

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

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2002



NESTLÉ UK LTD

Directors' Report for the year ended 31 December 2002

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 2002.

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

Following the announcement to sell its ambient food business, Crosse & Blackwell, Sun-Pat, Gale's, Branston and Sarson's and the announcement to close the Aylesbury factory, the Company hit important targets for customer service, market shares and overhead costs. The Company continues its efforts to concentrate on its core Beverage, Confectionery and Chilled Dairy businesses.

ACQUISITIONS AND DISPOSALS

The following acquisitions and disposals took place during the year:

- On March 31st 2002, the Company transferred the warehouse at Scunthorpe to the third party management of SCS(N).
- On April 2nd 2002, the Company acquired part of the Chilled Dairy business of Northern Foods plc – including the Ski and Munch Bunch brands, and Northern Foods' factory at Cuddington, Cheshire.
- On April 5th 2002, the Company sold the Omagh factory to Lakeland Dairies (Omagh) Limited.
- On April 30th 2002, the Company sold the Flavourings Ingredients Specialities (FIS) UK business to Givaudan.
- On May 27th 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.
- In November 2002, the Company announced proposals to reorganise its milk supply, processing and packaging operations in Ashbourne, Dalston and Girvan.

DIRECTORS

The following were Directors throughout the period:

R. Cordier

D.C. Hudson

F.M. Kendrick

A.D. Koutaissoff (resigned 30 November 2002)

P.W. Mayes (resigned 31 December 2002)

G. Millar

M. Nekola (resigned 30 April 2002)

J.M. Sunley

A.J. Sykes

C.M. Tyas

Two directors exercised share options during 2002 granted by Nestlé SA.

NESTLÉ UK LTD

Directors' Report for the year ended 31 December 2002

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 (2001 : £nil).

RESERVES

The retained profit of £107.2m 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 7 days (2001: 10 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.

NESTLÉ UK LTD

Directors' Report for the year ended 31 December 2002

EMPLOYEES - continued

Occupational Health and Safety continued to receive the same high profile in 2002 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 Company's Management Committee monthly meeting agenda with reports received from the Head of Group Occupational Health and Safety.

Proactive preventative Occupational Health and Safety systems auditing continues and demonstrates increasing performance and the development of plans to continue with continual increase in performance.

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 the Company to reduce carbon emissions were met at the first milestone stage in October 2002. This means that the Company will continue to receive a discount from CCL until the next milestone in 2004.

Under the Packaging Waste Regulations the Company is obliged to ensure recovery and recycling of over one quarter of all the packaging placed on the UK market. This was successfully achieved through the membership of Valpak who on behalf of the Company discharged the recovery and recycling obligations. In addition, projects that will reduce by 322 tonnes the amount of packaging used by the Company have been identified.

Compliance with environmental regulatory requirements were met and the Company continued with the training programme for those responsible for environmental management.

CHARITABLE DONATIONS

The Company made charitable donations totalling £1,400,000 during the period (2001: £1,110,000). 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.

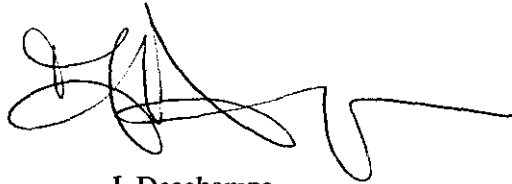
NESTLÉ UK LTD

Directors' Report for the year ended 31 December 2002

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 handwritten signature in black ink, appearing to be 'I. Deschamps', written over a horizontal line.

I. Deschamps
Secretary

St. George's House
Croydon, CR9 1NR
28 July, 2003

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

NESTLÉ UK LIMITED

We have audited the financial statements on pages 7 to 26.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors

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 judgements 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 company's affairs as at 31st December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

WAB Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

LONDON
29 July, 2003

NESTLÉ UK LTD

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2002

	Note	<u>2002</u> £m	<u>2001*</u> £m
Turnover	2	1,580.0	1,635.7
Cost of sales	4	<u>(1,196.8)</u>	<u>(1,246.1)</u>
Gross profit		383.2	389.6
Distribution costs		(117.3)	(117.1)
Administrative expenses		(117.5)	(94.7)
Amortisation of goodwill		<u>(3.1)</u>	<u>-</u>
Operating profit		145.3	177.8
Exceptional profit/(loss) on disposal of business	7	38.1	(16.0)
Income from participating interests		8.6	9.1
Other interest receivable and similar income	5	1.0	1.3
Interest payable and similar charges	6	<u>(74.1)</u>	<u>(81.0)</u>
Profit on ordinary activities before taxation	7	118.9	91.2
Tax on profit on ordinary activities	10	<u>(11.7)</u>	<u>(32.0)</u>
Profit for the financial year		107.2	59.2
Dividends paid		<u>-</u>	<u>-</u>
Retained profit for the financial year	23	<u>107.2</u>	<u>59.2</u>

