

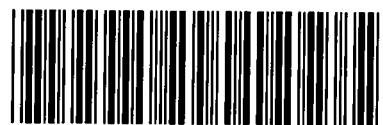
Company registered no: 2506007

# **UNITED BISCUITS (UK) LIMITED**

## **Report and Financial Statements**

**For the year ended 31 December 2018**

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## United Biscuits (UK) Limited

### Strategic report

The directors present their strategic report and accounts for the year ended 31 December 2018.

#### Principal activity, review of the business and future developments

The principal activity of the Company is the manufacture and sale of a range of food products, principally biscuits and savoury snacks.

The Company is the leading manufacturer and marketer of biscuits in the United Kingdom ("UK"). In 2018, the Company's branded biscuit sales accounted for approximately 23.2% (2017: 25.0%) of the overall UK biscuit market. Among the Company's popular core product brands are: *McVitie's Digestives*, *Jacob's Cream Crackers*, *Penguin*, *go ahead!* and *McVitie's Jaffa Cakes*.

Revenue comprises sales of our iconic brands and private label products as well as royalty payments received for the use of the Company's brands. McVities and Jacobs brands are the Company's most strategic and popular brands which receive priority marketing and innovation support. In 2017, the Company also successfully launched a range of Godiva branded products, including tablets and gifting boxes, under an exclusive arrangement with J. Sainsbury. This was the Company's first launch into the UK confectionery market and revenue from Godiva branded products has increased in 2018. Other brands receive more limited marketing and innovation support. Private label products are sold by multiple retailers under their own brands.

The Company exports its branded products to approximately 100 countries around the world and had export sales of £92.0 million in 2018 (2017 - £108.0 million). Among its key export brands are: *McVitie's*, *Carr's* and *BN*.

On 31 March 2017, the Company sold its Middle East and North Africa ("MENA") Exports business for \$130.0 million and on 12 December 2017 sold its Saudi Arabia Exports business for \$29.0 million to Amir Global Trading Fze, a subsidiary of the Company's ultimate parent company Yildiz Holding A.S., which has contributed to the lower reported export sales in 2018 versus 2017.

The Company's key financial and other performance indicators from operations during the period were as follows:

	2018 £m	2017 £m
Revenue	827.7	874.5
Adjusted EBITDA	128.4	135.4
Operating profit before interest and tax	73.2	208.6
Profit before tax	58.1	191.4
Net current assets	1,348.1	1,308.6
Shareholder's equity	1,651.7	1,566.0
	Number	Number
Average number of employees	4,256	4,154

Revenue in 2018 was £827.7 million compared to £874.5 million in 2017, a decrease of £46.8 million or 5.4%. The UK grocery market was characterised in 2018 by a changing retail landscape and competition between established grocery retailers and discounters. The Company's new product development, including Flipz, Jacob's cracker crisps thins and Digestive choc filled thins did, however, perform well in the market. In the prior year, the Company also benefitted from non-recurring insurance proceeds of £6.3 million associated with the Carlisle flood.

Adjusted EBITDA is the primary measure by which management measures business performance and is used by management for the purpose of business decision-making and resource allocation. Adjusted EBITDA represents the operating profit or loss from operations before taxes, financing, restructuring items (such as redundancy costs and major system implementations), pension administration costs, depreciation and amortisation expense, acquisition and disposal related costs and other significant items which the directors assess not to relate to the underlying performance of the business due to their nature or frequency of

## United Biscuits (UK) Limited

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### Strategic report (continued)

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occurrence. Adjusted EBITDA is an alternative performance measure which is not defined or specified under the requirements of IFRS. Adjusted EBITDA is not a substitute for or superior to IFRS measures, but management believes it does provide stakeholders with additional helpful information on the performance of the business. Adjusted EBITDA for 2018 was £128.4 million compared with £135.4 million in 2017. Adjusted EBITDA margins are in line with 2017.

Operating profit of £73.2 million was £135.4 million lower than 2017, largely due to the non-recurring profit made on the sale of the Company's MENA Exports business in the prior year of £118.8 million.

#### *Movements in financial position*

Significant changes in the Company's financial position include:

- a decrease in the Company's provision for retirement benefit liabilities of £45.2 million due to a reduction in the present value of scheme liabilities that was greater than the reduction in the market value of plan assets as a result of an increase in discount rates;
- a new finance lease liability of £18.2 million in connection with the sale and leaseback of certain plant and machinery at the Harlesden site;
- reductions in trade and other debtors of £41.8 million, and in trade and other payables of £30.3 million, reflecting lower trading activity; and
- a decrease in cash balances of £34.7 million, principally due to advances made to other group companies, partially offset by proceeds from the sale and leaseback and cashflow generated from the Company's operating activities.

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

The Board of Pladis Foods Limited assume overall accountability for the evaluation and management of risks to the Pladis Foods Group, of which the Company is a part.

The Group is exposed to strategic, operational and financial risk. Its financial risks are summarised, together with the actions taken by the Group to mitigate any significant exposures, in Note 18 to the Consolidated Financial Statements of Pladis Foods Limited. In addition, the Group is subject to a number of significant business risks, which it takes all possible actions to mitigate.

These risks include the following:

#### *Substantial leverage and ability to service debt*

The Group's high level of debt requires it to dedicate a substantial portion of its cash flow from operations to its debt service obligations. Its leveraged status could increase its vulnerability to adverse general economic and industry conditions or to a significant business continuity issue, limit its ability to obtain additional financing for working capital, capital expenditures, acquisitions or other purposes, place it at a disadvantage relative to its competitors that have less debt and limit its flexibility in planning for or reacting to changes in its business or industry. The Group closely monitors market performance and country information in the markets it operates in and carries out extensive due diligence prior to entering a new market. One of the Group's largest business units is in the UK where it has a long-established business presence. The Company is a guarantor to bank borrowings that are subject to a financial covenant; should the financial covenant not be complied with, the borrowings may become due for immediate repayment, calling into question the Company's ability to continue as a going concern, unless cured by parental support, the Company securing alternative funding or otherwise waived or reset by the current lenders.

#### *Business strategy implementation*

The Group's strategy is to increase its cash flow and profitability by implementing initiatives aimed at achieving cost savings and generating profitable branded growth. If it is unsuccessful at implementing its strategy it may be unable to comply with the financial covenants under its senior facilities agreement. The Group manages and monitors, by reference to key performance indicators, resources allocated to the development of new products and to the research, development and technology process functions of its business.

## United Biscuits (UK) Limited

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### Strategic report (continued)

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#### *Significant competition*

The Group operates in highly competitive markets, and its failure to compete effectively might adversely affect the results of its operations. It competes primarily on the strength of its brands, the quality of its products, product innovation and price. The Group's ability to compete effectively requires continuous efforts in sales and marketing of its existing products, developing new products and cost rationalisation. The Group's marketing teams focus on its brands through investment in new product development, brand re-launches and frequently refreshes its consumer marketing campaigns and promotions to maintain consumer engagement.

#### *Dependence on raw materials*

The Group's ability to pass increases in raw materials and energy costs on to its customers could adversely affect the results of its operations. Many of its raw materials and energy costs are volatile and supplies are affected by government policies, the actions of its suppliers, currency movements, political upheavals and acts of God. Consequently, unexpected increases in raw material and energy costs or a material or prolonged supply disruption could adversely affect the results of its operations. The Group operates a commodity risk management framework to seek to manage supply and cost in a specified time-frame through forward purchases and the use of derivative instruments for certain key raw materials.

#### *Continual evolution of retailers*

The ongoing evolution of the retail food industry in the UK, Turkey and Northern Europe could adversely affect the Group's operating results. Such evolution involves the consolidation of sales channels, strong bargaining power of the major grocery retailers, intensified price competition among these retailers and the rapid growth of the discount retail channel. The Group's top customers are primarily major grocery retailers, discounters, independent grocers and convenience stores in the UK, Turkey and Northern Europe. It has long standing arrangements with many of its customers and agrees annual joint business plans with its top customers to support its position.

#### *Supply and manufacturing processes*

Product quality and safety issues may result in damage to the reputation of the Group's brands and the termination of agreements or licences to operate one or more of its brands and may affect its relationship with the company's customers. Additionally, the failure of any aspect of the Group's operational infrastructure could cause significant disruption to the Group's ability to supply products to its customers. The Group has product quality and safety control measures and processes in place to maintain the high quality of our products supplied. In addition, it runs a programme of investment in its production and distribution facilities to develop its infrastructure and support its growth and operational flexibility. The Group also carries general insurance cover and cover in relation to product liability.

#### *Challenges to brands and intellectual property rights*

Some of the Group's intellectual property rights could be challenged or lapse. As approximately 86% of its sales are from branded products this could adversely affect the Group's results. The Group protects its intellectual property rights by taking advantage of a combination of patent, trademark, copyright and trade secret laws in various countries, as well as licensing agreements, third party non-disclosure and assignment agreements and policing of third party misuses of its intellectual property.

#### *Restrictions on operations*

The Group's debt agreements contain significant restrictions limiting its flexibility in operating its business including, among other things, to: borrow money; pay dividends or make other distributions and make asset dispositions. These covenants could materially and adversely affect the Group's ability to finance its future operations or capital needs or to engage in other business activities that may be in the Group's best interest. Such restrictions will reduce if the Group's leverage falls.

