

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

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2005



NESTLÉ UK LTD

Directors' Report for the year ended 31 December 2005

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 2005.

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.

DIRECTORS

The following were Directors throughout the period:

S. Barbour

F.M. Kendrick

A.J. Sykes

C.M. Tyas

A. Willi (resigned 26/09/2005)

D.C. Hudson (resigned 31/12/2005)

Four directors (2004: Three) exercised share options during 2005 granted by Nestlé SA.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the

NESTLÉ UK LTD

Directors' Report for the year ended 31 December 2005 (continued)

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.

Under applicable law the directors are also responsible for preparing a Directors' Report that complies with that law.

DIVIDEND

The Directors do not recommend payment of a dividend (2004 : £nil).

RESERVES

The retained loss for the year of £66.4m 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 28 days (2004: 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 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 2005 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 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.

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.

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Directors' Report for the year ended 31 December 2005 (continued)

Compliance with environmental regulatory requirements were met and the Company introduced an updated version of its reporting tool for measuring and monitoring environmental key performance indicators aligned to ISO 14001.

TREASURY AND RISK MANAGEMENT

The principal treasury risks to the Company arise from exchange rate and commodity price fluctuations. The Board reviews these risks on a regular basis. Where appropriate, the Company uses forward foreign exchange contracts and commodity futures to mitigate these risks. No treasury transactions of a speculative nature are entered into.

CHARITABLE DONATIONS

The Company made charitable donations totalling £1.7m during the period (2004: £1.9m). No contributions were made for political purposes.

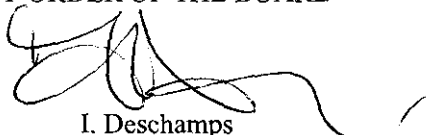
AUDITOR

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
18 July 2006

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

NESTLÉ UK LTD

We have audited the financial statements of Nestlé UK Ltd. for the year ended 31 December 2005 which comprise Profit and Loss Account, Balance Sheet, the Statement of Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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 auditor

As described in the Statement of Directors' Responsibilities on page 2, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

NESTLÉ UK LTD

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2005, and of its loss 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
8, Salisbury Square
London
EC4Y 8BB

18 July 2006

NESTLÉ UK LTD

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	<u>2005</u>	<u>2004</u> (restated)
		£m	£m
Turnover	2	1,390.7	1,299.5
Cost of sales	4	<u>(1,092.5)</u>	<u>(984.2)</u>
Gross profit		298.2	315.3
Distribution costs		(113.3)	(114.3)
Administrative expenses	4	(230.2)	(112.3)
Amortisation of goodwill	11	<u>(4.9)</u>	<u>(4.1)</u>
Operating (loss) / profit		(50.2)	84.6
Loss on sale of Fixed Assets	7	(1.0)	-
Exceptional profit on disposal of business	7	-	1.2
Income from shares in Group undertakings		0.7	4.6
Income from participating interests	13	9.3	9.5
Other interest receivable and similar income	5	0.3	0.1
Interest payable and similar charges	6	<u>(59.2)</u>	<u>(66.5)</u>
(Loss) / Profit on ordinary activities before taxation	7	(100.1)	33.5
Tax on profit / (loss) on ordinary activities	10	<u>33.7</u>	<u>(2.0)</u>
(Loss) / Profit for the financial year	23	<u><u>(66.4)</u></u>	<u><u>31.5</u></u>

All turnover and operating (loss) / 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 24 form part of these financial statements.

NESTLÉ UK LTD

BALANCE SHEET AS AT 31 DECEMBER 2005

	Note	<u>2005</u>	<u>2005</u>	<u>2004</u>	<u>2004</u>
		£m	£m	(restated) £m	(restated) £m
Fixed Assets					
Intangible assets	11		65.3		70.2
Tangible assets	12		373.6		368.4
Investments	13		<u>181.0</u>		<u>190.7</u>
			619.9		629.3
Current Assets					
Stocks	15	147.2		143.7	
Debtors	16	368.0		278.0	
Cash at bank and in hand		<u>-</u>		<u>-</u>	
		515.2		421.7	
Creditors: amounts falling due within one year	17	<u>(637.7)</u>		<u>(637.6)</u>	
Net current liabilities			<u>(122.5)</u>		<u>(215.9)</u>
Total assets less current liabilities			497.4		413.4
Creditors: amounts falling due after more than one year	18	(840.0)		(840.0)	
Provision for liabilities and charges	19	<u>(11.8)</u>		<u>(10.8)</u>	
			<u>(851.8)</u>		<u>(850.8)</u>
Net liabilities excluding pension liability			(354.4)		(437.4)
Net pension liability	21		<u>(1.8)</u>		<u>(1.5)</u>
Net liabilities			<u><u>(356.2)</u></u>		<u><u>(438.9)</u></u>
Capital and reserves					
Called up share capital	22		130.0		120.4
Share premium account	23		211.4		71.0
Profit and loss account	23		<u>(697.6)</u>		<u>(630.3)</u>
Total equity shareholders' funds			<u><u>(356.2)</u></u>		<u><u>(438.9)</u></u>

The notes on pages 10 to 24 form part of these financial statements.

