

COMPANY REGISTRATION NUMBER 03841804

KRAFT FOODS UK R&D LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
TO 31 DECEMBER 2011

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KRAFT FOODS UK R&D LIMITED

FINANCIAL STATEMENTS

PERIOD FROM 12 DECEMBER 2010 TO 31 DECEMBER 2011

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KRAFT FOODS UK R&D LIMITED

DIRECTORS' REPORT

PERIOD FROM 12 DECEMBER 2010 TO 31 DECEMBER 2011

The directors have pleasure in presenting their annual report and the audited financial statements of the company for the period from 12 December 2010 to 31 December 2011

Principal activities and business review

The principal activities of the company during the period were the provision of research and development services to fellow subsidiary companies within the Kraft Foods group

Following the acquisition of Cadbury Plc by Kraft Foods Inc on 2 February 2010 the full integration of UK Kraft and Cadbury operations was completed on 27 June 2011. As part of the integration the UK Kraft and Cadbury financial year ends were aligned to 31 December 2011, resulting in a 55 week "Financial Year" for Kraft Foods UK R&D Limited and represented in the financial statements by the "Period from 12 December 2010 to 31 December 2011"

On 27 June 2011 the company acquired the trade and assets of the Cadbury UK research and development business from Kraft Foods UK Confectionery Production Limited (formerly known as Cadbury Trebor Bassett Services Limited) in exchange for cash consideration of £10,103,154. Assets and liabilities with a net book value of £5,703,154 were acquired. Goodwill of £4,400,000 arose on the purchase of the trade of the business.

Due to the successful total integration of Kraft UK and Cadbury business processes and systems on 27 June it is not possible to accurately separate the contribution of the acquisition to the turnover and operating profit of Kraft Foods UK R&D Limited.

Due to the straightforward nature of the business the company's directors are of the opinion that a detailed analysis using Key Performance Indicators is not necessary for an understanding of the development, performance or position of the business.

Results and dividends

The profit for the period amounted to £1,458,000 (2010: £1,141,000). The directors have not recommended a dividend.

Principal risks, uncertainties and future outlook

As the company provides services to fellow subsidiaries within the Kraft Foods group the directors consider the business and financial risk to be minimal.

Directors

The directors who served the company during the period and to the date of the financial statements being approved unless otherwise stated were as follows:

J Graham
D Shearman

The company is a wholly owned subsidiary and the interests of the group directors are disclosed in the financial statements of the parent company.

KRAFT FOODS UK R&D LIMITED

DIRECTORS' REPORT *(continued)*

PERIOD FROM 12 DECEMBER 2010 TO 31 DECEMBER 2011

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared 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 judgements 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,
- 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.

Disclosure of information to auditors

In so far as the directors are aware

- there is no relevant audit information of which the company's auditors are unaware, and
- the directors have taken all steps that they ought to have taken as a director to make themselves aware of any relevant audit information needed by the company's auditor in connection with preparing their report and to establish that the auditors are aware of that information.

Donations

The company did not make any charitable or political donations during the current or previous period.

Post balance sheet event

On 4 August 2011 Kraft Foods Inc. announced its intention to split its North American grocery business from its global snacks group. This transaction was completed on 1 October 2012. This has no impact to the Company or these financial statements.

Disabled employees

The company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

KRAFT FOODS UK R&D LIMITED

DIRECTORS' REPORT *(continued)*

PERIOD FROM 12 DECEMBER 2010 TO 31 DECEMBER 2011

Employment policies and involvement

It is the company's policy to ensure that no employee or job applicant is treated less favourably than another on the grounds of religion, sexual orientation, disability, race, creed, colour, nationality, ethnic or national origins, sex or marital status


The company recognises the need to create and support a flexible working environment, incorporating where possible, family friendly policies

The company believes in and supports the development of a working environment which encourages employee involvement in the business. Information about the company and its business is provided to all employees on matters likely to be of concern to them in team briefings, an annual report and by other communications

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution to re-appoint them will be proposed at the Annual General Meeting

