

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

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2004



NESTLÉ UK LTD

Directors' Report for the year ended 31 December 2004

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 2004.

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 Company continues its efforts to concentrate on its core Beverage, Confectionery, Out of Home and Chilled Dairy businesses, building a greater focus on Health, Nutrition and Wellness by making healthier easier.

DIRECTORS

The following were Directors throughout the period:

S. Barbour (appointed 30/09/2004)

D.C. Hudson

F.M. Kendrick

G. Millar (resigned 30/09/2004)

J.M. Sunley (resigned 06/01/2004)

A.J. Sykes

C.M. Tyas

A. Willi

Three directors (2003: Nil) exercised share options during 2004 granted by Nestlé SA.

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 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 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.

NESTLÉ UK LTD

Directors' Report for the year ended 31 December 2004 (continued)

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 (2003 : £nil).

RESERVES

The retained profit for the year of £50.1m 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 (2003: 7 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 continued to receive the same high profile in 2004 with a commitment across all areas of the business to sustain the continual improvement in performance.

2004 demonstrated a further 20% fall in Total Accident frequency rates and a 16% fall in Notifiable Accident rates (rates based upon number of accidents per 100,000 hours worked). There were no fatalities during the year. 2004 saw a major initiative to reduce accidents involving Contractors on Nestlé sites with the introduction of new policies and procedures. This resulted in a 40% reduction in accidents involving Contractors.

NESTLÉ UK LTD

Directors' Report for the year ended 31 December 2004 (continued)

There were 2 HSE Improvement notices served during the year due to issues surrounding vehicle movements on one site. Nestlé in the UK continues to work with the HSE in a 'partnership programme' designed to facilitate better understanding of both parties of our operations and further improvement in accident reduction.

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. A major initiative has been commenced to address behavioural aspects of safety management and is currently being rolled out to all sites.

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.

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.

Compliance with environmental regulatory requirements were met and the Company introduced a new reporting tool for measuring and monitoring environmental key performance indicators.

CHARITABLE DONATIONS

The Company made charitable donations totalling £1.9m during the period (2003: £1.8m). No contributions were made for political purposes.

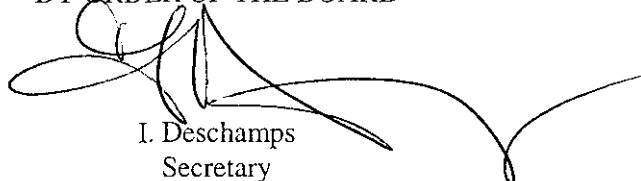
AUDITOR

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



I. Deschamps
Secretary

St. George's House, Croydon, CR9 1NR
31 May 2005

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

NESTLÉ UK LIMITED

We have audited the financial statements on pages 6 to 23.

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 2, 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 31 December 2004 and of its profit 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
31 May 2005

NESTLÉ UK LTD

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004	2003
		£m	£m
Turnover	2	1,299.5	1,344.3
Cost of sales	4	(969.7)	(1,003.0)
Gross profit		329.8	341.3
Distribution costs	4	(113.5)	(107.3)
Administrative expenses	4	(95.5)	(123.3)
Amortisation of goodwill	11	(4.1)	(4.1)
Operating profit		116.7	106.6
Exceptional profit/(loss) on disposal of business	7	1.2	(2.4)
Income from shares in Group undertakings		0.7	4.6
Income from participating interests		9.5	8.3
Other interest receivable and similar income	5	0.1	0.8
Interest payable and similar charges	6	(66.5)	(68.7)
Profit on ordinary activities before taxation	7	61.7	49.2
Tax on profit on ordinary activities	10	(11.6)	(14.2)
Profit for the financial year		50.1	35.0
Dividends paid		-	-
Retained profit for the financial year	21	50.1	35.0

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 9 to 23 form part of these financial statements.


