

NESTLÉ UK LTD

Company Nos.: 51491 (Cardiff)
NF 00340 (Belfast)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2003



NESTLÉ UK LTD

Directors' Report for the year ended 31 December 2003

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 2003.

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

Following various reorganisations in 2002, the Company hit important targets for customer service, market shares and overhead costs. The Company continues its efforts to concentrate on its core Beverage, Confectionery, Out of Home and Chilled Dairy businesses, building a greater focus on Health, Nutrition and Wellness.

ACQUISITIONS AND DISPOSALS

The following acquisitions took place during the year:

- On 25th June 2003, Nestlé UK Ltd ("NUKL") acquired the entire issued share capital of Dallaw Limited from Nestlé Purina Holdings (U.K.) Limited.
- On 25th June 2003, NUKL acquired the entire issued share capital of Daflaw Limited from Dallaw Limited.

DIRECTORS

The following were Directors throughout the period:

R. Cordier (resigned 26/09/2003)

D.C. Hudson

F.M. Kendrick

G. Millar

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

A.J. Sykes

C.M. Tyas

A. Willi (appointed 29/07/2003)

No directors exercised share options during 2003 granted by Nestlé SA (2002 : 2).

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

- select suitable accounting policies and apply them consistently;
- make 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.

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Directors' Report for the year ended 31 December 2003

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

DIVIDEND

The Directors do not recommend payment of a dividend (2002 : £nil).

RESERVES

The retained profit for the year of £35.0m 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 7 days (2002: 7 days) purchases outstanding in trade creditors. This figure is significantly affected by the credit terms, which are industry norms, for the purchase of commodities and other items.

EMPLOYEES

The Company fully supports the rights of all individuals to seek, obtain and hold employment without discrimination on the grounds of race, colour, religion, origin, sex, sexual orientation, disability or marital status. The Company seeks to provide a working environment free of any harassment or intimidation.

Policies relating to training, career development and succession are applied equally to disabled and able bodied employees. Employees who become disabled are retained, where possible, through redeployment and retraining, to enable them to perform work identified as appropriate to their aptitudes and abilities.

All employees have access to information on policies and general company information through our electronic Intranet resource. During 2003 all employees were asked for their views through an Employee Opinion Survey, the outputs of which have led to specific initiatives for improvements. The Company has many representative groups and forums and over the last year has continued to develop a "partnership" approach with these groups. Briefings, Bulletins, Newsletters and Nestlé News all provide regular information to employees on company priorities, progress and performance. Additionally all staff and managers have the opportunity for direct presentations on the Company's annual objectives and results and receive updates on progress through the year.

Occupational Health and Safety continued to receive the same high profile in 2003 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 monthly meeting agenda with reports received from the Head of Group Occupational Health and Safety.

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Directors' Report for the year ended 31 December 2003

2003 demonstrated a further 10% fall in Total Accident frequency rates and a 6% fall in Notifiable Accident rates (rates based upon number of accidents per 100,000 hours worked). Of particular note is a 30% fall in major incidents with a subsequent 54% reduction in major injuries sustained by employees. There were no fatalities during the year.

There were no HSE Improvement or Prohibition notices served during the year and the HSE prosecution, following the fatality of a contractor on one of the Company's sites in 1999, came to trial. 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. In addition, projects that will reduce by 182 tonnes the amount of packaging used by the Company have been identified.

Compliance with environmental regulatory requirements were met and the Company continued with the training programme for those responsible for environmental management.

CHARITABLE DONATIONS

The Company made charitable donations totalling £1,800,000 during the period (2002: £1,400,000). No contributions were made for political purposes.

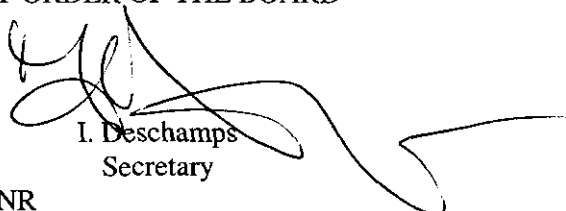
AUDITOR

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
26th July, 2004

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

NESTLÉ UK LIMITED

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

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31st December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

