

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

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**31 DECEMBER 2007**



## **NESTLÉ UK LTD**

### **Directors' Report for the year ended 31 December 2007**

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 2007

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

The Company is the principal trading company of the Nestlé Group 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 performance achieved during the period is set out in the profit and loss account on page 7.

The results of the company show a pre-tax profit of £62.4m (2006: £62.4m loss) for the year and sales of £1,269m (2006: £1,287m).

The 2007 results include exceptional items of £3.0m. The 2006 results included exceptional items relating to reorganisation/restructuring of the business of £48.9m.

The company has total assets less current liabilities of £493.9m (2006: £459.5m).

#### **DIVIDEND**

The directors do not recommend payment of a dividend (2006: nil).

#### **RESERVES**

The retained profit for the year of £56.1 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 2008. Higher energy and utility costs and commodity prices will continue to 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 – resigned 31/01/08  
S Phillips – appointed 12/02/07  
C M Tyas

## **NESTLÉ UK LTD**

### **Directors' Report for the year ended 31 December 2007 (continued)**

1 director has exercised 1,700 share options during 2007 granted by Nestlé S A at a value of £112,013 (2006 Nil)

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

The Company made charitable donations totalling £1.3m during the period (2006 £1.2m). No contributions were made for political purposes.

#### **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 30 days (2006 29 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 2007 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,

## **NESTLÉ UK LTD**

### **Directors' Report for the year ended 31 December 2007 (continued)**

- 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.

### **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



I Deschamps  
Secretary

St George's House  
Croydon, CR9 1NR

7<sup>th</sup> October 2008

## **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 2007 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Recognised Gains and Losses, Reconciliation of movements in shareholders funds 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 pages 3 and 4.

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 2007 and of its profit 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

*KPMG Audit Plc*

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

*14 Oct 2008*

**NESTLÉ UK LTD**

**PROFIT AND LOSS ACCOUNT**

**FOR THE YEAR ENDED 31 DECEMBER 2007**

	Note	<u>2007</u>	<u>2006</u>
		£m	£m
Turnover	2	1,269 2	1,287 4
Cost of sales	4	<u>(978 0)</u>	<u>(1,030 6)</u>
Gross profit		291 2	256 8
Distribution costs	4	(96 0)	(120 0)
Administrative expenses	4	(118 0)	(136 2)
Amortisation of goodwill	11	<u>(0 1)</u>	<u>(3 4)</u>
Operating profit/(loss)		77 1	(2 8)
Net profit/(loss) on disposal of tangible and intangible assets	7	17 8	(2 1)
Gain/(loss) from participating interests	7	16 1	(0 1)
Loss on disposal of investment in group undertakings		(0 2)	-
Other interest receivable and similar income	5	5 2	0 1
Interest payable and similar charges	6	<u>(53 6)</u>	<u>(57 5)</u>
Profit/(loss) on ordinary activities before taxation	7	62 4	(62 4)
Tax on profit/(loss) on ordinary activities	10	<u>(6 3)</u>	<u>18 2</u>
Profit/(loss) for the financial year		<u>56.1</u>	<u>(44.2)</u>

All turnover and operating profit/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 31 form part of these financial statements

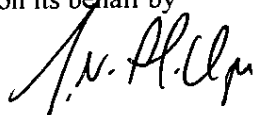
**NEST7LÉ UK LTD**

**BALANCE SHEET AS AT 31 DECEMBER 2007**

	Note	<u>2007</u> £m	<u>2007</u> £m	<u>2006</u> £m	<u>2006</u> £m
<b>Fixed Assets</b>					
Intangible assets	11		2 9		-
Tangible assets	12		327 6		336 1
Investments	13		<u>177 9</u>		<u>177 8</u>
			508 4		513 9
<b>Current Assets</b>					
Stocks	15	97 4		115 9	
Debtors	16	376 2		388 9	
Cash at bank and in hand		<u>64 9</u>		<u>47 5</u>	
		538 5		552 3	
<b>Creditors: amounts falling due within one year</b>	17	<u>(553 0)</u>		<u>(606 7)</u>	
<b>Net current liabilities</b>			<u>(14 5)</u>		<u>(54 4)</u>
<b>Total assets less current liabilities</b>			493 9		459 5
<b>Creditors amount falling due after more than one year</b>	18	(800 0)		(840 0)	
Provision for liabilities and charges	19	<u>(31 2)</u>		<u>(17 4)</u>	
<b>Net liabilities excluding pension liability</b>			<u>(831 2)</u>		<u>(857 4)</u>
			(337 3)		(397 9)
Net pension liability	21		<u>(1 9)</u>		<u>(1 8)</u>
<b>Net liabilities</b>			<u>(339.2)</u>		<u>(399.7)</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>(680 6)</u>		<u>(741 1)</u>
<b>Total equity shareholders' funds</b>			<u>(339.2)</u>		<u>(399.7)</u>