NESTLÉ UK LTD

BALANCE SHEET AS AT 31 DECEMBER 2004

	Note	<u>2004</u> £m	<u>2004</u> £m	<u>2003</u> £m	<u>2003</u> £m
Fixed Assets					
Intangible assets	11		70.2		74.2
Tangible assets	12		368.4		389.2
Investments	13		190.7		191.2
			<u>629.3</u>		<u>654.6</u>
Current Assets					
Stocks	15	143.7		128.5	
Debtors	16	335.5		312.8	
Cash at bank and in hand		-		-	
		<u>479.2</u>		<u>441.3</u>	
Creditors: amounts falling due within one year	17	<u>(636.9)</u>		<u>(676.0)</u>	
Net current liabilities			<u>(157.7)</u>		<u>(234.7)</u>
Total assets less current liabilities			471.6		419.9
Creditors: amounts falling due after more than one year	18	(840.0)		(840.0)	
Provision for liabilities and charges	19	<u>(24.5)</u>		<u>(22.9)</u>	
Net liabilities			<u>(864.5)</u>		<u>(862.9)</u>
			<u>(392.9)</u>		<u>(443.0)</u>
Capital and reserves					
Called up share capital	20		120.4		120.4
Share premium account	21		71.0		71.0
Profit and loss account	21		<u>(584.3)</u>		<u>(634.4)</u>
Total equity shareholders' funds			<u>(392.9)</u>		<u>(443.0)</u>

The notes on pages 9 to 23 form part of these financial statements.

Approved by the Board on 31 May 2005
and signed on its behalf by


S. Barbour
Director

NESTLÉ UK LTD

STATEMENT OF RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2004

	<u>2004</u>	<u>2003</u>
	£m	£m
Profit for the financial year	<u>50.1</u>	<u>35.0</u>
Total recognised gains since last annual report	<u>50.1</u>	<u>35.0</u>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2004

	<u>2004</u>	<u>2003</u>
	£m	£m
Profit for the financial year	50.1	35.0
Opening shareholders' funds	<u>(443.0)</u>	<u>(478.0)</u>
Closing shareholders' funds	<u>(392.9)</u>	<u>(443.0)</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, except as noted below.

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 and certain promotional expenditure.

Depreciation

Depreciation is provided to write off the cost of all tangible fixed assets (including system development costs), 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, in the case of system development costs, from the date of implementation of the related system, 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
System Development Costs			20%	per annum

Revaluation

The Company is adopting 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. A movement between distributable profits and goodwill representing an amortisation charge over 40 years is reconciled at note 21. 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.

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

1. ACCOUNTING POLICIES (continued)

Stocks and Work-in-Progress

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

Consolidation

The Financial statements present information about the company as an individual undertaking and not as a group. The company is exempt from preparing group accounts under section 228 of the Companies Act as it is a wholly owned subsidiary of Nestlé Holdings (U.K.) PLC which prepares group accounts.

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 Corporation tax rates that are expected to apply in the periods in which timing differences reverse.

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.

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

1. ACCOUNTING POLICIES (continued)

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 Related Party Disclosures 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).

2. TURNOVER

The geographical analysis of turnover by destination is as follows:

	<u>2004</u>	<u>2003</u>
	£m	£m
United Kingdom	1,142.1	1,178.9
Europe	97.5	101.2
Other	59.9	64.2
	<u>1,299.5</u>	<u>1,344.3</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>2004</u>	<u>2003</u>
	No.	No.
Production	3,622	4,948
Administration, distribution and sales	2,324	2,194
	<u>5,946</u>	<u>7,142</u>

The aggregate payroll costs of these persons were as follows:

	<u>2004</u>	<u>2003</u>
	£m	£m
Wages and salaries	196.8	206.9
Social security costs	17.0	17.6
Other pension costs	49.1	66.3
	<u>262.9</u>	<u>290.8</u>

The above costs exclude amounts for redundancy totalling £45.0m (2003: £20.4m)

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 6.