MAL AAR PLC

KPMG Audit Plc
Chartered Accountants
Registered Auditor

LONDON
26th July, 2004

NESTLÉ UK LTD

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	<u>2003</u>	<u>2002</u> (restated)*
		£m	£m
Turnover	2	1,344.3	1,437.1
Cost of sales	4	<u>(1,003.0)</u>	<u>(1,053.9)</u>
Gross profit		341.3	383.2
Distribution costs	4	(107.3)	(117.3)
Administrative expenses	4	(123.3)	(117.5)
Amortisation of goodwill		<u>(4.1)</u>	<u>(3.1)</u>
Operating profit		106.6	145.3
Exceptional (loss)/profit on disposal of business	7	(2.4)	38.1
Income from shares in Group undertakings		4.6	-
Income from participating interests		8.3	8.6
Other interest receivable and similar income	5	0.8	1.0
Interest payable and similar charges	6	<u>(68.7)</u>	<u>(74.1)</u>
Profit on ordinary activities before taxation	7	49.2	118.9
Tax on profit on ordinary activities	10	<u>(14.2)</u>	<u>(11.7)</u>
Profit for the financial year		35.0	107.2
Dividends paid		-	-
Retained profit for the financial year	21	<u>35.0</u>	<u>107.2</u>

* Restated for Application note G to FRS 5 'Reporting the substance of Transactions' See note 1.
All turnover and operating profit arose from continuing activities.

The historical cost profit from ordinary activities is not materially different from the reported profit.

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

NESTLÉ UK LTD

BALANCE SHEET AS AT 31 DECEMBER 2003

	Note	<u>2003</u> £m	<u>2003</u> £m	<u>2002</u> £m	<u>2002</u> £m
Fixed Assets					
Intangible assets	11		74.2		78.3
Tangible assets	12		389.2		401.4
Investments	13		<u>191.2</u>		<u>41.1</u>
			654.6		520.8
Current Assets					
Stocks	15	128.5		126.4	
Debtors	16	312.8		298.6	
Cash at bank and in hand		-		-	
		<u>441.3</u>		<u>425.0</u>	
Creditors: amounts falling due within one year	17	<u>(676.0)</u>		<u>(575.0)</u>	
Net current liabilities			<u>(234.7)</u>		<u>(150.0)</u>
Total assets less current liabilities			419.9		370.8
Creditors: amounts falling due after more than one year	18	(840.0)		(840.0)	
Provision for liabilities and charges	19	<u>(22.9)</u>		<u>(8.8)</u>	
			<u>(862.9)</u>		<u>(848.8)</u>
Net liabilities			<u>(443.0)</u>		<u>(478.0)</u>
Capital and reserves					
Called up share capital	20		120.4		120.4
Share premium account	21		71.0		71.0
Profit and loss account	21		<u>(634.4)</u>		<u>(669.4)</u>
Total equity shareholders' funds			<u>(443.0)</u>		<u>(478.0)</u>

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

Approved by the Board on 26th July, 2004
and signed on its behalf by



G. Millar
Director

NESTLÉ UK LTD

STATEMENT OF RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2003

	<u>2003</u>	<u>2002</u>
	£m	£m
Profit for the financial year	35.0	107.2
Total recognised gains since last annual report	<u>35.0</u>	<u>107.2</u>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2003

	<u>2003</u>	<u>2002</u>
	£m	£m
Profit for the financial year	35.0	107.2
Opening shareholders' funds	(478.0)	(585.2)
Closing shareholders' funds	<u>(443.0)</u>	<u>(478.0)</u>

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The following principal accounting policies have been applied consistently, in dealing with items which are considered material in relation to the Company's financial statements, except as noted below. The Company has adopted application note G to FRS5 'Reporting the Substance of Transactions' in these financial statements.

Basis of Preparation

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, and are in accordance with applicable accounting standards.

Turnover

Turnover represents sales to customers at invoiced amount, excluding VAT and trade discounts and certain promotional expenditure.

Depreciation

Depreciation is provided to write off the cost of all tangible fixed assets (including system development costs), except freehold and long leasehold land, over their expected useful lives. It is calculated on a straight line basis from the first day of the accounting month following the date on which the assets are brought into use, in the case of system development costs, from the date of implementation of the related system, at the following rates:

Freehold Properties	2%	-	4%	per annum
Long Leasehold Properties			4%	per annum
Plant and Machinery	6 ² / ₃ %	-	33 ¹ / ₃ %	per annum
System Development Costs			20%	per annum

Revaluation

The Company is adopting Financial Reporting Standard 15 'Tangible Fixed Assets' and has chosen not to adopt a revaluation policy. The Company's land and buildings were last revalued at 31 December 1986.