#### *Funding defined benefit pension schemes*

The Group operates defined benefit pension arrangements in the UK that have significant liabilities to current, previous and retired employees. In order to take advantage of the higher returns that equities and certain other investments have historically generated, a proportion of the pension plan funds are invested in such assets. This investment strategy carries the risk that a decline in values could increase the Group's funding deficit, which may require it to increase its contributions. The Group works with Trustees of the pension fund to agree future investment and funding strategies.

## United Biscuits (UK) Limited

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### Strategic report (continued)

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#### *Changes to taxation or other government regulation*

Changes in fiscal legislation and regulation in the various jurisdictions in which the Group operates may affect the taxes that it pays. In addition, government bodies in the Company's markets have been pursuing various initiatives aimed at increasing health and reducing the incidence of diseases that are seen to be linked to diet. The actions that government bodies may take could have an adverse effect on consumer demand for the Group's products.

#### *Brexit*

The UK's decision to leave the European Union ("Brexit") could cause disruption and create uncertainty in the Group's business. The uncertainty includes the future legal and regulatory environment, terms of cross-border trade with supplier and customers in the EU and the impact on foreign currency markets. These disruptions could have an adverse effect on business, financial results and operations.

The Group also faces significant risks and uncertainties that are common to many companies operating in global markets – including financial and treasury risks, information security and cyber risks, reputational and business continuity risks.

The Group's regulatory and legal teams monitor and ensure compliance with all relevant legislation and regulations and where appropriate work closely with external advisors and the regulators, government bodies and relevant trade associations regarding current and future legislation which would impact upon the business.

Additional risks not presently known to the Group, or that management currently deem immaterial, may also impair future business operations.

#### **Financial risk management objectives and policies**

In the ordinary course of business, the Company is exposed to a variety of financial risks arising from fluctuations in foreign currency exchange rates, interest rates and commodity prices. To manage these risks effectively, the Company enters into hedging transactions and uses derivative financial instruments, under established internal guidelines and policies, to mitigate the adverse effects of these risks. The Company does not enter into financial instruments for trading or speculative purposes.

The Treasury Management Committee establishes the Company's financial risk strategy. The strategy is implemented by a central treasury department (Group Treasury), which identifies, evaluates and hedges financial risks, working closely with the Company's operating units. The Treasury Management Committee ensures that critical controls exist and are operating correctly within Group Treasury. Written policies, approved by the Treasury Management Committee, provide the framework for the management of the Company's financial risks, and provide specific guidance on areas such as foreign exchange risk, interest rate risk and liquidity risk.

For more details please refer to Note 18 to the Consolidated Financial Statements of Pladis Foods Limited which includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk, commodity risk and liquidity risk.

#### *Restructuring programs*

During 2018, the Company continued the implementation of its cost-reduction initiatives. Costs incurred were associated with factory restructuring programs and continued reductions in overheads.

#### *Research and development*

Research and development expenditure plays an essential part in the Company's commitment to product innovation, health and nutrition, and the development of more effective production and packaging technology.

## United Biscuits (UK) Limited

### Strategic report (continued)

#### **Suppliers**

The Company requires management staff responsible for procurement to negotiate appropriate terms and conditions of trade as competitively as it negotiates prices and other commercial matters.

Employees are bound by the terms of the Company's Code of Business Behaviour and Ethics which sets out expectations regarding trading relationships with suppliers.

This report was approved by the board of directors on 29 May 2019 and signed on its behalf by:



**Mustafa Tercan - Director**

29 May 2019

Registered Office: Hayes Park, Hayes End Road, Hayes, Middlesex, UB4 8EE.

## United Biscuits (UK) Limited

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### Directors' report

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The directors present their annual report and the audited financial statements for the year ended 31 December 2018.

#### Results and dividends

The profit for the year is shown in the Income Statement on page 11. No dividend was paid or proposed during the year ended 31 December 2018 (2017: £nil).

#### Directors

The directors who served during the year and subsequently were:

##### Name

Jim Zaza (*chairman*)  
Helen McCarthy (*resigned 22 Oct 2018*)  
Mark Oldham (*resigned as director 22 Oct 2018*)\*  
Nick Bunker (*appointed 20 Feb 2018*)  
Luigi La Corte (*appointed 20 Feb 2018, resigned 24 Oct 2018*)  
Cem Karakas (*resigned 21 Sept 2018*)  
Mustafa Tercan  
Simon Rose (*resigned 30 April 2018*)  
Murat Ulker (*appointed 26 Sept 2018*)  
Helen Pitcher (*appointed 1 Nov 2018*)  
Simon Munir (*appointed 26 Sept 2018, resigned 26 Nov 2018*)  
Ali Ulker (*appointed 6 Dec 2018*)  
Richard Handscombe (*appointed 6 Dec 2018*)  
Ahmed Salman Amin (*appointed 1 Feb 2019*)

\* *Mark Oldham also served during the year and subsequently as Company Secretary.*

#### Directors' indemnity

During the period the Company maintained liability insurance for its directors and officers.

#### Research & development

The goal is for the technical teams to support our branded growth goals by driving value creation through optimised product delivery aligned to and supporting the Company's strategic objectives.

#### Future developments

The Company intends to continue manufacturing and selling its biscuit and savoury snacks with a principal focus on its key financial performance indicators as detailed in the Strategic Report.

#### Auditors

A resolution to re-appoint Deloitte LLP as the Company's auditor will be put to the forthcoming Annual General Meeting.

#### Employment policies

The Company has a comprehensive framework of employment policies. The rights and opportunities of all people to seek, obtain and hold employment with dignity and without any form of discrimination remains of great importance to the Company. It is the policy that employees at all levels shall not in their dealings harass or discriminate against other individuals on grounds of gender, race, nationality, religion, marital status, sexual orientation, disability, age or for any other reason whatsoever. This policy applies in respect of all conditions of employment.

## United Biscuits (UK) Limited

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### Directors' report (continued)

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Equal opportunity is offered to disabled persons, whether registered or not, applying for vacancies having regard to their aptitudes and abilities. Arrangements are made to continue the employment, wherever possible, of those employees who have become disabled. Consideration is also given to arranging appropriate training facilities or providing special aids where necessary. Disabled persons are also provided with the same opportunities for training, career development and promotion that are available to all employees within the limitations of their aptitudes and abilities.

The Company not only complies with the health and safety measures required by law, but acts positively to ensure that its premises are healthy and safe places in which to work. It recognises that the health and safety of all its employees whether on Company premises or carrying out Company business elsewhere, and of persons visiting Company premises, is primarily the responsibility of management.

#### Employee involvement

The Company communicates information about the Company through a briefing from senior management, which is held every four weeks and made available to all employees. Regular meetings are held between local management and employees and employees participate in the success of the business through the Company's profit sharing schemes.

#### Going concern

The financial statements have been prepared on a going concern basis as the directors are satisfied that, with the financial support of its parent company, Yildiz Holding A.S., the Company has adequate financial resources to continue its operations for the foreseeable future. In making this statement, the Company's directors have reviewed the Company's budget and available facilities, including the financial support from Yildiz Holding A.S., and have made such other enquiries as they considered appropriate.

#### Directors' statement as to disclosure of information to auditors

The directors confirm that, in the case of each person who is a director at the time when the directors' report is approved, as far as each director is aware, there is no relevant audit information of which the auditor is unaware and that directors have taken all steps that ought to have been taken to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This information is given and should be interpreted in accordance with the provision of s418 of the Companies Act 2006.

This report was approved by the board of directors on 29 May 2019 and signed on its behalf by:



Mustafa Tercan - Director

29 May 2019

Registered Office: Hayes Park, Hayes End Road, Hayes, Middlesex, UB4 8EE.



## United Biscuits (UK) Limited

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### Statement of Directors' Responsibilities Statement in relation to the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law including FRS 101 "Reduced Disclosure Framework"). 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 estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 Reduced Disclosure Framework has been followed; and
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the company will not 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# United Biscuits (UK) Limited

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## Independent Auditor's Report to the Members of United Biscuits (UK) Limited

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### Report on the audit of the financial statements

#### Opinion

In our opinion the financial statements of United Biscuits (UK) Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the accounting policies; and
- the related notes 1 to 27.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

#### Basis for opinion

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

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

#### Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

#### Other information

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

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

We have nothing to report in respect of these matters.

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**Independent Auditor's Report to the Members of United Biscuits (UK) Limited (continued)**

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**Responsibilities of directors**

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

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

**Auditor's responsibilities for the audit of the financial statements**

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**Report on other legal and regulatory requirements**

**Opinions on other matters prescribed by the Companies Act 2006**

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

**Matters on which we are required to report by exception**

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

- adequate accounting records have not been kept, 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.

We have nothing to report in respect of these matters.

**Use of our report**

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



Hadleigh Shekle FCA (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom

29 May 2019

# United Biscuits (UK) Limited

## Income Statement

For the year ended 31 December 2018

	Note	2018 £m	2017 £m
Revenue	3	827.7	874.5
Cost of sales		(570.7)	(567.4)
<b>Gross profit</b>		<b>257.0</b>	<b>307.1</b>
Distribution, selling and marketing costs		(116.7)	(161.3)
Administrative expenses		(49.9)	(46.0)
<b>Operating profit before restructuring and non-underlying operating items</b>		<b>90.4</b>	<b>99.8</b>
Operating profit before restructuring and non-underlying operating items is comprised as follows:			
Adjusted EBITDA		128.4	135.4
Pension administration expenses		(6.8)	(5.6)
Depreciation and amortisation expense		(31.2)	(30.0)
Restructuring and non-underlying operating items	7	(17.2)	(10.0)
Profit from the disposal of businesses	8	-	118.8
<b>Operating profit before interest and tax</b>	4	<b>73.2</b>	<b>208.6</b>
Interest receivable and other financial income	9	-	0.1
Interest payable and other financial charges	9	(11.0)	(12.1)
Other finance cost – pensions	22	(4.1)	(5.2)
<b>Profit before tax</b>		<b>58.1</b>	<b>191.4</b>
Tax (charge)/credit on profit	10	(4.9)	1.1
<b>Profit for the year</b>		<b>53.2</b>	<b>192.5</b>

All amounts relate to continuing activities in both the current and prior period unless otherwise stated.