	Cost of Sales	Distribution	Administrative	Total
	£m	Costs	Expenses	
	£m	£m	£m	£m
Factory / divisional re-organisation	<u>33.7</u>	<u>0.4</u>	<u>8.5</u>	<u>42.6</u>
	<u>33.7</u>	<u>0.4</u>	<u>8.5</u>	<u>42.6</u>

5. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	<u>2004</u>	<u>2003</u>
	£m	£m
Other interest receivable	<u>0.1</u>	<u>0.8</u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	<u>2004</u>	<u>2003</u>
	£m	£m
On borrowings from group undertakings	57.0	60.9
On bank loans and overdrafts	<u>9.5</u>	<u>7.8</u>
	<u>66.5</u>	<u>68.7</u>

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

10. TAX ON PROFIT ON ORDINARY ACTIVITIES

ANALYSIS OF CHARGE IN PERIOD

	<u>2004</u>		<u>2003</u>	
	£m	£m	£m	£m
UK Corporation tax				
Current tax on income for period	8.3		0.2	
Adjustment in respect of prior periods	<u>2.0</u>		<u>0.2</u>	
Total current tax		10.3		0.4
Deferred tax (see note 19)				
Deferred tax for the current year	4.4		14.3	
Deferred tax relating to prior years	<u>(3.1)</u>		<u>(0.5)</u>	
		1.3		13.8
Tax charge on profit on ordinary activities		<u>11.6</u>		<u>14.2</u>

FACTORS AFFECTING THE TAX CHARGE FOR THE CURRENT PERIOD

The current tax charge for the period is lower (2003: lower) than the standard rate of corporation tax in the UK: 30% (2003: 30%). The differences are explained below:

	<u>2004</u>	<u>2003</u>
	£m	£m
Current Tax Reconciliation		
Profit on ordinary activities before tax	<u>61.7</u>	<u>49.2</u>
Current tax charge @ 30% (2003: 30%)	18.5	14.8
Effects of:		
Expenses not deductible for tax purposes	0.7	(0.3)
Income not taxable	(6.5)	-
Depreciation for period less than capital allowances	(6.5)	(9.1)
Pension scheme contributions payable / (prepaid)	2.3	(5.2)
Other timing differences	(0.2)	-
Adjustments to tax charge in respect of previous periods	<u>2.0</u>	<u>0.2</u>
Total current tax charge (see above)	<u>10.3</u>	<u>0.4</u>

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

11. INTANGIBLE ASSETS

	Goodwill £m
Cost or Valuation	
At 31 December 2003	81.4
Additions	-
At 31 December 2004	<u>81.4</u>
Amortisation	
At 31 December 2003	7.1
Charge for year	4.1
At 31 December 2004	<u>11.2</u>
Net book value at 31 December 2004	<u>70.2</u>
Net book value at 31 December 2003	<u>74.3</u>

12. TANGIBLE ASSETS

	Land & buildings	Plant & machinery	System Development Costs	Payments on account	Total
	£m	£m	£m	£m	£m
Cost or Valuation					
At 31 December 2003	228.9	850.2	13.7	-	1,092.8
Additions	2.5	33.0	6.9	0.1	42.5
Disposals	(9.5)	(35.8)	-	-	(45.3)
Transfers	3.1	(3.1)	-	-	-
At 31 December 2004	<u>225.0</u>	<u>844.3</u>	<u>20.6</u>	<u>0.1</u>	<u>1,090.0</u>
At cost	225.0	844.3	20.6	0.1	1,090.0
At professional valuation	-	-	-	-	-
	<u>225.0</u>	<u>844.3</u>	<u>20.6</u>	<u>0.1</u>	<u>1,090.0</u>
Depreciation					
At 31 December 2003	88.8	614.8	-	-	703.6
Charged in the year	6.6	45.0	-	-	51.6
Impairment in the year	3.8	3.9	-	-	7.7
Disposals	(8.0)	(33.3)	-	-	(41.3)
At 31 December 2004	<u>91.2</u>	<u>630.4</u>	<u>-</u>	<u>-</u>	<u>721.6</u>
Net book value at 31 December 2004	<u>133.8</u>	<u>213.9</u>	<u>20.6</u>	<u>0.1</u>	<u>368.4</u>
Net book value at 31 December 2003	<u>140.1</u>	<u>235.4</u>	<u>13.7</u>	<u>-</u>	<u>389.2</u>

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

12. TANGIBLE ASSETS (continued)

The impairment charge in the year includes the reversal of a £4.1m impairment provision made in 2002. The related Business Units have remained fully operational from 2002 to date.

