Company Number. 5957921

United Biscuits Topco Limited

Annual Report and Accounts

52 weeks ended 1 January 2011

Contents

United Biscuits Overview

United Biscuits (UB) is a leading international branded snacks business, manufacturing and marketing some of the world's best known and loved sweet and savoury snacks. Our brands have been delighting consumers for generations and include such favourites as McVitie's, Verkade, Jacob's, Carr's, BN, McCoy's, Hula Hoops, McVitie's Jaffa Cakes, Penguin, Delacre, KP, Mini Cheddars, go ahead!, Twiglets, Sultana and Phileas Fogg.

We are the number one snack manufacturer in the United Kingdom and hold strong segment positions in our other core markets of The Netherlands, France, Ireland and Belgium Our brands are sold in over 100 countries and we have strong consumer bases in the rest of Europe, North America, the Middle East, Africa, Asia and Australia Following the opening of our Indian factory early in 2010 our products are being sold throughout India

In 2010 we delivered our sixth consecutive year of profitable growth despite continuing turbulent economic and market conditions As well as maintaining strong financial foundations, we have made further progress towards our environmental goals and completed the second year of our people and community programme with strong results. We have published for the first time details of our health and nutrition programme, showing achievements to date and the goals we are working towards We continue to develop innovative new products and packaging formats to better serve both our customers and consumers

Performance Summary

Despite a turbulent economic climate in 2010 and adverse weather conditions in the early and late parts of the year, UB demonstrated resilience and delivered a sixth consecutive year of Revenue and EBITDA growth. We also strengthened and grew our brands, invested in our factories, began production at our new manufacturing facility in India, developed our people and improved our environmental performance and community involvement.

We continue to measure our progress against three pillars of sustainability· financial, environmental and people & community and we performed well against all three of these measures in 2010

Financial

UB delivered a robust performance at a time of low consumer confidence demonstrating the strength of our brands, products, people and customer relationships

In 2010

- All of our key markets demonstrated resilience with most growing, and only small declines in Holland and Belgium
- We grew revenue by 0 4% to £1,267 5 million
- EBITDA grew by 3 3% to £230 8 million
- All of our financial covenants were complied with and we generated a net cash inflow of over £75 million
- We launched our business in India with steadily growing sales
- We embedded "Lean" principles across all our operations and drove increased efficiency to fund investment in our Brands

Note EBITDA, or Business Profit, is the profit measurement used by management and is defined as the profit or loss before the Group's share of results of joint ventures, taxes, financing, exceptional operating items and depreciation and amortisation expense

Environmental

The third year of UB's environmental programme successfully built on the progress made in 2009

- In 2010 UB achieved a 45% reduction in waste to landfill, on top of a 44% reduction in 2009. By the end of 2010, four of UB's UK sites were sending zero waste to landfill. This was against a UB target to achieve zero waste to landfill by the end of 2012.
- UB continued its strong progress in reducing water use across its sites with a 15% reduction in 2010 This brought our saving to date to 33% against a target to achieve a 45% reduction in water use by 2020 compared to 2007
- By the end of 2010 UB had achieved a 25% reduction in annual mileage and a 33% reduction in transport emissions, compared to 2005 This was against a target to reduce transport emissions by 40% by 2012, compared to 2005
- We also made progress on sustainable sourcing, being one of the first food manufacturers to announce a deal to acquire certified sustainable palm oil that is segregated throughout the supply chain Since mid 2010 all UB's snacks that contain palm oil have been made from certified sustainable palm oil.
- In 2010 we also developed farmers' growing groups with some of our potato and cereal suppliers These 'back to farm' agreements formalise and sustain our relationship with suppliers so that we can work together to grow crops sustainably

People and Community

UB's Building our Community programme has been running for over two years, and we have achieved a lot in that time

- We have worked in conjunction with our unions to develop learning centres at all of our UK sites to help employees develop a wide range of skills that can help them in their work life and in the wider community Approximately 8% of employees have now completed National Vocational Qualifications (NVQs) in these facilities
- We have a successful apprenticeship scheme, with 33 apprentices working across UB sites in 2010, nine of whom graduated last year We plan to recruit a further 22 apprentices to the programme in 2011
- The 2010 Graduate recruitment programme saw 23 new graduates join UB in September 2010
- In 2010 UB provided approximately 50 work experience places and 247 university summer placements for students, many of them family members of our employees
- UB and its employees have donated over £167,000 in funds or products to their local communities in 2010 and 274 days special leave were granted for employees to carry out community support work
- We published details of our ongoing health and nutrition programme detailing the substantial progress made in the last five years and our goals for the next five years. Examples include, reducing the saturated fat in McCoy's by 70% and by 79% in McVitie's Rich Tea and 75% in McVitie's Hobnobs

Directors' Statement – Financial Sustainability

A solid financial result against a background of continued economic uncertainty.

2010 Financial Performance Highlights

UB delivered a solid financial result in 2010, against a background of continued economic uncertainty and government austerity measures

In 2010 we grew volume, revenue, EBITDA and cash The economic climate remained difficult, and consumers were ever more value conscious

In this context we continued to focus our investment behind health, innovation and offering keen value to consumers Our profit margin increased in 2010 as a result of both revenue growth and strong productivity measures We understand that meeting the needs of the consumer is fundamental to our success By accurately anticipating their needs we will continue to build on our success

	2010 £m	2009 £m
Revenue	1,267 5	1,262 3
EBITDA	230 8	223 4
Net Debt	1,144 3	1,213 0
Capital Expenditure	47 0	38 4
Cash available for debt servicing	152 0	141 8

UB Brands

UB's UK markets grew in line with recent years, with UB gaining market share in Biscuits and broadly maintaining market share in a fast growing and competitive Bagged Snacks market In France and Ireland the markets recovered from a weak 2009 to demonstrate good growth, and UB gained share in both markets The Dutch market continued to be turbulent resulting in a small decline, with branded manufacturers (including UB) losing share to Private Label

We continued to drive growth through our investment in International markets registering another year of double digit revenue growth The McVitie's and Carr's brands have particularly strong global appeal Strong growth was achieved in Europe, Africa and the Middle East, and McVitie's was successfully launched into India in early 2010

Revenue

We recorded revenue for 2010 of £1,267 million (2009 £1,262m) an increase of 0 4%, as we focused on offering keen value to our consumers Almost 87% of the Group's revenue was from the sale of branded products Drive brands are the Group's most strategic and popular brands, which receive priority marketing and innovation support Non-branded (private label) products are also manufactured by UB but sold by multiple retailers under their own brand

Cost Release

UB's cost release target of 4% to 5% of cost base was achieved again in 2010.

The cost release programme was supported by savings and efficiency improvements across all sites and all areas of the business In 2010 we further embedded our Lean efficiency programme driving behavioural change and process efficiencies

UB's strategy of developing and implementing enhanced manufacturing practices and investing in efficiency, ensured the business continued to improve its operating performance This, in turn, has enabled the release of funds to support growth through improved value to the consumer, new product development and ongoing capital expenditure

EBITDA (Business Profit)

Business profit is the primary measure by which management assesses business performance and is used by management for the purpose of business decision making and resource allocation. Business profit represents the profit or loss before the share of results of joint venture, taxes, financing, exceptional operating items, depreciation and amortisation expense

In 2010 Business Profit was £230.8 million (2009· £223.4 million). The year on year increase largely reflects productivity improvements and stable input costs as well as absorbing the start-up costs in India

Capital Expenditure

Cash investment in plant and equipment during 2010 was £47 0 million (2009 £38 4 million) representing 4% of Revenue (2009 3%) Expenditure was balanced across investments to improve efficiency, support growth and improve the health, safety and environment of our facilities Expenditure was increased in 2010 to enhance the capacity and flexibility of a number of lines in order to meet consumer demand

Directors' Statement – Financial Sustainability

Cash Available for Debt Servicing

Cash available for debt servicing for 2010 was £152 0 million (2009 £141 8 million) This represents business profit less expenditure on capital and restructuring, ongoing pension contributions paid in excess of amounts charged to business profit and tax paid, and after adjusting for changes in working capital and proceeds from the disposal of fixed assets.

Net Debt

The Group's net debt comprises senior, second lien and mezzanine bank loans, finance leases and other loans less cash and cash equivalents At the end of 2010 the net debt outstanding was £1,144 million, a reduction of 6% on net debt at the end of 2009

Average Number of Employees

The average number of employees during 2010 was 8,323 (2009 8,367) The Group's employees are principally based in the U K , France, the Netherlands, Belgium and India

Industry factors affecting performance

The Group is well positioned in large, stable markets, which we believe will continue to grow In the medium to long term, growth will be driven by consumer trends toward convenience, healthy snacking and indulgence Overarching consumer trends also include the search for value and for products that are produced by responsible corporations in a sustainable manner The Group continues to pursue an active programme of new and existing product development as well as promotional investments to respond to these trends

In recent years, consumer demand for food products has been strongly influenced by trends toward out-of-home eating and away from the traditional three-meals-a-day eating pattern Consumers now demand convenience foods, including biscuit and snack products that offer greater variety, healthier alternatives and greater portability and convenience These trends are expected to continue Retailers generally seek branded products that consumers know and trust and that will deliver them high turnover UB is meeting this need with a wide range of classic products and new product development and promotions to keep store displays fresh and appealing

Increasing ingredient costs towards the end of 2010 are once again putting pressure on input costs and driving inflation into the food industry at a time of economic uncertainty UB continues to adapt its products to ensure its snacks and treats are affordable, competitive and offer good value to the consumer

Environmental Sustainability

At the beginning of 2008 UB launched its environmental programme with six clear goals to minimise its environmental footprint. We have made great progress against these targets so far, achieving some early and setting more stretching replacement goals.

Reducing Carbon Emissions

Target: to achieve a 35% reduction in carbon emissions by 2020 compared to 1995.

By the end of 2010 we had reduced our carbon emissions by 28%, or an average of just under 2% per annum since the start of the target period 15 years ago.

After achieving a 5% reduction in carbon emissions last year following the introduction of improved energy management systems, we managed to sustain 2009 emission levels throughout 2010. As 2010 included two prolonged periods of cold weather requiring higher heating energy this was a significant achievement.

Two of our Northern Europe sites are using electricity from renewable resources. We are now looking at the use of renewable sources of power for our UK factories. We are also considering new ways to re-use the waste heat from our cooking processes.

Reducing Waste sent to Landfill

Target: Achieve zero waste to landfill by the end of 2012 (brought forward from 2015) – waste to landfill reduced by 47% in 2010 compared to 2009.

We are proud to have achieved our zero food waste to landfill target comfortably before our 2010 deadline. With non-food waste to landfill, we made such significant progress in 2010 that we brought our target date forward from 2015 to 2012. Since 2006 we have reduced our non food waste to landfill by 83%.

At the end of 2010 the first four UB sites that had demonstrated they were recycling everything that could be recycled, achieved zero waste to landfill by having the residual waste recycled at nearby incineration plants that burn waste to generate electricity. We will continue to work on maximising recycling and keep incineration to a minimum.

Reducing Packaging

Target: Reduce the environmental impact of our packaging by 20% by 2015 compared with 2003.

We have amended our target from simply weight based to a target based on the environmental impact of our packaging Using calculation methods approved by the Waste and Resource Action Programme (WRAP – an organisation that works with the UK Government on this issue) we have calculated that since 2003 we have reduced our environmental impact by 13%

Nearly 80% of our packaging is either already recycled or else facilities are widely available for consumers to recycle the packaging themselves We will continue to work to reduce packaging, but many of our products are already at the limit of what can be achieved under current technology For example the film wrap for a 500g packet of Digestives will typically weigh just 3g

Reducing Water Use

Target: Achieve a 45% reduction in water use by 2020 compared to 2007 (target increased in 2010 from 25%).

UB continued its strong progress in reducing water use across its sites with a 15% reduction in 2010, compared to the 2009 level Teesside, our largest water using site, reduced water use by 25% following a £2m investment in a water recycling plant there in 2009

In total ten of UB's 16 manufacturing sites achieved water reductions in 2010

Environmental Sustainability

Increasing Sustainable Sourcing

Target: ensure new and existing suppliers continue to meet UB's specific requirements for ingredient sourcing, have strict ethical standards and are working towards sustainable growing.

Achievements:

UB was one of the first food manufacturers to source a supply of certified sustainable palm oil that is segregated through the supply chain so that we can be sure that all of the oil used in our products is from the sustainable plantations Since mid-2010 all UB products that contain palm oil have been made from certified sustainable palm oil

While we are a relatively small player in the cocoa and chocolate markets we have developed a range of approaches to manage sustainability issues In the Netherlands our block chocolate products sold under the Verkade brand source Fairtrade certified chocolate, which is well suited for a single ingredient product such as this We have also joined the World Cocoa Foundation (WCF), which is a group of over 60 companies that run programmes to support the cocoa farmers in the three key areas of promoting better labour conditions, improving the quality and quantity of cocoa fields, and strengthening the community

UB has developed farmers' growing groups with some of our potato and cereal suppliers These 'back to farm' agreements help to formalise and sustain UB's relationship with a number of suppliers Through these relationships we are exploring the following areas securing the long term supply of biscuit wheat, against the competing pressures of biofuel varieties, ensuring potato varieties being grown meet our stringent quality standards, and promoting sustainable agriculture practices and responsible land use

We have also started using the Supplier Ethical Data Exchange (SEDEX) system to audit our suppliers and insist that all suppliers meet the Ethical Trading Initiative Base Code At the end of 2010 approximately 60% of our Suppliers were on the SEDEX system

Driving Environmentally Friendly Transport

Target Achieve a 40% reduction in transport carbon emissions by 2020, compared to 2005

By the end of 2010 we had achieved a 25% reduction in annual mileage and a 33% reduction in transport emissions compared to 2005

The reductions achieved are due to a range of initiatives including

- Using our waste vegetable oil as biodiesel to fuel our trucks which has reduced our transport emissions by 1,400 tonnes, the equivalent of one million truck miles per year
- Investing in the latest fuel additive technology to further improve fuel efficiency.
- Rolling out driver training and real time tracking for all vehicles to help avoid congestion and ensure they are driving economically
- Redesigning packs and case and pallet fill to maximise lorry loads without damaging what are often delicate products, such as crisps In 2010 this avoided the need to move over 100,000 pallets

Our work in this area was recognised by three leading Motor Industry awards as well as a 'Sword of Honour' from the British Safety Council

People and Community Sustainability

UB's 'Building our Community' programme has now been running for over two years and we have made significant progress. The community goals set out as part of the programme are intended to encourage skills development, both within our business and the wider community as well as to encourage employees to play a significant role in the communities in which we operate.

