Arthur Andersen

Ferrero UK Limited

Consolidated accounts 31 December 1998 together with directors' and auditors' reports

Registered number: 876127

Directors' report

For the year ended 31 December 1998

The directors present their annual report on the affairs of the group, together with the accounts and auditors' report, for the year ended 31 December 1998.

Principal activities

The principal activities of the group continue to be the importation and sale of confectionery products of the Ferrero group.

Business review

The group had a turnover for the financial year of £57,934,000 (1997: £48,278,000) and profit after tax for the financial year of £2,411,000 (1997: £2,135,000). The increase in profitability is due to increased sales and improved margins.

Ferrero Manufacturing Limited, the wholly owned subsidiary of Ferrero UK Limited, ceased trading on 31 December 1994. In the year to 31 December 1998 it made a loss of £2,000 (1997: £112,000).

The directors expect the general level of activity to remain constant in 1999.

Year 2000

The company's internal computer systems are Year 2000 compliant. A review of all other internal systems which may be affected by the Year 2000 issue is currently underway and the directors are confident that any associated costs incurred will be minimal.

Dividends

The directors do not recommend payment of a dividend in respect of the year ended 31 December 1998 (1997: £Nil).

Directors and their interests

The directors who served during the year were as follows:

MLG Dillon	(Chairman)
M Caretto	
A Cosman	(appointed 15 June 1998, resigned 30 April 1999)
S Torcelli	
M Galli	(resigned 26 November 1998)
A Vanoli	(appointed 26 November 1998)
E Salsotto	(appointed 26 November 1998)
S Delanoce	(appointed 26 November 1998)

The directors who held office at 31 December 1998 had no beneficial interests in the shares of the company or any group company which require to be disclosed under Schedule 7(2) of the Companies Act 1985.

Directors' report (continued)

Directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements 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 accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group 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 group and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

By order of the Board

N Cody
Secretary

Ferrero UK Limited
Awberry Court
Hatters Lane
Croxley Business Park
Watford
Herts WD1 8YJ

13 July 1999

ARTHUR ANDERSEN

Auditors' report

St Albans

To the Shareholders of Ferrero UK Limited:

We have audited the accounts on pages 4 to 17 which have been prepared under the historical cost convention and the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors
As described on page 2 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the company and of the group, 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 accounts 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 accounts.

Opinion
In our opinion the accounts give a true and fair view of the state of the affairs of the company and of the group at 31 December 1998 and of the group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors

3 Victoria Square
Victoria Street
St Albans
Herts AL1 3TF

13 July 1999

Consolidated profit and loss account

For the year ended 31 December 1998

	Notes	1998 £000	1997 £000
Turnover	2	57,934	48,278
Cost of sales		(32,776)	(26,699)
Gross Profit		25,158	21,579
Other operating expenses (net)	3	(22,947)	(19,574)
Operating profit		2,211	2,005
Interest receivable	4	292	208
Interest payable and similar charges	5	(2)	(12)
Profit on ordinary activities before taxation	6	2,501	2,201
Tax on profit on ordinary activities	8	(90)	(66)
Profit on ordinary activities after taxation, being retained profit for the year transferred to reserves	18	2,411	2,135

There are no recognised gains or losses in either year other than the profit for each year.

The accompanying notes are an integral part of this consolidated profit and loss account.

Consolidated balance sheet

31 December 1998

	Notes	1998 £000	1997 £000
Fixed assets			
Tangible assets	10	211	213
Current assets			
Stocks	12	3,091	4,093
Debtors	13	14,384	12,127
Cash and short term deposits		5,062	2,416
		22,537	18,636
Creditors: amounts falling due within one year	15	(16,008)	(14,598)
Net current assets		6,529	4,038
Total assets less current liabilities		6,740	4,251
Provisions for liabilities and charges	16	(636)	(558)
Net assets		6,104	3,693
Capital and reserves			
Called up share capital	17	15,000	15,000
Profit and loss account	18	(8,896)	(11,307)
Equity shareholders' funds	19	6,104	3,693

The financial statements on pages 4 to 17 were approved by the Board on 13 July 99

Director Albuoli

Director

The accompanying notes are an integral part of this consolidated balance sheet.

