Nestlé Watercoolers UK Limited

Directors' report and financial statements

Registered number 1963471

31 December 2002

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2002.

Principal activities

The company's principal trading activities are the supply of water cooler equipment for rental to commercial and residential premises together with the supply of bottled water and associated consumable products.

Business results

The performance achieved during the period is set out in the profit and loss account on page 4.

Directors and Directors interests

The directors who held office during the year were as follows:

S Sloan
J Dundon
C Kuehne
Y De Cacqueray (resigned 12 September 2002)

None of the directors who held office at the financial year-end had any disclosable interest in the shares of the company or any other group company.

According to the register of directors interests, no rights to subscribe for shares in group companies were granted to any of the directors or their immediate families, or exercised by them, during the financial year.

Dividend

The directors do not recommend the payment of a dividend *(2001: £nil)*.

Auditors

The auditor, KPMG Audit Plc, will continue in office. The company has dispensed with the obligation to appoint auditors annually, in accordance with s386 of the companies Act 1985.

By order of the board

P.C.O'Brien
Secretary

Trinity Court, Church Street
Rickmansworth, Hertfordshire
WD3 1LD

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 then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 to 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.

KPMG

KPMG Audit Plc
Aquis Court
31 Fishpool Street
St Albans
AL3 4RF
United Kingdom

Report of the independent auditors to the members of Nestlé Watercoolers UK Limited

We have audited the financial statements on pages 4 to 15.

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

Respective responsibilities of directors and auditors

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

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

25 August 2003

Profit and loss account

for the year ended 31 December 2002

	Note	2002 £000	2001 £000
Turnover	2	**30,742**	752
Cost of sales		**(8,439)**	(588)
Gross Profit		**22,303**	164
Distribution costs		**(11,550)**	(2,137)
Administrative expenses	4	**(15,594)**	(632)
Operating profit		**(4,841)**	(2,605)
Exceptional costs relating to the re-structuring and integration of acquired business		**(495)**	-
Income from shares in group undertakings		**7,753**	-
Amounts written off investment		**(7,753)**	-
Other interest receivable and similar income	5	**105**	-
Interest payable and similar charges	6	**(144)**	-
Loss on ordinary activities before taxation	7	**(5,375)**	(2,605)
Tax on loss on ordinary activities	9	**85**	991
Loss on ordinary activities after taxation		**(5,290)**	(1,614)
Retained loss for the financial year		**(5,290)**	(1,614)

All turnover and profits of the company are derived wholly from continuing operations.

The notes on pages 6 to 15 form part of these accounts.

Balance sheet
At 31 December 2002

	Note	2002 £000	2001 £000
Fixed assets			
Intangible assets	10	**74,921**	78,865
Tangible assets	11	**13,418**	12,955
Investments	12	**405**	8,158
		88,744	99,978
Current assets			
Stocks	13	**829**	425
Debtors	14	**13,580**	13,310
Cash at bank and in hand		**426**	25
		14,835	13,760
Creditors: amounts falling due within one year	*15*	**(107,049)**	(113,348)
Net current liabilities		**(92,214)**	(99,588)
Provisions for liabilities and charges	*17*	**(1,430)**	-
Total assets less current liabilities		**(4,900)**	390
Net (liabilities)/assets		**(4,900)**	390
Capital and reserves			
Called up share capital	*18*	**3,000**	3,000
Profit and loss account	*19*	**(7,900)**	(2,610)
Total equity shareholders' funds	*20*	**(4,900)**	390

These financial statements were approved by the board of directors on 26 August 2003 and were signed on its behalf by:

S Sloan
Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following 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 in accordance with applicable accounting standards and under the historical cost accounting rules.

The company made a loss after taxation of £5,290,000 for the year ended 31 December 2002 (*2001:loss £1,614,000*). The company is dependant on the continued support of its parent company to meet obligations as and when they fall due. The directors consider it appropriate to prepare financial statements on the going concern basis as the parent company has continued to offer financial support in the form of loans for the purchase of the businesses acquired and the subsequent integration and operation of these businesses.

The company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

Under Financial Reporting Standard 1 (revised 1996) the company is exempt from the requirement to prepare a cash flow statement on the grounds that Nestlé Holdings (U.K.) PLC, a parent undertaking, includes the company in its own published consolidated financial statements.

As the company is a wholly owned subsidiary of Nestlé S.A., it has taken advantage of the exemption contained in FRS 8 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). The consolidated financial statements of Nestlé Holdings (U.K.) PLC, within which this company is included, can be obtained from the address given in note 23.

Tangible fixed assets

Fixed assets are shown at cost or fair value at time of acquisition, whichever is the lower. Depreciation is provided to write-off the cost of all tangible fixed assets, except freehold land, over their expected useful lives. It is calculated on a straight line basis at the following rates:

Freehold properties	2% per annum
Short leasehold properties	Life of lease
Plant and machinery	10% to 20% per annum
Furniture and office equipment	15% to 33.3% per annum

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on business combinations in respect of acquisitions since 1 January 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life not exceeding 20 years.

