

# **United Biscuits Topco Limited**

## **Report and Financial Statements**

**For the 52 Weeks Ended**

**29 December 2012**

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# overview

**United Biscuits (UB) is a leading international branded snacks business, which manufactures and markets some of the world's best known and loved sweet and savoury snacks. UB's brands have been satisfying consumers for generations and include such favourites as McVitie's, Verkade, Jacob's, Carr's, BN, McVitie's Jaffa Cakes, Penguin, Delacre, Mini Cheddars, go ahead!, Twiglets and Sultana.**

UB is the leading manufacturer and marketer of biscuits in the UK and second largest in the Netherlands, France, Belgium and Ireland. UB brands are sold in over 100 countries and it has strong consumer bases in the rest of Europe, North America, the Middle East, Africa, India, other parts of Asia and Australia. UB has manufacturing facilities in the UK, Belgium, France, the Netherlands and India.

In 2012 UB delivered a solid performance despite challenging economic conditions impacting consumer spending. Over the past year, UB has continued to rapidly expand its international footprint and to make significant strides towards its environmental sustainability goals. It has also successfully completed the fourth year of its community programme.

At the end of 2012, UB agreed to sell its KP Snacks business to European snack manufacturer, Intersnack. The deal completed in Q1 2013. KP Snacks brands include McCoy's, Hula Hoops, KP Nuts and Phileas Fogg.

UB brands are  
**sold**  
in over 100 countries

# Performance summary

**2012 saw continued difficult market conditions, similar to those experienced in 2010 and 2011. Consumers remained focused on value and UB continued to adapt to this changing environment by improving efficiency while providing consumers and customers with high quality, good value products which address different needs at various price points.**

During 2012 UB continued to invest in improving its manufacturing infrastructure, as well as to strengthen the appeal of its products. A number of new products were launched during the year, including McVitie's Breakfast biscuits and Jacob's Oddities, which are baked rather than fried. UB also introduced new variants to established ranges, including go ahead! Chocolate Thins, and a Double Chocolate variant of the successful McVitie's Medley range.

UB has concentrated its resources on offering our brands and products to more and more consumers abroad. The company has accelerated international growth with particular focus on developing economies. In 2012 UB re-entered China after an absence of 11 years.

UB continues to measure its progress against the three pillars of sustainability: financial, environmental and community, and progress against these measures is detailed below.

# Financial

2012 was another difficult year for both UB's Consumers and Customers. The economic downturn of recent years, together with an uncertain outlook for 2013 and beyond has constrained consumers' discretionary spend. UB has adapted its products, formats and pricing to meet these consumer demands. UB has sustained its strong market position as a lead global biscuit supplier with strong brand positions. UB has increased investment behind its brands, with innovation, improved quality and more media engagement with consumers.

During 2012, UB separated its KP Snacks operation from the rest of its UK business and on 4 December entered into an agreement to sell the KP Snacks assets to a third party.

**The KP Snacks business was reclassified as discontinued operations at the end of 2012.**

- UB revenue from continuing operations was £1,050 million, stable with the prior year
- **Business Profit from continuing operations declined slightly to £170 million, largely reflecting the additional overhead cost arising from the separation of the KP Snacks business**
- International markets continued their strong growth, particularly driven by the Middle East, Africa and India, and UB has focused attention on driving rapid growth and share development across these markets
- Despite the separation and disposal of the KP Snacks business, UB's cost release programme was as strong as ever, delivering on its target of saving 4-5% of the cost base

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

# Environmental

**In 2012 UB continued to build on the progress made towards meeting its environmental sustainability targets, during the fifth year of its Environment Programme.**

- In 2012 UB achieved a further 2% reduction in carbon emissions, which brings its total reduction since 1995 to 34%
- In early 2012, UB announced that all of its 16 UK sites were sending zero waste to landfill, meaning the business has achieved its goal of sending no waste to landfill three years ahead of schedule
- Another environmental target that UB met in 2012 was that of water reduction. In 2012 UB saw a 15% reduction in water use across its sites, bringing the reduction to date to 52% compared to 2007. This is against a target to reduce water use by 45% by 2020.
- Yet another environmental goal was met in 2012 as UB's transport carbon emissions reduced by 40% compared to 2005, hitting its target to achieve this by the end of 2012. Since 2005 UB has taken twenty million lorry miles off the roads through improved efficiency. UB is now using canals in Belgium to transport goods for export, and it has been successfully trialling longer trailers since August 2012. UB is also the only major HGV operator in the UK to be running vehicles on 100% biodiesel made from waste vegetable oil.
- UB has had a 100% sustainable palm oil sourcing solution in place since 2010 and in addition it has seen a 40% reduction in palm oil use. 95% of UB's suppliers have now completed audits through the Supplier Ethical Data Exchange (SEDEX) system, up from 11% in 2008.

**2020  
45% water  
reduction**

**ZERO  
landfill  
at all 16 sites**

# Community

**UB's Building our Community programme has now been delivering results for over four years.**

- UB has a successful apprenticeship scheme and has now got 48 apprentices working across UB sites, up from 38 in 2011. It employed a further 20 graduates in 2012 and now has 67 graduates working at UB.
- It provided around 195 work experience opportunities during the year, through a combination of school student work experience and university student summer work placements.
- UB has worked in conjunction with its unions to develop learning centres at all of its UK sites and 160 employees completed NVQ courses during 2012.
- UB and its employees donated over £310,000 in funds or products to their local communities and charities in 2012. In addition some 234 days leave were granted for employees to carry out community support work.
- It has continued its work to improve the nutritional profile of its products. UB has been continuing to work hard on reducing salt and saturated fat in its products and has signed up to various pledges as part of the Government's Responsibility Deal.

**67**  
graduates

**48**  
apprentices

# Financial sustainability

## 2012 financial performance highlights

**UB has sustained its position as a lead global biscuit supplier with strong brand positions, maintaining its sales with little inflation and weak consumer confidence.**

|                                   | 2012    | 2011    |
|-----------------------------------|---------|---------|
|                                   | £m      | £m      |
| Continuing revenue                | 1,050.5 | 1,055.6 |
| Continuing business profit        | 169.8   | 173.5   |
| Net debt                          | 1,024.8 | 1,093.1 |
| Capital expenditure               | 59.4*   | 52.6*   |
| Cash available for debt servicing | 132.4*  | 116.7*  |

\*(including discontinued operations)

## UB brands and markets

UB has sustained its strong market positions, with marginal share slippage in growing markets in Europe and significant share gains in international markets. UB has increased investment behind the brands, with innovation, improved quality, and more media engagement with the consumers. International Markets, particularly outside Europe and North America, continue to grow strongly, and UB has focused attention on driving rapid growth and share development across these markets.

## Revenue

Revenue for 2012 (from continuing operations) was £1,050.5 million (2011: £1,055.6 million), with sales in UB's Continental Europe operations particularly impacted by the weakening of the Euro exchange rate. Some sales decline was recorded in the company's domestic markets due to intense retailer promotional competition offsetting a successful programme of innovation. However, this decline in domestic markets was more than offset by growth in UB's International markets, particularly India, Middle East and entry into Hong Kong and China.

## Cost release

Despite the distraction of the separation and disposal of the KP Snacks business, UB's cost release programme was as strong as ever, delivering on its target of saving 4-5% of the cost base. As input cost inflation moderated through the year, UB was able to implement cost base reduction programmes with suppliers, delivering increased savings. An increase in Capital Investment with focus behind significant efficiency initiatives alongside UB's Lean processes drove up savings from the factories.

## Business profit

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

In 2012 Business Profit (from continuing operations) was £169.8 million (2011: £173.5 million). The decline largely reflects the disruption and additional overhead cost from the separation of the KP Snacks business.

## Discontinued operations

During 2012, UB separated its KP Snacks operation from the rest of its UK business. Revenue from discontinued operations was £276.3 million (2011: £278.0 million) and business profit was £53.9 million (2011: £55.7 million). The KP Snacks business performance was also affected by retailer promotional competition and continued difficult market conditions in the UK.

## Capital expenditure

Cash investment in plant and equipment and intangibles during 2012 (including discontinued operations) was £59.4m (2011 £52.6m) representing 4.5% Revenue (2011 3.9%)

Investments continued to support efficiency and growth, together with an increase in expenditure on Infrastructure, health, safety and environment across the factory portfolio

## Cash available for debt servicing

Cash available for debt servicing for 2012 was £132.4 million (2011 £116.7 million). This represents the business profit less capital expenditure and restructuring, ongoing pension contributions in excess of amounts charged to business profit and tax paid, and after adjusting for charges in working capital and proceeds from disposal of fixed assets. An increase in capital expenditure has been offset by a tax rebate, and a reduction in working capital.

|                                                                                    | 2012     | 2011    |
|------------------------------------------------------------------------------------|----------|---------|
|                                                                                    | £m       | £m      |
| Business profit from continuing operations                                         | 169.8    | 173.5   |
| Business profit from discontinued operations                                       | 53.9     | 55.7    |
| Capital Expenditure                                                                | (£59.4)* | (52.6)  |
| Expenditure on restructuring                                                       | (16.2)   | (17.2)  |
| Ongoing pension contributions paid in excess of amounts charged to business profit | (24.8)   | (25.4)  |
| Tax refund/(paid)                                                                  | 2.0      | (3.8)   |
| Changes in working capital                                                         | 7.1*     | (13.6)* |
| Disposal of fixed assets                                                           | 0.1      | 0.1     |
| Cash available for debt servicing                                                  | 132.4*   | 116.7*  |

\*(including discontinued operations)

## Net debt

The Group's net debt comprises senior, second lien and mezzanine bank loans, finance leases and other loans less cash and cash equivalents. At the end of 2012 the net debt outstanding was £1,024.8 million. This is a reduction of 5.4% on the net debt at the end of 2011 and included a repayment of senior debt of £49.2 million. The year end net debt does not include any proceeds from the disposal of discontinued operations, as this sale was not completed until January 2013.

## Average number of employees

The average number of employees during 2012 was 7,954 (2011: 8,156). This includes employees in discontinued operations. The Group's employees are principally based in the UK, France, the Netherlands, Belgium and India.

## Industry factors affecting performance

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

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

The economic downturn of recent years, together with uncertain outlook for 2013 and beyond has driven consumers to focus more on value. UB has adapted its products, formats and pricing to meet these consumer demands. Demand for food products, and the raw materials that go into these products, has continued to rise across the world. This has put pressure on supply which has resulted in further inflation. Whilst this has now stabilised, it is expected that demand will increase further in future years, putting further pressure on input costs and food prices.

# Environmental sustainability

UB launched its Environmental Programme at the beginning of 2008, with six targets to help minimise the company's environmental footprint. UB has achieved some targets early and exceeded others – leading to the company setting more stretching replacement goals in some areas.

## Reducing carbon emissions

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**Target** To achieve a 35% reduction in carbon emissions by 2020 compared to 1995

UB reduced its carbon emissions by 2% in 2012. This means the company has now achieved a total reduction in carbon emissions of 36% since 1995. This has been achieved through a wide range of energy saving initiatives and an improved energy management system. **A new 40% target has now been set**

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## Reducing waste sent to landfill

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**Target** Achieve zero waste to landfill by the end of 2012 (brought forward from 2015)

### **TARGET ACHIEVED**

All 16 of UB's factories are now sending zero waste of any kind to landfill. Not only is this protecting the environment by increasing recycling and not burying waste, but the business has also reduced its waste disposal costs through this process due to an increase in the revenue earned from the sale of recycled materials.

In addition, UB joined up with TerraCycle UK in 2012 to launch the McVitie's Biscuit Wrapper Brigade. Biscuit wrappers are not currently recycled by local councils, so the partnership allows consumers to recycle their waste, and receive donations towards a charity of their choice by sending their waste wrappers to TerraCycle. The wrappers are turned into something new, such as pencil cases, sports equipment, or even park benches.

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## Driving environmentally friendly transport

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**Target** Achieve a 40% reduction in transport carbon emissions by 2012, compared to 2005

### **TARGET ACHIEVED**

UB has achieved its target to reduce transport carbon emissions by 40% by 2012. This has been achieved through the implementation of a number of initiatives, including using inland waterway shipping to transport goods in Northern Europe. Each container is saving 31% CO<sub>2</sub> emissions versus road transport.

UB is also taking part in a Government trial to use longer trailers, meaning it can optimise pallet fill and thereby reduce road miles. Sharing vehicle facilities with customers, suppliers and even competitors to optimise pallet fill and reduce empty running, is also helping to achieve this. Finally, UB is using 100% biodiesel in its heavy good vehicles. These initiatives have led to UB taking over 20 million lorry miles off UK roads.

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20m  
lorry miles  
off UK  
roads

## Reducing packaging

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**Target** Reduce the environmental impact of its packaging by 20% by 2015 compared with 2003

UB has reduced the environmental impact of its packaging by 17% since 2003 by regularly reviewing new technologies and packaging formats, for example switching some biscuit selection products from metal tins to cardboard boxes.

Packaging provides one of the most obvious forms of waste to consumers, so it's an important issue to address. However it must be remembered that packaging plays a vital role in delivering products to consumers in great condition. It needs to protect the product on its journey from factory to store, to the consumer's home. Packaging is also required to keep the product in good condition, otherwise the environmental damage from food waste will far outweigh any saving in packaging.

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## Reducing water use

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

UB reduced its water use by 15% in 2012, which brings the total reduction since 2007 to 52%, compared with 43% by the end of 2011. The water saving was driven particularly by the Teesside cnsp factory, which was by far UB's largest water-using site and which had benefitted from a £2 million investment in a new water recycling facility. Following the sale of the KP snacks business the achievement level has reduced to 32%

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## Increasing sustainable sourcing

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

UB has continued to expand its ethical assessments of new and existing suppliers using the SEDEX (Supplier Ethical Data Exchange) system. UB had 95% of its raw material and ingredient suppliers on the SEDEX system as of the end of 2012.

In 2009 UB became one of the first manufacturers in Europe to begin using segregated sustainable palm oil. All biscuits containing palm oil have been made from certified sustainable palm oil since mid-2010. Over 70% of this oil is segregated through the supply chain. In 2012 UB was awarded top marks in the WWF Palm Oil Buyers' Scorecard.

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# Community sustainability

**UB's 'Building our Community' programme has been running for four years and the company works with its employees to ensure its success year on year. The programme works to address specific targets in the areas of skills development, fundraising, and partnerships with the local communities within which UB operates.**

## Skills development

As part of its skills development goal, UB aims to encourage the development of the right skills and abilities in the education system to recruit the right people and to continue to develop its employees

UB's successful apprenticeship scheme continued to run across its sites in 2012, with 48 apprentices. This level is up from 38 apprentices in 2011. UB plans to recruit further apprentices onto the programme in 2013. The 2012 Graduate Recruitment Scheme saw 20 new graduates join UB in September 2012, meaning there are now 67 graduates working across UB.

UB has worked with its unions to develop Learning Centres in each of its sites. The Centres enable employees to develop their professional and personal skills in a convenient and supportive environment. When the programme was launched in 2009 only three UB sites had Learning Centres. Now all sites have them. 160 employees took NVQ courses during 2012. Since the programme started approximately 20% of UB's workforce have completed an NVQ or similar qualification.

UB offered one more food science student a research opportunity and has maintained its links with nine universities. It also provided around 30 school students with work experience opportunities and 125 university students with summer work placements.

# Fundraising and partnerships with the community

UB's employees continued their enthusiasm for supporting local community projects and charities in 2012 and participated in a wide range of activities, both in teams and individually. Employee fundraising initiatives included a fun day to raise money for 'Help for Heroes', renovating the facilities of an adult day care centre for adults with autism, holding a Jubilee street party to raise money for a local children's charity, as well as running in various races and marathons to raise money for a number of different charities. This all resulted in UB and its employees donating £310,000 to charity in 2012.

Many employees also regularly volunteer within their local communities, helping with a range of projects. For example, McVitie's Manchester transformed a weed covered wasteland into a tranquil picnic area for the children and adults who visit the ARC in Stockport – a specialist centre that is built specifically for anyone who has a disability or who is socially disadvantaged for any reason. Employees from UB's technical centre in High Wycombe volunteered at Woolley Firs Environmental Education Centre for the day, to help plant over 100 native trees which the site had donated to Woolley Firs as part of the Queen's Diamond Jubilee Woods project.

Several of UB's sites continued to build on the strong relationships they have established with local schools, supporting them through fundraising, work experience days and by inviting students in to educate them about working for a company like UB. McVitie's Manchester invited pupils from a local school in as part of the Department for Business, Industry and Skills' 'See Inside Manufacturing' day, where students received a presentation and toured the factory to see how McVitie's Jaffa Cakes are made. UB's Midlands Distribution Centre in Ashby is working with the Burton Albion Community Trust and Ashby School to support an alternative learning programme to help students who do not react well to mainstream schooling.

# Health, safety & welfare

**The health, safety and welfare of its employees remain among UB's highest priorities. UB achieved ISO-18001 accreditation for its overall health and safety systems, with six of its factories achieving individual accreditation, demonstrating the robust procedures UB has in place.**

The UK business has also achieved ISO-14001 accreditation for its environmental management system at a corporate level and also for its sites in Carlisle, Consett, Hayes, Harlesden, Halifax, Rotherham, the Distribution Centre, plus the Nieppe factory in France and the Lambermont factory in Belgium

Over the past ten years, lost time accidents have reduced by 44% and the accident frequency rate has reduced by 47%. In this time, lost hours due to accidents have reduced by 53%. Near miss reporting remains strong to help stop accidents happening in the first place

UB achieved strong results regarding employee satisfaction in its group-wide employee survey in 2012. 85% say they intend to be working for the company in 12 months time, 84% agree that UB is a successful business with products to be proud of, and 76% say they feel a personal achievement from the work that they do. Only 12% of staff disagreed with the statement 'I enjoy working here'. UB is committed to developing its employees and helping them to fulfil their potential within the business. This is partly demonstrated by the fact that 28% of UB employees have been with the company for more than 20 years.