Health and Safety and Welfare

The health, safety and welfare of our employees remains among UB's highest priorities We achieved ISO18001 accreditation for health and safety systems, demonstrating the robust procedures we have in place

We are currently achieving our targets in reducing lost time accidents, with an average of 10% reduction each year for the past three years Minor accidents were also down 15% in 2010 after similar reductions in 2008 and 2009 Reporting of near misses was up by 12% (following a big push which saw a 60% increase in reporting in 2009) Near-miss reporting has a vital role in reducing accidents in our factories as it enables us to put measures in place to ensure that accidents are prevented Our Consett site recently celebrated 1,000 days free of reportable lost time accidents The amount of time lost from 'lost time accidents' was down 42% in 2009 and a further 18% in 2010, evidencing the effectiveness of our occupational health team in helping people return to work Our Accident Frequency Rate levels remain well below the food industry average of 0 92 (per 100,000 hours worked)

Our UK business has also achieved ISO-14001 accreditation for our environmental management system, as has our Lambermont factory in Belgium

The best judges of our commitment to the environment and health and safety remain our employees, and satisfaction scores on these issues were fourth and fifth highest respectively out of 39 questions in our annual groupwide employee survey

Our occupational health programme won an award from the Food and Drink Federation in 2010 for standard of healthcare we provide which includes regular 'MOT' style health checks, physiotherapy, chiropody and counselling services available at every site as well as fitness equipment or discounted access to local fitness facilities We also work with our caters to ensure that staff meals are lower in salt, fat and calories and that fresh fruit and vegetables are reasonably priced As a result our employee sickness/absence rate is below the industry average at just 4 24%

Employee satisfaction was highlighted by the fact that only 12% of staff disagreed with the statement 'I enjoy working here' in our groupwide employee survey, with the score improving slightly on last year The top scoring question was 'I intend to be working for this company in 12 months time' which remained at 75% We are committed to developing our employees and helping them to fulfil their potential within our business, 25% of our employees have been with the company for more than 20 years

As well as the employee survey there are a range of other routes for employees to provide feedback and raise concerns, including an employee helpline, 'Whistle-blowing' line and 'Dignity at Work' programmes Employees are kept up to date on developments through a range of channels including briefings, newsletters and intranet, they also share in the group's success through a bonus scheme

Fundraising and partnerships with our community

UB employees continued to support community projects in 2010 and have participated in a huge range of activities, in teams and individually For example, the KP Rotherham team carried out a number of community projects in 2010, including renovating the staff room at the local Rotherham Hospice, and a ten-week programme to help 24 local children improve their reading skills In Holland 130 enthusiastic Verkade employees helped people in the local community in 22 projects including taking disabled people for a day out and painting a primary school The business has provided employees with 274 days of paid leave to help with a variety of community projects

Employees' fundraising initiatives included sponsored runs, walks and other fitness challenges including a football tournament, and staff from the McVitie's factory in Tollcross even took part in an X-Factor style contest to support a local school. In total, UB and its employees donated over £197,000 in funds or products to their local communities Our employees donated £30,000 in Give As You Earn donations while UB and its employees also made direct charity donations of £167,000

Skills Development

A key goal of the community programme is the development of skills and here UB's aim is three-fold to encourage the development of the right skills and abilities in the education system, to recruit the right people, and then continue to develop our employees

We have a successful apprenticeship scheme running across our sites, with 33 apprentices working across UBUK sites in 2010, nine of whom graduated in 2010 We plan to recruit a further 22 engineering apprentices onto the programme in 2011

The 2010 Graduate recruitment programme saw 23 new graduates join UB in September 2010 The graduates follow a fast-track programme and in 2010 the focus was on roles in sales procurement and technical

People and Community Sustainability

Within the business we have been working with our unions to develop learning centres in each of our sites that enable our employees to learn a range of work and non-work related skills in a convenient and supportive environment At the launch of the community programme we had three such centres and we now have them in all of our UK sites

For food science students we are gradually increasing the number of research opportunities we offer for under- and post-graduates, and moved to six places in 2010, from five in 2009. We're working towards a goal of providing ten research places

Employees' fundraising initiatives included sponsored runs, walks and other fitness challenges including a football tournament, and staff from the McVitie's factory in Tollcross even took part in an X-Factor style contest to support a local school In total, UB and its employees donated over £197,000 in funds or products to their local communities Our employees donated £30,000 in Give As You Earn donations while UB and its employees also made direct charity donations of £167,000

Employment policies

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

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

Operating Principles

To successfully deliver against the three pillars of sustainability, we have five operating principles which underpin all of our activities

- The consumer is our boss – meeting the consumers' needs is fundamental to our success
- Our customers are extremely important – customers are the main interface between the business and our consumers
- We all have personal responsibility – we encourage all employees to take personal responsibility for the role they play in making us a successful business and for operating in a manner consistent with UB's values
- Improving efficiency is a way of life – we work hard at continually improving our business
- Excellent Execution – finally we look to bring the above principles together in the excellent execution of all activities and projects

Consumer Health and Nutrition

In 2005 UB embarked on a major ten-year programme to improve the nutritional content of its products In 2010 we reported on our progress at the half way mark in our programme, reporting on the areas of removing hydrogenated vegetable oil (the main source of trans fats), reducing saturated fat and salt and removing artificial additives such as flavour enhancers (including MSG), sweeteners, colours and artificial flavours.

UB has made huge progress to date in reducing the levels of saturated fat in its products We have focused initially on some of our largest selling brands so that as many consumers as possible can benefit from the improvements we have achieved Some of the achievements so far include an 80% saturated fat reduction to McVitie's Digestives, 79% to McVitie's Rich Tea, 75% to McVitie's Hobnobs, 67% to go ahead! Crispy Slices, 61% to Jacob's Light Cream Crackers, and 43% to Jacob's Cornish Wafer

Over 80% of our savoury snacks (excluding nuts) are now cooked in sunflower oil. We have achieved substantial reductions in saturated fat levels that were completed in stages over several years starting in 2005 Reductions include 80% less saturated fat in our KP Crisps, KP Mini Chips, Brannigans, Roysters and Frisps, a 79% reduction to Nik Naks, Skips, and Wheat Crunchies, and a 78% reduction to Space Raiders and 70% to McCoy's

UB has surpassed the commitment it made to the Department of Health on sodium reductions by achieving a 23% sodium reduction across our biscuits and cakes portfolio and 18% in the crisps and savoury snacks categories. Some specific examples of salt reductions include a 55% reduction to Wheat Crunchies, 37% to Skips, a 43% reduction to McVitie's Hobnobs and 33% to McVitie's Rich Tea

We have been removing artificial additives from our products for a number of years In the UK biscuit categories we have made good progress with 94% of our savoury biscuits and 82% of our sweet biscuits free from artificial colours and flavours. 61% of our cakes range is free from artificial colours and flavours, and in the bagged snacks portfolio, 99% is free from artificial colours, 94% from artificial sweeteners and 58% free from added MSG.

Our progress across the entire corporate responsibility agenda is measured annually by the Corporate Responsibility Index operated by Business in the Community and published annually in the Financial Times In 2010 we achieved a 'platinum' award, having received a gold award in the previous year and silver the year before that In addition, we won the 2010 President's Award from the Food and Drink Federation for our work across the entire spectrum of sustainability

We are grateful for this recognition of the progress we have made

Corporate Governance

The Board believes in conducting UB's affairs in a fair and transparent way and is committed to maintaining high ethical standards. The following paragraphs set out UB's key governance structures and internal controls. The Board believes this complies, in a manner appropriate to UB's ownership structure, with the spirit of the Financial Reporting Council's Combined Code on Corporate Governance.

The UB Board

The Board comprises the Non-Executive Chairman, three executive directors and six non-executive directors, three from each of Blackstone and PAI

The Non-Executive Chairman is responsible for the effective operation of the Board and for communications with all directors and shareholders He sets the agenda for Board meetings and ensures the Board receives relevant information on financial performance and other issues prior to board meetings

Matters reserved for Board decision include the final approval of the annual budget and strategic plan, changes to UB's financing arrangements, acquisitions and disposals, material contracts and significant capital expenditure Formal Board meetings are held every four weeks Where decisions are required on urgent matters in between meetings, there is a process in place led by the Non-Executive Chairman to facilitate discussion and decision-making

The Board directors also have access to the advice and services of the Group Company Secretary Directors' biographies are on pages 22-23

The UB Executive

The UB Executive comprises the Chief Executive Officer, Chief Operating Officer & Chief Financial Officer, the Operational Services Director, the Managing Director of UB's UK business unit, the Managing Director of UB's Northern European business unit, the Group Human Resources Director and the Company Secretary

The UB Executive is responsible for day-to-day operations of the Group and the development of UB's business strategy and plans for consideration by the Board

UB has a number of committees, each led by at least one member of the UB Executive, that make recommendations on significant business issues to the UB Executive and the Board The committees meet on a regular basis and have documented terms of reference UB's committees include the Commodities Executive, the Tax and Treasury Committee, the Risk Oversight Committee , the Disclosure Committee and the Sustainability Committee

Board Committees

The Board has two principal committees an audit committee and a remuneration committee Both have written terms of reference that are approved by the Board The committees have access to the advice and services of the Group Company Secretary Independent legal or professional advice may be taken by either of the committees if it believes it is necessary to do so

Audit Committee

The Board has an Audit Committee consisting of at least one non Executive Director from both Blackstone and PAI This committee is chaired by Gerry Murphy

The audit committee meets at least three times each year, at appropriate times in the reporting and audit cycle In addition, the committee will meet at such other times as the Board or the committee Chairman requires, or if requested by UB's external auditor Only committee members have the right to attend meetings but, in practice, other individuals, including shareholder appointed directors, the Chief Executive Officer, the Chief Financial Officer, the Company Secretary, the Head of Internal Audit and other members of the senior finance team are regularly invited to attend all or part of meetings as and when appropriate to their area of expertise External auditors also attend meetings on a regular basis

Responsibilities of the committee include overseeing the relationship with the external auditors It meets with them regularly, reviews their audit plan and discusses audit findings with them. In addition, the committee approves the policy on the supply of non-audit services by Ernst and Young, our external auditors, taking into account any relevant ethical guidance on the matter

Remuneration Committee

The members of the remuneration committee are all the Blackstone and PAI non executive directors and the non executive chairman The committee is chaired by Frédéric Stévenin The committee meets at least twice each year and will also meet at such other times as required Only committee members have the right to attend meetings, but other individuals may be invited to attend from time to time, when appropriate

The committee's responsibilities include determining and agreeing the policy for the remuneration of the executive directors, appointment of executive directors and approving the design of UB's annual incentive plans

Internal Controls

The Board has overall responsibility for UB's system of internal control and for reviewing its effectiveness On a day-to-day basis, this responsibility is delegated to the audit committee

The principal aim of the system of internal control is to provide an ongoing process that identifies, evaluates and manages the risks that are significant in relation to fulfilment of UB's business objectives. The internal control system has been designed to manage rather than eliminate risk and can provide only reasonable, and not absolute, assurance against material misstatement or loss

The audit committee also reviews the effectiveness of UB's internal controls and risk management systems and ensures there is independent investigation of any matters brought to its attention The committee monitors and reviews the effectiveness of UB's internal audit function, which is outsourced to KPMG, ensuring it has sufficient resources and appropriate access to information to enable it to perform its function effectively The audit committee reviews and approves the nature and scope of the annual internal audit programme each year The findings of internal audit reviews are reported to executive management and any necessary corrective actions are agreed. Summaries of significant issues are presented to and discussed with the audit committee along with details of progress against action plans as appropriate

Board of Directors

UB

David Fish was Non Executive Chairman from February 2004 to November 2006 From November 2006 until February 2011 he was Executive Chairman and became Non Executive Chairman again in February 2011 During his last seven years with Mars he was a member of the Mars Incorporated Operating Board During his time at Mars he held a number of senior management positions including President, Snackfoods Europe and Joint President, Masterfoods Europe, the operating company for all of Mars' European activities He has also held Vice President positions in marketing, country management and personnel Mr Fish has also served as Non Executive Chairman of Christian Salvesen Plc as well as Non Executive Director of the board of Royal Mail

Benoit Testard was appointed Group Chief Executive in February 2011 Prior to that he was Managing Director UBUK from 2004 to 2011 and Managing Director UBNE from 2001 to 2004, having joined United Biscuits in March 1999 as Managing Director of UB France Prior to joining UB, Mr Testard spent 13 years with Fromageries BEL where he began as Marketing Manager, moving into a Sales Director role and later becoming Head of Business

Jeff van der Eems has been Chief Financial Officer of United Biscuits since mid 2005 and Chief Operating Officer from December 2006. Mr van der Eems joined United Biscuits from PepsiCo where he worked for 12 years in a series of senior operational roles in Europe, Middle East, Africa and the US Most recently, he was Chief Financial Officer for PepsiCo UK & Ireland where he was responsible for Walkers Snackfoods, Pepsi-Cola, Quaker Foods, and Tropicana Prior to PepsiCo, Mr van der Eems worked in Mergers and Acquisitions for several investment banks in New York

Kevin McGurk has been Operational Services Director since February 2001 He joined the UB board on 23 January 2007 Before joining United Biscuits, Mr McGurk served as European Purchasing Director of Heinz from 1999 He also previously served as Purchasing General Manager of the Heinz European Grocery Division from 1996 to 1999 Before joining Heinz, Mr McGurk spent several years with the Ambient Foods Group of Hillsdown Holdings where he served as the European Group Purchasing Manager

The Blackstone Group

Blackstone is a leading global alternative asset manager and provider of financial advisory services listed on the New York Stock Exchange with total assets under management of approximately $104 3 billion as of September 30, 2010

Lionel Assant is a Senior Managing Director in the Corporate Private Equity group and is based in London Since joining Blackstone in 2003, Mr Assant has been involved in various European investments and investment opportunities Before joining Blackstone, Mr Assant worked for seven years at Goldman Sachs in the Mergers and Acquisitions, Asset Management, and Private Equity divisions Mr Assant also serves as a Director of Kloeckner Pentaplast

David S. Blitzer is a Senior Managing Director in the Private Equity Group Mr Blitzer is based in London, having established Blackstone's corporate private equity investment efforts in Europe Since joining Blackstone in 1991, Mr Blitzer has been involved in the execution of Blackstone's investments in Spirit Group, SULO, Allied Waste, Aspen Insurance Holdings, Houghton Mifflin, Universal Orlando, Centerplate, Cadillac Fairview, Edward J DeBartolo Corporation, Southern Cross, NHP, Orangina, and United Biscuits

Gerry Murphy is a Senior Managing Director in the Corporate Private Equity group based in London He also serves as Chairman of The Blackstone Group International Partners LLP, the firm's UK-regulated holding company Dr Murphy's principal focus is providing support to the firm's activities across Europe and Asia and he serves as a director of United Biscuits, Kloeckner Pentaplast and Michaels Stores Before joining Blackstone in 2008, Dr. Murphy spent five years as CEO of Kingfisher, a FTSE 100 company and the leading home improvement retailer in Europe and Asia He has also served as CEO of Carlton Communications plc, Exel plc and Greencore Group plc Earlier in his career, he held senior positions in R&D, operations, marketing, corporate development and general management with Grand Metropolitan plc (now Diageo plc) in Ireland, the UK and the USA He has served on the boards of Reckitt Benckiser Group plc, Abbey National plc and Novar plc He is a non-executive director of British American Tobacco plc and also serves on the UK government's Asia Task Force and the UK India Business Council Advisory Board

PAI partners

PPAI partners is one of the oldest and most experienced private equity firms in Europe with its origins dating back to Paribas Affaires Industrielles, the historical principal investment activity of Paribas, the pan-European merchant bank which merged with BNP in 1999

Gaelle d'Engremont joined PAI Partners in 2004 and is a member of the Consumer Goods Group She has been involved in a number of transactions including Chr Hansen and Perstorp Prior to this Ms d'Engremont worked for four years with Casino and two years with Unibail

Colm O'Sullivan joined PAI in 2006 as a member of the Consumer Goods Group Since November 2008, he has managed PAI's offices in London. Mr O'Sullivan joined PAI from Deutche Bank where he spent eight years in the Financial Sponsors Group working on a number of advisory and financing transactions for European private equity firms. Prior to this, he spent six years with Hambros Bank in London and New York working on various debt capital markets and advisory transactions

Frédéric Stévenin is a Partner and Head of the Consumer Goods Group. Mr Stévenin first joined PAI partners in 1993 and spent five years in the Food & Beverage Division In 1998, he joined Deutsche Bank/ Bankers Trust in the European Acquisition Finance Group as a Director and subsequently as Managing Director In June 2001, he returned to PAI partners Mr Stévenin has been involved in a number of transactions including Panzani, Amora Maille, William Saurin, Antargaz, Yoplait, Elis, Panzani-Lustucru, Saeco, Chr Hansen, UB, Kaufman & Broad and Cerba European Lab Prior to this, Mr Stévenin had spent four years with Banque Paribas in the Advisory team of the Private Banking division

Directors Report

The directors present their report and the audited financial statements of United Biscuits Topco Limited (the 'Company') together with its subsidiaries (the 'Group') for the 52 week period from 3 January 2010 to 1 January 2011

Results and dividends

The results for the Group are set out on page 32 and show a consolidated profit attributable to the shareholder for 2010, after taxation, of £62.0 million (2009. profit of £7 1 million) No dividends have been paid or proposed (2009 £Nil)

Going Concern, Business Review and Future Developments

The Group's business and performance against its key performance indicators and likely future developments are set out on pages 3 to 19 and are incorporated in this report by reference

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 28 to 81. In addition, Note 16 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives, details of its financial instruments and hedging activities, and it exposures to credit risk, commodity risk and liquidity risk In view of this, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook and have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future

The financial statements have been prepared on a going concern basis as the directors are satisfied that the Group has adequate financial resources to continue its operations for the foreseeable future In making this statement, the Group's directors have reviewed the Group budget and available facilities and have made such other enquiries as they considered appropriate

Directors' interests

No director had interests in the share capital of either the Company or other UK registered Group companies No director had, during the period or at the end of the period, any material interest in any contract of significance to the Company's business During the period the Company maintained liability insurance for its directors and officers.

