

NESTLÉ UK LTD
Company Nos.: 51491 (Cardiff)
NF 00340 (Belfast)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2001



NESTLÉ UK LTD

Directors' Report for the year ended 31 December 2001

The directors present their annual report on the affairs of the Company together with the financial statements and report of the auditor for the year ended 31 December 2001.

PRINCIPAL ACTIVITIES

The Company is the principal trading company of the Nestlé Group in the United Kingdom engaged in the manufacture and sale of food and drink products.

BUSINESS REVIEW

The performance achieved during the period is set out in the profit and loss account on page 6.

ACQUISITIONS AND DISPOSALS

The following disposals took place during the year:

- Fox's and 'XXX' confectionery businesses, together with the associated production facilities in Leicester - to Northern Foods plc
- The UK ice cream business - to Richmond Frozen Confectionery Ltd.

On 31st March, 2002 the Company transferred the warehouse at Scunthorpe to the third party management of SCS(N).

On 2nd April, 2002 the Company acquired part of the Chilled Dairy business of Northern Foods plc - comprising the Ski and Munch Bunch business including Northern Foods' factory at Cuddington, Cheshire.

On 5th April, 2002 the Company sold the Omagh factory to Lakeland Dairies (Omagh) Limited.

On 27th May, 2002 the Company disposed of its ambient food business (Crosse & Blackwell, Sun-Pat, Gale's, Branston and Sarson's) including its factories in Hadfield and Middleton, to Premier Ambient Products (UK) Limited. The Company also announced that it proposed to close the Aylesbury factory during 2002.

DIRECTORS

The following were Directors throughout the period:

A.J. Sykes
D.C. Hudson
A.D. Koutaissoff
P.W. Mayes
G. Millar
J.M. Sunley
R. Cordier (appointed 1 July 2001)
M. Nekola (appointed 1 July 2001)
C.M. Tyas (appointed 31 July 2001)
F.M. Kendrick (appointed 1 September 2001)
P.H. Blackburn (resigned 1 July 2001)
G.J. Berssenbrugge (resigned 31 August 2001)
One director exercised share options during 2001 granted by Nestlé S.A.

NESTLÉ UK LTD

Directors' Report for the year ended 31 December 2001

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss for that period. In preparing those financial statements the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable 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 proper accounting records which 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 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

DIVIDEND

The Directors do not recommend payment of a dividend (2000 : £nil).

RESERVES

The retained profit of £63.9 million is to be transferred to reserves.

PAYMENT POLICY

It is the policy of the Company to make payments to all creditors promptly and in accordance with the Confederation of British Industry Prompt Payment Code. Copies of the Code are available from the CBI, Centre Point, 103 New Oxford Street, London WC1A 1DU. At the end of the year the Company had an average of 10 days (2000: 13 days) purchases outstanding in trade creditors. This figure is significantly affected by the credit terms, which are industry norms, for the purchase of commodities and other items.

EMPLOYEES

The Company fully supports the rights of all individuals to seek, obtain and hold employment without discrimination on the grounds of race, colour, religion, origin, sex, sexual orientation, disability or marital status. The Company seeks to provide a working environment free of any harassment or intimidation.

Policies relating to training, career development and succession are applied equally to disabled and able bodied employees. Employees who become disabled are retained, where possible, through redeployment and retraining, to enable them to perform work identified as appropriate to their aptitudes and abilities.

Occupational Health and Safety continues to receive the same high profile in 2001 with a commitment across all areas of the business to sustain the continual improvement in performance. Occupational Health and Safety is a standing item on the the Company's Management Committee monthly meeting agenda with reports received from the Head of Group Occupational Health and Safety.

NESTLÉ UK LTD

Directors' Report for the year ended 31 December 2001

EMPLOYEES - continued

Occupational Health and Safety training and awareness programmes continue to be undertaken across all areas of the business with all the Company's Management Committee members undertaking a Directing Health and Safety awareness course.

ENVIRONMENT

The Company seeks to develop business practices and behaviour, which meet the highest standards of responsibility towards the environment. The Company sees conservation and development as mutually reinforcing each other in pursuit of sustainable growth. The Company seeks to go beyond mere compliance with the law, which it willingly embraces, to achieve, in particular, savings of energy and resources, and the reduction of waste and effluent in all its forms.

