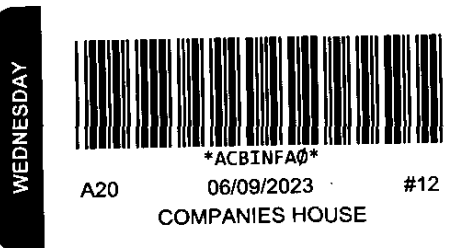


Registered number: 06649984

Mars Petcare UK

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2022



11/9/23 171 (FIVE)

Mars Petcare UK

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Mars Petcare UK

**STRATEGIC REPORT
FOR THE PERIOD ENDED 31 DECEMBER 2022**

The directors present their Strategic Report on the Company for the period ended 31 December 2022. The results represent the 52 week period ended 31 December 2022, and the comparatives represent the 52 week period ended 1 January 2022.

Principal activities

The principal activities of the Company are the manufacture and sale of pet food related products.

Business review and future development

The profit for the financial period, amounted to £92,437,000 (2021: £79,153,000). As at 31 December 2022 the Company had net assets of £571,902,000 (1 January 2022: £534,717,000).

Dividends of £80,000,000 (2021: £140,000,000) have been proposed and paid to holders of the ordinary shares, this represents £159.36223 (2021: £278.88391) per share. No final dividend has been proposed (2021: £nil).

The performance of the period reflects the investment into products, brands, processes and customer relationships as part of our on-going strategy to reflect and adapt to anticipated changes in consumer attitudes and behaviour, as well as increase the focus on key areas of the market place.

The business continues to concentrate its research and development efforts on improving its product ranges, so it is best placed to service the markets in which it operates.

The directors consider that the Company is well placed to take advantage of changes in the market place and that recent levels of profitability will be maintained.

The business continues to monitor the ongoing changes of the United Kingdom and Global inflationary increases.

The directors do not expect any significant change in the nature of the Company's business for the foreseeable future.

Mars Petcare UK

STRATEGIC REPORT (CONTINUED)
FOR THE PERIOD ENDED 31 DECEMBER 2022

Principal risks and uncertainties

The principal risks and uncertainties facing the business include:

- possible fluctuations in the price and availability of raw materials;
- accidental or malicious contamination of our products or their ingredients, despite the fact that the Company manufactures products in accordance with the highest standards of quality and food safety;
- potential disruption of our manufacturing and/or distribution process in the event of circumstances beyond our control such as adverse weather, flood, fire, system failure or a major interruption in the supply of raw material;
- pricing pressure as a result of the consolidation of the retail trade;
- the need for the Company to contribute significant additional funding to the Companies pension plans in the event that the investment performance or changes in actuarial assumptions of the pension funds result in the plans being under-funded;
- possible fluctuations in the production cost due to ongoing inflationary pressures in the United Kingdom and Globally;

These risks and uncertainties are managed day to day by discreet management teams responsible for each segment of the Company's business and who report to the directors.

Financial key performance indicators ("KPIs")

The directors consider the following indicators to be key in measuring the performance of the business:

	31 December 2022	1 January 2022
	£'000	£'000
Turnover	716,676	652,283
Profit before taxation	112,253	96,265
Gross profit margin (%)	30	30
Operating profit margin (%)	15	15

During the period sales and profit grew which is reflective of the continued business focus and investment into products, brands, processes and consumer relationships.

Financial risk management

The Company's operations expose it to a variety of financial risks that include the effects of changes in commodity prices, credit risk, counterparty risk, interest rate risk, liquidity risk and foreign exchange risk. The Company seeks to limit the adverse effects on the financial performance of the Company by monitoring the impact of these and addressing them accordingly.

The Company has specific policies and guidelines to manage financial risk and these policies are implemented by the Company's finance department.

Mars Petcare UK

**STRATEGIC REPORT (CONTINUED)
FOR THE PERIOD ENDED 31 DECEMBER 2022**

Commodity price risk

The Company is exposed to commodity price risk as a result of its operations. The Company mitigates this risk by agreeing fixed price medium term contracts.

Credit risk

The Company has implemented policies that require appropriate credit checks on potential customers before sales are made. Ongoing review of credit checks are made on customers depending on changes in trading relationships, information received from other sources and time elapsed from previous information obtained.

Cashflow

Management regularly review cash expectations and actual cash performance against forecasts.

Counterparty risk

The counterparties for derivative contracts are financial institutions that have a minimal A rating or with counterparties that operate on exchanges thus limiting any credit risk, or with the intermediate parent company Food Manufacturers (G.B. Company). Taken together the Company believes it has minimal credit risk related to derivative instruments.

Interest rate risk

The main exposure to interest rate risk is the inter-company balances. Interest is charged at a rate of up to 1% above the UK base rate and is reviewed and monitored by management regularly. Given the nature of this, the directors do not believe that it is appropriate to use any instruments to manage this exposure.

Liquidity risk

The Company is cash generative. To the extent necessary it is supported by its intermediate parent company, Food Manufacturers (G.B. Company).

Foreign exchange risk

The Company is exposed to foreign exchange rate risk as a result of its operations. Suitable forward rate contracts are used to hedge the rate risk. All contracts are valued using widely available forward prices.

Mars Petcare UK

**STRATEGIC REPORT (CONTINUED)
FOR THE PERIOD ENDED 31 DECEMBER 2022**

Directors' statement of compliance with duty to promote the success of the Company

Under Section 172 of the UK Companies Act 2006 ('Section 172') directors must act in the way that they consider, in good faith, would be most likely to promote the success of their company. In doing so, our directors must have regard to stakeholders and the other matters set out in Section 172. As part of the Mars, Incorporated Group (Mars), we continue to perform business in accordance with the "The Five Principles".

Quality: The consumer is our boss; quality is our work and value for money is our goal. Our company is dedicated to the highest quality in all the work we do. Quality is the uncompromising standard for our actions, and it flows from our passion and our pride in being part of the Mars community.

Responsibility: As individuals, we demand total responsibility from ourselves; as Associates, we support the responsibilities of others. Our company is complex, with brands, businesses, and operations located around the world. For this reason, we give all Associates freedom to take full responsibility to deliver superior results for doing their assigned jobs. In return, Associates receive respect and support, and are appropriately rewarded in line with their performance. The interests of our associates are considered with the highest regard for their wellbeing.

Mutuality: A mutual benefit is a shared benefit; a shared benefit will endure. As we negotiate with our suppliers and distributors, we must avoid terms that are harmful to their business while demanding supplies and services from them that will be the best for us. Mutuality imposes a special obligation on us to respect the environment and develop the most sustainable methods for achieving our goals. Our aim is to return a fair benefit to our local and national communities, increasing their prosperity and quality of life as we benefit from partnership with them.

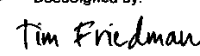
Efficiency: We use resources to the full, waste nothing and do only what we can do best. Efficiency is a task we all share. It demands constant and open communication and defines how we work as individuals and as an organization. Lean businesses, small staffs and large jobs held by highly talented Associates are all signs of the Efficiency Principle at work.

Freedom: We need freedom to shape our future; we need profit to remain free. If Mars continues to create sufficient profits, we will be free to operate the business in the way we regard as best. As Mars grows, we weigh decisions about our diversification with great care, wanting to enter only those businesses and markets where we may excel.

In line with the Five Principles, Mars is committed to helping create a safe, healthy and sustainable world for our customers, suppliers and associates together with the communities in which we operate. From replacing plastic packaging with eco-friendly materials, to advancing global research on critical food safety challenges, to rethinking where and how we buy our raw materials, we are constantly innovating to drive positive change for people and the planet.

Our directors take steps to understand how the Five Principles are being implemented via a number of mediums, including by direct engagement or via their delegated committees and forums.

This report was approved by the board on 30 August 2023 and signed on its behalf.

DocuSigned by:

A05A087A990440C

**T Friedman
Director**

Mars Petcare UK

**DIRECTORS' REPORT
FOR THE PERIOD ENDED 31 DECEMBER 2022**

The directors present their report and the audited financial statements for the period ended 31 December 2022. The results represent the 52 week period ended 31 December 2022, and the comparatives represent the 52 week period ended 1 January 2022.

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also 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 and to enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- they have taken all the steps that ought to have been taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Mars Petcare UK

**DIRECTORS' REPORT (CONTINUED)
FOR THE PERIOD ENDED 31 DECEMBER 2022**

Results and dividends

The profit for the period amounted to £92,437,000 (2021: 79,153,000).

As at 31 December 2022, the Company had net assets of £571,902,000 (1 January 2022: £534,717,000).

Dividends of £80,000,000 (2021: £140,000,000) have been proposed and paid to holders of the ordinary shares, this represents £159.36223 (2021: £278.88391) per share. No final dividend has been proposed (2021: £nil).

Directors

The directors who served during the period and up to the date of signing the financial statements were:

D Watkins
A Parton
P Rigamonti (appointed 20 June 2022)
H Kimberley
H Warren-Piper (resigned 29 June 2022)
K Wood
T Friedman (appointed 5 April 2022)
L Suchanek (appointed 27 April 2022)

Directors' indemnities

The Company maintains liability insurance for its directors and officers, which is a qualifying third party indemnity provision for the purpose of the Companies Act 2006. The indemnity was in force throughout the financial period and also at the date of approval of the financial statements.

Political Contributions

No political donations were made during the period (2021: £nil).

Future Developments

Details of future developments shown in the Strategic Report on page 2.

Financial risk management

Details of financial risk management are shown in the Strategic Report on page 2.

Going concern

Details of going concern are shown in the accounting policies, as shown on page 17.

Mars Petcare UK

DIRECTORS' REPORT (CONTINUED)
FOR THE PERIOD ENDED 31 DECEMBER 2022

Greenhouse gas emissions, energy consumption and energy efficiency action

The below statement contains Mars Petcare UK's annual energy consumption, associated relevant greenhouse gas emissions, and additional related information, as required under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

Methodology

The methodology applied to the calculation of Greenhouse Gas emissions is the 'GHG Protocol Corporate Accounting and Reporting Standard'. An 'operational control' boundary has been applied. Carbon conversion factors have been taken from 'UK Government GHG Conversion Factors for Company Reporting – 2022'. Emissions are reported as CO₂e. Electricity emissions have been reported as both 'market' and 'location-based'. 100% of our electricity purchased in 2022 was from renewable sources.

Energy Use and Greenhouse Gas Emissions

The table below shows the total annual UK energy use associated with the consumption of; electricity, natural gas and other fuels combusted on-site, and fuel consumed for relevant business transport purposes, for the period 1st January – 31st December 2022.

Energy Consumption and Emissions	2022	2021	% Change
On-site combustion (MWh)	81,724	86,493	-5.5%
Electricity (MWh)	37,839	37,431	1.1%
Road Transport (MWh)	679	141	381.6%
Total Energy (MWh)	120,242	124,066	-3.1%
Scope 1 Emissions (tCO ₂ e)	15,081	16,088	-6.3%
Scope 2 Emissions - location based (tCO ₂ e)	7,317	7,948	-7.9%
Scope 2 Emissions - market based (tCO ₂ e)	0	0	n/a
Scope 3 Emissions (tCO ₂ e)	10.8	3.9	176.9%
Total Emissions (tCO₂e) - location based	22,409	24,040	-6.8%
Total Emissions (tCO₂e) - market based	15,092	16,092	-6.2%
Emissions Intensity (tCO₂e/£m turnover)	31.27	37.11	-15.3%

* There has been an improvement in the quality of transport related energy data in 2022. We have therefore restated 2021 transport emissions within this report, using an updated methodology.

Emissions Intensity

For purposes of baselining and ongoing comparison, it is required to express the emissions using a carbon intensity metric. The intensity metric chosen is £m turnover. The resultant emissions intensity is 31.27 tCO₂e/£m, which is a 15.3% reduction from 2021.

Mars Petcare UK

**DIRECTORS' REPORT (CONTINUED)
FOR THE PERIOD ENDED 31 DECEMBER 2022**

Energy Efficiency Action

In 2022, Mars Petcare UK have undertaken several activities to reduce our energy consumption. At our Birstall site, we have installed new palletising equipment which has reduced energy and, in addition, enabled a 35% reduction in plastic use. At our Melton site energy consumption has been reduced through the installation of a waste heat recovery system. Finally, at Castle Cary we have changed our standard lights to low energy LED fittings, and through close monitoring of exhaust gases and other technological improvements have improved the efficiency of the boilers.

Engagement with Associates

As mentioned in the Strategic Report, the interests of our associates are considered with the highest regard for their well being. Communication has continued at all levels with the aim that all associates are aware of the financial and economic performance of the business. Over a long period, the business has developed a variety of communication and discussion practices closely tailored to its particular need and circumstances, the most important of these being regular briefing sessions of associates with their managers. Associates are asked to take on direct responsibility for results, exercising initiative and making decisions, as their tasks require.

Linking the business pay plan to its major operating and financial results further strengthens the mutuality of associates' involvement in the performance of the business.

Single status treatment of its associates is one of the hallmarks of the Company's industrial relations policy. It is an equal opportunity employer, the only criteria for selection and promotion being the skills and aptitude of the individual in relation to the particular job and needs of the business concerned.

The Company is glad to provide worthwhile employment for disabled or medically restricted persons. It is the Company's practice to identify jobs that are within the capabilities of such persons and fill them with these personnel. Should associates become disabled, it is the Company's policy to continue their employment where possible with appropriate training and redeployment where necessary.

Training and career development programmes are designed on an individual basis for all associates so that the particular need and aptitudes of each person can be best met and developed.

Engagement with suppliers, customers and others

The Company is guided by its five principles, as set out in the strategic report on page 4, and should be used in combination for all activities including how we seek to engage with our stakeholders.

The Five Principles are the foundation of how we do business, and we strive to live by them each and every day. They are the filter in all our business decisions, and they unite us across geographies, languages, cultures, and generations.

Independent auditors

Under section 487(2) of the Companies Act 2006, PricewaterhouseCoopers LLP will be deemed to have been reappointed as auditors 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the financial statements with the registrar, whichever is earlier.

This report was approved by the board on 30 August 2023 and signed on its behalf.