Charitable donations

During 2010 the Group made charitable donations of approximately £167,000 (2009 £106,000)

Directors

The following served as Directors

Name	Date of appointment	Date of resignation
Lionel Yves Assant[1]	6 November 2006	
David Scott Blitzer[1]	23 October 2006	
Gaelle d'Engremont[2]	3 December 2009	
David John Fish (Chairman)	23 January 2007	
Kevin McGurk (Operational Services Director)	23 January 2007	
Gerrard Martin Murphy[1]	29 January 2009	
Colm O'Sullivan[2]	8 October 2009	
Frederic Stevenin[2]	23 October 2006	
Jeffrey Peter van der Eems (CFO/COO)	23 January 2007	
Benoit Testard (UK MD and CEO from 21 February 2011)	29 January 2010	

1 Blackstone appointed 2 PAI appointed

Supplier payment policy

The Group requires its operating companies to negotiate appropriate terms and conditions of trade as competitively as it negotiates prices and other commercial matters Employees are bound by the terms of the Group's 'Ethics and Operating Principles' which sets out the Group's code of practice on the treatment of suppliers This policy states that 'all suppliers will be paid on time in accordance with agreed terms of trade' At 1 January 2011, the Group had an average of 124 days purchases (2009 - 117 days) outstanding in trade creditors

Principal risks and uncertainties

The Group has established a Risk Oversight Committee that meets to evaluate key risks to the Group The Group is exposed to financial risks. These are summarised, together with the actions taken by the Group to mitigate any significant exposures, in Note 16 to the Financial Statements In addition the Group is subject to a number of significant business risks, which it takes all possible actions to mitigate The Risk oversight Committee ensures that mitigation plans are adequately developed and tested

These risks include the following:

- **Substantial leverage and ability to service debt** – our high level of debt requires us to dedicate a substantial portion of our cash flow from operations to our debt service obligations Our leveraged status could increase our vulnerability to adverse general economic and industry conditions or to a significant business continuity issue, limit our ability to obtain additional financing for working capital, capital expenditures, acquisitions or other purposes, place us at a disadvantage relative to our competitors that have less debt and limit our flexibility in planning for or reacting to changes in our business or industry
- **Business strategy implementation** – our strategy is to increase our cash flow and profitability by implementing initiatives aimed at achieving cost savings and generating profitable branded growth If we are unsuccessful at implementing our strategy we may be unable to comply with the financial covenants under our senior facilities agreement
- **Significant competition** – we operate in highly competitive markets, and our failure to compete effectively might adversely affect our results of operations We compete primarily on the strength of our brands, the quality of our products, product innovation and price Our ability to compete effectively requires continuous efforts in sales and marketing of our existing products, developing new products and cost rationalisation
- **Dependence on raw materials** – our ability to pass increases in raw materials and energy costs on to our customers could adversely affect the results of our operations Many of our raw materials and energy costs are volatile and supplies are affected by government policies, the actions of our suppliers, currency movements, political upheavals and acts of God Consequently, unexpected increases in raw material and energy costs or a material or prolonged supply disruption could adversely affect our results of operations
- **Continual evolution of retailers** – the ongoing evolution of the retail food industry in the United Kingdom and continental Western Europe could adversely affect our operating results Such evolution involves the consolidation of sales channels, strong bargaining power of the major grocery retailers, intensified price competition among these retailers and the rapid growth of the discount retail channel
- **Supply and manufacturing processes** – product quality and safety issues may result in damage to the reputation of our brands and the termination of agreements or licenses to operate one or more of our brands and may affect our relationship with our customers
- **Challenges to brands and intellectual property rights** – some of our intellectual property rights could be challenged or lapse As almost 87% of our sales are from branded products this could adversely affect our results
- **Restrictions on operations** – our debt agreements contain significant restrictions limiting our flexibility in operating our business including, among other things, to borrow money, pay dividends or make other distributions and make asset dispositions These covenants could materially and adversely affect our ability to finance our future operations or capital needs or to engage in other business activities that may be in our best interest

Directors Report

- **Funding defined benefit pension schemes** – we operate defined benefit pension arrangements in the U.K. that have significant liabilities to current, previous and retired employees In order to take advantage of the higher returns that equities and certain other investments have historically generated, a proportion of the pension plan funds are invested in such assets This investment strategy carries the risk that a decline in values could increase our funding deficit, which may require us to increase our contributions
- **Changes to taxation or other government regulation** – changes in fiscal legislation and regulation in the various jurisdictions in which we operate may affect the taxes that we pay In addition, Government bodies in our markets have been pursuing various initiatives aimed at increasing health and reducing the incidence of diseases that are seen to be linked to diet The actions that government bodies may take could have an adverse effect on consumer demand for our products

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

The directors who were members of the board at the time of approving the directors' report are listed on Page 24 Having made enquiries of fellow directors and of the Group's auditors, each of these directors confirms that

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report which the Group's auditors are unaware of, and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Group's auditors are aware of that information

On behalf of the board

Benoit Testard
Chief Executive officer

David Fish
Non Executive Chairman

26 April 2011

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

Directors' Report

Auditors

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

Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on Page 1 Having made enquiries of fellow directors and of the Group's auditors, each of these directors confirms that

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report which the Group's auditors are unaware of, and

- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Group's auditors are aware of that information

On behalf of the board

Jeffrd Evns

Director

27 April 2011

Registered Office
Hayes Park
Hayes End Road
Hayes
Middlesex
UB4 8EE

2010 Annual Report

Company registered no: 5957921

United Biscuits Topco Limited

Consolidated Financial Statements

52 weeks ended 1 January 2011

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union

Under Company Law the directors must not approve the Group financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Group for that period In preparing the Group financial statements the directors are required to

- select suitable accounting policies in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and then apply them consistently,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance,
- state that the Group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements, and
- make judgements and estimates that are reasonable and prudent

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

Independent auditor's report to the members of United Biscuits Topco Limited

We have audited the group financial statements of United Biscuits Topco Limited for the 52 weeks ended 1 January 2011 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the related notes 1 to 23 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 29, the directors are responsible for the preparation of the group 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 group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the group financial statements

- give a true and fair view of the state of the group's affairs as at 1 January 2011 and of its profit for the period then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Independent auditor's report to the members of United Biscuits Topco Limited (continued)

Other matter

We have reported separately on the parent company financial statements of United Biscuits Topco Limited for the period ended 1 January 2011

Ernst & Young LLP

Andrew Walton (Senior statutory auditor)
for and on behalf of Ernst &Young LLP, Statutory Auditor
London
27 April 2011

2010 Annual Report

United Biscuits Topco Limited

Consolidated income statement

For the period 3 January 2010 to 1 January 2011

	Notes	2010 £m	2009 £m
Revenue		1,267 5	1,262 3
Cost of goods sold		(827 2)	(817 3)
Gross profit		440 3	445 0
Distribution, selling and marketing expenses		(181 2)	(185 1)
General and administrative expenses		(75 4)	(85 0)
Operating profit before exceptional operating items		183 7	174 9
Operating profit before exceptional operating items is comprised as follows			
Business profit		230 8	223 4
Depreciation and amortisation expense	4	(47 1)	(48 5)
Exceptional operating income	3	5 6	-
Exceptional operating expense	3	(15 1)	(17 8)
Operating profit	4	174 2	157 1
Interest receivable and other financial income	5	2 8	6 8
Interest payable and other financial charges	6	(98 5)	(133 0)
Other finance income – pensions	19	12 0	4 5
Profit before taxes and share of results of joint venture		90 5	35 4
Taxes	7	(29 0)	(29 0)
Profit before share of results of joint venture		61 5	6 4
Share of results of joint venture	10	0 5	0 7
Profit attributable to shareholder		62 0	7 1

United Biscuits Topco Limited

Consolidated statement of comprehensive income

For the period 3 January 2010 to 1 January 2011

	Notes	2010 £m	2009 £m
Profit attributable to shareholder		62 0	7 1
Other comprehensive income			
Actuarial losses on defined benefit plans	19	(16 0)	(252 8)
Reversal of restriction on recognition of retirement benefit surplus	19	-	22 4
Exchange differences on translation of foreign operations		(3 5)	(9 5)
Gain on cash flow hedges taken to equity		0 3	17 9
Loss/gain on cash flow hedges transferred to the income statement		3 3	(9 6)
Other comprehensive loss for the period before tax		(15 9)	(231 6)
Tax on items recognised directly in or transferred from equity	7	3 3	67 7
Other comprehensive loss for the period after tax		(12 6)	(163 9)
Total comprehensive income for the period after tax		49 4	(156 8)

2010 Annual Report

United Biscuits Topco Limited

Consolidated balance sheet

As at 1 January 2011

	Notes	2010 £m	2009 £m
ASSETS			
Non-current assets			
Intangible assets	8	1,181 3	1,185 2
Property, plant and equipment	9	323 7	328 2
Investment in joint venture	10	0 4	0 6
Retirement benefit asset	19	0 5	0 4
Deferred tax	7	92 0	119 6
Derivative financial instruments	16	0 4	-
Total non current assets		1,598 3	1,634 0
Current assets			
Inventories	11	56 8	55 6
Trade and other receivables	12	241 3	239 6
Derivative financial instruments	16	2 7	1 2
Cash and cash equivalents	13	167 9	123 2
Total current assets		468 7	419 6
TOTAL ASSETS		2,067 0	2,053 6
EQUITY AND LIABILITIES			
Shareholder's equity			
Share premium	18	1 8	1 8
Other reserves	18	13 5	13 0
Retained earnings		(168 3)	(217 2)
Total equity		(153 0)	(202 4)
Non current liabilities			
Borrowings	15	1,312 2	1,336 2
Amount due to parent company	21	421 2	389 8
Retirement benefit liability	19	129 5	153 7
Provisions	17	11 2	11 2
Derivative financial instruments	16	-	0 4
Other non current liabilities		0 2	0 2
Deferred tax	7	16 9	19 7
Total non current liabilities		1,891 2	1,911 2
Current liabilities			
Trade and other payables	14	318 1	317 0
Derivative financial instruments	16	5 7	20 9
Provisions	17	5 0	6 9
Total current liabilities		328 8	344 8
Total liabilities		2,220 0	2,256 0
TOTAL EQUITY AND LIABILITIES		2,067 0	2,053 6

Approved by the Board and signed on its behalf on 27th April 2011

Jeffrey Peter van der Eems

United Biscuits Topco Limited

Consolidated statement of changes in equity

For the period 4 January 2009 to 2 January 2010	Share Premium £m	Currency Translation Reserve £m	Hedging Reserves £m	Retained Earnings £m	Total £m
At 4 January 2009	1 8	23 7	(10 8)	(60 3)	(45 6)
Profit attributable to shareholder	-	-	-	7 1	7 1
Actuarial losses on defined benefit plans	-	-	-	(164 0)	(164 0)
Exchange differences on translation of foreign operations	-	(7 8)	-	-	(7 8)
Net loss on cash flow hedges	-	-	7 9	-	7 9
Total comprehensive income	-	(7 8)	7 9	(156 9)	(156 8)
At 2 January 2010	1 8	15 9	(2 9)	(217 2)	(202 4)
For the period 3 January 2010 to 1 January 2011					
Profit attributable to shareholder	-	-	-	62 0	62 0
Actuarial gains/(losses) on defined benefit plans	-	-	-	(13 1)	(13 1)
Exchange differences on translation of foreign operations	-	(3 1)	-	-	(3 1)
Net gain on cash flow hedges	-	-	3 6	-	3 6
Total comprehensive income	-	(3 1)	3 6	48 9	49 4
At 1 January 2011	1 8	12 8	0 7	(168 3)	(153 0)

United Biscuits Topco Limited

Consolidated cash flow statement

For the period 3 January 2010 to 1 January 2011

	Notes	2010 £m	2009 £m
Operating activities			
Operating profit		174 2	157 1
Adjustments for			
Depreciation and amortization	4	47 1	48 5
Exceptional operating income	3	(5 6)	-
Exceptional operating expense	3	15 1	17 8
(Increase)/decrease in inventory		(1 2)	0 7
(Increase) in receivables		(2 1)	(18 5)
Increase in payables		8 6	17 9
Cash flows relating to financial instruments		(0 3)	1 5
Cash flows relating to restructuring and other provisions		(14 7)	(13 9)
Difference between pension contributions paid and amounts recognised in the operating profit		(26 5)	(29 7)
Cash generated from operations		194 6	181 4
Net interest paid		(74 7)	(90 5)
Income taxes paid		(1 0)	(1 9)
Net cash inflow from operating activities		118 9	89 0
Investing activities			
Capital expenditure and purchases of intangible assets	8 & 9	(47 0)	(38 4)
Proceeds from disposal of property, plant and equipment		4 8	-
Amounts received from joint venture		0 6	0 7
Net cash used in investing activities		(41 6)	(37 7)
Financing activities			
Increase in borrowings	15	100 0	-
Repayment of debt	15	(130 0)	-
Net cash used in financing activities		(30 0)	-
Increase/(decrease) in cash and cash equivalents in the period		47 3	51 3
Currency translation differences		(2 6)	(1 6)
Cash and cash equivalents at beginning of period		123 2	73 5
Cash and cash equivalents at end of period	13	167 9	123 2