Signed on behalf of the directors



D Shearman
Director

Approved by the directors on 16 October 2012

KRAFT FOODS UK R&D LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KRAFT FOODS UK R&D LIMITED

PERIOD FROM 12 DECEMBER 2010 TO 31 DECEMBER 2011

We have audited the financial statements of Kraft Foods UK R&D Limited for the period from 12 December 2010 to 31 December 2011 which comprise the Profit and Loss Account, Balance Sheet and the related notes. 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).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

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 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 financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit for the period then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

KRAFT FOODS UK R&D LIMITED

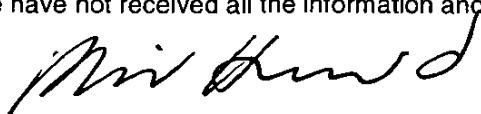
INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KRAFT FOODS UK R&D LIMITED *(continued)*

PERIOD FROM 12 DECEMBER 2010 TO 31 DECEMBER 2011

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, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, 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



Phil Harrold (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants & Statutory Auditors
Birmingham

22 October 2012

KRAFT FOODS UK R&D LIMITED

PROFIT AND LOSS ACCOUNT

PERIOD FROM 12 DECEMBER 2010 TO 31 DECEMBER 2011

	Note	Period from 12 Dec 10 to 31 Dec 11 £000	Period from 13 Dec 09 to 11 Dec 10 £000
Turnover	2	26,663	14,231
Administrative expenses		(26,898)	(13,735)
Operating (loss)/profit	3	(235)	496
Interest receivable and similar income	6	51	54
Interest payable and similar charges	7	1	–
(Loss)/profit on ordinary activities before taxation		(183)	550
Tax on (loss)/profit on ordinary activities	8	1,641	591
Profit for the financial period		1,458	1,141

All of the activities of the company are classed as continuing

The company has no recognised gains or losses other than the results for the period as set out above

There is no material difference between the profit on ordinary activities before taxation and the profit for the financial year stated above and their historical cost equivalents

The notes on pages 8 to 21 form part of these financial statements.

KRAFT FOODS UK R&D LIMITED

BALANCE SHEET

31 DECEMBER 2011

	Note	31 Dec 11 £000	11 Dec 10 £000
Fixed assets			
Intangible assets	9	4,290	—
Tangible assets	10	19,810	10,403
		<u>24,100</u>	<u>10,403</u>
Current assets			
Debtors	11	36,297	33,138
Cash at bank		8	—
		<u>36,305</u>	<u>33,138</u>
Creditors: Amounts falling due within one year	12	<u>(23,195)</u>	<u>(6,489)</u>
Net current assets		<u>13,110</u>	<u>26,649</u>
Total assets less current liabilities		<u>37,210</u>	<u>37,052</u>
Provisions for liabilities			
Other provisions	13	(1,060)	(2,279)
Net assets		<u>36,150</u>	<u>34,773</u>
Capital and reserves			
Called-up equity share capital	16	15,024	15,024
Profit and loss account	17	21,126	19,749
Total shareholder's funds	17	<u>36,150</u>	<u>34,773</u>

These financial statements were approved by the directors and authorised for issue on 16 October 2012, and are signed on their behalf by


D Shearman
Director

Company Registration Number 03841804

The notes on pages 8 to 21 form part of these financial statements.

KRAFT FOODS UK R&D LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 12 DECEMBER 2010 TO 31 DECEMBER 2011

1. Accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards

The financial statements are also prepared on the going concern basis and in accordance with the Companies Act 2006. The principal accounting policies which have been applied consistently throughout the period are set out below

The 2011 "Financial Year" is represented by the period from 12 December 2010 to 31 December 2011

Consolidation

The company was, at the end of the period, a wholly-owned subsidiary of another company incorporated outside the EEA and in accordance with Section 401 of the Companies Act 2006, is not required to produce, and has not published, consolidated accounts

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes a consolidated cash flow statement

Related parties transactions

The company is a wholly owned subsidiary of Kraft Foods Inc, the consolidated financial statements of which are publicly available. Accordingly, the company has taken advantage of the exemption in FRS 8 from disclosing transactions with members of the Kraft Foods group

