

**KELLOGG MANAGEMENT SERVICES (EUROPE)
LIMITED**

FINANCIAL STATEMENTS

30 DECEMBER 2017

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KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

STRATEGIC REPORT

YEAR ENDED 30 DECEMBER 2017

The Directors present their strategic report of Kellogg Management Services (Europe) Limited (the “Company”) for the 2017 financial year from 1 January 2017 to 30 December 2017 (2016 financial year: from 3 January 2016 to 31 December 2016).

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 before taxation of £7,403,000 (2016: £6,027,000) and turnover of £71,333,000 (2016: £72,201,000).

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, IT support and HR shared service 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 £19,119,000 (2016: £2,420,000).

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 30 December 2017 £’000	Year ended 31 December 2016 £’000
Turnover	71,333	72,201
Operating profit	7,348	5,454

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

STRATEGIC REPORT *(continued)*

YEAR ENDED 30 DECEMBER 2017

Key performance indicators *(continued)*

In 2017 the Company's turnover and operating profit have decreased and increased respectively 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 Platt
Director



Approved by the Directors on 29 August 2018

Registered Address: Orange Tower Media City UK, Salford, Manchester, M50 2HF

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

THE DIRECTORS' REPORT

YEAR ENDED 30 DECEMBER 2017

The Directors have pleasure in presenting their report and the audited financial statements of the Company for the year from 1 January 2017 to 30 December 2017 (the "year ended 30 December 2017").

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.

The Directors do not recommend the payment of a dividend (2016: £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, IT support and HR shared service 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 30 DECEMBER 2017

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 (resigned 20 February 2017)

C Wilkinson (resigned 20 April 2018)

R Bradley (appointed 1 May 2018)

S Platt

W Smith

N Jaynes (appointed 20 February 2017)

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.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

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 FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for 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.

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 30 DECEMBER 2017

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 Platt
Director



Approved by the Directors on 29 August 2018

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED
INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KELLOGG
MANAGEMENT SERVICES (EUROPE) LIMITED
YEAR ENDED 30 DECEMBER 2017

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 30 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 30 December 2017; the Profit and Loss Account, the Statement of Comprehensive Income and the Statement of Changes in Equity for the year then ended; the accounting policies; and the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED
INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KELLOGG
MANAGEMENT SERVICES (EUROPE) LIMITED *(continued)*
YEAR ENDED 30 DECEMBER 2017

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and The Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and The Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and The Directors' Report for the year ended 30 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and The Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in Respect of the Financial Statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED
INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KELLOGG
MANAGEMENT SERVICES (EUROPE) LIMITED *(continued)*
YEAR ENDED 30 DECEMBER 2017

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

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 by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Edward Moss (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
29 August 2018

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

PROFIT AND LOSS ACCOUNT

YEAR ENDED 30 DECEMBER 2017

		Year ended 30 December 2017 £'000	Year ended 31 December 2016 £'000
	Note		
TURNOVER	2	71,333	72,201
Administrative expenses		(63,985)	(66,747)
OPERATING PROFIT	3	7,348	5,454
Interest receivable and similar income	6	95	600
Interest payable and similar expenses	7	(40)	(27)
PROFIT BEFORE TAXATION		7,403	6,027
Tax on profit	8	(539)	80
PROFIT FOR THE FINANCIAL YEAR		6,864	6,107

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

The statement of accounting policies and notes on pages 13 to 30 form part of these financial statements.

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 30 DECEMBER 2017

		Year ended 30 December 2017 £'000	Year ended 31 December 2016 £'000
	Note		
Profit for the financial year		6,864	6,107
Other comprehensive income/(expense):			
Re-measurements of net defined benefit asset	13	11,850	(13,840)
Total tax on components of other comprehensive (expense)/income	12	(2,015)	2,353
Total comprehensive income/(expense) for the financial year		16,699	(5,380)

The statement of accounting policies and notes on pages 13 to 30 form part of these financial statements.

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

BALANCE SHEET

AS AT 30 DECEMBER 2017

	Note	30 December 2017 £'000	31 December 2016 £'000
FIXED ASSETS			
Investments	9	84	84
		<u>84</u>	<u>84</u>
CURRENT ASSETS			
Debtors	10	78,781	80,992
Cash and cash equivalents		3,940	-
		<u>82,721</u>	<u>80,992</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	11	(76,959)	(79,893)
NET CURRENT ASSETS		<u>5,762</u>	<u>1,099</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>5,846</u>	<u>1,183</u>
PROVISIONS FOR LIABILITIES	12	(2,717)	(163)
NET ASSETS EXCLUDING PENSION ASSET		<u>3,129</u>	<u>1,020</u>
Post-employment benefits	13	15,990	1,400
NET ASSETS		<u><u>19,119</u></u>	<u><u>2,420</u></u>
CAPITAL AND RESERVES			
Called up share capital	15	-	-
Profit and loss account		19,119	2,420
TOTAL EQUITY		<u><u>19,119</u></u>	<u><u>2,420</u></u>

These financial statements on pages 9 to 30 were approved by the Directors and authorised for issue on 29 August 2018 and are signed on their behalf by:

S Platt
Director



Company Registration Number: 03233144

The statement of accounting policies and notes on pages 13 to 30 form part of these financial statements.

