

Registered number: 51491

NESTLÉ UK LTD.

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017



NESTLÉ UK LTD.

COMPANY INFORMATION

Directors	F. Kendrick D. Hix M. McKenzie N. Stephens P. Hagmann (resigned 20 April 2017) S. Stewart D. McDaniel S Agostini (appointed 1 July 2017)
Registered number	51491
Registered office	1 City Place Gatwick RH6 0PA
Independent auditor	KPMG LLP, Statutory Auditor Chartered Accountants 15 Canada Square London, E14 5GL
Registered number N.Ireland	NF 00340 (Belfast)

NESTLÉ UK LTD.

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NESTLÉ UK LTD.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

Introduction

The directors present the Strategic Report for the year ended 31 December 2017.

Business review

The performance achieved during the period is set out in the Profit and Loss Account on page 8.

The results of the Company show a pre-tax profit of £184,763,000 (2016 - £273,505,000) for the year and turnover increased year on year by 3.6% to £1,584,770,000 (2016 - £1,529,167,000).

The 2017 results include net costs arising from the movement of provisions relating to the reorganising and restructuring of the business of £14,248,000 (2016 - credit of £2,267,000).

The Company has net assets of £1,369,181,000 (2016 - £1,223,525,000).

Principal risks and uncertainties

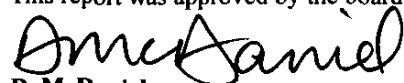
The management of the business of the Company and the execution of its strategy are subject to a number of risks and uncertainties, including a difficult economic environment, a strong competitive environment, currency fluctuations, further trade consolidation, product innovation, employee retention and volatility in input costs.

The directors of the Company are aware of these risks and strategic decisions are made to manage these risks appropriately. These will include monitoring of key brands, review of costs and the credit exposure to customers. The decision-making process and the assessment of business performance is supported by the experience of the management team, regular sales volume and value data and monthly management accounts split by business channel.

The Company has an exposure to the risk of currency fluctuations. This risk is managed by the regular monitoring of fluctuations in key currencies and entering into forward currency contracts to hedge future requirements as appropriate.

The group internal audit department monitors the operational risks of all parts of the business on a rotational/sample basis and will recommend improvements to business processes and controls to assist in the mitigation of identified business risks.

This report was approved by the board on 25 June 2018 and signed on its behalf.



D. McDaniel
Director

NESTLÉ UK LTD.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present their report and the financial statements for the year ended 31 December 2017.

Principal activity

The Company is the principal trading company for the subsidiaries of Nestlé S.A. that are located within the United Kingdom. Nestlé S.A. is the world's leading nutrition, health and wellness company.

The Company is principally engaged in the manufacture and sale of food and drinks and associated activities. The Company continues its efforts to drive its core beverage, confectionery, nutrition, food and food services businesses.

The Company has subsidiaries in the United Kingdom that are involved in the manufacture and sale of pet food, bottled water and nutrition products and the distribution of coffee capsules, machines and other related products.

The Company has a subsidiary in Ireland that sells beverage, confectionery, pet food and water-related products. The subsidiary in Ireland has a subsidiary involved in manufacture and sale of nutrition products.

Results and dividends

The profit for the year, after taxation, amounted to £162,986,000 (2016 - £253,645,000).

The directors recommended a dividend of £455,000,000 (2016 - £NIL) which was paid on 22 January 2018.

Impact of Brexit

On 29 March 2017, the UK government invoked Article 50 of the Treaty of Lisbon, notifying the European Council of its intention to withdraw from the European Union (the "EU"). There is an initial two-year timeframe for the UK and the EU to reach an agreement on the withdrawal and the future UK and EU relationship, although this timeframe can be extended.

Following the UK referendum vote to leave the EU in June 2016, the value of sterling weakened against major currencies, resulting in an adverse foreign exchange impact, particularly on purchases from the Eurozone.

One year on from the decision, there is still significant uncertainty about the withdrawal process, its timeframe and the outcome of the negotiations about the future arrangements between the UK and the EU. As a result of this uncertainty, the performance of the Company and its subsidiaries may be adversely affected.

The process and the eventual outcome of the negotiations will also introduce exposures to the economy as a whole, to which the performance of the Company is inherently linked. In the short term there is some exposure to an upturn in inflation connected to the weakened sterling. This inflationary impact has begun to be seen in 2017. The medium to long term exposures are currently uncertain and will depend on the outcome of exit negotiations in the next year.