The notes on pages 10 to 31 form part of these financial statements

Approved by the Board on 7th October 2008  
and signed on its behalf by  
Director





**NESTLÉ UK LTD**

**STATEMENT OF RECOGNISED GAINS AND LOSSES**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

	<u>2007</u>	<u>2006</u>
	£m	£m
Profit/(loss) for the financial year	56 1	(44 2)
Net actuarial gain on retirement benefits	2 9	0 7
Total recognised gains/losses since last annual report	<u>59 0</u>	<u>(43 5)</u>

**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

	<u>2007</u>	<u>2006</u>
	£m	£m
Total recognised gain/(loss) as reported	59 0	(43 5)
Capital contribution – loan waived by group undertaking	1 5	-
Opening shareholders' funds	<u>(399 7)</u>	<u>(356 2)</u>
Closing shareholders' funds	<u>(339 2)</u>	<u>(399 7)</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

##### **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 FRS 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

##### **Share-Based Payments**

FRS 20 'Share-Based Payments' was first adopted in the 2006 accounts of the Company

The Company has equity-settled share-based payments transactions. The share-based transactions are settled with shares or with reference to shares of Nestlé S A and not Nestlé UK Ltd

Equity-settled share-based transactions are recognised in the income statement over the vesting period. They are fair valued at grant date and measured using the Black and Scholes model. The cost of equity-settled share-based payment transactions is adjusted annually by the expectations of vesting, for the forfeitures of the participants' rights that no longer satisfy the plan conditions as well as for early vesting

**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 24 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 S A , 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 FRS 19 '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, taking account of the reduction in the rate of Corporation Tax from 30% to 28% with effect from 1 April 2008

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 FRS 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 28.

**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 FRS 8 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**

The company has accounted for its share of the assets/liabilities for Cereal Partners UK. Details of Nestlé UK Ltd's investment in Cereal Partners U K is shown in note 13.

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

**2. TURNOVER**

The geographical analysis of turnover by destination is as follows

	<u>2007</u> £m	<u>2006</u> £m
United Kingdom	1,094 5	1,126 4
Rest of Europe	139 4	118 8
Other	<u>35 3</u>	<u>42 2</u>
	<u>1,269.2</u>	<u>1,287.4</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>2007</u> No	<u>2006</u> No
Production	3,044	3,418
Administration, distribution and sales	<u>2,135</u>	<u>2,000</u>
	<u>5,179</u>	<u>5,418</u>

The aggregate payroll costs of these persons were as follows

	£m	£m
Wages and salaries	185 3	184 3
Social security costs	15 3	14 9
Other pension costs	66 6	72 1
Share based payment benefits	<u>2 4</u>	<u>1 1</u>
	<u>269.6</u>	<u>272.4</u>

The above costs exclude amounts for redundancy totalling £2 8m (2006 £37 1m)

**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

	2007 Cost of Sales £m	2007 Distribution Costs £m	2007 Administrative Expenses £m	Total £m
Factory/divisional re-organisation	<u>(3.3)</u>	<u>1.3</u>	<u>5.0</u>	<u>3.0</u>

The cost of sales credit of £3.3m relates to the release of prior year unused accruals in respect of the closure of part of a factory. The distribution costs and administrative expenses represent various planned restructurings (announced in the year £3.8m, and previously announced in 2005 £2.5m)

	2006 Cost of Sales £m	2006 Administrative Expenses £m	Total £m
Factory/divisional re-organisation	<u>36.0</u>	<u>12.9</u>	<u>48.9</u>