The net book value of land and buildings comprises:

	<u>2004</u> £m	<u>2003</u> £m
Freehold	133.8	140.1
	<u>133.8</u>	<u>140.1</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 2003	177.7	13.4	0.3	191.4
Return of CPUK participations	-	(10.0)	-	(10.0)
Share of profits in associate	-	9.5	-	9.5
Cost or directors' valuation at 31 December 2004	<u>177.7</u>	<u>12.9</u>	<u>0.3</u>	<u>190.9</u>
Provision at 31 December 2003	0.2	-	-	0.2
Provision at 31 December 2004	<u>0.2</u>	<u>-</u>	<u>-</u>	<u>0.2</u>
Net book value at 31 December 2004	<u>177.5</u>	<u>12.9</u>	<u>0.3</u>	<u>190.7</u>
Net book value at 31 December 2003	<u>177.5</u>	<u>13.4</u>	<u>0.3</u>	<u>191.2</u>

Participating Interests

The Company has a 50% associated interest in Cereal Partners U.K., a partnership with General Mills Canada Inc. 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.

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

13. INVESTMENTS (continued)

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

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

14. SUBSIDIARY UNDERTAKINGS

No consolidation of the subsidiary undertaking's 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 2004 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>
Raw Products Limited	75%	Agency
Daflaw Ltd	100%	Holding Company
Dallaw Ltd	100%	Holding Company

15. STOCKS

	<u>2004</u>	<u>2003</u>
	£m	£m
Engineering Stores	12.0	10.5
Raw materials and consumables	23.6	27.6
Work in progress	29.2	27.7
Finished goods and goods for resale	78.9	62.7
	<u>143.7</u>	<u>128.5</u>

16. DEBTORS

	<u>2004</u>	<u>2003</u>
	£m	£m
Due within one year:		
Trade debtors	189.7	185.1
Amounts owed by group undertakings	62.2	45.4
Other debtors	78.6	62.6
Prepayments and accrued income	5.0	19.7
	<u>335.5</u>	<u>312.8</u>

Included in other debtors is a prepayment of £62.1m (£43.5m net of deferred tax) (2003: £29.9m (£20.9m net of deferred tax)), in respect of pension contributions to the Nestlé UK Pension Fund.

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

17. CREDITORS: Amounts falling due within one year

	<u>2004</u>	<u>2003</u>
	£m	£m
Bank loans and overdrafts	103.4	319.8
Trade creditors	17.4	11.8
Amounts owed to associated undertakings	69.7	72.9
Other creditors including taxation and social security	305.8	74.7
Accruals and deferred income	140.6	196.8
	<u>636.9</u>	<u>676.0</u>

Included in other creditors is an accrual of £15.9m (2003: £15.7m) in respect of the long term sickness and disability scheme run by the Group and an amount of £2.6m (2003: £2.2m) in respect of unfunded pension liabilities.

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

	<u>2004</u>	<u>2003</u>
	£m	£m
Amounts owed to group undertakings	<u>840.0</u>	<u>840.0</u>

19. PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred Tax £m	Post-retirement Benefits £m	Total £m
At 31 December 2003	14.5	8.4	22.9
Contributions	-	(0.6)	(0.6)
P&L Charge for year	1.3	0.9	2.2
At 31 December 2004	<u>15.8</u>	<u>8.7</u>	<u>24.5</u>

The deferred taxation liability consists of the following amounts:

	<u>2004</u>	<u>2003</u>
	£m	£m
Fixed asset timing differences	18.0	14.2
Pension accruals	5.8	8.1
Other timing differences	(8.0)	(7.8)
	<u>15.8</u>	<u>14.5</u>

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

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20. CALLED UP SHARE CAPITAL

	Authorised		Allotted and fully paid	
	2004	2003	2004	2003
	£m	£m	£m	£m
Ordinary shares of 50p each	160.0	160.0	120.4	120.4
(320 million authorised, 240.8 million allotted and fully paid)				

21. RESERVES

	Share Premium Account £m	Profit and Loss Account £m
At 31 December 2003	71.0	(634.4)
Retained profit for the year	-	50.1
At 31 December 2004	71.0	(584.3)

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 2003	145.3	(779.7)	(634.4)
Retained profit for the year	50.1	-	50.1
Goodwill amortised	(28.5)	28.5	-
At 31 December 2004	166.9	(751.2)	(584.3)

The cumulative amount of goodwill resulting from acquisitions prior to 1 January 1999 which has been written off against distributable reserves, at 31 December 2004 is £372.1m (2003: £343.6m).