# United Biscuits (UK) Limited

## Statement of Comprehensive Income

For the year ended 31 December 2018

	Note	2018 £m	2017 £m
Profit for the year		53.2	192.5
<b>Other comprehensive income</b>			
<b>Items not to be reclassified subsequently to profit or loss:</b>			
Remeasurement of net defined benefit pension plan liability	22	32.2	25.8
Revaluation of property, plant and equipment	12	-	22.3
Tax on items not to be reclassified subsequently to profit or loss	10	(5.5)	(5.3)
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Gain/(loss) on cash flow hedges arising during the year		9.3	(0.6)
Cash flow hedges transferred to income statement		(3.5)	(2.0)
<b>Other comprehensive income for the year</b>		<u>32.5</u>	<u>40.2</u>
<b>Total comprehensive income for the year</b>		<u>85.7</u>	<u>232.7</u>

## United Biscuits (UK) Limited

### Balance Sheet

As at 31 December 2018

	Note	2018 £m	2017 £m
<b>Non-current assets</b>			
Intangible assets	11	37.5	26.2
Tangible assets	12	275.1	302.2
Investments	13	181.5	181.5
Deferred tax	10	63.4	73.7
		<u>557.5</u>	<u>583.6</u>
<b>Current assets</b>			
Inventories	14	47.5	48.9
Debtors	15	105.2	147.0
Amounts owed by Group undertakings	16	2,744.4	2,632.7
Derivative financial instruments		0.2	0.1
Cash and cash equivalents	18	111.8	146.5
		<u>3,009.1</u>	<u>2,975.2</u>
<b>Creditors: amounts falling due within one year</b>			
Creditors	21	274.0	304.3
Amounts owed to Group undertakings	16	1,380.3	1,360.5
Finance lease liability	17	2.8	-
Derivative financial instruments		0.9	0.3
Provisions	20	3.0	1.5
		<u>1,661.0</u>	<u>1,666.6</u>
<b>Net current assets</b>		<b>1,348.1</b>	<b>1,308.6</b>
<b>Total assets less current liabilities</b>		<b>1,905.6</b>	<b>1,892.2</b>
<b>Creditors: amounts falling due after more than one year</b>			
Amount due to parent companies	16	95.1	137.6
Finance lease liability	17	15.4	-
Retirement benefit liability	22	143.4	188.6
		<u>253.9</u>	<u>326.2</u>
<b>Net assets</b>		<b><u>1,651.7</u></b>	<b><u>1,566.0</u></b>
<b>Capital and reserves</b>			
Share capital	19	10.0	10.0
Share premium		321.6	321.6
Hedging reserves		1.4	(4.4)
Property revaluation reserve		22.3	22.3
Retained earnings		<u>1,296.4</u>	<u>1,216.5</u>
<b>Total equity</b>		<b><u>1,651.7</u></b>	<b><u>1,566.0</u></b>

The financial statements of United Biscuits (UK) Limited (registered number 2506007) were approved by the Board and signed on its behalf on 29 May 2019.

  
Mustafa Tercan- Director

## United Biscuits (UK) Limited

### Statement of Changes in Equity

	Share Capital & Share Premium £m	Hedging Reserve £m	Properties Revaluation Reserve £m	Retained Earnings £m	Total Equity £m
<b>At 31 December 2016</b>	<b>331.6</b>	<b>(1.8)</b>	<b>-</b>	<b>1,003.5</b>	<b>1,333.3</b>
Profit for the financial year	-	-	-	192.5	192.5
Other comprehensive income	-	(2.6)	22.3	20.5	40.2
Total comprehensive income in the year	-	(2.6)	22.3	213.0	232.7
<b>At 31 December 2017</b>	<b>331.6</b>	<b>(4.4)</b>	<b>22.3</b>	<b>1,216.5</b>	<b>1,566.0</b>
Profit for the financial year	-	-	-	53.2	53.2
Other comprehensive income	-	5.8	-	26.7	32.5
Total comprehensive income in the year	-	5.8	-	79.9	85.7
<b>At 31 December 2018</b>	<b>331.6</b>	<b>1.4</b>	<b>22.3</b>	<b>1,296.4</b>	<b>1,651.7</b>

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## **1 Authorisation of Financial Statements and statement of compliance with FRS 101**

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The financial statements of United Biscuits (UK) Limited (the "Company") for the year ended 31 December 2018 were authorised for issue by the board of directors on May 2019 and the balance sheet was signed on the board's behalf by Mustafa Tercan. The Company is private company limited by shares and is registered in England and Wales. Its registered address is on page 5.

The Company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the Financial Reporting Council. Accordingly, these financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates and are rounded to the nearest £0.1m.

The Company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare group accounts as it is a wholly owned subsidiary of Pladis Foods Limited and Pladis Foods Limited has produced group financial statements for the period from 1 January 2018 to 31 December 2018. These financial statements solely relate to United Biscuits (UK) Limited and not its group.

The results of United Biscuits (UK) Limited are included in the consolidated financial statements of Pladis Foods Limited which are available from Pladis Foods Limited, Hayes End Road, Hayes, UB4 8EE.

The principal accounting policies adopted by the Company are set out in note 2.

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## **2 Accounting policies**

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### **Basis of preparation**

The financial statements are prepared on the historical cost basis of accounting, modified to include revaluation to fair value of certain financial instruments and certain properties that are measured at revalued amounts as outlined below, and in accordance with applicable accounting standards.

Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements is determined on such a basis. Fair value for measurement purposes in these financial statements is determined on such a basis except for leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36. In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.



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## **2 Accounting policies (continued)**

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The Company has taken advantage of the following disclosure exemptions under FRS 101:

- a) the requirement to disclose new accounting standards not yet effective;
- b) the requirements of IFRS 7 Financial Instruments: Disclosures;
- c) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- d) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
  - (i) paragraph 79(a)(iv) of IAS 1;
  - (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment;
  - (iii) paragraph 118(e) of IAS 38 Intangible Assets;
  - (iv) paragraphs 76 and 79(d) of IAS 40 Investment Property; and
  - (v) paragraph 50 of IAS 41 Agriculture.
- e) the requirements of paragraphs 10(d), 10(f) 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements;
- f) the requirements of IAS 7 Statement of Cash Flows;
- g) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- h) the requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures;
- i) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- j) the requirements of paragraphs 130 (f) (ii)-(iii), 134(d)-134(f) and 135(c) to (e) of IAS 36 Impairment of Assets.

### **Adoption of new and revised Standards**

#### **Amendments to IFRSs and the new Interpretation that are mandatorily effective for the current year**

In the current year, the Company has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2018:

#### **a) Impact of initial application of IFRS 9 Financial Instruments**

In the current year, the Company has applied IFRS 9 Financial Instruments (as revised July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives, which the Company has elected to take.

IFRS 9 introduced new requirements for:

- the classification and measurement of financial assets and financial liabilities;
- impairment of financial assets; and
- general hedge accounting.

Details of these new requirements as well as their impact on the financial statements are described below.

#### *Classification and measurement of financial assets*

The date of initial application (i.e. the date on which the Company has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Company has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

## 2 Accounting policies (continued)

Specifically:

- loans and receivables that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;
- loans and receivables that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income ("FVTOCI");
- loans and receivables that are held within a business model whose objective is to sell the debt instruments are subsequently measured at fair value through profit and loss.

The following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities as at 1 January 2018.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates to the reclassification of certain financial assets into different measurement categories which had no significant remeasurement impact on adoption.

	Original measurement category under IAS 39	New measurement category under IFRS 9	Original carrying amount under IAS 39 £m	Additional loss allowance recognised under IFRS 9 £m	New carrying amount under IFRS 9 £m
Foreign currency forward contracts	Derivatives designated as hedging instruments	Derivatives designated as hedging instruments	(0.2)	-	(0.2)
Trade receivables subject to the Group's factoring arrangements	Loans and receivables	Financial assets at FVTPL	9.9	-	9.9
Trade and other receivables	Loans and receivables	Financial assets at amortised cost	122.3	-	122.3
Cash and bank balances	Loans and receivables	Financial assets at amortised cost	146.5	-	146.5
Trade and other payables	Financial liabilities at amortised cost	Financial liabilities at amortised cost	(256.5)	-	(256.5)

The Company's financial assets (other than derivative financial instruments) were classified as loans and receivables under IAS 39 and were measured at amortised cost. With the exception of derivative financial instruments and the Company's trade debtors that are subject to the Company factoring arrangements, all other non-cash financial assets continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

For qualifying loans and receivables that are subject to the Company factoring arrangements which do not meet the de-recognition criteria, the Company remeasures such assets at fair value through profit and loss.

Freestanding derivative financial instruments continue to be recognised at fair value on inception and remeasured to fair value through profit and loss.