Climate Change Levy (CCL) commitments which require us to reduce carbon emissions are on target for the first formal review by Government at the end of 2002. Compliance with environmental regulatory requirements were met and we continued with our training programme for those responsible for environmental management.

CHARITABLE DONATIONS

The Company made charitable donations totalling £1,110,000 during the period (2000: £1,105,000). No contributions were made for political purposes.

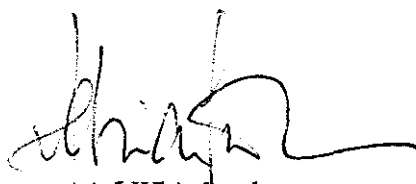
AUDITOR

The Auditor, KPMG Audit Plc, will continue in office. The Company has dispensed with the obligation to appoint auditors annually, in accordance with Section 386 of the Companies Act 1985.

ELECTIVE REGIME

The Company has elected to dispense with the laying of financial statements and reports before a General Meeting and with the holding of Annual General Meetings, in accordance with Sections 252 and 366(A) respectively of the Companies Act 1985.

BY ORDER OF THE BOARD



A.J. Whitehead
Secretary

St. George's House
Croydon, CR9 1NR
24th October, 2002

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
NESTLÉ UK LTD

We have audited the financial statements on pages 6 to 22.

Respective responsibilities of directors and auditor

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company as at 31 December 2001, and of the result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

LONDON
24th October, 2002

NESTLÉ UK LTD

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2001

	Note	<u>2001</u> £m	<u>2000</u> £m
Turnover	2	1,635.7	1,651.8
Cost of sales	4	<u>(1,246.1)</u>	<u>(1,260.6)</u>
Gross profit		389.6	391.2
Distribution costs		(117.1)	(106.7)
Administrative expenses		(94.7)	(106.2)
Exceptional loss on disposal of fixed assets	7	<u>-</u>	<u>(10.3)</u>
Operating profit		177.8	168.0
Exceptional loss on disposal of businesses	7	(16.0)	-
Income from participating interests		9.1	4.7
Other interest receivable and similar income	5	1.3	0.1
Interest payable and similar charges	6	<u>(81.0)</u>	<u>(86.4)</u>
Profit on ordinary activities before taxation	7	91.2	86.4
Tax on profit on ordinary activities	10	<u>(27.3)</u>	<u>(15.0)</u>
Profit for the financial year		63.9	71.4
Dividends paid		<u>-</u>	<u>-</u>
Retained profit for the financial year	20	<u>63.9</u>	<u>71.4</u>

All turnover and operating profit arose from continuing activities.

There are no recognised gains or losses other than the result for the financial year in both the current and preceding years.

The historical cost profit from ordinary activities is not materially different from the reported profit.

The notes on pages 9 to 22 form part of these financial statements.

NESTLÉ UK LTD

BALANCE SHEET AS AT 31 DECEMBER 2001

	Note	<u>2001</u> £m	<u>2001</u> £m	<u>2000</u> £m	<u>2000</u> £m
Fixed Assets					
Tangible assets	11		479.9		504.5
Investments	12		<u>32.5</u>		<u>23.4</u>
			512.4		527.9
Current Assets					
Stocks	14	142.4		156.8	
Debtors	15	230.1		285.1	
Cash at bank and in hand		<u>-</u>		<u>4.6</u>	
		372.5		446.5	
Creditors: amounts falling due within one year	16	<u>(595.9)</u>		<u>(741.7)</u>	
Net current liabilities			<u>(223.4)</u>		<u>(295.2)</u>
Total assets less net current liabilities			289.0		232.7
Creditors: amounts falling due after more than one year	17	(840.0)		(852.6)	
Provision for liabilities and charges	18	<u>(10.1)</u>		<u>(7.0)</u>	
Net liabilities			<u>(850.1)</u>		<u>(859.6)</u>
			<u>(561.1)</u>		<u>(626.9)</u>
Capital and reserves					
Called up share capital	19		120.4		120.4
Share premium account	20		71.0		71.0
Profit and loss account	20		<u>(752.5)</u>		<u>(818.3)</u>
Total equity shareholders' funds			<u>(561.1)</u>		<u>(626.9)</u>

The notes on pages 9 to 22 form part of these financial statements.