Directors

The directors who served during the year were:

F. Kendrick
D. Hix
M. McKenzie
N. Stephens
P. Hagmann (resigned 20 April 2017)
S. Stewart
D. McDaniel
S Agostini (appointed 1 July 2017)

NESTLÉ UK LTD.

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

Environmental matters

The Company seeks to develop business practices and behaviour that 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.

Future developments

The external environment is expected to remain competitive and challenging in 2018. Higher commodity prices and other costs will continue to put significant pressure on the Company.

Employee involvement

Employees are recognised as key assets of the Company and their quality and motivation are essential for the Company to compete successfully in its markets. To help achieve corporate aims and objectives the Company maintains and develops formal and informal systems of communication with its employees to discuss matters of mutual interest. Information on matters of concern to employees is given through bulletins, meetings, reports and newsletters, and includes information to enable them to gain awareness of financial and economic factors affecting the Company.

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 2016 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.

Matters covered in the strategic report

The business review and principal risks and uncertainties for the Company are included in the Strategic Report.

Disclosure of information to auditor

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Post balance sheet events

There have been no significant events affecting the Company since the year end that would require disclosure in these financial statements.

NESTLÉ UK LTD.

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017**

Auditor

The auditor, KPMG LLP, Statutory Auditor, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 25 June 2018 and signed on its behalf.

A handwritten signature in black ink, appearing to read 'D. McDaniel', written in a cursive style.

D. McDaniel
Director

NESTLÉ UK LTD.

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

NESTLÉ UK LTD.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NESTLÉ UK LTD.

Opinion

We have audited the financial statements of Nestlé UK Ltd. ("the Company") for the year ended 31 December 2017 which comprise the Profit and Loss Account, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information

The directors are responsible for the other information, which comprises the Strategic Report and Directors' Report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the other information;
- in our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

NESTLÉ UK LTD.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NESTLÉ UK LTD.

Directors' responsibilities

As explained more fully in their statement set out on page 5, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

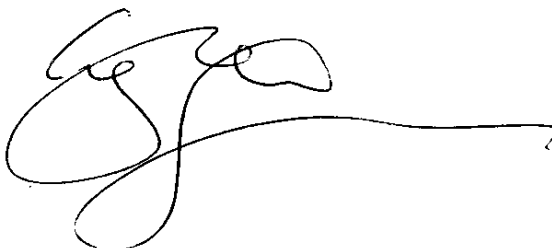
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.

Hugh Green (Senior Statutory Auditor)
for and on behalf of
KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL
25 June 2018



NESTLÉ UK LTD.

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Note	2017 £000	2016 £000
Turnover	2	1,584,770	1,529,167
Cost of sales		(1,291,321)	(1,201,566)
Gross profit		293,449	327,601
Distribution costs		(96,836)	(94,241)
Administrative expenses		(62,077)	(82,054)
Operating profit		134,536	151,306
Income from shares in group companies		613,000	174,767
Income from participating interests		5,541	7,471
Impairment of investment in subsidiary company	15	(522,932)	-
Interest receivable and similar income	7	1,835	2,231
Interest payable and similar charges	8	(47,217)	(62,270)
Profit on ordinary activities before taxation		184,763	273,505
Taxation on profit/(loss) on ordinary activities	9	(21,777)	(19,860)
Profit for the year		162,986	253,645

The notes on pages 13 to 42 form part of these financial statements.

NESTLÉ UK LTD.

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017**

	2017 £000	2016 £000
Profit for the financial year	162,986	253,645
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Actuarial gain/(loss) on defined benefit schemes	291,956	(313,404)
Movement of deferred tax relating to pension (deficit)/surplus	(48,464)	49,658
Movement in hedging reserve	5,157	(10,884)
Movement of deferred tax relating to hedging reserve	(979)	1,853
	247,670	(272,777)
 Total comprehensive income for the year	 410,656	 (19,132)

The notes on pages 13 to 42 form part of these financial statements.

