

COMPANY REGISTRATION NUMBER 03233144

**KELLOGG MANAGEMENT SERVICES (EUROPE)
LIMITED**

FINANCIAL STATEMENTS

2 JANUARY 2016

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KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

STRATEGIC REPORT

YEAR ENDED 2 JANUARY 2016

The Directors present their strategic report of Kellogg Management Services (Europe) Limited (the "Company") for the 2015 financial year from 4 January 2015 to 2 January 2016 (2014 financial year: from 29 December 2013 to 3 January 2015).

This is the first year that the Company has presented its results under Financial Reporting Standard 102, The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland ("FRS102"). The impact on equity at the date of transition to FRS102, 29 December 2013, and at 3 January 2015, together with the changes to the reported loss for the year ended 3 January 2015 are shown in note 17.

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.

The results for the Company for the year show a profit on ordinary activities before taxation of £3,293,000 (2014 loss: £2,066,000) and turnover of £63,148,000 (2014: £52,501,000). During the year the Company generated a profit on ordinary activities before taxation of £4,828,000 (2014: £2,651,000) before recognition of exceptional costs relating to Project K, associated with employee redundancy costs.

In November 2013, Kellogg Company announced Project K, a significant, multi-year, global growth and efficiency program that will reshape the business and serve as a catalyst for future growth. This program will unlock cost savings that will be used to invest significantly in our long-term growth strategy.

Within the European region and the UK in particular, a number of initiatives have progressed through the various stages of consultation, including the relocation of the Financial Services Centre away from the Talbot Road site. The regional European Global Business Services Centre in Bucharest, Romania has been operated by the Company's subsidiary since early 2015. Some global shared services work has been outsourced to Accenture's service network locations around the world.

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

At the year end the Company showed net assets of £7,800,000 (2014: £1,331,000).

Principal risks and uncertainties

The Company is largely dependent on fellow group undertakings for its business and a principal risk borne by the Company is ensuring that its cost base is competitive in comparison to alternative sources of supply. The risk is mitigated by review of the cost base.

Key performance indicators

The Company's key financial performance indicators are turnover and operating profit.

	Year ended 2 January 2016 £'000	Year ended 3 January 2015 £'000
Turnover	63,148	52,501
Operating profit before exceptional costs	4,441	2,215

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

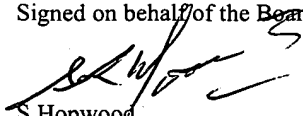
STRATEGIC REPORT *(continued)*

YEAR ENDED 2 JANUARY 2016

Key performance indicators *(continued)*

In 2015 the Company's turnover and operating profit before exceptional costs, relating to Project K, have increased compared to prior year reflecting the level of services provided to other group companies. The Directors expect the current level of business to be sustained for the foreseeable future.

Signed on behalf of the Board of Directors



S Hopwood
Director

Approved by the Directors on 26 September 2016

Registered Address: The Kellogg Building, Talbot Road, Manchester, M16 0PU

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

THE DIRECTORS' REPORT

YEAR ENDED 2 JANUARY 2016

The Directors have pleasure in presenting their report and the audited financial statements of the Company for the year from 4 January 2015 to 2 January 2016 (the "year ended 2 January 2016").

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.

This is the first year that the Company has presented its results under Financial Reporting Standard 102, The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland ("FRS102"). The impact on equity at the date of transition to FRS102, 29 December 2013, and at 3 January 2015, together with the changes to the reported loss for the year ended 3 January 2015 are shown in note 17.

The Directors do not recommend the payment of a dividend (2014: £nil).

FUTURE OUTLOOK

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

In November 2013, Kellogg Company announced Project K, a significant, multi-year, global growth and efficiency program that will reshape the business and serve as a catalyst for future growth. This program will unlock cost savings that will be used to invest significantly in our long-term growth strategy.

Within the European region and the UK in particular, a number of initiatives have progressed through the various stages of consultation, including the relocation of the Financial Services Centre away from the Talbot Road site. The regional European Global Business Services Centre in Bucharest, Romania has been operated by the Company's subsidiary and since early 2015. Some global shared services work has been outsourced to Accenture's service network locations around the world.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's operations expose it to a variety of financial risks that include the direct and indirect 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 the net exposure on certain transactions by entering into approved Treasury instruments.

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.