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

	<u>2007</u> £m	<u>2006</u> £m
Other interest receivable	<u>5.2</u>	<u>0.1</u>

**6. INTEREST PAYABLE AND SIMILAR CHARGES**

	<u>2007</u> £m	<u>2006</u> £m
On borrowings from group undertakings	53.6	53.1
On bank loans and overdrafts	<u>-</u>	<u>4.4</u>
	<u>53.6</u>	<u>57.5</u>

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

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

The profit/(loss) is arrived at after charging or crediting the following

	<u>2007</u> £m	<u>2006</u> £m
Depreciation - Owned Assets	46.9	50.9
Impairment - Owned Tangible Fixed Assets	(0.5)	15.1
Amortisation of goodwill	0.1	3.4
Hire of plant and machinery (including operating lease charges)	-	0.2
Other hire charges including operating leases	1.2	0.8
Fees payable to the company's auditor for the audit of the Company's annual accounts	0.4	0.4
Directors' emoluments (note 8)	1.2	1.3
Profit/(loss) on disposal of tangible fixed assets	(17.8)	3.8
Profit on sale of goodwill (Chilled Division)	-	(1.7)
Gain/(loss) from participating interests	16.1	(0.1)

**8. DIRECTORS' EMOLUMENTS AND AUDIT FEES**

The emoluments of the directors excluding pension contributions were £1,247,085 (2006 £1,252,993) and pension contributions payable by the Company were £74,286 (2006 £56,891). The number of directors accruing retirement benefits at 31 December 2007 was 4 (2006 3). The emoluments of the highest paid director were

	£	£
Highest paid director	439,005	444,705

At 31 December 2007 the highest paid director had accrued pension benefits of £152,636 (2006 £141,319).

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 S.A. exercised by directors in 2007 was 1,700 (2006 12,300).

The audit fee for 2007 is £365,000 (2006 £340,000). Fees for services other than audit in 2007 were £4,000 (2006 Nil).

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

**9. DIRECTORS' INTERESTS**

None of the directors had any interests recorded in the Statutory Register at 31 December 2007 (2006 Nil)

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

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

	<u>2007</u>		<u>2006</u>	
	£m	£m	£m	£m
UK Corporation tax				
Current tax on income for period	1.0		(1.0)	
Adjustment in respect of prior periods	<u>1.5</u>		<u>0.5</u>	
Total current tax		2.5		(0.5)
Deferred tax (see note 20)				
Origination and reversal of timing differences in the current year	5.2		(16.0)	
Decrease in tax rate	<u>0.7</u>		<u>-</u>	
	5.9		(16.0)	
Deferred tax relating to prior years	<u>(2.1)</u>		<u>(1.7)</u>	
		<u>3.8</u>		<u>(17.7)</u>
Tax on profit or loss on ordinary activities		<u>6.3</u>		<u>(18.2)</u>



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

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

The current tax charge for the period is lower (2006 higher) than the standard rate of corporation tax in the UK, 30% (2006 30%) The differences are explained below

	<u>2007</u> £m	<u>2006</u> £m
Current Tax Reconciliation		
Profit/(loss) on ordinary activities before tax	<u>62.4</u>	<u>(62.4)</u>
Current tax charge/(credit) @ 30% (2006 30%)	18.7	(18.7)
Effects of		
Expenses not deductible for tax purposes	2.4	1.8
Income not taxable	(15.0)	-
Depreciation for period greater than/(less than) capital allowances	9.0	10.1
Other timing differences	(14.1)	5.8
Adjustment to tax charge in respect of previous periods	<u>1.5</u>	<u>0.5</u>
Total current tax charge/(credit) (see above)	<u>2.5</u>	<u>(0.5)</u>

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

**11. INTANGIBLE ASSETS**

	<u>2007</u> Goodwill £m	<u>2006</u> Goodwill £m
Cost or Valuation		
At 31 December 2006	-	81.4
Additions	3.0	-
Disposal	-	(81.4)
At 31 December 2007	<u>3.0</u>	<u>-</u>
Amortisation		
At 31 December 2006	-	16.1
Charge for year	0.1	3.4
Disposal	-	(19.5)
At 31 December 2007	<u>0.1</u>	<u>-</u>
Net book value at 31 December 2007	<u>2.9</u>	<u>-</u>
Net book value at 31 December 2006	<u>-</u>	<u>65.3</u>

The balance at 1 January, 2006 represented the purchased goodwill of the Chilled Dairy business. This business was sold on 1 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.