## 2 Accounting policies (continued)

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

	FVTPL £m	FVTOCI (IAS 39 Available for sale) £m	Held-to- maturity £m	Amortised cost (IAS 39 loans and receivables) £m
<b>Financial assets</b>				
Financial assets at 1 January 2018 – IAS 39	-	-	-	278.7
Reclassification of trade receivables subject to the group's factoring arrangements to FVTPL	9.9	-	-	(9.9)
<b>Financial assets at 1 January 2018 – IFRS 9</b>	<b>9.9</b>	<b>-</b>	<b>-</b>	<b>268.8</b>

### *Impairment of financial assets*

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss ("ECL") model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires the Company to recognise a loss allowance for expected credit losses on its trade and other debtors. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Company always recognises lifetime ECL for trade and other debtors. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument.

The assessment did not result in the identification of additional credit loss allowances at the date of adoption, with an amount of £0.3m recognised as at 31 December 2018.

The directors of the Company reviewed and assessed the Company's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had no material measurement impact on the Company's financial position at that date. Certain financial assets have been reclassified from loans and receivables to financial assets to fair value through profit and loss, as set out above and in note 15.

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## **2 Accounting policies (continued)**

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The changes introduced by IFRS 9 relating to the classification and measurement of financial liabilities designated as at fair value through profit and loss ("FVTPL") had no impact as none of the Company's financial liabilities were recognised at FVTPL.

### *Hedge accounting*

IFRS 9 introduced new general hedge accounting requirements that allow hedge accounting based on the Company's risk management policies rather than only prescribed scenarios. The Company applied the hedge accounting requirements of IFRS 9 prospectively. At the date of initial application, all of the Company's existing hedge relationships were eligible to be treated as continuing hedge relationships.

### **b) Impact of application of IFRS 15 Revenue from Contracts with Customers**

In the current year, the Company has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. The Company's date of initial application is 1 January 2018.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 introduced a 5-step approach to revenue recognition. More prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. The Company has applied the modified approach permitted by paragraph C7 and C8 of IFRS 15.

On 1 January 2018, the Company adopted IFRS 15. Following adoption, display and feature costs of £10.9 million were reclassified from marketing, selling and distribution to revenue. If this standard would have been adopted in the prior year, £9.4 million would have been reclassified

### **Significant accounting judgements, estimates, and assumptions**

The preparation of the Company's financial statements in conformity with FRS 101 requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, ultimately actual results may differ from those estimates.

No critical accounting judgements have been applied to these financial statements.

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**2 Accounting policies (continued)**

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The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year arise in connection with the measurement of defined benefit pension obligations, and promotional accruals.

*Defined benefit pension obligations* – The cost of pension benefit plans and post-retirement healthcare benefits is determined using actuarial valuations. This involves making assumptions about future changes in salaries, future pension increases, mortality rates and discount rates. Due to the long-term nature of these plans, considerable management judgement is necessary and estimates are subject to significant uncertainty. Further details about the assumptions used are given in Note 22.

*Promotional accruals* – The Company accrues for trade discounts and other allowances against agreed promotional activity. Such accruals are subject to a number of variables, e.g. redemption rates and anticipated volumes, and are sensitive to small changes in these variables. These costs are accrued on best estimates using cumulative experience to estimate the provision for discounts, using the most likely amount method; revenue is only recognised to the extent that it is highly probable a significant reversal will not occur. The actual costs may not be known until subsequent years when negotiations with customers are concluded and actual data is available. Changes in accrual estimates are recorded through the income statement. Management considers this to be an area of judgement that is significant due to the volume of such transactions. A promotional accrual of £38.3 million (2017: £43.4 million) is included within trade payables.

**Revenue recognition**

Revenue consists principally of sales to third parties after trade discounts and excluding value added tax. Trade discounts include sales incentives, up-front payments and other non-discretionary payments. Revenue is recognised when control of the products being sold has transferred to our customer and when there are no longer any unfulfilled obligations to the customer. This is generally on delivery to the customer but depending on individual customer terms, this can be at the time of dispatch, delivery or upon formal customer acceptance. This is considered the appropriate point where the performance obligations in our contracts are satisfied as the Company no longer has control over the inventory. At each balance sheet date, any expenditure incurred, but not yet invoiced in relation to trade discounts and other allowances, is estimated and accrued and deducted from revenue.

Royalties are earned from the use of the Company's brands by third parties. Royalty revenue is recognised on an accruals basis in accordance with the substance of the relevant agreement (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably). Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement on a point in time basis.

**Interest income**

Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of interest can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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## **2 Accounting policies (continued)**

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### **Restructuring and non-underlying operating items**

The Company presents as non-underlying and restructuring operating items those items of income and expense which, in the opinion of the Directors, because of their nature merit separate presentation to enable users of the financial statements to better understand the elements of financial performance in the period, to facilitate comparison with prior periods and to assess trends in financial performance more easily. Non-underlying expenses include charges/credits arising from curtailment events and other projects affecting the Company's pension schemes, uninsured costs arising from natural disasters, charges for impairment of plant, equipment, intangible assets, profits and losses on the disposal of property, plant and equipment, costs associated with acquisitions and disposals (both completed and aborted) and costs associated with major ERP upgrades which do not qualify for capitalisation.

Restructuring costs are costs that are incremental to costs the Company would otherwise incur in relation to its normal operations. Principally, they are costs associated with projects implemented to improve efficiency of the Company's operations, integrate acquisitions, restructure departments or reduce the cost base of the business. For example, redundancy costs resulting from the closure or integration of a business or part of a business; costs directly associated with implementing improved ways of working and costs of product recalls. Costs associated with an activity that meets the definition of restructuring and other non-underlying expenses are charged to the income statement at the point the Company is committed to incurring those costs.

### **Intangible assets**

Purchased brands are stated at cost less any provision for impairment. Purchased intangible assets are capitalised and amortised over their estimated useful economic lives on a straight-line basis. Where purchased, brand intangible assets are considered by the Board of Directors to have an indefinite life, given the proven longevity of the brand and the continued level of marketing support, they are not amortised but are subject to annual impairment reviews or more frequently when events or changes in circumstances indicate that the carrying value may not be recoverable. Any impairment is charged to the income statement in the period it arises.

The Company capitalises computer software at cost and also capitalises internally generated software based on costs incurred where certain specific criteria are met. Computer software is amortised on a straight-line basis over its estimated useful life, up to 5 years.

### **Tangible assets**

Property, plant and equipment excluding freehold land and buildings is stated at cost, net of depreciation and any provision for impairment.

Freehold land and buildings are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously expensed. A decrease in carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to income. On the subsequent sale or scrappage of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

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## **2 Accounting policies (continued)**

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Depreciation is calculated to write off the cost less residual value of property, plant and equipment, other than freehold land, over their expected useful lives by equal annual instalments, principally at the following rates:

Freehold buildings	1.5%-2.0%
Long leasehold	1.5%-2.0%
Short leasehold	Over the life of the lease
Plant, machinery and vehicles	3%-20%
Fixtures and fittings	10%-33%

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets under construction are capitalised but are not depreciated until such time as they are available for use. Material borrowing costs directly attributable to assets under construction and which meet the recognition criteria in IAS 23 are capitalised as part of the cost of that asset.

Technical stores consist of spare parts and other items for the repair and maintenance of plant and equipment. Major spare parts are recorded as assets under construction until such time as they are brought into use. All other purchases are expensed.

### **Investments**

Investments are stated at cost unless, in the opinion of the directors, there has been a permanent diminution in value, in which case an appropriate adjustment is made.

### **Impairment of non-financial assets**

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount in order to determine the extent of the impairment loss. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses on continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

For assets where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, not to exceed the carrying amount that would have been determined, net of depreciation, had no impairment losses been recognised for the asset or cash generating unit in prior years. A reversal of impairment loss is recognised immediately in the income statement.

### **Leases**

Assets held under finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease, with a corresponding liability being recognised for the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between the reduction of the lease liability and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability. Assets held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the income statement on a straight line basis over the lease term.

## **2 Accounting policies (continued)**

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### **Provisions for liabilities**

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event; it is probable that an outflow of economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

Provision is made for all onerous contracts where unavoidable costs exceed anticipated income.

### **Inventories**

Inventories are valued at the lower of cost and net realisable value. Cost in the case of raw materials and goods for resale is determined on a first-in, first-out basis. Cost, in the case of products manufactured by the Company, comprises direct material and labour cost together with appropriate factory overheads. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and costs to be incurred in marketing, selling and distribution.

Inventory held as consignment stock is recognised in the balance sheet at cost together with the liability associated with it in order to recognise that the risks and rewards have been transferred to the Company.

### **Taxation**

Current tax is based on the results for the period as adjusted for non-assessable or disallowed items. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred income tax assets and liabilities are offset, only if a legally enforcement right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the company to make a single net payment.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the income statement.



## **2 Accounting policies (continued)**

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### **Pensions and other post-retirement benefits**

The Company's main post-retirement arrangements are of the defined benefit type, which require contributions to be made to separately administered funds. The Company's plans are closed to new members and membership of a defined contribution plan is now offered for new employees. The Company also provides additional unfunded post-retirement benefits to certain senior management.

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligation) and is based on actuarial advice. Past service costs are recognised in profit or loss. When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are re-measured using current actuarial assumptions and the resultant gain or loss recognised in the income statement during the period in which the settlement or curtailment occurs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in profit or loss as other finance revenue or cost.

Re-measurements, comprising actuarial gains and losses, the effect of the asset ceiling and the return on the net assets (excluding amounts included in net interest), are recognised immediately in other comprehensive income in the period in which they occur.