DocuSigned by:

Tim Friedman

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**T Friedman
Director**

Mars Petcare UK

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MARS PETCARE UK

Report on the audit of the financial statements

Opinion

In our opinion, Mars Petcare UK's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of its profit for the 52 week period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2022; the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity for the period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether

Mars Petcare UK

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MARS PETCARE UK

there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the period ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to compliance with food safety legislation, health and safety legislation and, employment legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting unusual journal entries to increase revenue and profits or the manipulation of accounting estimates which could be subject to management bias. Audit procedures performed by the engagement team included:

Mars Petcare UK

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MARS PETCARE UK

- Confirmation and enquiry of management and those charged with governance over compliance with food safety legislation, health and safety legislation, employment legislation and taxation legislation, including consideration of actual or potential litigation and claims.
- Reviewing minutes of meetings of those charged with governance.
- Enquiry of staff in tax and compliance functions to identify instances of non-compliance with laws and regulations in respect to food safety legislation, health and safety legislation, employment legislation and taxation legislation.
- Identifying and testing unusual journal entries.
- Challenging assumptions and judgements made by management in their significant accounting estimates, *in particular in relation to assumptions associated with pension valuation and trade promotion accruals.*
- Performing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.
- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, *the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.*

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Neil Philpott (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

30 August 2023

Mars Petcare UK

INCOME STATEMENT
FOR THE PERIOD ENDED 31 DECEMBER 2022

	Note	Period ended 31 December 2022 £000	Period ended 1 January 2022 £000
Turnover	4	716,676	652,283
Cost of sales		(500,532)	(457,732)
Gross profit		216,144	194,551
Distribution costs		(57,193)	(53,088)
Administrative expenses		(54,194)	(46,218)
Other operating income	5	2,242	2,083
Operating profit	8	106,999	97,328
Interest receivable and similar income	10	7,436	1
Interest payable and similar expenses	11	(2,182)	(1,064)
Profit before tax		112,253	96,265
Tax on profit	12	(19,816)	(17,112)
Profit for the financial period		92,437	79,153

The notes on pages 17 to 42 form part of these financial statements.

Mars Petcare UK

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 31 DECEMBER 2022**

		31	1
		December	January
		2022	2022
	Note	£000	£000
Profit for the financial period		92,437	79,153
Other comprehensive income / (expense)			
Actuarial gain on defined benefit schemes	24	33,739	272,819
Movement on deferred tax relating to pension losses		(10,670)	(71,018)
Movement on current tax relating to pension gain		1,679	680
Other comprehensive income for the period		24,748	202,481
Total comprehensive income for the period		117,185	281,634

The notes on pages 17 to 42 form part of these financial statements.

Mars Petcare UK
REGISTERED NUMBER:06649984

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

		31 December 2022 £000	1 January 2022 £000
Fixed assets	Note		
Intangible assets	14	15,080	15,670
Tangible assets	15	120,958	116,922
		<u>136,038</u>	<u>132,592</u>
Current assets			
Stocks	16	55,977	40,552
Pension asset due after more than one year	24	341,868	312,030
Debtors: amounts falling due within one year	17	447,545	464,304
Cash at bank and in hand		3,735	8,761
		<u>849,125</u>	<u>825,647</u>
Creditors: amounts falling due within one year	18	(284,028)	(292,114)
Net current assets		<u>565,097</u>	<u>533,533</u>
Total assets less current liabilities		<u>701,135</u>	<u>666,125</u>
Creditors: amounts falling due after more than one year	19	(10,618)	(14,626)
Provisions for liabilities			
Deferred tax	21	(84,851)	(70,192)
Pension liability	24	(33,764)	(46,590)
		<u>(118,615)</u>	<u>(116,782)</u>
Net assets		<u><u>571,902</u></u>	<u><u>534,717</u></u>
Capital and reserves			
Called up share capital	22	502	502
Retained earnings		571,400	534,215
Total equity		<u><u>571,902</u></u>	<u><u>534,717</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 30 August 2023.

DocuSigned by:

 AC5A087A990440C
T Friedman
 Director

The notes on pages 17 to 42 form part of these financial statements.

Mars Petcare UK

**STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2022**

	Called up share capital	Retained earnings	Total equity
	£000	£000	£000
At 2 January 2022	502	534,215	534,717
Comprehensive income/(expense) for the period			
Profit for the financial period	-	92,437	92,437
Gain on defined benefit scheme	-	33,739	33,739
Movement on deferred tax relating to pension losses	-	(10,670)	(10,670)
Movement on current tax relating to pension gain	-	1,679	1,679
Other comprehensive income for the period	-	24,748	24,748
Total comprehensive income for the period	-	117,185	117,185
Contributions by and distributions to owners			
Dividends: Equity capital	-	(80,000)	(80,000)
At 31 December 2022	502	571,400	571,902

The notes on pages 17 to 42 form part of these financial statements.

Mars Petcare UK

**STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 1 JANUARY 2022**

	Called up share capital	Retained earnings	Total equity
	£000	£000	£000
At 3 January 2021	502	392,581	393,083
Comprehensive income/(expense) for the period			
Profit for the period	-	79,153	79,153
Gain on defined benefit scheme	-	272,819	272,819
Movement on deferred tax relating to pension losses	-	(71,018)	(71,018)
Movement on current tax relating to pension gain	-	680	680
Other comprehensive income for the period	-	202,481	202,481
Total comprehensive income for the period	-	281,634	281,634
Contributions by and distributions to owners			
Dividends: Equity capital	-	(140,000)	(140,000)
At 1 January 2022	502	534,215	534,717

The notes on pages 17 to 42 form part of these financial statements.

Mars Petcare UK

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2022**

1. General information

Mars Petcare UK ('the Company') manufactures and sells pet food related products. The Company is a private unlimited company and is incorporated in England. The address of its registered office is 3D Dundee Road, Slough, Berkshire, SL1 4LG.

The financial statements of Mars Petcare UK have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standards 102, 'The Financial Reporting Standards applicable in the United Kingdom and the Republic of Ireland' (FRS 102) and the Companies Act 2006.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all of the periods presented, unless otherwise stated.

2. Summary of significant accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland (FRS 102) and the Companies Act 2006, as modified by recognition of certain financial assets and liabilities measured at fair value.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity or areas assumptions and estimates significant to the financial statements are disclosed in note 3.

The results represent the 52 week period ended 31 December 2022 and the comparatives represent the 52 week period ended 1 January 2022.

2.2 Going concern

The directors have performed an assessment to consider the forecast cashflows and liquidity of the Company and have also considered the financial health of the Company's ultimate parent undertaking Mars, Incorporated for a period of at least 12 months from the date of signing these financial statements.

Based on this assessment the directors are of the opinion that the Company has adequate resources to meet its financial obligations as they fall due and continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

Mars Petcare UK

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2022**

2. Summary of significant accounting policies (continued)

2.3 Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of, and no objection to, the use of exemptions by the Company's shareholders.

The Company has taken advantage of the following exemptions:

- i) exemption from preparing a statement of cash flows, required under FRS 102 paragraph 1.12 (b), on the basis that it is a qualifying entity and its intermediate parent company, Wrigley International Holding Company, includes the Company's cash flows in its own consolidated financial statements.
- ii) disclosing the Company key management personnel compensation, as required by FRS 102 paragraph 33.7.
- iii) the requirements of Section 33 Related Party Disclosures paragraph 33.9.
- iv) a reconciliation of the number of shares outstanding at the beginning and end of the period, paragraph 4.12(a)(iv).

2.4 Turnover

Turnover comprises sales to customers (excluding VAT) and is stated at amounts invoiced to customers after discounts and rebates. Consideration received from customers is only recorded as turnover when the Company has completed full performance in respect of that consideration.

The Company bases its estimate of discounts and rebates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

The Company recognises revenue when (a) the significant risks and rewards of ownership have been transferred to the buyer; (b) the Company retains no continuing involvement or control over the goods; (c) the amount of revenue can be measured reliably and (d) it is probable that future economic benefits will flow to the entity.

2.5 Interest income

Interest income is recognised using the effective interest rate method.

2.6 Interest expense

Interest expense is recognised using the effective interest rate method..

2.7 Financial instruments

The Company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

(i) Financial assets

Basic financial assets, including trade and other receivables, amounts owed by group undertakings, and cash and bank balances are initially recognised at transaction price.

Such assets are subsequently carried at amortised cost using the effective interest method.

Mars Petcare UK

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2022**

2. Summary of significant accounting policies (continued)**2.7 Financial instruments (continued)**

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the income statement.

If there is decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the income statement.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

(ii) Financial liabilities

Basic financial liabilities, including trade and other payables, and amounts owed to group undertakings that are classified as debt, are initially recognised at transaction price.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

(iii) Derivatives

Contracts to buy or sell non-financial items such as commodity, inventory, or property, plant and equipment for own use are not considered to be financial instruments. Derivatives including forward foreign exchange contracts are not basic financial instruments.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of forward foreign exchange contracts are recognised in the income statement in cost of sales.

The fair value of forward foreign exchange contracts is determined using valuation techniques that utilise observable inputs (Level 2). The key assumptions used in valuing forward foreign exchange contracts are the forward exchange rates relating to the relevant currency pairs and maturity dates.

The company does not apply hedge accounting for derivatives.

Mars Petcare UK

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2022**

2. Summary of significant accounting policies (continued)

2.7 Financial instruments (continued)

(iv) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.8 Research and development

The Company claims the Research & Development Expenditure Credit (RDEC) in respect of qualifying revenue expenditure on R&D. This credit is recognised as other operating income in the profit and loss account.

Research and development expenditure is written off in the period in which it is incurred.

2.9 Operating leases

Leases that do not transfer significant risks and rewards are classified as operating leases.

Rentals under operating leases are charged to the income statement on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period of the lease.

2.10 Stocks

Stocks are stated at the lower of cost and net realisable value. Stocks are recognised as an expense in the period in which the related revenue is recognised. Cost is determined on a first in first out basis and includes transport and handling costs. In the case of manufactured products, cost includes all direct expenditure and production overheads, including a share of manufacturing depreciation, based on the normal level of activity. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal. Where necessary, provision is made for obsolete, slow moving and defective stock.

At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in the income statement. Where a reversal of the impairment is recognised the impairment charge is reversed up to the original impairment loss, and is recognised as a credit in the income statement.

Mars Petcare UK

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2022**

2. Summary of significant accounting policies (continued)

2.11 Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated, using the straight-line method, to allocate the depreciable amount of the assets to their residual values over their estimated useful lives, as follows:

- Software – 3 years

Amortisation is charged to the income statement.

Where there are indicators that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances.

The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired, per note 2.20.

2.12 Goodwill

Goodwill recognised represents the excess of the fair value and directly attributable costs of the purchase consideration over the fair values to the Company's interest in the identifiable net assets, liabilities and contingent liabilities acquired.

Goodwill is amortised over its expected useful life which is assessed to be 50 years given the longstanding established brands supporting this longevity.

Goodwill is assessed for impairment when there are indicators of impairment and any impairment is charged to the income statement per note 2.20.

2.13 Tangible assets

Tangible assets are stated at cost less depreciation and accumulated impairment losses. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Depreciation is provided on the following basis:

Freehold land	- Not depreciated
Plant & machinery	- 10-50% per annum
Freehold property	- 5-10% per annum

No depreciation is charged on assets which have yet to be commissioned. Depreciation is charged from the month in which the asset is brought into use.

Accelerated depreciation may be charged where the directors consider there to have been a reduction in the useful economic life of an asset.

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in the income statement.

Mars Petcare UK

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2022**

2. Summary of significant accounting policies (continued)

2.14 Employee benefits

Mars Petcare UK provides a range of benefits to employees.

(i) Short term employee benefits

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

(ii) Multi employer defined benefit plan

Mars Petcare UK participates, along with other employers in the Effem Holdings Limited Group, in a non-contributory, self-administered defined benefit pension plan, which is funded. Assets are held in a separately administered fund.

In accordance with FRS 102 paragraph 28.11, Mars Petcare UK has recognised a share of the funded position of the pension plan based on the contributions payable.

The contributions to the defined benefit pension plan are assessed in accordance with the advice of a qualified actuary based on actuarial valuations normally conducted every three years using the projected unit credit method. The assets of the plans are held in a separate trustee administered fund. The surplus or deficit of the defined benefit plan represents the difference between the fair value of the plan assets and the present value of the defined benefit obligation at the statement of financial position date.

The pension charge recognised in the income statement consists of current service costs. In addition a finance cost is charged based on the interest on pension plan liabilities less the expected return on pension assets. Differences between the actual and expected return on assets, experience gains and losses and changes in actuarial assumptions are included directly in the statement of comprehensive income.

(iii) Defined contribution plan

For associates who have joined since 1 January 2003, a defined contribution plan, the Associates Savings Plan ("ASP") is available. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the statement of financial position. The assets of the plan are held separately from the Company in independently administered funds.

(iv) Deferred cash promises

The Company operates unfunded, non-contributory, self-administered deferred cash promise. The promise is recognised in full in the statement of financial position and represents the present value of the promise obligation at the statement of financial position date.

The Company operates unfunded non-contributory, self-administered, deferred cash promises and pension promises to certain associates who have joined the UK business. The promise is recognised in full in the statement of financial position and represents the present value of the promise obligation at the statement of financial position date.

The charge recognised in the income statement consists of current service costs. In addition a finance cost is charged based on the interest on promise liabilities. Experience gains and losses and changes to actuarial assumptions are included directly in the statement of comprehensive income.

Mars Petcare UK

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2022**

2. Summary of significant accounting policies (continued)

2.14 Employee benefits (continued)

Curtailment gains and losses are measured using actuarial assumptions. Curtailment gains and losses are taken to the income statement account when the Company is irrevocably committed to the transaction.

2.15 Long-term incentives

Liabilities under long-term incentive schemes payable on retirement are based on an actuarial valuation and actuarial gains and losses are recognised as employee expenses.

2.16 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

The Company has given a guarantee of the balance of cash at bank in respect of any potential bank overdrafts by Food Manufacturers (G.B. Company) group of companies.

2.17 Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the rate of exchange appropriate to the date of the transaction.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. All other foreign exchange gains and losses are presented in the income statement.

2.18 Current taxation

Current tax is the amount of income tax payable in respect of the taxable profit for the period or prior periods. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end. The taxation liabilities of certain group companies are reduced wholly or in part by the surrender of losses by fellow group companies.

Mars Petcare UK

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2022**

2. Summary of significant accounting policies (continued)

2.19 Deferred taxation

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

Deferred tax assets and liabilities are not discounted.