On 1 July 2007 Nestlé UK Ltd acquired the UK business of Novartis Medical Nutrition giving rise to goodwill of £3.0 million, calculated as follows:

	£m
Assets Acquired	
Current assets	1.0
Current liabilities	(0.5)
	0.5
Consideration	(3.5)
Goodwill	<u>3.0</u>

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

**12. TANGIBLE ASSETS**

	Land & buildings £m	Plant & machinery £m	System development £m	Payments on account £m	Total £m
Cost or Valuation					
At 31 December 2006	217.3	818.8	55.4	0.4	1,091.9
Additions	9.4	40.6	-	3.7	53.7
Disposals	(14.3)	(52.7)	-	-	(67.0)
Transfers	-	0.4	-	(0.4)	-
Reclassification	2.2	(2.2)	-	-	-
At 31 December 2007	<u>214.6</u>	<u>804.9</u>	<u>55.4</u>	<u>3.7</u>	<u>1,078.6</u>
Depreciation					
At 31 December 2006	103.3	638.2	14.3	-	755.8
Charged in the year	0.7	34.7	11.5	-	46.9
Impairment in year	-	(0.5)	-	-	(0.5)
Disposals	(3.8)	(47.4)	-	-	(51.2)
At 31 December 2007	<u>100.2</u>	<u>625.0</u>	<u>25.8</u>	<u>-</u>	<u>751.0</u>
Net book value at 31 December 2007	<u>114.4</u>	<u>179.9</u>	<u>29.6</u>	<u>3.7</u>	<u>327.6</u>
Net book value at 31 December 2006	<u>114.0</u>	<u>180.6</u>	<u>41.1</u>	<u>0.4</u>	<u>336.1</u>

The net book value of land and buildings comprises

	<u>2007</u> £m	<u>2006</u> £m
Freehold - Nestlé UK Ltd	<u>114.4</u>	<u>114.0</u>

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 2006	177.7	-	0.3	178.0
Additions	-	-	0.3	0.3
Return of CPUK participations	-	(12.5)	-	(12.5)
Share of profits in associate	-	16.1	-	16.1
Disposal of Investment	(0.2)	-	-	(0.2)
Impairment of Investment and Provision established for net liabilities of CPUK	-	(3.6)	-	(3.6)
Cost or directors' valuation at 31 December 2007	<u>177.5</u>	<u>-</u>	<u>0.6</u>	<u>178.1</u>
Provision at 31 December 2006	<u>0.2</u>	<u>-</u>	<u>-</u>	<u>0.2</u>
Provision at 31 December 2007	<u>0.2</u>	<u>-</u>	<u>-</u>	<u>0.2</u>
Net book value at 31 December 2007	<u>177.3</u>	<u>-</u>	<u>0.6</u>	<u>177.9</u>

**Participating Interests**

The Company has a 50% associated interest in Cereal Partners UK. Until 15 April 2007 this constituted a partnership with General Mills Canada Inc and General Mills Products Corp, trading as General Mills North America Affiliates, which was involved in the manufacture and sale of cereal products. On 16 April 2007 General Mills products Corp transferred its interest to general Mills HH LLC and on 1 January 2008 both the interests of General Mills Canada Inc and General Mills HH LLC were transferred to General Mills Nova Scotia Company. 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. A provision of £2.3 million (2006 £5.9 million) has been established to cover Nestle's share of the net liabilities. This is shown in note 19, provisions for liabilities and charges.