The defined benefit pension asset or liability in the balance sheet comprises the total for each plan of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price. The value of a net pension benefit asset is restricted to the present value of any amount the Company expects to recover by way of refunds from the plan or reductions in the future contributions.

Contributions to defined contribution schemes are recognised in the income statement in the period in which they become payable.

### **Foreign currency translations**

*Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account except for exchange differences on transactions arising from the hedging of certain foreign currency risks where the hedge relationship is determined to be effective, in which case they are recorded in other comprehensive income.*

### **Derivative financial instruments**

The Company uses certain derivative financial instruments for the purpose of hedging foreign exchange and commodity price risks.

All derivative financial instruments are carried at fair value. The fair value of foreign exchange forward contracts is calculated using forward exchange market rates at the balance sheet date. The fair value of interest rate swaps is determined by reference to market values for similar instruments. The fair value of commodity hedges is determined by reference to the market values of the commodities traded on the London International Financial Futures Exchange ('LIFFE') at balance sheet date.

For those derivative financial instruments designated as hedges, the hedging relationship is documented at its inception. This documentation identifies the hedging instruments, the hedged items or transactions, the nature of the risks being hedged and how effectiveness will be measured throughout the instruments' duration. Such hedges are expected at inception to be highly effective.

## **2 Accounting policies (continued)**

The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

Hedge accounting is applied where derivative financial instruments are measured to have been highly effective in offsetting the changes in fair value or cash flows of the hedged items. Derivatives outside a hedging relationship are recorded at fair value at the balance sheet date with any gains or losses being recognised in the income statement.

### **Cash flow hedges**

Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges of highly probable forecast transactions or firm commitments in foreign currency are recognised in other comprehensive income and included in the hedging reserve. Amounts deferred in this way are recognised in the profit and loss account in the same period in which the hedged forecast transaction or firm commitment is recognised in the profit and loss account in the same line item of the profit and loss account as the recognised hedged item. Any ineffective portion of the changes in the fair value of designated cash flow hedges is recognised immediately in the profit and loss account.

The Company discontinues cash flow hedges when a forecast transaction is no longer expected to occur and amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs and are transferred to the profit and loss account as above. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

### **Financial assets - initial recognition and measurement**

The Company classifies its financial assets into the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss); and
- those to be measured at amortised cost.

This classification depends on our business model for managing the financial asset and the contractual terms of the cash flows. At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. All of the Company's financial assets (except cash) are debt instruments that provide the Company with a contractual right to receive cash or another asset.

### **Financial assets - subsequent measurement**

The subsequent measurement of the Company's financial assets (except cash) depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories that debt instruments are classified as:

- amortised cost;
  - financial assets at fair value through other comprehensive income; or
  - financial assets at fair value through profit or loss.
- i. Amortised cost - assets measured at amortised cost are those which are held to collect cash flows on the repayment of principal or interest. A gain or loss on a financial asset recognised at amortised cost on de-recognition or impairment is recognised in profit or loss. Any interest income is recognised within finance income using the effective interest rate method.

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## **2 Accounting policies (continued)**

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- ii. Fair value through other comprehensive income - assets that are held at fair value through other comprehensive income are those that are held to collect cash flows on the repayment of principal and interest or which are held to recognise a capital gain through the sale of the asset. Movements in the carrying amount are recognised in other comprehensive income except for the recognition of impairment, interest income and foreign exchange gains or losses which are recognised in profit or loss. On de-recognition, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity to profit or loss. Interest income is included in finance income using the effective interest rate method.
- iii. Fair value through profit or loss - assets that do not meet the criteria for either amortised cost or fair value through other comprehensive income are measured as fair value through profit or loss. Related transaction costs are expensed as incurred. Unless they form part of a hedging relationship, these assets are held at fair value, with changes being recognised in the income statement. Interest income from these assets is included within finance income.

### **Financial assets - impairment**

The Company recognises a loss allowance for expected credit losses on trade and other debtors. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Company always recognises lifetime ECL for trade and other debtors. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument.

The Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

### **Interest-bearing loans and borrowings**

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

### **Equity**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

## United Biscuits (UK) Limited

Notes to the financial statements

### 2 Accounting policies (continued)

#### Research and development

Expenditure on research is recognised as an expense when it is incurred. An intangible asset arising from development is recognised if, and only if, it can be demonstrated that all of the following conditions have been met:

- a) its technical feasibility of completing the intangible asset so that it will be available for use or sale.
- b) its intention to complete the intangible asset and use or sell it.
- c) its ability to use or sell the intangible asset.
- d) how the intangible asset will generate probable future economic benefits.
- e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

After initial recognition, an intangible asset (arising as a result of development expenditure) shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses.

#### Government grants

The Company has received grants from government agencies in the United Kingdom as well as from the European Union to assist with the purchase of property, plant and equipment and costs of staff training. Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. Government grants in respect of capital expenditure are deducted from the carrying amount of the asset and are released as income by equal annual amounts over the expected useful lives of the relevant assets.

### 3 Revenue

The Company has one significant revenue stream, being the sale of sweet and savoury biscuits and baked snacks, all of which arises under customer contracts.

Revenue from customer contracts by geographical area

	2018 £m	2017 £m
United Kingdom	735.7	766.5
Rest of World	92.0	108.0
	<u>827.7</u>	<u>874.5</u>

Timing of revenue recognition

	2018 £m	2017 £m
Point in time	804.5	855.7
Over time	23.2	18.8
	<u>827.7</u>	<u>874.5</u>

The aggregate amount of the transaction price allocated to performance obligations that are (partially) unsatisfied at the balance sheet date is nil.

**United Biscuits (UK) Limited**

Notes to the financial statements

**4 Profit before interest and tax**

Profit before interest and tax is stated after charging:

	<b>2018</b> <b>£m</b>	<b>2017</b> <b>£m</b>
Restructuring and non-underlying operating expenses		
Restructuring and associated costs (note 7)	17.2	13.2
Operating lease rentals:		
Land and buildings	4.9	5.1
Plant and machinery	3.6	3.6
The depreciation and amortisation expense by function was as follows:		
Cost of sales	24.7	23.9
Distribution, selling and marketing costs	1.8	1.9
Administrative expenses	4.7	4.6
	<u>31.2</u>	<u>30.4</u>
Government grant income	-	5.1
Net foreign exchange loss	-	-
Research and development	4.0	5.2
Directors' emoluments (Note 5)	4.6	3.2

The Company paid the following amounts to its auditor in respect of the audit of the financial statements and for other services provided to the Company:

	<b>2018</b> <b>£'000</b>	<b>2017</b> <b>£'000</b>
Fee for the audit of the company	183	171

Additional fees paid to the Company's auditor for services other than those listed above are not disclosed in United Biscuits (UK) Limited's accounts since the consolidated accounts of United Biscuits (UK) Limited's parent, Pladis Foods Limited, are required to disclose non-audit fees on a consolidated basis.

## **5 Directors' emoluments and staff costs**

Six directors are remunerated by the Yildiz Group for their services, which includes their directorships of the Company. £2.0 million (2017: £2.0 million) is charged by Yildiz to UMV Global Foods Holding Company, a parent of the Company, in respect of the provision of corporate governance services, including associated directors' fees. It is not practical to separately identify the directors' remuneration element of this charge including any amount that relates to their services as directors of the Company.

The remaining directors of the Company are also directors of fellow subsidiary companies. These directors received total remuneration for the period of £4.6 million (2017: £3.2 million) including pension contributions of £nil (2017: £nil) paid by the Company. The directors do not believe that it is practicable to apportion this amount between their services as directors of the Company and their services as directors of other group companies. The highest paid director received remuneration for the year of £1.4 million (2017: £2.2 million).

The number of directors to whom retirement benefits are accruing in respect of defined benefit schemes was 1 in 2018 (2017: 2). Compensation for loss of office amounted to £378,000 (2017: nil).

### **Staff costs**

	<b>2018</b>	<b>2017</b>
	<b>£m</b>	<b>£m</b>
Wages and salaries	111.7	149.4
Social security costs	9.5	11.4
Other pension costs (Note 22)	30.4	16.4
	<u>151.6</u>	<u>177.2</u>

In addition to the above, the Company incurred severance costs of £6.2 million (2017: £5.0 million).

The average monthly number of employees during the year was made up as follows:

	<b>2018</b>	<b>2017</b>
	<b>No.</b>	<b>No.</b>
Manufacturing and production	3,431	3,518
Logistics and site service	344	400
Sales, marketing and administration	481	596
	<u>4,256</u>	<u>4,514</u>

## United Biscuits (UK) Limited

Notes to the financial statements

### 6 Carlisle factory flood

The Company's biscuit factory in Carlisle was subject to heavy flooding in December 2015. The Company carries material damage and business interruption insurance to cover such occurrences. Material damage insurance covers the cost of clean-up and repair or replacement of plant and machinery. The Company's business interruption insurance covers loss of profits as a consequence of such an event and allows claims for a period of up to 30 months after an event.

The Company worked closely with its advisors and insurers to ensure claims to cover losses were processed on a timely basis to minimize the impact on the Company's cash flows.

#### Business interruption insurance income

	2018 £m	2017 £m
Business interruption insurance income	-	6.3

For the year ended December 2017, the Company recognised £6.3 million of business interruption income all of which had been received at 31 December 2017.