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 2 JANUARY 2016

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:

S Hopwood
C Wilkinson
J Ayres-Smith (resigned 11 March 2015)
S Platt (appointed 11 March 2015)
O Dokmecioglu (resigned 14 December 2015)
W Smith (appointed 14 March 2016)

DIRECTORS' INDEMNITIES

The ultimate holding company maintains liability insurance for the Directors and officers of the group. This was in place during the year and also at the date of approval of the financial statements and 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 Strategic Report, 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 comprising Financial Reporting Standard 102, The Financial Reporting Standard Applicable in the UK and Republic of Ireland ("FRS102")) 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 financial year.

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, comprising FRS102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS102 used in the preparation of the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 2 JANUARY 2016

DISCLOSURE OF INFORMATION TO AUDITORS

In so far as the Directors are aware:

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

EMPLOYEES

Established consultative structures continued to provide a framework for 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, religious 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 performance related pay and employee share purchase schemes.

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP are deemed to be re-appointed by virtue of Section 487 of the Companies Act 2006.

Signed on behalf of the Board of Directors



S Hopwood
Director

Approved by the Directors on 26 September 2016

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

YEAR ENDED 2 JANUARY 2016

REPORT ON THE FINANCIAL STATEMENTS

Our opinion

In our opinion, Kellogg Management Services (Europe) Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 2 January 2016 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.

What we have audited

The financial statements, included within the Financial Statements (the "Annual Report"), comprise:

- the balance sheet as at 2 January 2016;
- the profit and loss account and statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, 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.

OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

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

YEAR ENDED 2 JANUARY 2016

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Our responsibilities and those of the 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.

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) ("ISAs (UK & 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Edward Moss (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
26 September 2016

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

PROFIT AND LOSS ACCOUNT

YEAR ENDED 2 JANUARY 2016

	Note	Year ended 2 January 2016 £'000	Year ended 3 January 2015 £'000
TURNOVER	2	63,148	52,501
Administrative expenses:			
- exceptional items	3	(1,535)	(4,717)
- other expenses		(58,707)	(50,286)
		(60,242)	(55,003)
OPERATING PROFIT/(LOSS)	3	2,906	(2,502)
Interest receivable and similar income	6	423	497
Interest payable and similar charges	7	(36)	(61)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		3,293	(2,066)
Tax on profit/(loss) on ordinary activities	8	290	71
PROFIT/(LOSS) FOR THE FINANCIAL YEAR		3,583	(1,995)

All of the activities of the Company are classed as continuing.

The statement of accounting policies and notes on pages 12 to 32 form part of these financial statements.

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 2 JANUARY 2016

		Year ended 2 January 2016 £'000	Year ended 3 January 2015 £'000
	Note		
Profit/(loss) for the financial year		3,583	(1,995)
Other comprehensive income/(expense):			
Re-measurements of net defined benefit asset	13	3,520	770
Total tax on components of other comprehensive income	12	(634)	(154)
Change in value of hedging instrument		-	202
Deferred tax movement relating to hedging instrument	12	-	(42)
Total comprehensive income/(expense) for the financial year		6,469	(1,219)

The statement of accounting policies and notes on pages 12 to 32 form part of these financial statements.

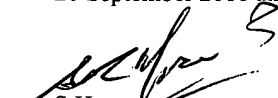
KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

BALANCE SHEET

AS AT 2 JANUARY 2016

		2 January 2016 £'000	3 January 2015 £'000
	Note		
FIXED ASSETS			
Investments	9	84	84
		<u>84</u>	<u>84</u>
CURRENT ASSETS			
Debtors	10	54,324	64,042
Cash and cash equivalents		11,483	4,249
		<u>65,807</u>	<u>68,291</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	11	(70,335)	(76,052)
NET CURRENT LIABILITIES		<u>(4,528)</u>	<u>(7,761)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(4,444)</u>	<u>(7,677)</u>
PROVISIONS FOR LIABILITIES	12	(2,596)	(2,252)
NET LIABILITIES EXCLUDING PENSION ASSET		<u>(7,040)</u>	<u>(9,929)</u>
Post-employment benefits	13	14,840	11,260
NET ASSETS		<u>7,800</u>	<u>1,331</u>
CAPITAL AND RESERVES			
Called up share capital	15	-	-
Profit and loss account		7,800	1,331
TOTAL EQUITY		<u>7,800</u>	<u>1,331</u>

These financial statements on pages 8 to 32 were approved by the Directors and authorised for issue on 26 September 2016 and are signed on their behalf by:


S Hopwood
Director

Company Registration Number: 03233144

The statement of accounting policies and notes on pages 12 to 32 form part of these financial statements.