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

**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 (U K ) PLC is a subsidiary of Nestlé S A and Enterprises Maggi S A , itself a subsidiary of Nestlé S A

At 31 December 2007 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
Nestlé UK Pension Trust Ltd	100%	Pension Fund Trustee

**15. STOCKS**

	<u>2007</u> £m	<u>2006</u> £m
Engineering Stores	2 5	4 0
Raw materials and consumables	11 2	12 6
Work in progress	17 2	33 8
Finished goods and goods for resale	<u>66 5</u>	<u>65 5</u>
	<u>97.4</u>	<u>115.9</u>

**16. DEBTORS**

	<u>2007</u> £m	<u>2006</u> £m
Due within one year		
Trade debtors	205 4	215 6
Amounts owed by associated undertakings	41 2	3 0
Amounts owed by group undertakings	67 7	52 7
Other debtors	7 8	32 4
Prepayments and accrued income	1 2	28 5
Deferred Tax (see note 20)	<u>52 9</u>	<u>56 7</u>
	<u>376.2</u>	<u>388.9</u>

**NESTLÉ UK LTD**

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

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

Included in other creditors is an accrual of £12.5m (2006 £12.5m) in respect of the long term sickness and disability scheme run by the Group

	<u>2007</u>	<u>2006</u>
	£m	£m
Bank loans and overdrafts	2.0	-
Trade creditors	101.2	78.9
Amounts owed to associated undertakings	16.6	34.4
Amounts owed to group undertakings	294.8	124.8
Other creditors including taxation and social security	23.6	247.1
Accruals and deferred income	<u>114.8</u>	<u>121.5</u>
	<u>553.0</u>	<u>606.7</u>

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

	<u>2007</u>	<u>2006</u>
	£m	£m
Amounts owed to group undertakings	<u>800.0</u>	<u>840.0</u>

Amounts owed to group undertakings at 31 December 2007 comprised the following unsecured loan

<u>Settlement Date</u>	<u>Interest Rate</u>	<u>£m</u>
30 June 2009	6.2%	800.0

Amounts owed to group undertakings at 31 December 2006 comprised the following unsecured loan

<u>Settlement Date</u>	<u>Interest Rate</u>	<u>£m</u>
31 December 2008	6.2%	840.0

**NESTLÉ UK LTD**

**NOTES TO THE FINANCIAL STATEMENTS**  
(continued)

**19. PROVISIONS FOR LIABILITIES AND CHARGES**

	Associated Company Net Liabilities £m	Post Retirement Benefits £m	Factory/ Division Reorganisation £m	Business Restructuring £m	Total £m
At 31 December 2006	5.9	11.5	-	-	17.4
Reclassification from other creditors and accruals	-	-	28.1	7.6	35.7
Amounts (paid)/received	-	(0.5)	(12.1)	8.7	(3.9)
Reduction in year	(3.6)	-	-	-	(3.6)
P&L charge/(credit) for year	-	0.6	(2.1)	(10.2)	(11.7)
Net actuarial gain	-	(2.7)	-	-	(2.7)
At 31 December 2007	<u>2.3</u>	<u>8.9</u>	<u>13.9</u>	<u>6.1</u>	<u>31.2</u>

The post retirement benefits provision relates to post retirement medical benefits (see note 30)

Provisions include a total of £35.7 million that was classified in other creditors and accruals as at 31 December 2006

The main items included in the movement of provisions during 2007 are as follows -

**Factory/ Division Reorganisation**

At 31 December 2006 there was a provision of £27.0 million in respect of the closure and disposal of the Rowntree York South site. During 2007 payments of £10.1 million were made and £3.3 million was released to the P&L, resulting in a closing provision of £13.6 million. It is forecast that £9.3 million will be utilised during 2008 and £4.3 million during 2009.

**Business Restructuring**

At 31 December 2006 a provision of £2.7 million existed in respect of the costs of reorganising the MIS support infrastructure within Nestlé UK Limited. During 2007 an additional £4.5 million was charged to P&L and payments of £3.3 million were made, resulting in a provision as at 31 December 2007 of £3.9 million. The expectation is that this provision will be utilised by the end of 2008.

In addition there was a provision of £2.7 million at 31 December 2006 relating to the reorganisation of the Nestlé Food Services vending business. During 2007 payments of £2.7 million were made and an additional £0.2 million charged to P&L, giving rise to a provision as at 31 December 2007 of £0.2 million. This has been fully utilised in 2008.

