

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

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**31 DECEMBER 2006**



## **NESTLÉ UK LTD**

### **Directors' Report for the year ended 31 December 2006**

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 2006

#### **PRINCIPAL ACTIVITIES AND BUSINESS REVIEW**

The Company is the principal trading company of the Nestlé Company in the United Kingdom engaged in the manufacture and sale of food and drinks products. The Company continues its efforts to concentrate on its core Beverage, Confectionery and Out of Home businesses, while reducing its operating costs.

The Company disposed of its chilled dairy business in the UK to a newly formed joint venture between the Nestlé Company and the Lactalis Company on 1 October 2006.

The performance achieved during the period is set out in the profit and loss account on page 7.

#### **DIVIDEND**

The directors do not recommend payment of a dividend (2005 nil).

#### **RESERVES**

The retained loss for the year of £44.2 million is to be transferred to reserves.

#### **PRINCIPAL RISKS AND UNCERTAINTIES**

The management of the business of the Company, and execution of its strategy are subject to a number of risks and uncertainties, including a strong competitive environment, further trade consolidation, product innovation, employee retention and commodity, energy and utility costs.

#### **FUTURE DEVELOPMENTS/OUTLOOK**

The external environment is expected to remain competitive in 2007. Higher energy and utility costs and commodity prices will put significant pressure on the Company.

#### **KEY PERFORMANCE INDICATORS**

Management use a variety of financial and non financial performance indicators to manage the business. These include sales growth, trade spend, margin percentages of sales, overheads, working capital and customer service.

#### **DIRECTORS AND INTERESTS**

The following were Directors throughout the period:

A J Sykes

S Barbour – resigned 23/02/07

F M Kendrick

S Phillips – appointed 12/02/07

C M Tyas

3 directors have exercised 12,300 share options during 2006 granted by Nestlé S.A. at a value of £497,658.

#### **POLITICAL AND CHARITABLE DONATIONS**

The Company made charitable donations totalling £1.2m during the period (2005 £1.7m). No contributions were made for political purposes.

## **NESTLÉ UK LTD**

### **Directors' Report for the year ended 31 December 2006**

#### **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 38 days (2005 28 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 AND HEALTH AND SAFETY**

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 2006 with a commitment across all areas of the business to sustain the continual improvement in performance. 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.

#### **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 at the end of the financial period and of the profit or loss for that period. In preparing those financial statements the directors are required to

- select suitable accounting policies and apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

**NESTLÉ UK LTD**

**Directors' Report for the year ended 31 December 2006**

**STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

**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 (as amended)

**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 Section 252 and 366(A) respectively of Companies Acts 1985 (as amended)

BY ORDER OF THE BOARD

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

I Deschamps  
Secretary

St George's House  
Croydon, CR9 1NR

10<sup>th</sup> July, 2007

## **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 2006 which comprise the Profit and Loss Account, the 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 auditors**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3.

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 other 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 2006 and of its loss for the year then ended,
- have been properly prepared in accordance with the Companies Act 1985,
- and the information given in the Directors' Report is consistent with the financial statements

*WAL A. E. PIC*

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
8, Salisbury Square  
London  
EC4Y 8BB

10<sup>th</sup> July, 2007

**NESTLÉ UK LTD**

**PROFIT AND LOSS ACCOUNT**

**FOR THE YEAR ENDED 31 DECEMBER 2006**

	Note	<u>2006</u>	<u>2005</u> (restated)
		£m	£m
Turnover	2	1,287 4	1,352 4
Cost of sales	4	<u>(1,030 6)</u>	<u>(1,054 2)</u>
Gross profit		256 8	298 2
Distribution costs		(120 0)	(113 3)
Administrative expenses	4	(136 2)	(230 2)
Amortisation of goodwill	11	<u>(3 4)</u>	<u>(4 9)</u>
Operating loss		(2 8)	(50 2)
Net loss on disposal tangible and intangible of fixed assets	7	(2 1)	(1 0)
Income from shares in Group undertakings		-	0.7
(Loss) / gain from participating interests	7	(0 1)	9 3
Other interest receivable and similar income	5	0 1	0 3
Interest payable and similar charges	6	<u>(57 5)</u>	<u>(59 2)</u>
(Loss) on ordinary activities before taxation	7	(62 4)	(100 1)
Tax on (loss) on ordinary activities	10	<u>18 2</u>	<u>33 7</u>
(Loss) for the financial year	23	<u><u>(44 2)</u></u>	<u><u>(66 4)</u></u>