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

# Policies and principles

## Employment policies

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

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

## Operating principles

To successfully deliver against the three pillars of sustainability, UB has five operating principles which underpin all of its activities:

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

# UB's behaviours

These Operating Principles are supported by UB's Behaviours which are

- We have passion and pride
- We strive for continuous improvement
- We are inclusive and diverse
- We win through teamwork and cooperation
- We show respect for each other
- We act with integrity

## Consumer health and nutrition

In 2005 UB embarked on a major ten-year programme to improve the nutritional content of its products by removing hydrogenated vegetable oil (the main source of trans fats), reducing saturated fat and salt, and by removing artificial additives, such as flavour enhancers (including MSG), sweeteners, colours and artificial flavours.

UB recognises that the causes of obesity are complex and diverse and that food manufacturers have a role to play in the solution, so the aim of the Health & Nutrition Programme is to allow health-conscious consumers to enjoy the company's products within the context of a balanced diet and healthy lifestyle

UB's view is that to make progress on health and nutrition it needs to work with the consumer. Firstly, to make the products they enjoy healthier whilst still delivering great taste, and secondly, to make new, healthier products. Finally, to clearly communicate nutrition information on packs to help people make more informed choices.

In 2009 UB launched its largest ever reformulation project – reducing the saturated fat content of some of its most iconic McVitie's biscuits by up to 80%. Since then, UB has focused on other brands, both reducing the saturated fat in some snacks brands, and improving its healthier biscuits offering. We have also consulted with UNESCO and other bodies to add nutrients to address local deficiencies in some developing markets.

Improvements made to products in 2012 include reducing the saturated fat in Twiglets by 60%, so they contain just 1.6g per 100g. This was communicated via an on-pack flash, which also stated that the snacks are baked, not fried, are high in fibre as they are 80% wholegrain, and contain no artificial colours or flavours.

go ahead! Fruit Bakes, which contain under 131 calories per Bake, have been reformulated to include one whole portion of fruit in each Bake. UB has also slashed the saturated fat content of the Fruit Bakes range by 50%, and the range contains no artificial flavours or colours.

To help consumers manage the number of calories they take in, UB has reduced the calories in its Penguin biscuits and its go ahead! Crispy Fruit Slices. The McVitie's Penguin biscuit bar has gone from containing 125 calories to just 106 calories per bar and contains no artificial colours or flavours. The go ahead! Crispy Fruit Slices have reduced from 56 to 50 calories per Slice.

At the beginning of 2012 UB launched a new product into its go ahead! range in the Healthier Biscuits sub-category: go ahead! Chocolate Thins. Each slice contains just 73 calories whilst providing consumers with a pleasurable chocolate treat. UB also launched a new baked savoury snack: Jacob's Oddities, which contain 15% fewer calories than standard crisps per 25g bag.

UB has also surpassed the commitment it made to the Department of Health by achieving a 23% sodium reduction across its biscuits and cakes portfolio and 18% in the crisps and snacks categories. UB's phased approach has enabled it to achieve substantial salt reduction in some of its most popular brands. For example, McVitie's Hobnobs a 43% reduction, McVitie's Rich Tea 33%, and McVitie's Digestives 24%. Against the more recent Department of Health Responsibility Deal salt targets, UB has achieved the required reductions in 84% of the 281 products covered by the pledge.

UB's progress across the entire corporate responsibility agenda is measured annually by the Corporate Responsibility Index operated by Business in the Community and published annually in the Financial Times. In 2012 UB retained its platinum award which it received during 2010 and retained in 2011. UB is grateful for this recognition of the progress it has made.

# Corporate governance

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

## The UB board

The Board comprises the Non-Executive Chairman, the Chief Executive Officer, the Chief Operating Officer/Chief Financial Officer and Operations Director, as well as six non-executive directors, three from each of Blackstone and PAI

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

Matters reserved for Board decision include the final approval of the annual budget and strategic plan, changes to UB's financing arrangements, acquisitions and disposals, material contracts and significant capital expenditure.

Formal Board meetings are held every four weeks. Where decisions are required on urgent matters in between meetings, there is a process in place led by the Non-Executive Chairman to facilitate discussion and decision-making.

The Board directors also have access to the advice and services of the Group Company Secretary.

Directors' biographies are on pages 24-26

## The UB executive

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

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

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

## Board committees

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

## Audit committee

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

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

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

## Remuneration committee

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

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

## Internal controls

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

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

# Board of directors

## UB

**David Fish** has been chairman since February 2004. Before joining United Biscuits, Mr Fish worked for Mars for 27 years, until 2001. During his last seven years with Mars he was a member of the Mars Incorporated Operating Board. During his time at Mars he held a number of senior management positions including President, Snackfoods Europe and Joint President, Masterfoods Europe, the operating company for all of Mars' European activities. He has also held Vice President positions in marketing, country management and personnel. Mr Fish has also served as Non Executive Chairman of Christian Salvesen Plc as well as Non Executive Director of the board of Royal Mail.

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

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

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

# The Blackstone group

**Blackstone is a leading global alternative asset manager and provider of financial advisory services listed on the New York Stock Exchange with total assets under management of approximately \$210 billion as of December 31 2012**

**Lionel Assant** is Senior Managing Director and European Head of Private Equity for Blackstone, based in London. Since joining Blackstone in 2003, Mr Assant has been involved in various European investments and investment opportunities. Before joining Blackstone, Mr Assant worked for seven years at Goldman Sachs in the Mergers & Acquisitions, Asset Management, and Private Equity divisions.

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

**Gerry Murphy** is a Senior Managing Director in the Corporate Private Equity group and Chairman of The Blackstone Group International Partners LLP, the firm's principal European regulated entity. Based in London, his primary focus is supporting the firm's activities across Europe and Asia and he serves as a director of United Biscuits, Merlin Entertainments Group, Jack Wolfskin and Michaels Stores. He is a non-executive director of British American Tobacco plc.

Before joining Blackstone in 2008, Dr Murphy spent five years as CEO of Kingfisher plc, a FTSE 100 company and the leading home improvement retailer in Europe and Asia. He has also served as CEO of Carlton Communications plc, Exel plc and Greencore Group plc. Earlier in his career, he held senior operating and corporate positions with Grand Metropolitan plc (now Diageo plc) in Ireland, the UK and the USA. He has served on the boards of Reckitt Benckiser Group plc, Abbey National plc and Novar plc and on the UK government's Asia Task Force.

# PAI partners

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

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

**Colin O'Sullivan** joined PAI in 2006 and heads PAI's UK Team. Mr O'Sullivan has been involved in a number of transactions including United Biscuits, Kwik Fit and Perstorp. On joining PAI, he was a member of the Consumer Goods team based in Paris. Since November 2008, he has managed PAI's UK Office. Mr. O'Sullivan arrived from Deutsche Bank where he spent eight years in the Financial Sponsors Group working on a number of advisory and financing transactions for European Private Equity Firms. Prior to this, he spent six years with Hambros Bank in London and New-York working on various debt capital market and advisory transactions.

**Frédéric Stévenin** joined PAI in 1993 and is responsible for the Food & Consumer Goods and Healthcare sector teams. Mr Stévenin has been involved in a number of transactions including Panzani, Amora Maille, William Saunin, Antargaz, Yoplait, Elis, Panzani-Lustucru, Saeco, Chr Hansen, United Biscuits, Kaufman & Broad, Cerba European Lab and Marcolin. Mr Stévenin first joined PAI in 1993 and spent five years in the Food & Beverage team. In 1998, he joined Deutsche Bank / Bankers Trust in the European Acquisition Finance Group as a Director and subsequently as Managing Director. In June 2001, he returned to PAI. Prior to this, he spent four years with Banque Panbas in the Advisory team of the Private Banking division.

# Directors' report

**The directors present their report and the audited financial statements of United Biscuits Topco Limited (the 'Company') together with its subsidiaries (the 'Group') for the 52 week period from 2 January 2012 to 29 December 2012.**

## Results and dividends

The results for the Group are set out on page 37 and show a consolidated profit attributable to the shareholder for 2012, after taxation, of £20.5 million (2011: profit of £80.7 million).

No dividends have been paid or proposed (2011: £nil)

## Going concern, business review and future development

The Group's business and performance against its key performance indicators and likely future developments are set out on pages 3 to 20 and are incorporated in this report by reference

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 39 to 41. In addition, Note 17 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk, commodity risk and liquidity risk. In view of this, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook and have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future

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

## Directors' interest

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

| Name                                                | Date of appointment |
|-----------------------------------------------------|---------------------|
| <b>Lionel Yves Assant</b>                           | 1 6 November 2006   |
| <b>David Scott Blitzner<sup>1</sup></b>             | 23 October 2006     |
| <b>Gaëlle d'Engremont<sup>2</sup></b>               | 3 December 2009     |
| <b>David John Fish (Chairman)</b>                   | 23 January 2007     |
| <b>Kevin McGurk (Operational Services Director)</b> | 23 January 2007     |
| <b>Gerrard Martin Murphy<sup>1</sup></b>            | 29 January 2009     |
| <b>Colm O'Sullivan<sup>2</sup></b>                  | 8 October 2009      |
| <b>Frederic Stevenin<sup>2</sup></b>                | 23 October 2006     |
| <b>Benoit Testard (CEO)</b>                         | 29 January 2010     |
| <b>Jeffrey Peter van der Eems (COO)</b>             | 23 January 2007     |

<sup>1</sup> Blackstone appointed   <sup>2</sup> PAI appointed

## Charitable donations

During 2012 the Group made charitable donations of £310,000 (2011: £275,000)

## Supplier payment policy

The Group requires its operating companies to negotiate appropriate terms and conditions of trade as competitively as it negotiates prices and other commercial matters. Employees are bound by the terms of the Group's 'Ethics and Operating Principles' which sets out the Group's code of practice on the treatment of suppliers. This policy states that 'all suppliers will be paid on time in accordance with agreed terms of trade'. At 29 December 2012, the Group had an average of 102 days purchases (2011: 102 days) outstanding in trade creditors.

# Principal risks and uncertainties

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

## These risks include the following

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- **Substantial leverage and ability to service debt** – UB's high level of debt requires it to dedicate a substantial portion of its cash flow from operations to its debt service obligations. Its leveraged status could increase its vulnerability to adverse general economic and industry conditions or to a significant business continuity issue, limit its ability to obtain additional financing for working capital, capital expenditures, acquisitions or other purposes, place it at a disadvantage relative to its competitors that have less debt and limit its flexibility in planning for or reacting to changes in its business or industry.
- **Business strategy implementation** – UB's strategy is to increase its cash flow and profitability by implementing initiatives aimed at achieving cost savings and generating profitable branded growth. If it is unsuccessful at implementing its strategy it may be unable to comply with the financial covenants under its senior facilities agreement.
- **Significant competition** – UB operates in highly competitive markets, and its failure to compete effectively might adversely affect the results of its operations. It competes primarily on the strength of its brands, the quality of its products, product innovation and price. UB's ability to compete effectively requires continuous efforts in sales and marketing of its existing products, developing new products and cost rationalisation.
- **Dependence on raw materials** – UB's ability to pass increases in raw materials and energy costs on to its customers could adversely affect the results of its operations. Many of its raw materials and energy costs are volatile and supplies are affected by government policies, the actions of its suppliers, currency movements, political upheavals and acts of God. Consequently, unexpected increases in raw material and energy costs or a material or prolonged supply disruption could adversely affect the results of its operations.
- **Continual evolution of retailers** – the ongoing evolution of the retail food industry in the United Kingdom and continental Western Europe could adversely affect UB's operating results. Such evolution involves the consolidation of sales channels, strong bargaining power of the major grocery retailers, intensified price competition among these retailers and the rapid growth of the discount retail channel.

- **Supply and manufacturing processes** – product quality and safety issues may result in damage to the reputation of UB's brands and the termination of agreements or licences to operate one or more of its brands and may affect its relationship with the company's customers
- **Challenges to brands and intellectual property rights** – some of UB's intellectual property rights could be challenged or lapse. As approximately 88% of its sales are from branded products this could adversely affect UB's results
- **Restrictions on operations** – UB's debt agreements contain significant restrictions limiting its flexibility in operating its business including, among other things, to borrow money, pay dividends or make other distributions and make asset dispositions. These covenants could materially and adversely affect UB's ability to finance its future operations or capital needs or to engage in other business activities that may be in the company's best interest
- **Funding defined benefit pension schemes** – UB operates defined benefit pension arrangements in the U.K. that have significant liabilities to current, previous and retired employees. In order to take advantage of the higher returns that equities and certain other investments have historically generated, a proportion of the pension plan funds are invested in such assets. This investment strategy carries the risk that a decline in values could increase UB's funding deficit, which may require it to increase its contributions
- **Changes to taxation or other government regulation** – changes in fiscal legislation and regulation in the various jurisdictions in which UB operates may affect the taxes that it pays. In addition, Government bodies in the company's markets have been pursuing various initiatives aimed at increasing health and reducing the incidence of diseases that are seen to be linked to diet. The actions that government bodies may take could have an adverse effect on consumer demand for UB products

Additional risks not presently known to the Group, or that management currently deem immaterial, may also impair future business operations. The directors who were members of the board at the time of approving the directors' report are listed on page 24

Having made enquiries of fellow directors and of the Group's auditors, each of these directors confirms that.

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

On behalf of the board

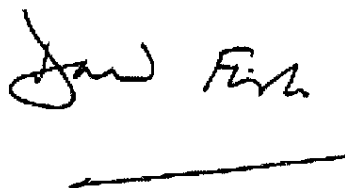
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**Benoit Testard**



Chief Executive officer

**David Fish**



Non Executive Chairman

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**United Biscuits Topco Limited**

# **Consolidated Financial Statements**

**52 weeks ended 29 December 2012**

## United Biscuits Topco Limited

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### Directors' Report – register number 5957921

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#### Auditors

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

#### Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on Page 28. Having made enquiries of fellow directors and of the Group's auditors, each of these directors confirms that

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

On behalf of the board



Director

28 March 2013

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

### Statement of directors' responsibilities

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

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

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

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

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

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We have audited the group financial statements of United Biscuits Topco Limited for the 52 weeks ended 29 December 2012 which comprise the Consolidated Income Statement and Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity and the Consolidated Cash Flow Statement, and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 34, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

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

### **Opinion on financial statements**

In our opinion the group financial statements

- give a true and fair view of the state of the group's affairs as at 29 December 2012 and of its profit for the period then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

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

### **Matters on which we are required to report by exception**

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

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

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

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**Other matter**

We have reported separately on the parent company financial statements of United Biscuits Topco Limited for the period ended 29 December 2012

*Ernst & Young LLP*

Andrew Walton (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London  
28 March 2013

# United Biscuits Topco Limited

## Consolidated income statement

For the period 1 January 2012 to 29 December 2012

|                                                                                             | Notes | 2012<br>£m    | 2011<br>£m<br>restated |
|---------------------------------------------------------------------------------------------|-------|---------------|------------------------|
| Revenue                                                                                     |       | 1,050 5       | 1,055 6                |
| Cost of goods sold                                                                          |       | (698 9)       | (712 7)                |
| Gross profit                                                                                |       | 351 6         | 342 9                  |
| Distribution, selling and marketing expenses                                                |       | (150 2)       | (137 9)                |
| General and administrative expenses                                                         |       | (70 6)        | (70 4)                 |
| <b>Operating profit before exceptional operating items</b>                                  |       | <b>130 8</b>  | <b>134 6</b>           |
| Operating profit before exceptional operating items is comprised as follows                 |       |               |                        |
| Business profit                                                                             |       | 169 8         | 173 5                  |
| Depreciation and amortisation expense                                                       | 4     | (39 0)        | (38 9)                 |
| Exceptional operating expense                                                               | 3     | (9 9)         | (15 1)                 |
| <b>Operating profit</b>                                                                     | 4     | <b>120 9</b>  | <b>119 5</b>           |
| Interest receivable and other financial income                                              | 5     | 1 2           | 2 0                    |
| Interest payable and other financial charges                                                | 6     | (95 1)        | (96 6)                 |
| Other finance income – pensions                                                             | 20    | 18 7          | 16 6                   |
| <b>Profit from continuing operations before taxes and share of results of joint venture</b> |       | <b>45 7</b>   | <b>41 5</b>            |
| Taxes                                                                                       | 7     | (72 7)        | (10 2)                 |
| <b>(Loss)/Profit from continuing operations before share of results of joint venture</b>    |       | <b>(27 0)</b> | <b>31 3</b>            |
| Share of results of joint venture                                                           | 11    | 0 6           | 0 7                    |
| <b>(Loss)/Profit from continuing operations attributable to shareholder</b>                 |       | <b>(26 4)</b> | <b>32 0</b>            |
| Profit after tax from discontinued operations                                               | 8     | 46 9          | 48 7                   |
| <b>Profit for the year attributable to shareholder</b>                                      |       | <b>20 5</b>   | <b>80 7</b>            |

For comparative purposes 2011 income statement has been restated as result of discontinued operations