**NESTLÉ UK LTD**

**NOTES TO THE FINANCIAL STATEMENTS**  
(continued)

**20. DEFERRED TAXATION**

	<u>Deferred Tax</u> £m
At 31 December 2006 as reported	56.7
P&L charge for year	<u>(3.8)</u>
At 31 December 2007	<u>52.9</u>

The deferred taxation balance at 31 December 2007 and 31 December 2006 is included in Debtors (see note 16)

The deferred taxation asset consists of the following amounts

	<u>2007</u> £m	<u>2006</u> £m
Fixed asset timing differences	12.3	2.4
Pension accruals	8.8	18.6
Other timing differences	<u>31.8</u>	<u>35.7</u>
	<u>52.9</u>	<u>56.7</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>2007</u> £m	<u>2006</u> £m
Pension liability Nestlé UK	2.7	2.6
Deferred tax	<u>(0.8)</u>	<u>(0.8)</u>
Net pension liability	<u>1.9</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 S A. This plan has a rolling seven-year duration. Vesting is subject to three years service conditions.

**Movement of Management Stock Options**

	<u>2007</u> Number of units	<u>2006</u> Number of units
Outstanding at 1 January	107,910	174,770
- of which vested and exercisable	61,810	126,370
 New rights	 -	 -
Rights exercised or transferred (a)	(56,780)	(66,860)
Rights forfeited	(2,100)	-
Rights expired	-	-
Outstanding at 31 December	<u>49,030</u>	<u>107,910</u>
- of which vested and exercisable at 31 December	<u>49,030</u>	<u>61,810</u>

(a) Average exercise price £139.01 (2006 £137.37), average share price at exercise date £204.90 (2006 £177.83)

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)**

#### Option Features

<u>Grant date</u>	<u>Expiring on</u>	<u>Exercise Price In £</u>	<u>Expected Volatility</u>	<u>Risk-free Interest Rate</u>	<u>Dividend Yield</u>	<u>Fair Value at Grant in £</u>	<u>2007</u> No of Options Outstanding	<u>2006</u> No of Options Outstanding
01 03 2001	29 02 2008	148 80					1,500	12,710
01 03 2002	28 02 2009	159 27					12,730	26,800
01 02 2003	31 01 2010	120 77	27 16%	1 78%	2 25%	24 90	9,300	21,300
01 10 2003	30 09 2010	133 78	20 58%	2 11%	2 30%	21 36	500	1,000
01 02 2004	31 01 2011	142 72	19 41%	2 05%	2 11%	21 90	25,000	45,400
01 10 2004	30 09 2011	125 47	20 83%	2 09%	2 50%	19 59	-	700
							<u>49,030</u>	<u>107,910</u>

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 year 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 UK Ltd, all charges for RSUP are accrued in creditors' amounts falling due within one year and the share value is subsequently invoiced to Nestlé UK Ltd by Nestlé S A.

**NESTLÉ UK LTD**

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

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

Movement of Restricted Stock Units

	<u>2007</u> No of RSU	<u>2006</u> No of RSU
RSU outstanding at 1 January	23,530	12,765
New RSU	10,490	11,005
RSU settled or transferred (a)	(1,615)	-
RSU forfeited	<u>-</u>	<u>(240)</u>
Outstanding at 31 December	<u>32,405</u>	<u>23,530</u>
- of which vested at 31 December	0	0

(a) Average price at vesting date £199.85 (2006 £172.76)

Restricted Stock Units Features

<u>Grant date</u>	<u>Restricted until</u>	<u>Interest</u>	<u>Yield</u>	<u>At Grant</u> <u>in £</u>	<u>2007</u> RSU	<u>2006</u> RSU
01 03 2005	29 02 2008	1.59%	2.45%	137.87	11,250	12,525
01 10 2005	30 09 2008	1.50%	2.15%	137.70	-	-
01 02 2006	31 01 2009	2.10%	2.13%	162.46	10,665	11,005
01 10 2006	30 09 2009	2.40%	2.15%	190.44	-	-
01 02 2007	31 01 2010	2.71%	2.15%	195.66	10,400	-
01 10 2007	30 09 2010	3.02%	2.00%	227.31	<u>90</u>	<u>-</u>
					<u>32,405</u>	<u>23,530</u>

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

**NESTLÉ UK LTD**

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

**23. CALLED UP SHARE CAPITAL**

	<u>Authorised</u>		<u>Allotted and fully paid</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
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>130.0</u>