2.20 Impairment of non-financial assets

At each statement of financial position date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset (or asset's cash generating unit) may be impaired. If there is such an indication the recoverable amount of the asset (or asset's cash generating unit) is compared to the carrying amount of the asset (or asset's cash generating unit).

The recoverable amount of the asset (or asset's cash generating unit) is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's (or asset's cash generating unit) continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset (or asset's cash generating unit) is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the income statement, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in the income statement.

If an impairment loss is subsequently reversed, the carrying amount of the asset (or asset's cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the income statement.

2.21 Provisions for liabilities

A provision is recognised in the statement of financial position when the Company has a legal or constructive obligation as result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Mars Petcare UK

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2022**

2. Summary of significant accounting policies (continued)

2.22 Contingencies

Contingent liabilities are not recognised, except those acquired in a business combination. Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Company's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

2.23 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

2.24 Related party transactions

The Company is exempt from disclosing transactions with related parties, which are wholly owned within the same group.

2.25 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

Mars Petcare UK

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2022**

3. Judgements in applying accounting policies and key sources of estimation uncertainty

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are addressed below.

Key accounting estimates and assumptions:

(i) Multi employer defined plan and defined cash promises

The Company has obligations to pay pension benefits and deferred cash promises to certain employees. The present value of the assets and obligations depend on a number of factors, including: life expectancy, salary increases and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the statement of financial position. The assumptions reflect historical experience and current trends.

(ii) Trade spend rebate arrangements

As part of the normal course of business, the Company has entered into rebate arrangements with customers whereby so called on invoice and off invoice (discretionary spend) promotions are applied to invoiced sales, based upon achievement of certain criteria set upon agreement. For the promotions activities not settled with customers at year end, the Company is required to make estimates of the discretionary spend achieved. Discount and promotion arrangement are customer specific; they are tailored to a specific contracts and the terms can vary greatly from customer to customer. The discretionary trade spend rebate amount accrued is calculated per customer using data from the point of sale and agreements with customers. Trade spend rebate accrual represent management's best estimate at a point in time but the ultimate amounts that will be paid can vary depending on customers post year sales patterns or the level of claims received in comparison to management's best estimate. All amounts paid or payable to customers are shown as a reduction to revenue in the income statement. Unutilised accruals are released after two years following the year in which the claim is raised, which is in line with the industry regulation.

4. Turnover

The Company's activities consist solely of the manufacture and sale of pet food and pet food related products.

The directors are of the opinion that disclosure of turnover and operating result by geographical location would be seriously prejudicial to the interests of the Company, and therefore segmental analysis as required by Companies Act 2006 has not been made.

Mars Petcare UK

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2022**

5. Other operating income

	31 December 2022 £000	1 January 2022 £000
Research and development expenditure credit	2,242	2,083
	2,242	2,083

6. Employees

Staff costs were as follows:

	31 December 2022 £000	1 January 2022 £000
Wages and salaries	83,614	65,728
Social security costs	11,929	9,599
Other pension costs (note 24)	10,331	17,516
	105,874	92,843

The average monthly number of employees, including the directors, during the period was as follows:

	31 December 2022 No.	1 January 2022 No.
Production	678	590
Selling and distribution	335	306
Administration	392	354
	1,405	1,250

Mars Petcare UK

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2022**

7. Directors' remuneration

	31 December 2022 £000	1 January 2022 £000
Directors' emoluments	1,288	2,536
	1,288	2,536

The highest paid director received remuneration of £362,000 (2021: £1,092,000)

The value of defined benefit pension scheme accrued pension in respect of the highest paid director amounted to £73,000 (2021: £230,000).

Retirement benefits are accruing to 3 directors (2021: 3) under the group's defined benefit schemes.

8. Operating profit

The operating profit is stated after charging/(crediting):

	31 December 2022 £000	1 January 2022 £000
Amortisation of intangible assets	614	1,709
Impairment of stock	3,224	3,380
Depreciation of tangible assets	17,617	16,674
Loss on disposal of fixed assets	14	1,545
Hire of plant and machinery under operating leases	495	218
Research and development	4,075	5,844
Rental of properties under operating leases	8,575	20,184
(Reversal of impairment)/Impairment of trade receivables	(402)	93
Derivative financial instrument (gain)/loss	(435)	190
Foreign currency exchange loss/(gain)	138	(1,922)

The research and development costs incurred by the Company, before recharges made to other group companies, were £35,351,444 (2021: £35,998,000).

Research and development activities include the research and development of products, packaging and manufacturing methods.

Derivative financial instruments relate to forward foreign currency contracts that the Company enters into to mitigate foreign exchange risk.

Mars Petcare UK

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2022**

9. Auditors' remuneration

	31 December 2022 £000	1 January 2022 £000
Fees payable to the Company's auditor and its associates for the audit of the Company's annual accounts	155	150
Fees payable to the Company's auditors and its associates in respect of:		
Other services relating to taxation	411	379
All other services	-	420
	=====	=====

The fees relating to non-audit services represent a share of the UK group costs.

Audit fees in respect of shared service functions are borne by Mars Polska Sp. z o.o. on behalf of Mars Petcare UK.

10. Interest receivable and similar income

	31 December 2022 £000	1 January 2022 £000
Interest receivable from group companies	396	-
Net interest income on post employment benefits (note 24)	4,964	-
Other interest receivable	2,076	1
	=====	=====
	7,436	1

11. Interest payable and similar expenses

	31 December 2022 £000	1 January 2022 £000
Bank interest payable	-	16
Loans from group undertakings	2,182	1,030
Net interest expense on post employment benefits	-	18
	=====	=====
	2,182	1,064

Mars Petcare UK

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2022

12. Tax on profit

	31 December 2022 £000	1 January 2022 £000
Corporation tax		
Current tax on profits for the year	18,828	18,396
Adjustments in respect of previous periods	(3,001)	(71)
	<u>15,827</u>	<u>18,325</u>
Total current tax	<u>15,827</u>	<u>18,325</u>
Deferred tax		
Origination and reversal of timing differences	3,032	303
Changes to tax rates	956	(1,671)
Deferred tax prior year adjustment	1	155
Total deferred tax	<u>3,989</u>	<u>(1,213)</u>
Tax on profit	<u>19,816</u>	<u>17,112</u>

Mars Petcare UK

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2022**

12. Tax on profit (continued)

Factors affecting tax charge for the period

The tax assessed for the period is lower than (2021: lower than) the standard rate of corporation tax in the UK of 19.00% (2021: 19.00%). The differences are explained below:

	31 December 2022 £000	1 January 2022 £000
Profit before tax	112,253	96,265
Profit before tax multiplied by standard rate of corporation tax in the UK of 19.00% (2021: 19.00%)	21,328	18,291
Effects of:		
Adjustments in respect of prior periods	(3,000)	85
Effect of change in tax rate	956	(1,671)
Permanent differences	532	407
Total tax charge for the period	19,816	17,112

Factors that may affect future tax charges

Finance Bill 2021 increased the main rate of UK corporation tax from 19% to 25%, with effect from 1 April 2023. This change was enacted on 10 June 2021.

The deferred tax balances in the statutory financial statements are measured at rates between 23.5% and 25%.

As at the date of these financial statements there has been no further tax rate announcements.

There are no provided or unprovided deferred tax assets/(liabilities) in the period (2021: £nil).

13. Dividends

	31 December 2022 £000	1 January 2022 £000
Interim dividends of £159.36223 per share paid during the period (2021: £278.88391)	80,000	140,000
	80,000	140,000

Mars Petcare UK

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2022

14. Intangible assets

	Software £000	Intellectual Property £000	Goodwill £000	Total £000
Cost				
At 2 January 2022	3,709	3,405	17,419	24,533
Additions	24	-	-	24
At 31 December 2022	3,733	3,405	17,419	24,557
Accumulated amortisation				
At 2 January 2022	3,021	3,405	2,437	8,863
Charge for the period on owned assets	266	-	348	614
At 31 December 2022	3,287	3,405	2,785	9,477
Net book value				
At 31 December 2022	446	-	14,634	15,080
At 1 January 2022	688	-	14,982	15,670

Mars Petcare UK

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2022

15. Tangible assets

	Freehold land & property £000	Plant & machinery £000	Capital work in progress £000	Total £000
Cost or valuation				
At 2 January 2022	88,334	153,044	21,182	262,560
Additions	355	6,562	14,750	21,667
Disposals	-	(20)	-	(20)
Transfers between classes	1,178	7,513	(8,691)	-
At 31 December 2022	<u>89,867</u>	<u>167,099</u>	<u>27,241</u>	<u>284,207</u>
Accumulated depreciation				
At 2 January 2022	53,429	92,209	-	145,638
Charge for the period on owned assets	4,917	12,700	-	17,617
Disposals	-	(6)	-	(6)
At 31 December 2022	<u>58,346</u>	<u>104,903</u>	<u>-</u>	<u>163,249</u>
Net book value				
At 31 December 2022	<u>31,521</u>	<u>62,196</u>	<u>27,241</u>	<u>120,958</u>
At 1 January 2022	<u>34,905</u>	<u>60,835</u>	<u>21,182</u>	<u>116,922</u>

Freehold land and property for the Company includes £3,948,076 (2021: £3,948,076) in respect of freehold land.

Mars Petcare UK

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2022**

16. Stocks

	31 December 2022 £000	1 January 2022 £000
Raw materials and consumables	15,048	10,215
Finished goods and goods for resale	40,929	30,337
	55,977	40,552

Stocks are stated after provisions for impairment of £2,660,000 (2021: £1,206,000).

There is no significant difference between the replacement cost of stock and its carrying value.

17. Debtors: Amounts falling due within one year

	31 December 2022 £000	1 January 2022 £000
Trade debtors	38,874	29,620
Amounts owed by group undertakings	401,200	429,310
Tax recoverable	2,378	2,509
Other debtors	3,907	1,773
Prepayments and accrued income	480	512
Financial instruments	706	580
	447,545	464,304

Amounts owed by group undertakings relate to trading balances and unsecured loans, which are payable on demand. Interest is charged at a rate not exceeding 1% above the UK base rate on unsecured loans, with no interest charged on short term trading balances.

Trade debtors are stated after provisions for impairment of £402,000 (2021: £488,000).

Mars Petcare UK

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2022**

18. Creditors: Amounts falling due within one year

	31 December 2022 £000	1 January 2022 £000
Trade creditors	85,773	78,940
Amounts owed to group undertakings	110,204	114,372
Other taxation and social security	21,290	19,607
Other creditors	2,975	2,004
Derivative financial instrument (note 20)	430	274
Accruals and deferred income	63,356	76,917
	<u>284,028</u>	<u>292,114</u>

Amounts owed to group undertakings relate to trading balances and unsecured loans, which are payable on demand. Interest is charged at a rate not exceeding 1% above the UK base rate on unsecured loans, with no interest charged on short term trading balances.

19. Creditors: Amounts falling due after more than one year

	31 December 2022 £000	1 January 2022 £000
Other creditors	10,618	14,626
	<u>10,618</u>	<u>14,626</u>

Mars Petcare UK

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2022**

20. Financial instruments

	31 December 2022 £000	1 January 2022 £000
Financial assets		
Financial assets measured at fair value through income statement:		
Derivative financial instrument	706	580
Financial assets measured at amortised cost:		
Cash at bank and in hand	3,735	8,761
Trade debtors	38,874	29,620
Other debtors	3,907	1,773
Amounts owed by group undertakings	401,200	429,310
	448,422	470,044
Financial liabilities		
Financial liabilities measured at fair value through income statement:		
Derivative financial instruments	430	274
Financial liabilities measured at amortised cost:		
Trade creditors	85,773	78,940
Amounts owed to group undertakings	110,204	114,372
	196,407	193,586

Derivative financial instruments - Forward contracts:

Financial assets and liabilities measured at fair value through income statement comprise forward foreign exchange contracts used to hedge foreign currency exposures of the Company. At 31 December 2022, these contracts mature within 12 months (2021: 12 months) of the year-end date. These are measured at fair value, which is determined using valuation techniques that utilise observable inputs, the key inputs used in valuing the derivatives are forward exchange rates. At 31 December 2022, the fair value of foreign exchange forward contracts held are an asset position of £706,000 (2021: £580,000) and a liability position of £430,000 (2021: £274,000).

Mars Petcare UK

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2022**

21. Deferred Tax

	31 December 2022 £000	1 January 2022 £000
At the beginning of period	(70,192)	(387)
Credit to income statement	(3,989)	1,213
Charge to other comprehensive income	(10,670)	(71,018)
At end of period	(84,851)	(70,192)

The provision of deferred taxation is made up to as follows:

	31 December 2022 £000	1 January 2022 £000
Accelerated capital allowances	(10,816)	(8,369)
Defined benefit plan (surplus)/deficit	(77,943)	(67,268)
Other timing differences	3,908	5,445
	(84,851)	(70,192)

22. Called up share capital

	31 December 2022 £000	1 January 2022 £000
Authorised, allotted, called up and fully paid		
502,001 (2021: 502,001) Ordinary shares of £1 each	502	502

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

Mars Petcare UK

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2022**

23. Capital commitments

As at year end the Company had capital commitments as follows:

	31 December 2022 £000	1 January 2022 £000
Contracted for but not provided in these financial statements - tangible assets	1,391	9,920
	1,391	9,920

24. Pension commitments

The Company operates a Defined Benefit Pension Scheme.

Mars Petcare UK participates, along with other employers in the Effem Holdings Limited Group, in a funded contributory, self-administered, defined benefit pension plan. Assets are held in a separately administered fund.

The Company operates unfunded, non-contributory, self-administered, deferred cash promises and pension promises to certain associates who have joined the UK business.

The latest actuarial valuation of these schemes and promises were carried out at 1 January 2022 and have been updated to 31 December 2022 by independent qualified actuaries in accordance with FRS102.