1 Authorisation of financial statements

The financial statements of United Biscuits Topco Limited and its subsidiaries (the "Group") for the period from 3 January 2010 to 1 January 2011 were authorised for issue by the board of directors on 27th April 2011 and the balance sheet was signed on the board's behalf by J van der Eems United Biscuits Topco Limited is a limited company, incorporated and domiciled in England and Wales

2 Accounting policies

Basis of preparation

The accounting policies which follow set out the policies that were applied in preparing the financial statements of the Group for the 52 week period from 3 January 2010 to 1 January 2011 and as at 1 January 2011

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships

The Group generally presents its financial information based on 13 periods of four calendar weeks As a result, a normal fiscal year consists of 52 weeks, a first fiscal quarter of four periods (16 weeks) and three fiscal quarters each consisting of three periods (12 weeks) Every five or six years, the final period is lengthened to five weeks, in which case, the fourth quarter consists of 13 weeks and the fiscal year consists of 53 weeks The financial statements for the previous period show the performance of the Group for the period from 4 January 2009 to 2 January 2010 The Group's next consolidated financial statements will be prepared for the 52 weeks ended 31 December 2011

Unless the context indicates otherwise, "2010" means the 52 week period ended 1 January 2011 or the financial position as at 1 January 2011 and "2009" means the 52 week period ended 2 January 2010 or the financial position as at 2 January 2010

The consolidated financial statements are presented in pounds sterling and all references to "sterling" or "£" are to the lawful currency of the United Kingdom All values are rounded to the nearest one hundred thousand pounds, except where otherwise indicated

2 Accounting policies (continued)

Statement of compliance

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union as they apply to the financial statements of the Group for the period from 3 January 2010 to 1 January 2011 as permitted by the Companies Act 2006

Basis of consolidation

The consolidated financial statements comprise the financial statements of United Biscuits Topco Limited and its subsidiaries Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and will continue to be consolidated until the date that such control ceases Intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated on consolidation The Company's principal subsidiaries are listed in Note 10 of the Notes to the financial statements

Significant accounting judgements, estimates, and assumptions

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year arise in connection with the possible impairment of goodwill and assets and liabilities and the measurement of defined benefit pension obligations The Group determines whether goodwill and indefinite life intangible assets are impaired on at least an annual basis and this requires an estimation of the value in use of the cash generating units to which the intangible assets are allocated This involves estimation of future cash flows and application of a suitable discount rate Further details are given in Note 8 The cost of pension benefit plans and post-retirement healthcare benefits is determined using actuarial valuations This involves making assumptions about future changes in salaries, future pension increases, mortality rates, the expected return on assets and discount rates Due to the long term nature of these plans, such estimates are subject to significant uncertainty Further details about the assumptions used are given in Note 19

Revenue

Revenue comprises sales of products to third parties at amounts invoiced net of trade discounts and rebates, excluding sales related taxes and sales between Group companies Trade discounts include sales incentives, up-front payments and other non-discretionary payments Revenue is recognised based on confirmed deliveries to customers, when the risks and rewards associated with the underlying products have been substantially transferred At each balance sheet date any expenditure incurred, but not yet invoiced in relation to trade discounts and other allowances, is estimated and accrued Revenue also includes royalty income from licences associated with the Group's brands

Business profit

Business profit is the primary measure by which the Group's management measures business performance and is used by the Group's management for the purpose of business decision-making and resource allocation Business profit represents the profit or loss before the Group's share of results of joint ventures, taxes, financing, exceptional operating income and expense and depreciation and amortisation expense

2 Accounting policies (continued)

Exceptional operating income and expense

The Group presents as exceptional operating items those items of income and expense which, in the opinion of the Directors, because of their nature merit separate presentation to enable users of the financial statements to better understand the elements of financial performance in the year, to facilitate comparison with prior periods and to assess trends in financial performance more easily Exceptional operating items include restructuring and other non-recurring expenses, charges for impairment of plant, equipment and computer software and profits and losses on the disposal of property, plant and equipment

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

Foreign currencies

In individual Group companies, transactions in foreign currencies are recorded at the rate of exchange prevailing at the date of the transaction Monetary assets and liabilities in foreign currencies are translated at the exchange rate prevailing at the balance sheet date Any resulting exchange differences are taken to the income statement, except where hedge accounting is applied and where there are differences on monetary assets and liabilities that form part of the Group's net investment in a foreign operation In these circumstances, exchange differences are taken directly to other comprehensive income until either the hedging instrument or the net investment is disposed of, at which time they are recognised in the income statement

On consolidation, assets and liabilities of foreign operations are translated into sterling at the exchange rate prevailing at the balance sheet date Income and expense items are translated into sterling at the average rates for the year

Exchange differences arising on the translation of opening net assets of Group companies, together with differences arising from the translation of the net results at average or actual rates to the exchange rate prevailing at the balance sheet date, are taken to other comprehensive income On disposal of a foreign entity, the deferred accumulated amount recognised in other comprehensive income relating to that particular foreign operation is recognised in the income statement

Business combinations and goodwill

Business combination are accounted for using the acquisition method The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at the acquisition date fair value and the amount of any non-controlling interest in the acquiree The choice of measurement of non-controlling interest, either at fair value or at the proportionate share of the acquiree's identifiable net assets is determined on a transaction by transaction basis Acquisition costs are expensed when incurred Goodwill is initially measured at cost being the excess of the aggregate of the acquisition date fair value of the consideration transferred and the amount recognised for the non-controlling interest over the net identifiable amounts of the assets acquired and liabilities assumed in exchange of the business combination Goodwill represents consideration paid by the Group in anticipation of future economic benefits from assets that are not capable of being individually identified and separately recognised
After initial recognition, goodwill is measured at cost less any accumulated impairment losses Goodwill is subject to an annual impairment review or more frequently when events or changes in circumstances indicate an impairment may exist Any impairment is charged to the income statement in the period in which it arises

2 Accounting policies (continued)

Other intangible assets

On acquisition, the Group recognises any separately identifiable intangible assets separately from goodwill, initially measuring the intangible assets at fair value at the date of acquisition Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses

The useful lives of intangible assets are assessed to be either indefinite or finite Intangible assets with indefinite useful lives, as determined by the Group's Board of Directors, are not amortised but are subject to an impairment review on an annual basis or more frequently when events or changes in circumstances indicate an impairment may exist Purchased brands are deemed to have indefinite lives when there is proven longevity of the brand and continued marketing support is envisaged

Intangible assets with finite useful lives are amortised over their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired The Group capitalises computer software at cost and also capitalises internally generated software based on costs incurred where certain specific criteria are met Computer software is amortised on a straight-line basis over its estimated useful life, up to 5 years The carrying value of intangible assets with a finite life is reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable Any impairment is charged to the income statement in the period it arises

Advertising and promotional costs

Advertising and promotional costs are charged to the income statement in the period in which the Group has either received the service or had the right to access the related goods

Property, plant and equipment

Property, plant and equipment is stated at cost less depreciation and provision for impairment where appropriate Freehold land is not depreciated

Depreciation is provided on a straight-line basis based on the expected useful lives of assets Rates of depreciation applied are as follows

Freehold buildings and long leaseholds	1 5% p a
Leasehold improvements	Shorter of the lease term and useful life of asset
Plant and equipment	3 – 15% p a
Motor vehicles	20 – 30% p a
Fixtures and fittings	10 – 33% p a

Assets under construction are capitalised but are not depreciated until such time as they are available for use

Technical stores consist of spare parts and other items for the repair and maintenance of plant and equipment Major spare parts (costing more than £1,000) are capitalised as assets under construction until such time as they are brought into use All other purchases are expensed

Property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate the carrying value may be impaired Any impairment is charged to the income statement in the period in which it arises Useful lives and residual values of assets are reviewed annually

2 Accounting policies (continued)

Impairment of assets

Goodwill arising on business combinations is allocated to the groups of cash-generating units (equivalent to the Group's business units as described in Note 8) The recoverable amount of the cash-generating units to which goodwill has been allocated is tested for impairment annually or more frequently when events or changes in circumstances indicate that it might be impaired Previous impairments of goodwill are not reversed at a later date

The carrying values of property, plant and equipment and intangible assets with finite lives are reviewed for impairment when events or changes in circumstances indicate the carrying value may be impaired If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss

Where purchased intangible assets are considered by the Board of Directors to have an indefinite useful life, they are not amortised but are subject to an impairment review on an annual basis or more frequently if necessary Intangible assets not yet available for use, for example, computer software under development, are tested for impairment annually

An impairment review is performed by comparing the carrying value of the property, plant and equipment or intangible asset or goodwill with its recoverable amount, the recoverable amount being the higher of the fair value of the asset less costs to sell and the asset's value in use An asset's fair value less costs to sell is the amount that could be obtained on disposal of the asset The value in use is determined by discounting, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, the expected future cash flows resulting from its continued use, including those on final disposal Impairment losses are recognised in the income statement immediately Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which it belongs Considerable management judgement is necessary to estimate discounted future cash flows Accordingly, actual cash flows could vary considerably from forecasted cash flows

Impairment reversals are permitted to property, plant and equipment or intangible assets (but not to goodwill) only to the extent that the new carrying value does not exceed the amount it would have been had no impairment loss been previously recognised

Leasing commitments

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Group All other leases are classified as operating leases

Assets held under finance leases are recognised as assets of the Group and capitalised at their fair value at the date of commencement of the lease or, if lower, at the present value of the minimum lease payments within property, plant and equipment and depreciated over the shorter of the lease term and estimated useful life The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation Lease payments are apportioned between finance charges and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability Finance charges are charged directly against income

Lease payments relating to operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease, or over the period between rent reviews where these exist

2 Accounting policies (continued)

Joint venture

The Group has one joint venture KP Ireland Limited is an entity in which the Group has a long-term participating interest and is jointly controlled by the Group and one other party under a contractual arrangement The Group's interest in the results and assets and liabilities of KP Ireland Limited is included in the financial statements using the equity method of accounting

Under the equity method, the Group's interest in this joint venture is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of its net profit less distributions received and less any impairment in the value of the investment The consolidated income statement reflects the Group's share of the jointly owned entity's results after tax

Inventories

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

Inventory held as consignment stock is recognised as an asset in the balance sheet at cost, as the risks and rewards of ownership have been transferred to the Group A corresponding liability is also recognised in the balance sheet

Trade and other receivables

Trade and other receivables are recognised and carried at original invoice amount less an allowance for any amounts that are not collectable An estimate for doubtful debts is made when collection of the full amount is no longer probable Bad debts are written off when identified

Cash and cash equivalents

Cash includes cash in hand and deposits repayable on demand with any qualifying financial institutions, less overdrafts from any qualifying institution repayable on demand Cash equivalents are bank deposits which mature in three months or less at the date of acquisition

Government grants

The Group has received grants from Government agencies in the United Kingdom as well as from the European Union to assist with the purchase of property, plant and equipment and costs of staff training

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with Government grants are deferred and recognised in the income statement over the period necessary to match them with the related costs they are intended to compensate for

Grants relating to the purchase of property, plant and equipment are deducted in calculating the carrying amount of the associated asset The grant is recognised in profit or loss over the expected useful life of the associated asset by way of a reduced depreciation expense

Borrowings

Borrowings are initially recognised at fair value, which is represented by the amount of net proceeds received including any premium on issue and after deduction of issue costs Borrowings are subsequently stated at amortised cost Any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or where appropriate a shorter period, to the net carrying amount of the financial asset or financial liability

2 Accounting policies (continued)

Taxes

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

Deferred tax is accounted for in respect of temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit or loss

Deferred tax liabilities are recognised for all taxable temporary differences except in respect of investments in subsidiaries and interests in joint ventures where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future Additionally, where the temporary difference arises from the initial recognition of goodwill or initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit (or loss), deferred tax is not recognised

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised Their carrying amount is reviewed at each balance sheet date

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the asset or liability is realised based on tax rates and laws enacted or substantively enacted at the balance sheet date It is recognised in the income statement except when it relates to items recorded directly in equity

Pensions and other post-retirement benefits

The Group's main post-retirement arrangements are in the United Kingdom and are of the defined benefit type, for which contributions are paid into separately administered funds The Group's U K defined benefit plans are closed to new members and membership of defined contribution plans is available for new employees The Group also provides additional post-retirement benefits to certain senior managers in the United Kingdom and post-retirement healthcare benefits in the Netherlands, both of which are unfunded

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

2 Accounting policies (continued)

The interest element of the defined benefit cost represents the change in present value of scheme obligations resulting from the passage of time, and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year The expected return on plan assets is based on an assessment made at the beginning of the year of long-term market returns on scheme assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year The difference between the expected return on plan assets and the interest cost is recognised in the income statement as other finance income or costs

The retirement benefit asset or liability in the balance sheet comprises for each plan the total of the present value of the defined benefit plan obligation (using a discount rate based on high quality corporate bonds), less any past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly Fair value is based on market price information

The value of a retirement benefit asset is restricted to the sum of any unrecognised past service costs and the present value of economic benefits available to the Group IFRIC 14 permits the Group to recognise a surplus in schemes only through a reduction in future contributions or where a right to a refund exists

Contributions to defined contribution plans are recognised in the income statement in the period in which they are payable

Contingencies and provisions

In the normal course of business the Group is involved in certain disputes Provision for contingent liabilities is made when it is deemed probable that an adverse outcome will occur and the amount of the loss can be reasonably estimated Where the Group is the plaintiff in pursuing claims against third parties, legal and associated expenses are charged to the income statement as incurred Contingent assets are not recognised in the accounts

The recognition of provisions for disputes is subject to a significant degree of estimation In making its estimates management takes into account the advice of internal and external legal counsel Provisions are reviewed regularly and amounts updated where necessary to reflect developments in the disputes The ultimate liability may differ from the amount provided depending on the outcome of court proceedings and settlement negotiations or if investigations bring to light new facts

When either a legal or constructive obligation, as a result of a past event, exists at the balance sheet date and where the amount of the obligation can be reasonably estimated a provision is recognised If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability

Derivative financial instruments and hedging

The Group uses certain derivative financial instruments for the purpose of hedging foreign exchange, interest rate and commodity price risks

All derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value At the quarter end, the fair value of foreign exchange forward contracts is calculated using forward exchange market rates at the balance sheet date The fair value of interest rate swaps is determined by reference to market values for similar instruments The fair value of commodity hedges is determined by reference to the market values of the commodities traded on the London International Financial Futures Exchange ("LIFFE") at the balance sheet date

2 Accounting policies (continued)

Under IAS 39, hedging relationships must meet strict criteria to qualify for hedge accounting For those derivative financial instruments designated as hedges, the hedging relationship is documented at its inception This documentation identifies the hedging instruments, the hedged items or transactions, the nature of the risks being hedged and how effectiveness will be measured throughout the instruments' duration Such hedges are expected at inception to be highly effective

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

(a) Cash flow hedges

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

The Group discontinues cash flow hedging when a forecast transaction is no longer expected to occur and amounts previously recognised in equity are transferred to the income statement If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs and are then recognised in the income statement

(b) Fair value hedges

For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is re-measured at fair value and gains and losses from both are taken to profit or loss For hedged items carried at amortised cost, the adjustment is amortised through the income statement, such that, it is fully amortised at maturity When an unrecognised firm commitment is designated as a hedged item, this gives rise to an asset or liability in the balance sheet, representing the cumulative change in the fair value of the firm commitment attributable to the hedged risk