**24. RESERVES**

	<u>Share Premium Account</u>	<u>Profit and Loss Account</u>
	<u>£m</u>	<u>£m</u>
At 31 December 2006	211.4	(741.1)
Capital contribution – loan waived by group undertaking	-	1.5
Total recognised gain for year	<u>-</u>	<u>59.0</u>
At 31 December 2007	<u>211.4</u>	<u>(680.6)</u>

The profit and loss account reserve includes amounts relating to goodwill written off. The total profit and loss account is analysed as follows:

	<u>Distributable Profit</u>	<u>Goodwill (Unrealised)</u>	<u>Total</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
At 31 December 2006 (as reported)	(45.4)	(695.7)	(741.1)
Capital contribution - loan waived by group undertaking	1.5	-	1.5
Total recognised gain for year	59.0	-	59.0
Goodwill amortised	<u>(28.5)</u>	<u>28.5</u>	<u>-</u>
At 31 December 2007	<u>(13.4)</u>	<u>(667.2)</u>	<u>(680.6)</u>

**NESTLÉ UK LTD**

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

The cumulative amount of goodwill resulting from acquisitions prior to 1 January 1999 which has been written off against distributable reserves, at 31 December 2007 is £456.1 million (2006 £427.6 million)

**25. CAPITAL AND OTHER FINANCIAL COMMITMENTS**

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

	<u>2007</u> £m	<u>2006</u> £m
<b>CAPITAL COMMITMENTS</b>		
Contracted	4.8	8.1
<b>OTHER FINANCIAL COMMITMENTS</b>		
Forward Contracts		
Raw Materials	9.7	-
Foreign Currency	106.0	119.0

**26. LEASING COMMITMENTS**

There are no future minimum lease payments to which the Company is committed at 31 December 2007 under finance leases (2006 NIL)

**Commitments Under Operating Leases**

At 31 December 2007 the Company has annual commitments under non-cancellable operating leases as set out below

	<u>2007</u>		<u>2006 (Restated)</u>	
	Land & buildings £m	Other £m	Land & buildings £m	Other £m
Operating leases which expire				
Within one year	-	-	-	-
Within two to five years inclusive	0.2	-	0.2	-
After five years	0.1	-	0.3	-
	<u>0.3</u>	<u>-</u>	<u>0.5</u>	<u>-</u>

Of the operating leases, £0.2m are leases held by Cereal Partners UK, a partnership in which Nestlé UK Ltd has a 50% interest. Figures are adjusted to reflect this.

## **NESTLÉ UK LTD**

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

(continued)

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

Apart from indemnities given in the normal course of business totalling £4.8 million (2006 £6.8 million), there were other contingent liabilities amounting to £15.6 million (2006 £15.6 million) that reflect the pension fund deficit of Cereal Partners U.K., a partnership in which Nestlé UK Ltd has a 50% interest

#### **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 £66.6m to the fund during 2007 (2006 £71.9m)

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 December 2007 by an independent qualified actuary for the purposes of FRS17. At that date there was a shortfall of assets and liabilities of £207.6m (2006 £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**

Nestlé Capital Management Limited ("NCM") replaced the Nestlé Pension Investment Pool ("the Pool") with effect from 1 January 2007 and has assumed responsibility for the management and administration of the investments relating to the pension arrangements of Nestlé UK Ltd (NUKL) from that date.

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 2007 the total expenses reimbursed amounted to £4,313,235 (2006 £2,427,135). Of this figure £1,157,636 (2006 £1,084,011) relates to salaries and other benefits of the staff and £3,155,599 to other administrative costs.

The costs of the investment management previously paid by NUKL and reimbursed by the Pool are now included in the expenses reimbursed by NUKPF as detailed above. For 2006 these totalled £997,631 of which £873,384 represented the salaries and other benefits of the staff of the Pool investment department.

## **NESTLÉ UK LTD**

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

(continued)

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

The Company provides certain post-retirement benefits, mainly healthcare, to 218 (2006 237) 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	5.8%	(2006 5.2%)
assumed medical inflation	6.0%	(2006 5.6%)

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	5.8%	(2006 5.2%)
assumed inflation of benefits	3.5%	(2006 3.1%)

#### **31. 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.