Company balance sheet
31 December 1998

	Notes	1998 £000	1997 £000
Fixed assets			
Tangible assets	10	211	213
Current assets			
Stocks	12	3,091	4,093
Debtors	13	14,335	12,112
Cash and short term deposits		5,061	2,382
		22,487	18,587
Creditors: amounts falling due within one year	15	(15,839)	(14,550)
Net current assets		6,648	4,037
Total assets less current liabilities		6,859	4,250
Provisions for liabilities and charges	16	(636)	(440)
Net assets		6,223	3,810
Capital and reserves			
Called up share capital	17	15,000	15,000
Profit and loss account	18	(8,777)	(11,190)
Equity shareholders' funds	19	6,223	3,810

The financial statements on pages 4 to 17 were approved by the Board on 13 July 99

Director Albuoli

Director [illegible]

The accompanying notes are an integral part of this balance sheet.

Notes to the accounts

For the year ended 31 December 1998

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below:

a) Basis of accounting

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

b) Basis of consolidation

The group accounts consolidate the accounts of Ferrero UK Limited and its subsidiary undertaking drawn up to 31 December each year. Intra-group sales, profits and balances are eliminated on consolidation.

In the company's accounts, the investment in the subsidiary undertaking is stated at cost less amounts written off.

No profit and loss account is presented for Ferrero UK Limited as provided by Section 230 of the Companies Act 1985. The company's profit for the financial year determined in accordance with the Act was £2,413,000 (1997: £2,160,000).

c) Tangible fixed assets

Fixed assets are shown at cost less accumulated depreciation.

Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset on a straight line basis over its estimated useful life at the following rates:

Fixtures and fittings	- 10 - 30%
Leasehold improvements	- $14\frac{1}{4}$%
Plant and machinery	- 20 - $33\frac{1}{3}$%

d) Stocks

Stocks are stated at the lower of cost and net realisable value.

Cost is determined on a first in first out basis and includes duty, freight and insurance. Net realisable value is based on estimated normal selling price less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow moving or defective items where appropriate.

Notes to the accounts (continued)

1 Accounting policies (continued)

e) Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation (which arises from differences in the timing of the recognition of items, principally depreciation, in the accounts and by the tax legislation) is calculated on the liability method. Deferred taxation is provided to the extent that the directors believe it is likely to become payable in the foreseeable future.

f) Pension Costs

The expected cost of providing pension benefits is charged to the profit and loss account so as to spread the cost over the expected remaining service lives of employees. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet.

g) Foreign currencies

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates in the month of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

h) Turnover

Group turnover comprises the value of sales (excluding VAT, trade and volume-based discounts and intra-group transactions) of goods and services in the normal course of business.

i) Leases

Rentals under operating leases are charged on a straight line basis over the lease term, even if the payments are not made on such a basis.

j) Returns provision

Provision is made for anticipated returns of goods with limited shelf lives.

k) Vacant property provision

Provision is made for the anticipated irrecoverable future rental and related costs of leasehold property where it is vacant or surplus to the group's requirements or where the leasehold property has been sublet at a loss.

l) Cash flow statement

The company has not prepared a cash flow statement as it meets the exemption criteria for applying FRS1 (Revised). The applicable criteria are: more than 90% of the company's voting rights are controlled within the Ferrero International SA group; its financial statements are included in the group consolidated financial statements; and these group financial statements are publicly available.

Notes to the accounts (continued)

2 Turnover

Geographical segments by destination

	1998 £'000	1997 £'000
United Kingdom	55,369	47,722
Rest of Europe	2,565	556
	57,934	48,278

1998 sales and distribution costs have been reduced by £2,153,000 (1997: £2,114,000) to reflect volume based trade discounts given to customers.

3 Other operating expenses (net)

	1998			1997		
	Continuing £000	Discontinued £000	Total £000	Continuing £000	Discontinued £000	Total £000
Turnover	57,934	-	57,934	48,278	-	48,278
Cost of sales	(32,776)	-	(32,776)	(26,699)	-	(26,699)
Gross profit	25,158	-	25,158	21,579	-	21,579
Distribution costs	17,389		17,389	14,311	-	14,311
Administrative expenses	5,556	204	5,760	5,148	210	5,358
Other income	-	(202)	(202)	-	(95)	(95)
Net operating expenses	22,945	2	22,947	19,459	115	19,574
Operating profit/(loss)	2,213	(2)	2,211	2,120	(115)	2,005

4 Interest receivable and similar income

	1998 £000	1997 £000
Bank interest receivable	292	208

5 Interest payable and similar charges

	1998 £000	1997 £000
On bank loans, overdrafts and other loans repayable within 5 years, not by instalments	2	12