NESTLÉ UK LTD.
REGISTERED NUMBER: 51491

BALANCE SHEET
AS AT 31 DECEMBER 2017

	Note	2017 £000	2016 £000
Fixed assets			
Intangible assets	12	537	673
Goodwill	13	1,146,814	1,146,814
Tangible fixed assets	14	556,422	582,448
Fixed asset investments	15	1,005,314	1,536,815
		2,709,087	3,266,750
Current assets			
Stocks	16	171,582	109,205
Debtors: amounts falling due within one year	17	821,575	736,184
Cash at bank and in hand		57,379	28,372
		1,050,536	873,761
Creditors: amounts falling due within one year	18	(1,269,434)	(1,504,629)
Net current liabilities		(218,898)	(630,868)
Total assets less current liabilities		2,490,189	2,635,882
Creditors: amounts falling due after more than one year	19	(804,437)	(807,167)
		1,685,752	1,828,715
Provisions for liabilities			
Deferred taxation	21	(21,686)	(23,809)
Other provisions	22	(14,556)	(4,317)
		(36,242)	(28,126)
Net assets excluding pension liability		1,649,510	1,800,589
Pension liability	28	(280,329)	(577,064)
Net assets		1,369,181	1,223,525
Capital and reserves			
Called up share capital	23	130,000	130,000
Share premium account	24	211,446	211,446
Other reserves	24	(2,987)	(7,165)
Profit and loss account	24	1,030,722	889,244
		1,369,181	1,223,525

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 25 June 2018.


D. McDaniel
Director

The notes on pages 13 to 42 form part of these financial statements.

NESTLÉ UK LTD.

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Called up share capital £000	Share premium account £000	Other reserves £000	Profit and loss account £000	Total equity £000
At 1 January 2017	130,000	211,446	(7,165)	889,244	1,223,525
Comprehensive income for the year					
Profit for the year	-	-	-	162,986	162,986
Actuarial gains on pension scheme net of taxation	-	-	-	243,492	243,492
Taxation in respect of items of other comprehensive income	-	-	(979)	-	(979)
Movement on hedging reserve	-	-	5,157	-	5,157
Total comprehensive income for the year	-	-	4,178	406,478	410,656
Dividends: Equity capital	-	-	-	(265,000)	(265,000)
At 31 December 2017	130,000	211,446	(2,987)	1,030,722	1,369,181

NESTLÉ UK LTD.

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Called up share capital £000	Share premium account £000	Other reserves £000	Profit and loss account £000	Total equity £000
At 1 January 2016	130,000	211,446	1,866	899,345	1,242,657
Comprehensive income for the year					
Profit for the year	-	-	-	253,645	253,645
Actuarial losses on pension scheme net of taxation	-	-	-	(263,746)	(263,746)
Taxation in respect of items of other comprehensive income	-	-	1,853	-	1,853
Movement on hedging reserve	-	-	(10,884)	-	(10,884)
Other comprehensive income for the year	-	-	(9,031)	(263,746)	(272,777)
Total comprehensive income for the year	-	-	(9,031)	(10,101)	(19,132)
At 31 December 2016	130,000	211,446	(7,165)	889,244	1,223,525

The notes on pages 13 to 42 form part of these financial statements.

NESTLÉ UK LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. Accounting policies

1.1 Basis of preparation of financial statements

Nestlé UK Ltd (the "Company") is a company incorporated and domiciled in the United Kingdom.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The amendments to FRS 101 (2013/14 Cycle) issued in July 2015 and effective immediately have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The company is exempt from the obligation to prepare and deliver group accounts.

1.2 Financial reporting standard 101 - reduced disclosure exemptions

The Company's ultimate parent undertaking, Nestlé S.A. includes the Company in its consolidated financial statements. The consolidated financial statements of Nestlé S.A. are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Nestlé Headquarters, CH1800, Vevey, Switzerland.

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based payment
- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

1.3 Associates and joint ventures

Associates and Joint ventures are valued using the equity method.

NESTLÉ UK LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. Accounting policies (continued)

1.4 Going concern

The Company's business activities, together with factors likely to affect its future development, performance and position, are set out in the Strategic Report and Directors' Report on pages 1 to 4.

The Company is expected to generate positive cash flows on its own account for the foreseeable future. The Company participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries.

The Company has net current liabilities of £218,898,000 including amounts payable to other Nestlé S.A. group undertakings of £933,609,000. Nestlé Holdings (U.K.) PLC, the parent company of Nestlé UK Ltd., has provided the Company with an undertaking that for at least twelve months from the date of the approval of these financial statements, it will continue to provide financial and other support to enable the Company to continue in operational existence for the foreseeable future and that repayment of the above loans will not be sought if it would impede the Company's ability to meet its obligations to third parties and operate as a going concern.