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 2 JANUARY 2016

	Called up share capital £'000	Profit and loss account £'000	Total equity £'000
Balance at 29 December 2013	-	2,550	2,550
Loss for the financial year	-	(1,995)	(1,995)
Other comprehensive income for the financial year	-	776	776
Total comprehensive expense for the financial year	-	(1,219)	(1,219)
Balance at 3 January 2015	-	1,331	1,331
Balance at 4 January 2015	-	1,331	1,331
Profit for the financial year	-	3,583	3,583
Other comprehensive income for the financial year	-	2,886	2,886
Total comprehensive income for the financial year	-	6,469	6,469
Balance at 2 January 2016	-	7,800	7,800

The statement of accounting policies and notes on pages 12 to 32 form part of these financial statements.

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

STATEMENT OF ACCOUNTING POLICIES

YEAR ENDED 2 JANUARY 2016

General information

Kellogg Management Services (Europe) Limited (the "Company") is a company incorporated and domiciled in England and Wales, with the registration number 03233144.

The Company is a private company limited by shares and the registered office is: The Kellogg Building, Talbot Road, Manchester, M16 0PU.

Statements of compliance

The individual financial statements of the Company have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, The Financial Reporting Standards application in the United Kingdom and the Republic of Ireland ("FRS102") and the Companies Act 2006.

Basis of preparation

The financial statements have been prepared on a going concern basis, under the historical cost convention other than derivative financial instruments and share-based payments recognised at fair value.

The preparation of financial statements in conformity with FRS102 required the use of certain critical accounting estimates. It also required management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below in critical accounting judgments and estimation.

Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the financial years presented, unless otherwise stated. The Company has adopted FRS102 in these financial statements. Details of the transition to FRS102 are disclosed in note 17.

Exemptions for qualifying entities under FRS102

FRS102 allows the Company certain disclosure exemptions as a wholly owned subsidiary undertaking of Kellogg Company, which prepares consolidated financial statements that are publicly available and can be obtained from the address detailed in note 16. As a result the Company has taken advantage of the following exemptions:

- Certain disclosures surrounding financial instruments;
- The requirement to prepare a statement of cash flows;
- Disclosure of key management personnel compensation in total; and
- Certain disclosures surrounding share-based payments.

Cash flow statement

The Company has taken advantage of the exemption, under FRS102 paragraph 1.12(b), from preparing a statement of cash flows, on the basis that it is a qualifying entity and its ultimate parent company, Kellogg Company, includes the Company's cash flows in its own consolidated financial statements.

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

STATEMENT OF ACCOUNTING POLICIES *(continued)*

YEAR ENDED 2 JANUARY 2016

Going concern

The financial statements have been prepared on the going concern basis, which assumes that the Company will continue in operational existence for the foreseeable future. The Directors believe that it is appropriate for the financial statements to be prepared on the going concern basis having received a letter of support from the ultimate parent undertaking, Kellogg Company, which indicates that it will continue to provide sufficient funds to enable the Company to meet all of its financial obligations as they fall due for the foreseeable future, a period of at least 12 months from the date of signing the financial statements.

Consolidated financial statements

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

These financial statements are the Company's separate financial statements.

Turnover

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

Employee benefits

Short term benefits, including holiday pay and other similar non-mandatory benefits are recognised as an expense in the financial year in which the service is received.

Related parties transactions

The Company discloses transactions with related parties which are not wholly owned within the same group. It does not disclose transactions with members of the same group that are wholly owned. Consolidated financial statements of Kellogg Company, which incorporate the financial statements of the Company, are publicly available (note 16). The Company was not involved in any other related party transactions during the financial year.

Fixed asset investments

Investments in shares in group undertakings are recorded at cost less any provision for subsequent diminution in value, by reference to the higher of net realisable value and value in use. Impairment reviews are performed by the Directors when there has been an indication of potential permanent impairment in the carrying value of the investment. Any impairment is written off in the financial year in which it arises.

Operating leases

Rentals due under operating lease agreements, where substantially all the benefits and risks of ownership remain with the lessor, are expensed on a straight line basis over the lease term.