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation

(c) Hedges of net investment

Where foreign currency loans are designated as hedges of net investments in foreign operations the portion of the foreign exchange gain or loss on the borrowing that is determined to be an effective hedge is recognised directly in the currency translation reserve On disposal of a foreign operation, the cumulative translation differences are transferred to the income statement as part of the gain or loss on disposal

Where a hedging instrument fails to meet the criteria for hedge accounting, or where a portion of a qualifying hedging relationship is ineffective, the movement in the fair value of the hedging instrument relating to hedge ineffectiveness is recognised in the income statement immediately

2 Accounting policies (continued)

New standards and interpretations not applied

The IASB and the International Financial Reporting Interpretations Committee ("IFRIC") have issued the following standards and interpretations which will be effective for future accounting periods of the Group

IFRS		Effective for accounting periods beginning on or after
IAS 24	Related party disclosure (amendment)	1 January 2011
IAS 32	Financial instruments presentation – classification of right issues (amendment)	1 February 2010
IFRS 9	Financial instruments classification and measurement	1 January 2013
IFRIC 14	Prepayment of a minimum funding requirement (amendment)	1 January 2011
IFRIC 19	Extinguishing financial liabilities with equity instruments	1 July 2010

Improvement to IFRS (issued in May 2010)

IFRS		Effective for accounting periods beginning on or after
IFRS 3	Business Combinations – Revised	1 January 2011
IAS 27	Consolidated and Separate Financial Statements – Amended	1 July 2010
IFRS 7	Financial instruments Disclosures	1 January 2011
IAS 1	Presentation of Financial Statements	1 January 2011
IFRIC 13	Customer Loyalty Programmes	1 January 2011

Management does not anticipate that the adoption of the above standards and interpretations will have a material impact on the Group's financial statements in the initial period of application

IFRSs are undergoing a process of revision with a view to increasing harmonisation of accounting rules internationally Proposals to issue new or revised IFRSs, as yet unpublished, on financial statements, provisions, employee benefits, revenue recognition, leases and other topics may change existing standards, and may therefore affect the accounting policies applied by the Group in future periods

Other standards and interpretations issued are not considered relevant to the Group

3 Exceptional operating income and expense

	Restructuring and other non-recurring expenses £m	Impairment of plant, equipment £m	Profit on disposal of property, plant and equipment £m	Total £m
2010				
Exceptional operating income				
Defined benefit income (1)	2 3	-	-	2 3
Profit on disposal of surplus land(2)	-	-	3 3	3 3
	2 3	-	3 3	5 6
Exceptional operating expense				
Restructuring and associated costs(3)	(15 1)	-	-	(15 1)
	(15 1)	-	-	(15 1)
Net exceptional operating expense	(12 8)	-	3 3	(9 5)
2009				
Exceptional operating expense				
Restructuring and associated costs(3)	(15 5)	-	-	(15 5)
Write off of technical stores	-	(2 3)	-	(2 3)
	(15 5)	(2 3)	-	(17 8)

(1) The exceptional income in Defined benefits is due to a curtailment in the Jacob's pension plan Future pensionable salary will increase in line with retail price index plus 0 25% p a rather than in line with salaries

(2) Profit on disposal of surplus land relates primarily to the disposal of land at the Group's manufacturing site in the Netherlands

(3) Restructuring and associated costs relate primarily to redundancy and other costs associated with cost reduction and efficiency programs No analysis of these expenses by function exists However, they relate to cost of goods sold, distribution, selling and marketing and general and administrative expenses

4 Operating profit

	2010 £m	2009 £m
Operatıng profit ıs stated after chargıng		
Depreciatıon and amortisatıon expense		
Depreciatıon of property, plant and equıpment	44 5	45 8
Amortısatıon of computer software	2 6	2 7
	47 1	48 5
The depreciatıon and amortısatıon expense by functıon was as follows		
Cost of goods sold	40 9	41 8
Distribution, sellıng and marketıng expenses	1 6	1 4
General and administrative expenses	4 6	5 3
	47 1	48 5
Operatıng lease rentals		
Property	5 1	5 8[2]
Plant and equıpment	6 9	4 7
	12 0	10 5
Net foreign exchange (gain)/loss	(1 0)	3 5
Royalty income	(3 1)	(2 9)
Shareholder fees	2 0	2 1
Product research and development	5 8	5 1
Advertising expenditure	20 0	29 0
Staff costs and directors' emoluments		
Gross wages and salaries, holiday pay and sick pay	239 8	245 0
Social security costs	33 2	32 6
Pension and other costs	8 5	10 9
	281 5	288 5
Directors' emoluments[1]	2 6	3 0
Emoluments in respect of the highest paid director	1 0	1 5

(1) The number of directors to whom retirement benefits are accruing in respect of defined benefit schemes was 1 in 2010 (1 in 2009) and 1 director is a member of the defined contribution scheme

(2) Restatement of property rental costs

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

	2010 No	2009 No
Manufacturing and production	6,733	6,905
Logistics and site service	955	827
Finance and administration	635	635
	8,323	8,367

4 Operating profit (continued)

The Group paid the following amounts to its auditors in respect of their audit of the Group's financial statements and for other services provided to the Group

	2010 £'000	2009 £'000
Audit of the financial statements	359	364
Other fees to auditors		
• Audit of pension scheme	59	48
• Local statutory audits for subsidiaries	417	423
• Other services	15	15
	850	850

5 Interest receivable and other financial income

	2010 £m	2009 £m
Interest income on bank deposits	1 2	0 6
Gain on translation of loan	0 4	2 6
Other interest	1 2	3 6
	2 8	6 8

6 Interest payable and other financial charges

	2010 £m	2009 £m
Bank credit facility	61 9	75 7
Interest payable to parent company	31 5	29 1
Interest rate swaps	5 1	28 2
	98 5	133 0

7 Taxes

Tax on profit on ordinary activities.

Tax is charged in the income statement as follows

	2010 £m	2009 £m
Current income tax		
UK corporation tax	-	-
Foreign tax	0 8	1 4
Current income tax charge	0 8	1 4
Adjustment relating to prior years	-	0 3
Total current income tax	0 8	1 7
Deferred tax		
Relating to origination and reversal of temporary differences	31 1	16 0
Pension schemes – IFRIC 14 reversal	-	12 0
Adjustments relating to prior years	(2 9)	(0 7)
Total deferred tax	28 2	27 3
Tax charge in the income statement	29 0	29 0

Tax relating to items charged or credited to equity is as follows

	2010 £m	2009 £m
Deferred tax		
Actuarial gains and losses on pension schemes	(3 9)	(70 8)
Pension schemes – IFRIC 14 reversal	-	4 4
Translation differences on foreign currency net investments	(0 6)	(1 7)
Revaluation of cash flow hedges	-	0 4
Changes in the tax rate	1 2	-
Tax credit in the statement of comprehensive income	(3 3)	(67 7)

Reconciliation of the total tax charge

The tax charge in the income statement for 2010 is higher than the average rate of corporation tax in the U K for 2010 of 28% The differences are reconciled below

	2010 £m	2009 £m
Profit from operations before taxation	90 5	35 4
Tax charge on ordinary activities at the statutory rate	25 3	9 9
Expenses not deductible for tax purposes	7 2	4 9
Prior year adjustments	(2 9)	(0 4)
Pension schemes – IFRIC 14 reversal	-	12 0
Effect of overseas tax rates	(1 0)	(0 2)
Loss carried forward	4 1	2 8
Tax losses utilised	(5 8)	-
Changes in the tax rate	2 1	-
Tax charge in the income statement	29 0	29 0

7 Taxes (continued)

In the 2010 Budget Statement, it was announced that the main rate of UK corporation tax would reduce from 28% to 27% on 1 April 2011 The legislation was enacted in July 2010 The reduction in the tax rate results in a tax charge of £2 1m The 2011 Budget Statement announced that the main rate of corporation tax applicable from 1 April 2011 would be reduced further to 26%

Unrecognised tax losses

A deferred tax asset has not been recognised on tax losses of approximately £135 million (2009 £170 million) at 1 January 2011 It is not anticipated that any of these losses will be able to be offset against profits arising in the foreseeable future

Approximately £105 million (2009 £139 million) of the losses are capital and non-trading losses arising in the United Kingdom The losses have no expiry dates, but can only be utilised against future U K capital gains and non-trading profits, respectively The balance of the losses arose in France and India Approximately £1 million (2009 £1 million) will expire at various dates from 2010 to 2015, and the remaining £29 million (2009 £30 million) have no expiry date

Temporary differences associated with group investments

At 1 January 2011, there was no recognised deferred tax liability (2009 nil) for taxes that would be payable on the un-remitted earnings of the Group's subsidiaries or joint ventures, as the Group has determined that these undistributed profits will not be distributed in the near future As a result of changes to tax legislation in the year, overseas dividends received on or after 1 July 2009 are expected to be exempt from UK corporation tax, but may be subject to withholding tax There are no temporary differences associated with investments in subsidiaries, associates and joint ventures, for which a deferred tax liability has not been recognised but for which a tax liability may arise

Deferred tax	**2010 £m**	**2009 £m**
Deferred tax assets		
Decelerated capital allowances	55 7	63 3
Pensions and post-employment medical benefits	34 1	53 1
Other short-term temporary differences	4 1	5 3
Losses carried forward	164 0	168 4
Deferred tax asset	257 9	290 1
Deferred tax liability		
Accelerated capital allowances	7 9	8 9
Intangible assets	168 3	174 7
Other short-term temporary differences	6 6	6 6
Deferred tax liability	182 8	190 2
Net deferred tax asset	75 1	99 9
Reflected in the balance sheet as follows		
Deferred tax asset	92 0	119 6
Deferred tax liability	(16 9)	(19 7)
	75 1	99 9
Deferred tax in the income statement		
Accelerated capital allowances	4 2	(2 7)
Pensions and post-employment medical benefits	22 2	32 1
Other short term temporary differences	1 4	(1 1)
Non-trading losses	(1 7)	(1 0)
Changes in the tax rate	2 1	-
	28 2	27 3

8 Intangible assets

	Goodwill £m	Purchased Brands £m	Computer Software £m	Total £m
Cost				
At 4 January 2009	541 8	650 4	9 4	1,201 6
Additions	-	-	4 9	4 9
Disposals	-	-	(3 6)	(3 6)
Exchange	(6 4)	(4 6)	(0 2)	(11 2)
At 2 January 2010	535 4	645 8	10 5	1,191 7
Additions	-	-	3 0	3 0
Disposals	-	-	-	-
Exchange	(2 5)	(1 8)	-	(4 3)
At 1 January 2011	532 9	644 0	13 5	1,190 4
Amortisation				
At 4 January 2009	-	-	7 5	7 5
Charge for the period	-	-	2 7	2 7
Disposals	-	-	(3 6)	(3 6)
Exchange	-	-	(0 1)	(0 1)
At 2 January 2010	-	-	6 5	6 5
Charge for the period	-	-	2 6	2 6
Disposals	-	-	-	-
Exchange	-	-	-	-
At 1 January 2011	-	-	9 1	9 1
Carrying amount				
At 1 January 2011	532 9	644 0	4 4	1,181 3
At 2 January 2010	535 4	645 8	4 0	1,185 2
At 4 January 2009	541 8	650 4	1 9	1,194 1

The Group manufactures and markets a wide range of products in Western Europe under well-recognised brands including *McVitie's, Penguin, go ahead!, McVitie's Jaffa Cakes, Jacob's, Jacob's Cream Crackers, Carr's, Twiglets, BN, Delacre, Verkade, Sultana, Hula Hoops, Skips, Mini Cheddars, McCoy's and KP nuts*

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

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

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

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

8 Intangible assets (continued)

Impairment of goodwill and intangible assets with indefinite lives

Goodwill and brands acquired through business combinations have been allocated for impairment purposes to the following three business units

- U K
- International Sales
- Northern Europe

These operating segments represent the lowest level within the Group at which goodwill and other intangible assets are monitored for internal management purposes

UK

The recoverable amount of the Group's U K business unit has been determined based on a value in use calculation using cash flow projections based on financial budgets and forecasts approved by management covering a five-year period The pre-tax discount rate applied to the cash flow projections was 8 4% (2009 9 2%) Short-term EBITDA growth rates applied ranged from 2 5% to 9 5% A long-term EBITDA growth rate assumption of 1 0% (2009 1 0%) was applied in perpetuity

International Sales

The recoverable amount of the Group's International Sales business unit has been determined based on a value in use calculation using cash flow projections based on financial budgets and forecasts approved by management covering a five-year period The pre-tax discount rate applied to the cash flow projections was 8 4% (2009 9 2%) Short-term EBITDA growth rates applied ranged from 2 5% to 11 4% A long-term EBITDA growth rate assumption of 1 0% (2009 1 0%) was applied in perpetuity

Northern Europe

The recoverable amount of the Group's Northern Europe business unit has been determined based on a value in use calculation using cash flow projections based on financial budgets and forecasts approved by management covering a five-year period The pre-tax discount rate applied to the cash flow projections was 8 6% (2009 9 4%) Short-term EBITDA growth rates applied ranged from 2 5% to 16 4% A long-term EBITDA growth rate assumption of 1 0% (2009 1 0%) was applied in perpetuity

The carrying amounts of goodwill and brands allocated to the Group's cash-generating units were as follows

	2010 £m	2009 £m
Goodwill		
UK	419 8	419 8
Northern Europe	74 5	77 0
International Sales	38 6	38 6
Total	532 9	535 4
Brands		
UK	583 7	583 7
Northern Europe	53 4	55 2
International Sales	6 9	6 9
Total	644 0	645 8

8 Intangible assets (continued)

Key assumptions applied to value in use calculations

Assumptions regarding future cash flows are based upon actual results in prior periods, adjusted to reflect management's view of expected developments based upon market conditions The cash flows used are pre-tax cash flows and include all income and costs as well as an estimate of maintenance capital expenditure required to support these cash flows

The calculation of value in use for the U K , Northern Europe and International Sales business units is most sensitive to the following assumptions

- *Discount rates* – these reflect management's assessment of the time value of money and the risks specific to the unit's assets, based on an appropriate Weighted Average Cost of Capital (WACC) anticipated for a market participant investing in the Group and determined using the Capital Asset Pricing Model, reflecting management's estimate of the specific risk profile associated with the cash flow projections
- *EBITDA growth rates* – estimates are based on conservative industry expectations of growth in the market where each cash-generating unit is located The business units operate predominantly in stable, large and profitable market sectors where the Group's brands have proven longevity Short term forecasts are adjusted to reflect the Group's relative weight in faster, or slower, growing market categories

Sensitivity to changes in assumptions

Management believes that no reasonably possible change in any of the above key assumptions would cause the recoverable amount to be less than the carrying value for its UK and International Sales cash-generating units

However, management believes that given the level of judgement inherent in these assumptions, especially in light of the current economic climate, a reasonably possible change could cause the carrying value of its Northern Europe cash-generating unit to equal its recoverable amount The change in assumption required would be either a decrease in the EBITDA growth rate of 2 8 percentage points in each of the 5 years forecast (4 2% in 2009) or an increase in the annual discount rate of 1 2 percentage points (2 1% in 2009)