Notes *(continued)*

1 Accounting policies *(continued)*

Investments

Investments are valued at the lower of cost or directors' valuation.

Stocks

Stocks, are stated at the lower of cost (including freight charges) and net realisable value on a first-in-first-out basis.

Deferred taxation

Deferred taxation is provided, without discounting, on all timing differences between the certain items for taxation and accounting purposes that have originated but not reversed by the balance sheet date. A deferred tax asset is only recognised to the extent that it is regarded more likely than not there will be suitable profits from which the future reversal of the underlying timing differences can be deducted.

Foreign currency

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction (or, if hedged forward, at the rate of exchange under the related forward currency contract). Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date (or, if hedged forward at the hedged rate) and the gains or losses on translation are included within the profit and loss account.

Leased assets

All leases are 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Pension costs

The company operates two defined contribution pension schemes. The assets of both schemes are held separately from those of the company in independently administered funds. The amounts charged to the profit and loss account represent the contributions payable by the company to the funds in respect of the accounting period.

2 Turnover

Turnover comprises sales of goods and services (excluding VAT) in the normal course of business in the UK. The turnover is fully attributable to the principal activity of the company and is recognised on despatch of the goods.

Notes *(continued)*

3 Staff numbers and costs

The average number of persons employed by the company during the year (including directors), analysed by category, was as follows:

	2002	2001
	Number of employees	
Production	**39**	5
Administration, distribution and sales	**597**	56
	636	61

The aggregate payroll costs of these persons were as follows:

	£000	£000
Wages and salaries	**11,398**	1,009
Social security costs	**1,013**	100
Other pension costs	**100**	18
	12,511	1,127

4 Administrative expenses

	2002 £000	2001 £000
Administrative expenses include:		
Amortisation of goodwill	**3,944**	-
Provision for litigation (see note 17)	**1,430**	-

5 Other interest receivable and similar income

	2002 £000	2001 £000
On loans to group undertakings	**45**	-
Other interest receivable	**60**	-
	105	-

Notes *(continued)*

6 Interest payable

	2002 £000	2001 £000
On borrowings from group undertakings	**141**	-
On borrowing repayable within five years otherwise than by instalments	**3**	-
	144	-

7 Loss on ordinary activities before taxation

The loss is arrived at after charging the following:

	2002 £000	2001 £000
Depreciation – owned assets	**2,440**	280
Amortisation of goodwill	**3,944**	-
Hire of plant and machinery (including operating lease charges)	**1,011**	271
Other hire charges including operating leases	**202**	134
Auditors remuneration – Audit	**74**	6
Loss/(profit) on disposable fixed assets	**259**	114

8 Directors emoluments

One director discharged her duties mainly outside the United Kingdom and received no emoluments in respect of services provided to the company.

	2002 £000	2001 £000
Amount paid to group undertaking in respect of director services	**-**	94
Directors emoluments excluding pension contributions	**99**	-

The total emoluments as shown above relate to one director *(2001:one)*. Pension contributions made to the company were £8,000.

Notes *(continued)*

9 Tax on loss on ordinary activities

	2002	2001
	£000	£000
UK corporation tax		
Current tax on income for the period	**901**	(1,633)
Adjustments in respect of prior periods	**(4)**	113
Total current tax	**897**	(1,520)
Deferred tax (see note 16)	**(982)**	529
Tax on profit on ordinary activities	**(85)**	(991)

The current tax charge is higher (*2001: credit is higher*) than the standard rate of corporation tax in the UK 30% (*2001:30%*) the differences are explained below.

Current tax reconciliation		
Profit/(loss) on ordinary activities before tax	**(5,375)**	(2,605)
Current tax at 30% (2001:30%)	**(1,612)**	(782)
Effects of:		
Expenses not deductible for tax purposes	**1,628**	3
Capital allowances for period less than depreciation and related expenditure	**876**	(868)
Other timing differences	**147**	14
Utilisation of tax losses	**(138)**	-
Adjustment to tax charge in respect of previous periods	**(4)**	113
Total current tax charge (see above)	**897**	(1,520)

Notes *(continued)*

10 Intangible assets

	Goodwill 2002 £000
Cost	
At 31 December 2001 and 31 December 2002	78,865
Amortisation	
At 31 December 2001	-
Charge for the year	3,944
At 31 December 2002	3,944
Net book value at 31 December 2002	**74,921**
Net book value at 31 December 2001	78,865

11 Tangible fixed assets

	Land and buildings £000	Plant and machinery £000	Fixtures, fittings, tools and equipment £000	Total £000
Cost				
At 31 December 2001	2,388	11,003	541	13,932
Additions	254	3,074	173	3,501
Disposals	(49)	(586)	(11)	(646)
Transfers	-	(1)	-	(1)
At 31 December 2002	2,593	13,490	703	16,786
Depreciation				
At 31 December 2001	71	749	157	977
Charge for year	187	1,998	255	2,440
Disposals	-	(46)	(3)	(49)
At 31 December 2002	258	2,701	409	3,368
Net book value				
At 31 December 2002	**2,335**	**10,789**	**294**	**13,418**
At 31 December 2001	2,317	10,254	384	12,955