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

STATEMENT OF ACCOUNTING POLICIES *(continued)*

YEAR ENDED 2 JANUARY 2016

Pension costs and other post-retirement benefits

Defined contribution pension scheme

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

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

Defined benefit pension 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.

The Company operates a defined benefit plan for certain employees. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The asset recognised in the balance sheet in respect of the defined benefit plan is the fair value of the plan assets at the financial year end less the present value of the defined benefit obligation at the financial year end.

The defined benefit obligation is calculated using the projected unit credit method. Annually the Company engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximately the estimated period of the future payments ('discount rate').

The fair value of plan assets is measured in accordance with the FRS102 fair value hierarchy and in accordance with the Company's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 're-measurement of net defined benefit asset'.

The cost of the defined benefit plan, recognised in profit or loss as employee costs, except where included in the cost of an asset, comprises:

- a. The increase in pension benefit liability arising from employee service during the financial year; and
- b. The cost of plan introductions, benefit changes, curtailments and settlements.

The net interest income/(expense) is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This amount is recognised in profit or loss as 'net interest income/(expense)'.

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

STATEMENT OF ACCOUNTING POLICIES *(continued)*

YEAR ENDED 2 JANUARY 2016

Taxation

Taxation expense recognised for the financial year comprises current and deferred tax. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred tax assets and liabilities are not discounted.

Current taxation

Current tax is the amount of income tax payable in respect of the taxable profit for the financial year. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the financial year end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred taxation

Deferred tax arises from timing differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expense in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the financial year end except for certain exceptions. Unrelieved tax losses and deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the financial year end and that are expected to apply to the reversal of timing differences.

Foreign currencies

The Company's functional and presentation currency is the pound sterling.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at financial year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account, except when deferred in other comprehensive income as qualifying cash flow hedges.

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

STATEMENT OF ACCOUNTING POLICIES *(continued)*

YEAR ENDED 2 JANUARY 2016

Share-based payments

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

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

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

The Company has taken advantage of the exemption from disclosures under FRS102, paragraphs 26.18b) to 26.21 and 26.23, relating to share-based payments.

Dividends

Dividends payable are recognised in the financial year in which they are paid or approved by the Company shareholders. These amounts are recognised in the statement of changes in equity.

Dividend income is recognised in the financial year in which the right to receive payment is established.

Financial instruments

Financial assets

Basic financial assets, including trade and other receivables and cash and bank balances are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at the market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method.

Financial liabilities

Basic financial liabilities, including trade and other payables and loans from fellow group companies, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Derivatives, including forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or income as appropriate, unless they are included in a hedging arrangement.

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

STATEMENT OF ACCOUNTING POLICIES *(continued)*

YEAR ENDED 2 JANUARY 2016

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within 'creditors: amounts falling due within one year' in current liabilities.

Interest receivable and payable

Interest is recognised in the accounting period to which it relates.

Exceptional items

Items that are material in size and non-recurring in nature are presented as exceptional items in the profit and loss account, with the relevant account heading. The Directors are of the opinion that the separate recording of exceptional items provides helpful information about the Company's underlying business performance. Events which may give rise to the classification of items as exceptional include, but are not restricted to restructuring of businesses, one off gains or losses relating to pension liabilities, expenses incurred in relation to business acquisitions and impairment of investments.

Critical accounting judgements and estimation

Defined benefit pension scheme

The Company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depends on a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimate these factors in determining the net pension asset/(obligation) in the balance sheet. The assumptions reflect historical experience and current trends. See note 13 for the disclosures relating to the defined benefit pension scheme.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Lease classification

In categorising leases as finance leases or operating leases, management makes judgements as to whether significant risks and rewards of ownership have transferred to the Company as lessee.

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 2 JANUARY 2016

1. FINANCIAL YEAR

The financial statements cover the 2015 financial year from 4 January 2015 to 2 January 2016 (2014 financial year: from 29 December 2013 to 3 January 2015).