### 7 Restructuring and non-underlying operating items

	Restructuring and non- underlying operating costs £m	Non- underlying costs associated with the Carlisle Flood £m	Total £m
<b>2018</b>			
Restructuring costs <sup>(1)</sup>	6.2	-	6.2
Other non-underlying costs <sup>(2)</sup>	11.0	-	11.0
<b>Total</b>	<b>17.2</b>	<b>-</b>	<b>17.2</b>

	Restructuring and non- underlying operating costs £m	Non- underlying costs associated with the Carlisle Flood £m	Total £m
<b>2017</b>			
Restructuring costs <sup>(1)</sup>	8.3	-	8.3
Other non-underlying costs <sup>(3)</sup>	4.9	-	4.9
Carlisle Flood related income	-	(1.3)	(1.3)
Refund of VAT on acquisition costs	(1.9)	-	(1.9)
<b>Total</b>	<b>11.3</b>	<b>(1.3)</b>	<b>10.0</b>

## United Biscuits (UK) Limited

### Notes to the financial statements

#### 7 Restructuring and non-underlying operating items (continued)

- (1) The Company continues to undertake a programme of modernisation in its UK factories, including the introduction of revised terms and conditions and shift patterns to enable more flexible operation of its manufacturing facilities. Furthermore, the Company has undertaken a restructuring programme to reduce costs to reflect its current strategic plan. The majority of restructuring costs therefore represent amounts due to or paid to employees for severance costs. The Company expects to utilise the provisions associated with these expenses within the next 12 months.
- (2) Other non-underlying costs in 2018 comprise a guaranteed minimum pension ("GMP") equalisation expense of £8.7 million which relates to the Company's defined benefit retirement scheme and other non-underlying professional fees of £2.3 million.
- (3) Other non-underlying costs in 2017 comprised business disposal-related costs, professional fees for a specific member-related project for the Company's pension scheme and costs associated with a major ERP upgrade which did not qualify for capitalisation.

#### 8 Profit from the disposal of businesses

During 2018, there were no business disposals.

On 31 March 2017, the Company sold its Middle East and North Africa ("MENA") Exports business for \$130.0 million and on 12 December 2017 sold its Saudi Arabia Exports business for \$29.0 million to Amir Global Trading Fze, a subsidiary of Yildiz Holding A.S.

	2017 £m
Proceeds	123.5
Less: costs of disposal	(4.7)
<b>Gain on disposal</b>	<b>118.8</b>

#### 9 Financial income and expenses

	2018 £m	2017 £m
<b>Interest receivable and other financial income:</b>		
Bank deposit interest	-	0.1
	-	0.1
<b>Interest payable and other financial charges:</b>		
Interest payable to fellow subsidiary undertakings	(10.4)	(12.1)
Finance lease costs	(0.6)	-
	(11.0)	(12.1)



**United Biscuits (UK) Limited**

Notes to the financial statements

**10 Taxation**

Tax is charged/(credited) in the income statement as follows:

	2018 £m	2017 £m
<b>Current income tax</b>		
UK corporation tax	-	-
Current income tax charge	-	-
<b>Deferred tax</b>		
Origination and reversal of temporary differences	3.1	(4.5)
Defined benefit pension plans	2.2	3.4
Adjustments relating to prior years	(0.4)	-
Total deferred tax	4.9	(1.1)
<b>Tax charge/(credit) in the income statement</b>	<b>4.9</b>	<b>(1.1)</b>

Tax relating to items charged or credited to other comprehensive income is as follows:

	2018 £m	2017 £m
<b>Deferred tax</b>		
Items that will not be reclassified subsequently to profit or loss:		
Tax on actuarial gain on defined benefit pension plans	(5.5)	(5.3)
Tax debit in the statement of comprehensive income	(5.5)	(5.3)

**Reconciliation of the total tax charged/(credited)**

The tax charged/(credited) on the profit for the year is reconciled below:

	2018 £m	2017 £m
Profit before taxation	58.1	191.4
Tax charge at the statutory rate of 19.00% (2017 – 19.25%)	11.0	36.8
Expenses not deductible for tax purposes	1.0	0.7
Adjustments relating to prior years	(0.4)	-
Use of brought forward losses	-	(22.9)
Group relief claimed at no charge	(6.3)	(16.4)
Differences in current tax and deferred tax rate	(0.4)	0.7
<b>Tax charge/(credit) in the income statement</b>	<b>4.9</b>	<b>(1.1)</b>

## United Biscuits (UK) Limited

Notes to the financial statements

### 10 Taxation (continued)

#### Unrecognised tax losses

At 31 December 2018, the Company had capital losses carried forward of approximately £5.3 million (2017: £5.3 million) on which deferred tax has not been recognised.

Deferred tax	2018 £m	2017 £m
<b>Deferred tax assets</b>		
Decelerated capital allowances	38.2	40.9
Pensions and retirement healthcare benefits	24.5	32.1
Other short-term temporary differences	0.7	0.7
Deferred tax asset	<u>63.4</u>	<u>73.7</u>
Reflected in the balance sheet as follows:		
Deferred tax asset	63.4	73.7
Deferred tax liability	-	-
	<u>63.4</u>	<u>73.7</u>

The Finance (No.2) Act 2016 received Royal Assent on 15 September 2016 as a result of which the UK corporation tax rate will be reduced to 17% effective from 1 April 2020. The reduction to the tax rate included in the Finance (No.2) Act 2016 was enacted at the balance sheet date and the effect thereof is therefore reflected in these financial statements.

#### Factors that may affect future tax charges

The key factors which may affect future tax charges include the availability of accelerated tax depreciation, losses surrendered from other UK companies without charge and changes in tax legislation.

## 11 Intangible assets

	<b>Purchased Brands £m</b>	<b>Computer Software £m</b>	<b>Total £m</b>
<b>Cost</b>			
At 1 January 2018	42.3	83.3	125.6
Additions	-	4.7	4.7
Transfers from property, plant & equipment	-	7.0	7.0
At 31 December 2018	42.3	95.0	137.3
<b>Accumulated amortisation</b>			
At 1 January 2018	24.5	74.9	99.4
Charge for the year	-	0.4	0.4
At 31 December 2018	24.5	75.3	99.8
<b>Net Book Value at 31 December 2018</b>	<b>17.8</b>	<b>19.7</b>	<b>37.5</b>
<b>Net Book Value at 31 December 2017</b>	<b>17.8</b>	<b>8.4</b>	<b>26.2</b>

All purchased brands have been deemed to have indefinite useful lives as the Company believes that the value of these brands is maintained indefinitely. The factors that result in the indefinite useful lives of brands capitalised are:

- The Company expects to hold and support these brands for an indefinite period.
- The Company supports these brands through spending on consumer marketing and makes significant investment in promotional support.
- The brands operate in stable, large and profitable market sectors in which they have established market shares.

There are also no material legal, regulatory, contractual, competitive, economic or other factors that limit the useful life of these intangibles.

Purchased brands are therefore not subject to amortisation but are tested at least annually for impairment.

Purchased brands are allocated to the Company's one operating segment, which is the lowest level at which management review brand performance.

### Impairment review

The recoverable amount of the U.K. business unit has been determined based on a value in use calculation using cash flow projections based on financial budgets and forecasts approved by management covering a five-year period. The post-tax discount rate applied to the cash flow projections was 7.5%. Short-term EBITDA growth rate was 1.7% (2017: 1.6% to 7.8%) for each year modelled. A long-term EBITDA growth rate assumption of 1.7% (2017: 2.0%) was applied in perpetuity.

### Key assumptions applied to value in use calculations

Assumptions regarding future cash flows are based upon actual results in prior periods, adjusted to reflect management's view of expected developments based upon market conditions. In particular, the 2018 budgeted cash flows, which form the basis for future year forecasts, were developed assuming a sustained profitability in the UK market. The cash flows used are post-tax cash flows and include all income and costs as well as an estimate of maintenance capital expenditure required to support these cash flows.

## United Biscuits (UK) Limited

Notes to the financial statements

### 11 Intangible assets (continued)

The calculation of value is most sensitive to the following assumptions:

- *Discount rate* – this reflects management's assessment of the time value of money and the risks specific to the unit's assets, based on an appropriate Weighted Average Cost of Capital (WACC) anticipated for a market participant investing in the Company and determined using the Capital Asset Pricing Model, reflecting management's estimate of the specific risk profile associated with the cash flow projections.
- *EBITDA growth rates* – estimates are based on industry expectations of growth in the market and the Company's own estimates based on its 2019 budget. The business operates in stable, large and profitable market sectors where the Company's brands have proven longevity.

#### Sensitivity to changes in assumptions

Management believes that no reasonably possible change in any of the above key assumptions would cause the recoverable amount to be less than the carrying value for the purchased brands.

### 12 Property, plant and equipment

	Freehold £m	Leasehold Improvement £m	Plant, Machinery & Vehicles – owned assets £m	Plant and machinery – leased assets £m	Fixtures & Fittings £m	Assets Under Construction £m	Total £m
<b>Cost or valuation</b>							
At 1 January 2018	183.1	15.1	589.6	-	51.9	60.2	899.9
Additions	1.2	0.2	4.0	-	-	10.4	15.8
Government grant	-	-	(5.1)	-	-	-	(5.1)
Sale and leaseback	-	-	(18.6)	18.6	-	-	-
Transfers from AUC	6.7	-	33.3	-	-	(47.0)	(7.0)
<b>At 31 December 2018</b>	<b>191.0</b>	<b>15.3</b>	<b>603.2</b>	<b>18.6</b>	<b>51.9</b>	<b>23.6</b>	<b>903.6</b>
<b>Depreciation</b>							
At 1 January 2018	105.1	12.6	435.3	-	44.7	-	597.7
Charge for the year	3.6	0.4	19.1	1.5	6.2	-	30.8
<b>At 31 December 2018</b>	<b>108.7</b>	<b>13.0</b>	<b>454.4</b>	<b>1.5</b>	<b>50.9</b>	<b>-</b>	<b>628.5</b>
<b>Net book value at 31 December 2018</b>	<b>82.3</b>	<b>2.3</b>	<b>148.8</b>	<b>17.1</b>	<b>1.0</b>	<b>23.6</b>	<b>275.1</b>
<b>31 December 2017</b>	<b>78.0</b>	<b>2.5</b>	<b>154.3</b>	<b>-</b>	<b>7.2</b>	<b>60.2</b>	<b>302.2</b>

The net book value of leasehold properties includes £2.3 million (2017: £2.5 million) in respect of leases with less than fifty years to run at 31 December 2018.