Leased Assets

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors.

All other leases are treated as 'operating leases'. Annual rentals are charged to the profit and loss account in the period in which they are incurred.

Goodwill

Purchased goodwill arising in respect of acquisitions before 1 January 1999 was written off to reserves in the year of acquisition. A movement between distributable profits and goodwill representing an amortisation charge over 40 years is reconciled at note 21. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal. Other purchased goodwill is eliminated by amortisation through the profit and loss account over its useful economic life of 20 years.

Investments

Investments are valued at cost or directors' valuation, less amounts written off.

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

1. ACCOUNTING POLICIES (continued)

Stocks and Work-in-Progress

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

Consolidation

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

Deferred Taxation

Deferred tax is provided in respect of all timing differences that have originated, but not reversed, by the Balance Sheet date except as allowed by FRS19 'Deferred Tax' as detailed below.

Deferred tax is measured on a non-discounted basis at Corporation tax rates that are expected to apply in the periods in which timing differences reverse.

It is not anticipated that any significant taxation will become payable on the sale of tangible and intangible fixed assets, as taxation on assets used for the purpose of the company's trade are expected to be deferred indefinitely, or eliminated by capital losses.

Foreign Currency

Transactions denominated in foreign currencies are translated into sterling and recorded at the rate of exchange ruling at the transaction date. Monetary assets and liabilities denominated in a foreign currency are translated into sterling at the exchange rates ruling at the period end. Any differences are taken to the profit and loss account.

Raw Materials Futures Contracts

The futures market is used in order to stabilise the long term price of major raw materials. Profits and losses related to futures contracts are taken in the period in which the related raw material is physically used.

Cashflow Statement

Under Financial Reporting Standard 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

Pension Costs and Other Personnel Obligations

Pension costs are charged systematically to the profit and loss account over the average remaining future service lives of employees. The pension cost is assessed in accordance with the advice of independent, qualified actuaries. The liability for other personnel obligations including the Long Term Sickness and Disability Scheme and post-retirement benefits have been recognised using a valuation provided by an independent actuary.

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 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).

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

1. ACCOUNTING POLICIES (continued)

Prior Year Adjustment

Application note G to FRS 5 'Reporting the substance of transactions' – A new application note on revenue recognition has been added to the standard. The application note requires that revenue should be stated at fair value of the right to consideration. The company incurs certain promotional expenditure (e.g. buy one get one free offers and marketing deductions) that is not wholly independent of the invoiced price. This expenditure is now deducted from turnover. This change has no impact on gross profit and resulted in a reduction in turnover and cost of sales of £179.0m (2002: £142.9m).

2. TURNOVER

The geographical analysis of turnover by destination is as follows:

	<u>2003</u>	<u>2002*</u>
	£m	£m
United Kingdom	1,178.9	1,245.0
Europe	101.2	102.6
Other	<u>64.2</u>	<u>89.5</u>
	<u>1,344.3</u>	<u>1,437.1</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.

* Restated for Application note G to FRS 5 'Reporting the substance of Transactions'. See note 1.

3. STAFF NUMBERS AND COSTS

The average number of people employed by the Company during the year, analysed by category, was as follows:

	<u>2003</u>	<u>2002</u>
	No.	No.
Production	4,948	6,123
Administration, distribution and sales	<u>2,194</u>	<u>2,298</u>
	<u>7,142</u>	<u>8,421</u>

The aggregate payroll costs of these persons were as follows:

	<u>2003</u>	<u>2002</u>
	£m	£m
Wages and salaries	206.9	221.4
Social security costs	17.6	17.4
Other pension costs	<u>66.3</u>	<u>9.5</u>
	<u>290.8</u>	<u>248.3</u>

The above costs exclude amounts for redundancy totalling £20.4m (2002: £18.2m).

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

4. EXCEPTIONAL ITEMS

The exceptional costs detailed below are included in the appropriate expense headings in the Profit and Loss Account before operating profit on page 6.