Turnover

Turnover represents the value of invoiced and accrued research and development services to fellow subsidiary companies in the Kraft Foods Inc group

Intangible assets

Purchased goodwill arises where the purchase consideration exceeds the value of the underlying net assets

Purchased goodwill is capitalised in the year in which it arises and amortised over its useful economic life

Amortisation

Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows

Goodwill - 20 years

Tangible fixed assets

Tangible fixed assets are stated at historic cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use

KRAFT FOODS UK R&D LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 12 DECEMBER 2010 TO 31 DECEMBER 2011

1. Accounting policies *(continued)*

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows

Leasehold Improvements	-	shorter of useful economic life and lease term
Plant & Machinery	-	3 - 20 years

Capital work in progress is not depreciated

Impairment

The company carries out an impairment review of its intangible and tangible assets when a change in circumstances or situation indicates that those assets may have suffered an impairment loss. Impairment is measured by comparing the carrying amount of the asset with the recoverable amount of the associated income generating unit on a value-in-use basis. Value-in-use is calculated by discounting the expected future cash flows.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Pension costs

The company is a participating employer in the Kraft Foods Retirement Benefits Plan and Cadbury Pension Fund, both group operated defined benefit schemes for the benefit of the majority of its employees. The assets of the schemes are held separately from those of the company in independently administered funds. As the company is not able to separately identify its share of the assets and liabilities of the group schemes it accounts for contributions as if they were to a defined contribution pension scheme. Contributions to the scheme are charged to the profit and loss account in the period to which they relate.

Provisions for liabilities

Provisions are recognised where there is a legal or constructive obligation to transfer economic benefits as a result of a past event. The effect of the time value of money on the provisions are not discounted unless material.

KRAFT FOODS UK R&D LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 12 DECEMBER 2010 TO 31 DECEMBER 2011

1. Accounting policies *(continued)*

Taxation

Current tax for the current and prior periods is provided at the amount expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions

(i) Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange gains and losses on settled transactions are reported in the profit and loss account. Monetary assets and liabilities in foreign currencies have been expressed in sterling at the rates ruling at the end of the period, except when covered by an open foreign exchange contract in which case the rate of exchange specified in the contract is used, and any gains or losses reported in the profit and loss account

Share-based payments

Equity-settled share-based payment transactions for employee services received are measured at fair value and recognised as an expense spread over the service periods for share awards expected to vest. The fair value is measured by reference to the number and market value of the equity instruments at the date of grant. At each balance sheet date the company revises its estimates of the number of awards that are expected to vest and recognises the impact in the income statement with a corresponding adjustment to equity

Recharges made to the company when the share awards have vested are recognised when paid and accounted for as a decrease in equity

Provision is also made for the cost of stock option awards, granted by the ultimate parent company before November 2002, based on the market value of outstanding stock options at the end of the period. The costs of stock options exercised during the period are recharged to the company based on the spread between the issue and exercise price of those options

Financial instruments

The company has no derivative financial instruments. Financial assets and liabilities are measured at historical cost

KRAFT FOODS UK R&D LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 12 DECEMBER 2010 TO 31 DECEMBER 2011

2. Turnover

The turnover and loss before tax are attributable to the one principal activity of the company

An analysis of turnover is given below

	Period from 12 Dec 10 to 31 Dec 11 £000	Period from 13 Dec 09 to 11 Dec 10 £000
United Kingdom	<u>26,663</u>	<u>14,231</u>

3. Operating (loss)/profit

Operating (loss)/profit is stated after charging

	Period from 12 Dec 10 to 31 Dec 11 £000	Period from 13 Dec 09 to 11 Dec 10 £000
Amortisation of intangible assets	110	—
Depreciation of owned fixed assets	2,612	1,937
Loss on disposal of fixed assets	—	16
Auditors' remuneration		
- as auditor	—	—
Operating lease costs		
- Plant and equipment	7	6
- Property leases	<u>257</u>	<u>261</u>

Audit fees for the company are borne on behalf of the UK group by a fellow subsidiary undertaking and included in a service charge to the company. An estimated allocation of the audit fee for the period is £10,000 (2010 £10,000)