Approved by the Board on 24th October, 2002
and signed on its behalf by

G. Millar
Director



NESTLÉ UK LTD

Reconciliation of Movements in Equity Shareholders' Funds for the year ended 31 December 2001

	<u>2001</u> £m	<u>2000</u> £m
Profit/(Loss) for the financial year	63.9	71.4
Dividends paid	<u>-</u>	<u>-</u>
Retained profit/(loss) for the year	63.9	71.4
Opening equity shareholders' funds	(626.9)	(698.3)
Goodwill transferred to Profit and Loss account on		
Disposal of ice cream business	<u>1.9</u>	<u>-</u>
Closing equity shareholders' funds	<u>(561.1)</u>	<u>(626.9)</u>

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of Preparation

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, and are in accordance with applicable accounting standards.

Turnover

Turnover represents sales to customers at invoiced amount, excluding VAT and trade discounts.

Depreciation

Depreciation is provided to write off the cost of all tangible fixed assets, except freehold and long leasehold land, over their expected useful lives. It is calculated on a straight line basis from the first day of the accounting month following the date on which the assets are brought into use, at the following rates:

Freehold Properties	2% - 4%	per annum
Long Leasehold Properties	4%	per annum
Plant and Machinery	6 ² / ₃ % - 33 ¹ / ₃ %	per annum

Revaluation

The Company is following the transitional rules of Financial Reporting Standard 15 'Tangible Fixed Assets' and has chosen not to adopt a revaluation policy. The Company's land and buildings were last revalued at 31 December 1986.

Goodwill

Purchased goodwill arising in respect of acquisitions before 1 January 1999 was written off to reserves in the year of acquisition. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal. Other purchased goodwill is eliminated by amortisation through the profit and loss account over its useful economic life of 20 years.

Investments

Investments are valued at cost or directors' valuation, less amounts written off.

Stocks and Work-in-Progress

Stocks and work-in-progress are stated at the lower of cost, including attributable overheads, and net realisable value.

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS **(continued)**

1. ACCOUNTING POLICIES (continued)

Deferred Taxation

Deferred taxation is accounted for in respect of timing differences between the results for taxation purposes and the results in the accounts to the extent that a liability or asset is expected to be payable or receivable in the foreseeable future. However, no deferred taxation asset is recognised for any carried forward tax losses to the extent that they exceed liabilities.

Foreign Currency

Transactions denominated in foreign currencies are translated into sterling and recorded at the rate of exchange ruling at the transaction date. Monetary assets and liabilities denominated in a foreign currency are translated into sterling at the exchange rates ruling at the period end. Any differences are taken to the profit and loss account.

Raw Materials Futures Contracts

The futures market is used in order to stabilise the long term price of major raw materials. Profits and losses related to futures contracts are taken in the period in which the related raw material is physically used.

Leased Assets

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors.

All other leases are treated as 'operating leases'. Annual rentals are charged to the profit and loss account in the period in which they are incurred.

Cashflow Statement

Under Financial Reporting Standard 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

Pension Costs and Other Personnel Obligations

Pension costs are charged systematically to the profit and loss account over the average remaining future service lives of employees. The pension cost is assessed in accordance with the advice of independent, qualified actuaries. The liability for other personnel obligations including the Long Term Sickness and Disability Scheme and post-retirement benefits have been recognised using a valuation provided by an independent actuary.

Related Party Transactions

As the Company is a wholly owned subsidiary of Nestlé Holdings (U.K.) PLC, more than 90% of the voting rights of which are controlled by Nestlé S.A., the Company has taken advantage of the exemption contained in FRS8 and has therefore not disclosed transactions or balances with entities which form part of the Group (or investees of the Group qualifying as related parties).

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

2. TURNOVER

The geographical analysis of turnover by destination is as follows:

	<u>2001</u> £m	<u>2000</u> £m
United Kingdom	1,428.4	1,450.5
Europe	113.7	118.2
Other	<u>93.6</u>	<u>83.1</u>
	<u>1,635.7</u>	<u>1,651.8</u>

In accordance with the exceptions allowed under paragraph 55(5) of Sch 4 of the Companies Act 1985 and paragraph 6 of SSAP 25, no further segmental information is provided.