The directors, having assessed the responses of the directors of the Company's parent, Nestlé Holdings (U.K.) PLC to their enquires, have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Company to continue as a going concern or its ability to continue with the current banking arrangements.

On the basis of their assessment of the Company's financial position and of enquiries made to the directors of Nestlé Holdings (U.K.) PLC, the Company's directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

1.5 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Company has transferred the significant risks and rewards of ownership to the buyer;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

NESTLÉ UK LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. Accounting policies (continued)

1.6 Goodwill

Goodwill represents the excess of the cost of a business combination over the total acquisition date fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Cost comprises the fair value of assets given, liabilities assumed and equity instruments issued.

Goodwill is capitalised as an intangible asset and is not amortised. Instead it is reviewed annually for impairment with any impairment in carrying value being charged to profit or loss. The Companies Act 2006 requires acquired goodwill to be reduced by provisions for depreciation calculated to write off the amount systematically over a period chosen by the directors, not exceeding its useful economic life. It has been deemed, however, the non-amortisation of goodwill is a departure, for the overriding purpose of giving a true and fair view. The effect of this departure has not been quantified because it is impracticable and, in the opinion of the directors, would be misleading.

1.7 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the Company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Freehold property	- 2% - 4%
L/Term Leasehold property	- 4%
Plant & machinery	- 6.66% - 33.33%

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Profit and Loss Account.

1.8 Impairment of fixed assets and goodwill

Assets that are subject to depreciation or amortisation are assessed at each balance sheet date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets that have been previously impaired are reviewed at each balance sheet date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

NESTLÉ UK LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. Accounting policies (continued)

1.9 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

1.10 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each balance sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

1.11 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

1.12 Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.13 Hedge accounting

The Company has entered into currency forward contracts to manage its exposure to fluctuations in the value of foreign currencies. In addition the Company utilises the futures market to stabilise the long term price of major raw materials.

These derivatives are measured at fair value at each balance sheet date. To the extent that the hedge is effective, movements in fair value are recognised in other comprehensive income and presented in a separate hedge reserve. The results of ineffective hedges are recognised in the Profit and Loss Account.

NESTLÉ UK LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. Accounting policies (continued)

1.14 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Profit and Loss Account except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Profit and Loss Account within 'finance income or costs'. All other foreign exchange gains and losses are presented in the Profit and Loss Account within 'other operating income'.

1.15 Finance costs

Finance costs are charged to the Profit and Loss Account over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

1.16 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

1.17 Equity compensation plans

The Company has equity-settled share-based 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 Profit and Loss Account over the vesting period. They are fair valued at grant date and measured using generally accepted pricing models. The cost of equity-settled share-based 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 S.A. recharges Nestlé UK on an annual basis based on its yearly capital contribution to the Company's share-based payment arrangement. Per IFRS 2, the existence of a recharge arrangement between Nestlé S.A. and the Company does not change the character of the share-based payment transaction (equity-settled), as Nestlé S.A. is still obliged to settle the transaction by the issuance of shares at the vesting date. However, the Company recognises a recharge liability for the expected charge from the Nestlé S.A. in respect of the share-based payments, instead of a usual share-based payment reserve.

NESTLÉ UK LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. Accounting policies (continued)

1.18 Leased assets: Lessee

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets. Assets acquired by finance lease are depreciated over the shorter of the lease term and their useful lives. Assets acquired by hire purchase are depreciated over their useful lives. Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the company. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the Profit and Loss Account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

1.19 Pensions

Defined benefit plan

The Company operates a defined benefit plan for certain employees for the Nestlé group companies in the United Kingdom. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including but not limited to age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The liability recognised in the Balance Sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the end of the balance sheet date less the fair value of plan assets at the balance sheet date (if any) out of which the obligations are to be settled. The defined benefit obligation is calculated using the projected unit credit method. Annually the Company engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating to the estimated period of the future payments ('discount rate').

The fair value of plan assets is measured in accordance with the FRS 101 fair value hierarchy and in accordance with the Company's policy for similarly held assets. This includes the use of appropriate valuation techniques. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 'Remeasurement of net defined benefit liability'.

The cost of the defined benefit plan, recognised in the Profit and Loss Account as 'employee costs', except where included in the cost of an asset, comprises:

- a) the increase in net pension benefit liability arising from employee service during the period; and
- b) the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in profit or loss as a 'finance expense'.

1.20 Interest income

Interest income is recognised in the Profit and Loss Account using the effective interest method.