All turnover and operating losses 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 29 form part of these financial statements

**NESTLÉ UK LTD**

**BALANCE SHEET AS AT 31 DECEMBER 2006**

	Note	<u>2006</u> £m	<u>2006</u> £m	<u>2005</u> £m	<u>2005</u> £m
<b>Fixed Assets</b>					
Intangible assets	11		-		65 3
Tangible assets	12		336 1		373 6
Investments	13		<u>177 8</u>		<u>181 0</u>
			513 9		619 9
<b>Current Assets</b>					
Stocks	15	115 9		147 2	
Debtors	16	388 9		368 0	
Cash at bank and in hand		<u>47 5</u>		-	
		552 3		515 2	
<b>Creditors: amounts falling due within one year</b>	17	<u>(606 7)</u>		<u>(637 7)</u>	
<b>Net current liabilities</b>			<u>(54 4)</u>		<u>(122 5)</u>
<b>Total assets less current liabilities</b>			459 5		497 4
<b>Creditors amounts falling due after more than one year</b>	18	(840 0)		(840 0)	
Provision for liabilities and charges	19	<u>(17 4)</u>		<u>(11 8)</u>	
			<u>(857 4)</u>		<u>(851 8)</u>
<b>Net liabilities excluding pension liability</b>			<u>(397 9)</u>		<u>(354 4)</u>
Net pension liability	21		<u>(1 8)</u>		<u>(1 8)</u>
<b>Net liabilities</b>			<u><u>(399 7)</u></u>		<u><u>(356 2)</u></u>
<b>Capital and reserves</b>					
Called up share capital	23		130 0		130 0
Share premium account	24		211 4		211 4
Profit and loss account	24		<u>(741 1)</u>		<u>(697 6)</u>
<b>Total equity shareholders' funds</b>			<u><u>(399 7)</u></u>		<u><u>(356 2)</u></u>

The notes on pages 10 to 29 form part of these financial statements

Approved by the Board on 10<sup>th</sup> July, 2007  
and signed on its behalf by



Director



**NESTLÉ UK LTD**

**STATEMENT OF RECOGNISED GAINS AND LOSSES**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

	<u>2006</u>	<u>2005</u>
	£m	£m
Loss for the financial year	(44 2)	(66 4)
Net actuarial gain / (loss) on retirement benefits	0 7	(0 9)
Total recognised losses since last annual report	<u>(43 5)</u>	<u>(67 3)</u>

**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

	<u>2006</u>	<u>2005</u>
	£m	£m
Total recognised losses as reported	(43 5)	(67 3)
Equity Issue	-	150 0
Opening shareholders' funds	<u>(356 2)</u>	<u>(438 9)</u>
Closing shareholders' funds	<u>(399 7)</u>	<u>(356 2)</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

##### FRS20 Share Based Payments

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption

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

##### **Basis of Preparation**

The financial statements have been prepared on a going concern basis and under the historical cost convention, as modified by the revaluation of land and buildings and are in accordance with applicable accounting standards. The Financial statements present information about the company as an individual undertaking and not as a group. The Company is exempt by virtue of s228A of the Companies Act 1985 from the requirement to prepare group financial statements (see the note on consolidation on page 11)

##### **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 <sup>2</sup> / <sub>3</sub> %	-	33 <sup>1</sup> / <sub>3</sub> %	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

**NESTLÉ UK LTD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(continued)

**1. ACCOUNTING POLICIES** (continued)

**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 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 by virtue of s228A of the Companies Act 1985 from the requirement to prepare group financial statements These financial statements present information about the Company as an individual undertaking and not about its group The largest group in which the results of the company are consolidated is that headed by Nestlé S A The consolidated financial statements of the parent company are publicly available and may be obtained from Nestlé SA, CH-1800 Vevey, Switzerland

**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

**NESTLÉ UK LTD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(continued)

**1. ACCOUNTING POLICIES** (continued)

**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.

**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).

**Partnership Assets and Liabilities**

In 2006 Nestle UK took the decision to impair the value of its investment held in Cereal Partners UK. Cereal Partners UK show a net liabilities position of £11.8 million and, given that Nestle UK hold a 50% share in the business, a provision has been established to cover 50% of the net liabilities position (£5.9 million). Details of Nestle's investment and partners in Cereal Partners UK are shown in note 13.

