

COMPANY REGISTRATION NUMBER 03233144

**KELLOGG MANAGEMENT SERVICES (EUROPE)  
LIMITED**

**FINANCIAL STATEMENTS**

**31 DECEMBER 2011**



# **KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED**

## **THE DIRECTORS' REPORT**

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

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

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

The principal activity of the Company during the year was the provision of administration and related services to the European operating units of its ultimate parent undertaking, Kellogg Company

Turnover for the financial year ended 2011 was £38,626,000 (2010 £37,767,000) and profit before tax was £2,267,000 (2010 £14,000)

The Company continues to strive to provide efficient and cost effective services to its customers

#### **Future outlook**

The Directors expect the current level of business to be sustainable for the foreseeable future

#### **Key performance indicators**

Given the straightforward nature of the business, the Company's Directors are of the opinion that analysis using key performance indicators is not necessary for an understanding of the development, performance or position of the business

#### **RESULTS AND DIVIDENDS**

The trading results for the year and the Company's financial position at the end of the year are shown in the attached financial statements (pages 7 to 25)

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

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

The Company's operations expose it to a variety of financial risks that include the effects of changes in debt, foreign exchange risk and liquidity risk. The Company has in place risk management programmes that seek to manage the financial exposures of the Company by monitoring levels of debt finance and the related finance costs

##### **Interest rate risk**

In order to ensure the stability of cash outflows and hence manage interest rate risk, the Company keeps under constant review its levels of debt, the maturity and currency of the debt, and the interest expense being incurred, including the split between fixed and variable interest rates. Hedging would be considered should circumstances warrant it

##### **Foreign exchange risk**

The Company is exposed to transactional foreign exchange risks in the normal course of its business, principally on inter-company sales and purchases of goods and services. The Company's policy on mitigating the effect of this currency exposure is to consider hedging up to 75% of the net exposure on certain transactions for up to twelve months forward by entering into forward foreign exchange contracts

The Company has a number of foreign currency swap contracts outstanding at the balance sheet date to hedge the foreign exchange exposure on future expected cash flows denominated in foreign currency. The aggregate principle amount on contracts to sell foreign currency outstanding at the year end is £8,462,000 (2010 £1,601,000) and the fair value of those contracts is an asset of £97,000 (2010 £47,000). The aggregate principle amount on contracts to buy foreign currency outstanding at the year end is £3,197,000 (2010 £1,898,000) and the fair value of those contracts is an asset of £347,000 (2010 liability of £203,000)

# KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

## THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2011

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### **Liquidity risk**

The Company continually reviews its working capital needs and is able to arrange a mix of long-term and short-term borrowings, to ensure the Company should always have sufficient available liquid funds for its operations

### **DIRECTORS**

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

J Gregory	
S Hopwood	
K Leyland	(Resigned 14 January 2011)
T Middleton	
M Sample	(Resigned 30 December 2011)
R Smith	(Resigned 2 November 2011)
C Wilkinson	
J Ayres-Smith	(Appointed 16 March 2011)
M Pilkington	(Appointed 19 October 2011)
J Tafner	(Appointed 19 October 2011)

### **DIRECTORS' INDEMNITIES**

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

### **DIRECTORS' RESPONSIBILITIES STATEMENT**

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

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

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements

# **KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED**

## **THE DIRECTORS' REPORT** *(continued)*

**YEAR ENDED 31 DECEMBER 2011**

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

### **DISCLOSURE OF INFORMATION TO AUDITORS**

In so far as the Directors are aware

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

### **GOING CONCERN**

The financial statements have been prepared on a going concern basis, which the Directors consider to be appropriate on the basis that the company continues to have the financial support of Kellogg Company.