Notes to the accounts (continued)

6 Profit on ordinary activities before taxation is stated after charging/(crediting):

			1998 £000	1997 £000
Depreciation of tangible fixed assets			86	44
Hire of plant and machinery under operating leases			404	349
Other operating lease rentals			403	435
Loss on disposal of fixed assets			3	-
Foreign currency translation gains			(351)	(259)
Rent payable			202	98
Auditors' remuneration	-	audit services	23	21
	-	non-audit services	2	1

7 Staff costs

The monthly average number of employees of the group including executive directors was:	1998 Number	1997 Number
Sales	32	28
Marketing and market research	19	17
Logistics	7	6
General management	3	3
Administration	13	14
	74	68

Employee costs during the year amounted to:	1998 £000	1997 £000
Wages and salaries	2,176	2,079
Social security	235	231
Other pension costs (see Note 20c)	273	221
	2,684	2,531

Directors' remuneration	1998 £000	1997 £000
Directors of the company received the following remuneration:		
Emoluments	180	189
Fees paid to third parties	1	1

The emoluments of the highest paid director amounted to £118,403 (1997: £187,755).

Notes to the accounts (continued)

8 Tax on profit on ordinary activities

The tax charge is based on the profit for the year and comprises::	1998 £000	1997 £000
Corporation tax at 31% (1997: 31%)	90	66

No corporation tax in respect of operating profit was payable in either year due to the offset of brought forward trading losses. At the year end, these losses amounted to £10 million (1997: £12 million). The tax charge is based on interest receivable. There was no potential deferred tax liability at either year end.

9 Related party transactions

One of the company's directors, MLG Dillon, is also a partner in the company's legal advisors, Taylor Joynson Garrett. During the year, Taylor Joynson Garrett received £153,594 (1997: £95,313) in respect of legal services undertaken on behalf of the company.

Transactions within the Ferrero International SA group have not been disclosed as the company meets the exemption criteria for FRS 8. The applicable criteria are: 90% or more of the company's voting rights are controlled within the group; the company's financial statements are included in the group consolidated financial statements; and the consolidated financial statements are publicly available.

Notes to the accounts (continued)

10 Tangible fixed assets

Group	Leasehold Improvements £000	Plant and machinery £000	Fixtures and fittings £000	Total £000
Cost				
1 January 1998	166	743	302	1,211
Additions	76	71	4	151
Disposals	(81)	(297)	-	(378)
31 December 1998	161	517	306	984
Depreciation				
1 January 1998	80	618	300	998
Charge	33	52	1	86
Disposals	(81)	(230)	-	(311)
31 December 1998	32	440	301	773
Net book value				
1 January 1998	86	125	2	213
31 December 1998	129	77	5	211

Company	Leasehold Improvements £000	Plant and machinery £000	Fixtures and fittings £000	Total £000
Cost				
1 January 1998	166	406	156	728
Additions	76	71	4	151
Disposals	(81)	(297)	-	(378)
31 December 1998	161	180	160	501
Depreciation				
1 January 1998	80	281	154	515
Charge	33	52	1	86
Disposals	(81)	(230)	-	(311)
31 December 1998	32	103	155	290
Net book value				
Beginning of year	86	125	2	213
31 December 1998	129	77	5	211

Notes to the accounts (continued)

11 Fixed asset investments

At 31 December 1998 the company held 100% of the allotted ordinary share capital of Ferrero Manufacturing Limited. This company, which is incorporated in England and Wales, ceased to trade on 31 December 1994.

Full provision against the original investment of £200,000 was made in previous years.

12 Stocks

	Group and company	
	1998	1997
	£000	£000
Finished goods and goods for resale	3,091	4,093

13 Debtors

	Group		Company	
	1998	1997	1998	1997
	£000	£000	£000	£000
Amounts falling due within one year:				
Trade debtors	13,319	10,985	13,256	10,959
Amounts owed by fellow subsidiary undertakings	808	735	868	793
Loans to employees (Note 14)	37	43	37	43
Other debtors	-	100	-	100
Prepayments and accrued income	220	164	174	117
	14,384	12,027	14,335	12,012
Amounts falling due after more than one year:				
Other debtors	-	100	-	100
	14,384	12,127	14,335	12,112

14 Loans to employees

Loans amounting to £37,000 (1997: £43,000) were outstanding at 31 December 1998 in respect of employees of the company. The loans are necessary to enable these people to perform their duties.