1.21 Borrowing costs

All borrowing costs are recognised in the Profit and Loss Account in the year in which they are incurred.

NESTLÉ UK LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. Accounting policies (continued)

1.22 Provisions for liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Profit and Loss Account in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

1.23 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Profit and Loss Account, except that a change attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

2. Turnover

Analysis of turnover by country of destination:

	2017 £000	2016 £000
United Kingdom	1,218,420	1,192,298
Rest of Europe	255,668	235,589
Rest of the world	110,682	101,280
	<u>1,584,770</u>	<u>1,529,167</u>

All turnover and profits before tax are derived from the sale of food, beverage and nutrition products.

NESTLÉ UK LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

3. Operating profit

The operating profit is stated after charging:

	2017	2016
	£000	£000
Depreciation of tangible fixed assets	53,201	53,216
Impairment of tangible fixed assets	13,728	495
Amortisation of intangible assets	136	51
Net pension cost (note 28)	31,808	35,625
Loss/(profit) on sales of fixed assets	590	(3,112)
Business restructuring and reorganisation costs	14,248	(2,267)
	<u>142,411</u>	<u>97,028</u>

4. Auditors' remuneration

The company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the Company:

	2017	2016
	£000	£000
Fees for the audit of the Company	200	203
One-off audit fees	-	11
Auditors' remuneration - non-audit	138	141
	<u>338</u>	<u>355</u>

NESTLÉ UK LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

5. Employees

Staff costs, including directors' remuneration, were as follows:

	2017 £000	2016 £000
Wages and salaries	224,211	220,782
Social security costs	23,697	22,363
Cost of pension schemes (note 28)	47,806	49,086
	<u>295,714</u>	<u>292,231</u>

The average monthly number of employees, including the directors, during the year was as follows:

	2017 No.	2016 No.
Production	3,332	3,433
Administration, distribution and sales	1,685	1,746
	<u>5,017</u>	<u>5,179</u>

6. Directors' remuneration

	2017 £000	2016 £000
Directors' emoluments	3,017	2,872
	<u>3,017</u>	<u>2,872</u>

The highest paid director received remuneration of £741,851 (2016 - £765,387).

The value of the company's contributions paid to a defined benefit pension scheme in respect of the highest paid director amounted to £NIL (2016 - £NIL).

During the year 6 directors received shares under the long term incentive schemes (2016 -6)

The total accrued pension provision of the highest paid director at 31 December 2017 amounted to £NIL (2016 - £NIL).

As at 31 December 2017, 5 directors (2016 - 5) had accrued defined benefit pension obligations. Of these, nil directors (2016 - nil) accrued further amounts during the year.

The highest paid director received 4,368 shares awarded by Nestlé S.A. (2016 - 4,100) under a long-term incentive scheme.

NESTLÉ UK LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

7. Interest receivable

	2017	2016
	£000	£000
Interest on cash pooling arrangement	1,327	1,279
Interest due from associate undertakings	484	918
Other interest receivable	24	34
	1,835	2,231

8. Interest payable and similar charges

	2017	2016
	£000	£000
Other loan interest payable	4,077	7,781
Interest payable on cash pooling arrangement	52	122
Loans from group undertakings	26,644	40,263
Finance leases and hire purchase contracts	446	643
Interest payable on defined benefit pension liability (note 28)	15,620	13,037
Interest payable on unfunded defined benefit pension liability (note 28)	308	336
Interest payable on post retirement benefits (note 28)	70	88
	47,217	62,270

9. Taxation

	2017	2016
	£000	£000
Corporation tax		
Current tax on profits for the year	10,948	6,948
Adjustments in respect of previous periods	1,633	(1,708)
Total current tax	12,581	5,240
Deferred tax		
Origination and reversal of timing differences	12,293	15,924
Changes to tax rates	(2,971)	(1,200)
Deferred tax relating to prior years	(126)	(104)
Total deferred tax	9,196	14,620
Taxation on profit on ordinary activities	21,777	19,860

NESTLÉ UK LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

9. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2016 - lower than) the standard rate of corporation tax in the UK of 19.25% (2016 - 20.0%). The differences are explained below:

	2017 £000	2016 £000
Profit on ordinary activities before tax	184,763	273,505
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016 - 20.0%)	35,567	54,701
Effects of:		
Expenses not deductible for tax purposes	103,089	3,385
Adjustments to tax charge in respect of prior periods	1,507	(1,812)
Non-taxable income	(117,997)	(35,759)
Transfer to unrecognised tax asset	2,582	545
Decrease in tax rate	(2,971)	(1,200)
Total tax charge/(credit) for the year	21,777	19,860

Factors that may affect future tax charges

The main rate of UK corporation tax is 19%, effective since 1 April 2017. Legislation, now substantively enacted, to further reduce the main rate of corporation tax from 19% to 17% with effect from 1 April 2020 was included in Finance Act 2016. The effect of the rate reductions on the deferred tax balances as at 31 December 2017 has been considered in calculating the figures above.