### **EMPLOYEES**

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

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

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

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

# KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

## THE DIRECTORS' REPORT *(continued)*

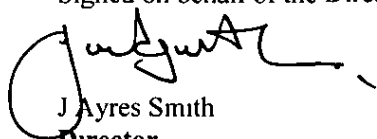
YEAR ENDED 31 DECEMBER 2011

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### INDEPENDENT AUDITORS

The Company's auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office as auditors for the ensuing year, and are deemed reappointed by virtue of Section 487 of the Companies Act 2006

Signed on behalf of the Directors



J Ayres Smith  
Director

Approved by the Directors on

21 September 2012

**KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED**  
**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KELLOGG**  
**MANAGEMENT SERVICES (EUROPE) LIMITED**  
**YEAR ENDED 31 DECEMBER 2011**

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

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR**

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

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

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

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

**OPINION ON FINANCIAL STATEMENTS**

In our opinion the financial statements

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

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

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

**KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED**  
**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KELLOGG**  
**MANAGEMENT SERVICES (EUROPE) LIMITED** *(continued)*

**YEAR ENDED 31 DECEMBER 2011**

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

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

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



**Nicholas Gower (Senior Statutory Auditor)**  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Manchester

*21 September 2012*

# KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

## PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 DECEMBER 2011

		Year ended 31 December 2011 £000	Year ended 1 January 2011 £000
	Note		
<b>TURNOVER</b>	<b>2</b>	<b>38,626</b>	<b>37,767</b>
Administrative expense		<u>(37,685)</u>	<u>(38,695)</u>
<b>OPERATING PROFIT/(LOSS)</b>	<b>3</b>	<b>941</b>	<b>(928)</b>
Interest receivable and similar income		48	4
Interest payable and similar charges	6	(2)	(2)
Other finance income	12	1,280	940
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<u>2,267</u>	<u>14</u>
Tax on profit on ordinary activities	7	(419)	54
<b>PROFIT FOR THE FINANCIAL YEAR</b>	<b>15</b>	<u><b>1,848</b></u>	<u><b>68</b></u>

All of the activities of the Company are classed as continuing

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

The statement of accounting policies and notes on pages 10 to 25 form part of these financial statements.



# **KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED**

## **STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

**YEAR ENDED 31 DECEMBER 2011**

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		<b>Year ended 31 December 2011</b>	<b>Year ended 1 January 2011</b>
	<b>Note</b>	<b>£000</b>	<b>£000</b>
Profit for the financial year attributable to the shareholders		<b>1,848</b>	<b>68</b>
Actuarial (loss)/gain in respect of defined benefit pension scheme	<b>12</b>	<b>(5,310)</b>	<b>2,490</b>
Deferred tax in respect of actuarial (loss)/gain	<b>9</b>	<b>1,328</b>	<b>(672)</b>
Total gains and losses recognised since the last annual report		<b><u>(2,134)</u></b>	<b><u>1,886</u></b>

**The statement of accounting policies and notes on pages 10 to 25 form part of these financial statements.**

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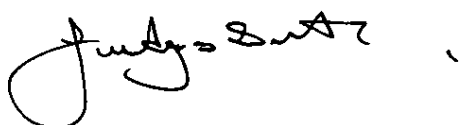
# KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

## BALANCE SHEET

AS AT 31 DECEMBER 2011

		31 December 2011 £000	1 January 2011 £000
	Note		
<b>CURRENT ASSETS</b>			
Cash at bank and in hand		67	5,804
Debtors	8	64,036	161,987
		<u>64,103</u>	<u>167,791</u>
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>	10	(71,650)	(175,950)
<b>NET LIABILITIES EXCLUDING PENSION ASSET</b>		(7,547)	(8,159)
Defined benefit pension scheme asset	12	3,420	5,957
<b>NET LIABILITIES INCLUDING PENSION ASSET</b>		<u>(4,127)</u>	<u>(2,202)</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	14	—	—
Share options reserve	15	1,266	1,057
Profit and loss account	15	(5,393)	(3,259)
<b>TOTAL SHAREHOLDERS' DEFICIT</b>	16	<u>(4,127)</u>	<u>(2,202)</u>

21 September 2012 These financial statements on pages 7 to 25 were approved by the Directors and authorised for issue on , and are signed on their behalf by



J Ayres Smith  
Director

Company Registration Number 03233144

The statement of accounting policies and notes on pages 10 to 25 form part of these financial statements.