Reconciliation of present value of plan liabilities:

	31 December 2022 £000	1 January 2022 £000
Reconciliation of present value of plan liabilities		
At the beginning of the year	1,746,634	1,877,890
Transfers in	741	-
Transfers out	(1,986)	(6,976)
Current service cost	13,884	16,567
Past service cost	-	949
Interest cost	31,245	23,796
Benefits paid	(60,246)	(53,701)
Actuarial gain on liabilities	(563,405)	(111,891)
At the end of the year	1,166,867	1,746,634

Mars Petcare UK

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2022

24. Pension commitments (continued)

Reconciliation of present value of plan assets:

	31 December 2022 £000	1 January 2022 £000
At the beginning of the year	2,012,073	1,872,100
Transfers out	(1,986)	(6,976)
Benefits paid	(54,679)	(52,175)
Contributions	12,278	14,418
Expected return on assets	36,210	23,778
Actuarial (loss)/gain on assets	(528,925)	160,928
At the end of the year	1,474,971	2,012,073

Composition of plan assets:

	31 December 2022 £000	1 January 2022 £000
Equities	132	604,065
Bonds	238,341	542,314
Property	146,450	130,523
Other	1,090,048	735,171
Total plan assets	1,474,971	2,012,073

Other plan assets include private equity, other alternative investments and cash.

	31 December 2022 £000	1 January 2022 £000
Fair value of plan assets	1,474,971	2,012,073
Present value of plan liabilities	(1,166,867)	(1,746,634)
Net pension scheme asset	308,104	265,439

Mars Petcare UK

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2022**

24. Pension commitments (continued)

The net pension scheme asset of £308,104,000 (2021: asset £265,439,000) is reflected in the statement of financial position in current assets under Pension asset due after more than one year of £341,868,000 (2021: £312,030,000) and in provision for liabilities of £33,764,000 (2021: £46,590,000).

The closing plan/promise obligation includes an asset relating to a funded, self-administered, defined benefit pension plan of £341,868,000 (2021 asset: £312,030,000), obligations relating to self-administered deferred cash promises of £28,192,000 (2021: £31,543,000) and obligations relating to certain associates who have joined the UK business of £5,572,000 (2021: £15,049,000).

The expected return on plan assets is the discount rate times the asset value at the start of the period. The actual return on assets for the period ended 31 December 2022 was loss of £492,715,000 (2021: gain £184,706,000).

The amounts recognised in the income statement are as follows:

	31 December 2022 £000	1 January 2022 £000
Current service cost	13,884	16,567
Past service cost	-	949
Total	13,884	17,516
Expected return on pension plan/promise assets	36,210	23,778
Interest on pension plan/promise liabilities	(31,245)	(23,796)
	4,965	(18)
Statement of comprehensive income (OCI)		
Actual return less expected return on pension plan/promise assets	(528,925)	160,928
Re-measurement of the present value of the pension plan/promise liabilities	563,405	111,891
Transfers in	(741)	-
Actuarial gain recognised in other comprehensive income	33,739	272,819

Mars Petcare UK

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2022**

24. Pension commitments (continued)

Reconciliation of net pension assets/(liabilities) were as follows:

	31 December 2022 £000	1 January 2022 £000
Opening defined benefit liability	265,439	(5,790)
Transfers in	(741)	-
Current service cost	(13,884)	(16,567)
Past service cost	-	(949)
Contribution paid during the period	12,278	14,418
Net interest income/(expense) on post employment benefit	4,965	(18)
Benefit paid during the period	5,567	1,526
Actuarial gain	34,480	272,819
	308,104	265,439

Principal actuarial assumptions at the Statement of Financial Position date (expressed as weighted averages):

	31 December 2022 %	1 January 2022 %
Discount rate	4.8	1.80
Future salary increases	3.80-7.00	3.80-7.00
Future pension increases	0.00-3.20	0.00-3.20
Inflation assumption	2.00-3.40	2.00-3.40
Mortality rates		
Longevity at age 65 for current pensioners:		
Men	22.2	22.1
Women	24.6	24.4
Longevity at age 65 for future pensioners:		
Men	22.6	22.5
Women	25	24.8

Mars Petcare UK

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2022**

24. Pension commitments (continued)

Defined contribution pension plan

The Company provides access to a defined contribution pension scheme for the benefit of certain associates. The assets of the scheme are held in a trust that is independent from the Company. During the year, the existing Associates Saving Plan ("ASP") own trust closed, and the assets were transferred to a trust fund independent from the Company. The pension charge paid during the period was £3,687,000 (2021: £3,029,000).

25. Commitments under operating leases.

As at year end the Company had future minimum lease payments due under non-cancellable operating leases for each of the following periods:

	31 December 2022 £000	1 January 2022 £000
Not later than 1 year	4,879	8,396
Later than 1 year and not later than 5 years	6,341	11,063
Later than 5 years	-	942
	11,220	20,401

26. Controlling party

The Company's ultimate parent undertaking and controlling party is Mars, Incorporated (the largest group to consolidate), a company incorporated in the State of Delaware, USA. The Company's immediate parent undertaking is Mars Peterborough UK Holdings Limited, a company registered in England and Wales. The Company is a wholly owned subsidiary of Effem Holdings Limited, the UK group parent company registered in England and Wales.

The Company is a wholly owned subsidiary of Wrigley International Holding Company (the smallest group to consolidate) and is included in the consolidated financial statements of that company, a copy of which will be submitted alongside these financial statements and may be obtained from The Registrar of Companies, Companies Registration Office, Companies House, Crown Way, Maindy, Cardiff, CFJ4 3UZ. Wrigley International Holding Company's registered office is The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington DE 19801, United States.

WRIGLEY INTERNATIONAL HOLDING COMPANY

Consolidated Financial Statements

As of December 31, 2022 and January 1, 2022

Together with Report of Independent Auditors

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Report of Independent Auditors

To the Board of Directors of Wrigley International Holding Company:

Opinion

We have audited the accompanying consolidated financial statements of Wrigley International Holding Company and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022 and January 1, 2022 and the related consolidated statements of income, comprehensive income, changes in stockholders' investment and cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and January 1, 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Notes 1 and 12 to the consolidated financial statements, the Company has entered into significant transactions with Mars, Incorporated and its subsidiaries, a related party. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will



always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

PricewaterhouseCoopers LLP

June 1, 2023

WRIGLEY INTERNATIONAL HOLDING COMPANY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022 AND JANUARY 1, 2022
USD in thousands

	<u>2022</u>	<u>2021</u>
Net sales	\$ 19,198,075	\$ 19,224,338
Cost of sales	12,018,111	11,323,683
Gross profit	7,179,964	7,900,655
Selling, general and administrative expense	4,759,348	5,153,945
Amortization of intangible assets and impairments	231,211	46,354
Income from operations	2,189,405	2,700,356
Interest expense	4,970	24,602
Interest income from Mars, net	(52,528)	(184,282)
Investment (income) loss, net	33,374	(112,939)
Foreign exchange (gain) loss, net	1,171	(7,369)
Non-operating pension and postretirement benefit income, net	(403,131)	(245,175)
Equity method investments (income) expense, net	(144,675)	(78,201)
Income before provision for income taxes	2,750,224	3,303,720
Provision for income taxes	694,811	830,588
Net income	2,055,413	2,473,132
Net income (loss) attributable to noncontrolling interests	465	(2,016)
Net income attributable to Wrigley International Holding Company	\$ 2,054,948	\$ 2,475,148

The accompanying notes are an integral part of these consolidated financial statements.

WRIGLEY INTERNATIONAL HOLDING COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022 AND JANUARY 1, 2022
USD in thousands

	<u>2022</u>	<u>2021</u>
Net income	\$ 2,055,413	\$ 2,473,132
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	(904,653)	(709,727)
Net unrealized change on investments	(2,675)	(1,011)
Net change in pension and other postretirement benefits	887,443	1,475,905
Total comprehensive income (loss)	2,035,528	3,238,299
Comprehensive income (loss) attributable to noncontrolling interests	(3,440)	(4,106)
Comprehensive income attributable to Wrigley International Holding Company	\$ 2,038,968	\$ 3,242,405

The accompanying notes are an integral part of these consolidated financial statements.

WRIGLEY INTERNATIONAL HOLDING COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND JANUARY 1, 2022
USD in thousands

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 2,055,413	\$ 2,473,132
Adjustments to reconcile net income to net cash provided by		
operating activities, net of the impact of acquisitions and divestitures:		
Depreciation, amortization and impairments	743,783	589,217
Foreign exchange (gain) loss, net	1,171	(7,369)
(Gain) loss on investments	70,465	(83,630)
Deferred income taxes	(1,694)	57,194
Other	7,812	—
Income from equity method investments	(144,675)	(78,201)
Changes in current assets and liabilities:		
Changes in accounts receivable	(116,983)	(142,961)
Changes in inventories	(456,166)	(239,124)
Changes in accounts payable and accrued liabilities	479,715	515,374
Changes in income taxes receivable and payable	62,016	73,363
Changes in other current assets and liabilities	56,308	(62,264)
Changes in other noncurrent associate benefit assets and liabilities	(514,427)	(155,450)
Changes in other noncurrent assets and liabilities	15,646	9,242
Dividends from equity method investment	—	26,430
Net cash provided by operating activities	<u>2,258,384</u>	<u>2,974,953</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(830,520)	(696,091)
Property, plant and equipment disposal proceeds	34,386	15,989
Purchases of investments	(134,103)	(38,288)
Sales of investments	274,694	38,844
Proceeds from sale of businesses, net	29,927	—
Investments in unconsolidated entities	(457,207)	(9,946)
Net cash used in investing activities	<u>(1,082,823)</u>	<u>(689,492)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of long-term debt	(848)	(1,004)
Dividends paid	(738,908)	(1,934)
Net transfers to Mars	(141,867)	(2,131,511)
Other short-term financing activities	(4,140)	(18,135)
Acquisition of noncontrolling interest	(4,029)	(52,490)
Payments to noncontrolling interest	(8)	(18)
Net cash used in financing activities	<u>(889,800)</u>	<u>(2,205,092)</u>
Effect of exchange rate changes on cash and cash equivalents	(137,800)	9,398
Net increase in cash and cash equivalents	147,961	89,767
Cash and cash equivalents at beginning of year	1,224,925	1,135,158
Cash and cash equivalents at end of year	<u>\$ 1,372,886</u>	<u>\$ 1,224,925</u>

The accompanying notes are an integral part of these consolidated financial statements.

WRIGLEY INTERNATIONAL HOLDING COMPANY
CONSOLIDATED BALANCE SHEETS
AS OF AS OF DECEMBER 31, 2022 AND JANUARY 1, 2022
USD in thousands, except par value and shares

	2022	2021
ASSETS		
Cash and cash equivalents	\$ 1,372,886	\$ 1,224,925
Investments	380,934	630,082
Due from Mars, net	6,145,450	5,690,010
Accounts receivable, net of allowances of \$20,287 and \$21,845	785,167	734,178
Inventories	2,008,721	1,665,027
Income taxes receivable	122,475	174,875
Prepaid expenses and other	203,573	248,535
Total current assets	11,019,206	10,367,632
Property, plant and equipment, net	3,601,137	3,548,180
Operating lease right-of-use assets	279,486	—
Prepaid associate benefit assets	1,887,451	1,564,829
Goodwill	5,506,317	6,119,260
Intangible assets, net	492,411	560,128
Deferred income taxes	659,296	839,089
Other assets	1,436,888	1,127,500
TOTAL ASSETS	\$ 24,882,192	\$ 24,126,618
LIABILITIES		
Due to banks	\$ 3,519	\$ 4,695
Current installments on long-term debt	844	844
Current portion of accrued associate benefits	46,182	35,056
Current portion of operating lease liabilities	77,023	—
Accounts payable and accrued liabilities	6,071,710	5,907,377
Income taxes payable	106,644	115,123
Total current liabilities	6,305,922	6,063,095
Long-term debt, less current installments	315	1,172
Accrued associate benefits	1,328,871	2,423,668
Deferred income taxes	460,924	397,825
Operating lease liabilities	209,524	—
Other liabilities	841,505	871,381
TOTAL LIABILITIES	9,147,061	9,757,141
STOCKHOLDERS' INVESTMENT		
Common stock, par value \$0.01 per share; 106 shares authorized, issued and outstanding	—	—
Additional paid in capital	17,873,761	17,800,039
Retained earnings	4,153,414	2,838,387
Accumulated other comprehensive income (loss)	(6,323,959)	(6,307,979)
TOTAL WRIGLEY INTERNATIONAL HOLDING COMPANY STOCKHOLDERS' INVESTMENT	15,703,216	14,330,447
Noncontrolling interests	31,915	39,030
TOTAL STOCKHOLDERS' INVESTMENT	15,735,131	14,369,477
TOTAL LIABILITIES AND STOCKHOLDERS' INVESTMENT	\$ 24,882,192	\$ 24,126,618

The accompanying notes are an integral part of these consolidated financial statements.

WRIGLEY INTERNATIONAL HOLDING COMPANY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' INVESTMENT
FOR THE YEARS ENDED DECEMBER 31, 2022 AND JANUARY 1, 2022

USD in thousands

	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Wrigley International Holding Company Stockholders' Investment	Noncontrolling Interests	Total Stockholders' Investment
Balance, January 2, 2021	\$ 17,730,903	\$ 5,050,127	\$ (7,075,236)	\$ 15,705,794	\$ 92,807	\$ 15,798,601
Comprehensive income (loss)	—	2,475,148	767,257	3,242,405	(4,106)	3,238,299
Affiliate investment	69,136	—	—	69,136	—	69,136
Affiliate dividends, net	—	(4,614,706)	—	(4,614,706)	—	(4,614,706)
Acquisitions of and payments to noncontrolling interest and other	—	(72,182)	—	(72,182)	(49,671)	(121,853)
Balance, January 1, 2022	\$ 17,800,039	\$ 2,838,387	\$ (6,307,979)	\$ 14,330,447	\$ 39,030	\$ 14,369,477
Comprehensive income (loss)	—	2,054,948	(15,980)	2,038,968	(3,440)	2,035,528
Affiliate investment	73,722	—	—	73,722	—	73,722
Affiliate dividends, net	—	(738,908)	—	(738,908)	—	(738,908)
Acquisitions of and payments to noncontrolling interest and other	—	(1,013)	—	(1,013)	(3,675)	(4,688)
Balance, December 31, 2022	\$ 17,873,761	\$ 4,153,414	\$ (6,323,959)	\$ 15,703,216	\$ 31,915	\$ 15,735,131

The accompanying notes are an integral part of these consolidated financial statements.