3. STAFF NUMBERS AND COSTS

The average number of people employed by the Company during the year, analysed by category, was as follows:

	<u>2001</u> No.	<u>2000</u> No.
Production	6,658	7,615
Administration, distribution and sales	<u>2,602</u>	<u>2,659</u>
	<u>9,260</u>	<u>10,274</u>

The aggregate payroll costs of these persons were as follows:

	<u>2001</u> £m	<u>2000</u> £m
Wages and salaries	226.1	242.7
Social security costs	18.3	20.3
Other pension costs	<u>5.6</u>	<u>10.3</u>
	<u>250.0</u>	<u>273.3</u>

The above costs exclude any amounts for redundancy.

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

4. EXCEPTIONAL ITEMS

The exceptional costs detailed below are included in the cost of sales expense heading in the Profit and Loss Account on page 6.

	<u>2001</u> £m	<u>2000</u> £m
Provision for factory re-organisation and closure	-	1.9
	<u>-</u>	<u>1.9</u>

5. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	<u>2001</u> £m	<u>2000</u> £m
Other interest receivable	1.3	0.1

6. INTEREST PAYABLE AND SIMILAR CHARGES

	<u>2001</u> £m	<u>2000</u> £m
On borrowings from group undertakings	60.9	61.6
On borrowing repayable within five years otherwise than by instalments	20.1	24.8
	<u>81.0</u>	<u>86.4</u>

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

7. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The profit is arrived at after charging the following:

	<u>2001</u> £m	<u>2000</u> £m
Depreciation - Owned Assets	74.7	86.4
- Leased Assets	<u>-</u>	<u>-</u>
	74.7	86.4
Hire of plant and machinery (including operating lease charges)	2.0	1.8
Other hire charges including operating leases	0.4	0.3
Auditors' remuneration - Audit	0.4	0.4
- Other Services	-	0.1
Directors' emoluments (note 8)	2.0	2.0
Exceptional loss on disposal of businesses	16.0	-
Exceptional loss on disposal of fixed assets	-	10.3

8. DIRECTORS' EMOLUMENTS

One director discharged his duties mainly outside the United Kingdom and received no emoluments in respect of services provided to the Company. The emoluments of the remaining directors excluding pension contributions were £1,994,556 (2000: £1,975,610) and pension contributions paid by the Company were £112,375 (2000: £91,554). The emoluments of the highest paid director were:

	<u>2001</u> £	<u>2000</u> £
Highest paid director	333,756	439,342

At 31 December 2001 the highest paid director had accrued pension benefits of £75,575 (2000: £201,228). At that date eight other directors had retirement benefits accruing under a defined benefit pension scheme.

9. DIRECTORS' INTERESTS

None of the directors had any interests recorded in the Statutory Register at 31 December 2001 (2000: Nil).

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

10. TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge for the year is as follows:

	<u>2001</u> £m	<u>2000</u> £m
U.K. Corporation Tax at 30.0%	15.7	54.0
Deferred tax on short term timing differences	<u>15.5</u>	<u>(0.6)</u>
	31.2	53.4
U.K. Corporation Tax relating to prior years	(2.6)	(38.3)
Deferred tax relating to prior years	<u>(1.3)</u>	<u>(0.1)</u>
	<u>27.3</u>	<u>15.0</u>

11. TANGIBLE FIXED ASSETS

	Land & buildings £m	Plant & machinery £m	Payments on account £m	Total £m
Cost				
At 31 December 2000	238.9	948.5	2.7	1,190.1
Additions	7.9	58.0	0.7	66.6
Disposals	(3.9)	(82.2)	-	(86.1)
Transfers	(0.4)	3.1	(2.7)	-
At 31 December 2001	<u>242.5</u>	<u>927.4</u>	<u>0.7</u>	<u>1170.6</u>
At cost	195.8	927.4	0.7	1123.9
At professional valuation	46.7	-	-	46.7
	<u>242.5</u>	<u>927.4</u>	<u>0.7</u>	<u>1170.6</u>
Depreciation				
At 31 December 2000	66.7	618.9	-	685.6
Charged in the year	9.0	65.7	-	74.7
Disposals	(1.4)	(68.2)	-	(69.6)
At 31 December 2001	<u>74.3</u>	<u>616.4</u>	<u>-</u>	<u>690.7</u>
Net book value at 31 December 2001	<u>168.2</u>	<u>311.0</u>	<u>0.7</u>	<u>479.9</u>
Net book value at 31 December 2000	<u>172.2</u>	<u>329.6</u>	<u>2.7</u>	<u>504.5</u>