Notes *(continued)*

11 Tangible fixed assets *(continued)*

The net book value of land and buildings at 31 December 2002 comprises:

	2002	2001
	£000	£000
Freehold	1,773	1,821
Short leasehold	562	496
	2,335	2,317

12 Investments

Investments in subsidiary undertaking at valuation:

Shares:	**£000**
Cost at 31 December 2001 and 2002	8,158
Impairment losses at 31 December 2001	-
Impairment losses at 31 December 2002	(7,753)
Net book value at 31 December 2002	**405**
Net book value at 31 December 2001	8,158

On 31 December 2001, the company acquired 100% of the issued share capital of First Choice Watercoolers Limited from its parent company Nestlé Holdings (U.K.) PLC. First Choice Watercoolers Limited's principal activity was the supply of watercoolers for rental and the supply of bottled water. First Choice Watercoolers Limited subsequently sold its entire business, assets and liabilities to the company on 31 December 2001 and is now non-trading.

On 23 December 2002, First Choice Watercoolers declared and paid a dividend of £7,753,000. Subsequently the directors wrote down the value of the investment to the value of underlying net assets of First Choice Watercoolers Limited.

13 Stocks

	2002	2001
	£000	£000
Finished goods and goods for resale	**829**	425

Notes *(continued)*

14 Debtors

	2002 £000	2001 £000
Due within one year:		
Trade debtors	**6,068**	5,455
Amounts owed by group undertakings	**946**	2,344
Other debtors	**4,738**	4,698
Prepayments and accrued income	**305**	272
Due after more than one year:		
Deferred tax (see note 16)	**1,523**	541
	13,580	13,310

15 Creditors

	2002 £000	2001 £000
Bank loans and overdraft	**456**	273
Trade creditors	**1,083**	1,767
Amounts owed to group undertakings	**102,924**	109,530
Other creditors including taxation and social security	**1,534**	967
Accruals and deferred income	**1,052**	811
	107,049	113,348

16 Deferred taxation

	2002 £000	2001 £000
At beginning of year	**(541)**	-
Profit and loss account charge	**(982)**	529
Fair value adjustment relating to acquisition of business	**-**	(1,070)
At end of year	**(1,523)**	(541)

The deferred taxation liability/(asset) consists of the following amounts:

	2002 £000	2001 £000
Depreciation and assets expensed in excess of capital allowances	**(1,362)**	(528)
Other timing differences	**(161)**	(13)
	(1,523)	(541)

Notes *(continued)*

17 Provisions for liabilities and charges

	2002 £000	2001 £000
Provision for litigation	**1,430**	-

This provision relates to a dispute surrounding a supply agreement that is expected to be settled during 2003.

18 Called up share capital

	2002 Number	2002 £000	2001 Number	2001 £000
Authorised:				
Ordinary shares of £1 each	10,000,000	10,000	10,000,000	10,000
Issued:				
Allotted, called up and fully paid ordinary shares of £1 each	3,000,000	3,000	3,000,000	3,000

19 Profit and loss account

	2002 £000	2001 £000
At beginning of year	**(2,610)**	(996)
Retained profit/(loss) for the year	**(5,290)**	(1,614)
At end of year	**(7,900)**	(2,610)

20 Reconciliation of movement in shareholders' funds

	2002 £000	2001 £000
Profit for the financial year	**(5,290)**	(1,614)
Issue of shares	-	3,000
Net (reduction in)/ additional to shareholders funds	**(5,290)**	1,386
Opening shareholders funds	**390**	(996)
Closing shareholders (deficit)/funds	**(4,900)**	390

Notes *(continued)*

21 Guarantees and other financial commitments

Capital commitments authorised but not provided for as at 31 December 2002 amount to £719,000 *(2001: £94,000)*

Annual lease commitments under non-cancellable operating leases are set out below:

	2002 Land & buildings	**Other**	2001 Land & buildings	Other
Operating leases which expire				
Within one year	**-**	**151**	10	41
Within two to five years inclusive	**35**	**904**	35	641
After five years	**597**	**-**	403	-
	632	**1,055**	448	682

22 Pension schemes

Following the acquisition of the Aqua Cool watercooler business in 2001, the company operates two defined contribution pension schemes. One scheme is operated by Nestlé Waters UK Limited. The assets of both schemes are held separately from those of the company in independently administered funds. The pension charged to the profit and loss account represents the contributions payable by the company to the funds and amounted to £99,773 *(2001: £33,691)*. There were no outstanding contributions at the year end *(2001: £nil)*.

23 Ultimate parent undertaking

The parent undertaking of the smallest group for which group accounts are prepared is Nestlé Holdings (U.K.) PLC, a company registered in England and Wales. Copies of the group accounts can be obtained from St George's House, Croydon, CR9 1NR, United Kingdom.

The ultimate parent undertaking and the largest group for which group accounts are prepared is Nestlé S.A., a company registered in Switzerland. Copies of the group accounts can be obtained from Nestlé S.A., CH-1800 Vevey, Switzerland.