## United Biscuits (UK) Limited

Notes to the financial statements

### 12 Property, plant and equipment (continued)

With effect from 1 January 2017, the Company's freehold land and buildings are stated at their revalued amounts, being their fair value at the date of revaluation, less any subsequent depreciation and subsequent accumulated impairment losses. The fair value measurement of the Company's freehold land and buildings as at 31 December 2017 was performed by an independent valuer not related to the Company. The directors have assessed that there has been no material change in fair value since this date.

At 31 December 2018, had the freehold land and buildings been carried at historical cost less accumulated depreciation and accumulated impairment losses, their carrying amount would have been £58.9 million. The revaluation surplus as at 31 December 2018 is £22.3 million.

During the year the company entered into a sale and leaseback transaction for certain plant and machinery at its Harlesden factory. The net book value of that plant and machinery now held under finance leases at 31 December 2018 is £17.1 million.

### 13 Investments

#### Investments in subsidiary undertakings:

	Cost £m
Cost and Net Book Value as at 31 December 2018 and 31 December 2017	181.5

#### Details of Group undertakings

At 31 December 2018 all the subsidiaries of United Biscuits (UK) Limited listed below were wholly owned, via ordinary shares.

Subsidiary	Country of incorporation and Operation	Registered address	Activity
UB Snackfoods Ireland Ltd***	Ireland	9 Exchange Place International Financial Services Centre, Dublin 1, D01 X8H2	Trading Company
United Biscuits Italy SRL***	Italy	Viale Andrea Doria 48/A, Cap 20124, Milan	Trading Company
United Biscuits Germany GmbH***	Germany	c/o BDO AG Wirtschaftsprüfungsgesellschaft, Landaubogen 10, 81373 München	Trading Company
UB York Ltd	Scotland	(*)	Holding Company
Meredith & Drew Ltd	England	(**)	Dormant Company
W&R Jacob & Co (Northern Ireland) Limited	Northern Ireland	Culcavey, Hillsborough, County Down BT26 6JU	Dormant Company
Irish Biscuits (NI) Ltd	Northern Ireland	Culcavey, Hillsborough, County Down BT26 6JU	Holding Company
The Jacob's Bakery Ltd***	England	(**)	Dormant Company
Pladis (UK) Limited (formerly UB Snacks Ltd)	England	(**)	Dormant Company
UB (Biscuits) Ltd	England	(**)	Dormant Company
Young's Chilled Foods Ltd	England	(**)	Dormant Company
UB Bridgend Three Ltd	England	(**)	Dormant Company
UB Bridgend Four Ltd	England	(**)	Dormant Company
Chiltonian Ltd	England	(**)	Dormant Company
Hills Road 5 Ltd	England	(**)	Dormant Company
McVitie's Ltd	England	(**)	Dormant company
Pladis Australia Pty Ltd	Australia	RSM Australia, Level 13, 60 Castlereagh Street, Sydney, NSW 2000	Trading company

## United Biscuits (UK) Limited

### Notes to the financial statements

#### 13 Investments (continued)

(\*) The registered address of all companies incorporated in Scotland is 50 Lothian Road, Festival Square, Edinburgh EH4 9BY.

(\*\*) The registered address of all companies incorporated in England and Wales is Hayes Park, Hayes End Road, Hayes, Middlesex, UB4 8EE.

(\*\*\*) Denotes directly held.

#### 14 Inventories

	2018 £m	2017 £m
Raw materials and consumables	11.9	11.2
Work in progress	3.4	3.4
Finished goods	32.2	34.3
	<u>47.5</u>	<u>48.9</u>

There is no material difference between the replacement cost and historical cost of inventories.

Raw materials and consumables at 31 December 2018 included £nil (2017: £nil) in respect of consignment stocks.

Inventories recognised as an expense during the period amounted to £463.9 million (2017: £464.1 million). The amount of inventories written down and recognised as an expense within operating profit during the period was £3.8 million (2017 £2.5 million).

#### 15 Trade and other debtors

	2018 £m	2017 £m
Trade debtors	85.0	103.1
Other debtors	8.1	29.1
Prepayments and accrued income	12.1	14.8
	<u>105.2</u>	<u>147.0</u>

##### Transfer of financial assets

In the prior year, the Company entered into a facility with a third party bank in which the Company may sell qualifying trade debtors to the bank. At year-end, the total trade debtors sold amounted to £82.7 million (2017: £90.4 million) for immediate cash proceeds of £72.5 million (2017: £83.0 million), received on a non-recourse basis, with a further £10.2 million (2017: £7.4 million) to be received on collection from the customer. The Company retained credit risk on 5% of the balance transferred. Accordingly, the Company continued to recognise the full carrying amount of the debtors on which credit risk was retained and recognised a corresponding liability to the third party bank for amounts payable in the event of non-collection together with the fair value of the guarantee provided.

At the end of the reporting period, the carrying amount of the trade debtors that had been transferred but not derecognised amounted to £4.1 million (2017: £4.5 million), and the carrying amount of the associated liabilities was £4.1 million (2017: £4.5 million).

£9.1 million (2017: £9.9 million) of qualifying trade debtors remain on the balance sheet as only circa 90% are eligible for de-recognition and are measured at fair value through profit and loss.

## United Biscuits (UK) Limited

### Notes to the financial statements

#### 16 Amounts owed by/to group companies

##### Amounts owed by/to group companies

Amounts owed by/to Group entities arise as part of ongoing financing of the Company's trade and as a result of sales and purchases made to/by other Group entities. As at 31 December 2018, £2,744.4 million was owed by Group undertakings (2017: £2,632.7 million) and £1,380.3 million was owed to Group undertakings (2017: £1,360.5 million).

With the exception of the loans between the Company and UMV Global Foods Company Limited and the Company and Yildiz Holding A.S as shown below, intercompany balances (both receivable and payable) are non-interest bearing and are receivable/payable on demand.

##### Amounts due to parent companies

	2018 £m	2017 £m
Amounts due to UMV Global Foods Company Limited	93.4	86.4
Amounts due to Yildiz Holding A.S.	1.7	51.2
	<u>95.1</u>	<u>137.6</u>

Both loans carry interest at 8% and have a fixed repayment date in 2023.

Details of transactions with fellow subsidiaries within the Yildiz group of companies are provided in Note 25.

#### 17 Finance leases

	Interest rate	Maturity	2018 £m	2017 £m
<b>Current</b>				
Finance lease	LIBOR + 2.20%	2019	2.8	-
			<u>2.8</u>	<u>-</u>
<b>Non-current</b>				
Finance lease	LIBOR + 2.20%	2020 - 2025	15.4	-
			<u>15.4</u>	<u>-</u>

During the year the Company entered into a sale and leaseback transaction for plant and machinery at its Harlesden factory (see Note 12). The resulting finance lease creditor of £18.2 million, as classified above, represents the cash proceeds received for the assets net of lease payments made during the year. The lease agreement is for a term of 7 years and contains an option for the Company to purchase the equipment at the end of the lease term for the nominal sum of £1. The Company's obligations under the finance lease are secured by the lessor's rights over the leased assets.

#### 18 Cash and cash equivalents

	2018 £m	2017 £m
Cash in hand	-	-
Cash or cash equivalents in bank	111.8	146.5
	<u>111.8</u>	<u>146.5</u>

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between two days and two weeks depending on the immediate cash requirements of the Company and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents is materially equivalent to the carrying value.

**United Biscuits (UK) Limited**  
Notes to the financial statements

**19 Share capital**

	Number	Ordinary Shares (1) £m
<b>Ordinary share capital</b>		
Authorised		
As at 31 December 2018 and 31 December 2017:	<u>12,000,000</u>	<u>12.0</u>
<b>Issued, called up and fully paid</b>		
As at 31 December 2018 and 31 December 2017	<u>10,000,000</u>	<u>10.0</u>

(1) ordinary shares of £1 each.

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

**20 Provisions**

	Rationalisation Provisions £m
<b>At 1 January 2018</b>	
Current	1.5
Non-current	-
Charged during the year	1.8
Utilised	<u>(0.3)</u>
<b>At 31 December 2018</b>	<u>3.0</u>
Analysed as:	
Current	3.0
Non-current	-
<b>At 31 December 2018</b>	<u>3.0</u>

Rationalisation provisions are recorded only when a legal or constructive obligation arises. Rationalisation provisions principally comprise employee-related obligations in relation to overhead-reduction and manufacturing-efficiency programs, all of which are expected to be utilised in the next year. See note 7 for the nature of the provisions held.