WRIGLEY INTERNATIONAL HOLDING COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2022 AND JANUARY 1, 2022
(USD in thousands, unless otherwise noted)

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Basis of Presentation

The Consolidated Financial Statements include the accounts of Wrigley International Holding Company ("WIHC" and together, with its subsidiaries, the "Company" or "our"), a wholly owned subsidiary of Mars, Incorporated (together with its subsidiaries, "Mars" or with its subsidiaries excluding the Company, the "Parent"). WIHC was established as a Delaware Limited Liability Corporation ("LLC") on October 9, 2009. In connection with a reorganization of Mars' legal entity structure, WIHC was converted from an LLC to a corporation on June 2, 2017. The Parent was the sole member prior to the conversion and became the sole stockholder after the conversion.

The Consolidated Financial Statements include subsidiaries in which a controlling interest is maintained and variable interest entities for which the Company is the primary beneficiary. For those consolidated subsidiaries in which the Company's ownership is less than 100%, the minority stockholders' interests are shown as noncontrolling interests. Investments in affiliates over which the Company has significant influence but not a controlling interest are carried on the equity basis. All intercompany accounts and transactions are eliminated in consolidation.

The Company's fiscal year consists of 52 or 53 weeks. The fiscal years ended December 31, 2022 and January 1, 2022 are 52 weeks.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of sales, costs and expenses, assets and liabilities, and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued new accounting guidance which requires lessees to recognize virtually all of their leases on the Consolidated Balance Sheets by recording right-of-use assets and lease liabilities. Under the new guidance, there is a dual model for income statement recognition. Operating leases will result in straight-line expense recognition included in either cost of sales or selling, general and administrative expense. Finance leases will result in front-loaded expense recognition included in interest expense and straight-line depreciation expense included in either cost of sales or selling, general and administrative expense. The standard provides the effective date method, where lessees and lessors are required to recognize and measure leases as of the period of adoption. Entities electing the effective date method option would recognize a cumulative-effect adjustment to retained earnings in the period of adoption and the comparative periods presented would continue to be in accordance with the prior standard. The Company adopted the new guidance on January 2, 2022 using the effective date method.

The Company elected the available package of transition practical expedients, which allowed the Company to use its historical assessments of whether contracts are or contain leases, lease

classification and initial direct costs. The Company elected the practical expedient for short-term leases and does not recognize leases with a contractual term of 12 months or less in its Consolidated Balance Sheets, and, for the majority of leases, a practical expedient to include both the lease and non-lease components as a single component. The Company did not elect the transition practical expedient to use hindsight to determine the lease term.

Upon adoption of the new guidance, the Company recognized right-of-use assets of \$356 million and lease liabilities of \$357 million. The difference between the additional lease assets and lease liabilities, represents existing deferred rent and prepaid lease balances that were reclassified on the Consolidated Balance Sheets. The adoption of the new guidance did not have a material impact to the Company's Consolidated Statements of Income or Cash Flows.

In September 2022, the FASB issued a new standard requiring companies to disclose the nature of its supplier financing programs. The standard also requires disclosure of the amount outstanding that remains unpaid by the Company as of the end of the annual period beginning in its 2023 annual financial statements, including the comparative balance as of the end of 2022. Disclosure of a rollforward of those obligations during the annual period, including the amount of obligations confirmed and the amount of obligations subsequently paid, is required beginning in the 2024 annual financial statements. The Company is evaluating the impact of the adoption of the new standard.

Accounting Policies

Foreign Currency Translation

The Company uses the current rate method of translating foreign currency financial statements, except for countries deemed to be highly inflationary for which a combination of current and historical exchange rates are used and any translation adjustments are included in net income. Gains and losses on translation of equity interests in subsidiaries outside the United States of America ("U.S.") and intercompany notes of a long-term investment nature are reported in accumulated other comprehensive loss, net of tax, within stockholders' investment on the Consolidated Balance Sheets.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, interest and non-interest-bearing bank deposits, and securities with original maturities of three months or less.

Cash Flows

Cash payments for interest were \$6 million and \$12 million for the years ended December 31, 2022 and January 1, 2022, respectively. Net cash payments for income taxes were \$654 million and \$710 million for the years ended December 31, 2022 and January 1, 2022, respectively.

The Company engaged in significant non-cash financing activities mainly with related parties. These non-cash transactions are described in Note 12, *Related Party*.

Revenue Recognition

The Company recognizes revenue when performance obligations are satisfied. The Company considers all goods or services promised, whether explicitly stated in a contract or implied based on customary business practices and identifies a performance obligation for each promise to transfer a good or service (or bundle of goods or services) that is distinct. For a contract that has more than

one performance obligation, the Company allocates the total consideration to each distinct performance obligation on a relative standalone selling price basis. The Company's performance obligations generally consist of promises to sell and deliver products.

The Company generates revenue by manufacturing and selling products globally to wholesalers, distributors, retailers and consumers. The Company's products can be classified into the following categories: confectionery, food and pet nutrition. Products within the same category exhibit similar economic characteristics, such that they are based on similar ingredients and are marketed and sold through the same channels to the same customers. Control of products is transferred upon shipment to, or receipt at, the customers' locations, as determined by the specific terms of the contract. Control is transferred to the customer at a point in time and revenue is recognized. Amounts billed and due from the customers are classified as accounts receivable in the Consolidated Balance Sheets and require payment on a short-term basis.

All performance obligations under the terms of contracts with customers have an original duration of one year or less. The Company does not incur costs to obtain or fulfill contracts.

The terms of sales may allow for a right of return. The Company may pay customers incentives and allowances including discounts, rebates and promotional and marketing funds. The amounts associated with the arrangements described above are defined as variable consideration. The Company recognizes allowances for variable consideration in the period when the sale is recognized. The allowances are estimated based on historical experience and other factors, including annual forecasted sales volume and customer ending inventories, and are included in net sales in the Consolidated Statements of Income. In gathering data to estimate variable consideration, the Company generally calculates the estimate using a portfolio approach and may use the individual contract level. The result of these estimates impact accounts receivable, accounts payable and accrued liabilities in our Consolidated Balance Sheets. Historically, the difference between actual consideration compared to estimated variable consideration has not been significant to the financial statements. Differences between estimates and actuals are recognized as changes in estimate.

Over 99% of net sales were recognized when control of the goods and services was transferred to the customers at a point in time.

Investments

Investments in debt and equity securities are reported at fair value. Changes in the fair value of equity securities are included in income while changes in the fair value of debt securities are excluded from income. Unrealized gains and losses on debt securities are included as a separate component of accumulated other comprehensive income (loss), net of tax. Realized gains and losses on the sale of debt securities are based on the specific identification method and are included in income.

Investments in debt securities are considered impaired when a decline in fair value is judged to be other-than-temporary. The Company considers factors affecting the issuer, factors affecting the industry the issuer operates within, and general debt market trends. The Company considers the length of time an investment's fair value has been below carrying value, the severity of the decline, the near-term prospects for recovery to cost, and the Company's intent and ability to hold the investment until maturity or market recovery is realized. When a determination is made that a decline in fair value below the cost basis is other-than-temporary, the related investment is expensed to its estimated fair value in the Consolidated Statements of Income.

Accounts Receivable

Trade accounts receivable are at net realizable value. This value includes an allowance for estimated uncollectible accounts to reflect any loss anticipated on the trade accounts receivable balances. The allowance for doubtful accounts represents the Company's estimate of the amount of probable credit losses in existing accounts receivable, as determined from a review of past due balances and other relevant information.

Inventories

Inventories are stated at the lower of cost or net realizable value. The Company uses the first-in, first-out method in determining the majority of its inventory costs.

Inventories consist of the following as of December 31, 2022 and January 1, 2022 respectively:

	<u>2022</u>	<u>2021</u>
Finished goods	\$ 1,415,148	\$ 1,205,752
Raw materials	593,573	459,275
	<u>\$ 2,008,721</u>	<u>\$ 1,665,027</u>

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Routine repair and maintenance costs are expensed as incurred. Depreciation expense during the years ended December 31, 2022 and January 1, 2022, was \$466 million and \$495 million, respectively.

Depreciation is generally recognized on the straight-line method over the estimated useful lives of the related assets for financial reporting purposes. The estimated useful lives of depreciable property, plant and equipment generally are as follows:

<u>Category</u>	<u>Years</u>
Buildings	20
Building improvements and fixtures	12
Machinery and equipment	5 to 10
Office equipment	6
Computer equipment	3

Leases

The Company has operating leases primarily for real estate and equipment. The Company has finance leases primarily for manufacturing and other equipment. The Company determines if an arrangement is a lease at its inception.

Leased right-of-use ("ROU") assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. ROU assets also include any initial direct costs, prepaid lease payments and lease incentives received, when applicable.

Finance lease ROU assets are included in property, plant and equipment, net and finance lease liabilities are included in accounts payable and accrued liabilities and other liabilities in the Consolidated Balance Sheets.

A rate implicit in the lease when readily determinable is used in arriving at the present value of lease payments. As most of the Company's leases do not provide an implicit rate, the Company uses an incremental borrowing rate based on information available at lease commencement dates for its leases. The Company uses the government treasury yields for various currencies and adjusts the respective risk-free rate by the corporate credit spread based on the yield for comparable corporate bonds to arrive at a collateralized incremental borrowing rate. The Company used the incremental borrowing rate on January 1, 2022 for operating leases that commenced prior to that date.

The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise those options. The Company does not separate lease components from non-lease components for the majority of leases. The Company has elected to not combine lease and non-lease components for assets controlled indirectly through third party service-related agreements that include significant production related costs. Consideration for such contracts are allocated to the lease component and non-lease components based upon relative standalone prices either observable or estimated if observable prices are not readily available.

In addition, variable lease payments that are based on an index or rate are included in the measurement of ROU assets and lease liabilities. All other variable lease payments are expensed as incurred and are not included in measurement of ROU assets and lease liabilities. Lease expense for operating leases is recognized on a straight-line basis. For finance leases, the Company recognizes interest expense on lease liabilities using the effective interest method and amortization of ROU assets on a straight-line basis.

Lease expense for short-term leases is expensed on a straight-line basis over the lease term.

Impairment Evaluation of Long-Lived Assets

The Company reviews property, plant and equipment and finite-lived intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. This evaluation includes comparing future undiscounted cash flows relating to the assets, or the appropriate grouping of assets, over the remaining life of such assets to the net book value of those assets. If the projected cash flows are less than the net book value, an impairment loss is measured based on the excess of the net book value over the estimated fair value of the asset.

Intangible Assets

For finite-lived intangible assets, amortization is generally provided on the straight-line method over the estimated useful lives of the related assets for financial reporting purposes. The estimated useful lives of finite-lived intangible assets are as follows:

Category	Years
Trademarks	14 to 40
Customer relationships	4 to 17
Patents and technology	11
Other intangibles	5

Goodwill

The Company assesses its goodwill for impairment annually during the fourth quarter and whenever events or changes in circumstances occur indicating the carrying value of its reporting

units' net assets may not be fully recoverable. The Company is given the option to make a qualitative evaluation of goodwill impairment to determine whether it is necessary to calculate the fair value of its reporting units. The Company makes its qualitative evaluation of its goodwill by considering, among other factors, the overall macroeconomic conditions, industry and market considerations, overall financial performance and other relevant reporting unit specific events. Based on the qualitative evaluation, if the Company determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the Company compares the fair value of each reporting unit with its carrying value. If the fair value of a reporting unit exceeds the carrying value of the net assets assigned to that reporting unit, goodwill is not considered impaired. If the carrying value of the net assets assigned to that reporting unit exceeds the fair value of the reporting unit, the difference between the carrying value and the fair value is recognized as an impairment loss reducing goodwill. Determining the fair value of a reporting unit involves the use of significant estimates and assumptions. These estimates and assumptions include projected revenue growth rates, operating margins, discount rates, capital expenditures and related depreciation to calculate estimated cash flows. In addition, certain judgments and assumptions are made in allocating shared assets and liabilities to determine the carrying values of reporting units.

Pension Benefit Costs

The Company recognizes gains and losses resulting from the settlement of pension obligations in certain defined benefit pension plans as they occur. In addition, when a lump sum payment is made for certain defined benefit pension plans, all deferred gains and losses are immediately recognized.

In a fiscal year end that does not coincide with December 31st, the Company measures the assets and obligations of the defined benefit plan using December 31st.

Software Costs

The Company capitalizes certain costs incurred in the development of internal-use software. Such costs include external direct costs of materials and licenses, payroll and payroll-related costs for associates directly involved in the development of internal-use software, and related interest costs. These capitalized costs are included in other assets on the Consolidated Balance Sheets and are amortized over useful lives of three to five years on a straight-line basis. Amortization of capitalized software costs is included in selling, general and administrative expense in the Consolidated Statements of Income.

As of December 31, 2022 and January 1, 2022, respectively, other assets included capitalized software costs as follows:

	<u>2022</u>	<u>2021</u>
Capitalized software	\$ 362,144	\$ 344,009
Less: accumulated amortization	<u>(228,190)</u>	<u>(201,076)</u>
	<u>\$ 133,954</u>	<u>\$ 142,933</u>

Amortization expense associated with capitalized software during the years ended December 31, 2022 and January 1, 2022 was \$47 million and \$48 million, respectively.

Advertising Costs

Advertising costs are expensed in the period incurred. Advertising costs of \$739 million and \$930 million for the years ended December 31, 2022 and January 1, 2022, respectively, were included in selling, general and administrative expense.

Research and Development

Research and development costs are expensed as incurred and include the costs to design, develop, test, deploy and enhance the Company's products. Research and development costs of \$200 million and \$236 million for the years ended December 31, 2022 and January 1, 2022, respectively, were included in selling, general and administrative expense.

Distribution Costs

Distribution costs, including shipping and handling costs, are classified as cost of sales.

Derivatives

All derivative financial instruments are reported on the Consolidated Balance Sheets at fair value. Changes in fair value are recognized either in net income or other comprehensive income (loss), net of tax, depending on whether the derivative is designated as a hedge, the nature of the underlying exposure being hedged, and how effective the derivative is at offsetting price movements in the underlying exposure. Derivatives are used solely for risk management purposes and are either designated as hedges or used as economic hedges. See Note 6, *Financial Instruments*, for additional information.