The net book value of land and buildings comprises:

	<u>2001</u> £m	<u>2000</u> £m
Freehold	<u>168.2</u>	<u>172.2</u>
	<u>168.2</u>	<u>172.2</u>

There are no tangible fixed assets held under finance leases. The revaluation of land and buildings was carried out at 31 December 1986. In accordance with FRS 15, the revalued amounts will be carried forward.

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

12. INVESTMENTS

	Subsidiary Undertakings £m	Participating Interests £m	Other Investments £m	Total £m
Cost or directors' valuation at 31 December 2000	1.0	22.3	0.3	23.6
Share of profits in associate	-	9.1	-	9.1
Cost or directors' valuation at 31 December 2001	1.0	31.4	0.3	32.7
Provision at 31 December 2001	(0.2)	-	-	(0.2)
Net book value at 31 December 2001	0.8	31.4	0.3	32.5
Net book value at 31 December 2000	0.8	22.3	0.3	23.4

Participating Interests

The Company has a 50% associated interest in Cereal Partners U.K., a partnership with General Mills Canada Corporation and General Mills Products Corp., trading as General Mills North America Affiliates, which is involved in the manufacture and sale of cereal products. A share of any taxation charge or credit relating to the results of the investment is borne directly by the Company. The investment in the associate is stated at its net asset value.

Cereal Partners U.K. is based at the following address:

1 Bridge Road,
Welwyn Garden City,
Herts., AL7 1RR.

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

13. SUBSIDIARY UNDERTAKINGS

No consolidation of the subsidiary undertakings' accounts has been made in the accounts of the Company as it is a wholly-owned subsidiary of a company registered in England and Wales.

At 31 December 2001 the Company had the following subsidiary undertakings, all of which are registered in England and Wales:

<u>Name</u>	<u>Proportion of Ordinary Share Capital Owned</u>	<u>Activities</u>
Rowlaw No 9 Ltd.	100%	Dormant
Raw Products Limited	75%	Agency

14. STOCKS

	<u>2001</u> £m	<u>2000</u> £m
Engineering Stores	10.9	12.3
Raw materials and consumables	28.0	31.2
Work in progress	27.7	19.1
Finished goods and goods for resale	<u>75.8</u>	<u>94.2</u>
	<u>142.4</u>	<u>156.8</u>

15. DEBTORS

	<u>2001</u> £m	<u>2000</u> £m
Due within one year:		
Trade debtors	158.5	191.4
Amounts owed by group undertakings	29.2	50.4
Other debtors	34.6	19.9
Prepayments and accrued income	7.8	11.9
Deferred tax	-	9.4
Due after more than one year:		
Deferred tax	-	<u>2.1</u>
	<u>230.1</u>	<u>285.1</u>

Included in other debtors is a prepayment of £20.2mio (2000: £7.1mio accrual), in respect of pension contributions to the Nestlé UK Pension Fund.

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

16. CREDITORS: Amounts falling due within one year

	<u>2001</u>	<u>2000</u>
	£m	£m
Bank loans and overdrafts	308.2	324.1
Trade creditors	16.0	19.3
Amounts owed to group undertakings	-	106.5
Amounts owed to associated undertakings	14.7	14.4
Other creditors including taxation and social security	59.0	97.6
Accruals and deferred income	<u>198.0</u>	<u>179.8</u>
	<u>595.9</u>	<u>741.7</u>

Included in other creditors is an amount of £1.7m (2000: £2.6m) in respect of unfunded pension liabilities.