## United Biscuits Topco Limited

### Consolidated statement of comprehensive income

For the period 1 January 2012 to 29 December 2012

|                                                                | Notes | 2012<br>£m    | 2011<br>£m     |
|----------------------------------------------------------------|-------|---------------|----------------|
| <b>Profit attributable to shareholder</b>                      |       | 20.5          | 80.7           |
| <b>Other comprehensive income</b>                              |       |               |                |
| Actuarial losses on defined benefit plans                      | 20    | (86.3)        | (126.0)        |
| Exchange differences on translation of foreign operations      |       | (3.8)         | (4.0)          |
| Gain/(Loss) on cash flow hedges taken to equity                |       | 0.1           | (6.6)          |
| Gain on cash flow hedges transferred to the income statement   |       | 6.7           | 0.8            |
| <b>Other comprehensive loss for the period before tax</b>      |       | <u>(83.3)</u> | <u>(135.8)</u> |
| Tax on items recognised directly in or transferred from equity | 7     | <u>21.4</u>   | <u>31.6</u>    |
| <b>Other comprehensive loss for the period after tax</b>       |       | <u>(61.9)</u> | <u>(104.2)</u> |
| <b>Total comprehensive loss for the period after tax</b>       |       | <u>(41.4)</u> | <u>(23.5)</u>  |

# United Biscuits Topco Limited

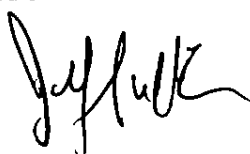
## Consolidated balance sheet

As at 29 December 2012

|                                                                             | Notes | 2012<br>£m     | 2011<br>£m     |
|-----------------------------------------------------------------------------|-------|----------------|----------------|
| <b>ASSETS</b>                                                               |       |                |                |
| <b>Non-current assets</b>                                                   |       |                |                |
| Intangible assets                                                           | 9     | 952 7          | 1,179 7        |
| Property, plant and equipment                                               | 10    | 283 7          | 325 2          |
| Investment in joint venture                                                 | 11    | 0 6            | 0 5            |
| Retirement benefit asset                                                    | 20    | 1 0            | 0 6            |
| Deferred tax                                                                | 7     | 59 7           | 113 7          |
| Derivative financial instruments                                            | 17    | 0 1            | -              |
| <b>Total non current assets</b>                                             |       | <b>1,297 8</b> | <b>1,619 7</b> |
| <b>Current assets</b>                                                       |       |                |                |
| Inventories                                                                 | 12    | 53 8           | 60 5           |
| Trade and other receivables                                                 | 13    | 225 0          | 264 7          |
| Derivative financial instruments                                            | 17    | 1 5            | 2 0            |
| Cash and cash equivalents                                                   | 14    | 186 8          | 153 3          |
| <b>Total current assets</b>                                                 |       | <b>467 1</b>   | <b>480 5</b>   |
| Assets classified as held for sale                                          | 8     | 342 9          | -              |
| <b>TOTAL ASSETS</b>                                                         |       | <b>2,107 8</b> | <b>2,100 2</b> |
| <b>EQUITY AND LIABILITIES</b>                                               |       |                |                |
| <b>Shareholder's equity</b>                                                 |       |                |                |
| Share capital and share premium                                             | 19    | 1 8            | 1 8            |
| Other reserves                                                              | 19    | 7 3            | 3 9            |
| Retained earnings                                                           |       | (227 0)        | (182 2)        |
| <b>Total equity</b>                                                         |       | <b>(217 9)</b> | <b>(176 5)</b> |
| <b>Non current liabilities</b>                                              |       |                |                |
| Borrowings                                                                  | 16    | 1,183 7        | 1,246 4        |
| Amount due to parent company                                                | 22    | 491 7          | 455 1          |
| Retirement benefit liability                                                | 20    | 259 5          | 216 4          |
| Provisions                                                                  | 18    | 1 8            | 7 5            |
| Other non current liabilities                                               |       | 0 2            | 0 2            |
| Deferred tax                                                                | 7     | 10 0           | 14 4           |
| <b>Total non current liabilities</b>                                        |       | <b>1,946 9</b> | <b>1,940 0</b> |
| <b>Current liabilities</b>                                                  |       |                |                |
| Borrowings                                                                  | 16    | 27 9           | -              |
| Trade and other payables                                                    | 15    | 272 4          | 327 5          |
| Derivative financial instruments                                            | 17    | 2 1            | 4 9            |
| Provisions                                                                  | 18    | 3 5            | 4 3            |
| <b>Total current liabilities</b>                                            |       | <b>305 9</b>   | <b>336 7</b>   |
| Liabilities directly associated with the assets classified as held for sale | 8     | 72 9           | -              |
| <b>Total liabilities</b>                                                    |       | <b>2,325 7</b> | <b>2,276 7</b> |
| <b>TOTAL EQUITY AND LIABILITIES</b>                                         |       | <b>2,107 8</b> | <b>2,100 2</b> |

Approved by the Board and signed on its behalf on 28 March 2013

Jeffrey Peter van der Eems



## United Biscuits Topco Limited

### Consolidated statement of changes in equity

| For the period 2 January 2011 to 31 December 2011         | Share Capital and Share Premium<br>£m | Currency Translation Reserve<br>£m | Hedging Reserves<br>£m | Retained Earnings<br>£m | Total<br>£m |
|-----------------------------------------------------------|---------------------------------------|------------------------------------|------------------------|-------------------------|-------------|
| At 2 January 2011                                         | 1 8                                   | 12 8                               | 0 7                    | (168 3)                 | (153 0)     |
| Profit attributable to shareholder                        | -                                     | -                                  | -                      | 80 7                    | 80 7        |
| Actuarial losses on defined benefit plans net of tax      | -                                     | -                                  | -                      | (94 6)                  | (94 6)      |
| Exchange differences on translation of foreign operations | -                                     | (3 8)                              | -                      | -                       | (3 8)       |
| Net gain/(loss) on cash flow hedges                       | -                                     | -                                  | (5 8)                  | -                       | (5 8)       |
| Total comprehensive income                                | -                                     | (3 8)                              | (5 8)                  | (13 9)                  | (23 5)      |
| At 31 December 2011                                       | 1 8                                   | 9 0                                | (5 1)                  | (182 2)                 | (176 5)     |
| For the period 1 January 2012 to 29 December 2012         |                                       |                                    |                        |                         |             |
| Profit attributable to shareholder                        | -                                     | -                                  | -                      | 20 5                    | 20 5        |
| Actuarial losses on defined benefit plans net of tax      | -                                     | -                                  | -                      | (65 3)                  | (65 3)      |
| Exchange differences on translation of foreign operations | -                                     | (3 1)                              | -                      | -                       | (3 1)       |
| Net gain/(loss) on cash flow hedges                       | -                                     | -                                  | 6 5                    | -                       | 6 5         |
| Total comprehensive income                                | -                                     | (3 1)                              | 6 5                    | (44 8)                  | (41 4)      |
| At 29 December 2012                                       | 1 8                                   | 5 9                                | 1 4                    | (227 0)                 | (217 9)     |

# United Biscuits Topco Limited

## Consolidated cash flow statement

For the period 1 January 2012 to 29 December 2012

|                                                                                              | Notes  | 2012<br>£m    | 2011<br>£m    |
|----------------------------------------------------------------------------------------------|--------|---------------|---------------|
| <b>Operating activities</b>                                                                  |        |               |               |
| Operating profit from continuing operations                                                  |        | 120.9         | 119.5         |
| Operating profit from discontinued operations                                                |        | 46.9          | 47.1          |
| Adjustments for                                                                              |        |               |               |
| Depreciation and amortization                                                                | 4      | 45.7          | 46.2          |
| Exceptional operating expense                                                                | 3      | 10.2          | 16.4          |
| Increase in inventory                                                                        |        | (4.2)         | (4.4)         |
| Increase in receivables                                                                      |        | (13.1)        | (26.1)        |
| Increase in payables                                                                         |        | 24.4          | 17.5          |
| Cash flows relating to financial instruments                                                 |        | 0.6           | (0.6)         |
| Cash flows relating to restructuring and other provisions                                    |        | (16.2)        | (17.2)        |
| Difference between pension contributions paid and amounts recognised in the operating profit |        | (24.8)        | (25.4)        |
| <b>Cash generated from operations</b>                                                        |        | <u>190.4</u>  | <u>173.0</u>  |
| Interest paid                                                                                |        | (50.8)        | (56.8)        |
| Interest received                                                                            |        | 1.0           | 0.4           |
| Income taxes refunded/(paid)                                                                 |        | 2.0           | (3.8)         |
| <b>Net cash inflow from operating activities</b>                                             |        | <u>142.6</u>  | <u>112.8</u>  |
| <b>Investing activities</b>                                                                  |        |               |               |
| Capital expenditure and purchases of intangible assets                                       | 9 & 10 | (59.4)        | (52.6)        |
| Proceeds from disposal of property, plant and equipment                                      |        | 0.1           | 0.1           |
| Amounts received from joint venture                                                          |        | 0.5           | 0.7           |
| <b>Net cash used in investing activities</b>                                                 |        | <u>(58.8)</u> | <u>(51.8)</u> |
| <b>Financing activities</b>                                                                  |        |               |               |
| Repayment of debt                                                                            | 16     | (49.2)        | (74.2)        |
| <b>Net cash used in financing activities</b>                                                 |        | <u>(49.2)</u> | <u>(74.2)</u> |
| Increase/(decrease) in cash and cash equivalents in the period                               |        | 34.6          | (13.2)        |
| Currency translation differences                                                             |        | (1.1)         | (1.4)         |
| Cash and cash equivalents at beginning of period                                             |        | 153.3         | 167.9         |
| <b>Cash and cash equivalents at end of period</b>                                            | 14     | <u>186.8</u>  | <u>153.3</u>  |

# United Biscuits Topco Limited

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## 1 Authorisation of financial statements

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The financial statements of United Biscuits Topco Limited and its subsidiaries (the "Group") for the period from 1 January 2012 to 29 December 2012 were authorised for issue by the board of directors on 28 March 2013 and the balance sheet was signed on the board's behalf by J van der Eems. United Biscuits Topco Limited is a limited company, incorporated and domiciled in England and Wales.

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## 2 Accounting policies

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### Basis of preparation

The accounting policies which follow set out the policies that were applied in preparing the financial statements of the Group for the 52 week period from 1 January 2012 to 29 December 2012 and as at 29 December 2012.

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and pension assets that have been measured at fair value.

The Group generally presents its financial information based on 13 periods of four calendar weeks. As a result, a normal fiscal year consists of 52 weeks, a first fiscal quarter of four periods (16 weeks) and three fiscal quarters each consisting of three periods (12 weeks). Every five or six years, the final period is lengthened to five weeks, in which case, the fourth quarter consists of 13 weeks and the fiscal year consists of 53 weeks. The financial statements for the previous period reflect the performance of the Group for the period from 2 January 2011 to 31 December 2011. The Group's next consolidated financial statements will be prepared for the 52 weeks ended 28 December 2013.

Unless the context indicates otherwise, "2012" means the 52 week period ended 29 December 2012 or the financial position as at 29 December 2012 and "2011" means the 52 week period ended 31 December 2011 or the financial position as at 31 December 2011.

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

For comparative purposes 2011 income statement has been restated as result of discontinued operations.

## United Biscuits Topco Limited

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### 2 Accounting policies (continued)

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#### Statement of compliance

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union as they apply to the financial statements of the Group for the period from 1 January 2012 to 29 December 2012 as permitted by the Companies Act 2006

#### Basis of consolidation

The consolidated financial statements comprise the financial statements of United Biscuits Topco Limited and its subsidiaries. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and will continue to be consolidated until the date that such control ceases. Intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated on consolidation. The Company's principal subsidiaries are listed in Note 11 of the Notes to the financial statements.

#### Significant accounting judgements, estimates, and assumptions

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year arise in connection with the possible impairment of goodwill and net assets and the measurement of defined benefit pension obligations.

*Goodwill and intangible assets impairment review* – The Group determines whether goodwill and indefinite life intangible assets are impaired on at least an annual basis and this requires an estimation of the value in use of the cash generating units to which the intangible assets are allocated. Considerable management judgement is necessary to identify cash generating units, estimate discounted future cash flows and apply a suitable discount rate. Further details are given in Note 9.

*Defined benefit pension obligations* – The cost of pension benefit plans and post-retirement healthcare benefits is determined using actuarial valuations. This involves making assumptions about future changes in salaries, future pension increases, mortality rates, the expected return on assets and discount rates. Due to the long term nature of these plans, considerable management judgement is necessary and estimates are subject to significant uncertainty. Further details about the assumptions used are given in Note 20.

*Discontinued operations* – A discontinued operation or disposal group represents a major line of business whose carrying amount will be recovered principally through a sale transaction rather than through continuing use. On 4 December 2012 the Board of Directors agreed to sell the Group's bagged snacks business unit ("KP Snacks") and, therefore, this business unit has been classified as a disposal group held for sale at 29 December 2012. The Board considered the business unit met the criteria to be classified as held for sale at the balance sheet date and a discontinued operation in the income statement for the following reasons:

- KP Snacks represents a separate major line of business and could be sold to a potential buyer in its current condition
- The Board expect the sale to be completed on 25 January 2013

#### Revenue

Revenue comprises sales of products to third parties at amounts invoiced net of trade discounts and rebates, excluding sales related taxes and sales between Group companies. Trade discounts include

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### 2 Accounting policies (continued)

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sales incentives, up-front payments and other non-discretionary payments. Revenue is recognised based on confirmed deliveries to customers, when the risks and rewards associated with the underlying products have been substantially transferred. At each balance sheet date any expenditure incurred, but not yet invoiced in relation to trade discounts and other allowances, is estimated and accrued. Revenue also includes royalty income from licences associated with the Group's brands.

#### Business profit

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

#### Exceptional operating income and expense

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

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

Costs incurred for the separation and sale of the bagged snacks business unit has been included within exceptional operating expenses.

#### Foreign currencies

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively). Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

## **United Biscuits Topco Limited**

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### **2 Accounting policies (continued)**

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

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

#### **Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at the acquisition date fair value, and the amount of any non-controlling interest in the acquiree. The choice of measurement of non-controlling interest, either at fair value or at the proportionate share of the acquiree's identifiable net assets, is determined on a transaction by transaction basis. Acquisition costs are expensed when incurred. Goodwill is initially measured at cost being the excess of the aggregate of the acquisition date fair value of the consideration transferred and the amount recognised for the non-controlling interest over the net identifiable amounts of the assets acquired and liabilities assumed in exchange of the business combination. Goodwill represents consideration paid by the Group in anticipation of future economic benefits from assets that are not capable of being individually identified and separately recognised.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is subject to an annual impairment review or more frequently when events or changes in circumstances indicate an impairment may exist. Any impairment is charged to the income statement in the period in which it arises.

#### **Other intangible assets**

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

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

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

#### **Advertising and promotional costs**

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

#### **Non-current assets held for sale and discontinued operations**

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. The criteria for held for sale classification is regarded as met only when the sale is

## United Biscuits Topco Limited

### 2 Accounting policies (continued)

highly probable and the asset or disposal group is available for immediate sale in its present condition Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the income statement Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale

#### Property, plant and equipment

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

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

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

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

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

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

#### Impairment of assets

Goodwill arising on business combinations is allocated to the groups of cash-generating units (equivalent to the Group's business units as described in Note 9) The recoverable amount of the cash-generating units to which goodwill has been allocated is tested for impairment annually or more frequently when events or changes in circumstances indicate that it might be impaired Previous impairments of goodwill are not reversed at a later date

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

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

An impairment review is performed by comparing the carrying value of the property, plant and equipment or intangible asset or goodwill with its recoverable amount, the recoverable amount being the higher of the fair value of the asset less costs to sell and the asset's value in use An asset's fair value less costs to sell is the amount that could be obtained on disposal of the asset The value in use is determined by discounting, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, the expected future cash flows resulting from its continued use, including those on final disposal Impairment losses are recognised in the income statement immediately

## **United Biscuits Topco Limited**

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### **2 Accounting policies (continued)**

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Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which it belongs. Considerable management judgement is necessary to estimate discounted future cash flows. Accordingly, actual cash flows could vary considerably from forecasted cash flows.