The Company's operations give rise to exposure to market risks. Generally, derivative financial instruments are utilized to reduce those risks. The Company enters into forward exchange contracts and options for the purchase and sale of foreign currencies as part of the management of its foreign currency exposures. These exposures arise primarily from anticipated purchases of certain raw materials, consumption of energy to operate manufacturing processes, sales of the Company's products in foreign currencies, debt and interest payments, investments in foreign subsidiaries and intercompany financing activities.

The Company, in the normal course of production, uses large quantities of cocoa, sugar, grains and other commodities including indirect commodities such as electricity, natural gas and diesel as part of manufacturing processes. Prices for these commodities fluctuate due to changes in the supply and demand for the commodities and changes in the exchange rates for the currencies in which they are traded. To hedge price risk associated with its anticipated purchases of these commodities, the Company buys and sells futures contracts for the commodities and forward contracts and options for the related currencies.

Fair values of derivative assets and liabilities not traded either on exchanges or liquid over-the-counter markets are determined by quantitative models primarily based on market observable inputs, including market interest rate curves and referenced credit spreads. Most market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services. The Company considers the need to adjust the fair values of derivative assets and liabilities for counterparty credit quality and non-performance risk.

Income Taxes

Deferred income tax assets and liabilities are recognized for the expected future tax consequences of events that have been included in the financial statements or tax returns, and are determined annually based on the difference between financial statement and tax bases of assets and liabilities using enacted tax laws and rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amounts expected to be realized. The Company provides U.S. federal income taxes for

earnings and certain other estimated future cash amounts of non-U.S. subsidiaries that are expected to be remitted in the foreseeable future. The Company has not recorded deferred taxes related to the portion of its ownership in foreign subsidiaries which it considers permanently reinvested. The amount of this unrecognized U.S. deferred tax liability is not material.

Tax benefits are recognized in the financial statements from uncertain tax positions only if it is more likely than not that the tax position will be sustained based on the technical merits of the position. The amount recognized is measured as the largest amount of benefit that is greater than 50% likely to be realized upon resolution. Future changes related to the expected resolution of uncertain tax positions could affect tax expense in the period when the change occurs.

Global intangible low tax income ("GILTI") provisions in the U.S. tax code impose a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. The Company has elected to treat any potential GILTI inclusions as a period cost.

Fair Value

Fair value is determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. Market or observable inputs are the most persuasive source of values, followed by assumptions based on hypothetical transactions in the absence of market inputs.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into the following three levels, in order of reliability, as described below:

Level 1: Quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities;

Level 2: Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly; quoted prices for similar assets or liabilities; and model-derived valuations whose inputs are observable or whose significant value drivers are observable;

Level 3: Significant inputs to the valuation model are unobservable.

Significant transfers between levels are recognized at the end of the reporting period. The carrying amounts of short-term financial instruments, including cash and cash equivalents, receivables, and certain other liabilities are reasonable estimates of fair value due to the short-term nature of these instruments.

Loans Due From and Payable To Related Parties

The Company has various notes payable to and receivable from related parties under common control with its Parent. The Parent generally has the unilateral ability to modify its global intercompany capital structure, which includes modifying intercompany note agreements to accelerate payment. As the Company's related party notes may be modified at the Parent's discretion, these positions are presented on a net basis and classified as current in the Consolidated Balance Sheets unless otherwise disclosed.

NOTE 2 — EQUITY METHOD INVESTMENTS

Related Party Equity Method Investment

The Company has a 37.2% ownership interest in Mars Limited Liability Company ("Mars Russia"), a Russian domiciled entity in which the Parent holds a controlling interest. The investment in Mars Russia is classified as an equity method investment as the Company has significant influence over Mars Russia. The investment of \$458 million and \$577 million as of December 31, 2022 and January 1, 2022, respectively, is recorded in other assets in the Consolidated Balance Sheets.

Equity Method Investment Activity

In 2022, the Company invested \$429 million in FV Amazonian Partners, L.P. ("Amazonian Fund") with cash on hand. Additionally, the Company invested \$15 million in FV Diamond Partners, L.P. ("Diamond Fund") with cash on hand. The Amazonian Fund and Diamond Fund were established as an investment vehicle to pursue strategic investments. The Amazonian Fund and Diamond Fund equity method investments are included in other assets on the Consolidated Balance Sheets.

NOTE 3 — INVESTMENTS

The investments included on the Consolidated Balance Sheets were as follows:

	Location on the Consolidated Balance Sheets	2022	2021
Available-for-sale securities			
Corporate Debt Securities	Investments	\$ —	\$73,608
Total available-for-sale securities		—	73,608
Equity Securities with Readily Determinable Fair Values			
Marketable Securities	Investments	380,934	556,474
Marketable Securities	Other assets	22,126	23,675
Total Equity Securities with Readily Determinable Fair Values		403,060	580,149
Other long-term investments	Other assets	12,354	15,214
Total investments		\$ 415,414	\$ 668,971

Gross realized gains on the sales of equity investments were \$50 million and \$13 million, respectively, for the years ended December 31, 2022 and January 1, 2022. Gross realized losses on the sales of equity investments were \$0 and \$0, respectively, for the years ended December 31, 2022 and January 1, 2022. Gross realized gains and losses on equity sales are included in investment (income) loss, net, in the Consolidated Statements of Income.

Debt Securities

The Company sold all outstanding available-for-sale corporate debt securities during the year ended December 31, 2022, realizing a loss of \$22 million.

As of January 1, 2022, the Company's investments in available-for-sale debt securities were as follows:

	Cost Basis	Unrealized Gain	Unrealized Loss	Fair Value
Corporate Debt Securities	\$ 70,932	\$ 3,422	\$ (746)	\$ 73,608

Equity Securities

As of December 31, 2022 and January 1, 2022, the carrying value of our equity securities with readily determinable fair values were as follows:

	2022		2021	
	Cost Basis	Fair Value	Cost Basis	Fair Value
Marketable Securities	\$ 247,554	\$ 403,060	\$ 314,596	\$ 580,149

The calculation of unrealized gains and losses, net, recognized during the year related to equity securities held at December 31, 2022 and January 1, 2022, is as follows:

	2022	2021
Gains (losses), net, recognized during the period related to equity securities	\$ (40,107)	\$ 69,673
Less: Gains (losses), net, recognized during the period related to equity securities sold during the year	50,244	12,890
Unrealized gains (losses), net, recognized during the period related to equity securities held at year end	\$ (90,351)	\$ 56,783

Fair Value Investments

Investments measured at fair value on a recurring basis were categorized as follows at December 31, 2022:

	Level 1	Level 2	Level 3	Total
Marketable Securities	\$ 72,624	\$ 330,436	\$ —	\$ 403,060
Other Investments	—	—	252,911	252,911
Total Investments measured at Fair Value	\$ 72,624	\$ 330,436	\$ 252,911	\$ 655,971

Investments measured at fair value on a recurring basis were categorized as follows at January 1, 2022:

	Level 1	Level 2	Level 3	Total
Marketable Securities	\$ 140,855	\$ 439,294	\$ —	\$ 580,149
Corporate Debt Securities	—	73,608	—	73,608
Other Investments	—	—	282,400	282,400
Total Investments measured at Fair Value	\$ 140,855	\$ 512,902	\$ 282,400	\$ 936,157

Level 3 investments include \$253 million and \$282 million of equity method investments accounted for under the fair value option, as of December 31, 2022 and January 1, 2022, respectively.

NOTE 4 — PENSION AND OTHER POSTRETIREMENT PLANS

The Company sponsors various pension plans, all of which are located outside of the United States of America. The benefit obligations and related assumptions, plan assets, and funded status of the Company's pension and other postretirement benefit plans as of December 31, 2022 were as follows:

	Pension plans	Other postretirement benefit plans
Benefit obligation	\$ 8,426,721	\$ 5,965
Fair value of plan assets	8,978,747	—
Funded status	\$ 552,026	\$ (5,965)
Accumulated benefit obligation	\$ 8,166,433	N/A

Weighted-average assumptions to determine benefit obligations:

Discount rate	4.43 %	1.20 %
Rate of increase in future compensation levels	3.51 %	N/A
Cash balance interest crediting rate	5.91 %	N/A

The benefit obligations and related assumptions, plan assets, and funded status of the Company's pension and other postretirement benefit plans as of January 1, 2022 were as follows:

	Pension plans	Other postretirement benefit plans
Benefit obligation	\$ 13,527,098	\$ 8,490
Fair value of plan assets	12,674,009	—
Funded status	\$ (853,089)	\$ (8,490)
Accumulated benefit obligation	\$ 12,914,100	N/A

Weighted-average assumptions to determine benefit obligations:

Discount rate	1.70 %	1.23 %
Rate of increase in future compensation levels	3.44 %	N/A
Cash balance interest crediting rate	5.96 %	N/A

The change in the Company's benefit obligation for the pension plans was primarily due to an actuarial gain recognized as a result of increases to the discount rate used to measure the benefit obligation and currency gains. There were no significant changes in the Company's benefit obligation for the other postretirement benefit plans.

Pension and other postretirement benefit plans with obligations in excess of plan assets as of December 31, 2022 consist of the following:

	<u>Pension plans</u>	<u>Other postretirement benefit plans</u>
Benefit obligation	\$ 2,236,522	\$ 5,965
Fair value of plan assets	901,097	—

Pension and other postretirement benefit plans with obligations in excess of plan assets as of January 1, 2022 consist of the following:

	<u>Pension plans</u>	<u>Other postretirement benefit plans</u>
Benefit obligation	\$ 4,695,557	\$ 8,490
Fair value of plan assets	2,277,639	—

Pension and other postretirement benefit plans with accumulated benefit obligations in excess of plan assets as of December 31, 2022 consist of the following:

	<u>Pension plans</u>	<u>Other postretirement benefit plans</u>
Accumulated benefit obligation	\$ 2,129,379	N/A
Fair value of plan assets	901,097	N/A

Pension and other postretirement benefit plans with accumulated benefit obligations in excess of plan assets as of January 1, 2022 consist of the following:

	<u>Pension plans</u>	<u>Other postretirement benefit plans</u>
Accumulated benefit obligation	\$ 4,123,861	N/A
Fair value of plan assets	2,002,307	N/A

Net periodic benefit (income) cost, and related assumptions, contributions and benefits paid for the year ended December 31, 2022 were as follows:

	Pension plans	Other postretirement benefit plans
Net periodic benefit (income) cost	\$ (210,606)	\$ 226
Employer contributions	279,966	—
Participant contributions	975	—
Benefits paid	402,484	—

Weighted-average assumptions to determine net periodic benefit (income) cost:

Discount rate	1.70 %	1.23 %
Expected long-term rate of return on plan assets	7.58 %	N/A
Rate of increase in future compensation levels	3.44 %	N/A
Cash balance interest crediting rate	5.96 %	N/A

Net periodic benefit (income) cost, and related assumptions, contributions and benefits paid for the year ended January 1, 2022 were as follows:

	Pension plans	Other postretirement benefit plans
Net periodic benefit (income) cost	\$ (13,360)	\$ (36)
Employer contributions	150,809	654
Participant contributions	986	—
Benefits paid	430,949	654

Weighted-average assumptions to determine net periodic benefit (income) cost:

Discount rate	1.22 %	1.45 %
Expected long-term rate of return on plan assets	7.26 %	N/A
Rate of increase in future compensation levels	3.53 %	N/A
Cash balance interest crediting rate	5.49 %	N/A

The components of net periodic benefit (income) cost other than the service cost component are included in the line item non-operating pension and postretirement income, net in the Consolidated Statements of Income.

During the years ended December 31, 2022 and January 1, 2022, the Company's net periodic benefit cost included losses of \$11 million and \$0 million, respectively, related to the settlement and curtailment of certain pension plan obligations.

Amounts recognized on the Consolidated Balance Sheets as of December 31, 2022 consisted of:

	Pension plans	Other postretirement benefit plans
Prepaid associate benefit assets	\$ 1,887,451	\$ —
Current portion of accrued associate benefits	45,412	493
Accrued associate benefits, noncurrent	1,290,013	5,472
Accumulated other comprehensive income (loss):		
Net gain (loss)	(2,225,894)	—
Net prior service (cost) credit	(32,482)	—
Deferred income tax	505,407	—
Accumulated other comprehensive income (loss), net of tax	\$ (1,752,969)	\$ —

Amounts recognized on the Consolidated Balance Sheets as of January 1, 2022 consisted of:

	Pension plans	Other postretirement benefit plans
Prepaid associate benefit assets	\$ 1,564,829	\$ —
Current portion of accrued associate benefits	34,215	629
Accrued associate benefits, noncurrent	2,383,746	7,861
Accumulated other comprehensive income (loss):		
Net gain (loss)	(3,421,626)	(2,118)
Net prior service (cost) credit	(40,435)	—
Deferred income tax	823,200	567
Accumulated other comprehensive income (loss), net of tax	\$ (2,638,861)	\$ (1,551)

Amounts recognized in other comprehensive income for the year ended December 31, 2022 consisted of:

	Pension plans	Other postretirement benefit plans
Reclassification to net income:		
Amortization of net (gain) loss	\$ 232,065	\$ 134
Amortization of prior service cost (credit)	4,598	—
Other movements during the year:		
Net gain (loss)	963,667	1,984
Net prior service (cost) credit	3,355	—
Other comprehensive income (loss), gross	1,203,685	2,118
Deferred income tax	(317,793)	(567)
Other comprehensive income (loss), net of tax	\$ 885,892	\$ 1,551

Amounts recognized in other comprehensive income for the year ended January 1, 2022 consisted of:

	Pension plans	Other postretirement benefits plans
Reclassification to net income:		
Amortization of net (gain) loss	\$ 420,184	\$ (170)
Amortization of prior service cost (credit)	7,888	(1)
Other movements during the year:		
Net gain (loss)	1,573,774	358
Net prior service (cost) credit	(1,790)	—
Other comprehensive income (loss), gross	2,000,056	187
Deferred income tax	(524,467)	129
Other comprehensive income (loss), net of tax	\$ 1,475,589	\$ 316

Plan Assets

The Company's expected long-term rate of return on plan assets is determined by the respective plans' current asset allocation and estimated future long-term returns by asset class. Projections of overall expected long-term rate of return on assets assumptions are formulated through a comprehensive process incorporating economic and financial market theory, financial market history, and investment judgment. Assumptions are predicated on, and consistent with, theory and are tested against history for reasonableness.