9 Property, plant and equipment

	Freehold £m	Leasehold Improvement £m	Plant, Machinery & Vehicles £m	Fixtures & Fittings £m	Assets Under Construction £m	Total £m
Cost						
At 4 January 2009	91 9	7 7	312 1	23 7	17 9	453 3
Exchange adjustments	(3 3)	-	(16 4)	(0 7)	(0 6)	(21 0)
Additions	5 8	0 3	16 0	1 5	13 4	37 0
Reclassifications	2 5	-	9 2	(7 1)	(8 0)	(3 4)
Disposals	(0 4)	-	(5 5)	(8 8)	-	(14 7)
At 2 January 2010	96 5	8 0	315 4	8 6	22 7	451 2
Exchange adjustments	(0 6)	-	(3 3)	-	-	(3 9)
Additions	2 7	0 2	18 2	0 7	23 9	45 7
Reclassifications	4 0	0 3	10 8	(3 2)	(13 2)	(1 3)
Disposals	(0 9)	-	(1 0)	-	(0 1)	(2 0)
At 1 January 2011	101 7	8 5	340 1	6 1	33 3	489 7
Depreciation						
At 4 January 2009	13 3	1 5	82 1	5 9	-	102 8
Exchange adjustments	(1 9)	-	(8 6)	(0 4)	-	(10 9)
Charge for the period	3 9	0 6	38 8	2 5	-	45 8
Reclassifications	0 3	0 2	(1 7)	1 2	-	-
Disposals	(0 4)	-	(5 5)	(8 8)	-	(14 7)
At 2 January 2010	15 2	2 3	105 1	0 4	-	123 0
Exchange adjustments	(0 1)	-	(0 8)	-	-	(0 9)
Charge for the period	3 5	0 8	38 6	1 6	-	44 5
Reclassifications	0 8	-	(1 2)	0 3	-	(0 1)
Disposals	-	-	(0 5)	-	-	(0 5)
At 1 January 2011	19 4	3 1	141 2	2 3	-	166 0
Net book value						
At 1 January 2011	82 3	5 4	198 9	3 8	33 3	323 7
At 2 January 2010	81 3	5 7	210 3	8 2	22 7	328 2
At 4 January 2009	78 6	6 2	230 0	17 8	17 9	350 5

The net book value of leasehold ımprovements of £5 4 mıllıon (2009 £5 7 mıllıon) ıs ın respect of propertıes held under operatıng leases wıth remaınıng lease terms of under 50 years (2009 50 years) as at 1 January 2011

The net book value of assets acquıred under finance lease arrangements, all of whıch are eıther plant, machınery or vehıcles, ıs £0 1 mıllıon (2009 £0 2 mıllıon)

10 Investments

	2010 £m	2009 £m
Investment in joint venture	0 4	0 6

(a) Investment in joint venture

The Group holds a 50% interest in the ordinary shares of KP Ireland Limited, which is incorporated and operates in the Republic of Ireland The principal activity of KP Ireland Limited is the manufacture of snack products

The Group's share of KP Ireland Limited's assets and liabilities and its share of income and expenses were as follows

	2010 £m	2009 £m
Share of the joint venture's balance sheet		
Non-current assets	0 2	0 2
Current assets	0 5	0 7
Share of total assets	0 7	0 9
Current liabilities	0 3	0 3
Non-current liabilities	-	-
Share of total liabilities	0 3	0 3
Share of net assets	0 4	0 6
Share of results of joint venture		
Revenue	2 3	2 3
Operating costs	(1 7)	(1 5)
Net profit before taxes	0 6	0 8
Taxes	(0 1)	(0 1)
Net profit after taxes	0 5	0 7

10 Investments (continued)

(b) Details of Group undertakings

At 1 January 2011, all the principal subsidiaries of United Biscuits Topco Limited listed below were wholly owned The Group also held investments in other subsidiaries which were either not trading or not significant Details of all subsidiaries will be annexed to the Company's next annual return

Principal subsidiary	Country of incorporation and operation	Activity
United Biscuits Bondco Limited [1]	UK	Holding Company
United Biscuits VLNco Limited	UK	Holding Company
United Biscuits Holdco Limited	UK	Holding Company
United Biscuits Holdco 2 Limited	UK	Holding Company
United Biscuits Bidco Limited	UK	Holding Company
United Biscuits Dutchco BV	Netherlands	Holding Company
Regentrealm Limited	UK	Holding Company
Finalrealm Limited	UK	Holding Company
United Biscuits (Holdings) Limited	UK	Holding Company
UB Overseas Limited	UK	Holding Company
McVitie & Price Limited	UK	Holding Company
United Biscuits (UK) Limited	UK	Food manufacturer
UB Humber Limited	UK	Finance Company
UB Foods US Limited	UK	Finance Company
Koninklijke Verkade NV	Netherlands	Biscuit manufacturer
United Biscuits France SAS	France	Biscuit manufacturer
United Biscuits Industries SAS	France	Biscuit manufacturer
N V Biscuits Delacre S A	Belgium	Biscuit manufacturer
United Biscuits Cyprus Limited [2]	Cyprus	Holding Company
United Biscuits Private Limited [3]	India	Biscuit manufacturer

[1] United Biscuits Bondco Limited is directly owned by the Company

[2] Incorporated on 19 May 2009

[3] Incorporated on 18 March 2009

11 Inventories

	2010 £m	2009 £m
Raw materials and consumables	17 0	16 8
Work in progress	3 2	3 0
Finished goods	36 6	35 8
	56 8	55 6

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

Raw materials and consumables at 1 January 2011 included £1 7 million (2009 £1 7 million) in respect of consignment stock

Inventories recognised as an expense during 2010 amounted to £644 2 million (2009 £632 0 million - restated)

The amount of inventories written down and recognised as an expense during 2010 was £0 1 million (2009 £0 1 million)

12 Trade and other receivables

	2010 £m	2009 £m
Trade receivables	222 4	220 3
Trade receivables impaired	(1 2)	(0 8)
Net trade receivables	221 2	219 5
Other receivables	7 7	6 8
Prepayments and accrued income	12 4	13 3
	241 3	239 6

Trade receivables are stated net of provisions for bad and doubtful debts of £1 2 million (2009 £0 8 million)

Trade and other receivables are all expected to be settled within one year Trade receivables are non-interest bearing and represent an average of 68 days sales (2009 61 days)

Details of the Group's credit risk are set out in Note 16 (c)

13 Cash and cash equivalents

	2010 £m	2009 £m
Cash at bank and in hand	47 7	60 2
Short term deposits	120 2	63 0
	167 9	123 2

Cash at bank earns interest at floating rates based on daily bank deposit rates Short-term deposits are made for varying periods of between two days and two weeks depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates The fair value of cash and cash equivalents at 1 January 2011 was £167 9 million (2009 £123 2 million)

14 Trade and other payables

	2010 £m	2009 £m
Trade payables	244 1	226 5
Other payables	3 6	2 4
Other taxes and social security costs	11 0	11 4
Accruals and deferred income	59 4	76 7
	318 1	317 0

Trade and other payables are non-interest bearing and are settled in accordance with contractual payment terms

15 Borrowings

	2010 £m	2009 £m
Non-current		
Senior facilities	1,312 0	1,335 9
Other loans	0 1	0 1
Finance lease obligations	0 1	0 2
	1,312 2	1,336 2

Senior Facilities

Details of the Senior facilities amounts outstanding as at 1 January 2011 and 2 January 2010 are set out below

Senior Debt	Amortised Debt £m	Principal [1] £m	Margin %	Type	Maturity
2010					
Term Loan B[2]	752 6	762 0	LIBOR +2 5	Bullet	15 December 2014
Term Loan B(€)	145 7	147 5	EURIBOR +2 5	Bullet	15 December 2014
Second lien	158 0	160 0	LIBOR +4 0	Bullet	15 June 2016
Mezzanine	199 4	201 9	LIBOR +3 75 Cash and +4 0 PIK	Bullet	15 December 2016
Capex facility	56 3	57 0	LIBOR +2 0	4 equal instalments from 15 06 12[3]	15 December 2013
Total Term Loans	1,312 0	1,328 4			
Senior Debt					
2009					
Term Loan B	836 7	849 0	LIBOR +2 5	Bullet	15 December 2014
Term Loan B(€)	150 2	152 5	EURIBOR +2 5	Bullet	15 December 2014
Second lien	157 7	160 0	LIBOR +4 0	Bullet	15 June 2016
Mezzanine	191 3	194 1	LIBOR +3 75 Cash and +4 0 PIK	Bullet	15 December 2016
Total Term Loans	1,335 9	1,355 6			

(1) Includes rolled-up interest where applicable

(2) As at 1 January 2011, the Group had voluntarily repaid £87 0 million of the Term Loan B

(3) The first three instalments to 15 December 2011 have been prepaid in full

15 Borrowings (continued)

Available committed facilities

	2010 £m	2009 £m
Expiring in one year or less	-	100 0
Expiring in more than one year	49 5	49 5
	49 5	149 5

Acquisition and capex facility of £100.0 million

The facility can be used for financing capital expenditure, acquisitions which are permitted under the Senior facilities agreements, including refinancing any indebtedness acquired therewith, joint ventures which are permitted under the Senior facilities agreements and restructuring costs On 15 June 2010 the Group drew down the full amount of the facility Once drawn, the £100 0 million became repayable in seven equal instalments, at 6 monthly intervals, commencing on 15 December 2010 and ending on 15 December 2013 As at 1 January 2011 £57 0 million of the facility was outstanding as the first three instalments totalling £42 9 million and £0 1 million of the fourth instalment (due 15 June 2012) have been prepaid

Revolving facility of £50.0 million

This facility can be used to finance working capital requirements, for general corporate purposes of the Group, to refinance working capital indebtedness of the Group and to pay fees, costs and expenses associated with the aforementioned The facility allows for revolving advances, the provision of ancillary facilities to cover the day to day banking requirements of subsidiary companies, and the issuance of letters of credit and bank guarantees up to an aggregate amount of £50 0 million outstanding at any time Each advance made under the revolving facility must be repaid on the last day of the interest period relating to it, although amounts are available to be re-borrowed, subject to the maximum limit available under the facility The facility is available until 15 December 2013

At 1 January 2011 an amount of £8 4 million (2009 £9 4 million) had been drawn down as ancillary facilities under the revolving facility A total of £8 4 million (2009 £8 4 million) was to cover day to day requirements of the UK business, £7 9 million (2009 £7 9 million) of this being for the provision of two overdraft facilities and £0 5 million (2009 £0 5 million) in the form of a bank guarantee There were no drawings under any of the overdraft facilities at 1 January 2011 (2009 £nil)

The Senior facilities are secured by fixed and floating charges over all the UK assets of United Biscuits Holdco Limited and its principal UK subsidiaries The principal subsidiaries of United Biscuits Holdco Limited are all those disclosed in Note 10(b) but excluding United Biscuits Bondco Limited, United Biscuits VLNco Limited and United Biscuits Holdco Limited In addition, the other principal subsidiaries have guaranteed the debt

The Senior facilities agreements require the Group to comply with certain financial and non-financial covenants The financial covenants include limitations on capital expenditure and require the maintenance of certain minimum ratios of earnings before interest, taxes, depreciation and amortisation to interest payable, leverage and cash flows to total funding costs

15 Borrowings (continued)

Other loans

At 1 January 2011, £0 1 million (2009 £0 1 million) was outstanding in relation to an interest free loan taken out by a subsidiary of the Company in 2000 in an amount of €0 3 million The loan is repayable in instalments over a 10-year period Repayments commenced in 2004

Capital management

The Group's objectives when managing capital are to maximise shareholder value while safeguarding the Group's ability to continue as a going concern The Group intends to continue proactively managing its capital structure whilst maintaining flexibility to take advantage of opportunities, which arise, to grow its business

In common with many other private equity portfolio companies, the Group carries a high level of net debt compared to equity Total capital is calculated as total equity, as shown in the consolidated balance sheet, plus net debt Net debt is calculated as total borrowings, as shown in the consolidated balance sheet, less cash and cash equivalents

As explained above, the Senior facilities included within net debt require the Group to comply with certain financial and non-financial covenants Throughout 2009 and 2010 the Group operated within all of its financial covenants

Financial risk management

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

16 Financial instruments

Fair values

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the financial statements by currency

2010	Carrying Value £m	Fair Value £m	USD £m	EURO £m	Other £m	GBP £m
Financial assets						
Cash and short term deposit	167 9	167 9	2 2	60 4	0 2	105 1
Trade receivables	221 2	221 2	7 7	13 9	3 3	196 3
	389 1	389 1	9 9	74 3	3 5	301 4
Derivative assets						
Cash flow hedges[1]						
Forward currency contracts	1 5	1 5	0 2	1 3	-	-
Interest rate swaps	1 0	1 0	-			1 0
Fair value hedges						
Forward currency contracts	0 6	0 6	0 1	0 5	-	-
	3 1	3 1	0 3	1 8	-	1 0
Of which						
Current assets	2 7	2 7				
Non current assets	0 4	0 4				
	3 1	3 1				
Financial liabilities						
Trade payables	244 1	244 1	9 9	50 2	0 2	183 8
Amounts due to parent	421 2	421 2	-	-	-	421 2
Loans and borrowings	1,312 0	1,328 4	-	147 5	-	1,164 5
Finance lease obligations	0 1	0 1	-	-	-	0 1
Other loans	0 1	0 1	-	0 1	-	-
	1,977 5	1,993 9	9 9	197 8	0 2	1,769 6
Derivative liabilities						
Cash flow hedges[1]						
Forward currency contracts	1 8	1 8	0 7	1 0	0 1	-
Interest rate swaps	3 6	3 6	-	0 1	-	3 5
Commodity contracts	-	-	-	-	-	-
Fair value hedges						
Forward currency contracts	0 3	0 3	0 1	0 2	-	-
	5 7	5 7	0 8	1 3	0 1	3 5
Of which						
Current liabilities	5 7	5 7				
Non current liabilities	-	-				
	5 7	5 7				

(1) All cash flow hedges are designated as hedge accounting relationships

16 Financial instruments (continued)

2009	Carrying Value £m	Fair Value £m	USD £m	Euro £m	Other £m	GBP £m
Financial assets						
Cash and short term deposit	123 2	123 2	3 5	51 2	0 9	67 6
Trade receivables	219 5	219 5	6 3	32 4	2 9	177 9
	342 7	342 7	9 8	83 6	3 8	245 5
Derivative assets						
Cash flow hedges[1]						
Forward currency contracts	1 2	1 2	0 2	0 9	0 1	-
Fair value hedges						
Forward currency contracts	-	-	-	-	-	-
	1 2	1 2	0 2	0 9	0 1	-
Of which						
Current assets	1 2	1 2				
Non current assets	-	-				
	1 2	1 2				
Financial liabilities						
Trade payables	226 5	226 5	6 1	55 9	0 7	163 8
Amounts due to parent	389 8	389 8	-	-	-	389 8
Loans and borrowings	1,335 9	1,355 6	-	150 2	-	1,185 7
Finance lease obligations	0 2	0 2	-	0 2	-	-
Other loans	0 1	0 1	-	0 1	-	-
	1,952 5	1,972 2	6 1	206 4	0 7	1,739 3
Derivative liabilities						
Cash flow hedges[1]						
Forward currency contracts	2 2	2 2	0 7	1 0	0 5	-
Interest rate swaps	18 7	18 7	-	1 6	-	17 1
Commodity contracts	-	-	-	-	-	-
Fair value hedges						
Forward currency contracts	0 4	0 4	0 1	0 3	-	-
	21 3	21 3	0 8	2 9	0 5	17 1
Of which						
Current liabilities	20 9	20 9				
Non current liabilities	0 4	0 4				
	21 3	21 3				