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

#### **Leasing commitments**

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

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

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

#### **Joint venture**

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

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

#### **Inventories**

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

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

#### **Trade and other receivables**

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

#### **Cash and cash equivalents**

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

## United Biscuits Topco Limited

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### 2 Accounting policies (continued)

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#### Government grants

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

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

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

#### Borrowings

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

#### Taxes

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

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

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

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

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

#### Pensions and other post-retirement benefits

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

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### 2 Accounting policies (continued)

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

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

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

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

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

#### Contingencies and provisions

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

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

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

#### Derivative financial instruments and hedging

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

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**2 Accounting policies (continued)**

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

The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

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

**(a) Cash flow hedges**

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

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

**(b) Fair value hedges**

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

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

**(c) Hedges of net investment**

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

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

## United Biscuits Topco Limited

### 2 Accounting policies (continued)

#### New standards and interpretations and Standards issued but not yet effective

The IASB and the International Financial Reporting Interpretations Committee ("IFRIC") have issued standards and interpretations which had no impact on the Group consolidated financial statements, while the following standards and interpretations will be effective for future accounting periods of the Group

|                  |                                                                                           | Effective for<br>accounting<br>periods beginning<br>on or after |
|------------------|-------------------------------------------------------------------------------------------|-----------------------------------------------------------------|
| <b>IFRS</b>      |                                                                                           |                                                                 |
| IAS 1            | Presentation of items of Other Comprehensive Income – Amendments to IAS 1                 | 1 July 2012                                                     |
| IAS 19 (revised) | Employee Benefits                                                                         | 1 January 2013                                                  |
| IAS 28 (revised) | Investments in Associates and Joint Ventures                                              | 1 January 2013                                                  |
| IAS 32           | Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32              | 1 January 2014                                                  |
| IFRS 1           | Government Loans – Amendments to IFRS 1                                                   | 1 January 2013                                                  |
| IFRS 7           | Disclosure – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7 | 1 January 2013                                                  |
| IFRS 9           | Financial Instruments Classification and Measurement                                      | 1 January 2015                                                  |
| IFRS 10          | Consolidated Financial Statements                                                         | 1 January 2013                                                  |
| IAS 27           | Separate Financial Statements                                                             | 1 January 2013                                                  |
| IFRS 11          | Joint Arrangements                                                                        | 1 January 2013                                                  |
| IFRS 12          | Disclosure of Interest in Other Entities                                                  | 1 January 2013                                                  |
| IFRS 13          | Fair Value Measurement                                                                    | 1 January 2013                                                  |

#### Improvement to IFRS (issued in May 2012)

|        |                                      |                |
|--------|--------------------------------------|----------------|
| IFRS 1 | First-time Adoption of IFRS          | 1 January 2013 |
| IAS 1  | Presentation of Financial Statements | 1 January 2013 |
| IAS 16 | Property Plant and Equipment         | 1 January 2013 |
| IAS 32 | Financial Instruments, Presentation  | 1 January 2013 |
| IAS 34 | Interim Financial Reporting          | 1 January 2013 |

Management does not anticipate that the adoption of the above standards and interpretations will have a material impact on the Group's financial statements in the initial period of application with the exception of IAS 19 (revised). The IASB has revised IAS 19. These include a fundamental change which will affect the basis by which the Group apportions finance income between the income statement and other comprehensive income from the 2014 financial year. The impact of the change will be estimated closer to the adoption and will depend on the movement of the actuarial assumptions between now and adoption. This change could have a material impact on the income statement and other comprehensive income.

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

## United Biscuits Topco Limited

### 3 Exceptional operating income and expense

|                                      | Restructuring<br>and other<br>non-recurring<br>expenses <sup>(1)</sup><br>£m | Profit / loss<br>on disposal<br>of property,<br>plant and<br>equipment<br>£m | Total<br>£m   |
|--------------------------------------|------------------------------------------------------------------------------|------------------------------------------------------------------------------|---------------|
| <b>2012</b>                          |                                                                              |                                                                              |               |
| Exceptional costs                    | (9.4)                                                                        | (0.5)                                                                        | (9.9)         |
| <b>Exceptional operating expense</b> | <b>(9.4)</b>                                                                 | <b>(0.5)</b>                                                                 | <b>(9.9)</b>  |
| <b>2011</b>                          |                                                                              |                                                                              |               |
| Exceptional costs                    | (14.8)                                                                       | (0.2)                                                                        | (15.0)        |
| <b>Exceptional operating expense</b> | <b>(14.8)</b>                                                                | <b>(0.2)</b>                                                                 | <b>(15.0)</b> |

Exceptional operating expenses relating to the KP Snacks business unit of £0.3m (2011: £1.3m) have been included in profit from discontinued operation (Note 8). The amount reported in 2012 includes cost incurred for the separation and sale of KP Snacks business unit of £7.9 million.

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

## United Biscuits Topco Limited

### 4 Operating profit

|                                                                      | 2012<br>£m   | 2011<br>£m   |
|----------------------------------------------------------------------|--------------|--------------|
| Operating profit is stated after charging                            |              |              |
| Depreciation and amortisation expense                                |              |              |
| Depreciation of property, plant and equipment                        | 42.5         | 43.6         |
| Amortisation of computer software                                    | 3.2          | 2.6          |
|                                                                      | <u>45.7</u>  | <u>46.2</u>  |
| The depreciation and amortisation expense by function was as follows |              |              |
| Cost of goods sold                                                   | 32.6         | 32.9         |
| Distribution, selling and marketing expenses                         | 1.5          | 1.5          |
| General and administrative expenses                                  | 4.9          | 4.5          |
| Continued operations                                                 | <u>39.0</u>  | <u>38.9</u>  |
| Discontinued operations                                              | 6.7          | 7.3          |
|                                                                      | <u>45.7</u>  | <u>46.2</u>  |
| Operating lease rentals                                              |              |              |
| Property                                                             | 7.3          | 6.0          |
| Plant and equipment                                                  | 4.2          | 4.9          |
|                                                                      | <u>11.5</u>  | <u>10.9</u>  |
| Net foreign exchange (gain)/loss                                     | (0.8)        | 0.2          |
| Shareholder fees                                                     | 2.0          | 2.0          |
| Product research and development                                     | 4.4          | 4.9          |
| Advertising expenditure                                              | 14.4         | 15.7         |
| <b>Staff costs and directors' emoluments</b>                         |              |              |
| Gross wages and salaries, holiday pay and sick pay                   | 241.8        | 240.3        |
| Social security costs                                                | 40.0         | 38.6         |
| Pension                                                              | 11.2         | 10.9         |
|                                                                      | <u>293.0</u> | <u>289.8</u> |
| Directors' emoluments <sup>(1)</sup>                                 | 2.6          | 2.6          |
| Emoluments in respect of the highest paid director                   | 0.9          | 1.0          |

(1) The number of directors to whom retirement benefits are accruing in respect of defined benefit schemes was 1 in 2012 (1 in 2011) and 1 director is a member of the defined contribution scheme (1 in 2011)

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

|                                     | 2012<br>No   | 2011<br>No   |
|-------------------------------------|--------------|--------------|
| Manufacturing and production        | 6,322        | 6,516        |
| Logistics and site service          | 598          | 580          |
| Sales, marketing and administration | 1,034        | 1,060        |
|                                     | <u>7,954</u> | <u>8,156</u> |

## United Biscuits Topco Limited

### 4 Operating profit (continued)

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

|                                                                                      | 2012<br>£'000 | 2011<br>£'000 |
|--------------------------------------------------------------------------------------|---------------|---------------|
| Fees payable to the company's auditor for the audit of the company's annual accounts | 214           | 220           |
| Fees payable to the company's auditor for other services                             |               |               |
| • Auditing of accounts of subsidiaries                                               | 545           | 609           |
|                                                                                      | <u>759</u>    | <u>829</u>    |
| • Audit related assurance services                                                   | 15            | 24            |
| • Tax compliance services                                                            | 6             | -             |
| • Tax advisory services                                                              | 3             | -             |
| • Corporate finance services                                                         | 48            | -             |
|                                                                                      | <u>831</u>    | <u>853</u>    |

Fees relating to the auditing of accounts for subsidiaries include £44,000 (2011 £51,000) related to the audit of the Group's pensions scheme

### 5 Interest receivable and other financial income

|                                  | 2012<br>£m | 2011<br>£m |
|----------------------------------|------------|------------|
| Interest income on bank deposits | <u>1.2</u> | <u>2.0</u> |
|                                  | <u>1.2</u> | <u>2.0</u> |

### 6 Interest payable and other financial charges

|                                    | 2012<br>£m  | 2011<br>£m  |
|------------------------------------|-------------|-------------|
| Bank credit facility               | 57.1        | 61.1        |
| Interest payable to parent company | 36.7        | 34.0        |
| Other financial charges            | <u>1.3</u>  | <u>1.5</u>  |
|                                    | <u>95.1</u> | <u>96.6</u> |

## United Biscuits Topco Limited

### 7 Taxes

#### Tax on profit on ordinary activities:

Tax is charged in the income statement as follows

|                                                                     | 2012<br>£m  | 2011<br>£m  |
|---------------------------------------------------------------------|-------------|-------------|
| <b>Current income tax</b>                                           |             |             |
| UK corporation tax                                                  | 0.1         | -           |
| Foreign tax                                                         | 1.5         | 1.1         |
| Current income tax charge                                           | 1.6         | 1.1         |
| Adjustment relating to prior years                                  | -           | 0.1         |
| Total current income tax                                            | 1.6         | 1.2         |
| <b>Deferred tax</b>                                                 |             |             |
| Relating to origination and reversal of temporary differences       | 68.1        | 22.7        |
| Changes in the corporation tax rate                                 | 7.2         | 6.6         |
| Adjustments relating to prior years                                 | (4.2)       | (20.3)      |
| Total deferred tax                                                  | 71.1        | 9.0         |
| <b>Tax charge in the income statement for continuing operations</b> | <b>72.7</b> | <b>10.2</b> |
| Tax on discontinued operations (Note 8)                             | -           | (1.6)       |
| <b>Tax charge in the income statement</b>                           | <b>72.7</b> | <b>8.6</b>  |

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

|                                                             | 2012<br>£m | 2011<br>£m |
|-------------------------------------------------------------|------------|------------|
| <b>Deferred tax</b>                                         |            |            |
| Actuarial losses on defined benefit plan                    | (22.2)     | (33.4)     |
| Translation differences on foreign currency net investments | (0.9)      | (0.1)      |
| Revaluation of cash flow hedges                             | 0.4        | -          |
| Changes in the tax rate                                     | 1.3        | 1.9        |
| Tax credit in the statement of comprehensive income         | (21.4)     | (31.6)     |

#### Reconciliation of the total tax charge

The current tax charge on the profit on ordinary activities for the year is lower than the average rate of corporation tax in the UK of 24.5% (2011 – 26.5%). The differences are reconciled below

|                                                            | 2012<br>£m  | 2011<br>£m  |
|------------------------------------------------------------|-------------|-------------|
| Profit from continuing operations before taxation          | 46.3        | 41.5        |
| Profit from discontinued operations before taxation        | 46.9        | 47.1        |
| <b>Total profit before taxation</b>                        | <b>93.2</b> | <b>88.6</b> |
| Tax charge on ordinary activities at the statutory rate    | 22.8        | 23.5        |
| Expenses not deductible for tax purposes                   | 2.5         | 1.4         |
| Reversal of deferred tax liabilities on intangibles        | (25.5)      | -           |
| Reversal of deferred tax assets on capital losses utilised | 87.7        | -           |
| Prior year adjustments                                     | (4.2)       | (22.6)      |
| Effect of overseas tax rates                               | (1.0)       | (0.9)       |
| Loss carried forward for which no DTA was recognised       | 3.5         | 2.5         |
| Tax losses utilised for which no DTA was recognised        | (20.3)      | (1.9)       |
| Changes in the tax rate                                    | 7.2         | 6.6         |
| <b>Tax charge in the income statement</b>                  | <b>72.7</b> | <b>8.6</b>  |

## United Biscuits Topco Limited

### 7 Taxes (continued)

As a result of the disposal for tax purposes of KP Snacks, UK tax losses are expected to be utilised against chargeable gains arising on the disposal. This has resulted in an overall reversal of previously recognised deferred tax assets held on the balance sheet.

A reduction in the UK corporation tax rate from 24% to 23% was substantively enacted in July 2012 and will be effective from 1 April 2013. Accordingly, a rate of 23% has been applied in the measurement of the Group's deferred tax assets and liabilities as at 29 December 2012, resulting in a reduction in the net deferred tax asset recognised of £8.5 million.

There is a proposal for a further reduction in the UK corporate tax rate to 21% from 1 April 2014. This will result in a reduction in the net deferred tax asset recognised of £4.3 million.

#### Unrecognised tax losses

A deferred tax asset has not been recognised on tax losses of approximately £16 million at 29 December 2012 (2011: £145 million), as it is not anticipated that any of these losses will be able to be offset against profits arising in the foreseeable future.

The losses of £16 million have arisen in India (2011: £12 million). Approximately £nil million (2011: £106 million) of the losses are capital and non-trading losses arising in the United Kingdom. The losses have no expiry dates, but can only be utilised against UK capital gains and non-trading profits, respectively. The balance of the losses in 2011 (£27 million) arose in Belgium and France.

#### Temporary differences associated with group investments

At 29 December 2012, there was no recognised deferred tax liability (2011: nil) for taxes that would be payable on the unremitted earnings of the Group's subsidiaries or joint ventures, as the Group has determined that these undistributed profits will not be distributed in the near future. Overseas dividends received are exempt from UK corporation tax, but may be subject to withholding tax. There are no temporary differences associated with investments in subsidiaries, associates and joint ventures, for which a deferred tax liability has not been recognised but for which a tax liability may arise.

| Deferred tax                                | 2012<br>£m   | 2011<br>£m   |
|---------------------------------------------|--------------|--------------|
| <b>Deferred tax assets</b>                  |              |              |
| Decelerated capital allowances              | 41.8         | 58.8         |
| Pensions and retirement healthcare benefits | 59.4         | 53.6         |
| Other short-term temporary differences      | 3.8          | 5.7          |
| Losses carried forward                      | 72.1         | 150.9        |
| Deferred tax asset                          | <u>177.1</u> | <u>269.0</u> |
| <b>Deferred tax liability</b>               |              |              |
| Accelerated capital allowances              | 4.0          | 9.0          |
| Intangible assets                           | 119.3        | 156.7        |
| Other short-term temporary differences      | 4.1          | 4.0          |
| Deferred tax liability                      | <u>127.4</u> | <u>169.7</u> |
| <b>Net deferred tax asset</b>               | <u>49.7</u>  | <u>99.3</u>  |

## United Biscuits Topco Limited

### 7 Taxes (continued)

Reflected in the balance sheet as follows

|                        |             |             |
|------------------------|-------------|-------------|
| Deferred tax asset     | 59 7        | 113 7       |
| Deferred tax liability | (10 0)      | (14 4)      |
|                        | <u>49 7</u> | <u>99 3</u> |

#### Deferred tax in the income statement

|                                             |             |            |
|---------------------------------------------|-------------|------------|
| Accelerated capital allowances              | 8 2         | (7 5)      |
| Net reversal of deferred tax asset          | 62 2        | -          |
| Pensions and retirement healthcare benefits | 10 8        | 11 0       |
| Other short term temporary differences      | 3 4         | (2 7)      |
| Losses not previously recognised            | (20 3)      | -          |
| Changes in the corporation tax rate         | 7 2         | 6 6        |
| Intangible assets (non-UK)                  | (0 4)       | -          |
|                                             | <u>71 1</u> | <u>7 4</u> |

### 8 Discontinued operations

On 4 December 2012, the Group accepted an offer for the sale of the trade and assets comprising its bagged snacks business unit ("KP Snacks")

The disposal was completed on 25 January 2013. At 29 December 2012, KP Snacks has been classified as a disposal group held for sale and as a discontinued operation. The results of KP Snacks for the year are presented below

|                                                                             | 2012<br>£m  | 2011<br>£m  |
|-----------------------------------------------------------------------------|-------------|-------------|
| Revenues                                                                    | 276 3       | 278 0       |
| Cost of goods sold                                                          | (179 9)     | (183 9)     |
| Gross profit                                                                | <u>96 4</u> | <u>94 1</u> |
| Distribution, selling and marketing expenses                                | (37 6)      | (37 5)      |
| General and administrative expenses                                         | (11 6)      | (8 2)       |
| <b>Operating profit before exceptional operating items</b>                  | <u>47 2</u> | <u>48 4</u> |
| Operating profit before exceptional operating items is comprised as follows |             |             |
| Business profit                                                             | 53 9        | 55 7        |
| Depreciation and amortisation expense                                       | (6 7)       | (7 3)       |
| Exceptional operating items                                                 | (0 3)       | (1 3)       |
| <b>Profit before taxes</b>                                                  | <u>46 9</u> | <u>47 1</u> |
| Taxes <sup>(1)</sup>                                                        | -           | 1 6         |
| <b>Profit from discontinued operations</b>                                  | <u>46 9</u> | <u>48.7</u> |

<sup>(1)</sup> For tax purposes, the gain on disposal has been recognised resulting in a current tax charge of £87.7 million, which has been sheltered by brought forward capital losses relating to continuing operations. As such no corporation tax will be payable.