The risk inherent in each asset class is considered to determine an appropriate return expectation for each asset class. The higher the risk, the higher the risk premium required relative to risk-free assets. The investment return expectation for the portfolio is determined by weighting the expected returns for each asset class by the percentage representation of that asset class within the portfolio and summing the results.

Plan assets for the most significant postretirement benefits have similar investment policies. The Company's pension plans employ a long-term strategy driven by the expectation that equity ownership will outperform debt securities over the long-term and by the principle that a higher funded status warrants a closer match between assets and liabilities. Accordingly, the current target allocation for plan assets is generally 25%-40% in equity ownership, including publicly traded stock, real estate, and private equity, 50%-75% in public and private debt securities, and 0%-20% in hedge funds and other. For a number of large plans, this has changed in favor of public debt securities because their funded status and/or the level of real interest rates have increased. Currently, most investments are implemented through actively managed strategies as opposed to passive index tracking approaches.

Investment risk is mitigated by maintaining appropriate diversification of investment assets and by restricting deviation from investment policy of predetermined risk control ranges. The plans are permitted to use derivative financial instruments for investment purposes for hedging underlying asset exposure and for rebalancing the asset allocation.

Pension plan assets measured at fair value as of December 31, 2022 were as follows:

Assets at fair value included in the fair value hierarchy

	Level 1	Level 2	Level 3 ^(g)	Other	Total
Equity securities ^(a)	\$ 400,461	\$ —	\$ —	\$ 794,867	\$ 1,195,328
Government debt securities ^(b)	38,451	932,264	—	165,084	1,135,799
Corporate debt securities ^(b)	88,502	668,167	16	132,444	889,129
Real estate ^(c)	42,254	—	—	747,710	789,964
Hedge funds ^(d)	18,595	—	—	1,443,959	1,462,554
Private equity ^(c)	48,491	—	—	1,587,536	1,636,027
Cash and cash equivalents	2,220,476	—	—	—	2,220,476
Other ^(f)	(59,971)	(319,818)	—	29,259	(350,530)
Total	\$2,797,259	\$1,280,613	\$ 16	\$ 4,900,859	\$ 8,978,747

The fair value descriptions for items (a) through (g), presented after the final fair value table, pertain to all plan asset fair value tables in Note 4, *Pension and other postretirement plans*. The Other column includes certain investments that are measured at fair value using the Net Asset Value ("NAV") per share (or its equivalent) practical expedient and have not been classified in the fair value hierarchy. The fair value amounts presented in the tables are intended to permit reconciliation of the fair value hierarchy to the total retirement plan assets.

Pension plan assets measured at fair value as of January 1, 2022 were as follows:

Assets at fair value included in the fair value hierarchy

	Level 1	Level 2	Level 3 ^(g)	Other	Total
Equity securities ^(a)	\$1,172,302	\$ 103,306	\$ —	\$2,786,132	\$ 4,061,740
Government debt securities ^(b)	67,759	1,008,114	—	518,667	1,594,540
Corporate debt securities ^(b)	111,115	1,624,327	115	417,636	2,153,193
Real estate ^(c)	73,226	—	—	734,332	807,558
Hedge funds ^(d)	16,815	—	—	1,486,616	1,503,431
Private equity ^(c)	49,770	—	—	1,604,627	1,654,397
Cash and cash equivalents	796,866	—	—	—	796,866
Other ^(f)	(1,107)	71,938	—	31,453	102,284
Total	\$2,286,746	\$2,807,685	\$ 115	\$7,579,463	\$12,674,009

- (a) For investments measured at fair value, this asset category is principally actively managed and consists of foreign large cap and small cap equities. For investments valued using NAV per share as a practical expedient, this asset category class is principally comprised of commingled funds. Risk is comprised of both equity market risk and risk associated with active manager decisions.
- (b) For investments measured at fair value, this asset category is principally comprised of publicly traded sovereign debt, corporate credit, asset-backed securities and mortgage-backed securities. Most exposures are actively managed. Sovereign (government) debt is in both developed and emerging markets. Sovereign debt exposure, from time to time, may be held in derivative form. Corporate credit is concentrated in investment-grade securities, with some exposure to high yield categories. Asset-backed and mortgage-backed securities are principally standard investment grade securities. The European Plans also hold small allocations to non-publicly traded credit instruments. For investments valued using NAV per share as a practical expedient, this asset category is principally comprised of fixed income securities and commingled funds.

- (c) For investments measured at fair value, this asset category is principally comprised of global property securities with quoted market prices. For investments valued using NAV per share as a practical expedient, this asset category consists predominantly of directly held, income producing, properties in the United Kingdom ("U.K.") for the U.K. and the Netherlands plans. The U.K. properties are managed with a value orientation and a focus on cash generation. In the U.K., concentrations currently exist within the retail sectors. The directly held properties in the U.K. are valued through independent third party appraisals.
- (d) For investments measured at fair value, this asset category is principally comprised of pooled funds with quoted market prices. For investments valued using NAV per share as a practical expedient, this asset category is comprised of broadly diversified strategies such as hedge funds and multi-asset strategy funds combined in portfolios structured to, under most circumstances, deliver low NAV volatility while delivering returns in line with fund objectives. Hedge fund NAVs are determined by the fund managers and are not publicly available while multi-asset strategy fund NAVs are often publicly available. NAVs are generally determined, depending on the underlying portfolio positions, through a combination of quoted market prices, market comparable data and model driven approaches.
- (e) For investments measured at fair value, this asset category is principally comprised of pooled funds with quoted market prices. For investments valued using NAV per share as a practical expedient, this asset category consists of investments in limited partnerships with holdings in expansion and maturity stage capital (growth and buyout), early stage capital (venture capital) and special situations. The growth and buyout allocations comprise the majority of investments at approximately 60% of holdings with the remaining 40% split between venture capital and other special situations. While the portfolio of limited partnership investments is globally diversified, it is also primarily U.S. based. Partnership valuations are determined by the limited partnerships' general partners based on the valuation of underlying investments and are determined taking the following inputs into consideration: cost, discounted cash flows, and market based comparable data.
- (f) For investments measured at fair value, this asset category is comprised primarily of derivative financial instruments, principally futures contracts, for risk management purposes, interest rate swaps for interest rate hedging purposes, and forward currency contracts. Forward and futures contracts are carried at fair value based on closing exchange quotations. Interest rate swaps are carried at fair value determined by quantitative models primarily based on market observable inputs including market interest rate curves and referenced credit spreads. For investments valued using the NAV per share practical expedient, this asset category is comprised primarily of commingled funds that focus on distressed credits and equities, recapitalization opportunities, and dislocations arising from specific events and forced-selling situations.
- (g) The activity for the Level 3 assets is not significant for all years presented.

Cash Flows

Contributions by the Company to its funded defined benefit pension plans and other postretirement benefit plans for the next fiscal year are expected to be \$71 million and \$0, respectively; however, actual contributions may be affected by pension asset and liability valuations during the year.

Defined benefit pension and other postretirement benefit plan payments expected in future years are as follows:

	Pension plans	Other postretirement benefit plans
2023	\$ 424,231	\$ 478
2024	399,428	459
2025	404,457	440
2026	423,996	421
2027	426,979	421
2028-2032	2,309,309	1,775

Defined Contribution Plans

The Company's contributions to defined contribution retirement plans are based on the compensation of covered associates. The Company's contributions, all of which were included in expense, were \$57 million and \$60 million for the years ended December 31, 2022 and January 1, 2022, respectively.

NOTE 5 — INCOME TAXES

The Company's results are included in the Mars consolidated U.S. tax return. The U.S. federal and state provision for income taxes are calculated using an allocation method consistent with the principles of ASC 740, *Income Taxes*. Specifically, total U.S. income tax recorded in each period reflects an allocation of the Company's share of U.S. current and deferred income tax expense reported within the Mars financial statements related to its share of domestic and foreign source earnings.

Deferred income tax assets and liabilities arise primarily due to different methods for recording depreciation and amortization for tax and financial reporting purposes, the timing of the recognition of earnings of foreign subsidiaries, associate benefits and other accrued amounts. Valuation allowances are included in the accompanying Consolidated Balance Sheets with the related deferred tax assets. Deferred tax assets have been established for domestic and foreign net operating loss and credit carryforwards, and valuation allowances have been provided for those losses and credits that are not expected to be realized. Benefits of net operating loss carryforwards of \$18 million have various expiration dates through the year 2042, and \$76 million have no expiration dates. Benefits of U.S. foreign tax credit carryforwards of \$181 million expire in 2029 through 2032.

As of December 31, 2022 and January 1, 2022, the components of deferred income tax assets and liabilities were as follows:

	2022	2021
Deferred tax assets	\$ 885,434	\$ 1,071,062
Valuation allowance	(226,138)	(231,973)
Net deferred tax assets	659,296	839,089
Deferred tax liability	460,924	397,825
Deferred tax assets, net	\$ 198,372	\$ 441,264

As of December 31, 2022 and January 1, 2022, the components of the provision for income taxes were as follows:

	2022	2021
Current tax provision	\$ 696,505	\$ 773,394
Deferred tax provision	(1,694)	57,194
Total tax provision	\$ 694,811	\$ 830,588

The effective tax rates are 25.3% and 25.1% for 2022 and 2021, respectively. In general, the effective tax rate varies from the U.S. statutory tax rate primarily due to differences related to the taxation of foreign operations.

Reserves for uncertain tax positions are classified as other non-current liabilities in the Consolidated Balance Sheets unless expected to be paid within one year. The net interest expense and penalties of \$14 million and \$18 million have been included in the Consolidated Statements of Income for the years ended December 31, 2022 and January 1, 2022, respectively. Penalties related to uncertain tax positions are included as a component of the provision for income taxes and interest is included as a component of interest expense. Total accrued interest and penalties of \$182 million and \$167 million are included in non-current other liabilities in the Consolidated Balance Sheets as of December 31, 2022 and January 1, 2022, respectively.

The Company is potentially subject to income tax audits in numerous jurisdictions in the U.S. and internationally until the applicable statutes of limitations expire. Tax audits by their nature are often complex and can require several years to complete. Years still open to examination by tax authorities in major jurisdictions include China (2006 onward), France (2018 onward), Germany (2015 onward), Netherlands (2017 onward), the U.K. (2021 onward), and the U.S. (2017 onward).

NOTE 6 — FINANCIAL INSTRUMENTS

The notional amounts of foreign exchange contracts outstanding at December 31, 2022 and January 1, 2022 were \$755 million and \$592 million, respectively. The notional amounts of commodity contracts outstanding at December 31, 2022 and January 1, 2022 were \$991 million and \$781 million, respectively.

The following table summarizes the impact of derivative financial instruments on the Company's Consolidated Balance Sheets as of December 31, 2022 and January 1, 2022:

	Location on Consolidated Balance Sheets	Fair Value		
		2022	2021	
Assets:				
Foreign exchange contracts	Prepaid expenses and other	\$ 3,544	\$ 3,020	
Commodity contracts	Prepaid expenses and other	37,903	76,255	
Commodity contracts	Other assets	9,123	2,468	
Total assets		\$ 50,570	\$ 81,743	
Liabilities:				
Foreign exchange contracts	Accounts payable and accrued liabilities	\$ 2,021	\$ 3,361	
Commodity contracts	Accounts payable and accrued liabilities	48,736	—	
Total liabilities		\$ 50,757	\$ 3,361	

Economic Hedges

The Company enters into certain currency and commodity derivatives that are not designated as hedging instruments, which economically hedge certain risks related to the anticipated purchases of raw materials, energy for manufacturing operations, and currency translation risk relating to international operations. Both the associated realized gains and losses, and changes in fair value of derivative financial instruments are recognized on the Consolidated Statements of Income. As of December 31, 2022 and January 1, 2022, the Company does not have any derivative financial instruments designated as hedging instruments.

The effect of economic hedges on the Consolidated Statements of Income for the years ended December 31, 2022 and January 1, 2022 was as follows:

	Location of gain (loss), net, recognized on derivative financial instruments	Gain (loss), net, recognized on derivative financial instruments	
		2022	2021
Foreign exchange contracts	Cost of sales	\$ (64,062)	\$ (39,828)
Foreign exchange contracts	Selling, general and administrative expense	(435)	(14,435)
Commodity contracts	Cost of sales	(38,203)	93,953
		\$ (102,700)	\$ 39,690

Derivative Financial Instruments Measured at Fair Value on a Recurring Basis

Derivative financial instruments measured at fair value on a recurring basis were as follows as of December 31, 2022:

	Gross assets/liabilities			Gross amounts offset in the Consolidated Balance Sheets ⁽¹⁾	Net amounts presented on the Consolidated Balance Sheets
	Level 1	Level 2	Level 3		
<u>Assets</u>					
Foreign exchange contracts	\$ —	\$ 13,269	\$ —	\$ (9,725)	\$ 3,544
Commodity contracts	136,123	49,773	—	(138,870)	47,026
	\$ 136,123	\$ 63,042	\$ —	\$ (148,595)	\$ 50,570
<u>Liabilities</u>					
Foreign exchange contracts	\$ —	\$ 11,746	\$ —	\$ (9,725)	\$ 2,021
Commodity contracts	167,083	19,587	936	(138,870)	48,736
	\$ 167,083	\$ 31,333	\$ 936	\$ (148,595)	\$ 50,757

⁽¹⁾ Amounts represent the impact of legally enforceable master netting agreements that allow the Company to net settle positive and negative positions.

As of December 31, 2022 there is \$16 million of cash collateral recorded to prepaid expense and other on the Consolidated Balance Sheets.

Derivative financial instruments measured at fair value on a recurring basis were as follows as of January 1, 2022:

	Gross assets/liabilities			Gross amounts offset in the Consolidated Balance Sheets ⁽¹⁾	Net amounts presented on the Consolidated Balance Sheets
	Level 1	Level 2	Level 3		
<u>Assets</u>					
Foreign exchange contracts	\$ —	\$ 8,247	\$ —	\$ (5,227)	\$ 3,020
Commodity contracts	16,000	63,177	—	(454)	78,723
	\$ 16,000	\$ 71,424	\$ —	\$ (5,681)	\$ 81,743
<u>Liabilities</u>					
Foreign exchange contracts	\$ —	\$ 8,588	\$ —	\$ (5,227)	\$ 3,361
Commodity contracts	364	90	—	(454)	—
	\$ 364	\$ 8,678	\$ —	\$ (5,681)	\$ 3,361

⁽¹⁾ Amounts represent the impact of legally enforceable master netting agreements that allow the Company to net settle positive and negative positions.