KRAFT FOODS UK R&D LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 12 DECEMBER 2010 TO 31 DECEMBER 2011

4. Employee information

The average number of staff employed by the company during the financial period amounted to

	Period from 12 Dec 10 to 31 Dec 11 No	Period from 13 Dec 09 to 11 Dec 10 No
Number of research and development staff	254	143
Number of administrative staff	8	16
	<u>262</u>	<u>159</u>

The aggregate payroll costs of the above were

	Period from 12 Dec 10 to 31 Dec 11 £000	Period from 13 Dec 09 to 11 Dec 10 £000
Wages and salaries	15,775	7,916
Social security costs	1,280	675
Other pension costs	1,905	1,456
Equity-settled share-based payments	81	287
	<u>19,041</u>	<u>10,334</u>

Other pension costs comprise contributions by the company to the Kraft Foods Retirement Benefits Plan and the Cadbury Pension Fund, both group operated defined benefit schemes of which Kraft Foods UK Limited and Cadbury Holdings Limited are the sponsoring employers. With respect to the defined benefit schemes the contributions they receive are based upon the pension cost of the schemes members across the Kraft Foods group of companies as a whole. Due to the impact of group restructuring and transfers of pension scheme members between group companies, the company is unable to separately identify its share of the underlying assets and liabilities of the schemes on either a consistent or reasonable basis therefore accounts for the schemes as defined contribution plans.

Kraft Foods Retirement Benefits Plan

The latest full actuarial valuation of the pension plan was carried out as at 1 April 2010 using the projected unit method. At 31 December 2011 the company actuary estimated the Kraft Foods Retirement Benefits Plan had a deficit of £72,206,000 (2010 £31,562,000) under the projected unit method.

Cadbury Pension Fund

The latest full actuarial valuation of the pension fund was carried out as at 5 April 2010 using the projected unit credit method. At 31 December 2011 the company actuary estimated the Cadbury Pension Fund had a deficit of £312,500,000 (2010 £242,700,000) under the projected unit credit method.

KRAFT FOODS UK R&D LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 12 DECEMBER 2010 TO 31 DECEMBER 2011

5. Directors' remuneration

The directors' aggregate remuneration in respect of qualifying services were

	Period from 12 Dec 10 to 31 Dec 11 £000	Period from 13 Dec 09 to 11 Dec 10 £000
Remuneration receivable	<u>563</u>	<u>957</u>

Remuneration of highest paid director:

	Period from 12 Dec 10 to 31 Dec 11 £000	Period from 13 Dec 09 to 11 Dec 10 £000
Total remuneration (excluding pension contributions)	<u>434</u>	<u>783</u>

The number of directors who accrued benefits under company pension schemes was as follows

	Period from 12 Dec 10 to 31 Dec 11 No	Period from 13 Dec 09 to 11 Dec 10 No
Defined benefit schemes	<u>2</u>	<u>2</u>

The number of directors who exercised share options and received shares under a long term incentive scheme during the period were as follows

	Period from 12 Dec 10 to 31 Dec 11 No	Period from 13 Dec 09 to 11 Dec 10 No
Directors who exercised share options	<u>2</u>	<u>1</u>
Directors who received shares under a long term incentive scheme	<u>2</u>	<u>2</u>

6. Interest receivable and similar income

	Period from 12 Dec 10 to 31 Dec 11 £000	Period from 13 Dec 09 to 11 Dec 10 £000
Interest on loans to fellow subsidiaries	<u>51</u>	<u>54</u>

7. Interest payable and similar charges

	Period from 12 Dec 10 to 31 Dec 11 £000	Period from 13 Dec 09 to 11 Dec 10 £000
Interest payable on bank borrowing	<u>(1)</u>	<u>—</u>

KRAFT FOODS UK R&D LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 12 DECEMBER 2010 TO 31 DECEMBER 2011