17. CREDITORS: Amounts falling due after more than one year

	<u>2001</u>	<u>2000</u>
	£m	£m
Amounts owed to group undertakings	840.0	840.0
Accruals and deferred income	-	12.6
Obligations under finance leases (note 22)	<u>-</u>	<u>-</u>
	<u>840.0</u>	<u>852.6</u>

18. PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred Tax £m	Post-retirement Benefits £m	Total £m
At 31 December 2000	(11.5)	7.0	(4.5)
Utilised	-	(1.2)	(1.2)
Charge for year	<u>14.2</u>	<u>1.6</u>	<u>15.8</u>
At 31 December 2001	<u>2.7</u>	<u>7.4</u>	<u>10.1</u>

Deferred taxation - at 31 December 2001 the maximum unprovided potential liability on timing differences amounted to £24.2m (2000: £19.4m) made up as follows:

	<u>2001</u>	<u>2000</u>
	£m	£m
The excess of net book value of the Company's assets (after deduction of the deferred income account) over the corresponding tax written down value	<u>24.2</u>	<u>19.4</u>

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

19. CALLED UP SHARE CAPITAL

	Authorised		Allotted and fully paid	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
	£m	£m	£m	£m
Ordinary shares of 50p each (320 million authorised, 240.8 million allotted and fully paid)	<u>160.0</u>	<u>160.0</u>	<u>120.4</u>	<u>120.4</u>

20. RESERVES

	Share Premium Account £m	Profit and Loss Account £m
At 31 December 2000	71.0	(818.3)
Retained profit for the year	-	63.9
Goodwill eliminated on disposal	-	1.9
At 31 December 2001	<u>71.0</u>	<u>(752.5)</u>

The profit and loss account reserve includes amounts relating to goodwill written off. The total profit and loss account is analysed as follows:

	Distributable Profit £m	Goodwill (Unrealised) £m	Total £m
At 31 December 2000	48.4	(866.7)	(818.3)
Retained profit for the year	63.9	-	63.9
Goodwill eliminated on disposal	-	1.9	1.9
Goodwill on disposal previously amortised through Distributable Profit	0.4	(0.4)	-
Goodwill amortised	<u>(28.5)</u>	<u>28.5</u>	-
At 31 December 2001	<u>84.2</u>	<u>(836.7)</u>	<u>(752.5)</u>

The cumulative amount of goodwill resulting from acquisitions in earlier financial years which has been written off against distributable reserves, at 31 December 2001 is £286.6mio (2000: £256.6mio).

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

21. CAPITAL AND OTHER FINANCIAL COMMITMENTS

Items for which no provision has been made in these accounts were as follows:

	<u>2001</u> £m	<u>2000</u> £m
CAPITAL COMMITMENTS		
Contracted	4.0	6.3
OTHER FINANCIAL COMMITMENTS		
Forward contracts for:		
Raw Materials	69.1	28.6
Foreign Currency	202.2	214.5

22. LEASING COMMITMENTS

There are no future minimum lease payments to which the company is committed at 31 December 2001 under finance leases (2000 : NIL)

Commitments Under Operating Leases

At 31 December 2001 the company has annual commitments under non-cancellable operating leases as set out below:

	<u>2001</u>		<u>2000</u>	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Operating Leases which expire:				
Within one year	-	0.6	-	-
Within two to five years inclusive	0.1	0.4	1.0	1.1
After five years	<u>2.3</u>	<u>-</u>	<u>2.3</u>	<u>-</u>
	<u>2.4</u>	<u>1.0</u>	<u>3.3</u>	<u>1.1</u>

23. CONTINGENT LIABILITIES

Apart from indemnities given in the normal course of business totalling £13.4m (2000: £15.4m), there are no contingent liabilities at 31 December 2001 (2000: £NIL).

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

24. PENSION SCHEME

The Nestlé UK Pension Fund

The Company operates a defined benefit pension scheme, the Nestlé UK Pension Fund (NUKPF) primarily for employees of the Company. The assets of the Fund are held separately from those of the Company in an independently administered fund, invested in a wide range of stock market securities and property.

Pension costs are charged to the profit and loss account so as to spread the cost of the pensions over employees' working lives. They are determined by a qualified actuary on the basis of triennial valuations using the projected unit method.

The pension cost charge for the year was £6.5m (2000: £7.7m). The amount actually paid by the Company to the Fund during the year was £33.8m (2000: £NIL). The end of year balance sheet prepayment is £20.2m (2000: a provision of £7.1m). The pension cost charge includes an allowance for the amortisation of the existing surplus as a percentage of pay over 11 years.