NOTE 7 — PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net consists of the following at December 31, 2022 and January 1, 2022:

	2022	2021
Land	\$ 196,311	\$ 221,409
Buildings and fixtures	2,293,786	2,333,357
Machinery and equipment	5,587,705	5,669,223
Construction in progress	778,302	690,055
	8,856,104	8,914,044
Accumulated depreciation	(5,254,967)	(5,365,864)
Total property, plant and equipment, net	\$ 3,601,137	\$ 3,548,180

NOTE 8 — GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying value of goodwill for the years ended December 31, 2022 and January 1, 2022 were as follows:

	2022	2021
Balance, beginning of year:		
Gross carrying amount	\$ 6,135,013	\$ 6,372,123
Accumulated impairment losses	(15,753)	(15,753)
	6,119,260	6,356,370
Impairment	(187,512)	—
Foreign exchange fluctuations	(425,431)	(237,110)
Balance, end of year:	\$ 5,506,317	\$ 6,119,260

The carrying amount of goodwill includes accumulated impairment losses of \$203 million and \$16 million for the years ended December 31, 2022 and January 1, 2022, respectively.

The Company recognized a goodwill impairment loss of \$188 million related to its foodspring business during the year ended December 31, 2022. Lower current financial performance as compared to budget and management's lower financial forecast for future years led to the impairment. The Company used a discounted cash flow method in determining the fair value which includes projection of future sales, operating expenses, and market discount rates. The impairment loss is included in amortization of intangible assets and impairments on the Consolidated Statements of Income for the year ended December 31, 2022. There were no impairments of goodwill or intangible assets during the year ended January 1, 2022.

The gross carrying amount and accumulated amortization by major intangible asset class were as follows:

	2022		2021	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Finite-lived:				
Trademarks	\$ 747,318	\$ 334,641	\$ 787,825	\$ 328,973
Customer relationships and referral network	2,682,033	2,607,410	2,886,860	2,791,745
Patents and technology	10,750	8,120	10,977	7,135
Other	75,008	72,527	76,645	74,326
Total	\$ 3,515,109	\$ 3,022,698	\$ 3,762,307	\$ 3,202,179

The Company incurred amortization expense of \$44 million during the year ended December 31, 2022. Amortization expense for each of the next five years is estimated to be \$56 million, \$50 million, \$48 million, \$27 million and \$27 million.

NOTE 9 — RESTRUCTURING

The Company approves and implements restructuring plans to better manage the Company's cost structure and more effectively align certain operations with current business conditions. The Company expects the majority of the restructuring plans to be completed within one year, with plans in certain countries extending beyond one year as a result of compliance with local country laws.

The changes in the accrued restructuring balances consisted of the following:

	Severance and benefits	Other restructuring related costs	Total
Balance, January 2, 2021	\$ 50,302	\$ 9,848	\$ 60,150
Expense	118,639	8,657	127,296
Payments	(78,188)	(5,100)	(83,288)
Foreign exchange fluctuations	(4,763)	(868)	(5,631)
Balance, January 1, 2022	\$ 85,990	\$ 12,537	\$ 98,527
Expense	105,458	3,729	109,187
Payments	(72,600)	(4,183)	(76,783)
Foreign exchange fluctuations	(2,582)	110	(2,472)
Balance, December 31, 2022	\$ 116,266	\$ 12,193	\$ 128,459

Restructuring expenses of \$29 million and \$80 million are included in selling, general and administrative expense and cost of sales, respectively, for various restructuring plans in 2022.

Restructuring expenses of \$108 million and \$19 million are included in selling, general and administrative expense and cost of sales, respectively, for various restructuring plans in 2021.

The restructuring liability is included in accounts payable and accrued liabilities, and other liabilities on the Consolidated Balance Sheets.

NOTE 10 — COMMITMENTS AND CONTINGENCIES

Legal Proceedings

The Company is party to various lawsuits and actions arising in the course of its business. The Company accrues for litigation and claims when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Company has evaluated claims in accordance with the accounting guidance for contingencies. In the opinion of the Company, based on a number of factors, the ultimate resolution of these matters will not have a material adverse effect on the financial position or results of operations or cash flows of the Company. However, it is reasonably possible that some matters could be decided unfavorably to the Company and could require the Company to make payments in amounts that could be material.

Limited Partnership Commitments

The Company has committed to investments in partnerships not to exceed \$536 million, of which \$46 million remains committed and unfunded at December 31, 2022.

Purchase Obligations

The Company has purchase obligations for materials, supplies, co-manufacturing, storage and distribution services based on projected needs to be utilized in the normal course of business. Other purchase obligations include commitments for marketing, advertising, information technology and professional services. Certain of these obligations are long-term and are based on minimum purchase requirements. These arrangements expire at various dates through 2029. Certain purchase obligations contain variable and fixed pricing components, and, as a result, actual cash payments are expected to fluctuate based on changes in these variable components.

The following is a summary of these purchase obligations as of December 31, 2022:

	Purchase obligations
2023	\$ 55,144
2024	45,976
2025	28,631
2026	23,251
2027	8,282
Thereafter	10,188
Total	\$ 171,472

NOTE 11 - LEASES

The components of lease expense were as follows:

	<u>2022</u>
Operating lease costs	\$ 112,780
Finance lease costs:	
Amortization of right-of-use assets	6,017
Interest on lease liabilities	3,600
Variable lease cost	17,714
Short-term lease cost	3,640
Total lease cost	\$ 143,751

Variable lease costs primarily relate to the Company's election to combine non-lease components such as common area maintenance, insurance and taxes related to its real estate leases. To a lesser extent, the Company's equipment leases have variable costs associated with usage and subsequent changes to costs based upon an index.

The following table summarizes cash flow and other information related to leases:

	<u>2022</u>
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ (108,241)
Operating cash flows from finance leases	(3,600)
Financing cash flows from finance leases	(3,418)
Right-of-use assets obtained in exchange for lease obligations:	
Operating leases	\$ 10,975

The following table summarizes the finance lease amounts recorded in the Consolidated Balance Sheets:

	Location on Consolidated Balance Sheets	<u>2022</u>
Right-of-use assets, net	Property, plant and equipment, net	\$ 66,570
Lease liabilities - current	Accounts payable and accrued liabilities	5,188
Lease liabilities - noncurrent	Other liabilities	57,889

Weighted-average lease terms and discount rates were as follows:

	<u>2022</u>	
	Operating Leases	Finance Leases
Weighted-average remaining term in years	7	16
Weighted-average discount rate	1.20 %	4.30 %

The maturity of our lease liabilities as of December 31, 2022 were as follows:

	Operating	Finance
2023	\$ 75,103	\$ 8,319
2024	50,113	8,319
2025	36,382	8,319
2026	30,848	3,981
2027	18,570	145
Future undiscounted lease payments	96,611	56,269
Total lease payments	307,627	85,352
Less: imputed interest	21,080	22,275
Total lease liabilities	\$ 286,547	\$ 63,077

As of December 31, 2022, the Company has entered into an operating lease that has not yet commenced that has a minimum lease payment of \$16 million. This operating lease will commence in fiscal year 2023 with a lease term of four years.

As of January 1, 2022, future minimum lease payments under prior lease accounting rules were:

	Operating	Finance
2022	\$ 88,310	\$ 8,175
2023	68,254	8,265
2024	44,708	8,265
2025	33,633	8,305
2026	28,932	3,892
Thereafter	97,468	74,484
Total minimum lease payments	\$ 361,305	\$ 111,386
Less: imputed interest		(42,312)
Present value of minimum lease payments		69,074
Current portion of obligations under finance leases		(8,175)
Long-term portion of obligations under finance leases		\$ 60,899

Rental expense under prior lease accounting rules was \$91 million for the year ended January 1, 2022.

NOTE 12 — RELATED PARTY

The Company enters into various transactions with its Parent in the normal course of business or in connection with integration activities between the two companies. Such transactions include the purchase and sale of finished product, the purchase and sale of property, plant and equipment, and the transfer and cross charging of associate costs and other charges.

For the years ending December 31, 2022 and January 1, 2022 transactions with related parties were as follows:

	Location on the Consolidated Financial Statements	2022	2021
Sales	Net sales	1,156,160	\$ 1,161,595
Purchases	Cost of sales and inventories	1,878,073	1,842,728
Shared service costs, management fees, technology fees, and other charges	Selling, general, and administrative expenses	437,780	396,089
Interest income from Mars, net	Interest income from Mars, net	(52,528)	(184,282)

As of December 31, 2022 and January 1, 2022, WIHC has a net receivable due from Mars of \$6,145 million and \$5,690 million, respectively, and is presented within current assets on the Consolidated Balance Sheets. These assets include the net of accounts receivable, cash management, notes receivable, notes payable, and accounts payable balances. Mars generally has the unilateral ability to modify its global intercompany capital structure, and modify the payment terms for note agreements, accounts receivable and accounts payable.

During the years ended December 31, 2022 and January 1, 2022, WIHC made non-cash dividends to Mars of \$0 and \$4,613 million, respectively. During the years ended December 31, 2022 and January 1, 2022, Mars made non-cash investments in WIHC of \$40 million and \$25 million, respectively. These non-cash dividends and affiliate investments are included in the Consolidated Statement of Stockholders' Investment.

Cash receipts for affiliate interest were \$6 million and \$7 million for the years ended December 31, 2022 and January 1, 2022, respectively.

Credit facilities

On December 7, 2015, a Mars subsidiary in China (Mars Foods (China) Co., Ltd) entered into a revolving credit facility to borrow up to ¥1,650 million from WIHC's Chinese subsidiary (Mars Wrigley Confectionery (China) Ltd). The credit facility matured on December 7, 2022, and was automatically extended for 12 months. The borrowings under the facility bear an interest rate of 2% with an auto-extending maturity date of no later than December 7, 2023. As of December 31, 2022 and January 1, 2022, the Mars subsidiary in China had borrowings of ¥0 million and ¥1,150 million, respectively.

NOTE 13 — ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of accumulated other comprehensive loss, net of tax, at December 31, 2022 and January 1, 2022 were as follows:

	Foreign currency translation adjustments	Unrealized gain on investments	Pension and other post- retirement benefits	Total
Balance, January 2, 2021	\$ (2,962,605)	\$ 3,686	\$ (4,116,317)	\$ (7,075,236)
Other comprehensive income (loss) before reclassification	(707,637)	(1,011)	1,149,757	441,109
Reclassification from other comprehensive gain (loss)	—	—	326,148	326,148
Other comprehensive income (loss), net	(707,637)	(1,011)	1,475,905	767,257
Balance, January 1, 2022	\$ (3,670,242)	\$ 2,675	\$ (2,640,412)	\$ (6,307,979)
Other comprehensive income (loss) before reclassification	(900,748)	(18,669)	703,660	(215,757)
Reclassification from other comprehensive gain (loss)	—	15,994	183,783	199,777
Other comprehensive income (loss), net	(900,748)	(2,675)	887,443	(15,980)
Balance, December 31, 2022	\$ (4,570,990)	\$ —	\$ (1,752,969)	\$ (6,323,959)

The components of comprehensive income for the year ended December 31, 2022 were as follows:

	Total WIHC	Noncontrolling interests	Total
Net income	\$ 2,054,948	\$ 465	\$ 2,055,413
Cumulative translation adjustments, net of tax benefit of \$6,703	(900,748)	(3,905)	(904,653)
Unrealized gain on investments:			
Unrealized (losses) arising during the period, net of tax benefit of \$0	(18,669)	—	(18,669)
Less: reclassification of loss on investments included in net income, net of benefit of \$6,391	15,994	—	15,994
Net change in pension and other postretirement income, net of tax expense of \$318,360 ^(a)	887,443	—	887,443
Comprehensive income	\$ 2,038,968	\$ (3,440)	\$ 2,035,528

(a) Refer to Note 4, *Pension and other postretirement plans*, for information related to the prior service costs arising during the period, the net loss arising during the period and amortization of net loss and prior service costs included in net periodic pension cost.

The components of comprehensive income for the year ended January 1, 2022 were as follows:

	Total WIHC	Noncontrolling interests	Total
Net income	\$ 2,475,148	\$ (2,016)	\$2,473,132
Cumulative translation adjustments, net of tax benefit of \$3,467	(707,637)	(2,090)	(709,727)
Unrealized loss on investments:			
Unrealized losses arising during the period, net of tax benefit of \$0	(1,011)	—	(1,011)
Net change in pension and other postretirement expense, net of tax expense of \$524,338 (a)	1,475,905	—	1,475,905
Comprehensive income	\$ 3,242,405	\$ (4,106)	\$3,238,299

(a) Refer to Note 4, *Pension and other postretirement plans*, for information related to the prior service costs arising during the period, the net loss arising during the period and amortization of net loss and prior service costs included in net periodic pension cost.

(Gains) losses reclassified from accumulated other comprehensive loss and recognized in the Consolidated Statements of Income were included in the following financial statement line items during the years ended December 31, 2022 and January 1, 2022:

Description of Accumulated Other Comprehensive Loss Components	Location of (Gain) Loss Recognized in the Statements of Income	Amounts Reclassified from Accumulated Other Comprehensive Loss	
		2022	2021
Realized loss on sale of investments			
	Investment (income) loss, net	\$ 22,385	\$ —
	Tax benefit (expense)	6,391	—
	Net of tax	\$ 15,994	\$ —
Pension and Other Postretirement Benefits		2022	2021
Net loss	(b)	\$ 232,199	\$ 420,014
Net prior service cost	(b)	4,598	7,887
	Total before tax	236,797	427,901
	Tax benefit	53,014	101,753
	Net of tax	\$ 183,783	\$ 326,148

(b) Accumulated other comprehensive loss components are included in the computation of net periodic pension cost. See Note 4, *Pension and other postretirement plans*, for additional detail.

NOTE 14 — SUBSEQUENT EVENTS

The Company evaluated subsequent events through June 1, 2023 the date the Consolidated Financial Statements were available to be issued, for conditions both existing and not existing as of December 31, 2022 and concluded there were no subsequent events to recognize and no additional subsequent events to disclose.