**Prior Year Adjustments**

As a result of a more detailed analysis of allowances made to customers an amount has been reanalysed from cost of sales to sales price discounts. This has had the effect of reducing 2005 sales figure by £38.3 million and reducing the cost of sales figure by £38.3 million. There has been no change to gross profit.

**NESTLÉ UK LTD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(continued)

**2. TURNOVER**

The geographical analysis of turnover by destination is as follows

	<u>2006</u>	<u>2005</u>
	£m	(restated) £m
United Kingdom	1,126 4	1,199 9
Rest of Europe	118 8	103 2
Other	42 2	49 3
	<u>1,287 4</u>	<u>1,352 4</u>

In accordance with the exceptions allowed under paragraph 55(5) of Schedule 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>2006</u>	<u>2005</u>
	No	No
Production	3,418	3,482
Administration, distribution and sales	2,000	2,299
	<u>5,418</u>	<u>5,781</u>

The aggregate payroll costs of these persons were as follows

	<u>2006</u>	<u>2005</u>
	£m	(restated) £m
Wages and salaries	184 3	199 7
Social security costs	14 9	14 9
Other pension costs	72 1	196 6
Share based payment benefits	1 1	1 6
	<u>272 4</u>	<u>412 8</u>

The above costs exclude amounts for redundancy totalling £37 1m (2005 £14 8m)

The 2005 figure has been restated to include the cost of providing share based benefits to employees

**NESTLÉ UK LTD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(continued)

**4. EXCEPTIONAL ITEMS**

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

**2006**

	Cost of Sales	Administrative Expenses	Total
	£m	£m	£m
Factory / divisional re-organisation	<u>36 0</u>	<u>12 9</u>	<u>48 9</u>

**2005**

	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>

**5. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME**

	<u>2006</u> £m	<u>2005</u> £m
Other interest receivable	<u>0 1</u>	<u>0 3</u>

**6. INTEREST PAYABLE AND SIMILAR CHARGES**

	<u>2006</u> £m	<u>2005</u> £m
On borrowings from group undertakings	53 1	52 1
On bank loans and overdrafts	<u>4 4</u>	<u>7 1</u>
	<u>57 5</u>	<u>59 2</u>

**NESTLÉ UK LTD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(continued)

**7. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION**

The loss is arrived at after charging the following

	<u>2006</u>	<u>2005</u>
	£m	£m
Depreciation – Owned Assets	50.9	43.0
Impairment – Owned Tangible Fixed Assets	15.1	8.3
Amortisation of goodwill	3.4	4.9
Hire of plant and machinery		
(including operating lease charges)	0.2	0.2
Other hire charges including operating leases	0.8	0.9
Fees payable to the company's auditor for the audit of the Company's annual accounts	0.4	0.4
Directors' emoluments (note 8)	1.3	1.6
Loss on disposal of tangible fixed assets	3.8	1.0
Profit on sale of goodwill (Chilled Division)	(1.7)	-
Special Contribution to the Nestlé UK Pension Fund	-	123.8
(Loss) / gain from participating interests	(0.1)	9.3

**8. DIRECTORS' EMOLUMENTS**

The emoluments of the directors excluding pension contributions were £1,252,993 (2005 £1,615,817) and pension contributions payable by the Company were £56,891 (2005 £78,652). The number of directors accruing retirement benefits at 31 December 2006 was 3 (2005 4). The emoluments of the highest paid director were

	<u>2006</u>	<u>2005</u>
	£	£
Highest paid director	444,705	456,764

At 31 December 2006 the highest paid director had accrued pension benefits of £141,319 (2005 £130,073).

Mr Steven Barbour, the chief finance officer of Nestlé UK Ltd, resigned on 23 February 2007. He was replaced by Mr Steven Phillips who was appointed on 12 February 2007.

The number of options in Nestlé SA exercised by directors in 2006 was 12,300 (2005 5,570).

**9. DIRECTORS' INTERESTS**

None of the directors had any interests recorded in the Statutory Register at 31 December 2006 (2005 Nil).