Approved by the Board on 18 July 2006
and signed on its behalf by



S. Barbour
Director

NESTLÉ UK LTD

STATEMENT OF RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2005

	<u>2005</u>	<u>2004</u>
	£m	(restated) £m
(Loss) / Profit for the financial year	(66.4)	31.5
Net actuarial (losses) / gains on retirement benefits	<u>(0.9)</u>	<u>0.9</u>
Total recognised (losses) / gains since last annual report	<u>(67.3)</u>	<u>32.4</u>

The prior year adjustment for FRS 17 and 21 has decreased total recognised gains for the prior year by £17.7m.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2005

	<u>2005</u>	<u>2004</u>
	£m	(restated) £m
Total recognised (losses) / gains as reported	(67.3)	50.1
Adjustment on adoption of FRS 17	-	(21.6)
Adjustment on adoption of FRS 21	<u>-</u>	<u>3.9</u>
Total recognised (losses) / gains as restated	(67.3)	32.4
Adjustment on adoption of FRS 17 on reserves	-	(23.7)
Adjustment on adoption of FRS 21 on reserves	-	(4.6)
Equity Issue	150.0	-
Opening shareholders' funds	<u>(438.9)</u>	<u>(443.0)</u>
Closing shareholders' funds	<u>(356.2)</u>	<u>(438.9)</u>

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

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

In these financial statements the following new standards have been adopted for the first time:

FRS17 'Retirement Benefits'

FRS21 'Events after the balance sheet date'

FRS25 'Financial instruments: disclosure and presentation'

FRS28 'Corresponding amounts'

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption. FRS 28 "Corresponding amounts" has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985.

The corresponding amounts in these statements are restated in accordance with the new policies.

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 adopted 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.

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

1. ACCOUNTING POLICIES (continued)

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 23. 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.

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 or at the average rate for the period. 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

The accounting treatment adopted for pensions is separately disclosed in note 27.

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).

Prior Year Adjustment

The Company has adopted FRS17 Retirement Benefits from 1st January 2005. This has resulted in restating comparative figures as noted in these accounts. The impact on profit for the year in 2004 is a reduction of £22.5m with an off-setting increase of £0.9m in the Statement of Recognised Gains and Losses. The impact on opening shareholders funds is a reduction of £23.7m in 2004.

The Company has adopted FRS21 Events After the Balance Sheet Date from 1st January 2005. This has resulted in restating comparative figures as noted in these accounts. The impact on profit for the year is £0.7m (2004 : £3.9m) and the impact on opening shareholders funds in 2004 is a reduction of £4.6m.

2. TURNOVER

The geographical analysis of turnover by destination is as follows:

	<u>2005</u>	<u>2004</u>
	£m	£m
United Kingdom	1,238.2	1,142.1
Rest of Europe	103.2	97.5
Other	49.3	59.9
	<u>1,390.7</u>	<u>1,299.5</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>2005</u>	<u>2004</u>
	No.	No.
Production	3,482	3,622
Administration, distribution and sales	2,299	2,324
	<u>5,781</u>	<u>5,946</u>

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

3. STAFF NUMBERS AND COSTS (continued)

The aggregate payroll costs of these persons were as follows:

	<u>2005</u>	<u>2004</u>
	£m	(restated) £m
Wages and salaries	199.7	196.8
Social security costs	14.9	17.0
Other pension costs	196.6	81.7
	<u>411.2</u>	<u>295.5</u>

The above costs exclude amounts for redundancy totalling £14.8m (2004: £45.0m). Included within other pension costs is £123.8m of special contribution to the Nestlé UK Pension Fund.

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.