(1) All cash flow hedges are designated as hedge accounting relationships

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings Derivatives valued using valuation techniques with market observable inputs are mainly interest rate swaps, foreign exchange forward contracts and commodity forward contracts The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations The models incorporate various inputs including foreign exchange spot and forward rates, interest rate curves and forward rate curves of the underlying commodity The credit quality of the counterparties are also considered and adjusted for when deemed necessary The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognised as fair value

There are no material differences between fair value and book value on any other financial instruments

Fair value hierarchy

In accordance with IFRS 7 *Financial instruments Disclosures*, financial instruments which are carried at fair value in the balance sheet are analysed as level 1, 2, or 3 The Group classified all derivatives as level 2 financial instruments, as their fair value is determined based on techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

16 Financial instruments (continued)

a) Foreign exchange risk

Foreign currency risk arises from future commercial and financing transactions, recognising assets and liabilities denominated in a currency that is not the functional currency of the Group entity undertaking the transaction as well as from net investments in overseas entities The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US dollar, the Euro and the Canadian dollar

The Group's foreign exchange risk management policy is to hedge a proportion of its net currency exposure Group Treasury is responsible for managing foreign exchange risk arising from future commercial and financing transactions and recognised assets and liabilities usually by forward contracts

The Group has a number of overseas subsidiaries whose net assets are subject to currency translation risk The Group borrows in local currencies where appropriate to minimise the impact of this risk on the balance sheet

Group policy requires Group companies to manage their foreign exchange risk against their functional currency Group companies are required to hedge their foreign exchange exposure with Group Treasury Group Treasury reviews these exposure reports on a regular basis To manage foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, entities in the Group use forward contracts, transacted by Group Treasury

Cash flow hedges

At 1 January 2011, the Group held a number of forward foreign exchange contracts designated as hedges of highly probable forecast transactions Forward foreign exchange contracts were accounted for as cash flow hedges The forward contracts are typically taken out with twelve-month maturity dates at regular intervals throughout the year Gains and losses recognised in the hedging reserve as equity will be released to the income statement at various dates within one year of the balance sheet date

	2010 £m	Range of Rates USD	Range of Rates EUR	Range of Rates CAD
Foreign exchange contracts				
Buy against sterling	91 6	1 46 – 1 63	1 11 – 1 22	-
Sell against sterling	4 3	1 51 – 1 56	-	1 53 – 1 66
Total	95 9			
	2009			
Foreign exchange contracts				
Buy against sterling	95 8	1 40 - 1 69	1 07 - 1 17	
Sell against sterling	8 5	1 43 - 1 68	-	
Total	104 3			

16 Financial instruments (continued)

Fair value hedges

At 1 January 2011 and 2 January 2010, the Group held a number of forward foreign exchange contracts designated as hedges of foreign currency debtors and creditors These forward contracts were accounted for as fair value hedges All such contracts mature within one year

	2010 £m	Range of Rates USD	Range of Rates EUR	Range of Rates CAD
Foreign exchange contracts				
Buy against sterling	48 1	1 50 – 1 60	1 12 – 1 19	-
Sell against sterling	6 8	1 54 – 1 61	1 18	-
Total	54 9			
	2009			
Foreign exchange contracts				
Buy against sterling	16 7	1 62 - 1 64	1 09 - 1 15	-
Sell against sterling	4 6	1 60 - 1 68	1 09 - 1 12	1 67 - 1 75
Total	21 3			

Hedges of net investment in foreign entities

Included in borrowings at 1 January 2011 were loans of €172 million (2009 €172 million), which were designated as hedges of net investments in overseas subsidiaries, used to reduce exposure to foreign exchange risk Gains or losses on re-translation of these borrowings are transferred to equity to offset any gains or losses on translation of the net investments in the overseas subsidiaries with the exception of any hedge ineffectiveness which is taken to the income statement and disclosed in Note 5

16 Financial instruments (continued)

Sensitivity analysis

The table below presents a sensitivity analysis of the changes in carrying values of the Group's monetary assets and liability to reasonably possible changes in market rates

	Impact on the income statement arising from		Impact on reserves arising from	
2010	**10% weakening against US Dollar £m**	**10% weakening against Euro £m**	**10% weakening against US Dollar £m**	**10% weakening against Euro £m**
Cash and short term deposits	0 2	6 0	-	-
Trade receivables	0 8	1 4	-	-
Trade payables	(1 0)	(5 0)	-	-
Loans and borrowings	-	1 2	-	13 5
Currency exchange contracts (assets)	0 6	4 8	1 3	8 9
Currency exchange contracts (liabilities)	(0 5)	(0 1)	(0 1)	-
Total	0 1	8 3	1 2	22 4
2009 (1)				
Cash and short term deposits	0 3	5 1	-	-
Trade receivables	0 6	3 2	-	-
Trade payables	(0 6)	(5 6)	-	-
Loans and borrowings	-	3 4	-	11 9
Currency exchange contracts (assets)	0 1	1 7	1 5	8 0
Currency exchange contracts (liabilities)	(0 3)	(0 1)	(0 4)	-
Total	0 1	7 7	1 1	19 9

Derivative contracts are used for hedging trade balances and future currency flows and therefore there is no impact due to currency movement

(1) Comparative disclosures have been restated

16 Financial Instruments (continued)

(b) Interest rate risk

The Group's interest rate risk arises through interest cash flow risk from borrowing at variable rates Interest rate swaps have been used to convert a proportion of borrowings from floating rate debt to fixed rate debt

The Group entered into certain interest rate swaps during January 2010, which expire on 24 January 2011 The table below shows the effect of these on total fixed rate borrowings

2010	Fixed rate borrowings £m	Effect of interest rate swaps £m	Effective fixed rate borrowings £m	Swap rate %
Sterling – parent company	421 2	-	421 2	-
Sterling – third parties	-	580 0	580 0	1 365
Euro	-	73 7	73 7	1 373
	421 2	653 7	1,074 9	
2009				
Sterling – parent company	389 8	-	389 8	-
Sterling – third parties	-	700 0	700 0	5 767
Euro	-	106 4	106 4	4 113
	389 8	806 4	1,196 2	

The following table presents a sensitivity analysis of the changes in fair values of the Group's interest rate swaps and changes to the interest expense on un-hedged borrowings from a 1% movement in interest rates The effect of a 1% movement in interest rate on cash or cash equivalent would not be material

	Increase in interest rates		Decrease in interest rates	
	2010	2009	2010	2009
	£m	£m	£m	£m
Interest rate swaps (assets)[1]	-	-	-	-
Interest rate swaps (liabilities)[1]	6 5	8 1	(6 5)	(8 1)
Un-hedged borrowings[2]	(6 7)	(5 5)	6 7	5 5

[1] Impact on reserves
[2] Impact on the income statement

The Group has entered into new interest rate swaps which become effective on 24 January 2011, expiring 24 January 2013

During 2010, an unrealised gains on revaluing the swap of £4 0 million (2009 £21 4 million loss) was recognised directly in equity in respect of interest rate swaps

16 Financial instruments (continued)

(c) Credit risk

Credit risk may arise because of non-performance by a counterparty The Group is exposed to credit risk on its financial instruments including derivative assets and trade receivables The Group's policy is for trade receivables to be subject to credit limits, close monitoring and approval procedures The Group's policy to manage credit risk on derivative assets is to limit all derivative counterparties and cash transactions to high credit quality financial institutions The Group is not exposed to concentration of credit risk on its derivative assets as these are spread over several financial institutions

Due to its geographical base and the number and quality of customers, the Group is not exposed to material concentrations of credit risk on its trade receivables In addition, the Group carries credit insurance to mitigate its exposure to loss

Exposure to Credit risk

The carrying amount of financial assets represents the maximum credit exposure, therefore, the maximum credit exposure at the reporting date was

	2010 £m	2009 £m
Trade receivables	221 2	219 5
Total	221 2	219 5

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was

	2010 £m	2009 £m
UK	162 8	173 3
Europe	43 1	34 2
Rest of the World	15 3	12 0
Total	221 2	219 5

The ageing analysis of trade receivables at the reporting date was

	2010 £m	2009 £m
Not past due or impaired	192 3	174 7
Past due 0 – 30 days but not impaired	25 3	31 2
Past due more than 30 days but not impaired	3 6	13 6
Individually impaired	1 2	0 8
Total	222 4	220 3

16 Financial instruments (continued)

The movement in the allowance for impairment in respect of trade receivables during the year was as follows

	2010 £m	2009 £m
Balance at start of period	0 8	1 1
Charge for the period	1 1	0 3
Unused amounts reversed	(0 7)	(0 5)
Currency translation	-	(0 1)
Balance at end of period	1 2	0 8

Based on the historic trend and expected performance of the customers, the Group believes that the above allowance for doubtful receivables sufficiently covers the risk of default

The impairment loss recognised of £1 1 million (2009 £0 3 million) reflects an increase in the doubtful trade receivables in the period The Group has no collateral in this respect

(d) Liquidity risk

Liquidity risk arises when a company encounters difficulties to meet commitments associated with liabilities and other payment obligations Such risk may result from inadequate market depth or disruption or refinancing problems

The Group's objective is to manage liquidity risk through the availability of committed credit facilities and compliance with related financial covenants and by maintaining sufficient cash to meet obligations as they fall due

United Biscuits Topco Limited

16 Financial instruments (continued)

Contractual maturities

Details of the contractual maturities and associated undiscounted value at maturity of external borrowings are set out below

	Senior Facilities £m	Other Loans £m	Finance Leases £m	Trade Payables £m	Total £m
2010					
Within one year or on demand	54 5	-	-	244 1	298 6
Between one and two years	80 7	0 1	0 1	-	80 9
Between two and three years	86 5	-	-	-	86 5
Between three and four years	934 1	-	-	-	934 1
Between four and five years	65 5	-	-	-	65 5
After five years	449 6	-	-	-	449 6
	1,670 9	0 1	0 1	244 1	1,915 2
2009					
Within one year or on demand	72 9	-	-	226 5	299 4
Between one and two years	54 4	0 1	0 2	-	54 7
Between two and three years	61 4	-	-	-	61 4
Between three and four years	69 3	-	-	-	69 3
Between four and five years	1,099 7	-	-	-	1,099 7
After five years	477 7	-	-	-	477 7
	1,835 4	0 1	0 2	226 5	2,062 2

Details of the contractual maturities and associated value at maturity of the parent company loan are set out below

	Parent company loan £m
2010 and 2009	
8 1% Notes due 2036 and 2038	3,414 8

16 Financial instruments (continued)

The following tables indicate the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur

	Interest rate swaps[1]		Forward exchange contracts[2]	
2010	**Assets £m**	**Liabilities £m**	**Assets £m**	**Liabilities £m**
Within one year or on demand	-	(5 5)	104 3	(104 6)
Between one and two years	0 2	-	-	-
More than two years	0 8	-	-	-
	1 0	(5 5)	104 3	(104 6)
2009				
Within one year or on demand	-	(18 5)	93 3	(93 5)
Between one and two years	-	(0 2)	-	-
More than two years	-	-	-	-
	-	(18 7)	93 3	(93 5)

[1] Net settled
[2] Gross settled

(e) Commodity risk

The Group's activities expose it to the risk of changes in commodity prices The Group's objective is to minimise the impact of volatility in commodity prices and seeks to cover its raw material requirements by taking out forward contracts to secure supplies at agreed prices

Forward cover is taken in physical markets for periods of at least three months and typically would not exceed 12 months, although, in certain circumstances, this may be extended

In the most volatile of the Group's commodity markets, fluctuating prices are hedged through the use of futures Unrealised gains or losses at the year-end may not crystallise as they depend upon market movements between the year-end and the maturity dates of outstanding contracts Providing a successful hedge relationship can be demonstrated, gains or losses that do materialise are charged to the Group's operating results when the raw ingredients which these contracts hedge are used

From time to time the Group also uses financial derivatives to protect future raw material prices by taking out options

Cash flow hedges

The Group's cash flow hedges relate to commodity contracts, forward foreign exchange contracts and interest rate swaps An aggregate gain of £0 3 million (2009 £17 9 million gain) was recognised directly in equity during the period 3 January 2010 to 1 January 2011 and a loss of £3 3 million (2009 £9 6 million gain) was recognised in the income statement in relation to cash flow hedges

17 Provisions

	Product Recall £m	Early Retirement Provision £m	Rationalisation Provisions £m	Onerous Contracts £m	Total £m
At 4 January 2009	0 5	8 0	2 2	5 9	16 6
Income statement charge	(0 2)	0 1	10 9	3 6	14 4
Amounts utilised	(0 3)	(3 7)	(7 6)	(2 0)	(13 6)
Exchange adjustments	-	0 5	0 2	-	0 7
At 2 January 2010	-	4 9	5 7	7 5	18 1
Income statement charge	-	-	11 8	1 0	12 8
Amounts utilised	-	(1 2)	(12 1)	(1 4)	(14 7)
Exchange adjustments	-	-	-	-	-
At 1 January 2011	-	3 7	5 4	7 1	16 2
At 2 January 2010					
Current	-	0 6	5 3	1 0	6 9
Non current	-	4 3	0 4	6 5	11 2
	-	4 9	5 7	7 5	18 1
At 1 January 2011					
Current	-	-	3 7	1 3	5 0
Non current	-	3 7	1 7	5 8	11 2
	-	3 7	5 4	7 1	16 2

Provisions are recorded only where there is a legal or constructive obligation

The early retirement provision principally comprises long-term early retirement indemnities given to employees in the Group's Northern Europe business units to which the Group are committed for a number of years

Rationalisation provisions at 2 January 2010 and 1 January 2011 principally comprised obligations in relation to overhead reduction and manufacturing-efficiency programs across the Group and are expected to be utilised in the next year

The provision for onerous contracts principally relates to the cost of surplus leasehold properties, where unavoidable costs exceed anticipated income The associated lease commitments are of varying duration and it is anticipated that expenditure will continue to be charged against the provision for a number of years

The amount and timing of the utilisation of provisions is subject to considerable uncertainty and the above analysis represents management's estimate

18 Share capital and reserves

Share capital

Authorised

	Number of shares
Ordinary shares of £1 each	100

Ordinary shares issued and fully paid

	Number of Shares	£m
On 5 October 2006, 2 ordinary shares with aggregate nominal value of £2 were allotted for cash	2	-
On 15 December 2006, 8 ordinary shares with aggregate nominal value of £8 were issued for total cash of £1 7 million	8	1 7
On 20 June 2007, 10 ordinary shares with aggregate nominal value of £10 were issued for total consideration of £0 1 million on the conversion of United Biscuits LuxCo S C A loan notes	10	0 1
At 1 January 2011 and 2 January 2010	20	1 8

Currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries It is also used to record the effect of hedging net investments in foreign operations

Hedging reserve

The hedging reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is deemed to be an effective hedge

19 Pensions and other post-retirement benefits

The Group's main post-retirement arrangements in the United Kingdom are of the defined benefit type, for which contributions are paid into separately administered funds All defined benefit plans are closed to new members and membership of defined contribution plans is available for new employees The Group also provides additional post-retirement benefits to certain senior managers in the United Kingdom and post-retirement healthcare benefits in the Netherlands, both of which are unfunded