## United Biscuits Topco Limited

### 8 Discontinued operations (continued)

The major classes of assets and liabilities of KP Snacks classified as held for sale as at 29 December 2012 are as follow

|                                                                                    | 2012<br>£m   |
|------------------------------------------------------------------------------------|--------------|
| Intangible assets                                                                  | 223.7        |
| Property, plant and equipment                                                      | 53.4         |
| Inventories                                                                        | 10.6         |
| Trade and other receivables                                                        | 55.2         |
| <b>Assets classified as held for sale</b>                                          | <b>342.9</b> |
| Trade and other payables                                                           | 72.9         |
| <b>Liabilities directly associated with the assets classified as held for sale</b> | <b>72.9</b>  |

The net cash flows of KP Snacks are, as follow

|                        | 2012<br>£m  | 2011<br>£m  |
|------------------------|-------------|-------------|
| Operating              | 53.3        | 55.1        |
| Investing              | (13.9)      | (10.2)      |
| <b>Net cash inflow</b> | <b>39.4</b> | <b>44.9</b> |

## United Biscuits Topco Limited

### 9 Intangible assets

|                                          | Goodwill<br>£m | Purchased<br>Brands<br>£m | Computer<br>Software<br>£m | Total<br>£m    |
|------------------------------------------|----------------|---------------------------|----------------------------|----------------|
| <b>Cost</b>                              |                |                           |                            |                |
| At 1 January 2011                        | 532.9          | 644.0                     | 13.5                       | 1,190.4        |
| Additions                                | -              | -                         | 2.2                        | 2.2            |
| Disposals                                | -              | -                         | (0.1)                      | (0.1)          |
| Transfer from assets under constructions |                |                           | 2.1                        | 2.1            |
| Exchange                                 | (1.9)          | (1.3)                     | (0.1)                      | (3.3)          |
| <b>At 31 December 2011</b>               | <b>531.0</b>   | <b>642.7</b>              | <b>17.6</b>                | <b>1,191.3</b> |
| Additions                                |                |                           | 1.0                        | 1.0            |
| Disposals                                |                |                           | (1.0)                      | (1.0)          |
| Transfer from assets under construction  |                |                           | 1.4                        | 1.4            |
| Discontinued operations                  | (106.7)        | (117.0)                   | -                          | (223.7)        |
| Exchange                                 | (1.5)          | (1.1)                     | (0.1)                      | (2.7)          |
| <b>At 29 December 2012</b>               | <b>422.8</b>   | <b>524.6</b>              | <b>18.9</b>                | <b>966.3</b>   |
| <b>Amortisation</b>                      |                |                           |                            |                |
| At 1 January 2011                        | -              | -                         | 9.1                        | 9.1            |
| Charge for the period                    | -              | -                         | 2.6                        | 2.6            |
| Disposals                                | -              | -                         | -                          | -              |
| Exchange                                 | -              | -                         | (0.1)                      | (0.1)          |
| <b>At 31 December 2011</b>               | <b>-</b>       | <b>-</b>                  | <b>11.6</b>                | <b>11.6</b>    |
| Charge for the period                    | -              | -                         | 3.2                        | 3.2            |
| Disposals                                | -              | -                         | (1.0)                      | (1.0)          |
| Discontinued operations                  | -              | -                         | -                          | -              |
| Exchange                                 | -              | -                         | (0.2)                      | (0.2)          |
| <b>At 29 December 2012</b>               | <b>-</b>       | <b>-</b>                  | <b>13.6</b>                | <b>13.6</b>    |
| <b>Carrying amount</b>                   |                |                           |                            |                |
| <b>At 29 December 2012</b>               | <b>422.8</b>   | <b>524.6</b>              | <b>5.3</b>                 | <b>952.7</b>   |
| <b>At 31 December 2011</b>               | <b>531.0</b>   | <b>642.7</b>              | <b>6.0</b>                 | <b>1,179.7</b> |
| <b>At 1 January 2011</b>                 | <b>532.9</b>   | <b>644.0</b>              | <b>4.4</b>                 | <b>1,181.3</b> |

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

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

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

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

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

## United Biscuits Topco Limited

### 9 Intangible assets (continued)

#### Impairment of goodwill and intangible assets with indefinite lives

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

- U K
- International Sales
- Northern Europe

These operating segments represent the lowest level within the Group at which goodwill and other intangible assets are monitored for internal management purposes. Intangible assets allocated to the Snacks business unit have been reclassified as held for sale. Goodwill has been allocated to the Snacks and Biscuits business units in proportion of their respective EBITDA. The U K operating segment includes only Biscuits assets.

#### UK

The recoverable amount of the U K business unit has been determined based on a value in use calculation using cash flow projections based on financial budgets and forecasts approved by management covering a five-year period. The pre-tax discount rate applied to the cash flow projections was 7.9% (8.4% in 2011). Short-term EBITDA growth rates applied ranged from 1.1% to 4.0% (2.5% to 9.0% in 2011). A long-term EBITDA growth rate assumption of 1.0% (1.0% in 2011) was applied in perpetuity.

#### International Sales

The recoverable amount of the Group's International Sales business unit has been determined based on a value in use calculation using cash flow projections based on financial budgets and forecasts approved by management covering a five-year period. The pre-tax discount rate applied to the cash flow projections was 7.9% (8.4% in 2011). Short-term EBITDA growth rates applied ranged from 0.0% to 3.0% (-6.3% to 2.5% in 2011). A long-term EBITDA growth rate assumption of 1.0% (1.0% in 2011) was applied in perpetuity.

#### Northern Europe

The recoverable amount of the Group's Northern Europe business unit has been determined based on a value in use calculation using cash flow projections based on financial budgets and forecasts approved by management covering a five-year period. The pre-tax discount rate applied to the cash flow projections was 9.0% (9.1% in 2011). Short-term EBITDA growth rates applied ranged from 3.0% to 4.5% (2.5% to 10.7% in 2011). A long-term EBITDA growth rate assumption of 1.0% (1.0% in 2011) was applied in perpetuity.

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

|                     | 2012<br>£m   | 2011<br>£m   |
|---------------------|--------------|--------------|
| <b>Goodwill</b>     |              |              |
| UK                  | 313.2        | 419.8        |
| Northern Europe     | 71.0         | 72.6         |
| International Sales | 38.6         | 38.6         |
| <b>Total</b>        | <b>422.8</b> | <b>531.0</b> |
| <b>Brands</b>       |              |              |
| UK                  | 466.7        | 583.7        |
| Northern Europe     | 51.0         | 52.1         |
| International Sales | 6.9          | 6.9          |
| <b>Total</b>        | <b>524.6</b> | <b>642.7</b> |

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**9 Intangible assets (continued)**

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**Key assumptions applied to value in use calculations**

Assumptions regarding future cash flows are based upon actual results in prior periods, adjusted to reflect management's view of expected developments based upon market conditions. In particular, the 2013 budgeted cash flows, which form the basis for future year forecasts, were developed assuming a recovery in profitability in Northern Europe and sustained growth in both U K and International Sales. The cash flows used are pre-tax cash flows and include all income and costs as well as an estimate of maintenance capital expenditure required to support these cash flows.

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

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

**Sensitivity to changes in assumptions**

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

However, management believes that given the level of judgement inherent in these assumptions, especially in light of the current economic climate, a reasonably possible change could cause the carrying value of its Northern Europe cash-generating unit to exceed its recoverable amount. The change in assumption required would be either a decrease in the EBITDA growth rate of 3.5 percentage points in 2013 and 3.0 percentage points in each of the following 4 years forecast (3.1% in all years in 2011) or an increase in the annual discount rate of 1.5 percentage points (1.5% in 2011).

## United Biscuits Topco Limited

### 10 Property, plant and equipment

|                            | Freehold<br>£m | Leasehold<br>Improvement<br>£m | Plant,<br>Machinery<br>& Vehicles<br>£m | Fixtures &<br>Fittings<br>£m | Assets<br>Under<br>Construction<br>£m | Total<br>£m  |
|----------------------------|----------------|--------------------------------|-----------------------------------------|------------------------------|---------------------------------------|--------------|
| <b>Cost</b>                |                |                                |                                         |                              |                                       |              |
| At 1 January 2011          | 101.7          | 8.5                            | 340.1                                   | 6.1                          | 33.3                                  | 489.7        |
| Exchange adjustments       | (1.0)          | -                              | (2.9)                                   | (0.1)                        | (0.1)                                 | (4.1)        |
| Additions                  | 2.9            | -                              | 21.9                                    | 1.4                          | 24.2                                  | 50.4         |
| Reclassifications          | 1.6            | -                              | 14.9                                    | 1.4                          | (17.9)                                | -            |
| Transfer to Software       | -              | -                              | -                                       | -                            | (2.1)                                 | (2.1)        |
| Disposals                  | -              | -                              | (0.3)                                   | (0.1)                        | -                                     | (0.4)        |
| <b>At 31 December 2011</b> | <b>105.2</b>   | <b>8.5</b>                     | <b>373.7</b>                            | <b>8.7</b>                   | <b>37.4</b>                           | <b>533.5</b> |
| Exchange adjustments       | (0.7)          | -                              | (2.2)                                   | -                            | (0.1)                                 | (3.0)        |
| Additions                  | 4.1            | 0.4                            | 27.7                                    | 2.3                          | 23.9                                  | 58.4         |
| Reclassifications          | 3.0            | 0.2                            | 20.8                                    | 0.8                          | (24.8)                                | -            |
| Transfer to software       | -              | -                              | -                                       | -                            | (1.4)                                 | (1.4)        |
| Discontinued operations    | (17.7)         | (0.3)                          | (60.4)                                  | (1.1)                        | (6.2)                                 | (85.7)       |
| Disposals                  | -              | -                              | (0.3)                                   | -                            | -                                     | (0.3)        |
| <b>At 29 December 2012</b> | <b>93.9</b>    | <b>8.8</b>                     | <b>359.3</b>                            | <b>10.7</b>                  | <b>28.8</b>                           | <b>501.5</b> |
| <b>Depreciation</b>        |                |                                |                                         |                              |                                       |              |
| At 1 January 2011          | 19.4           | 3.1                            | 141.2                                   | 2.3                          | -                                     | 166.0        |
| Exchange adjustments       | (0.2)          | -                              | (1.1)                                   | -                            | -                                     | (1.3)        |
| Charge for the period      | 4.6            | 0.7                            | 36.4                                    | 1.9                          | -                                     | 43.6         |
| Reclassifications          | -              | -                              | -                                       | -                            | -                                     | -            |
| Disposals                  | -              | -                              | -                                       | -                            | -                                     | -            |
| <b>At 31 December 2011</b> | <b>23.8</b>    | <b>3.8</b>                     | <b>176.5</b>                            | <b>4.2</b>                   | <b>-</b>                              | <b>208.3</b> |
| Exchange adjustments       | (0.1)          | -                              | (0.6)                                   | -                            | -                                     | (0.7)        |
| Charge for the period      | 4.7            | 0.6                            | 35.0                                    | 2.2                          | -                                     | 42.5         |
| Reclassifications          | -              | -                              | -                                       | -                            | -                                     | -            |
| Discontinued operations    | (2.4)          | (0.2)                          | (29.6)                                  | (0.1)                        | -                                     | (32.3)       |
| Disposals                  | -              | -                              | -                                       | -                            | -                                     | -            |
| <b>At 29 December 2012</b> | <b>26.0</b>    | <b>4.2</b>                     | <b>181.3</b>                            | <b>6.3</b>                   | <b>-</b>                              | <b>217.8</b> |
| <b>Net book value</b>      |                |                                |                                         |                              |                                       |              |
| <b>At 29 December 2012</b> | <b>67.9</b>    | <b>4.6</b>                     | <b>178.0</b>                            | <b>4.4</b>                   | <b>28.8</b>                           | <b>283.7</b> |
| <b>At 31 December 2011</b> | <b>81.4</b>    | <b>4.7</b>                     | <b>197.2</b>                            | <b>4.5</b>                   | <b>37.4</b>                           | <b>325.2</b> |
| <b>At 1 January 2011</b>   | <b>82.3</b>    | <b>5.4</b>                     | <b>198.9</b>                            | <b>3.8</b>                   | <b>33.3</b>                           | <b>323.7</b> |

The net book value of leasehold improvements of £4.6 million (2011 £4.7 million) is in respect of properties held under operating leases with remaining lease terms of under 50 years (2011 50 years) as at 29 December 2012

The net book value of assets acquired under finance lease arrangements, all of which are either plant, machinery or vehicles, is £0.2 million (2011 £0.1 million)

## United Biscuits Topco Limited

### 11 Investments

|                             | 2012<br>£m | 2011<br>£m |
|-----------------------------|------------|------------|
| Investment in joint venture | 0.6        | 0.5        |

#### *(a) Investment in joint venture*

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

The Group's share of KP Ireland Limited's assets and liabilities and its share of income and expenses in 2012 were as follows:

|                                                    | 2012<br>£m | 2011<br>£m |
|----------------------------------------------------|------------|------------|
| <b>Share of the joint venture's balance sheet:</b> |            |            |
| Non-current assets                                 | 0.1        | 0.1        |
| Current assets                                     | 0.7        | 0.6        |
| Share of total assets                              | 0.8        | 0.7        |
| Current liabilities                                | 0.2        | 0.2        |
| Non-current liabilities                            | -          | -          |
| Share of total liabilities                         | 0.2        | 0.2        |
| Share of net assets                                | 0.6        | 0.5        |
| <b>Share of results of joint venture:</b>          |            |            |
| Revenue                                            | 2.1        | 2.4        |
| Operating costs                                    | (1.5)      | (1.7)      |
| Net profit before taxes                            | 0.6        | 0.7        |
| Taxes                                              | -          | -          |
| Share of net profit after taxes                    | 0.6        | 0.7        |

## United Biscuits Topco Limited

### 11 Investments (continued)

#### (b) Details of Group undertakings

At 29 December 2012, all the principal subsidiaries of United Biscuits Topco Limited listed below were wholly owned. The Group also held investments in other subsidiaries which were either not trading or not significant. Details of all subsidiaries will be annexed to the Company's next annual return.

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

<sup>1</sup> United Biscuits Bondco Limited is directly owned by the Company.

### 12 Inventories

|                               | 2012<br>£m  | 2011<br>£m  |
|-------------------------------|-------------|-------------|
| Raw materials and consumables | 12.4        | 17.8        |
| Work in progress              | 3.5         | 3.1         |
| Finished goods                | 37.9        | 39.6        |
|                               | <u>53.8</u> | <u>60.5</u> |

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

Raw materials and consumables at 29 December 2012 included £0.7 million (2011: £1.4 million) in respect of consignment stock.

Inventories recognised as an expense during 2012 amounted to £696.2 million (2011: £711.6 million). The amount of inventories written down and recognised as an expense during 2012 was £nil million (2011: £0.8 million).

## United Biscuits Topco Limited

### 13 Trade and other receivables

|                                | 2012<br>£m   | 2011<br>£m   |
|--------------------------------|--------------|--------------|
| Net trade receivables          | 205.8        | 245.2        |
| Other receivables              | 5.8          | 5.8          |
| Prepayments and accrued income | 13.4         | 13.7         |
|                                | <u>225.0</u> | <u>264.7</u> |

Trade receivables are stated net of provisions for bad and doubtful debts of £1.0 million (2011 £1.2 million)

Trade and other receivables are all expected to be settled within one year. Trade receivables are non-interest bearing and represent an average of 60 days sales (2011 58 days)

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

### 14 Cash and cash equivalents

|                          | 2012<br>£m   | 2011<br>£m   |
|--------------------------|--------------|--------------|
| Cash at bank and in hand | 56.5         | 58.1         |
| Short term deposits      | 130.3        | 95.2         |
|                          | <u>186.8</u> | <u>153.3</u> |

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between two days and two weeks depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents at 29 December 2012 was £186.8 million (2011 £153.3 million)

### 15 Trade and other payables

|                                       | 2012<br>£m   | 2011<br>£m   |
|---------------------------------------|--------------|--------------|
| Trade payables                        | 218.4        | 260.7        |
| Other payables                        | 4.0          | 3.9          |
| Other taxes and social security costs | 11.2         | 7.1          |
| Accruals and deferred income          | 38.8         | 55.8         |
|                                       | <u>272.4</u> | <u>327.5</u> |

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

## United Biscuits Topco Limited

### 16 Borrowings

|                                           | 2012<br>£m     | 2011<br>£m     |
|-------------------------------------------|----------------|----------------|
| <b>Current</b>                            |                |                |
| Senior facilities                         | 27.9           | -              |
| <b>Non-current</b>                        |                |                |
| Senior facilities                         | 1,183.7        | 1,246.3        |
| Other loans and finance lease obligations | -              | 0.1            |
|                                           | <u>1,211.6</u> | <u>1,246.4</u> |

#### Senior Facilities

Details of the Senior facilities amounts outstanding as at 29 December 2012 and 31 December 2011 are set out below

| 2012               | Amortised<br>Debt<br>£m | Principal<br>£m      | Margin %                         | Type                                       | Maturity         |
|--------------------|-------------------------|----------------------|----------------------------------|--------------------------------------------|------------------|
| <b>Non current</b> |                         |                      |                                  |                                            |                  |
| Term Loan B        | 755.8                   | 762.0                | LIBOR +2.25                      | Bullet                                     | 15 December 2014 |
| Term Loan B(€)     | 48.7                    | 49.1                 | EURIBOR +2.25                    | Bullet                                     | 15 December 2014 |
| Second lien        | 158.7                   | 160.0                | LIBOR +4.0                       | Bullet                                     | 15 June 2016     |
| Mezzanine          | 220.5                   | 222.3 <sup>(1)</sup> | LIBOR +3.75 Cash<br>and +4.0 PIK | Bullet                                     | 15 December 2016 |
| Total Term Loans   | <u>1,183.7</u>          | <u>1,193.4</u>       |                                  |                                            |                  |
| <b>Current</b>     |                         |                      |                                  |                                            |                  |
| Capex facility     | 27.9                    | 28.0                 | LIBOR + 1.75                     | 2 equal<br>instalments<br>from<br>15.06.13 | 15 December 2013 |
|                    | <u>1,211.6</u>          | <u>1,221.4</u>       |                                  |                                            |                  |
| <b>2011</b>        |                         |                      |                                  |                                            |                  |
| <b>Non current</b> |                         |                      |                                  |                                            |                  |
| Term Loan B        | 754.0                   | 762.0                | LIBOR +2.5                       | Bullet                                     | 15 December 2014 |
| Term Loan B(€)     | 98.4                    | 99.4                 | EURIBOR +2.5                     | Bullet                                     | 15 December 2014 |
| Second lien        | 158.3                   | 160.0                | LIBOR +4.0                       | Bullet                                     | 15 June 2016     |
| Mezzanine          | 207.9                   | 210.1 <sup>(1)</sup> | LIBOR +3.75 Cash<br>and +4.0 PIK | Bullet                                     | 15 December 2016 |
| Capex facility     | 27.7                    | 28.0                 | LIBOR +2.0                       | 2 equal<br>instalments<br>from<br>15.06.12 | 15 December 2013 |
|                    | <u>1,246.3</u>          | <u>1,259.5</u>       |                                  |                                            |                  |

During the year ended 29 December 2012, the Group voluntarily prepaid £49.2 million against the Term Loan B(€) facility (2011 Term Loan B €58 million and capex facility £29 million)

(1) Includes rolled-up interest

## United Biscuits Topco Limited

### 16 Borrowings (continued)

#### Available committed facilities

|                                | 2012<br>£m  | 2011<br>£m  |
|--------------------------------|-------------|-------------|
| Expiring in one year or less   | 48.9        | -           |
| Expiring in more than one year | -           | 48.9        |
|                                | <u>48.9</u> | <u>48.9</u> |

#### *Acquisition and capex facility of £100.0 million*

This facility can be used for financing capital expenditure, acquisitions which are permitted under the Senior facilities agreements, including refinancing any indebtedness acquired therewith, joint ventures which are permitted under the Senior facilities agreements and restructuring costs. On 15 June 2010 the Group drew down the full amount of the facility. Once drawn, the £100.0 million became repayable in seven equal instalments, at 6 monthly intervals, commencing on 15 December 2010 and ending on 15 December 2013. During the year ended 29 December 2012 the Group made no repayment against this facility (2011 £29 million prepaid). As at 29 December 2012 £28.0 million (2011 £28 million) of the facility was outstanding as the first five instalments totalling £71.4 million and £0.6 million of the sixth instalment have been prepaid.