**NESTLÉ UK LTD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(continued)

**10. TAX ON PROFIT ON ORDINARY ACTIVITIES**

**ANALYSIS OF (CREDIT) / CHARGE IN PERIOD**

	<u>2006</u>		<u>2005</u>	
	£m	£m	£m	£m
UK Corporation tax				
Current tax on income for period	(1 0)		3 9	
Adjustment in respect of prior periods	<u>0 5</u>		<u>(0 4)</u>	
Total current tax		(0 5)		3 5
Deferred tax (see note 20)				
Deferred tax for the current year	(16 0)		(35 2)	
Deferred tax relating to prior years	<u>(1 7)</u>		<u>(2 0)</u>	
		(17 7)		(37 2)
Tax on (loss) on ordinary activities		<u>(18 2)</u>		<u>(33 7)</u>

**FACTORS AFFECTING THE TAX CHARGE FOR THE CURRENT PERIOD**

The current tax charge for the period is higher (2005 higher) than the standard rate of corporation tax in the UK 30% (2005 30%). The differences are explained below

	<u>2006</u>	<u>2005</u>
	£m	£m
Current Tax Reconciliation		
(Loss) on ordinary activities before tax	<u>(62 4)</u>	<u>(100 1)</u>
Current tax credit @ 30% (2005 30%)	(18 7)	(30 0)
Effects of		
Expenses not deductible for tax purposes	1 8	1 8
Income not taxable	-	(0 3)
Benefit of imputed interest for no payment	-	(2 8)
Depreciation for period greater than / (less than)		
capital allowances	10 1	8 6
Movement in Pension Liability	-	16 2
Other timing differences	5 8	10 4
Adjustments to tax charge in respect of		
previous periods	<u>0 5</u>	<u>(0 4)</u>
Total current tax (credit) / charge (see above)	<u>(0 5)</u>	<u>3 5</u>



**NESTLÉ UK LTD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(continued)

**11. INTANGIBLE ASSETS**

	2006 Goodwill £m
Cost or Valuation	
At 31 December 2005	81.4
Additions	-
Disposal	<u>(81.4)</u>
At 31 December 2006	<u>-</u>
Amortisation	
At 31 December 2005	16.1
Charge for year	3.4
Disposal	<u>(19.5)</u>
At 31 December 2006	<u>-</u>
Net book value at 31 December 2006	<u>-</u>
Net book value at 31 December 2005	<u>65.3</u>

The balance at 1<sup>st</sup> January, 2006 represented the purchased goodwill of the Chilled Dairy business. This business was sold on 1<sup>st</sup> November, 2006. Any related goodwill was disposed of on the same date. The gain on the sale of goodwill amounted to £1.7 million as shown in note 7.

**NESTLÉ UK LTD**

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

**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 2005	214.7	824.7	59.5	3.8	1,102.7
Additions	4.5	34.8	-	0.4	39.7
Disposals	(2.7)	(44.7)	(4.1)	-	(51.5)
Transfers in from other Nestle Co	-	1.0	-	-	1.0
Transfers	-	3.8	-	(3.8)	-
Reclassification	0.8	(0.8)	-	-	-
At 31 December 2006	217.3	818.8	55.4	0.4	1,091.9
Depreciation					
At 31 December 2005	88.5	636.6	4.0	-	729.1
Charged in the year	6.8	32.3	11.8	-	50.9
Impairment in the year	8.4	6.7	-	-	15.1
Transfers in from other Nestle Co	-	0.1	-	-	0.1
Disposals	(0.4)	(37.5)	(1.5)	-	(39.4)
At 31 December 2006	103.3	638.2	14.3	-	755.8
Net book value at 31 December 2006	114.0	180.6	41.1	0.4	336.1
Net book value at 31 December 2005	126.2	188.1	55.5	3.8	373.6

The net book value of land and buildings comprises

	2006 £m	2005 £m
Freehold - Nestle UK	114.0	126.2

There are no tangible fixed assets held under finance leases

**NESTLÉ UK LTD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(continued)

**13. INVESTMENTS**

	Subsidiary Undertakings £m	Participating Interests £m	Other Investments £m	Total £m
Cost or directors' valuation at 31 December 2005	177.7	3.2	0.3	181.2
Return of CPUK participations	-	(9.0)	-	(9.0)
Share of losses in associate	-	(0.1)	-	(0.1)
Impairment of Investment and provision established for net liabilities of CPUK		5.9		5.9
Cost or directors' valuation at 31 December 2006	177.7	-	0.3	178.0
Provision at 31 December 2005	0.2	-	-	0.2
Provision at 31 December 2006	0.2	-	-	0.2
Net book value at 31 December 2006	177.5	-	0.3	177.8
Net book value at 31 December 2005	177.5	3.2	0.3	181.0