8. Taxation on ordinary activities

(a) Analysis of charge in the period

	Period from 12 Dec 10 to 31 Dec 11 £000	Period from 13 Dec 09 to 11 Dec 10 £000
Current tax:		
Corporation tax	-	-
Over/under provision in prior year	-	(246)
Total current tax	-	(246)
Deferred tax:		
Origination and reversal of timing differences	(1,618)	(248)
(Over)/under provision in prior year	28	(97)
Effect of change of tax rate on opening balance	(51)	-
Total deferred tax (note 13)	(1,641)	(345)
Tax on (loss)/profit on ordinary activities	(1,641)	(591)

(b) Factors affecting current tax charge

The tax assessed on the (loss)/profit on ordinary activities for the period is higher than the standard rate of corporation tax in the UK of 26.50% (2010 - 28%)

	Period from 12 Dec 10 to 31 Dec 11 £000	Period from 13 Dec 09 to 11 Dec 10 £000
(Loss)/profit on ordinary activities before taxation	(183)	550
(Loss)/profit on ordinary activities multiplied by standard rate of tax	(48)	154
Expenses not deductible for tax purposes	176	(442)
Capital allowances for period in excess of depreciation	710	249
Adjustments to tax charge in respect of previous periods	-	(246)
Group relief not paid for	(734)	131
Other timing differences	(104)	(92)
Total current tax (note 8(a))	-	(246)

KRAFT FOODS UK R&D LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 12 DECEMBER 2010 TO 31 DECEMBER 2011

8. Taxation on ordinary activities *(continued)*

(c) Factors that may affect future tax charges

On 19 July 2011, The Finance Act 2011 was enacted and reduced the rate of UK Corporation tax from 27% to 26% with effect from 1 April 2011 along with a further reduction to 25% with effect from 1 April 2012. The deferred tax balances at 31 December 2011 have accordingly been provided at 25% (31 December 2010 27%)

In addition to the changes in rates of Corporation tax disclosed above a number of further changes to the UK Corporation tax system were announced in the March 2012 UK Budget Statement. A resolution passed by Parliament on 26 March 2012 reduced the main rate of corporation tax to 24% from 1 April 2012. Legislation to reduce the main rate of corporation tax from 24% to 23% from 1 April 2013 was included in the Finance Act 2012. A further reduction to the main rate is also proposed to reduce the rate to 22% from 1 April 2014. None of these rate reductions had been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

KRAFT FOODS UK R&D LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 12 DECEMBER 2010 TO 31 DECEMBER 2011

9. Intangible fixed assets

	Goodwill £000
Cost	
Additions	4,400
At 31 December 2011	<u>4,400</u>
Amortisation	
Charge for the period	110
At 31 December 2011	<u>110</u>
Net book value	
At 31 December 2011	<u>4,290</u>

Goodwill is being amortised on a straight-line basis over twenty years, being the period over which the directors estimate that the values of the underlying businesses acquired are expected to exceed the values of the underlying assets

Acquisition

On 27 June 2011 the company acquired the trade and assets of the Cadbury UK research and development business from Kraft Foods UK Confectionery Production Limited (formerly known as Cadbury Trebor Bassett Services Limited) in exchange for cash consideration of £10,103,154. Assets and liabilities with a book value of £5,703,154 were acquired. Goodwill of £4,400,000 arose on the purchase of the trade of the business and is reflected above.

Due to the successful total integration of Kraft UK and Cadbury business processes and systems on 27 June it is not possible to accurately separate the contribution of the acquisition to the turnover and operating profit of Kraft Foods UK R&D Limited.

The following table sets out the book values of the identifiable assets and liabilities acquired by the company. Following a fair value exercise, no differences were noted between book value and fair value.

	£000
Fixed Assets	5,751
Prepayments & Deferred Income	1,596
Total Assets	<u>7,347</u>
Accruals	(1,222)
Restructuring Provision	(422)
Total Liabilities	<u>(1,644)</u>
Net Assets	<u>5,703</u>
Goodwill Created	<u>4,400</u>
Total Consideration Paid	<u>10,103</u>

KRAFT FOODS UK R&D LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 12 DECEMBER 2010 TO 31 DECEMBER 2011