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 30 DECEMBER 2017

	Called up share capital £'000	Profit and loss account £'000	Total equity £'000
Balance at 3 January 2016	-	7,800	7,800
Profit for the financial year	-	6,107	6,107
Other comprehensive expense for the financial year	-	(11,487)	(11,487)
Total comprehensive expense for the financial year	-	(5,380)	(5,380)
Balance at 31 December 2016	-	2,420	2,420
Balance at 1 January 2017	-	2,420	2,420
Profit for the financial year	-	6,864	6,864
Other comprehensive income for the financial year	-	9,835	9,835
Total comprehensive income for the financial year	-	16,699	16,699
Balance at 30 December 2017	-	19,119	19,119

The statement of accounting policies and notes on pages 13 to 30 form part of these financial statements.

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

STATEMENT OF ACCOUNTING POLICIES

YEAR ENDED 30 DECEMBER 2017

General information

Kellogg Management Services (Europe) Limited (the “Company”) is a company incorporated in the United Kingdom. The Company is registered 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: Orange Tower Media City UK, Salford, Manchester, M50 2HF

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 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.

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 30 DECEMBER 2017

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 30 DECEMBER 2017

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 30 DECEMBER 2017

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 30 DECEMBER 2017

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.

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

STATEMENT OF ACCOUNTING POLICIES *(continued)*

YEAR ENDED 30 DECEMBER 2017

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.

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 30 DECEMBER 2017

1. FINANCIAL YEAR

The financial statements cover the 2017 financial year from 1 January 2017 to 30 December 2017 (2016 financial year: from 3 January 2016 to 31 December 2016).

2. TURNOVER

All of the Company's business and profit before taxation arose from its principal activity. A geographical analysis of origin of turnover is as follows:

	Year ended 30 December 2017 £'000	Year ended 31 December 2016 £'000
United Kingdom	15,994	12,087
Overseas	55,339	60,114
	<u>71,333</u>	<u>72,201</u>

3. OPERATING PROFIT

Operating profit is stated after charging/(crediting):

	Year ended 30 December 2017 £'000	Year ended 31 December 2016 £'000
Equity-settled share-based payments	690	2,183
Fees payable for services provided by the Company's auditors:		
- the Company's audit	19	21
- the audit of other group companies	719	692
- other services	2	4
Operating lease and other hire costs:		
- plant and machinery	6,754	4,626
Net gain on foreign currency translation	(274)	(559)

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

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

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 30 DECEMBER 2017

4. PARTICULARS OF EMPLOYEES

The monthly average number of staff employed by the Company during the financial year, including the Directors, amounted to 253 (2016: 326).

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 30 December 2017 £'000	Year ended 31 December 2016 £'000
Wages and salaries	14,476	18,471
Social security costs	2,004	2,341
Other pension costs:		
- defined benefit scheme (note 13)	(510)	1,320
- defined contribution scheme (note 13)	469	497
Equity-settled share-based payments	690	2,183
	<u>17,129</u>	<u>24,812</u>

Pension costs relating to the defined benefit scheme are amounts charged to operating profit 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 30 December 2017 £'000	Year ended 31 December 2016 £'000
Aggregate emoluments	253	384
Company contributions to money purchase pension schemes	14	15
Compensation for loss of office	-	-
	<u>267</u>	<u>399</u>

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 30 DECEMBER 2017

5. DIRECTORS' EMOLUMENTS *(continued)*

Highest paid Director:

	Year ended 30 December 2017 £'000	Year ended 31 December 2016 £'000
Total emoluments	148	144
Compensation for loss of office	-	-
Defined benefit pension scheme	-	-
Accrued pension at end of year	-	-

One Director (2016: one Director) is a member of the group's UK defined contribution pension scheme. Three Directors, excluding the highest paid Director, (2016: Two Directors, excluding the highest paid Director) were members of the group's UK defined benefit pension scheme.