**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 has been impaired. Cereal Partners UK show a net liabilities position of £11.8 million and, given that Nestle UK hold a 50% share in the business, a provision has been established to cover 50% of the net liabilities position (£5.9 million). This is shown in note 19 provision for liabilities and charges.

Cereal Partners U K is based at the following address:

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

**NESTLÉ UK LTD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**14. SUBSIDIARY UNDERTAKINGS**

No consolidation of the subsidiary undertaking's accounts has been made in the accounts of the company by virtue of the exemption given by s228A of the Companies Act 1985. Nestlé Holdings (UK) Plc is a subsidiary of Nestlé SA and Entreprises Maggi SA, itself a subsidiary of Nestlé SA.

At 31 December 2006 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>2006</u> £m	<u>2005</u> £m
Engineering Stores	4 0	12 8
Raw materials and consumables	12 6	15 7
Work in progress	33 8	30 9
Finished goods and goods for resale	65 5	87 8
	<u>115 9</u>	<u>147 2</u>

**16. DEBTORS**

	<u>2006</u> £m	<u>2005</u> £m
Due within one year		
Trade debtors	215 6	241 1
Amounts owed by associated undertakings	3 0	9 1
Amounts owed by group undertakings	52 7	72 7
Other debtors	32 4	1 2
Prepayments and accrued income	28 5	4 9
Deferred Tax (see note 20)	56 7	39 0
	<u>388 9</u>	<u>368 0</u>

**NESTLÉ UK LTD**

**NOTES TO THE FINANCIAL STATEMENTS**

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**17. CREDITORS: Amounts falling due within one year**

Included in other creditors is an accrual of £12.5m (2005 £13.2m) in respect of the long term sickness and disability scheme run by the Group

	<u>2006</u>	<u>2005</u>
	£m	£m
Bank loans and overdrafts	-	143.8
Trade creditors	78.9	66.9
Amounts owed to associated undertakings	34.4	9.3
Amounts owed to group undertakings	124.8	95.5
Other creditors including taxation and social security	247.1	225.3
Accruals and deferred income	121.5	96.9
	<u>606.7</u>	<u>637.7</u>

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

	<u>2006</u>	<u>2005</u>
	£m	£m
Amounts owed to group undertakings	<u>840.0</u>	<u>840.0</u>

**19. PROVISIONS FOR LIABILITIES AND CHARGES**

	2006	2005
	£m	£m
<b>Post Retirement Benefits</b>		
At 31 December 2005	11.8	10.8
Contributions	(0.4)	(0.4)
P&L Charge for year	0.6	0.5
Net actuarial gain	(0.5)	0.9
At 31 December 2006	<u>11.5</u>	<u>11.8</u>
<b>Provision for CPUK net liabilities</b>	5.9	-
	<u>17.4</u>	<u>11.8</u>

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

**NESTLÉ UK LTD**

**NOTES TO THE FINANCIAL STATEMENTS**

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**20. DEFERRED TAXATION**

	Deferred Tax £m
At 31 December 2005 as reported	39 0
P&L credit for year	17 7
At 31 December 2006	<u>56 7</u>

The deferred taxation balance at 31 December 2006 and 31 December, 2005 is included in Debtors (see note 16)

The deferred taxation asset consists of the following amounts

	<u>2006</u>	<u>2005</u>
	£m	£m
Fixed asset timing differences	2 4	(9 3)
Pension accruals	18 6	28 2
Other timing differences	35 7	20 1
	<u>56 7</u>	<u>39 0</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>2006</u>	<u>2005</u>
	£m	£m
Pension liability Nestlé UK	2 6	2 6
Deferred tax	(0 8)	(0 8)
Net pension liability	<u>1 8</u>	<u>1 8</u>

**NESTLÉ UK LTD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(continued)

**22. SHARE BASED PAYMENTS**

**Management Stock Option Plan (MSOP)**

Members of Senior Management are entitled to participate each year in a share option plan without payment. The benefits consist of the right to buy Nestlé S A shares (accounted for as equity-settled share based payment transactions) at a predetermined fixed price.