Notes to the accounts (continued)

15 Creditors: Amounts falling due within one year

	Group		Company	
	1998	1997	1998	1997
	£000	£000	£000	£000
Bank loans and overdrafts	-	702	-	702
Trade creditors	4,340	2,731	4,340	2,731
Amounts owed to parent and other group undertakings	6,904	5,992	6,904	5,992
Corporation tax	135	104	135	104
Other taxation and social security	1,041	1,096	1,041	1,096
Accruals and deferred income	1,742	2,021	1,573	1,973
Year end discount accrual	1,846	1,952	1,846	1,952
	16,008	14,598	15,839	14,550

16 Provisions for liabilities and charges

Group

	Returns Provision	Property Provision	Total
	£000	£000	£000
Balance at 1 January 1998	332	226	558
Charged to profit and loss account	519	128	647
Utilised in year	(451)	(118)	(569)
Balance at 31 December 1998	400	236	636

Company

	Returns Provision	Property Provision	Total
Balance at 1 January 1998	332	108	440
Charged to profit and loss account	519	128	647
Utilised in year	(451)	-	(451)
Balance at 31 December 1998	400	236	636

17 Called up share capital

	1998	1997
	£000	£000
Authorised		
15,000,000 ordinary shares of £1 each	15,000	15,000
Allotted, called-up and fully paid		
15,000,000 ordinary shares of £1 each	15,000	15,000

Notes to the accounts (continued)

18 Reserves

	Group	Company
	Profit and loss account	Profit and loss account
	£000	£000
Balance at 1 January 1998	(11,307)	(11,190)
Retained profit for the year	2,411	2,413
Balance at 31 December 1998	(8,896)	(8,777)

19 Reconciliation of movements in shareholders' funds

	Group		Company	
	1998	1997	1998	1997
	£000	£000	£000	£000
Profit for the financial year, being net addition to shareholders' funds	2,411	2,135	2,413	2,160
Opening shareholders' funds	3,693	1,558	3,810	1,650
Closing shareholders' funds	6,104	3,693	6,223	3,810

Notes to the accounts (continued)

20 Guarantees and other financial commitments

a) Capital commitments

The group had no capital commitments at the year end (1997: £Nil).

b)Lease commitments

The group leases certain land and buildings under non-cancellable operating leases. The rents payable under these leases are subject to renegotiation at various intervals specified in the leases.

In addition, the group has entered into non-cancellable operating leases in respect of plant and machinery.

The minimum annual rentals under the foregoing leases are as follows:

Group	1998		1997	
	Property £000	Plant and machinery £000	Property £000	Plant and machinery £000
Operating leases which expire:				
-within one year	-	100	-	47
-between two and five years	-	242	78	250
-after five years	388	-	310	-
	388	342	388	297

Company	1998		1997	
	Property £000	Plant and Machinery £000	Property £000	Plant and machinery £000
Operating leases which expire:				
-within one year	-	100	-	47
-between two and five years	-	242	78	250
-after five years	186	-	108	-
	186	342	186	297

20 Guarantees and other financial commitments (continued)

c) Pensions

The group participates in a funded defined benefit scheme operated by Legal & General Actuarial Services providing benefits based on final pensionable salary. The assets of the scheme are held separately from those of the group.

The total pension cost for the group was £273,000 (1997: £221,000). The pension cost is assessed in accordance with the advice of an independent qualified actuary using the projected unit method. The latest actuarial valuation of the scheme was at 1 April 1997. The assumptions that have the most significant effect on the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment return would be 8% per annum, that salary increases would average 6% per annum and that present and future pensions would increase at the rate of 6% per annum.

At the date of the latest actuarial valuation, the market value of the assets of the scheme was £2,325,000 and the actuarial value of the assets was sufficient to cover 113% of the benefits which had accrued to members, after allowing for expected future increases in earnings. The contributions of the company will be 12.6% until the next actuarial valuation.

21 Ultimate holding company

The directors regard Ferrero International SA as the immediate and ultimate parent company. Its principal place of business is 6E, Route de Treves, L-2633, Senningerberg, Luxembourg and consolidated accounts may be obtained from Tribunal d'arrondissement de at à Luxembourg, Registre de Commerce et des Societes de Luxembourg, BP 15, L-2010 Luxembourg.

During the year the share capital of the company was transferred from Ferrero International BV (a company registered in The Netherlands) to Ferrero Luxembourg SA (a company registered in Luxembourg), which subsequently changed its name to Ferrero International SA.