	Cost of Sales	Distribution Costs	Administrative Expenses	Total
	£m	£m	£m	£m
Restructuring following acquisition	0.9	-	-	0.9
Restructuring following disposal	0.6	1.1	0.9	2.6
Factory / divisional re-organisation	29.0	-	-	29.0
Other	<u>1.2</u>	<u>-</u>	<u>4.0</u>	<u>5.2</u>
	<u>31.7</u>	<u>1.1</u>	<u>4.9</u>	<u>37.7</u>

5. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	<u>2003</u> £m	<u>2002</u> £m
Other interest receivable	<u>0.8</u>	<u>1.0</u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	<u>2003</u> £m	<u>2002</u> £m
On borrowings from group undertakings	60.9	60.9
On bank loans and overdrafts	7.8	13.2
	<u>68.7</u>	<u>74.1</u>

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

7. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The profit is arrived at after charging the following:

	<u>2003</u>	<u>2002</u>
	£m	£m
Depreciation - Owned Assets	53.7	57.9
Impairment – Owned Tangible Fixed Assets	6.3	41.6
Amortisation of goodwill	4.1	3.1
Hire of plant and machinery		
(including operating lease charges)	1.3	1.6
Other hire charges including operating leases	0.6	0.3
Auditors' remuneration – Audit	0.4	0.4
– Other Services	0.1	0.1
Directors' emoluments (note 8)	2.1	2.2
Exceptional net (profit)/loss on disposal of businesses	2.4	(54.5)
(relate to sale of Omagh factory, ambient and		
FIS business in 2002)		
Exceptional restructuring costs*	-	16.4

*The 2002 costs relate mainly to the restructure of the remaining Nestlé UK Ltd. grocery business following the sale of the ambient food business.

8. DIRECTORS' EMOLUMENTS

The emoluments of the directors excluding pension contributions were £2,064,592 (2002: £2,187,808) and pension contributions payable by the Company were £147,058 (2002: £140,669). The number of directors accruing retirement benefits at 31st December 2003 was 7 (2002 : 7) The emoluments of the highest paid director were:

	<u>2003</u>	<u>2002</u>
	£	£
Highest paid director	<u>444,772</u>	<u>415,188</u>

At 31 December 2003 the highest paid director had accrued pension benefits of £103,973 (2002: £89,427).

9. DIRECTORS' INTERESTS

None of the directors had any interests recorded in the Statutory Register at 31 December 2003 (2002: Nil).

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

10. TAX ON PROFIT ON ORDINARY ACTIVITIES

ANALYSIS OF CHARGE IN PERIOD

	<u>2003</u>		<u>2002</u>	
	£m	£m	£m	£m
UK Corporation tax				
Current tax on income for period	0.2		39.0	
Adjustment in respect of prior periods	<u>0.2</u>		<u>(1.2)</u>	
Total current tax		0.4		37.8
Deferred tax (see note 19)				
Deferred tax for the current year	14.3		(24.8)	
Deferred tax relating to prior years	<u>(0.5)</u>		<u>(1.3)</u>	
		13.8		(26.1)
Tax charge on profit on ordinary activities		<u>14.2</u>		<u>11.7</u>

FACTORS AFFECTING THE TAX CHARGE FOR THE CURRENT PERIOD

The current tax charge for the period is lower (2002: higher) than the standard rate of corporation tax in the UK: 30% (2002: 30%). The differences are explained below:

	<u>2003</u>	<u>2002</u>
	£m	£m
Current Tax Reconciliation		
Profit on ordinary activities before tax	<u>49.2</u>	<u>118.9</u>
Current tax charge @ 30% (2002: 30%)	14.8	35.7
Effects of:		
Expenses not deductible for tax purposes	(0.3)	1.2
Income not taxable	-	(22.7)
Depreciation for period (less)/more than capital allowances	(9.1)	14.7
Pension scheme contributions (prepaid) / payable	(5.2)	2.7
Other timing differences	-	7.4
Adjustments to tax charge in respect of previous periods	<u>0.2</u>	<u>(1.2)</u>
Total current tax charge (see above)	<u>0.4</u>	<u>37.8</u>