* As restated for FRS19, see note 21

All turnover and operating profit arose from continuing activities.

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

The notes on pages 10 to 26 form part of these financial statements.

NESTLÉ UK LTD

BALANCE SHEET AS AT 31 DECEMBER 2002

	Note	<u>2002</u> £m	<u>2002</u> £m	<u>2001*</u> £m	<u>2001*</u> £m
Fixed Assets					
Intangible assets	11		78.3		-
Tangible assets	12		401.4		479.9
Investments	13		<u>41.1</u>		<u>32.5</u>
			520.8		512.4
Current Assets					
Stocks	16	126.4		142.4	
Debtors	17	298.6		230.1	
Cash at bank and in hand		<u>-</u>		<u>-</u>	
		425.0		372.5	
Creditors: amounts falling due within one year	18	<u>(575.0)</u>		<u>(595.9)</u>	
Net current liabilities			<u>(150.0)</u>		<u>(223.4)</u>
Total assets less current liabilities			370.8		289.0
Creditors: amounts falling due after more than one year	19	(840.0)		(840.0)	
Provision for liabilities and charges	20	<u>(8.8)</u>		<u>(34.2)</u>	
			<u>(848.8)</u>		<u>(874.2)</u>
Net liabilities			<u>(478.0)</u>		<u>(585.2)</u>
Capital and reserves					
Called up share capital	22		120.4		120.4
Share premium account	23		71.0		71.0
Profit and loss account	23		<u>(669.4)</u>		<u>(776.6)</u>
Total equity shareholders' funds			<u>(478.0)</u>		<u>(585.2)</u>

* As restated for FRS19, see note 21

The notes on pages 10 to 26 form part of these financial statements.

Approved by the Board on
and signed on its behalf by

28 July, 2003



G. Millar
Director

NESTLÉ UK LTD

STATEMENT OF RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2002

	<u>2002</u>	<u>2001</u> as restated*
	£m	£m
Profit for the financial year	107.2	59.2
Prior year adjustment in respect of adoption of FRS19	(24.2)	-
Total recognised gains and (losses) since last annual report	<u>83.0</u>	<u>59.2</u>

* As restated for FRS19, see note 21

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2002

	<u>2002</u>	<u>2001*</u>
	£m	£m
Profit/(Loss) for the financial year	107.2	59.2
Opening shareholders' funds	(585.2)	(626.9)
Adjustment for pre. 2001 FRS19 impact	-	(19.4)
Goodwill transferred to Profit and Loss account	-	1.9
Closing shareholders' funds	<u>(478.0)</u>	<u>(585.2)</u>

* As restated for FRS19, see note 21

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The following principal accounting policies have been applied consistently with the exception of the adoption of FRS19, 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.

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.

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 tax is provided in respect of all timing differences that have originated, but not reversed, by the Balance Sheet date except as allowed by FRS19 'Deferred Tax' as detailed below.

Deferred tax is measured on a non-discounted basis at the rates that are expected to apply in the periods in which timing differences reverse. This is in accordance with FRS 19, the effect of which has been adopted for the first time in these accounts and the comparative figures have been restated accordingly (see note 21).

It is not anticipated that any significant taxation will become payable on the sale of tangible and intangible fixed assets, as taxation on assets used for the purpose of the company's trade are expected to be deferred indefinitely or eliminated by capital losses.

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.

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>2002</u>	<u>2001</u>
	£m	£m
United Kingdom	1,387.9	1,428.4
Europe	102.6	113.7
Other	<u>89.5</u>	<u>93.6</u>
	<u>1,580.0</u>	<u>1,635.7</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>2002</u>	<u>2001</u>
	No.	No.
Production	6,123	6,658
Administration, distribution and sales	<u>2,298</u>	<u>2,602</u>
	<u>8,421</u>	<u>9,260</u>

The aggregate payroll costs of these persons were as follows:

	<u>2002</u>	<u>2001</u>
	£m	£m
Wages and salaries	221.4	226.1
Social security costs	17.4	18.3
Other pension costs	<u>9.5</u>	<u>5.6</u>
	<u>248.3</u>	<u>250.0</u>

The above costs exclude amounts for redundancy totalling £18.2m (2001: £9.5m).