2. TURNOVER

All of the Company's business and profit/(loss) on ordinary activities before taxation arose from its principal activity. A geographical analysis of origin of turnover is as follows:

	Year ended 2 January 2016 £'000	Year ended 3 January 2015 £'000
United Kingdom	16,757	10,658
Overseas	46,391	41,843
	<u>63,148</u>	<u>52,501</u>

3. OPERATING PROFIT/(LOSS)

Operating profit/(loss) is stated after charging/(crediting):

	Year ended 2 January 2016 £'000	Year ended 3 January 2015 £'000
Equity-settled share-based payments	846	321
Fees payable for services provided by the Company's auditor:		
- the Company's audit	31	26
- the audit of other group companies	832	800
- other services	1	14
Operating lease and other hire costs:		
- plant and machinery	7,100	4,137
- other	-	418
Net (gain)/loss on foreign currency translation	(256)	758

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

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

During the year the Company recognised exceptional costs of £1,535,000 (2014: £4,717,000) relating to Project K, associated with employee redundancy costs.

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 2 JANUARY 2016

4. PARTICULARS OF EMPLOYEES

The monthly average number of staff employed by the Company during the financial year, including the Directors, amounted to 368 (2014: 392).

The number of employees includes 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 2 January 2016 £'000	Year ended 3 January 2015 £'000
Wages and salaries	18,865	18,459
Social security costs	2,150	2,315
Other pension costs:		
- defined benefit scheme (note 13)	1,060	2,320
- defined contribution scheme (note 13)	623	503
Equity-settled share-based payments	846	321
	<u>23,544</u>	<u>23,918</u>

Pension costs relating to the defined benefit scheme are amounts charged to operating profit/(loss) and do not include amounts credited to finance income and amounts recognised in other comprehensive income.

The Company's ultimate parent issued equity-settled share-based payments to certain employees. The vesting period of the options is three years and the maximum term of the options granted is ten years. The Company recognizes and measures its share-based payment expense on the basis of a reasonable allocation of the expense recognised for the group, being the amount relating to the Directors and management of the Company.

5. DIRECTORS' EMOLUMENTS

	Year ended 2 January 2016 £'000	Year ended 3 January 2015 £'000
Aggregate emoluments	474	414
Company contributions to money purchase pension schemes	12	-
Compensation for loss of office	47	-
	<u>533</u>	<u>414</u>

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 2 JANUARY 2016

5. DIRECTORS' EMOLUMENTS *(continued)*

Highest paid Director:

	Year ended 2 January 2016 £'000	Year ended 3 January 2015 £'000
Total emoluments	97	147
Compensation for loss of office	47	-
Defined benefit pension scheme:		
Accrued pension at end of year	24	56

One Director (2014: none) is a member of the group's UK defined contribution pension scheme. Three Directors, including the highest paid Director, (2014: four Directors, including the highest paid Director) were members of the group's UK defined benefit pension scheme.

Five Directors, including the highest paid Director, (2014: five Directors, including the highest paid Director) participated in a group employee share ownership scheme. Two Directors (2014: two Directors) exercised options during the year. 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 RECEIVABLE AND SIMILAR INCOME

	Year ended 2 January 2016 £'000	Year ended 3 January 2015 £'000
Bank interest receivable	13	17
Defined benefit scheme:		
Net interest income (note 13)	410	480
	<u>423</u>	<u>497</u>

7. INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 2 January 2016 £'000	Year ended 3 January 2015 £'000
Bank interest payable	36	61

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 2 JANUARY 2016

8. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

(a) Tax credit recognised in profit and loss

	Year ended 2 January 2016 £'000	Year ended 3 January 2015 £'000
Current tax:		
In respect of the year:		
UK Corporation tax based on the profit/(loss) for the financial year at 20.25% (2014: 21.49%)	-	-
Adjustments in respect of prior years	-	(104)
Total current tax credit	-	(104)
Deferred tax:		
Origination and reversal of timing differences	8	32
Adjustments in respect of prior years	(81)	1
Effect of tax rate change on opening balance	(217)	-
Total deferred tax (credit)/charge (note 12)	(290)	33
Total tax credit on profit/(loss) on ordinary activities	(290)	(71)

(b) Tax charge included in other comprehensive income

	Year ended 2 January 2016 £'000	Year ended 3 January 2015 £'000
Current tax	-	-
Deferred tax:		
Origination and reversal of timing differences	634	154
Adjustments in respect of prior years	-	42
Total tax charge included in other comprehensive income	634	196

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 2 JANUARY 2016

8. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES *(continued)*

(c) Reconciliation of total tax credit

The tax assessed on the profit/(loss) on ordinary activities for the financial year is lower (2014: higher) than the standard effective rate of corporation tax in the UK of 20.25% (2014: 21.49%) for the following reasons:

