,370
Bonds	5.30	4.90	250,475	222,849
Fair value of scheme assets			<u>410,614</u>	<u>495,219</u>

*See Note 1

KRAFT FOODS UK LTD.

NOTES TO THE FINANCIAL STATEMENTS

PERIOD ENDED 14 DECEMBER 2008

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

The equity investments and bonds which are held in plan assets are quoted and are valued at the current bid price following the adoption of the amendment to FRS17. Previously these were valued at mid price. The effect of this change is that the value of assets at 15 December 2007 has been restated from £495,665,000 to £495,219,000, a decrease of £446,000.

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 Mercers, actuarial consultants to the Plan, has been updated to 14 December 2008 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:

	2008	2007
	%	%
Discount rate	6.75	6.00
Expected return on scheme assets	6.50	6.54
Rate of increase in salaries	3.75	4.05
Rate of increase in deferred pensions	3.00	3.30
Inflation	3.00	3.30
Rate of increase in pensions in payment - LPI 5%	3.00	3.30
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 will be undertaken as at 1 April 2010.

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24. Pensions and other post retirement benefits (continued)

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

	2008	2007	2006	2005	2004
	£000	£000	£000	£000	£000
Defined benefit obligation	(424,683)	(472,608)	(478,297)	(464,448)	(415,342)
Fair value of scheme assets	410,614	495,219	415,188	360,203	299,329
(Deficit)/surplus in the scheme	(14,069)	22,611	(63,109)	(104,245)	(116,013)
Experience adjustments on scheme liabilities (£)	20,000	(8,421)	2,343	3,113	1,247
Experience adjustments on scheme assets (£)	110,725	16,646	(11,783)	(42,088)	(10,415)

Asset values for 2006 and 2007 have been restated in accordance with the amendments to FRS17.

25. Commitments under operating leases

At 2008 the group had annual commitments under non-cancellable operating leases as set out below.

Group	2008		2007	
	Land and buildings	Other items	Land and buildings	Other items
	£000	£000	£000	£000
Operating leases which expire:				
Within 1 year	-	440	238	571
Within 2 to 5 years	-	1,013	-	1,597
After more than 5 years	735	-	-	-
	<u>735</u>	<u>1,453</u>	<u>238</u>	<u>2,168</u>

At 2008 the company had annual commitments under non-cancellable operating leases as set out below.

Company	2008		2007	
	Land and buildings	Other items	Land and buildings	Other items
	£000	£000	£000	£000
Operating leases which expire:				
Within 1 year	-	440	238	571
Within 2 to 5 years	-	1,013	-	1,597
After more than 5 years	735	-	-	-
	<u>735</u>	<u>1,453</u>	<u>238</u>	<u>2,168</u>

26. Guarantees

The company has provided guarantees of £1,296,000 (2007 - £1,400,000) to HMRC in respect of the import of goods. There are no other guarantees in place at 14 December 2008 (2007 - £Nil).

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27. 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.

28. Share capital

Authorised share capital:

	2008	2007
	£000	£000
410,000 Ordinary shares of £1 each	<u>410</u>	<u>410</u>

Allotted, called up and fully paid:

	2008		2007	
	No	£000	No	£000
Ordinary shares of £1 each	<u>81,234</u>	<u>81</u>	<u>81,234</u>	<u>81</u>

29. Reserves

Group	Share premium account	Profit and loss account (restated*)
	£000	£000
Balance brought forward as previously reported	42,311	167,029
Prior year adjustment (Note 12)	—	(321)
Restated balance as at 16 December 2007	<u>42,311</u>	<u>166,708</u>
Profit for the period	—	9,791
Movement in share-based payments	—	(656)
Actuarial (loss) / gain on defined benefit pension scheme	—	(33,820)
Balance carried forward	<u>42,311</u>	<u>142,023</u>

*See Note 1

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29. Reserves (continued)

Company	Share premium account £000	Profit and loss account (restated*) £000
Balance brought forward as previously reported	42,311	189,649
Prior year adjustment (Note 12)	—	(321)
Restated balance as at 16 December 2007	42,311	189,328
Profit for the period	—	6,455
Movement in share-based payments	—	(656)
Actuarial (loss) / gain on defined benefit pension scheme	—	(33,820)
Balance carried forward	42,311	161,307

*See Note 1

30. Reconciliation of movements in shareholder's funds

	2008 £000	2007 (restated*) £000
Profit for the financial period	9,791	31,256
Actuarial (loss) / gain on defined benefit pension scheme	(33,820)	3,990
Movement in share-based payments	(656)	197
Net (reduction)/addition to shareholder's funds	(24,685)	35,443
Opening shareholder's funds	209,421	170,528
Prior year adjustment (see Note 12)	(321)	3,129
Closing shareholder's funds	184,415	209,100

*See Note 1

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31. Post balance sheet events

In April 2009, a reorganisation of the Kraft group of companies was completed to facilitate the group delivering its strategic goals and achieving sustainable and profitable growth by managing its business by category across its European markets.

Kraft Foods International (EU) Limited was acquired by Kraft Foods UK Ltd as a 100% subsidiary, from a fellow subsidiary, on 18 March 2009 and was renamed Kraft Foods UK R&D Limited on 20 April 2009. Furthermore two United Kingdom branches of Swiss entities, Kraft Foods Europe Procurement GmbH and Kraft Foods Europe Services GmbH have been set up for United Kingdom procurement and group services.

On the 20 April 2009 the directors approved the sale of the company's research and development business to Kraft Foods UK R&D Limited and the food manufacturing business to Kraft Foods UK Production Limited for £10 million and £73 million respectively, the net book value of the assets and liabilities in each business. Both sales were as a going concern and included the fixed assets, certain support functions and services used in the businesses. The consideration was satisfied by the assumption of the relevant liabilities together with an issue of 10 million £1 shares by Kraft Foods UK R&D Limited and 73 million £1 shares by Kraft Foods UK Production Limited to Kraft Foods UK Ltd.

Certain trademarks and other intellectual property held by Kraft Foods UK Ltd have been gifted to Kraft Foods UK Intellectual Property Limited for nil consideration.

On the 20 April 2009 the directors approved the sale of the assets and liabilities associated with Kraft Foods UK Ltd's service and procurement functions to the UK Branches of the Swiss Entities namely Kraft Foods Europe Procurement GmbH and Kraft Foods Europe Services GmbH.

On the 19 April 2009 the directors approved the sale of Kraft Foods UK Ltd's stock with a book value of £48.4 million to Kraft Foods Europe GmbH for £50.5 million which the directors consider to be a market value consideration.

After the completion of the restructuring Kraft Foods UK Ltd will act as a sales and distribution company selling Kraft Foods products into the existing United Kingdom markets and customers.

32. Ultimate parent company

At 14 December 2008 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 14 December 2008 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.