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

4. EXCEPTIONAL ITEMS

The exceptional costs detailed below are included in the appropriate expense headings in the Profit and Loss Account before operating profit on page 7.

	2002			
	Cost of Sales	Distribution Costs	Administrative Expenses	Total
	£m	£m	£m	£m
Restructuring following acquisition	3.9	5.4	1.2	10.5
Restructuring following disposal	2.8	3.1	3.0	8.9
Factory / divisional re-organisation	14.6	10.2	3.4	28.2
Provision for factory re-organisation	<u>25.8</u>	<u>-</u>	<u>-</u>	<u>25.8</u>
	<u>47.1</u>	<u>18.7</u>	<u>7.6</u>	<u>73.4</u>

All exceptional costs in 2001 were disclosed on the face of the profit and loss account.

5. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	<u>2002</u> £m	<u>2001</u> £m
Other interest receivable	<u>1.0</u>	<u>1.3</u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	<u>2002</u> £m	<u>2001</u> £m
On borrowings from group undertakings	60.9	60.9
On borrowings repayable within five years otherwise than by instalments	13.2	20.1
	<u>74.1</u>	<u>81.0</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>2002</u>	<u>2001</u>
	£m	£m
Depreciation - Owned Assets	57.9	74.7
Impairment - Owned Tangible Fixed Assets	41.6	-
Amortisation of goodwill	3.1	-
Hire of plant and machinery		
(including operating lease charges)	1.6	2.0
Other hire charges including operating leases	0.3	0.4
Auditors' remuneration - Audit	0.4	0.4
- Other Services	0.1	-
Directors' emoluments (note 8)	2.2	2.0
Exceptional (net profit) on disposal of businesses	(54.5)	-
(relate to sale of Omagh factory, ambient and FIS business)		
Exceptional restructuring costs*	16.4	16.0

*2002 costs relate mainly to restructure of remaining NUKL grocery business following sale of ambient business

The exceptional items above have not impacted on the annual tax credit as the profits are sheltered by capital losses brought forward.

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 £2,187,808 (2001: £1,994,556) and pension contributions payable by the Company were £140,669 (2001: £112,375). The emoluments of the highest paid director were:

	<u>2002</u>	<u>2001</u>
	£	£
Highest paid director	415,188	333,756

At 31 December 2002 the highest paid director had accrued pension benefits of £89,427 (2001: £75,575). At that date six 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 2002 (2001: Nil).

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

10. TAX ON PROFIT ON ORDINARY ACTIVITIES

ANALYSIS OF CHARGE IN PERIOD

	<u>2002</u>		<u>2001</u> (as restated)	
	£m	£m	£m	£m
UK Corporation tax				
Current tax on income for period	39.0		15.7	
Adjustment in respect of prior periods	<u>(1.2)</u>		<u>(2.6)</u>	
Total current tax		37.8		13.1
Deferred tax (see note 21)				
Deferred tax for the current year	(24.8)		20.1	
Deferred tax relating to prior years	<u>(1.3)</u>		<u>(1.2)</u>	
		(26.1)		18.9
Tax charge on profit on ordinary activities		<u>11.7</u>		<u>32.0</u>

FACTORS AFFECTING THE TAX CHARGE FOR THE CURRENT PERIOD

The current tax charge for the period is higher (2001: lower) than the standard rate of corporation tax in the UK: 30% (2001: 30%). The differences are explained below:

	<u>2002</u> £m	<u>2001</u> £m
Current Tax Reconciliation		
Profit on ordinary activities before tax	<u>118.9</u>	<u>91.2</u>
Current tax charge @ 30% (2001:30%)	35.7	27.3
Effects of:		
Expenses not deductible for tax purposes	1.2	2.0
Income not taxable	(22.7)	(0.5)
Depreciation for period in excess of capital allowances	14.7	2.3
Pension scheme contributions not paid	2.7	(8.8)
Other timing differences	7.4	(6.6)
Adjustments to tax charge in respect of previous periods	<u>(1.2)</u>	<u>(2.6)</u>
Total current tax charge (see above)	<u>37.8</u>	<u>13.1</u>