	Year ended 2 January 2016 £'000	Year ended 3 January 2015 £'000
Profit/(loss) on ordinary activities before taxation	3,293	(2,066)
Profit/(loss) on ordinary activities multiplied by the standard rate of tax	667	(444)
Expenses not deductible for tax purposes	2	2
Adjustments to current tax in respect of prior years	-	(104)
Group relief (claimed)/surrendered	(656)	474
Adjustments to deferred tax in respect of prior years	(81)	1
Effect of deferred tax provided at different rates	(217)	-
Deferred tax not recognised	(5)	-
Total tax credit	(290)	(71)

(d) Factors that may affect future tax charges

A change to the UK corporation tax rate was announced in the Chancellor's Budget on 16 March 2016. The change announced is to reduce the main rate to 17% from 1 April 2020. Changes to reduce the UK corporation tax rate to 19% from 1 April 2017 and to 18% from 1 April 2020 had already been substantively enacted on 26 October 2015.

As the change to 17% had not been substantively enacted at the balance sheet date its effects are not included in these financial statements. The overall effect of that change, if it had applied to the deferred tax balance at the balance sheet date, would be to reduce the deferred tax liability by £144,000 and no impact on the tax credit for the year.

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 2 JANUARY 2016

9. INVESTMENTS

	Shares in group undertakings £'000
COST AND NET BOOK VALUE	
At 2 January 2016 and 3 January 2015	<u>84</u>

During the prior year, the Company set up a Romanian limited liability entity under the name European Services Support SRL. The Company holds 4,399 ordinary shares in European Services Support SRL representing 99.97% of the share capital of the company. The remaining 0.03% is owned by Kellogg U.K. Holding Company Limited. European Services Support SRL provides administration services to the European operating units of Kellogg Company.

10. DEBTORS

	2 January 2016 £'000	3 January 2015 £'000
Amounts owed by group undertakings	53,430	62,149
Amounts owed by the ultimate parent company	-	1,162
Prepayments and accrued income	894	731
	<u>54,324</u>	<u>64,042</u>

All amounts owed by group undertakings and the ultimate parent company are interest free, unsecured and repayable on demand.

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2 January 2016 £'000	3 January 2015 £'000
Trade creditors	5,727	6,751
Amounts owed to group undertakings	53,765	60,263
Amounts owed to the ultimate parent company	186	-
Social security creditor	2,759	-
Accruals and deferred income	7,898	9,038
	<u>70,335</u>	<u>76,052</u>

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

The Company is party to a cash pooling agreement with Bank Mendes Gans (BMG) in conjunction with other group companies. Under the terms of this arrangement cross company guarantees exist. Positive and negative cash balances can be offset by the arranger. Guarantees for the cash pooling arrangement are held by the ultimate parent company Kellogg Company.

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 2 JANUARY 2016

12. PROVISIONS FOR LIABILITIES

The deferred tax included in the balance sheet is as follows:

	2 January 2016 £'000	3 January 2015 £'000
Included in provisions	<u>(2,596)</u>	<u>(2,252)</u>

The movement in the deferred tax provision during the financial year was:

	2 January 2016 £'000	3 January 2015 £'000
Balance brought forward	(2,252)	(2,024)
Adjustments in respect of prior years	81	(1)
Profit and loss account movement arising during the year	(8)	(32)
Effect of tax rate change on opening balances	217	1
Other comprehensive income movement arising during the year	<u>(634)</u>	<u>(196)</u>
Balance carried forward	<u>(2,596)</u>	<u>(2,252)</u>

Deferred tax provision relating to post-employment benefits included in provisions:

	2 January 2016 £'000	3 January 2015 £'000
Balance brought forward	(2,252)	(2,066)
Profit and loss account movement arising during the year	(5)	(32)
Effect of tax rate change on opening balances	217	-
Other comprehensive income movement arising during the year	<u>(634)</u>	<u>(154)</u>
Balance carried forward	<u>(2,674)</u>	<u>(2,252)</u>

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 2 JANUARY 2016

13. POST-EMPLOYMENT BENEFITS

The Company operates a number of pension schemes for its employees.