The company has an unrecognised temporary difference in respect of gross capital losses of £234.9 million (2016: £234.9 million). These losses have not been recognised as there is considered insufficient evidence of future capital profits against which the losses can be offset. These losses have no expiry date.

10. Dividends

	2017 £000	2016 £000
Paid to Nestlé UK Holdings PLC	265,000	-
	265,000	-

NESTLÉ UK LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

11. Restructuring and reorganisation costs

A provision in respect of factory reorganisations totalling £16,495,000 (2016 - a credit of £2,000,000) was created in 2017 and was allocated to Cost of Sales. This was reduced by a credit of £2,895,000 (2016 - £NIL) in respect of a curtailment of pension benefits. In addition, a surplus provision of £777,000 in respect of a completed factory restructuring project was credited to Cost of Sales.

Net business restructuring costs of £1,425,000 (2016 - credit of £267,000) were allocated to administrative expenses.

12. Intangible assets

	Systems Development £000
Cost	
At 1 January 2017	56,175
At 31 December 2017	56,175
Amortisation	
At 1 January 2017	55,502
Charge for the year	136
At 31 December 2017	55,638
Net book value	
At 31 December 2017	537
At 31 December 2016	673

13. Goodwill

	2017 £000
Cost	
At 1 January 2017 and 31 December 2017	1,146,814
	1,146,814
Amortisation	
At 1 January 2017 and 31 December 2017	-
	1,146,814

NESTLÉ UK LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

14. Tangible fixed assets

	Freehold property £000	L/Term Leasehold Property £000	Plant & machinery £000	Total £000
Cost or valuation				
At 1 January 2017	272,557	15,184	965,292	1,253,033
Additions	1,410	-	41,572	42,982
Transfers intra group	-	-	(398)	(398)
Disposals	(77)	-	(15,210)	(15,287)
Transfers between classes	1,461	-	(1,461)	-
At 31 December 2017	<u>275,351</u>	<u>15,184</u>	<u>989,795</u>	<u>1,280,330</u>
Depreciation				
At 1 January 2017	99,840	12,147	558,598	670,585
Charge for the year on owned assets	7,789	1,518	43,894	53,201
Transfers intra group	-	-	(204)	(204)
Disposals	(45)	-	(13,357)	(13,402)
Transfers between classes	2,249	-	(2,249)	-
Impairment charge	-	-	13,728	13,728
At 31 December 2017	<u>109,833</u>	<u>13,665</u>	<u>600,410</u>	<u>723,908</u>
Net book value				
At 31 December 2017	<u>165,518</u>	<u>1,519</u>	<u>389,385</u>	<u>556,422</u>
At 31 December 2016	<u>172,717</u>	<u>3,037</u>	<u>406,694</u>	<u>582,448</u>

The net book value of land and buildings may be further analysed as follows:

	2017 £000	2016 £000
Freehold	165,518	172,717
Long leasehold	1,519	3,037
	<u>167,037</u>	<u>175,754</u>

NESTLÉ UK LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

15. Fixed asset investments

	Investments in subsidiary companies £000	Investments in Joint Venture £000	Total £000
Cost or valuation			
At 1 January 2017	1,500,499	36,316	1,536,815
Share of profit/(loss)	-	(8,569)	(8,569)
At 31 December 2017	<u>1,500,499</u>	<u>27,747</u>	<u>1,528,246</u>
Impairment			
Charge for the period	522,932	-	522,932
At 31 December 2017	<u>522,932</u>	<u>-</u>	<u>522,932</u>
Net book value			
At 31 December 2017	<u>977,567</u>	<u>27,747</u>	<u>1,005,314</u>
At 31 December 2016	<u>1,500,499</u>	<u>36,316</u>	<u>1,536,815</u>

Following the payment of a dividend from Nestlé Ireland Limited, the carrying value of this investment in the books of Nestlé UK Ltd was impaired.