10. Tangible fixed assets

	Leasehold improvements	Plant and machinery	Work in progress	Total
	£000	£000	£000	£000
Cost				
At 12 December 2010	11	21,181	578	21,770
Additions	–	5,922	6,167	12,089
Disposals	–	(465)	–	(465)
Transfers	–	2,996	(2,996)	–
At 31 December 2011	11	29,634	3,749	33,394
Depreciation				
At 12 December 2010	–	11,367	–	11,367
Charge for the period	2	2,610	–	2,612
On disposals	–	(395)	–	(395)
At 31 December 2011	2	13,582	–	13,584
Net book value				
At 31 December 2011	9	16,052	3,749	19,810

11 Debtors

	31 Dec 11 £000	11 Dec 10 £000
Amounts owed by group undertakings	32,356	29,125
Other debtors	1,438	211
Prepayments and accrued income	2,503	3,802
	36,297	33,138

Amounts owed by fellow subsidiary companies include non-trading balances which are unsecured, earn interest at the London Mean Rate less 0.25% and are repayable on demand

12. Creditors: Amounts falling due within one year

	31 Dec 11 £000	11 Dec 10 £000
Trade creditors	2,871	673
Amounts owed to fellow subsidiary companies	14,314	1,012
Other taxation	303	303
Other creditors	825	125
Accruals and deferred income	4,882	4,376
	23,195	6,489

Amounts owed to fellow subsidiary companies include non-trading balances which are unsecured, incur interest at the London Mean Rate less 0.25% and are repayable on demand

KRAFT FOODS UK R&D LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 12 DECEMBER 2010 TO 31 DECEMBER 2011

13. Other provisions

	Reorganisation Provisions £000	Deferred taxation £000	Total £000
Original balance brought forward prior year	-	2,624	2,624
Profit and Loss Account movement arising during the period	-	(345)	(345)
Balance carried forward	-	2,279	2,279
Profit and Loss Account movement arising during the period	422	(1,641)	(1,219)
Balance carried forward current year	422	638	1,060

The reorganisation provision relates to the costs of the European integration in respect of the company's on-going focus on establishing and maintaining operating efficiency

The provision for deferred taxation consists of the tax effect of timing differences in respect of

	31 Dec 11 £000	11 Dec 10 £000
Excess of taxation allowances over depreciation on fixed assets	747	2,502
Other timing differences	(109)	(223)
	638	2,279

14. Share-based payments

Equity-settled share-based payments

Performance Incentive Plan

Under a Performance Incentive Plan eligible employees of the company are granted a "Deferred Stock Unit Award" (the "Award") with respect to a number of shares (the "Deferred Shares") of the Common Stock of Kraft Foods Inc. The employee does not have the right to vote the Deferred Shares or receive dividends but is entitled to receive cash payments in lieu of dividends otherwise payable. The Awards are non transferable and may not be assigned, hypothecated or otherwise pledged. The Awards granted to eligible employees have no performance criteria attached to them other than the requirement that the employee remains in employment of the Kraft Foods Inc group from award date to vesting date. If an employee moves within the Kraft Foods Inc group then an inter-group reallocation is made and the charge for the Award is time apportioned. The Awards generally vest on the third anniversary of the grant date.

KRAFT FOODS UK R&D LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 12 DECEMBER 2010 TO 31 DECEMBER 2011

14. Share-based payments (continued)

Movements in the total number of deferred shares and their weighted-average grant date fair values (WAFV) are as follows

		2011		2010
	Number of shares	WAFV	Number of shares	WAFV
Opening balance	12,660	£17 52	19,560	£16 90
Granted	4,600	£19 69	4,460	£18 83
Vested	(2,800)	£15 39	(9,390)	£16 90
Forfeited	-	-	(1,970)	£17 25
Inter-group reallocation	-	-	-	-
Closing balance	<u>14,460</u>	£18 48	<u>12,660</u>	£17 52

The fair value of deferred stock is determined based on the number of shares granted and the market value at date of grant. The total charge for the period relating to employee share-based payments under this plan was £136,000 (2010 £249,000), all of which related to equity-settled share-based payment transactions.