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

11. INTANGIBLE ASSETS

	Goodwill £m	Total £m
Cost or Valuation		
At 31 December 2001	-	-
Additions	81.4	81.4
At 31 December 2002	81.4	81.4
Amortisation		
At 31 December 2001	-	-
Charge for year	3.1	3.1
At 31 December 2002	3.1	3.1
Net book value at 31 December 2002	78.3	78.3
Net book value at 31 December 2001	-	-

The above goodwill arose on the acquisition of the Ski Chilled Dairy business.

12. TANGIBLE ASSETS

	Land & buildings £m	Plant & machinery £m	System Development Costs £m	Payments on account £m	Total £m
Cost or Valuation					
At 31 December 2001	242.5	927.4	-	0.7	1,170.6
Additions	3.7	51.9	2.4	1.0	59.0
Disposals	(19.3)	(100.9)	-	-	(120.2)
Transfers	1.6	(0.9)	-	(0.7)	-
At 31 December 2002	228.5	877.5	2.4	1.0	1,109.4
At cost	181.8	877.5	2.4	1.0	1,062.7
At professional valuation	46.7	-	-	-	46.7
	228.5	877.5	2.4	1.0	1,109.4
Depreciation					
At 31 December 2001	74.3	616.4	-	-	690.7
Charged in the year	9.1	48.8	-	-	57.9
Impairment in the year	2.0	39.6	-	-	41.6
Disposals	(6.2)	(76.0)	-	-	(82.2)
At 31 December 2002	79.2	628.8	-	-	708.0
Net book value at 31 December 2002	149.3	248.7	2.4	1.0	401.4
Net book value at 31 December 2001	168.2	311.0	-	0.7	479.9

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

12. TANGIBLE ASSETS (continued)

The net book value of land and buildings comprises:

	<u>2002</u> £m	<u>2001</u> £m
Freehold	<u>149.3</u>	<u>168.2</u>
	<u>149.3</u>	<u>168.2</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 the transitional rules of FRS 15, the revalued amounts will be carried forward.

13. INVESTMENTS

	Subsidiary Undertakings £m	Participating Interests £m	Other Investments £m	Total £m
Cost or directors' valuation at 31 December 2001	1.0	31.4	0.3	32.7
Share of profits in associate	-	8.6	-	8.6
Cost or directors' valuation at 31 December 2002	1.0	40.0	0.3	41.3
Provision at 31 December 2002	(0.2)	-	-	(0.2)
Net book value at 31 December 2002	<u>0.8</u>	<u>40.0</u>	<u>0.3</u>	<u>41.1</u>
Net book value at 31 December 2001	<u>0.8</u>	<u>31.4</u>	<u>0.3</u>	<u>32.5</u>

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)

14. ACQUISITIONS

On 2 April 2002, Nestlé UK Ltd acquired part of the Chilled Dairy business of Northern Foods plc – including the Ski and Munch Bunch brands, and Northern Foods' factory at Cuddington, Cheshire.

The requirement to show the summarised profit and loss account from the beginning of the business's financial year to the date of acquisition shows nil for 2002 as the financial year began on 1 April 2002 and Nestlé UK Ltd acquired the business on 2 April 2002.

The previous year profit and loss account for the Ski and Munch Bunch business as provided by Northern Foods plc (based on management accounting information) is as follows:

	Period ended 31 st March 2002 £m
Turnover	<u>76.1</u>
Operating Profit	<u>8.5</u>
Profit on ordinary activities before taxation	8.5
Tax on ordinary activities	<u>(2.6)</u>
Profit on ordinary activities after taxation	<u>5.9</u>

There were no recognised gains or losses other than the profit for the financial year in both the current and preceding year to our knowledge.