From 2005 onwards, the grant has been limited to members of the Executive Board of Nestlé SA. This plan has a rolling seven-year duration. Vesting is subject to three years service conditions.

**Movement of Management Stock Options**

	2006	2005
	Number of units	Number of units
Outstanding at 1 January	174,770	216,380
- of which vested and exercisable	126,370	106,480
New rights	-	-
Rights exercised (a)	(66,860)	(35,310)
Rights forfeited	-	(6,300)
Rights expired	-	-
Outstanding at 31 December	107,910	174,770
- of which vested and exercisable at 31 December	61,810	75,970
- additional options vesting in 2007	46,100	-

(a) Average exercise price: £137.37 (2005: £138.82, average share price at exercise date: £177.83 (2005: £164.78)).

The rights are exercised throughout the year in accordance with the rules of the plan.

**NESTLÉ UK LTD**

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

**22. SHARE BASED PAYMENTS (continued)**

Options features

						2006	2005	
Grant date	Expiring on	Exercise price in £	Expected volatility	Risk-free interest rate	Dividend yield	Fair value at grant in £	Number of options outstanding	Number of options outstanding
01 01 2000	31 12 2006	122 22						1,320
01 03 2001	29 02 2008	148 80					12,710	32,250
01 03 2002	28 02 2009	159 27					26,800	42,400
01 02 2003	31 01 2010	120 77	27 16%	1 78%	2 25%	24 90	21,300	49,400
01 10 2003	30 09 2010	133 78	20 58%	2 11%	2 30%	21 36	1,000	1,000
01 02 2004	31 01 2011	142 72	19 41%	2 05%	2 11%	21 90	45,400	47,700
01 10 2004	30 09 2011	125 47	20 83%	2 09%	2 50%	19 59	700	700
							107,910	174,770

The exercise price corresponds to the average price of the last 10 trading days preceding the grant date

Senior Management has assumed that, on average, the participants exercise their options after 5 years. The expected volatility is based on the historical volatility, adjusted for any expected changes to future volatility due to publicly available information.

Restricted Stock Unit Plan (RSUP)

As from March 2005, members of Senior Management are awarded Restricted Stock Units (RSU) that each gives the right to one Nestlé S.A. share. Vesting is subject to three years service conditions. Upon vesting, the employee is assigned the shares and can become a member or may sell the shares immediately and receive the cash as though it was a cash settled transaction. As the shares are in Nestlé S.A. and not in Nestlé U.K. Limited all charges for RSUP are accrued in creditors' amounts falling due within one year and the share value is subsequently invoiced to Nestlé U.K. by Nestlé S.A.



**NESTLÉ UK LTD**

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

**22. SHARE BASED PAYMENTS (continued)**

Movement of Restricted Stock Units

	2006	2005
	Number of RSU	Number of RSU
New RSU	11,005	13,285
RSU settled (a)	0	0
RSU forfeited	(240)	(520)
<b>Oustanding at 31 December</b>	<b>23,530</b>	<b>12,765</b>
- of which vested at 31 December	0	0
- of which considered cash-settled	23,530	12,765

(a) Average price at vesting date £172.76 (2005 £147.51)

Restricted Stock Units features

Grant date	Restricted until	interest	yield	at grant in £	2006 RSU	2005 RSU
01 03 2005	29 02 2008	1.59%	2.45%	137.87	12,525	12,765
01 10 2005	30 09 2008	1.50%	2.15%	137.70	0	0
01 02 2006	31 01 2009	2.10%	2.13%	162.46	11,005	0
01 10 2006	30 09 2009	2.40%	2.15%	190.44	0	0
					<b>23,530</b>	<b>12,765</b>

The fair value corresponds to the market price at grant, adjusted for the restricted period of three years

The charge to the profit and loss account for share based payments in 2006 was £1.1 million converted at 2.306 CHF to 1 GBP (2005 £1.6 million converted at 2.265 CHF to 1 GBP)