Five Directors, including the highest paid Director, (2016: Four Directors, including the highest paid Director) participated in a group employee share ownership scheme. Three Directors (2016: two Directors) exercised options during the year. Two Directors emoluments are paid by fellow subsidiary undertakings that make no recharge to the Company. They are a Director of a number of fellow subsidiary undertakings and it is not possible to make an apportionment of their emoluments in respect of this Company. Accordingly, these financial statements include no emoluments in respect of these directors.

6. INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 30 December 2017 £'000	Year ended 31 December 2016 £'000
Bank interest receivable	15	10
Defined benefit scheme:		
Net interest income (note 13)	80	590
	<u>95</u>	<u>600</u>

7. INTEREST PAYABLE AND SIMILAR EXPENSES

	Year ended 30 December 2017 £'000	Year ended 31 December 2016 £'000
Bank interest payable	<u>40</u>	<u>27</u>

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 30 DECEMBER 2017

8. TAX ON PROFIT

(a) Tax charge/(credit) recognised in profit and loss

	Year ended 30 December 2017 £'000	Year ended 31 December 2016 £'000
Current tax:		
In respect of the year:		
UK Corporation tax based on the profit for the financial year at 19.25% (2016: 20.00%)	-	-
Adjustments in respect of prior years	-	-
Total current tax credit	-	-
Deferred tax:		
Origination and reversal of timing differences	466	65
Adjustments in respect of prior years	73	(1)
Total deferred tax charge/(credit) (note 12)	539	(80)
Total tax charge/(credit) on profit	539	(80)

(b) Tax charge/(credit) included in other comprehensive income

	Year ended 30 December 2017 £'000	Year ended 31 December 2016 £'000
Deferred tax:		
Origination and reversal of timing differences	2,015	(2,353)
Total tax charge/(credit) included in other comprehensive income/(expense)	2,015	(2,353)

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 30 DECEMBER 2017

8. TAX ON PROFIT *(continued)*

(c) Reconciliation of total tax credit

The tax assessed on the profit before taxation is lower than the standard rate of corporation tax in the UK of 19.25% (2016: lower than the standard effective rate of corporation tax in the UK of 20.00%) for the following reasons:

	Year ended 30 December 2017 £'000	Year ended 31 December 2016 £'000
Profit before taxation	<u>7,403</u>	<u>6,027</u>
Profit before taxation multiplied by the standard rate of tax	1,425	1,205
Expenses not deductible for tax purposes	-	1
Group relief claimed	(897)	(1,129)
Adjustments in respect of prior years	73	(1)
Effect of deferred tax provided at different rates	<u>(62)</u>	<u>(156)</u>
Total tax charge/(credit)	<u>539</u>	<u>(80)</u>

(d) Factors that may affect future tax charges

Changes to the UK corporation tax rates were announced in the Chancellor's Budget on 8 July 2015. These included reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 18% from 1 April 2020. At Budget 2016, the government announced a further reduction to the Corporation Tax main rate for the year starting 1 April 2020, setting the rate at 17%. This change was substantively enacted on 6 September 2016. Accordingly, the effect of this change was reflected in these financial statements.

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 30 DECEMBER 2017

9. INVESTMENTS

	Shares in group undertakings £'000
COST AND NET BOOK VALUE	
At 30 December 2017 and 31 December 2016	<u>84</u>

The Company holds 4,399 ordinary shares in European Services Support SRL, a Romanian limited liability entity with registered office at Bucuresti Sectorul 2, Soseaua, Pipera, Nr. 43, Floreasca Park, Cladirea A, ETAJ 3 SI 4, Bucharest, Romania, 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

	30 December 2017 £'000	31 December 2016 £'000
Trade debtors	112	-
Amounts owed by group undertakings	77,799	79,790
Other debtors	118	-
Prepayments and accrued income	752	1,202
	<u>78,781</u>	<u>80,992</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

	30 December 2017 £'000	31 December 2016 £'000
Bank loans and overdrafts	17,206	9,754
Trade creditors	15,035	12,724
Amounts owed to group undertakings	32,872	43,643
Amounts owed to the ultimate parent company	3,154	2,023
Taxation and social security	2,590	3,020
Accruals and deferred income	6,102	8,729
	<u>76,959</u>	<u>79,893</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 30 DECEMBER 2017

12. PROVISIONS FOR LIABILITIES

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

	30 December 2017 £'000	31 December 2016 £'000
Included in provisions	<u>(2,717)</u>	<u>(163)</u>

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

	30 December 2017 £'000	31 December 2016 £'000
Balance brought forward	(163)	(2,596)
Adjustments in respect of prior years	(73)	1
Profit and loss account movement arising during the year	(466)	(65)
Effect of tax rate change on opening balances	-	144
Other comprehensive (expense)/income movement arising during the year	<u>(2,015)</u>	<u>2,353</u>
Balance carried forward	<u>(2,717)</u>	<u>(163)</u>