The assets and liabilities of the Ski and Munch Bunch brands, and Northern Foods' factory at Cuddington as acquired are set out below:

	Book Value £m	Adjustment £m	Fair Value £m
Tangible Fixed Assets	19.4	(10.6)	8.8
Current Assets – Stock	<u>2.4</u>	<u>(0.6)</u>	<u>1.8</u>
Total Net Assets	21.8	(11.2)	10.6
Goodwill			<u>81.4</u>
Satisfied by			
Cash			91.3
Acquisition expenses			<u>0.7</u>
			<u>92.0</u>

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

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15. 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 2002 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

16. STOCKS

	<u>2002</u>	<u>2001</u>
	<u>£m</u>	<u>£m</u>
Engineering Stores	11.2	10.9
Raw materials and consumables	20.2	28.0
Work in progress	23.7	27.7
Finished goods and goods for resale	<u>71.3</u>	<u>75.8</u>
	<u>126.4</u>	<u>142.4</u>

17. DEBTORS

	<u>2002</u>	<u>2001</u>
	<u>£m</u>	<u>£m</u>
Due within one year:		
Trade debtors	170.2	158.5
Amounts owed by group undertakings	41.6	29.2
Other debtors	67.5	34.6
Prepayments and accrued income	<u>19.3</u>	<u>7.8</u>
	<u>298.6</u>	<u>230.1</u>

Included in other debtors is a prepayment of £39.8m (2001: £20.2m), in respect of pension contributions to the Nestlé UK Pension Fund.

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

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18. CREDITORS: Amounts falling due within one year

	<u>2002</u>	<u>2001</u>
	£m	£m
Bank loans and overdrafts	166.5	308.2
Trade creditors	9.0	16.0
Amounts owed to associated undertakings	36.0	14.7
Other creditors including taxation and social security	128.3	59.0
Accruals and deferred income	<u>235.2</u>	<u>198.0</u>
	<u>575.0</u>	<u>595.9</u>

Included in other creditors is an amount of £2.0m (2001: £1.7m) in respect of unfunded pension liabilities.

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

	<u>2002</u>	<u>2001</u>
	£m	£m
Amounts owed to group undertakings	<u>840.0</u>	<u>840.0</u>

20. PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred Tax*	Post-retirement Benefits	Total
	£m	£m	£m
At 31 December 2001	26.8	7.4	34.2
Contributions	-	(0.5)	(0.5)
P&L Charge for year	(26.1)	1.2	(24.9)
At 31 December 2002	<u>0.7</u>	<u>8.1</u>	<u>8.8</u>

* As restated for FRS19, see note 21

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

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21. DEFERRED TAXATION

	<u>2002</u> £m	<u>2001*</u> £m
At beginning of year	26.8	7.9
P&L Charge/(Credit)	<u>(26.1)</u>	<u>18.9</u>
At end of year	<u>0.7</u>	<u>26.8</u>

The balance at 31 December 2002 is included in Provisions for Liabilities and Charges (see note 20).

The deferred taxation liability consists of the following amounts:

	<u>2002</u> £m	<u>2001*</u> £m
Fixed asset timing differences	7.9	24.1
Pension accruals	3.0	5.7
Other timing differences	<u>(10.2)</u>	<u>(3.0)</u>
	<u>0.7</u>	<u>26.8</u>

The adoption of FRS19 "Deferred Taxation" resulted in a change in the Group's accounting policy as a result of which 2001 comparative figures have been restated as follows:

	Profit for Year £m	Deferred Tax Liability £m	P&L Account Reserve £m	Share - holders' Funds £m
31 December 2001 as previously reported	63.9	(2.7)	(752.5)	(561.1)
Adoption of FRS19 at 1 January 2001	-	(19.4)	(19.4)	(19.4)
During year 2001	<u>(4.7)</u>	<u>(4.7)</u>	<u>(4.7)</u>	<u>(4.7)</u>
31 st December 2001 restated balances	<u>59.2</u>	<u>(26.8)</u>	<u>(776.6)</u>	<u>(585.2)</u>

The impact of adopting FRS19 on the 2002 tax charge is a credit of £16.3m.

* As restated for FRS19

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

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22. CALLED UP SHARE CAPITAL

	Authorised		Allotted and fully paid	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</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>

23. RESERVES

	Share Premium Account £m	Profit and Loss Account* £m
At 31 December 2001	71.0	(776.6)
Retained profit for the year	-	<u>107.2</u>
At 31 December 2002	<u>71.0</u>	<u>(669.4)</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 2001	60.1	(836.7)	(776.6)
Retained profit for the year	107.2	-	107.2
Goodwill amortised	<u>(28.5)</u>	<u>28.5</u>	-
At 31 December 2002	<u>138.8</u>	<u>(808.2)</u>	<u>(669.4)</u>

The cumulative amount of goodwill resulting from acquisitions prior to 1st January 1999 which has been written off against distributable reserves, at 31 December 2002 is £315.1m (2001: £286.6m).