The amount recognised in the balance sheet is as follows:

	2 January 2016 £'000	3 January 2015 £'000
Defined benefit pension scheme asset	<u>14,840</u>	<u>11,260</u>

The amount recognised in the profit and loss account is as follows:

	Year ended 2 January 2016 £'000	Year ended 3 January 2015 £'000
Defined benefit scheme:		
Current service cost	2,230	2,320
Curtailments	(1,200)	-
Termination benefits	30	-
Defined contribution scheme	<u>623</u>	<u>503</u>
Total charge in operating profit/(loss)	1,683	2,823
Defined benefit scheme:		
Net interest income	(410)	(480)
Total charge	<u>1,273</u>	<u>2,343</u>

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 2 JANUARY 2016

13. POST-EMPLOYMENT BENEFITS *(continued)*

(a) 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 asset.

A comprehensive actuarial valuation of the Fund, using the projected unit credit method, was carried out at 6 April 2014 by Willis Towers Watson, independent consulting actuaries. 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. Adjustments to the valuation at the year-end have been made based on the following assumptions:

	2 January 2016	3 January 2015
	%	%
Expected rate of salary increases	4.20	4.20
Expected rate of increase of pensions in payment	2.20	2.20
Expected rate of increase for deferred pensioners	2.20	2.20
Discount rate	3.75	3.60
Rate of inflation	3.20	3.20

The mortality assumptions used were as follows:

	2 January 2016	3 January 2015
	Years	Years
Longevity at age 65 for current pensioners:		
- Men	21.3	20.4
- Women	23.3	22.1
Longevity at age 65 for future pensioners:		
- Men	22.6	21.4
- Women	24.7	23.2

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 2 JANUARY 2016

13. POST-EMPLOYMENT BENEFITS *(continued)*

(a) Defined benefit scheme *(continued)*

Reconciliation of scheme assets and liabilities:

	Assets £'000	Liabilities £'000	Total £'000
At 3 January 2015	64,060	(52,800)	11,260
Benefits paid	(2,540)	2,540	-
Employer contributions	710	-	710
Current service cost	-	(2,230)	(2,230)
Curtailments	-	1,200	1,200
Termination benefits	-	(30)	(30)
Interest income/(expense)	2,030	(1,620)	410
Re-measurement gains/(losses):			
Actuarial losses	-	(15,510)	(15,510)
Return on plan assets excluding interest income	19,030	-	19,030
At 2 January 2016	<u>83,290</u>	<u>(68,450)</u>	<u>14,840</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 a reasonable and consistent 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 actuarial valuation as at 6 April 2014 is complete. The next formal valuation date for the Fund is 6 April 2017. The allocation may also be revisited following events such as any change to the number of employers participating in the Fund.

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.

	Year ended 2 January 2016 £'000	Year ended 3 January 2015 £'000
Total cost recognised as an expense:		
Current service cost	2,230	2,320
Curtailments	(1,200)	-
Termination benefits	30	-
Net interest income on net defined benefit asset	(410)	(480)
	<u>650</u>	<u>1,840</u>

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 2 JANUARY 2016

13. POST-EMPLOYMENT BENEFITS *(continued)*

(a) Defined benefit scheme *(continued)*

	2 January 2016 £'000	3 January 2015 £'000
The fair value of the plan assets was:		
Equity instrument	60,302	46,251
Bonds	12,910	10,378
Property	8,995	6,214
Other	1,083	1,217
	<u>83,290</u>	<u>64,060</u>

	Year ended 2 January 2016 £'000	Year ended 3 January 2015 £'000
The returns on plan assets was:		
Interest income	2,030	2,390
Return on plan assets less interest income	19,030	2,990
Total return on plan assets	<u>21,060</u>	<u>5,380</u>

(b) Defined contribution scheme

The amount recognised as an expense for the defined contribution scheme was:

	Year ended 2 January 2016 £'000	Year ended 3 January 2015 £'000
Current year contributions	<u>623</u>	<u>503</u>

At the year end there were no prepaid or outstanding amounts (2014: none) in relation to the defined contribution scheme.

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 2 JANUARY 2016

14. COMMITMENTS UNDER OPERATING LEASES

The Company had total minimum lease commitments under non-cancellable operating leases as set out below.