The Group's retirement benefit assets/(liabilities), comprised the following

	2010 £m	2009 £m
UK Funded		
UBUK	(105 1)	(125 2)
Jacob's Bakery	(9 2)	(13 8)
Other	0 5	0 4
Unfunded	(12 5)	(12 3)
	(126 3)	(150 9)
Netherlands		
Post-retirement healthcare scheme - unfunded	(2 7)	(2 4)
Net post retirement benefit liability	(129 0)	(153 3)
Balance sheet presentation.		
Post retirement benefit asset	0 5	0 4
Post retirement benefit liability	(129 5)	(153 7)
	(129 0)	(153 3)

The total amount relating to pensions recognised in business profit for the period from 3 January 2010 to 1 January 2011 was £10 8 million (2009 £7 4 million) and the total pension cost for the Group was £8 5 million (2009 £7 4 million) after taking account of exceptional operating income of £2 3 million (2009 £nil million) The total pension cost for the Group also included £1 1 million (2009 £1 0 million) related to defined contribution plans

19 Pensions and other post-retirement benefits (continued)

The Netherlands post-retirement benefit healthcare scheme is closed to current employees, therefore no annual service cost is charged in the income statement

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

	UK	Netherlands	Total
At 1 January 2011	**£m**	**£m**	**£m**
Equities	516 8	-	516 8
Bonds	532 8	-	532 8
Hedge funds, currency and infrastructure	211 8	-	211 8
Cash	53 9	-	53 9
Total market value of assets	1,315 3	-	1,315 3
Present value of scheme liabilities	(1,441 6)	(2 7)	(1,444 3)
Deficit in the scheme	(126 3)	(2 7)	(129 0)
Related deferred tax asset	34 1	-	34 1
Net pension deficit	(92 2)	(2 7)	(94 9)
At 2 January 2010			
Equities	460 9	-	460 9
Bonds	531 7	-	531 7
Hedge funds, currency and infrastructure	176 8	-	176 8
Cash	69 1	-	69 1
Total market value of assets	1,238 5	-	1,238 5
Present value of scheme liabilities	(1,389 4)	(2 4)	(1,391 8)
Deficit in the scheme	(150 9)	(2 4)	(153 3)
Related deferred tax asset	42 3	-	42 3
Net pension deficit	(108 6)	(2 4)	(111 0)

The pension schemes have not invested in any of the Group's own financial instruments nor in properties or other assets used by the group

United Biscuits Topco Limited

19 Pensions and other post-retirement benefits (continued)

The amounts recognised in the consolidated income statement and in the consolidated statement of comprehensive income in respect of defined benefit pensions and post retirement healthcare are analysed below

	UK £m	Netherlands £m	Total £m
2010			
Income statement			
Current service cost[1]	(9 7)	-	(9 7)
Business profit	(9 7)	-	(9 7)
Recognised as operating exceptional items			
Restructuring and non-recurring income	2 3 [2]	(0 3)	2 0
Expected return on scheme assets	90 8	-	90 8
Interest cost on scheme liabilities	(77 0)	-	(77 0)
Administrative expenses	(1 8)	-	(1 8)
Other finance income – pensions	12 0	-	12 0
Statement of comprehensive income			
Actual less expected return on scheme assets	13 2	-	13 2
Gain on scheme liabilities	24 9	-	24 9
Changes in assumptions underlying the present value of scheme liabilities	(54 1)	-	(54 1)
Reversal of surplus restriction	-	-	-
Actuarial gains and losses recognised in the statement of comprehensive income	(16 0)	-	(16 0)
2009			
Income statement			
Current service cost[1]	(6 4)	-	(6 4)
Business profit	(6 4)	-	(6 4)
Expected return on scheme assets	76 1	-	76 1
Interest cost on scheme liabilities	(69 5)	-	(69 5)
Administrative expenses	(2 1)	-	(2 1)
Other finance income – pensions	4 5	-	4 5
Statement of comprehensive income			
Actual less expected return on scheme assets	9 0	(0 1)	8 9
Loss on scheme liabilities	(57 3)	-	(57 3)
Changes in assumptions underlying the present value of scheme liabilities	(204 4)	-	(204 4)
Reversal of surplus restriction	22 4	-	22 4
Actuarial gains and losses recognised in the statement of comprehensive income	(230 3)	(0 1)	(230 4)

(1) Costs are recognised in cost of goods sold, distribution and marketing expenses and general and administrative expenses

(2) Amount recognised in restructuring and non-recurring income in 2010 is related to a change in the Jacob's pension plan Future pensionable salary will increase in line with retail price index plus 0 25% p a rather than in line with salaries

19 Pensions and other post-retirement benefits (continued)

Valuation

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

Key assumptions

(a) Pensions

	2010 %	2009 %
Rate of salary increases		
Final salary	3 43	3 45
CARE	3 06	3 1
Rate of increase of pensions in payment	3 06	3 1
Discount rate	5 42	5 66
Inflation	3 18	3 2
Expected rate of return on scheme assets-		
Equities	8 5	9 0
Bonds	5 3	5 5
Cash	4 2	4 3
Hedge funds, currency and infrastructure	5 3 – 14 8	6 5 – 14 5

The average life expectancy assumed for the UBUK plan for a current male pensioner aged 65 is 20 3 years (2009 – 20 2 years) and for a current female pensioner aged 65 is 22 5 years (2009 – 21 8 years), for a future male pensioner aged 65 in 2030 it is 21 5 years (2029 – 21 3 years) and for a future female pensioner aged 65 in 2030 it is 23 5 years (2029 - 22 9 years)

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

Further contributions in addition to the employer's regular contribution are being made in order to eliminate the deficiency in the UK defined benefit plans on a funding basis The total contributions to the Group's defined benefit plans in 2011 are expected to be approximately £33 3 million

(b) Post-retirement healthcare

	2010 %	2009 %
Discount rate	3 5	4 5
Inflation	2 0	2 0
Rate of increase in healthcare costs	2 0	2 0

Sensitivity Analysis

If the discount rate or inflation rates were to be increased by 0 1% without changing any other assumptions the total pension defined benefit obligations would increase by approximately £20 1 million

United Biscuits Topco Limited

19 Pensions and other post-retirement benefits (continued)

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

	UK £m	Netherlands £m	Total £m
As at 3 January 2010	1,389 4	2 4	1,391 8
Current service cost	9 7	-	9 7
Past service cost	-	-	-
Interest cost	77 0	0 1	77 1
Employee contributions	6 8	-	6 8
Benefits paid	(68 2)	(0 2)	(68 4)
Actuarial (gains) and losses	29 2	0 5	29 7
Curtailments	(2 3)	-	(2 3)
Foreign currency differences	-	(0 1)	(0 1)
As at 1 January 2011	1,441 6	2 7	1,444 3
As at 4 January 2009	1,112 1	2 6	1,114 7
Liabilities transferred	(1 0)	-	(1 0)
Current service cost	6 4	-	6 4
Past service cost	-	-	-
Interest cost	69 5	0 1	69 6
Employee contributions	7 7	-	7 7
Benefits paid	(67 0)	(0 3)	(67 3)
Actuarial (gains) and losses	261 7	0 1	261 8
Foreign currency differences	-	(0 1)	(0 1)
As at 2 January 2010	1,389 4	2 4	1,391 8

The defined benefit obligation comprises £1,429 1 million (2009 £1,377 1 million) arising from funded plans and £15 2 million (2009 £14 7 million) from plans that are unfunded

19 Pensions and other post-retirement benefits (continued)

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

	UK £m	Netherlands £m	Total £m
As at 3 January 2010	1,238 5	-	1,238 5
Expected return on plan assets	90 8	-	90 8
Employer contributions	33 8	-	33 8
Contributions by employees	6 8	-	6 8
Benefits paid	(67 8)	-	(67 8)
Actuarial gains and (losses)	13 2	-	13 2
Adjustment to eliminate unrealised surplus	-	-	-
As at 1 January 2011	1,315 3	-	1,315 3
As at 4 January 2009	1,180 2	-	1,180 2
Assets transferred	(1 0)	-	(1 0)
Expected return on plan assets	76 1	-	76 1
Employer contributions	33 8	-	33 8
Contributions by employees	7 7	-	7 7
Benefits paid	(66 8)	-	(66 8)
Actuarial gains and (losses)	9 0	-	9 0
Adjustment to eliminate unrealised surplus	(0 5)	-	(0 5)
As at 2 January 2010	1,238 5	-	1,238 5

History of experience gains and losses

	2010 £m	2009 £m	2008 £m	2007 £m
UK schemes				
Fair value of scheme assets	1,315 3	1,238 5	1,180 2	1,257 6
Present value of defined benefit obligation	(1,441 6)	(1,389 4)	(1,112 1)	(1,206 5)
(Deficit)/surplus in the scheme	(126 3)	(150 9)	68 1	51 1
Experience gains/(losses) arising on plan assets	11 0	9 0	(143 4)	0 5
Experience losses arising on plan liabilities	(25 1)	(57 3)	(4 1)	(6 7)
The Netherlands healthcare scheme				
Present value of defined benefit obligation	(2 7)	(2 4)	(2 6)	(2 1)
Experience losses arising on plan liabilities	0 1	(0 1)	-	-

The cumulative amount of actuarial gains and losses recognised since 5 October 2006 in the consolidated statement of comprehensive income is a loss of £244 1 million (2009 £228 1 million loss)

20 Financial commitments

The Group's financial commitments in respect of finance lease and hire purchase obligations and in respect of retirement benefits are set out in Notes 15 and 19 The Group's financial commitments in respect of capital expenditure and commitments are summarised below

Group capital expenditure relating to plant and equipment contracted, but not provided for at 1 January 2011 amounted to £0 3 million (2009 £1 4 million)

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

	2010 £m	2009 £m
Not later than one year	7 9	8 7
Later than one year but not later than five years	35 1	25 9
Later than five years	14 4	32 7
	57 4	67 3

The future minimum sub-lease payments which the Group expects to receive under non-cancellable sub-leases at 1 January 2011, were £0 5 million (2009 £1 3 million) Sub-lease rents received in the period 3 January 2010 and 1 January 2011 were £0 6 million (2009 £0 7 million)

21 Related party disclosures

Except as otherwise disclosed in these financial statements, there have been no transactions with the Group's joint venture or other related parties, which were material either to the Group or the counterparty and which are required to be disclosed under the provisions of IAS 24 "Related Parties Disclosures"

Amounts due to parent company

Amounts due by the Group to United Biscuits LuxCo S C A were as follows

	2010 £m	2009 £m
Loan	419 7	388 3
Accrued interest	1 5	1 5
	421 2	389 8

United Biscuits Bondco Limited, a subsidiary of the Group, has issued £330 2m 8 1% Loan Notes, due 2036 and 2038 On 22 December 2010, £20 million 8 1% Notes were issued to United Biscuits Luxco S C A in settlement of £20 million interest accrued during the accounting period ended 2 January 2010 These Loan Notes are quoted on the Channel Islands Stock Exchange but, as they are held in their entirety by United Biscuits Luxco S C A , they are classified as a parent company loan Interest accrues on the Loan Notes at the rate of 8 1% per annum compounded annually in arrears on 15 December each year, which commenced on 15 December 2007

Other

Short-term employee benefits paid to key management personnel, including directors, for the period 2 January 2010 to 1 January 2011 totalled £3 0 million (2009 £4 6 million)

The Group has no employee share scheme However, following the Acquisition on 15 December 2006 certain employees of the Group were given the entitlement to purchase shares in United Biscuits LuxCo S C A , the Group's parent company, at market value

Fees totalling £2 0 million were payable by the Group to Blackstone and PAI under the terms of the shareholder agreement for the period from 2 January 2010 to 1 January 2011 (2009 £2 0 million)

22 Events after balance date

No events of significance have taken place between 1 January 2011 and the signing of these accounts

23 Ultimate parent company

In the directors' opinion, the Company's ultimate parent undertaking as at 1 January 2011 was United Biscuits LuxCo S C A , which is registered in Luxembourg

Parent Company Financial Statements

Statement of directors' responsibilities

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

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

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

Independent auditor's report to the members of United Biscuits Topco Limited

We have audited the parent company financial statements of United Biscuits Topco Limited for the 52 weeks ended 1 January 2011 which comprise the Balance Sheet and the related notes 1 to 7 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 83, the directors are responsible for the preparation of the parent company 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 parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the parent 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

Opinion on financial statements
In our opinion the parent company financial statements

- give a true and fair view of the state of the company's affairs as at 1 January 2011;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

United Biscuits Topco Limited
Parent company financial statements

Independent auditor's report to the members of United Biscuits Topco Limited (continued)

Other matter
We have reported separately on the group financial statements of United Biscuits Topco Limited for the 52 weeks ended 1 January 2011

Ernst & Young LLP

Andrew Walton (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
27 April 2011

United Biscuits Topco Limited
Parent company financial statements

Balance sheet

1 January 2011

	Notes	2010 £m	2009 £m
Fixed assets			
Investment in subsidiary	4	1 8	1 8
Net assets		1 8	1 8
Capital and reserves			
Called up share capital	5	-	-
Share premium	5	1 8	1 8
Profit and loss account	6	-	-
TOTAL SHAREHOLDER'S FUNDS		1 8	1 8

Approved by the Board and signed on its behalf on 27th April 2011

Jeffrey vd Eems

Jeffrey Peter van der Eems

United Biscuits Topco Limited
Parent company financial statements

1 Accounting policies

Basis of accounting

The financial statements are prepared on the historical cost basis of accounting and in accordance with applicable UK accounting standards Consolidated financial statements for United Biscuits Topco Limited and its subsidiaries have been separately prepared The financial statements herein are solely for United Biscuits Topco Limited

The Company has taken the s408 exemption set out in the Companies Act 2006 to not present its own Profit & Loss account The company made no profit or loss in the year (2009 nil)

Investments

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

2 Directors and employees

Directors' remuneration for D Fish, B Testard, J van der Eems and K McGurk was paid by United Biscuits (UK) Limited by whom they are employed The directors received no remuneration in respect of qualifying services to this company

The Company has no employees

3 Loss on ordinary activities before taxation

The Auditor's remuneration is borne by United Biscuits (UK) Limited

4 Investment in subsidiary

	2010	2009
	£m	£m
Investment at cost	1 8	1 8

The investment is in respect of a 100% holding in United Biscuits Bondco Limited, a holding company incorporated in England

5 Share capital

Share capital

Authorised	**Number of shares**
Ordinary shares of £1 each	100

	Number of Shares	**£m**
Ordinary shares issued and fully paid		
At 1 January 2011 and 2 January 2010	20	1 8

6 Reconciliation of shareholder's funds and movements on reserves

	Share Capital £m	**Share Premium £m**	**Profit and loss account £m**	**Total £m**
Balance at 3 January 2009	-	1 8	-	1 8
Result for the year	-	-	-	-
Balance at 2 January 2010	-	1 8	-	1 8
Result for the year	-	-	-	-
Balance at 1 January 2011	-	1.8	-	1 8

7 Ultimate parent company

In the directors' opinion, the Company's ultimate parent undertaking is United Biscuits Luxco S C A , which is incorporated in Luxembourg

United Biscuits (UK) Limited

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