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

11. INTANGIBLE ASSETS

	Goodwill £m
Cost or Valuation	
At 31 December 2002	81.4
Additions	-
At 31 December 2003	<u>81.4</u>
Amortisation	
At 31 December 2002	3.1
Charge for year	4.1
At 31 December 2003	<u>7.2</u>
Net book value at 31 December 2003	<u>74.2</u>
Net book value at 31 December 2002	<u>78.3</u>

12. TANGIBLE ASSETS

	Land & buildings	Plant & machinery	System Development Costs	Payments on account	Total
	£m	£m	£m	£m	£m
Cost or Valuation					
At 31 December 2002	228.5	877.5	2.4	1.0	1,109.4
Additions	2.9	37.0	11.3	(1.0)	50.2
Disposals	(3.3)	(63.5)	-	-	(66.8)
Transfers	(0.1)	0.1	-	-	-
Reclassification	0.9	(0.9)	-	-	-
At 31 December 2003	<u>228.9</u>	<u>850.2</u>	<u>13.7</u>	<u>-</u>	<u>1,092.8</u>
At cost	182.2	850.2	13.7	-	1046.1
At professional valuation	46.7	-	-	-	46.7
	<u>228.9</u>	<u>850.2</u>	<u>13.7</u>	<u>-</u>	<u>1,092.8</u>
Depreciation					
At 31 December 2002	79.2	628.8	-	-	708.0
Charged in the year	12.0	41.7	-	-	53.7
Impairment in the year	0.5	5.8	-	-	6.3
Disposals	(2.9)	(61.5)	-	-	(64.4)
At 31 December 2003	<u>88.8</u>	<u>614.8</u>	<u>-</u>	<u>-</u>	<u>703.6</u>
Net book value at 31 December 2003	<u>140.1</u>	<u>235.4</u>	<u>13.7</u>	<u>-</u>	<u>389.2</u>
Net book value at 31 December 2002	<u>149.3</u>	<u>248.7</u>	<u>2.4</u>	<u>1.0</u>	<u>401.4</u>

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

12. TANGIBLE ASSETS (continued)

The net book value of land and buildings comprises:

	<u>2003</u> £m	<u>2002</u> £m
Freehold	<u>140.1</u>	<u>149.3</u>
	<u>140.1</u>	<u>149.3</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 2002	1.0	40.0	0.3	41.3
Additions	176.7	-	-	176.7
Share of profits in associate	-	8.4	-	8.4
Cost or directors' valuation at 31 December 2003	<u>177.7</u>	<u>48.4</u>	<u>0.3</u>	<u>226.4</u>
Provision at 31 December 2002	(0.2)	-	-	(0.2)
Repayments	-	(35.0)	-	(35.0)
Provision at 31 December 2003	<u>(0.2)</u>	<u>(35.0)</u>	<u>-</u>	<u>(35.2)</u>
Net book value at 31 December 2003	<u>177.5</u>	<u>13.4</u>	<u>0.3</u>	<u>191.2</u>
Net book value at 31 December 2002	<u>0.8</u>	<u>40.0</u>	<u>0.3</u>	<u>41.1</u>

Subsidiary Undertakings

On 25th June 2003, the Company acquired the whole of the share capital of Dallaw Ltd, a subsidiary of Nestlé Purina Holdings (U.K.) Ltd for a cash consideration of £176.4m. On the same date, the Company acquired the share capital of Daflaw Ltd from Dallaw Ltd for a cash consideration of £0.3m.

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

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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 2003 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>
Rowlaw No 9 Ltd.	100%	Dormant
Raw Products Limited	75%	Agency
Daflaw Ltd	100%	Holding Company
Dallaw Ltd	100%	Holding Company

15. STOCKS

	<u>2003</u> £m	<u>2002</u> £m
Engineering Stores	10.5	11.2
Raw materials and consumables	27.6	20.2
Work in progress	27.7	23.7
Finished goods and goods for resale	<u>62.7</u>	<u>71.3</u>
	<u>128.5</u>	<u>126.4</u>

16. DEBTORS

	<u>2003</u> £m	<u>2002</u> £m
Due within one year:		
Trade debtors	185.1	170.2
Amounts owed by group undertakings	45.4	41.6
Other debtors	62.6	67.5
Prepayments and accrued income	<u>19.7</u>	<u>19.3</u>
	<u>312.8</u>	<u>298.6</u>

Included in other debtors is a prepayment of £29.9m (£20.9m net of deferred tax) (2002: £39.8m (£27.9m net of deferred tax)), in respect of pension contributions to the Nestlé UK Pension Fund.