	Assets other than land and buildings	
	2 January 2016	3 January 2015
	£'000	£'000
Operating lease payments due:		
Within 1 year	775	980
Within 2 to 5 years	959	887
	<u>1,734</u>	<u>1,867</u>

15. CALLED UP SHARE CAPITAL

Called up authorised share capital:

	2 January 2016	3 January 2015
	£	£
1,000 Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

Allotted and fully paid:

	2 January 2016		3 January 2015	
	Number	£	Number	£
Ordinary shares of £1 each	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>

There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

16. ULTIMATE PARENT COMPANY

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

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 2 JANUARY 2016

17. TRANSITION TO FRS102

This is this first year that the Company has presented its results under FRS102. The last financial statements under UK GAAP were for the year ended 3 January 2015. The date of transition to FRS102 was 29 December 2013. Set out below are the changes in accounting policies which reconcile the loss for the year ended 3 January 2015 and the total equity as at 29 December 2013 and 3 January 2015 between UK GAAP as previously reported and FRS102.

	Note	Year ended 3 January 2015 £'000
Loss for the financial year:		
UK GAAP – as previously reported		(840)
Derivative financial instruments	<i>a</i>	23
Defined benefit pension scheme	<i>b</i>	(1,470)
Total adjustment to loss on ordinary activities before taxation		(1,447)
Deferred tax impact of adjustments:		
Derivative financial instruments	<i>c</i>	(4)
Defined benefit pension scheme	<i>c</i>	296
Total adjustment to tax on loss on ordinary activities		292
Total adjustment to loss for the financial year		(1,155)
FRS102		(1,995)
	Note	Year ended 3 January 2015 £'000
Other comprehensive income:		
UK GAAP – as previously reported		(560)
Derivative financial instruments	<i>a</i>	202
Defined benefit pension scheme	<i>b</i>	1,470
Deferred tax impact of adjustments:		
Derivative financial instruments	<i>c</i>	(42)
Defined benefit pension scheme	<i>c</i>	(294)
FRS102		776

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 2 JANUARY 2016

17. TRANSITION TO FRS102 *(continued)*

	3 January 2015 £'000	29 December 2013 £'000
Total equity:		
UK GAAP – as previously reported	1,329	2,729
Derivative financial instruments	-	(225)
Deferred tax impact of adjustments:		
Derivative financial instruments	-	46
Defined benefit pension scheme	2	-
FRS102	1,331	2,550

a. Derivative financial instruments

FRS102 requires derivative financial instruments to be recognised at fair value. Previously under UK GAAP the Company did not recognise these instruments in the financial statements. Accordingly a derivative liability of £225,000 was recognised on transition at 29 December 2013. In the year ended 3 January 2015 the Company recognised a gain of £23,000 in the profit and loss account and a gain of £202,000 in other comprehensive income in relation to forward foreign currency contracts.

b. Defined benefit pension scheme

Under previous UK GAAP the Company recognised an expected return on defined benefit plan assets in the profit and loss account. Under FRS102 net interest income is calculated, based on the net defined benefit asset at 29 December 2013 or 3 January 2015. The effect of the change has been to reduce the credit to the profit and loss account in the year to 3 January 2015 by £1,470,000 and increase the credit in other comprehensive income by an equivalent amount. The deferred tax impact of this adjustment is discussed below.

c. Deferred taxation

The Company has accounted for deferred tax on transition as follows:

Derivative financial instruments – a deferred tax asset of £46,000 was recognised on the derivative liability recognised on transition at 29 December 2013. In the year ended 3 January 2015 the Company recognised an expense of £4,000 in the profit and loss account and an expense of £42,000 in other comprehensive income in respect of the release of the deferred tax asset on the derivative liability.

Due to the change in the calculation of the net interest on the defined benefit pension scheme discussed above, the deferred tax provision relating to the defined benefit pension scheme asset has reduced by £2,000 at 3 January 2015 and the impact during the year ended 3 January 2015 is to reduce the tax charge in the profit and loss account by £296,000 and reduce the deferred tax charge in other comprehensive income by £294,000.

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 2 JANUARY 2016

17. TRANSITION TO FRS102 *(continued)*

d. Other adjustments arising on transition to FRS102

In addition to the transition adjustments identified above which affect the loss for the year ended 3 January 2015, the following presentation adjustments have arisen which have had no effect on net equity or profit and loss account but which have affected the presentation of these items on the balance sheet.

i) Under previous UK GAAP the deferred tax liability relating to the defined benefit pension scheme asset was offset against the defined benefit pension scheme asset on the face of the balance sheet. Under FRS102 the deferred tax liability relating to the defined benefit pension scheme asset, of £2,252,000 at 3 January 2015, is presented separately within provisions for liabilities on the balance sheet.