The funding policy is prudent and aims to maintain a significant margin over the Minimum Funding Requirement laid down by the Pensions Act 1995. Accordingly, the actuarial valuation for funding purposes and the accounting cost are determined using different actuarial assumptions.

The most recent formal actuarial valuation of the Fund's financial position was at 5 April 2001. The market value of the fund's assets at that date was £2.1 billion and, measured on the actuarial assumptions used for accounting purposes, this represented 113% of the value of the benefits that had accrued to members, after allowing for expected future increases in pay and pensions.

The assumptions which have the most significant effect on the results are those relating to the discount rate and the rate of increase in pay and pensions. The assumptions used were;

Discount Rate	
-pre retirement	7.5% pa (2000: 8.5% pa)
-post retirement	6.25% pa (2000: 7.75% pa)
Salary Growth	4.0% pa (2000: 5.5% pa)
Pension Increases	2.5% pa (2000: 3.5% pa)

Disclosure re FRS17 : Retirement Benefits

The Company participates in the Nestlé UK Pension Fund which is a defined benefit pension scheme.

The Company is unable to identify its share of the underlying assets and liabilities of the fund, as each employer is exposed to actuarial risks associated with the current and former employees of other entities participating in the Fund. An update of the whole fund was prepared at 31st December 2001 by an independent qualified actuary for the purposes of FRS17. At that date there was an excess of assets over liabilities of £50.2 million. There are no implications for Nestlé UK Ltd because contributions are assessed without reference to FRS17 accounting surplus or deficit.

Further details concerning the methods and assumptions can be found in the notes to the accounts of Nestlé Holdings (U.K.) PLC, the holding company.

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

25. RELATED PARTY TRANSACTIONS

The Nestlé Pension Investment Pool ("the Pool") is the vehicle through which the investments relating to the pension arrangements of Nestlé UK Ltd ("NUKL") are managed and administered. The Trustee of the Pool is Nestlé UK Pension Trust Ltd ("NUKPTL").

The costs of investment management are borne by the Pool but certain investment management expenses are paid by NUKL on behalf of the Pool and the Pool then reimburses NUKL with the cost of those expenses. For the year ended 31 December 2001, these expenses reimbursed to NUKL amounted to £933,831. Of this figure, £879,880 represents the salaries and other benefits of the staff of the Pool investment department.

Some costs are paid by NUKL on behalf of the Nestlé UK Pension Fund (NUKPF), Cereal Partners Pension Fund and Nestlé Ireland Pension Fund and these pension funds reimburse NUKL with the cost of these expenses. For the year ended 31 December 2001 the total expenses reimbursed amounted to £1,797,117. Of this figure £772,982 relates to salaries and other benefits of the staff and £1,024,135 to other administrative costs.

26. OTHER PERSONNEL OBLIGATIONS

The Company provides certain post-retirement benefits, mainly healthcare, to 279 (2000: 283) pensioned former employees. The plan is unfunded and the liability in respect of these benefits is assessed by a qualified independent actuary and included in provisions (note 18). The major assumptions were:

discount rate:	5.5% (2000: 5.75%)
assumed medical inflation:	5.0% (2000: 5.5%)

The Company also has a Long Term Sickness and Disability Scheme. The reserve in respect of any liabilities is assessed by a qualified, independent actuary and is included in creditors: amounts falling due after more than one year (note 17). The major assumptions were:

discount rate:	5.5%	(2000: 5.75%)
assumed inflation of benefits:	2.5%	(2000: 3.0%)

27. POST BALANCE SHEET EVENTS

As a result of a business reorganisation commenced in 2002, a review has been conducted of the value of assets in Nestlé UK Limited. Having compared the results of this review against estimated recoverable amounts, an impairment adjustment in excess of £35 million will be made against the carrying value of the fixed assets with a corresponding charge to the profit and loss account in 2002.

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

28. ULTIMATE HOLDING COMPANY

Nestlé Holdings (U.K.) PLC, which is registered in England and Wales, is the holding company for the UK group and prepares group accounts which are delivered to the Registrar of Companies for England and Wales.

The ultimate holding company is Nestlé S.A., CH-1800 Vevey, Switzerland which is incorporated in Switzerland, from which copies of their group accounts can be obtained.