	Cost of Sales	Administrative Expenses	Total
	£m	£m	£m
Factory / divisional re-organisation	<u>15.7</u>	<u>10.9</u>	<u>26.6</u>
	<u>15.7</u>	<u>10.9</u>	<u>26.6</u>

5. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	<u>2005</u>	<u>2004</u>
	£m	£m
Other interest receivable	<u>0.3</u>	<u>0.1</u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	<u>2005</u>	<u>2004</u>
	£m	£m
On borrowings from group undertakings	52.1	57.0
On bank loans and overdrafts	<u>7.1</u>	<u>9.5</u>
	<u>59.2</u>	<u>66.5</u>

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

7. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The loss / profit is arrived at after charging the following:

	<u>2005</u>	<u>2004</u>
	£m	£m
Depreciation – Owned Assets	43.0	51.6
Impairment – Owned Tangible Fixed Assets	8.3	7.7
Amortisation of goodwill	4.9	4.1
Hire of plant and machinery		
(including operating lease charges)	0.2	0.6
Other hire charges including operating leases	0.9	0.6
Auditors' remuneration – Audit	0.4	0.4
– Other Services	-	-
Directors' emoluments (note 8)	1.6	1.6
Exceptional net profit on restructuring of businesses	-	(8.9)
Loss on sale of Fixed Assets	1.0	-
Special Contribution to the Nestlé UK Pension Fund	123.8	-

8. DIRECTORS' EMOLUMENTS

The emoluments of the directors excluding pension contributions were £1,615,847 (2004: £1,560,108) and pension contributions payable by the Company were £78,652 (2004: £161,083). The number of directors accruing retirement benefits at 31 December 2005 was 4 (2004: 6) The emoluments of the highest paid director were:

	<u>2005</u>	<u>2004</u>
	£	£
Highest paid director	£456,764	£435,027

At 31 December 2005 the highest paid director had accrued pension benefits of £130,073 (2004: £114,875).

9. DIRECTORS' INTERESTS

None of the directors had any interests recorded in the Statutory Register at 31 December 2005 (2004: Nil).

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

10. TAX ON PROFIT ON ORDINARY ACTIVITIES

ANALYSIS OF (CREDIT) / CHARGE IN PERIOD

	<u>2005</u>		<u>2004</u> (restated)	
	£m	£m	£m	£m
UK Corporation tax				
Current tax on income for period	3.9		8.3	
Adjustment in respect of prior periods	<u>(0.4)</u>		<u>2.0</u>	
Total current tax		3.5		10.3
Deferred tax (see note 20)				
Deferred tax for the current year	(35.2)		(5.2)	
Deferred tax relating to prior years	<u>(2.0)</u>		<u>(3.1)</u>	
		(37.2)		(8.3)
Tax (credit) / charge on (loss) / profit on ordinary activities		<u>(33.7)</u>		<u>2.0</u>

FACTORS AFFECTING THE TAX CHARGE FOR THE CURRENT PERIOD

The current tax charge for the period is higher (2004: higher) than the standard rate of corporation tax in the UK: 30% (2004: 30%). The differences are explained below:

	<u>2005</u>	<u>2004</u> (restated)
	£m	£m
Current Tax Reconciliation		
(Loss) / Profit on ordinary activities before tax	<u>(100.1)</u>	<u>33.5</u>
Current tax (credit) / charge @ 30% (2004: 30%)	(30.0)	10.1
Effects of:		
Expenses not deductible for tax purposes	1.8	0.6
Income not taxable	(0.3)	(7.7)
Benefit of imputed interest for no payment	(2.8)	-
Depreciation for period greater than / (less than) capital allowances	8.6	(6.5)
Movement in Pension Liability	16.2	12.0
Other timing differences	10.4	(0.2)
Adjustments to tax charge in respect of previous periods	<u>(0.4)</u>	<u>2.0</u>
Total current tax charge (see above)	<u>3.5</u>	<u>10.3</u>

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

11. INTANGIBLE ASSETS

	Goodwill £m
Cost or Valuation	
At 31 December 2004	81.4
Additions	-
At 31 December 2005	<u>81.4</u>
Amortisation	
At 31 December 2004	11.2
Charge for year	<u>4.9</u>
At 31 December 2005	<u>16.1</u>
Net book value at 31 December 2005	<u>65.3</u>
Net book value at 31 December 2004	<u>70.2</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 2004	225.0	844.3	20.6	0.1	1,090.0
Additions	1.7	15.8	38.9	3.8	60.2
Disposals	(11.7)	(35.8)	-	-	(47.5)
Transfers	-	0.1	-	(0.1)	-
Reclassification	(0.3)	0.3	-	-	-
At 31 December 2005	<u>214.7</u>	<u>824.7</u>	<u>59.5</u>	<u>3.8</u>	<u>1,102.7</u>
At cost	214.7	824.7	59.5	3.8	1,102.7
At professional valuation	-	-	-	-	-
	<u>214.7</u>	<u>824.7</u>	<u>59.5</u>	<u>3.8</u>	<u>1,102.7</u>
Depreciation					
At 31 December 2004	91.2	630.4	-	-	721.6
Charged in the year	6.7	32.3	4.0	-	43.0
Impairment in the year	-	8.3	-	-	8.3
Reclassification	0.1	(0.1)	-	-	-
Disposals	(9.5)	(34.3)	-	-	(43.8)
At 31 December 2005	<u>88.5</u>	<u>636.6</u>	<u>4.0</u>	<u>-</u>	<u>729.1</u>
Net book value at 31 December 2005	<u>126.2</u>	<u>188.1</u>	<u>55.5</u>	<u>3.8</u>	<u>373.6</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>