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

	30 December 2017 £'000	31 December 2016 £'000
Capital allowances	2	2
Post-employment benefits	<u>(2,719)</u>	<u>(165)</u>
Balance carried forward	<u>(2,717)</u>	<u>(163)</u>

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 30 DECEMBER 2017

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:

	30 December 2017 £'000	31 December 2016 £'000
Net defined benefit pension scheme asset	<u>15,990</u>	<u>1,400</u>

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

	Year ended 30 December 2017 £'000	Year ended 31 December 2016 £'000
Defined benefit scheme:		
Current service cost	3,030	1,980
Curtailments	(3,540)	(660)
Defined contribution scheme	<u>469</u>	<u>497</u>
Total (credit)/charge in operating profit	<u>(41)</u>	<u>1,817</u>
Defined benefit scheme:		
Net interest income	(80)	(590)
Total (credit)/charge	<u>(121)</u>	<u>1,227</u>

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 30 DECEMBER 2017

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:

	30 December 2017 %	31 December 2016 %
Expected rate of salary increases	4.40	4.50
Expected rate of increase of pensions in payment	2.40	2.50
Expected rate of increase for deferred pensioners	2.40	2.50
Discount rate	2.65	2.50
Rate of inflation	3.40	3.50

The mortality assumptions used were as follows:

	30 December 2017 Years	31 December 2016 Years
Longevity at age 65 for current pensioners:		
- Men	21.6	21.4
- Women	24.0	23.3
Longevity at age 65 for future pensioners:		
- Men	22.6	22.7
- Women	25.1	24.8

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 30 DECEMBER 2017

13. POST-EMPLOYMENT BENEFITS *(continued)*

(a) Defined benefit scheme *(continued)*

Reconciliation of scheme assets and liabilities:

	Assets £'000	Liabilities £'000	Total £'000
At 1 January 2017	90,620	(89,220)	1,400
Benefits paid	(3,960)	3,960	-
Employer contributions	2,150	-	2,150
Current service cost	-	(3,030)	(3,030)
Curtailments	-	3,540	3,540
Interest income/(expense)	2,770	(2,690)	80
Re-measurement gains/(losses):			
Actuarial losses	-	(18,390)	(18,390)
Return on plan assets excluding interest income	30,240	-	30,240
At 30 December 2017	<u>121,820</u>	<u>(105,830)</u>	<u>15,990</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 30 December 2017 £'000	Year ended 31 December 2016 £'000
Total cost recognised as an expense:		
Current service cost	3,030	1,980
Curtailments	(3,540)	(660)
Net interest income on net defined benefit asset	(80)	(590)
	<u>(590)</u>	<u>730</u>

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 30 DECEMBER 2017

13. POST-EMPLOYMENT BENEFITS *(continued)*

(a) Defined benefit scheme *(continued)*

	30 December 2017 £'000	31 December 2016 £'000
The fair value of the plan assets was:		
Equity instrument	84,665	63,162
Bonds	17,664	12,959
Property	12,791	9,424
Other	6,700	5,075
	<u>121,820</u>	<u>90,620</u>

	Year ended 30 December 2017 £'000	Year ended 31 December 2016 £'000
The returns on plan assets was:		
Interest income	2,770	3,100
Return on plan assets less interest income	30,240	6,230
Total return on plan assets	<u>33,010</u>	<u>9,330</u>

(b) Defined contribution scheme

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

	Year ended 30 December 2017 £'000	Year ended 31 December 2016 £'000
Current year contributions	<u>469</u>	<u>497</u>

At the year end there were no prepaid or outstanding amounts (2016: none) in relation to the defined contribution scheme.

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 30 DECEMBER 2017

14. COMMITMENTS UNDER OPERATING LEASES

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

	30 December 2017		31 December 2016	
	Land and Buildings £'000	Other Items £'000	Land and Buildings £'000	Other Items £'000
Operating leases which expire:				
Within 1 year	993	618	-	826
Within 2 to 5 years	3,971	724	-	1,334
	<u>4,964</u>	<u>1,342</u>	<u>-</u>	<u>2,160</u>

15. CALLED UP SHARE CAPITAL

Allotted and fully paid:

	30 December 2017		31 December 2016	
	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.

17. EVENTS AFTER THE END OF THE REPORTING PERIOD

On the 9 April 2018, the company's land and building to the south east side of Talbot Road was sold at market value. Operations have transferred from Talbot Road, Stretford to Orange Tower Media City UK, Salford.