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

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22. CAPITAL AND OTHER FINANCIAL COMMITMENTS

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

	<u>2004</u> £m	<u>2003</u> £m
CAPITAL COMMITMENTS		
Contracted	2.1	5.7
OTHER FINANCIAL COMMITMENTS		
Forward Contracts		
Raw Materials	66.5	22.1
Foreign Currency	243.2	186.6

23. LEASING COMMITMENTS

There are no future minimum lease payments to which the company is committed at 31 December 2004 under finance leases (2003 : NIL).

Commitments Under Operating Leases

At 31 December 2004 the company has annual commitments under non-cancellable operating leases as set out below:

	<u>2004</u>		<u>2003</u>	
	Land & buildings £m	Other £m	Land & buildings £m	Other £m
Operating leases which expire:				
Within one year	-	-	-	0.3
Within two to five years inclusive	-	0.8	-	-
After five years	2.4	-	2.4	-
	<u>2.4</u>	<u>0.8</u>	<u>2.4</u>	<u>0.3</u>

24. CONTINGENT LIABILITIES

Apart from indemnities given in the normal course of business totalling £16.3m (2003: £18.0m), there are no contingent liabilities at 31 December 2004 (2003: £NIL).

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

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25. SSAP24 PENSIONS DISCLOSURE

Within the UK, the Group operates a defined benefit pension scheme, the Nestlé UK Pension Fund (the "Fund"). The majority of employees are members of this arrangement.

Nestlé UK Pension Fund

The assets of the Fund are held separately from those of the Company in an independently administered fund.

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 projected unit method.

The pension cost charge for the year was £49.1m (2003: £66.3m). The fall reflects a lower pensionable payroll, the results of an up to date valuation of the Fund and a significant reduction in the fund deficit owing to better investment performance. The pension charge includes an allowance for the amortisation of deficit as a percentage of pensionable payroll over 11.5 years.

The amount of contributions to the Fund during the year was £81.3m (2003: £85.0m), which included contributions due but not yet paid by the year end of £39.3m. The end of year balance sheet prepayment is £62.1m (2003: a prepayment of £29.9m).

The Company has established a funding policy that aims, as a minimum, to target the assets required to meet future liabilities were the Fund to discontinue and to be run as a closed scheme. 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 2004. At that date, the market value of the Fund's assets amounted to £1.9 billion and the value of these assets represented 91% of the assessed value of the benefits that had accrued to members, using the method and assumptions used for accounting purposes (including allowance 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 for accounting purposes were:

Discount rate		
- pre retirement	7.5% pa	(2003: 7.0% pa)
- post retirement	6.25% pa	(2003: 5.75% pa)
Increases in pay	3.8% pa	(2003: 3.3% pa)
Pension increases	2.6% pa	(2003: 2.3% pa)

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

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25. PENSION SCHEME (continued)

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 31 December 2004 by an independent qualified actuary for the purposes of FRS17. At that date there was a shortfall of assets against liabilities of £712.4 million. This has no direct implication for funding for Nestlé UK Ltd because contributions are assessed without reference to the FRS17 accounting surplus or deficit. Full disclosure is made in the holding company accounts.

26. 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 2004, these expenses reimbursed to NUKL amounted to £1,174,779. Of this figure, £1,110,514 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 2004 the total expenses reimbursed amounted to £2,348,670. Of this figure £1,009,140 relates to salaries and other benefits of the staff and £1,324,928 to other administrative costs.

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

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27. OTHER PERSONNEL OBLIGATIONS

The Company provides certain post-retirement benefits, mainly healthcare, to 255 (2003: 266) 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 19). The major assumptions were:

discount rate:	5.3%	(2003: 5.4%)
assumed medical inflation:	5.4%	(2003: 5.3%)

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 17). The major assumptions were:

discount rate:	5.3%	(2003: 5.4%)
assumed inflation of benefits:	2.9%	(2003: 2.8%)

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.