**NESTLÉ UK LTD**

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

**23. CALLED UP SHARE CAPITAL**

	Authorised		Allotted and fully paid	
	2006	2005	2006	2005
	£m	£m	£m	£m
Ordinary shares of 50p each (320 million authorised, 260.0 million allotted and fully paid)	160.0	160.0	130.0	130.0

**24. RESERVES**

	Share Premium Account £m	Profit and Loss Account £m
At 31 December 2005	211.4	(697.6)
Equity Issue	-	-
Total recognised loss for year	-	(43.5)
At 31 December 2006	211.4	(741.1)

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 2005 (as reported)	25.1	(722.7)	(697.6)
Total recognised loss for year	(43.5)	-	(43.5)
Goodwill amortised	(27.0)	27.0	-
At 31 December 2006	(45.4)	(695.7)	(741.1)

The cumulative amount of goodwill resulting from acquisitions prior to 1 January 1999 which has been written off against distributable reserves, at 31 December 2006 is £427.6 million (2005: £400.6 million).

**NESTLÉ UK LTD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**25. CAPITAL AND OTHER FINANCIAL COMMITMENTS**

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

	<u>2006</u>	<u>2005</u> (restated)
	£m	£m
<b>CAPITAL COMMITMENTS</b>		
Contracted	8 1	-
<b>OTHER FINANCIAL COMMITMENTS</b>		
Forward Contracts		
Raw Materials	-	-
Foreign Currency	119 0	98 4

The figure for 2005 forward contracts had been incorrectly stated in the 2005 accounts

**26. LEASING COMMITMENTS**

There are no future minimum lease payments to which the company is committed at 31 December 2006 under finance leases (2005 NIL)

**Commitments Under Operating Leases**

At 31 December 2006 the company has annual commitments under non-cancellable operating leases as set out below

	<u>2006</u>		<u>2005</u>	
	Land & buildings £m	Other £m	Land & buildings £m	Other £m
Operating leases which expire				
Within one year	-	0 6	-	0 1
Within two to five years inclusive	-	1 9	-	0 8
After five years	2 0	-	2 4	-
	<u>2 0</u>	<u>2 5</u>	<u>2 4</u>	<u>0 9</u>

## **NESTLÉ UK LTD**

### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **27. CONTINGENT LIABILITIES**

Apart from indemnities given in the normal course of business totalling £6.8 million (2005 £6.8 million), there were other contingent liabilities amounting to £15.6 million (2005 £12.7 million). The 2005 figure has increased by the £12.7 million to reflect the pension fund deficit of Cereal Partners UK, a partnership in which Nestlé UK has a 50% interest. The 2006 figure of £15.6 million above also reflects 50% of the Cereal Partners UK pension fund deficit.

#### **28. 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 £71.9 million to the fund during 2006.

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. An update of the whole fund was prepared at 31<sup>st</sup> December 2006 by an independent qualified actuary for the purposes of FRS17. At that date there was a shortfall of assets and liabilities of £303.6m. This has no direct implication for Nestlé UK Ltd because currently contributions are assessed without reference to FRS17 accounting surplus or deficit.

#### **29. 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 2006, these expenses reimbursed to NUKL amounted to £1.0 million. Of this figure, £0.9 million 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 2006 the total expenses reimbursed amounted to £2.4 million. Of this figure £1.1 million relates to salaries and other benefits of the staff and £1.3 million to other administrative costs.

## NESTLÉ UK LTD

### NOTES TO THE FINANCIAL STATEMENTS

(continued)

#### **30. OTHER PERSONNEL OBLIGATIONS**

The Company provides certain post-retirement benefits, mainly healthcare, to 237 (2005 245) 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	5.2%	(2005 4.8%)
assumed medical inflation	5.6%	(2005 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	5.2%	(2005 4.8%)
assumed inflation of benefits	3.1%	(2005 2.8%)

#### **31. POST BALANCE SHEET EVENTS**

In Nestlé UK the impact of the phasing out of IBA's announced in the 2007 budget is estimated to result in an increase in the deferred tax asset of £3.8 million.

The effect of the reduction in the Corporation tax rate to 28% announced in the 2007 budget is estimated to reduce the deferred tax asset by £1.7 million.

#### **32. ULTIMATE HOLDING COMPANY**

Nestlé Holdings (UK) PLC, which is registered in England and Wales, is the holding company for the UK group.

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