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

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17. CREDITORS: Amounts falling due within one year

	<u>2003</u> £m	<u>2002</u> £m
Bank loans and overdrafts	319.8	166.5
Trade creditors	11.8	9.0
Amounts owed to associated undertakings	72.9	36.0
Other creditors including taxation and social security	74.7	128.3
Accruals and deferred income	<u>196.8</u>	<u>235.2</u>
	<u>676.0</u>	<u>575.0</u>

Included in other creditors is an accrual of £15.7m (2002: £14.6m) in respect of the long term sickness and disability scheme run by the Group and an amount of £2.2m (2002: £2.0m) in respect of unfunded pension liabilities.

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

	<u>2003</u> £m	<u>2002</u> £m
Amounts owed to group undertakings	<u>840.0</u>	<u>840.0</u>

19. PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred Tax £m	Post-retirement Benefits £m	Total £m
At 31 December 2002	0.7	8.1	8.8
Contributions	-	(0.5)	(0.5)
P&L Charge for year	13.8	0.8	14.6
At 31 December 2003	<u>14.5</u>	<u>8.4</u>	<u>22.9</u>

The deferred taxation liability consists of the following amounts:

	<u>2003</u> £m	<u>2002</u> £m
Fixed asset timing differences	14.2	7.9
Pension accruals	8.1	3.0
Other timing differences	<u>(7.8)</u>	<u>(10.2)</u>
	<u>14.5</u>	<u>0.7</u>

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

(continued)

20. CALLED UP SHARE CAPITAL

	Authorised		Allotted and fully paid	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
	£m	£m	£m	£m
Ordinary shares of 50p each (320 million authorised, 240.8 million allotted and fully paid)	<u>160.0</u>	<u>160.0</u>	<u>120.4</u>	<u>120.4</u>

21. RESERVES

	Share Premium Account £m	Profit and Loss Account £m
At 31 December 2002	71.0	(669.4)
Retained profit for the year	-	35.0
At 31 December 2003	<u>71.0</u>	<u>(634.4)</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 2002	138.8	(808.2)	(669.4)
Retained profit for the year	35.0	-	35.0
Goodwill amortised	(28.5)	28.5	-
At 31 December 2003	<u>145.3</u>	<u>(779.7)</u>	<u>(634.4)</u>

The cumulative amount of goodwill resulting from acquisitions prior to 1st January 1999 which has been written off against distributable reserves, at 31 December 2003 is £343.6m (2002: £315.1m).

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

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22. CAPITAL AND OTHER FINANCIAL COMMITMENTS

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

	<u>2003</u> £m	<u>2002</u> £m
CAPITAL COMMITMENTS		
Contracted	5.7	8.2
OTHER FINANCIAL COMMITMENTS		
Forward Contracts		
Raw Materials	22.1	43.3
Foreign Currency	186.6	130.1

23. LEASING COMMITMENTS

There are no future minimum lease payments to which the company is committed at 31 December 2003 under finance leases (2002 : NIL).

Commitments Under Operating Leases

At 31 December 2003 the company has annual commitments under non-cancellable operating leases as set out below:

	<u>2003</u>		<u>2002</u>	
	Land & buildings £m	Other £m	Land & buildings £m	Other £m
Operating leases which expire:				
Within one year	-	0.3	0.1	0.2
Within two to five years inclusive	-	-	0.1	0.1
After five years	<u>2.4</u>	<u>-</u>	<u>2.3</u>	<u>-</u>
	<u>2.4</u>	<u>0.3</u>	<u>2.5</u>	<u>0.3</u>

24. CONTINGENT LIABILITIES

Apart from indemnities given in the normal course of business totalling £18m (2002: £13.4m), there are no contingent liabilities at 31 December 2003 (2002: £NIL).

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

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25. PENSION SCHEME

The Nestlé UK Pension Fund

The Company operates a defined benefit pension scheme, the Nestlé UK Pension Fund (NUKPF) primarily for the employees of the Company. The assets of the Fund are held separately from those of the Company in an independently administered fund.