#### *Revolving facility of £50.0 million*

This facility can be used to finance working capital requirements, for general corporate purposes of the Group, to refinance working capital indebtedness of the Group and to pay fees, costs and expenses associated with the aforementioned. The facility allows for revolving advances, the provision of ancillary facilities to cover the day to day banking requirements of subsidiary companies, and the issuance of letters of credit and bank guarantees up to an aggregate amount of £50.0 million outstanding at any time. Each advance made under the revolving facility must be repaid on the last day of the interest period relating to it, although amounts are available to be re-borrowed, subject to the maximum limit available under the facility. The facility is available until 15 December 2013.

At 29 December 2012 an amount of £8.4 million (2011 £8.4 million) had been drawn down as ancillary facilities under the revolving facility to cover day to day requirements of the UK business, £7.3 million (2011 £7.3 million) of this being for the provision of two overdraft facilities and £1.1 million (2011 £1.1 million) for of a bank guarantee. There were no drawings under any of the overdraft facilities at 29 December 2012 (2011 £nil).

The Senior facilities are secured by fixed and floating charges over all the UK assets of United Biscuits Holdco Limited and its principal UK subsidiaries. The principal subsidiaries of United Biscuits Holdco Limited are all those disclosed in Note 11(b) but excluding United Biscuits Bondco Limited, United Biscuits VLNco Limited and United Biscuits Holdco Limited. In addition, the other principal subsidiaries have guaranteed the debt.

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

## **United Biscuits Topco Limited**

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### **16 Borrowings (continued)**

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#### **Other loans**

At 31 December 2011 £0.1 million was outstanding in relation to an interest free loan taken out by a subsidiary of the Company in 2000 for an amount of £0.3 million. This loan was repaid in full in April 2012.

#### **Capital management**

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

In common with many other private equity portfolio companies, the Group carries a high level of net debt compared to equity. Total capital is calculated as total equity, as shown in the consolidated balance sheet, plus net debt. Net debt is calculated as total borrowings, as shown in the consolidated balance sheet, less cash and cash equivalents. Parent company loan, discussed in Note 22, is excluded from the definition of net debt since it will be settled in the event of change of ownership of the business.

As explained above, the Senior facilities included within net debt require the Group to comply with certain financial and non-financial covenants. Throughout 2011 and 2012 the Group operated within all of its covenants.

## United Biscuits Topco Limited

### 17 Financial instruments

#### Financial risk management

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

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

#### Fair values

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

| 2012                          | Carrying<br>Value<br>£m | Fair Value<br>£m | USD<br>£m   | EURO<br>£m   | Other<br>£m | GBP<br>£m      |
|-------------------------------|-------------------------|------------------|-------------|--------------|-------------|----------------|
| <b>Financial assets</b>       |                         |                  |             |              |             |                |
| Cash and short term deposit   | 186.8                   | 186.8            | 2.6         | 56.8         | 3.6         | 123.8          |
| Trade receivables             | 205.8                   | 205.8            | 10.7        | 45.7         | 5.3         | 144.1          |
| Other receivables             | 4.2                     | 4.2              | -           | 3.1          | 0.1         | 1.0            |
|                               | <u>396.8</u>            | <u>396.8</u>     | <u>13.3</u> | <u>105.6</u> | <u>9.0</u>  | <u>268.9</u>   |
| <b>Derivative assets</b>      |                         |                  |             |              |             |                |
| <i>Cash flow hedges</i>       |                         |                  |             |              |             |                |
| Forward currency contracts    | 1.3                     | 1.3              | -           | 1.2          | 0.1         | -              |
| Interest rate swaps           | 0.1                     | 0.1              | -           | -            | -           | 0.1            |
| <i>Fair value hedges</i>      |                         |                  |             |              |             |                |
| Forward currency contracts    | 0.2                     | 0.2              | -           | 0.2          | -           | -              |
|                               | <u>1.6</u>              | <u>1.6</u>       | <u>-</u>    | <u>1.4</u>   | <u>0.1</u>  | <u>0.1</u>     |
| Of which                      |                         |                  |             |              |             |                |
| Current assets                | 1.5                     | 1.5              |             |              |             |                |
| Non current assets            | 0.1                     | 0.1              |             |              |             |                |
|                               | <u>1.6</u>              | <u>1.6</u>       |             |              |             |                |
| <b>Financial liabilities</b>  |                         |                  |             |              |             |                |
| Trade payables                | 218.4                   | 218.4            | 18.3        | 53.7         | 0.6         | 145.8          |
| Other payables                | 22.7                    | 22.7             | -           | 3.3          | 1.0         | 18.4           |
| Amounts due to parent         | 491.7                   | 491.7            | -           | -            | -           | 491.7          |
| Loans and borrowings          | 1,211.6                 | 1,211.6          | -           | 48.7         | -           | 1,162.9        |
|                               | <u>1,944.4</u>          | <u>1,944.4</u>   | <u>18.3</u> | <u>105.7</u> | <u>1.6</u>  | <u>1,818.8</u> |
| <b>Derivative liabilities</b> |                         |                  |             |              |             |                |
| <i>Cash flow hedges</i>       |                         |                  |             |              |             |                |
| Forward currency contracts    | 1.6                     | 1.6              | 0.9         | 0.7          | -           | -              |
| Interest rate swaps           | 0.3                     | 0.3              | -           | -            | -           | 0.3            |
| <i>Fair value hedges</i>      |                         |                  |             |              |             |                |
| Forward currency contracts    | 0.2                     | 0.2              | 0.1         | 0.1          | -           | -              |
|                               | <u>2.1</u>              | <u>2.1</u>       | <u>1.0</u>  | <u>0.8</u>   | <u>-</u>    | <u>0.3</u>     |
| Of which                      |                         |                  |             |              |             |                |
| Current liabilities           | 2.1                     | 2.1              |             |              |             |                |
| Non current liabilities       | -                       | -                |             |              |             |                |
|                               | <u>2.1</u>              | <u>2.1</u>       |             |              |             |                |

## United Biscuits Topco Limited

### 17 Financial instruments (continued)

| 2011                          | Carrying<br>Value<br>£m | Fair Value<br>£m | USD<br>£m   | EURO<br>£m   | Other<br>£m | GBP<br>£m      |
|-------------------------------|-------------------------|------------------|-------------|--------------|-------------|----------------|
| <b>Financial assets</b>       |                         |                  |             |              |             |                |
| Cash and short term deposit   | 153.3                   | 153.3            | 10.1        | 61.3         | 1.7         | 80.2           |
| Trade receivables             | 245.2                   | 245.2            | 9.8         | 36.0         | 4.8         | 194.6          |
| Other receivables             | 19.5                    | 19.5             | -           | 6.4          | 0.1         | 13.0           |
|                               | <u>418.0</u>            | <u>418.0</u>     | <u>19.9</u> | <u>103.7</u> | <u>6.6</u>  | <u>287.8</u>   |
| <b>Derivative assets</b>      |                         |                  |             |              |             |                |
| <i>Cash flow hedges</i>       |                         |                  |             |              |             |                |
| Forward currency contracts    | 1.6                     | 1.6              | 1.5         | 0.1          | -           | -              |
| Interest rate swaps           | -                       | -                | -           | -            | -           | -              |
| <i>Fair value hedges</i>      |                         |                  |             |              |             |                |
| Forward currency contracts    | 0.4                     | 0.4              | 0.4         | -            | -           | -              |
|                               | <u>2.0</u>              | <u>2.0</u>       | <u>1.9</u>  | <u>0.1</u>   | <u>-</u>    | <u>-</u>       |
| Of which                      |                         |                  |             |              |             |                |
| Current assets                | 2.0                     | 2.0              |             |              |             |                |
| Non current assets            | -                       | -                |             |              |             |                |
|                               | <u>2.0</u>              | <u>2.0</u>       |             |              |             |                |
| <b>Financial liabilities</b>  |                         |                  |             |              |             |                |
| Trade payables                | 260.7                   | 260.7            | 0.7         | 37.6         | 0.4         | 222.0          |
| Other payables                | 66.8                    | 66.8             | 0.4         | 22.5         | 1.7         | 42.2           |
| Amounts due to parent         | 455.1                   | 455.1            | -           | -            | -           | 455.1          |
| Loans and borrowings          | 1,246.3                 | 1,259.3          | -           | 98.4         | -           | 1,147.9        |
| Other loans & finance lease   | 0.1                     | 0.1              | -           | 0.1          | -           | -              |
|                               | <u>2,029.0</u>          | <u>2,042.0</u>   | <u>1.1</u>  | <u>158.6</u> | <u>2.1</u>  | <u>1,867.2</u> |
| <b>Derivative liabilities</b> |                         |                  |             |              |             |                |
| <i>Cash flow hedges</i>       |                         |                  |             |              |             |                |
| Forward currency contracts    | 3.1                     | 3.1              | -           | 3.1          | -           | -              |
| Interest rate swaps           | 1.7                     | 1.7              | -           | 0.1          | -           | 1.6            |
| <i>Fair value hedges</i>      |                         |                  |             |              |             |                |
| Forward currency contracts    | 0.1                     | 0.1              | -           | 0.1          | -           | -              |
|                               | <u>4.9</u>              | <u>4.9</u>       | <u>-</u>    | <u>3.3</u>   | <u>-</u>    | <u>1.6</u>     |
| Of which                      |                         |                  |             |              |             |                |
| Current liabilities           | 4.9                     | 4.9              |             |              |             |                |
| Non current liabilities       | -                       | -                |             |              |             |                |
| <b>Financial assets</b>       | <u>4.9</u>              | <u>4.9</u>       |             |              |             |                |

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

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

#### *Fair value hierarchy*

In accordance with IFRS 7 *Financial instruments: Disclosures*, financial instruments which are carried at fair value in the balance sheet are analysed as level 1, 2, or 3. The Group classified only derivatives carried at fair value as level 2 financial instruments, as their fair value is determined based on techniques

## United Biscuits Topco Limited

### 17 Financial instruments (continued)

for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

#### *a) Foreign exchange risk*

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

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

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

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

#### *Cash flow hedges*

At 29 December 2012, the Group held a number of forward foreign exchange contracts designated as hedges of highly probable forecast transactions. Forward foreign exchange contracts were accounted for as cash flow hedges. The forward contracts are typically taken out with twelve-month maturity dates at regular intervals throughout the year. Gains and losses recognised in the hedging reserve as equity will be released to the income statement at various dates within one year of the balance sheet date.

|                            | Committed<br>outstanding<br>FX contracts<br>£m | Average<br>Rates<br>USD | Average<br>Rates<br>EUR | Average<br>Rates<br>CAD |
|----------------------------|------------------------------------------------|-------------------------|-------------------------|-------------------------|
| <b>2012</b>                |                                                |                         |                         |                         |
| Foreign exchange contracts |                                                |                         |                         |                         |
| Euro                       | 73.6                                           |                         | 1.229                   |                         |
| US Dollar                  | 53.0                                           | 1.596                   |                         |                         |
| Other currencies           | 5.6                                            |                         |                         | 1.593                   |
| <b>Total</b>               | <b>132.2</b>                                   |                         |                         |                         |
| <b>2011</b>                |                                                |                         |                         |                         |
| Foreign exchange contracts |                                                |                         |                         |                         |
| Euro                       | 110.7                                          |                         | 1.159                   |                         |
| US Dollar                  | 39.3                                           | 1.600                   |                         |                         |
| Other currencies           | 3.8                                            |                         |                         | 1.602                   |
| <b>Total</b>               | <b>153.8</b>                                   |                         |                         |                         |

## United Biscuits Topco Limited

### 17 Financial instruments (continued)

#### *Fair value hedges*

At 29 December 2012 and 31 December 2011, the Group held a number of forward foreign exchange contracts designated as hedges of foreign currency receivables and payables. These forward contracts were accounted for as fair value hedges. All such contracts mature within one year.

| 2012                       | Committed<br>outstanding<br>contracts<br>£m | Average<br>Rates<br>USD | Average<br>Rates<br>EUR | Average<br>Rates<br>CAD |
|----------------------------|---------------------------------------------|-------------------------|-------------------------|-------------------------|
| Foreign exchange contracts |                                             |                         |                         |                         |
| Euro                       | 11.3                                        |                         | 1.244                   |                         |
| US Dollar                  | -                                           | -                       |                         |                         |
| Other currencies           | -                                           |                         |                         | -                       |
| <b>Total</b>               | <b>11.3</b>                                 |                         |                         |                         |
| 2011                       | Committed<br>outstanding<br>FX contracts    | Average<br>Rates<br>USD | Average<br>Rates<br>EUR | Average<br>Rates<br>CAD |
| Foreign exchange contracts |                                             |                         |                         |                         |
| Euro                       | 5.2                                         |                         | 1.178                   |                         |
| US Dollar                  | 7.6                                         | 1.620                   |                         |                         |
| Other currencies           | 0.3                                         |                         |                         | 1.626                   |
|                            | <b>13.1</b>                                 |                         |                         |                         |

#### *Hedges of net investment in foreign entities*

Included in borrowings at 29 December 2012 were loans of €60 million (2011: €119 million), which were designated as hedges of net investments in overseas subsidiaries, used to reduce exposure to foreign exchange risk. Gains or losses on re-translation of these borrowings are transferred to equity to offset any gains or losses on translation of the net investments in the overseas subsidiaries with the exception of any hedge ineffectiveness which is taken to the income statement if applicable.

## United Biscuits Topco Limited

### 17 Financial instruments (continued)

#### Sensitivity analysis

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

|                                           | Impact on the income statement arising from: |                               | Impact on reserves arising from    |                               |
|-------------------------------------------|----------------------------------------------|-------------------------------|------------------------------------|-------------------------------|
|                                           | 10% weakening against US Dollar £m           | 10% weakening against Euro £m | 10% weakening against US Dollar £m | 10% weakening against Euro £m |
| <b>2012</b>                               |                                              |                               |                                    |                               |
| Cash and short term deposits              | 0.3                                          | 6.3                           | -                                  | -                             |
| Trade receivables                         | 1.2                                          | 5.1                           | -                                  | -                             |
| Trade payables                            | (2.0)                                        | (6.0)                         | -                                  | -                             |
| Loans and borrowings                      | -                                            | -                             | -                                  | (5.5)                         |
| Currency exchange contracts (assets)      | -                                            | 1.0                           | (0.2)                              | 5.1                           |
| Currency exchange contracts (liabilities) | -                                            | 0.3                           | 4.9                                | 3.1                           |
|                                           | <u>(0.5)</u>                                 | <u>6.7</u>                    | <u>4.7</u>                         | <u>2.7</u>                    |
| <b>2011</b>                               |                                              |                               |                                    |                               |
| Cash and short term deposits              | 1.1                                          | 6.8                           | -                                  | -                             |
| Trade receivables                         | 1.1                                          | 4.7                           | -                                  | -                             |
| Trade payables                            | (0.1)                                        | (6.7)                         | -                                  | -                             |
| Loans and borrowings                      | -                                            | -                             | -                                  | (10.9)                        |
| Currency exchange contracts (assets)      | 0.9                                          | (0.1)                         | 3.6                                | 0.5                           |
| Currency exchange contracts (liabilities) | (0.1)                                        | 0.7                           | 0.3                                | 11.5                          |
|                                           | <u>2.9</u>                                   | <u>5.4</u>                    | <u>3.9</u>                         | <u>1.1</u>                    |

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

## United Biscuits Topco Limited

### 17 Financial instruments (continued)

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

|                                           | Impact on the income statement arising from |                                   | Impact on reserves arising from        |                                   |
|-------------------------------------------|---------------------------------------------|-----------------------------------|----------------------------------------|-----------------------------------|
|                                           | 10% strengthening against US Dollar £m      | 10% strengthening against Euro £m | 10% strengthening against US Dollar £m | 10% strengthening against Euro £m |
| <b>2012</b>                               |                                             |                                   |                                        |                                   |
| Cash and short term deposits              | (0.2)                                       | (5.2)                             | -                                      | -                                 |
| Trade receivables                         | (1.0)                                       | (4.2)                             | -                                      | -                                 |
| Trade payables                            | 1.7                                         | 4.9                               | -                                      | -                                 |
| Loans and borrowings                      | -                                           | -                                 | -                                      | 4.5                               |
| Currency exchange contracts (assets)      | -                                           | (0.8)                             | 0.1                                    | (4.2)                             |
| Currency exchange contracts (liabilities) | -                                           | (0.2)                             | (4.0)                                  | (2.6)                             |
| <b>Total</b>                              | <b>0.5</b>                                  | <b>(5.5)</b>                      | <b>(3.9)</b>                           | <b>(2.3)</b>                      |
| <b>2011</b>                               |                                             |                                   |                                        |                                   |
| Cash and short term deposits              | (0.9)                                       | (5.6)                             | -                                      | -                                 |
| Trade receivables                         | (0.9)                                       | (3.9)                             | -                                      | -                                 |
| Trade payables                            | 0.1                                         | 5.5                               | -                                      | -                                 |
| Loans and borrowings                      | -                                           | -                                 | -                                      | 8.9                               |
| Currency exchange contracts (assets)      | (0.8)                                       | 0.1                               | (2.9)                                  | (0.4)                             |
| Currency exchange contracts (liabilities) | -                                           | (0.6)                             | (0.3)                                  | (9.4)                             |
| <b>Total</b>                              | <b>(2.5)</b>                                | <b>(4.5)</b>                      | <b>(3.2)</b>                           | <b>(0.9)</b>                      |

## United Biscuits Topco Limited

### 17 Financial instruments (continued)

#### (b) Interest rate risk

The Group is exposed to movements in interest rates from borrowings at variable rates. It is the Group's policy to maintain an appropriate balance between fixed and floating interest rates on borrowings in order to provide a level of certainty to interest expense and to reduce the impact of interest rate fluctuations. To achieve this, the Group has entered into a series of interest rate swaps that have the effect of converting floating rate debt to fixed rate debt. The net effect of these transactions was that as at 29 December 2012 the proportion of Group net debt at fixed rates was 51.5% (2011: 50.0%).