# **KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED**

## **STATEMENT OF ACCOUNTING POLICIES**

**YEAR ENDED 31 DECEMBER 2011**

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### **Basis of accounting**

The Directors have prepared the financial statements on a going concern basis, under the historical cost convention, in accordance with the Companies Act 2006 and with accounting standards applicable in the United Kingdom

The Directors consider it appropriate to prepare the financial statements on a going concern basis as they have received confirmation that the company will continue to receive financial support from its parent company Kellogg Company

The principal accounting policies, which have been applied consistently throughout the year, except as detailed below, are set out below

### **Cash flow statement**

The Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 'Cash flow statements' (revised 1996) on the grounds that a group cash flow statement is included in the consolidated financial statements of its ultimate parent undertaking, Kellogg Company, whose financial statements are publicly available (note 17) and include the results of the Company

### **Related party transactions**

As a 100% owned subsidiary, the Company is exempt under FRS 8 'Related party disclosures' from disclosing separately transactions with other entities in the group Consolidated financial statements of Kellogg Company, which incorporate the financial statements of the Company, are publicly available (note 17) The Company was not involved in any other related party transactions during the financial year

### **Turnover**

Turnover, which excludes value added tax, represents the value of services supplied to other group companies, and is recognised in the same accounting period in which the services are performed

### **Operating leases**

Rental payments due under operating lease agreements are expensed on a straight line basis over the lease term

# KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

## STATEMENT OF ACCOUNTING POLICIES *(continued)*

YEAR ENDED 31 DECEMBER 2011

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

#### **Defined contribution scheme**

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

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

#### **Defined benefit scheme**

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

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

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

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

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

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

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

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

# KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

## STATEMENT OF ACCOUNTING POLICIES *(continued)*

YEAR ENDED 31 DECEMBER 2011

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### **Deferred taxation**

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

### **Current tax**

Corporation tax is provided on the assessable profits of the Company at the rate of tax prevailing during the financial year.

### **Foreign currencies**

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

Transactions in a foreign currency are converted to sterling at the rate ruling at the date of the transaction or at the underlying contract rate where the transaction is hedged. All differences on exchange are taken to the profit and loss account.

### **Share-based payments**

The ultimate parent company issues equity-settled share-based payments to certain employees (including Directors). Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, together with a corresponding increase in equity, based upon the Company's estimate of the shares that will eventually vest. Once exercised the options are settled in equity by the ultimate parent company, which then recharges the Company.

Fair value is measured using the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

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

# KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### YEAR ENDED 31 DECEMBER 2011

#### 1 PERIOD COVERED

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

#### 2. TURNOVER

The turnover and profit before tax are attributable to the one principal activity of the Company  
An analysis of turnover is given below

	Year ended 31 December 2011 £000	Year ended 1 January 2011 £000
United Kingdom	11,534	11,243
Overseas	27,092	26,524
	<u>38,626</u>	<u>37,767</u>

#### 3. OPERATING PROFIT/(LOSS)

Operating profit/(loss) is stated after charging

	Year ended 31 December 2011 £000	Year ended 1 January 2011 £000
Auditor's remuneration		
- as auditor	363	53
- for other services	10	13
Operating lease and other hire costs		
- plant and machinery	1,489	1,266
- other	578	575
Net loss on foreign currency translation	<u>69</u>	<u>216</u>

Operating lease rentals include daily rentals of fixed assets from fellow subsidiaries

Audit fees for fellow group companies have been borne by the Company in 2011

# KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### YEAR ENDED 31 DECEMBER 2011

#### 4. PARTICULARS OF EMPLOYEES

The monthly average number of persons employed by the Company during the financial year, including the Directors, amounted to 345 (2010 358)

Employee numbers include executive Directors whose primary employer is the Company, and is adjusted for staff on secondment from and to affiliated group undertakings. All employees worked in administration.

The aggregate payroll costs of the above were

	Year ended 31 December 2011 £000	Year ended 1 January 2011 £000
Wages and salaries	15,299	14,168
Social security costs	1,554	1,399
Pension costs - defined benefit scheme	1,510	1,450
Pension costs - defined contribution scheme	601	716
Equity-settled share-based payments	330	235
	<u>19,294</u>	<u>17,968</u>

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

#### 5. DIRECTORS' EMOLUMENTS

	Year ended 31 December 2011 £000	Year ended 1 January 2011 £000
Aggregate emoluments	1,202	826
Company contributions to money purchase pension scheme	—	13
Compensation for loss of office	119	—
	<u>1,321</u>	<u>839</u>

Highest paid Director

	Year ended 31 December 2011 £000	Year ended 1 January 2011 £000
Total emoluments	217	130
Defined benefit pension scheme		
Accrued annual entitlement	22	61
	<u>239</u>	<u>191</u>

# KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2011

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

Aggregate emoluments includes the gross emoluments receivable by one Director (2010 one), whose emoluments, whilst wholly paid by the Company, also relate to services he performs as Director of other group undertakings for which no direct charge is made. Included within aggregate emoluments is £75,000 (2010 nil) paid to the ultimate parent company for Directors' services. One Director (2010 one) is a member of the group's UK defined contribution pension scheme. Nine Directors, excluding the highest paid Director, (2010 seven, including the highest paid Director) were members of the UK group's defined benefit pension scheme. One Director, the highest paid Director, (2010 no Director) was a member of the defined benefit pension scheme operated by the ultimate parent undertaking.

Ten Directors, including the highest paid director, (2010 seven Directors, including the highest paid Director) participated in a group employee share ownership scheme. Eight Directors exercised options during the year (2010 six). The highest paid Director is entitled to shares under the share option scheme operated by the ultimate parent company. During the current year the highest paid Director exercised options.

### 6. INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 31 December 2011 £000	Year ended 1 January 2011 £000
Bank interest payable	<u>2</u>	<u>2</u>

### 7. TAX ON PROFIT ON ORDINARY ACTIVITIES

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

	Year ended 31 December 2011 £000	Year ended 1 January 2011 £000
<b>Current tax:</b>		
In respect of the year		
UK Corporation tax based on the results for the year at 26.50% (2010 - 28%)	<u>115</u>	<u>(718)</u>
Total current tax charge/(credit)(note 7(b))	<u>115</u>	<u>(718)</u>
<b>Deferred tax:</b>		
Origination and reversal of timing differences	486	717
Revaluation of tax asset due to change in future tax rate	<u>(182)</u>	<u>(53)</u>
Total deferred tax (note 9)	<u>304</u>	<u>664</u>
Tax charge/(credit) on profit on ordinary activities	<u>419</u>	<u>(54)</u>



# KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### YEAR ENDED 31 DECEMBER 2011

#### 7. TAX ON PROFIT ON ORDINARY ACTIVITIES *(continued)*

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

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

	Year ended 31 December 2011 £000	Year ended 1 January 2011 £000
Profit on ordinary activities before taxation	<u>2,267</u>	<u>14</u>
Profit on ordinary activities multiplied by the standard rate of tax	601	4
Expenses not deductible for tax purposes	-	(5)
Timing differences	<u>(486)</u>	<u>(717)</u>
Total current tax (note 7(a))	<u>115</u>	<u>(718)</u>

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

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

#### 8. DEBTORS

	31 December 2011 £000	1 January 2011 £000
Amounts owed by group undertakings	62,963	160,886
Corporation tax repayable	-	65
Prepayments and accrued income	1,015	938
Deferred taxation (note 9)	<u>58</u>	<u>98</u>
	<u>64,036</u>	<u>161,987</u>

Amounts owed by group undertakings are interest free, unsecured and repayable on demand. Included within amounts owed by group undertakings is a foreign currency denominated balance of €1,149,000 (2010: €1,874,000) which is hedged by forward contracts.

# KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2011

### 9 DEFERRED TAXATION

The deferred tax included in the balance sheet is as follows

	31 December 2011 £000	1 January 2011 £000
Included in debtors (note 8)	<u>58</u>	<u>98</u>

The movement in the deferred taxation account during the year was

	31 December 2011 £000	1 January 2011 £000
Balance brought forward	98	239
Origination and reversal of timing differences	(33)	(137)
Revaluation of tax asset due to change in future tax rate to 26.5%	(7)	(4)
Balance carried forward	<u>58</u>	<u>98</u>

The balance of the deferred taxation account consists of the tax effect of timing differences in respect of

	31 December 2011 £000	1 January 2011 £000
Timing differences in respect of share-based payments	<u>58</u>	<u>98</u>
	<u>58</u>	<u>98</u>

Deferred tax provision relating to pension asset

	31 December 2011 £000	1 January 2011 £000
Balance brought forward	(2,203)	(1,008)
Origination and reversal of timing differences	(453)	(580)
Deferred tax charged to the statement of total recognised gains and losses	1,328	(672)
Revaluation of tax asset due to change in future tax rate to 26.5%	<u>188</u>	<u>57</u>
Balance carried forward	<u>(1,140)</u>	<u>(2,203)</u>

# KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### YEAR ENDED 31 DECEMBER 2011

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

	31 December 2011 £000	1 January 2011 £000
Bank overdraft	–	267
Trade creditors	2,868	3,309
Amounts owed to group undertakings	65,496	169,288
Amounts owed to ultimate parent	149	53
Accruals and deferred income	3,137	3,033
	<u>71,650</u>	<u>175,950</u>

Amounts due to group undertakings are interest free, unsecured and repayable on demand. All amounts due from group undertakings are sterling denominated (2010: foreign currency denominated balance of \$2,940,000 was hedged by forward contracts).

#### 11. SHARE-BASED PAYMENTS

The ultimate parent company uses various equity-based compensation programs to provide long-term performance incentives for its global workforce, including Directors. Currently, these incentives consist principally of stock options, and to a lesser extent, executive performance shares. In relation to executive performance shares in 2009 to 2011 the ultimate parent company made performance share awards to a limited number of senior executive-level employees, which entitles these employees to receive a specified number of Kellogg Company shares on the vesting date, provided cumulative targets are achieved. The cumulative targets involved operating profit and internal net sales growth for the 2011 and 2010 grants and cost savings for the 2009 grant.

Share options are exercisable at a price equal to the market price of Kellogg Company's shares on the date of grant. Once exercised the options are settled in equity by the ultimate parent company, which then recharges the Company. The vesting period of options granted in 2011 is 3 years (2010: 3 years). If the options remain unexercised after a period of, in the majority of cases, 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Company before the options vest. The weighted average contractual life of options outstanding at the end of the year was 6.4 years (2010: 6.3 years). The weighted average share price for options exercised during the period was £35.76 (2010: £34.35).

Details of the number of share options and the weighted average exercise price (WAEP) outstanding for employees of Kellogg's UK and Irish subsidiaries during the year are as follows:

# KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### YEAR ENDED 31 DECEMBER 2011

#### 11. SHARE-BASED PAYMENTS *(continued)*

	31 December 2011		1 January 2011	
	No	WAEP £	No	WAEP £
Outstanding at the beginning of the year	1,603,219	30	1,458,826	28
Granted during the year	389,295	34	282,960	34
Forfeited during the year	(54,274)	—	—	—
Exercised during the year	(324,976)	28	(482,074)	28
Transfers into UK & Irish subsidiaries	800	—	343,507	—
Outstanding at the end of the year	<u>1,614,064</u>	<u>31</u>	<u>1,603,219</u>	<u>30</u>
Exercisable at the end of the year	<u>1,051,636</u>	<u>30</u>	<u>1,241,783</u>	<u>29</u>

In the year ended 31 December 2011 the estimated fair value per option granted was £5 (2010 £5). The fair values were calculated using the Black-Scholes model. The inputs into the model were as follows:

	31 December 2011	1 January 2011
Weighted average share price - £	34.29	34.32
Weighted average exercise price - £	34.29	34.32
Expected volatility - %	17.00	20.00
Expected life - years	6.98	4.94
Risk free rate - %	3.07	2.54
Expected dividend yield - %	<u>3.10</u>	<u>2.8</u>

Expected volatility was determined by calculating the historical volatility of Kellogg Company's share price over the previous 10 years. The expected life used in the model has been adjusted, based on the management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The range of exercise prices for options outstanding at the end of the year is £19.52 - £34.95 (2010 £17.69 - £34.86).

The Company recognised expenses of £305,000 (2010 £158,000) related to stock options during the year. In addition, there was a further £25,000 (2010 £77,000) recognised in relation to the parent company issuing its own equity instruments to employees of the Company under an executive performance incentive scheme.

# KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2011

### 12. PENSIONS AND OTHER POST RETIREMENT BENEFITS

#### Defined benefit scheme

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

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

The major assumptions used by the actuary were

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

The mortality assumptions used were as follows

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

# KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2011

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

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

	31 December 2011		1 January 2011	
	Long-term rate of return expected	Value	Long-term rate of return expected	Value
	%	£000	%	£000
Equities	7.6	31,950	8.0	34,749
Bonds	4.4	7,263	5.0	8,058
Property	6.7	4,902	7.5	2,236
Others	2.8	445	3.9	1,537
Total market value of assets		44,560		46,580
Present value of scheme liabilities		(40,000)		(38,420)
Surplus in the scheme		4,560		8,160
Related deferred tax liability		(1,140)		(2,203)
Net pension asset		3,420		5,957

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

# KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2011

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

Reconciliation of present value of scheme liabilities

	31 December 2011 £000	1 January 2011 £000
Balance brought forward	(38,420)	(36,660)
Company share of service cost	(1,510)	(1,450)
Interest cost	(1,950)	(1,960)
Actuarial gain/(loss)	230	(60)
Benefits paid from scheme assets	1,650	1,710
Balance carried forward	<u>(40,000)</u>	<u>(38,420)</u>

Reconciliation of fair value of scheme assets

	31 December 2011 £000	1 January 2011 £000
Balance brought forward	46,580	40,260
Expected return on assets	3,230	2,900
Actuarial (loss)/gain	(5,540)	2,550
Employer contributions	1,940	2,580
Benefits paid	(1,650)	(1,710)
Balance carried forward	<u>44,560</u>	<u>46,580</u>

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

# KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### YEAR ENDED 31 DECEMBER 2011

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

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

##### Actuarial gains and losses

The cumulative amount of actuarial losses recognised in the statement of recognised gains and losses is £8,260,000

Analysis of the amount charged to profit and loss

	Year ended 31 December 2011 £000	Year ended 1 January 2011 £000
Current service cost	1,510	1,450
Expected return on pension assets	(3,230)	(2,900)
Interest on pension scheme liabilities	1,950	1,960
Total	<u>230</u>	<u>510</u>

Amounts for the current and previous four years are as follows

	31 December 2011 £000	1 January 2011 £000	2 January 2010 £000	3 January 2009 £000	29 December 2007 £000
Defined benefit obligation	(40,000)	(38,420)	(36,660)	(29,020)	(38,060)
Scheme assets	44,560	46,580	40,260	33,150	46,330
Surplus	4,560	8,160	3,600	4,130	8,270
Experience gain/(loss) on scheme assets	(5,540)	2,550	3,810	(9,300)	(410)
Experience gain/(loss) on scheme liabilities	90	920	(260)	130	(1,380)
Total gain/(loss) recognised in the statement of total recognised gains and losses	(5,310)	2,490	(2,680)	(4,280)	(760)



# KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### YEAR ENDED 31 DECEMBER 2011

#### 13. COMMITMENTS UNDER OPERATING LEASES

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

	Assets other than land and buildings	
	31 December 2011	1 January 2011
	£000	£000
Operating leases which expire		
Within 1 year	230	40
Within 2 to 5 years	609	784
	<u>839</u>	<u>824</u>

#### 14 CALLED UP SHARE CAPITAL

##### Called up authorised share capital:

	31 December 2011	1 January 2011
	£	£
1,000 Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

##### Allotted and fully paid:

	31 December 2011		1 January 2011	
	Number	£	Number	£
Ordinary shares of £1 each	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>

# KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2011

### 15. RESERVES

	Share options reserve £000	Profit and loss account £000
Balance brought forward	1,057	(3,259)
Profit for the financial year	–	1,848
Actuarial loss in respect of defined benefit pension scheme	–	(5,310)
Deferred tax in respect of defined benefit pension scheme		1,328
Recognition of equity-settled share-based payments in the year	305	–
Exercise of options during the year	(96)	–
Balance carried forward	<u>1,266</u>	<u>(5,393)</u>

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

	31 December 2011 £000	1 January 2011 £000
Profit for the financial year	1,848	68
Actuarial (loss)/gain in respect of defined benefit pension scheme	(5,310)	2,490
Deferred tax in respect of defined benefit pension scheme	1,328	(672)
Recognition of equity-settled share-based payments in the year	305	158
Exercise of options during the year	(96)	(706)
Recharge by parent in excess of fair value charge	–	(323)
Net (reduction)/addition to shareholders' deficit	<u>(1,925)</u>	<u>1,015</u>
Opening shareholders' deficit	<u>(2,202)</u>	<u>(3,217)</u>
Closing shareholders' deficit	<u>(4,127)</u>	<u>(2,202)</u>

### 17. ULTIMATE PARENT COMPANY

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