Pension costs are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives. They are determined by a qualified actuary on the basis of triennial valuations using the project unit method and are updated annually to take into account the change of assumptions and investment performance of the fund.

The pension cost charge for the year was £66.3m (2002: £9.3m). The cost has increased significantly for two reasons. Firstly, the change in assumptions, reflecting the change in financial conditions, has had the impact of increasing the cost of benefits accruing over the year and increasing the accounting measure of the value of the past benefits. Second, the poor investment experience over 2002 also meant that the financial position of the Fund had worsened by 31st December 2002. The combined effect of these factors has been to increase the regular cost but also the previous amortisation of surplus reducing the pension charge has become an amortisation of deficit, again increasing the pension charge. The amount actually paid by the Company to the Fund during the year was £85.0m (2002: £0.3m) of which £28.6m relates to 2002 and was recognized in 2002 balance sheet. The end of year balance sheet prepayment is £29.9m (2002: a prepayment of £39.8m). The pension charge includes an allowance for the amortisation of the surplus identified as at the triennial valuation of 5th April 2001, as a percentage of pay over 11 years.

The Company has established a funding policy that aims, as a minimum, to target the assets required to meet the future liabilities were the fund to discontinue and to be run as a closed scheme. Accordingly, the actuarial valuation for funding purposes and the accounting cost are determined using different actuarial assumptions.

The most recent funding actuarial valuation of the Fund's financial position was at 5th April 2001. At that date, the market value of the Fund's assets amounted to £2.1 billion and the value of these assets represented 111% of the value of the benefits that had accrued to members, after allowing for expected future increases in pay and pensions.

The assumptions that have the most significant effect on the results are those relating to the discount rate and the rates of increase in pay and pensions. The assumptions used were:

Discount Rate		
- pre retirement	7.0% pa	(2002 : 7.5% pa)
- post retirement	5.75% pa	(2002 : 6.25% pa)
Increases in pay	3.3% pa	(2002 : 3.5% pa)
Pension increases	2.3% pa	(2002 : 2.5% pa)

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

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25. PENSION SCHEME (continued)

Disclosure re FRS17 : Retirement Benefits

Nestlé UK Ltd participates in the Nestlé UK Pension Fund which is a defined benefit scheme.

Nestlé UK Ltd is unable to identify its share of the underlying assets and liabilities of the Fund, as each employer is exposed to actuarial risks associated with the current and former employees of other entities participating in the Fund. An update of the whole Fund was prepared at 31st December 2003 by an independent qualified actuary for the purposes of FRS17. At that date there was a shortfall of assets against liabilities of £616.8 million. This has no direct implication for funding for Nestlé UK because contributions are assessed without reference to the FRS17 accounting surplus or deficit. Full disclosure is made in the holding company accounts.

26. RELATED PARTY TRANSACTIONS

The Nestlé Pension Investment Pool ("the Pool") is the vehicle through which the investments relating to the pension arrangements of Nestlé UK Ltd ("NUKL") are managed and administered. The Trustee of the Pool is Nestlé UK Pension Trust Ltd ("NUKPTL").

The costs of investment management are borne by the Pool but certain investment management expenses are paid by NUKL on behalf of the Pool and the Pool then reimburses NUKL with the cost of those expenses. For the year ended 31 December 2003, these expenses reimbursed to NUKL amounted to £1,068,032. Of this figure, £992,333 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 2003 the total expenses reimbursed amounted to £2,308,716. Of this figure £995,651 relates to salaries and other benefits of the staff and £1,313,065 to other administrative costs.

NESTLÉ UK LTD

NOTES TO THE FINANCIAL STATEMENTS

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27. OTHER PERSONNEL OBLIGATIONS

The Company provides certain post-retirement benefits, mainly healthcare, to 266 (2002: 269) 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:	5.4% (2002: 5.6%)
assumed medical inflation:	5.3% (2002: 4.8%)

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:	5.4%	(2002: 5.6%)
assumed inflation of benefits:	2.8%	(2002: 2.3%)

28. POST BALANCE SHEET EVENTS

On 24th February 2004 the Company announced the proposed closure of the Staverton factory by the end of September 2004. The closure costs are estimated at £13.8m and no provision has been made in these accounts for any of these costs.

29. 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.