The Group's current interest rate swaps expire on 24 January 2013. The table below shows the effect of these on total fixed rate borrowings.

|                           | Fixed rate<br>borrowings<br>£m | Effect of<br>interest<br>rate swaps<br>£m | Effective<br>fixed rate<br>borrowings<br>£m | Swap rate<br>% |
|---------------------------|--------------------------------|-------------------------------------------|---------------------------------------------|----------------|
| <b>2012</b>               |                                |                                           |                                             |                |
| Sterling – parent company | 490.6                          | -                                         | 490.6                                       | -              |
| Sterling – third parties  | -                              | 580.0                                     | 580.0                                       | 1.031          |
| Euro                      | -                              | 49.1                                      | 49.1                                        | 0.970          |
|                           | <u>490.6</u>                   | <u>629.1</u>                              | <u>1,119.7</u>                              |                |
| <b>2011</b>               |                                |                                           |                                             |                |
| Sterling – parent company | 455.1                          | -                                         | 455.1                                       | -              |
| Sterling – third parties  | -                              | 580.0                                     | 580.0                                       | 1.031          |
| Euro                      | -                              | 50.1                                      | 50.1                                        | 1.600          |
|                           | <u>455.1</u>                   | <u>630.1</u>                              | <u>1,085.2</u>                              |                |

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

|                                                | Increase in<br>interest rates |       | Decrease in<br>interest rates |       |
|------------------------------------------------|-------------------------------|-------|-------------------------------|-------|
|                                                | 2012                          | 2011  | 2012                          | 2011  |
|                                                | £m                            | £m    | £m                            | £m    |
| Interest rate swaps (liabilities) <sup>1</sup> | 2.8                           | 6.3   | (2.8)                         | (6.3) |
| Unhedged borrowings <sup>2</sup>               | (5.9)                         | (6.2) | 5.9                           | 6.2   |

<sup>1</sup> Impact on reserves

<sup>2</sup> Impact on the income statement

During 2012, an unrealised gain on revaluation of interest rate swaps of £1.5 million was recognised directly in equity in respect of interest rate swaps (2011: £2.5 million loss). The Group has entered into a new interest rate swap which became effective on 24 January 2013, expiring 24 January 2015 (£250 million at a swap rate of 0.4925%).

## United Biscuits Topco Limited

### 17 Financial instruments (continued)

#### (c) Credit risk

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

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

#### Exposure to Credit risk

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

|                   | 2012<br>£m   | 2011<br>£m   |
|-------------------|--------------|--------------|
| Trade receivables | 205.8        | 245.2        |
| <b>Total</b>      | <b>205.8</b> | <b>245.2</b> |

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

|                   | 2012<br>£m   | 2011<br>£m   |
|-------------------|--------------|--------------|
| UK                | 137.2        | 189.2        |
| Europe            | 50.3         | 42.3         |
| Rest of the World | 18.3         | 13.7         |
| <b>Total</b>      | <b>205.8</b> | <b>245.2</b> |

The ageing analysis of trade receivables at the reporting date was

|                                             | 2012<br>£m   | 2011<br>£m   |
|---------------------------------------------|--------------|--------------|
| Not past due or impaired                    | 172.4        | 233.1        |
| Past due 0 – 30 days but not impaired       | 25.8         | 9.0          |
| Past due more than 30 days but not impaired | 7.6          | 3.1          |
| Individually impaired                       | 1.0          | 1.2          |
| <b>Total</b>                                | <b>206.8</b> | <b>246.4</b> |

## United Biscuits Topco Limited

### 17 Financial instruments (continued)

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

|                                 | 2012<br>£m | 2011<br>£m |
|---------------------------------|------------|------------|
| Balance at start of period      | 1.2        | 1.2        |
| Charge for the period           | 0.7        | 0.4        |
| Unused amounts reversed         | (1.0)      | (0.4)      |
| Currency translation            | 0.1        | -          |
| <b>Balance at end of period</b> | <b>1.0</b> | <b>1.2</b> |

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

The charge for the period of £0.7 million (2011: £0.4 million) reflects an increase in the doubtful trade receivables in the period. The Group has no collateral in this respect.

#### **(d) Liquidity risk**

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

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

## United Biscuits Topco Limited

### 17 Financial instruments (continued)

#### Contractual maturities

Details of the contractual maturities and associated undiscounted value at maturity of external borrowings, including estimated interest payments, are set out below

|                              | Senior<br>Facilities<br>£m | Other<br>Loans<br>£m | Finance<br>Leases<br>£m | Trade<br>Payables<br>£m | Other<br>Payables<br>£m | Total<br>£m    |
|------------------------------|----------------------------|----------------------|-------------------------|-------------------------|-------------------------|----------------|
| <b>2012</b>                  |                            |                      |                         |                         |                         |                |
| Within one year or on demand | 64 4                       | -                    | -                       | 218 4                   | 22 7                    | 305 5          |
| Between one and two years    | 853 0                      | -                    | -                       | -                       | -                       | 853 0          |
| Between two and three years  | 19 2                       | -                    | -                       | -                       | -                       | 19 2           |
| Between three and four years | 436 4                      | -                    | -                       | -                       | -                       | 436 4          |
| Between four and five years  | -                          | -                    | -                       | -                       | -                       | -              |
| After five years             | -                          | -                    | -                       | -                       | -                       | -              |
|                              | <u>1,373 0</u>             | <u>-</u>             | <u>-</u>                | <u>218 4</u>            | <u>22 7</u>             | <u>1,614 1</u> |
| <b>2011</b>                  |                            |                      |                         |                         |                         |                |
| Within one year or on demand | 51 1                       | 0 1                  | -                       | 260 7                   | 66 8                    | 378 7          |
| Between one and two years    | 76 5                       | -                    | -                       | -                       | -                       | 76 5           |
| Between two and three years  | 927 7                      | -                    | -                       | -                       | -                       | 927 7          |
| Between three and four years | 27 3                       | -                    | -                       | -                       | -                       | 27 3           |
| Between four and five years  | 452 9                      | -                    | -                       | -                       | -                       | 452 9          |
| After five years             | -                          | -                    | -                       | -                       | -                       | -              |
|                              | <u>1,535 5</u>             | <u>0 1</u>           | <u>-</u>                | <u>260 7</u>            | <u>66 8</u>             | <u>1,863 1</u> |

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

|                              | Parent<br>company<br>loan<br>£m |
|------------------------------|---------------------------------|
| <b>2012 and 2011</b>         |                                 |
| 8 1% Notes due 2036 and 2038 | <u>3,414 8</u>                  |

## United Biscuits Topco Limited

### 17 Financial instruments (continued)

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

|                              | Interest rate swaps <sup>1</sup> |                   | Forward exchange contracts <sup>2</sup> |                   |
|------------------------------|----------------------------------|-------------------|-----------------------------------------|-------------------|
|                              | Assets<br>£m                     | Liabilities<br>£m | Assets<br>£m                            | Liabilities<br>£m |
| <b>2012</b>                  |                                  |                   |                                         |                   |
| Within one year or on demand | -                                | (0.3)             | 129.6                                   | (130.2)           |
| Between one and two years    | -                                | -                 | -                                       | -                 |
| More than two years          | -                                | -                 | -                                       | -                 |
|                              | <u>-</u>                         | <u>(0.3)</u>      | <u>129.6</u>                            | <u>(130.2)</u>    |
| <b>2011</b>                  |                                  |                   |                                         |                   |
| Within one year or on demand | 0.1                              | (0.3)             | 151.8                                   | (153.9)           |
| Between one and two years    | 0.1                              | -                 | -                                       | -                 |
| More than two years          | -                                | -                 | -                                       | -                 |
|                              | <u>0.2</u>                       | <u>(0.3)</u>      | <u>151.8</u>                            | <u>(153.9)</u>    |

<sup>1</sup> Net settled

<sup>2</sup> Gross settled

#### (e) Commodity risk

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

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

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

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

#### Cash flow hedges

The Group's cash flow hedges relate to commodity contracts, forward foreign exchange contracts and interest rate swaps. An aggregate gain of £0.1 million (2011: £6.6 million gain) was recognised directly in equity during the period 1 January 2012 to 29 December 2012 (of which a gain of £3.9 million related to commodity contracts, a loss of £5.3 million related to forward foreign exchange contracts and a gain of £1.5 million related to interest rate swaps) and a loss of £6.7 million (2011: £0.8 million gain) was recognised in the income statement in relation to cash flow hedges of which a loss of £0.2 million related to commodity contracts was recognized in cost of goods sold and a loss of £6.5 million related to forward foreign exchange contracts was recognized in operating profit.

## United Biscuits Topco Limited

### 18 Provisions

|                                                     | Early Retirement Provision<br>£m | Rationalisation Provisions<br>£m | Onerous Contracts<br>£m | Total<br>£m |
|-----------------------------------------------------|----------------------------------|----------------------------------|-------------------------|-------------|
| <b>At 1 January 2011</b>                            | 0.5                              | 5.4                              | 7.1                     | 13.0        |
| Income statement charge                             | 0.1                              | 15.1                             | 0.7                     | 15.9        |
| Amounts utilised                                    | (0.1)                            | (15.9)                           | (1.2)                   | (17.2)      |
| Exchange adjustments                                | 0.1                              | -                                | -                       | 0.1         |
| <b>At 31 December 2011</b>                          | 0.6                              | 4.6                              | 6.6                     | 11.8        |
| Income statement charge                             | 0.1                              | 11.3                             | 0.5                     | 11.9        |
| Unused amounts reversed during the reporting period | -                                | -                                | (2.0)                   | (2.0)       |
| Amounts utilised                                    | (0.3)                            | (13.7)                           | (2.2)                   | (16.2)      |
| Exchange adjustments                                | (0.1)                            | -                                | (0.1)                   | (0.2)       |
| <b>At 29 December 2012</b>                          | 0.3                              | 2.2                              | 2.8                     | 5.3         |
| <b>At 31 December 2011</b>                          |                                  |                                  |                         |             |
| Current                                             | -                                | 2.9                              | 1.4                     | 4.3         |
| Non current                                         | 0.6                              | 1.7                              | 5.2                     | 7.5         |
|                                                     | 0.6                              | 4.6                              | 6.6                     | 11.8        |
| <b>At 29 December 2012</b>                          |                                  |                                  |                         |             |
| Current                                             | -                                | 0.8                              | 2.7                     | 3.5         |
| Non current                                         | 0.3                              | 1.4                              | 0.1                     | 1.8         |
|                                                     | 0.3                              | 2.2                              | 2.8                     | 5.3         |

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

The early retirement provision principally comprises long-term early retirement schemes operated for employees in the Group's Northern Europe business units to which the Group are committed for a number of years. In 2012, the French retirement indemnity (IDR) has been recognised within pensions and other post-retirement benefits (Note 20). The prior year amounts for provisions and pensions and other retirement benefits have been adjusted accordingly.

Rationalisation provisions principally comprised obligations in relation to overhead reduction and manufacturing-efficiency programs across the Group and the majority of them are expected to be utilised in the next year.

The provision for onerous contracts principally relates to the cost of surplus leasehold properties, where unavoidable costs exceed anticipated income. The associated lease commitments are of varying duration and it is anticipated that expenditure will continue to be charged against the provision for a number of years. Of the total provision, £2.6 million was related to a property which has been surrendered in January 2013.

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

## United Biscuits Topco Limited

### 19 Share capital and reserves

#### Share capital

##### Authorised

|                            | Number of<br>shares |
|----------------------------|---------------------|
| Ordinary shares of £1 each | 100                 |

##### Ordinary shares issued and fully paid

|                                                                                                                                                                                         | Number of<br>Shares | £m         |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|------------|
| On 5 October 2006, 2 ordinary shares with aggregate nominal value of £2 were allotted for cash                                                                                          | 2                   | -          |
| On 15 December 2006, 8 ordinary shares with aggregate nominal value of £8 were issued for total cash of £1.7 million                                                                    | 8                   | 1.7        |
| On 20 June 2007, 10 ordinary shares with aggregate nominal value of £10 were issued for total consideration of £0.1 million on the conversion of United Biscuits LuxCo S C A loan notes | 10                  | 0.1        |
| <b>At 29 December 2012 and 31 December 2011</b>                                                                                                                                         | <b>20</b>           | <b>1.8</b> |

#### Currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. It is also used to record the effect of hedging net investments in foreign operations. As at 29 December 2012 the balance on the reserve amounted to £5.9 million (£9.0 million in 2011).

#### Hedging reserve

The hedging reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is deemed to be effective. As at 29 December 2012 the balance on the reserve amounted to £1.4 million (-£5.1 million in 2011).

## United Biscuits Topco Limited

### 20 Pensions and other post-retirement benefits

The Group's main post-retirement arrangements in the United Kingdom are of the defined benefit type, for which contributions are paid into separately administered funds. All of the Group's defined benefit plans are closed to new members and membership of defined contribution plans is available for new employees. The Group also has unfunded arrangements as follows: additional post-retirement benefits to certain senior managers, post-retirement healthcare benefits in the Netherlands, and the Group's employees in France are eligible to receive a lump sum when leaving the company on retirement based on employee seniority and job category ("IDR").

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

|                                                  | 2012<br>£m     | 2011<br>£m     |
|--------------------------------------------------|----------------|----------------|
| <b>UK Funded</b>                                 |                |                |
| UBUK                                             | (220.0)        | (176.4)        |
| Jacob's Bakery                                   | (16.8)         | (20.1)         |
| Other                                            | 1.0            | 0.6            |
| <b>UK Unfunded</b>                               | (16.0)         | (14.4)         |
| <b>France IDR</b>                                | (4.3)          | (3.1)          |
|                                                  | <u>(256.1)</u> | <u>(213.4)</u> |
| <br><b>Netherlands</b>                           |                |                |
| Post-retirement healthcare scheme – unfunded     | (2.4)          | (2.4)          |
|                                                  | <u>(258.5)</u> | <u>(215.8)</u> |
| <br><b>Net post retirement benefit liability</b> |                |                |
| <br><b>Balance sheet presentation</b>            |                |                |
| Post retirement benefit asset                    | 1.0            | 0.6            |
| Post retirement benefit liability                | <u>(259.5)</u> | <u>(216.4)</u> |
|                                                  | <u>(258.5)</u> | <u>(215.8)</u> |

The total amount relating to pensions recognised in business profit for the period from 1 January 2012 to 29 December 2012 was £11.2 million (2011: £10.9 million), of which £1.7 million (2011: £1.3 million) related to defined contribution plans.