Executive share option scheme

The company has a share option scheme for eligible employees (including directors). Options are granted at an exercise price equal to the market value of the underlying stock on the date of grant. Share options generally become exercisable one-third each year on the first anniversary of the grant date and have a maximum term of ten years. The options are settled in equity once exercised.

If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are not transferrable and are forfeited if the employee leaves the company before the options are exercised. If an employee moves within the Kraft group then an inter-group re-allocation is made on a time apportioned basis.

Details of the number of share options and the weighted average exercise price (WAEP) during the period are as follows

		2011		2010
	Number of shares	WAEP	Number of shares	WAEP
Opening balance	235,921	£16 65	398,874	£12 85
Options exercised	(134,856)	£17 80	(83,216)	£8 93
Options cancelled/forfeited	(64,464)	£13 85	(97,497)	£8 73
New options issued in period	29,350	£19 69	17,760	£18 83
Inter-group reallocation	60,106	£19 69	-	-
Closing balance	<u>126,057</u>	£17 67	<u>235,921</u>	£16 65
Exercisable at the end of the period	<u>49,266</u>	£15 28	<u>200,349</u>	£16 63

KRAFT FOODS UK R&D LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 12 DECEMBER 2010 TO 31 DECEMBER 2011

14. Share-based payments *(continued)*

In February 2011 options were granted at an exercise price of £19.69 (2010 £18.83). The estimated fair value of the options granted was £2.47 (2010 £2.38). The fair values were calculated by Kraft Foods Inc. using a modified Black-Scholes methodology.

The weighted-average Black-Scholes fair value assumptions were as follows:

Risk-free interest rate	2.33%
Expected life	6 years
Expected volatility	18.95%
Expected dividend yield	3.72%
Fair value at grant date	£2.47

For options outstanding at the end of the period, the range of exercise prices and their weighted average remaining life in years (WARL) are as follows:

		2011		2010
Range of exercise prices	Number of shares	WARL	Number of shares	WARL
£0.01 - £5.00	-	-	-	-
£10.01 - £15.00	37,441	6.10	110,800	1.46
£15.01 - £20.00	88,616	8.52	125,121	2.41
Closing balance	<u>126,057</u>	7.80	<u>235,921</u>	2.10

The weighted average share price during the period for options exercised over the period was £21.99 (2010 £21.57). The total charge for the period relating to employee share-based payments under this plan was £25,000 (2010 £38,000), all of which related to equity-settled share-based payment transactions.

15. Lease commitments

At 31 December 2011, the company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings	
	31 Dec 11	11 Dec 10
	£000	£000
Operating leases which expire		
Within 2 to 5 years	<u>265</u>	<u>265</u>

16. Share capital

Authorised share capital.

	31 Dec 11	11 Dec 10
	£000	£000
100,000,000 Ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>

KRAFT FOODS UK R&D LIMITED

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PERIOD FROM 12 DECEMBER 2010 TO 31 DECEMBER 2011

16. Share capital *(continued)*

Allotted, called up and fully paid

	31 Dec 11		11 Dec 10	
	No	£000	No	£000
15,024,453 Ordinary shares of £1 each	<u>15,024,453</u>	<u>15,024</u>	<u>15,024,453</u>	<u>15,024</u>

17. Reconciliation of shareholder's funds and movement on reserves

	Share capital	Profit and loss account	Total share-holder's funds
	£000	£000	£000
Balance brought forward	15,024	19,749	34,773
Profit for the period	–	1,458	1,458
Equity settled share based payments	–	(81)	(81)
Balance carried forward	<u>15,024</u>	<u>21,126</u>	<u>36,150</u>

18. Ultimate parent company

At 31 December 2011 the immediate parent company was Kraft Foods UK Limited. Kraft Foods Schweiz Holdings GmbH, a company incorporated in Switzerland, is the parent company of the smallest group to consolidate these financial statements.

At 31 December 2011 the company's ultimate parent company and controlling party was Kraft Foods Inc, incorporated in the United States of America. This is the parent company of the smallest and largest group to consolidate these financial statements. Copies of the consolidated financial statements of Kraft Foods Inc are available on application from the Company Secretary, Cadbury House, Sanderson Road, Uxbridge, UB8 1DH.