**21 Trade and other payables: amounts falling due within one year**

	2018 £m	2017 £m
Trade payables	241.1	256.5
Other payables	4.3	4.5
Other taxes and social security costs	4.5	6.2
Accruals and deferred income	<u>24.1</u>	<u>37.1</u>
	<u>274.0</u>	<u>304.3</u>



## United Biscuits (UK) Limited

Notes to the financial statements

### 22 Pensions and other post-employment benefits

#### Pension Schemes

The Company's principal pension schemes in the UK are defined benefit pension schemes funded by the payment of contributions to a separately administered trust fund.

The Company's retirement benefit liabilities, at 31 December 2018 and 31 December 2017 were as follows:

	2018 £m	2017 £m
<b>Funded</b>		
UBUK	115.0	139.3
Jacob's Bakery	5.9	26.3
	<u>120.9</u>	<u>165.6</u>
<b>Unfunded</b>	22.5	23.0
	<u>143.4</u>	<u>188.6</u>

The total amount relating to pensions recognised in adjusted EBITDA for the period from 1 January 2018 to 31 December 2018 was £30.4 million (2017: £18.2 million), including £8.8 million (2017: £5.8 million) related to defined contribution plans.

The assets and liabilities in the schemes and the net pension retirement obligations were:

	2018 £m	2017 £m
Equities	562.4	643.2
Bonds	217.3	186.9
Other assets	1,239.1	1,324.2
Total market value of assets	<u>2,018.8</u>	<u>2,154.3</u>
Present value of scheme liabilities	(2,025.3)	(2,239.3)
Additional liability recognised due to minimum funding requirements	<u>(136.9)</u>	<u>(103.6)</u>
<b>Deficit in the scheme</b>	<u>(143.4)</u>	<u>(188.6)</u>

The amounts recognised in the profit and loss account and other comprehensive income for the year in respect of defined benefit pensions are analysed below:

	2018 £m	2017 £m
<b>Income statement</b>		
Current service cost	5.9	6.8
Past service cost	8.7	-
Settlement cost	0.2	-
Scheme administrative expenses	4.1	3.8
Company administrative expenses	2.7	1.8
<b>Operating profit</b>	<u>21.6</u>	<u>12.4</u>
Net interest on adjustment in respect to minimum funding requirement	2.4	-
Net interest expense	<u>1.7</u>	<u>5.2</u>
<b>Other financial charges</b>	<u>4.1</u>	<u>5.2</u>

#### Statement of other comprehensive income

Return on plan assets excluding amounts included in interest expense	(77.4)	148.6
Experience (losses)/gains on scheme liabilities	(13.9)	10.0
Actuarial gains/(losses) due to changes in financial assumption	141.7	(45.3)
Actuarial gains due to changes in demographic assumptions	12.7	16.1
Additional liability recognised due to minimum funding requirements	<u>(30.9)</u>	<u>(103.6)</u>
<b>Actuarial gains/(losses) recognised in the statement of other comprehensive income</b>	<u>32.2</u>	<u>25.8</u>

## **22 Pensions and other post-employment benefits (continued)**

Pension valuations are prepared, at each balance sheet date, by independent qualified actuaries using the projected unit credit method. Where funded, scheme assets are stated at their market values at the respective balance sheet dates and overall expected rates of return are established by applying forecasts to each category of scheme assets.

### **Key assumptions**

	<b>2018</b> %	<b>2017</b> %
Rate of final salary increases	3.00	3.00
Rate of increase of pensions in payment	3.00	3.00
Discount rate	3.00	2.60
Inflation	3.10	3.10

The average life expectancy assumed for the UBUK plan for a current male pensioner aged 65 is 21.5 years (2017 – 21.7 years) and for a current female pensioner aged 65 is 23.2 years (2017 – 23.3 years); for a future male pensioner aged 65 in 2038 it is 22.6 years (2017 – 22.8 years) and for a future female pensioner aged 65 in 2038 it is 24.4 years (2017 – 24.5 years).

The weighted average duration of the schemes is 15 years.

Acting on the advice of the Company's actuaries, future contributions payable are set at levels that take account of surpluses and deficits.

Contributions of approximately £29.2 million per annum in addition to the employer's regular contribution are being made in order to eliminate the deficit in the UK defined benefit plans on a funding basis. The total contributions to the Company's defined benefit plans in 2019 are expected to be approximately £36.4 million (2018: £39.4 million).

### **Sensitivity Analysis**

If the discount rate were to decrease by 0.1% without changing any other assumptions the total pension defined benefit obligations would increase by approximately £33.7 million (2017 £37.4 million).

If the inflation rate were to increase by 0.1% without changing any other assumptions the total pension defined benefit obligations would increase by approximately £27.1 million (2017 £26.3 million).

If the life expectancy were to increase by 1 year without changing any other assumptions the total pension defined benefit obligations would increase by approximately £81.9 million (2017 £103.5 million).

If the discount rate were to increase by 0.1% without changing any other assumptions the total pension defined benefit obligations would decrease by approximately £30.7 million (2017 £36.8 million).

If the inflation rate were to decrease by 0.1% without changing any other assumptions the total pension defined benefit obligations would decrease by approximately £22.4 million (2017 £25.9 million).

If the life expectancy were to decrease by 1 year without changing any other assumptions the total pension defined benefit obligations would decrease by approximately £82.2 million (2017 £103.5 million).

## **22 Pensions and other post-employment benefits (continued)**

Changes in the present value of the defined benefit pension obligations are analysed as follows:

	<b>£m</b>
<b>As at 1 January 2017</b>	2,266.2
Current service cost	6.8
Interest cost	51.1
Benefits paid	(104.0)
Actuarial gain	19.2
<b>As at 31 December 2017</b>	<b>2,239.3</b>
Current service cost	5.9
Past service cost	8.7
Interest cost	50.0
Settlements	(24.8)
Benefits paid	(113.3)
Actuarial loss	(140.5)
<b>As at 31 December 2018</b>	<b>2,025.3</b>

Changes in the value of the defined benefit pension assets are analysed as follows:

	<b>£m</b>
<b>As at 1 January 2017</b>	2,031.9
Employer contributions	35.3
Employee contributions	0.0
Interest income	45.9
Benefits paid	(103.6)
Administrative costs	(3.8)
Actuarial gain	148.6
<b>As at 31 December 2017</b>	<b>2,154.3</b>
Employer contributions	35.3
Employee contributions	0.0
Interest income	48.3
Settlements	(25.0)
Benefits paid	(112.6)
Administrative costs	(4.1)
Actuarial gain	(77.4)
<b>As at 31 December 2018</b>	<b>2,018.8</b>

## United Biscuits (UK) Limited

Notes to the financial statements

### 23 Financial commitments

As at 31 December 2018 and 31 December 2017 the Company's financial commitments in respect of capital expenditure and rentals for leasehold property, plant and equipment are summarised below:

	2018 £m	2017 £m
Contracted capital expenditure	7.8	11.9

#### Rental commitments

Future minimum commitments for property, plant and equipment under non-cancellable operating leases are as follows:

	2018 £m	2017 £m
Not later than one year	8.2	8.7
Later than one year but not later than five years	18.4	22.4
Later than five years	10.2	15.2
	36.8	46.3

### 24 Inter-group cross-guarantee

The Company has cross-guaranteed the Group's Senior facility, which is held by UMV Global Foods Company Ltd. The outstanding principal amount under the facility as at 31 December 2018 was £606.5 million (2017 - £681.5 million).

### 25 Related party transactions

During the year the Company entered into transactions, in the ordinary course of business, with other related parties. The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with fellow wholly owned subsidiaries.

#### Purchase and sales transactions

Transactions with Yildiz Holding A.S., and with Ülker Bisküvi Sanayi. A.S. and its subsidiaries, Godiva Belgium and Starbrands North America, which are all fellow subsidiaries within the Yildiz group of companies, are listed below:

	2018 £m	2017 £m
<b>Yildiz Holding A.S.</b>		
Purchases	4.0	-
<b>Ülker Bisküvi Sanayi. A.S.</b>		
Sales	12.5	0.4
Purchases	14.9	13.2
<b>Godiva Belgium</b>		
Purchases	2.6	2.1
<b>Starbrands North America</b>		
Sales	1.0	-

## United Biscuits (UK) Limited

### Notes to the financial statements

#### 25 Related party transactions (continued)

##### Receivables and payables

Amounts due from/to Ülker Bisküvi Sanayi. A.S. and its subsidiaries, Godiva Belgium and Starbrands North America, which are all fellow subsidiaries within the Yildiz group of companies, are listed below:

	2018 £m	2017 £m
<b>Ülker Bisküvi Sanayi. A.S.</b>		
Receivable	6.5	-
Payable	5.7	1.2
<b>Godiva Belgium</b>		
Receivable	4.5	-
Payable	4.7	-
<b>Starbrands North America</b>		
Receivable	2.4	-
Payable	7.6	-

#### 26 Events after balance sheet date

No significant event has taken place after the balance sheet date.

#### 27 Ultimate parent company

The company's immediate parent company is McVitie's and Price Limited, a company incorporated in the United Kingdom, whose registered office is 50 Lothian Road, Festival Square, Edinburgh EH4 9BY. The Company's ultimate parent company is Yildiz Holdings, A.S., a company incorporated in Turkey whose registered office is Kisikli Mahallesi Ferah Caddesi No:1 34692 Buyuk Camlica, Istanbul, Turkey. The ultimate controlling party is Mr Murat Ülker.

The largest group in which the Company's financial statements are included is Yildiz Holding A.S. and the smallest group is Pladis Foods Limited, whose consolidated financial statements can be obtained from its registered office at Hayes Park, Hayes End Road, Hayes, Middlesex, UB4 8EE.