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

12. TANGIBLE ASSETS (continued)

The net book value of land and buildings comprises:

	<u>2005</u> £m	<u>2004</u> £m
Freehold	126.2	133.8
	<u>126.2</u>	<u>133.8</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 2004	177.7	12.9	0.3	190.9
Return of CPMUK participations	-	(19.0)	-	(19.0)
Share of profits in associate	-	9.3	-	9.3
Cost or directors' valuation at 31 December 2005	<u>177.7</u>	<u>3.2</u>	<u>0.3</u>	<u>181.2</u>
Provision at 31 December 2004	0.2	-	-	0.2
Provision at 31 December 2005	<u>0.2</u>	<u>-</u>	<u>-</u>	<u>0.2</u>
Net book value at 31 December 2005	<u>177.5</u>	<u>3.2</u>	<u>0.3</u>	<u>181.0</u>
Net book value at 31 December 2004	<u>177.5</u>	<u>12.9</u>	<u>0.3</u>	<u>190.7</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 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 2005 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%	Dormant
Dallaw Ltd	100%	Dormant

15. STOCKS

	<u>2005</u>	<u>2004</u>
	£m	£m
Engineering Stores	12.8	12.0
Raw materials and consumables	15.7	23.6
Work in progress	30.9	29.2
Finished goods and goods for resale	87.8	78.9
	<u>147.2</u>	<u>143.7</u>

16. DEBTORS

	<u>2005</u>	<u>2004</u>
	£m	(restated) £m
Due within one year:		
Trade debtors	241.1	189.7
Amounts owed by associated undertakings	9.1	-
Amounts owed by group undertakings	72.7	62.2
Other debtors	1.2	19.2
Prepayments and accrued income	4.9	5.0
Deferred Tax (see note 20)	39.0	1.9
	<u>368.0</u>	<u>278.0</u>

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

17. CREDITORS: Amounts falling due within one year

	<u>2005</u>	<u>2004</u> (restated)
	£m	£m
Bank loans and overdrafts	143.8	103.4
Trade creditors	66.9	17.4
Amounts owed to associated undertakings	9.3	13.6
Amounts owed to group undertakings	95.5	56.7
Other creditors including taxation and social security	225.3	305.9
Accruals and deferred income	<u>96.9</u>	<u>140.6</u>
	<u>637.7</u>	<u>637.6</u>

Included in other creditors is an accrual of £13.2m (2004: £15.9m) in respect of the long term sickness and disability scheme run by the Group.

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

	<u>2005</u>	<u>2004</u>
	£m	£m
Amounts owed to group undertakings	<u>840.0</u>	<u>840.0</u>

19. PROVISIONS FOR LIABILITIES AND CHARGES

	Post-retirement Benefits £m
At 31 December 2004 as reported	8.7
Adjustment on adoption of FRS 17	<u>2.1</u>
At 31 December 2004 as restated	<u>10.8</u>
Contributions	(0.4)
P&L Charge for year	0.5
Net actuarial loss	0.9
At 31 December 2005	<u>11.8</u>

This provision relates to post retirement medical benefits (see note 29).

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

20. DEFERRED TAXATION

	Deferred Tax £m
At 31 December 2004 as reported	(15.8)
Adjustment on adoption of FRS 17	17.7
At 31 December 2004 as restated	1.9
Transfer to Pension liability	(0.1)
P&L credit for year	37.2
At 31 December 2005	<u>39.0</u>

The deferred taxation balance at 31 December 2005 is included in Debtors (see note 16).

The deferred taxation asset consists of the following amounts:

	<u>2005</u>	<u>2004</u> <u>(restated)</u>
	£m	£m
Fixed asset timing differences	(9.3)	(18.0)
Pension accruals	28.2	12.1
Other timing differences	20.1	7.8
	<u>39.0</u>	<u>1.9</u>

The deferred tax asset represents expenditure incurred, which will result in tax allowances in future periods. The directors are of the opinion that the level of trading profits in current and future years will be sufficient to utilise these allowances.