* As restated for FRS19, see note 21

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

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24. CAPITAL AND OTHER FINANCIAL COMMITMENTS

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

	<u>2002</u> £m	<u>2001</u> £m
CAPITAL COMMITMENTS		
Contracted	8.2	4.0
OTHER FINANCIAL COMMITMENTS		
Forward Contracts		
Raw Materials	43.3	69.1
Foreign Currency	130.1	202.2

25. LEASING COMMITMENTS

There are no future minimum lease payments to which the company is committed at 31 December 2002 under finance leases (2001 : NIL)

Commitments Under Operating Leases

At 31 December 2002 the company has annual commitments under non-cancellable operating leases as set out below:

	<u>2002</u>		<u>2001</u>	
	Land & buildings £m	Other £m	Land & buildings £m	Other £m
Operating leases which expire:				
Within one year	0.1	0.2	-	0.6
Within two to five years inclusive	0.1	0.1	0.1	0.4
After five years	<u>2.3</u>	<u>-</u>	<u>2.3</u>	<u>-</u>
	<u>2.5</u>	<u>0.3</u>	<u>2.4</u>	<u>1.0</u>

26. CONTINGENT LIABILITIES

Apart from indemnities given in the normal course of business totalling £13.4m (2001: £13.4m), there are no contingent liabilities at 31 December 2002 (2001: £NIL).

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NOTES TO THE FINANCIAL STATEMENTS

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27. PENSION SCHEME

The Nestlé UK Pension Fund

The Company operates a defined benefit pension scheme, the Nestlé UK Pension Fund (NUKPF) primarily for the 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 pensions over employees' working lives. They are determined by a qualified actuary on the basis of triennial valuations using the project unit method.

The pension cost charge for the year was £9.3m (2001: £6.5m). The amount actually paid by the Company to the Fund during the year was £0.3m (2001: £33.8m) with a further £28.6m paid in January 2003 which was accrued at the 31st December 2002. The end of year balance sheet prepayment is £39.8m (2001: a prepayment of £20.2m). The pension charge includes an allowance for the amortisation of surplus as a percentage of pay over 11 years.

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

The most recent funding actuarial valuation of the Fund's financial position was at 5th April 2001. At that date, the market value of the Fund's assets amounted to £2.1 billion and the value of these assets represented 96% of the value of the benefits that had accrued to members, after allowing for expected future increases in pay and pensions.

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

Discount Rate		
- pre retirement	7.5% pa	(2001 : 7.5% pa)
- post retirement	6.25% pa	(2001 : 6.25% pa)
Increases in pay	3.5% pa	(2001 : 4.0% pa)
Pension increases	2.5% pa	(2001 : 2.5% pa)

Disclosure re FRS17 : Retirement Benefits

Nestlé UK Ltd participates in the Nestlé UK Pension Fund which is a defined benefit scheme.

Nestlé UK Ltd 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 2002 by an independent qualified actuary for the purposes of FRS17. At that date there was a shortfall of assets against liabilities of £541.1 million. This has no direct implication for funding for Nestlé UK because contributions are assessed without reference to the FRS17 accounting surplus or deficit.

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

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28. 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 2002, these expenses reimbursed to NUKL amounted to £985,959. Of this figure, £925,294 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 2002 the total expenses reimbursed amounted to £2,191,997. Of this figure £872,443 relates to salaries and other benefits of the staff and £1,319,554 to other administrative costs.

29. OTHER PERSONNEL OBLIGATIONS

The Company provides certain post-retirement benefits, mainly healthcare, to 269 (2001: 279) 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 20). The major assumptions were:

discount rate:	5.6% (2001: 5.5%)
assumed medical inflation:	4.8% (2001: 5.0%)

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 within one year (note 18). The major assumptions were:

discount rate:	5.6%	(2001: 5.5%)
assumed inflation of benefits:	2.3%	(2001: 2.5%)

30. POST BALANCE SHEET EVENTS

A review of the Company's pension scheme has taken place and the results were announced in April 2003. The key points to be noted are that the defined benefit scheme is being retained, past service benefits are unaffected and there are some changes to both employer and employee contribution rates.

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

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31. 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.