## United Biscuits Topco Limited

### 20 Pensions and other post-retirement benefits (continued)

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

The assets and liabilities in the schemes and the net post-retirement obligations were

|                                          | UK Pension<br>£m | France IDR<br>£m | Healthcare<br>£m | Total<br>£m    |
|------------------------------------------|------------------|------------------|------------------|----------------|
| <b>At 29 December 2012</b>               |                  |                  |                  |                |
| Equities                                 | 535 8            | -                | -                | 535 8          |
| Bonds                                    | 623 4            | -                | -                | 623 4          |
| Hedge funds, currency and infrastructure | 271 6            | -                | -                | 271 6          |
| Cash                                     | 15 3             | -                | -                | 15 3           |
| Total market value of assets             | 1,446 1          | -                | -                | 1,446 1        |
| Present value of scheme liabilities      | (1,697 9)        | (4 3)            | (2 4)            | (1,704 6)      |
| Deficit in the scheme                    | (251 8)          | (4 3)            | (2 4)            | (258 5)        |
| Related deferred tax asset               | 58 0             | 1 4              | -                | 59 4           |
| <b>Net pension deficit</b>               | <b>(193 8)</b>   | <b>(2 9)</b>     | <b>(2 4)</b>     | <b>(199 1)</b> |
| <b>At 31 December 2011</b>               |                  |                  |                  |                |
| Equities                                 | 474 5            | -                | -                | 474 5          |
| Bonds                                    | 613 7            | -                | -                | 613 7          |
| Hedge funds, currency and infrastructure | 260 9            | -                | -                | 260 9          |
| Cash                                     | 25 4             | -                | -                | 25 4           |
| Total market value of assets             | 1,374 5          | -                | -                | 1,374 5        |
| Present value of scheme liabilities      | (1,584 8)        | (3 1)            | (2 4)            | (1,590 3)      |
| Deficit in the scheme                    | (210 3)          | (3 1)            | (2 4)            | (215 8)        |
| Related deferred tax asset               | 52 6             | 1 0              | -                | 53 6           |
| <b>Net pension deficit</b>               | <b>(157 7)</b>   | <b>(2 1)</b>     | <b>(2 4)</b>     | <b>(162 2)</b> |

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

## United Biscuits Topco Limited

### 20 Pensions and other post-retirement benefits (continued)

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

|                                                                                      | UK<br>Pension<br>£m | France<br>IDR<br>£m | Healthcare<br>£m | Total<br>£m |
|--------------------------------------------------------------------------------------|---------------------|---------------------|------------------|-------------|
| <b>2012</b>                                                                          |                     |                     |                  |             |
| <b>Income statement</b>                                                              |                     |                     |                  |             |
| Current service cost <sup>(1)</sup>                                                  | (9 4)               | (0 1)               | -                | (9 5)       |
| Business profit                                                                      | (9 4)               | (0 1)               | -                | (9 5)       |
| Expected return on scheme assets                                                     | 92 5                | -                   | -                | 92 5        |
| Interest cost on scheme liabilities                                                  | (72 7)              | (0 1)               | (0 1)            | (72 9)      |
| Administrative expenses                                                              | (0 9)               | -                   | -                | (0 9)       |
| Other finance income – pensions                                                      | 18 9                | (0 1)               | (0 1)            | 18 7        |
| <b>Statement of other comprehensive income</b>                                       |                     |                     |                  |             |
| Actual less expected return on scheme assets                                         | 13 6                | -                   | -                | 13 6        |
| Gain on scheme liabilities                                                           | 9 8                 | -                   | -                | 9 8         |
| Changes in assumptions underlying the present value of scheme liabilities            | (108 4)             | (1 1)               | (0 2)            | (109 7)     |
| Actuarial gains and losses recognised in the statement of other comprehensive income | (85 0)              | (1 1)               | (0 2)            | (86 3)      |
| <b>2011</b>                                                                          |                     |                     |                  |             |
| <b>Income statement</b>                                                              |                     |                     |                  |             |
| Current service cost <sup>(1)</sup>                                                  | (9 6)               | (0 2)               | -                | (9 8)       |
| Business profit                                                                      | (9 6)               | (0 2)               | -                | (9 8)       |
| Expected return on scheme assets                                                     | 94 5                | -                   | -                | 94 5        |
| Interest cost on scheme liabilities                                                  | (76 6)              | (0 1)               | -                | (76 7)      |
| Administrative expenses                                                              | (1 2)               | -                   | -                | (1 2)       |
| Other finance income – pensions                                                      | 16 7                | (0 1)               | -                | 16 6        |
| <b>Statement of other comprehensive income</b>                                       |                     |                     |                  |             |
| Actual less expected return on scheme assets                                         | (7 9)               | -                   | -                | (7 9)       |
| Loss on scheme liabilities                                                           | (17 4)              | -                   | -                | (17 4)      |
| Changes in assumptions underlying the present value of scheme liabilities            | (100 7)             | -                   | -                | (100 7)     |
| Actuarial gains and losses recognised in the statement of other comprehensive income | (126 0)             | -                   | -                | (126 0)     |

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

## United Biscuits Topco Limited

### 20 Pensions and other post-retirement benefits (continued)

#### Valuation

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

#### Key assumptions

##### (a) UK Pensions

|                                           | 2012<br>% | 2011<br>% |
|-------------------------------------------|-----------|-----------|
| Rate of salary increases                  |           |           |
| Final salary                              | 3.05      | 3.15      |
| CARE                                      | 2.70      | 2.80      |
| IDR                                       | 2.50–2.60 | 2.10      |
| Rate of increase of pensions in payment   | 2.70      | 2.80      |
| Discount rate                             | 4.30      | 4.70      |
| Inflation                                 | 2.80      | 2.90      |
| Expected rate of return on scheme assets- |           |           |
| Equities                                  | 8.30      | 8.70      |
| Bonds                                     | 2.70–4.10 | 2.80–4.50 |
| Cash                                      | 2.90      | 3.0       |
| Hedge funds, currency and infrastructure  | 6.90–8.80 | 7.70–9.10 |

The average life expectancy assumed for the UBUK plan for a current male pensioner aged 65 is 21.8 years (2011 – 20.4 years) and for a current female pensioner aged 65 is 23.0 years (2011 – 22.5 years), for a future male pensioner aged 65 in 2033 it is 22.7 years (2032 – 21.6 years) and for a future female pensioner aged 65 in 2033 it is 24.2 years (2032 – 23.5 years).

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

Further contributions in addition to the employer's regular contribution are being made in order to eliminate the deficiency in the UK defined benefit plans on a funding basis. The total contributions to the Group's defined benefit plans in 2013 are expected to be approximately £32.7 million.

##### (b) Post-retirement healthcare

|                                      | 2012<br>% | 2011<br>% |
|--------------------------------------|-----------|-----------|
| Discount rate                        | 1.8       | 3.25      |
| Inflation                            | 2.0       | 2.0       |
| Rate of increase in healthcare costs | 2.0       | 2.0       |

##### (c) France IDR

|                 | 2012<br>% | 2011<br>% |
|-----------------|-----------|-----------|
| Discount rate   | 2.8       | 4.3       |
| Salary increase | 2.5       | 2.1       |

## United Biscuits Topco Limited

### 20 Pensions and other post-retirement benefits (continued)

#### Sensitivity Analysis

If the discount rate or inflation rates were to be increased by 0.1% without changing any other assumptions the total pension defined benefit obligations would decrease by approximately £24.6 million

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

|                               | UK<br>Pension<br>£m | France<br>IDR<br>£m | Healthcare<br>£m | Total<br>£m    |
|-------------------------------|---------------------|---------------------|------------------|----------------|
| <b>As at 1 January 2012</b>   | 1,584.8             | 3.1                 | 2.4              | 1,590.3        |
| Current service cost          | 9.4                 | 0.1                 | -                | 9.5            |
| Interest cost                 | 72.7                | 0.1                 | 0.1              | 72.9           |
| Employee contributions        | 6.3                 | -                   | -                | 6.3            |
| Benefits paid                 | (73.9)              | (0.2)               | (0.2)            | (74.3)         |
| Actuarial loss                | 98.6                | 1.1                 | 0.2              | 99.9           |
| Foreign currency differences  | -                   | 0.1                 | (0.1)            | -              |
| <b>As at 29 December 2012</b> | <u>1,697.9</u>      | <u>4.3</u>          | <u>2.4</u>       | <u>1,704.6</u> |
| <b>As at 2 January 2011</b>   | 1,441.6             | 3.2                 | 2.7              | 1,447.5        |
| Current service cost          | 9.6                 | 0.2                 | -                | 9.8            |
| Interest cost                 | 76.6                | 0.1                 | -                | 76.7           |
| Employee contributions        | 6.6                 | -                   | -                | 6.6            |
| Benefits paid                 | (67.7)              | (0.1)               | (0.2)            | (68.0)         |
| Actuarial loss                | 118.1               | (0.1)               | -                | 118.0          |
| Foreign currency differences  | -                   | (0.2)               | (0.1)            | (0.3)          |
| <b>As at 31 December 2011</b> | <u>1,584.8</u>      | <u>3.1</u>          | <u>2.4</u>       | <u>1,590.3</u> |

The defined benefit obligation comprises £1,681.8 million (2011: £1,570.4 million) arising from funded plans and £22.8 million (2011: £19.9 million) from plans or arrangements that are unfunded

# United Biscuits Topco Limited

## 20 Pensions and other post-retirement benefits (continued)

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

|                                | UK<br>Pension<br>£m | France<br>IDR<br>£m | Healthcare<br>£m | Total<br>£m    |
|--------------------------------|---------------------|---------------------|------------------|----------------|
| <b>As at 1 January 2012</b>    | 1,374 5             | -                   | -                | 1,374 5        |
| Expected return on plan assets | 92 5                | -                   | -                | 92 5           |
| Employer contributions         | 32 7                | -                   | -                | 32 7           |
| Contributions by employees     | 6 3                 | -                   | -                | 6 3            |
| Benefits paid                  | (73 5)              | -                   | -                | (73 5)         |
| Actuarial gains                | 13 6                | -                   | -                | 13 6           |
| <b>As at 29 December 2012</b>  | <u>1,446 1</u>      | <u>-</u>            | <u>-</u>         | <u>1,446 1</u> |
| <b>As at 2 January 2011</b>    | 1,315 3             | -                   | -                | 1,315 3        |
| Expected return on plan assets | 94 5                | -                   | -                | 94 5           |
| Employer contributions         | 33 3                | -                   | -                | 33 3           |
| Contributions by employees     | 6 6                 | -                   | -                | 6 6            |
| Benefits paid                  | (67 3)              | -                   | -                | (67 3)         |
| Actuarial gains and (losses)   | (7 9)               | -                   | -                | (7 9)          |
| <b>As at 31 December 2011</b>  | <u>1,374 5</u>      | <u>-</u>            | <u>-</u>         | <u>1,374 5</u> |

History of experience gains and losses

|                                                         | 2012<br>£m     | 2011<br>£m     | 2010<br>£m     | 2009<br>£m     | 2008<br>£m   |
|---------------------------------------------------------|----------------|----------------|----------------|----------------|--------------|
| <b>UK schemes</b>                                       |                |                |                |                |              |
| Fair value of scheme assets                             | 1,446 1        | 1,374 5        | 1,315 3        | 1,238 5        | 1,180 2      |
| Present value of defined benefit obligation             | (1,697 9)      | (1,584 8)      | (1,441 6)      | (1,389 4)      | (1,112 1)    |
| (Deficit)/surplus in the scheme                         | <u>(251 8)</u> | <u>(210 3)</u> | <u>(126 3)</u> | <u>(150 9)</u> | <u>68 1</u>  |
| Experience gains/(losses) arising on plan assets        | 13 6           | (7 9)          | 11 0           | 9 0            | (143 4)      |
| Experience gains / (losses) arising on plan liabilities | <u>9 8</u>     | <u>(17 4)</u>  | <u>(25 1)</u>  | <u>(57 3)</u>  | <u>(4 1)</u> |
| <b>France IDR</b>                                       |                |                |                |                |              |
| Present value of defined benefit obligation             | (4 3)          | (3 1)          | (3 2)          | (3 8)          | (5 6)        |
| Experience gains / (losses) arising on plan liabilities | <u>-</u>       | <u>-</u>       | <u>-</u>       | <u>-</u>       | <u>-</u>     |

## United Biscuits Topco Limited

### 20 Pensions and other post-retirement benefits (continued)

#### The Netherlands healthcare scheme

|                                                         |       |       |       |       |       |
|---------------------------------------------------------|-------|-------|-------|-------|-------|
| Present value of defined benefit obligation             | (2.4) | (2.4) | (2.7) | (2.4) | (2.6) |
| Experience gains / (losses) arising on plan liabilities | -     | -     | 0.1   | (0.1) | -     |

The cumulative amount of actuarial gains and losses recognised since 5 October 2006 in the consolidated statement of comprehensive income is a loss of £456.4 million (2011: £370.1 million loss)

### 21 Financial commitments

The Group's financial commitments in respect of finance lease and hire purchase obligations and in respect of retirement benefits are set out in Notes 17 and 20. The Group's financial commitments in respect of capital expenditure and commitments are summarised below.

Group capital expenditure relating to plant and equipment contracted, but not provided for at 29 December 2012 amounted to £3.1 million (2011: £8.0 million).

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

|                                                   | 2012<br>£m  | 2011<br>£m  |
|---------------------------------------------------|-------------|-------------|
| Not later than one year                           | 10.6        | 9.7         |
| Later than one year but not later than five years | 28.9        | 36.4        |
| Later than five years                             | 26.3        | 21.2        |
|                                                   | <u>65.8</u> | <u>67.3</u> |

The future minimum sub-lease payments which the Group expects to receive under non-cancellable sub-leases at 29 December 2012, were £0.3 million (2011: £0.4 million). Sub-lease rents received in the period 1 January 2012 and 29 December 2012 were £0.2 million (2011: £0.3 million).

## United Biscuits Topco Limited

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### 22 Related party disclosures

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

#### Amounts due to parent company

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

|                  | 2012<br>£m   | 2011<br>£m   |
|------------------|--------------|--------------|
| Loan             | 490.2        | 453.6        |
| Accrued interest | 1.5          | 1.5          |
|                  | <u>491.7</u> | <u>455.1</u> |

United Biscuits Bondco Limited, a subsidiary of the Group, has issued £330.2m 8.1% Loan Notes, due 2036 and 2038. On 22 December 2010, £20 million 8.1% Notes were issued to United Biscuits Luxco S C A in settlement of £20 million interest accrued during the accounting period ended 2 January 2010. These Loan Notes are quoted on the Channel Islands Stock Exchange but, as they are held in their entirety by United Biscuits Luxco S C A, they are classified as a parent company loan. Interest accrues on the Loan Notes at the rate of 8.1% per annum compounded annually in arrears on 15 December each year, which commenced on 15 December 2007.

#### Other

Short-term employee benefits paid to key management personnel, including directors, for the period 1 January 2012 to 29 December 2012 totalled £3.1 million (2011: £3.2 million).

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

Fees totalling £2.0 million were payable by the Group to Blackstone and PAI under the terms of the shareholder agreement for the period from 1 January 2012 to 29 December 2012 (2011: £2.0 million).

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### 23 Events after balance date

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The disposal of KP Snacks was completed on 25 January 2013. No other significant event has taken place between 29 December 2012 and the signing of these accounts. The gain on disposal will be recognised in the financial statements for the year ended 28 December 2013. The proceeds of the sale of KP Snacks were committed to repaying senior debt ahead of their contractual maturities.

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### 24 Ultimate parent company

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In the directors' opinion, the Company's ultimate parent undertaking as at 29 December 2012 was United Biscuits LuxCo S C A, which is registered in Luxembourg in 19, rue de Bitbourg.

## United Biscuits Topco Limited

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### Statement of directors' responsibilities – register number 5957921

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

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

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

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

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

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We have audited the parent company financial statements of United Biscuits Topco Limited for the 52 weeks ended 29 December 2012 which comprise the Balance Sheet and the related notes 1 to 7. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 90, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

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

### **Opinion on financial statements**

In our opinion the parent company financial statements

- give a true and fair view of the state of the company's affairs as at 29 December 2012,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matters prescribed by the Companies Act 2006**

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

### **Matters on which we are required to report by exception**

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

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

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

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**Other matter**

We have reported separately on the group financial statements of United Biscuits Topco Limited for the 52 weeks ended 29 December 2012

*Ernst & Young LLP*

Andrew Walton (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London  
28 March 2013

**United Biscuits Topco Limited****Balance sheet****29 December 2012**

|                                  | Notes | 2012<br>£m | 2011<br>£m |
|----------------------------------|-------|------------|------------|
| <b>Fixed assets</b>              |       |            |            |
| Investment in subsidiary         | 4     | <u>18</u>  | <u>18</u>  |
| <b>Net assets</b>                |       | <u>18</u>  | <u>18</u>  |
| <b>Capital and reserves</b>      |       |            |            |
| Called up share capital          | 5     | -          | -          |
| Share premium                    | 6     | <u>18</u>  | <u>18</u>  |
| <b>TOTAL SHAREHOLDER'S FUNDS</b> |       | <u>18</u>  | <u>18</u>  |

Approved by the Board and signed on its behalf on 28 March 2013

Jeffrey Peter van der Eems



## United Biscuits Topco Limited

### 1 Accounting policies

#### Basis of accounting

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

The Company has taken the s408 exemption set out in the Companies Act 2006 to not present its own Profit & Loss account. The company made no profit or loss in the year (2011: nil).

#### Investments

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

### 2 Directors and employees

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

The Company has no employees.

### 3 Loss on ordinary activities before taxation

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

### 4 Investment in subsidiary

|                    | 2012       | 2011       |
|--------------------|------------|------------|
|                    | £m         | £m         |
| Investment at cost | <u>1.8</u> | <u>1.8</u> |

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

**United Biscuits Topco Limited****5 Share capital**

Share capital

**Authorised****Number of  
shares**

Ordinary shares of £1 each

100**Number  
of Shares****£m**

Ordinary shares issued and fully paid

**At 29 December 2012 and 31 December 2011**201.8**6 Reconciliation of shareholder's funds and movements on reserves**

|                                    | <b>Share<br/>Capital<br/>£m</b> | <b>Share<br/>Premium<br/>£m</b> | <b>Total<br/>£m</b> |
|------------------------------------|---------------------------------|---------------------------------|---------------------|
| Balance at 1 January 2011          | -                               | 1.8                             | 1.8                 |
| Result for the year                | -                               | -                               | -                   |
| <b>Balance at 31 December 2011</b> | <b>-</b>                        | <b>1.8</b>                      | <b>1.8</b>          |
| Result for the year                | -                               | -                               | -                   |
| <b>Balance at 29 December 2012</b> | <b>-</b>                        | <b>1.8</b>                      | <b>1.8</b>          |

**7 Ultimate parent company**

In the directors' opinion, the Company's ultimate parent undertaking is United Biscuits Luxco S C A , which is registered in Luxembourg in 19, rue de Bitbourg