21. PENSION LIABILITY

The company has the following pension liability in respect of the unfunded pension fund.

	<u>2005</u>	<u>2004</u> <u>(restated)</u>
	£m	£m
Pension liability	2.6	2.1
Deferred tax	(0.8)	(0.6)
Net pension liability	<u>1.8</u>	<u>1.5</u>

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

22. CALLED UP SHARE CAPITAL

	Authorised		Allotted and fully paid	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	£m	£m	£m	£m
Ordinary shares of 50p each (320 million authorised, 260.0 million allotted and fully paid)	<u>160.0</u>	<u>160.0</u>	<u>130.0</u>	<u>120.4</u>

During the year 19.2 million 50p shares were issued for a consideration of £150 million.

23. RESERVES

	Share Premium Account £m	Profit and Loss Account £m
At 31 December 2004 (as restated)	71.0	(630.3)
Equity Issue	140.4	-
Total recognised loss for year	<u>-</u>	<u>(67.3)</u>
At 31 December 2005	<u>211.4</u>	<u>(697.6)</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 2004 (as reported)	166.9	(751.2)	(584.3)
Adjustment on adoption of FRS 17	(45.3)	-	(45.3)
Adjustment on adoption of FRS 21	<u>(0.7)</u>	<u>-</u>	<u>(0.7)</u>
At 31 December 2004 (as restated)	120.9	(751.2)	(630.3)
Total recognised loss for year	(67.3)	-	(67.3)
Goodwill amortised	<u>(28.5)</u>	<u>28.5</u>	<u>-</u>
At 31 December 2005	<u>25.1</u>	<u>(722.7)</u>	<u>(697.6)</u>

The cumulative amount of goodwill resulting from acquisitions prior to 1 January 1999 which has been written off against distributable reserves, at 31 December 2005 is £400.6m (2004: £372.1m).

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS
(continued)

24. CAPITAL AND OTHER FINANCIAL COMMITMENTS

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

	<u>2005</u> £m	<u>2004</u> £m
CAPITAL COMMITMENTS		
Contracted	-	2.1
OTHER FINANCIAL COMMITMENTS		
Forward Contracts		
Raw Materials	40.9	66.5
Foreign Currency	300.3	243.2

25. LEASING COMMITMENTS

There are no future minimum lease payments to which the company is committed at 31 December 2005 under finance leases (2004 : NIL).

Commitments Under Operating Leases

At 31 December 2005 the company has annual commitments under non-cancellable operating leases as set out below:

	<u>2005</u>		<u>2004</u>	
	Land & buildings £m	Other £m	Land & buildings £m	Other £m
Operating leases which expire:				
Within one year	-	0.1	-	-
Within two to five years inclusive	-	0.8	-	0.8
After five years	2.4	-	2.4	-
	<u>2.4</u>	<u>0.9</u>	<u>2.4</u>	<u>0.8</u>

26. CONTINGENT LIABILITIES

Apart from indemnities given in the normal course of business totalling £6.8m (2004: £16.3m), there are no contingent liabilities at 31 December 2005 (2004: £NIL).

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

27. FRS17 PENSIONS DISCLOSURE

Nestlé UK Ltd participates in the Nestlé UK Pension Fund, which is a defined benefit scheme. Nestlé UK Ltd made contributions totalling £196.3m to the fund during 2005, which includes a special contribution in the year of £123.8m.

Nestlé UK Ltd is unable to identify its share of the underlying assets and liabilities of the Fund on a consistent and reasonable basis, as each employer is exposed to actuarial risks associated with the current and former employees of other entities participating in the Fund. Contributions to the scheme have therefore been accounted for as if it were a defined contribution scheme. The latest full actuarial valuation of the whole fund was carried out at 5th April 2004 and an update was prepared at 31st December 2005 by an independent qualified actuary for the purposes of FRS17. At that date there was a shortfall of assets and liabilities of £533.2m. A full disclosure is made in the accounts of Nestlé Holdings (U.K.) PLC.

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 2005, these expenses reimbursed to NUKL amounted to £1,060,583. Of this figure, £967,823 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 2005 the total expenses reimbursed amounted to £2,094,290. Of this figure £1,103,452 relates to salaries and other benefits of the staff and £990,838 to other administrative costs.

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

29. OTHER PERSONNEL OBLIGATIONS

The Company provides certain post-retirement benefits, mainly healthcare, to 245 (2004: 255) 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:	4.8%	(2004: 5.3%)
assumed medical inflation:	5.3%	(2004: 5.4%)

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:	4.8%	(2004: 5.3%)
assumed inflation of benefits:	2.8%	(2004: 2.9%)

30. 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.