Direct subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Class of shares	Holding	Principal activity
Nespresso UK Limited	Ordinary	100 %	Sale of coffee capsules and related products
Nestlé Ireland Limited	Ordinary	100 %	Sale of food and drink products
Nestlé Purina Petcare UK Limited	Ordinary	100 %	Manufacture and sale of pet food
Nestlé UK Pension Reservoir Trust Limited	Ordinary	100 %	Non-trading
Nestlé UK Pension Trust Limited	Ordinary	100 %	Non-trading
Nestlé Waters UK Limited	Ordinary	100 %	Manufacture and sale of bottled water
Raw Products Limited	Ordinary	100 %	Dormant
VitaFlo (International) Limited	Ordinary	100 %	Sale of clinical nutritional products
Wynutri Ltd	Ordinary	100 %	Investment company

NESTLÉ UK LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

15. Fixed asset investments (continued)

Indirect Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Class of shares	Holding	Principal activity
Vitaflo France SARL	Ordinary	100 %	Distribution of clinical products
Vitaflo Limited	Ordinary	100 %	Dormant
Wyeth Nutritionals Ireland Limited	Ordinary	100 %	Manufacture of infant nutritional products

Undertaking and location of registered office

Name	Registered office
Nespresso UK Limited	1 City Place, Gatwick, West Sussex, RH6 0PA
Nestlé (Ireland) Limited	3030 Lake Drive, Citywest, Dublin 24, Ireland
Nestlé Purina Petcare UK Limited	1 City Place, Gatwick, West Sussex, RH6 0PA
Nestlé UK Pension Reservoir Trust Limited	1 City Place, Gatwick, West Sussex, RH6 0PA
Nestlé UK Pension Trust Limited	1 City Place, Gatwick, West Sussex, RH6 0PA
Nestlé Waters UK Limited	1 City Place, Gatwick, West Sussex, RH6 0PA
Raw Products Limited	1 City Place, Gatwick, West Sussex, RH6 0PA
Vitaflo France SARL	38 Rue de Berri, 75008 Paris, France
Vitaflo (International) Limited	Suite 1.11, South Harrington Building, 182 Sefton Street, Brunswick Business Park, Liverpool, L3 4BQ
Vitaflo Limited	6 Moss Street, Paisley, PA1 1BL
Wyeth Nutritionals Ireland Limited	Tomdeely North, Askeaton, County Limerick, Republic of Ireland
Wynutri Limited	3030 Lake Drive, Citywest Business Campus, Dublin 24, Republic of Ireland

Participating interests

The Company has a 50% participating interest in Cereal Partners UK. The other 50% is owned by General Mills Canada Holding Three Corporation. A share of any taxation charge or credit relating to the results of the investment is borne by the Company. The value of the investment at the balance sheet date was £27,747,000 (2016 - £36,316,000).

NESTLÉ UK LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

16. Stocks

	2017	2016
	£000	£000
Raw materials and consumables	49,429	14,598
Work in progress (goods to be sold)	38,106	25,168
Finished goods and goods for resale	84,047	69,439
	171,582	109,205

17. Debtors

	2017	2016
	£000	£000
Trade debtors	223,705	181,677
Amounts owed by group undertakings	509,813	447,449
Amounts owed by joint ventures and associated undertakings	56,574	57,163
Other debtors	8,182	6,667
Prepayments and accrued income	9,712	13,329
Financial instruments	13,589	29,899
	821,575	736,184

Amounts owed by group undertakings include £438,152,000 (2016 - £394,668,000) representing cash transferred to subsidiary undertakings as part of the group cash pooling arrangement which can be recovered on request.

Amounts owed by joint ventures and associated undertakings includes a loan of £53,000,000 (2016 - £53,000,000) to Cereal Partners U.K.

NESTLÉ UK LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

18. Creditors: Amounts falling due within one year

	2017	2016
	£000	£000
Bank overdrafts	1,210	60
Trade creditors	192,844	211,088
Amounts owed to group undertakings	933,609	1,148,528
Amounts owed to associates	12,042	14,872
Corporation tax	7,942	-
Obligations under finance lease and hire purchase contracts	2,730	2,517
Other creditors	12,478	9,813
Accruals and deferred income	86,006	84,717
Financial instruments	20,573	33,034
	1,269,434	1,504,629

Amounts owed to group undertakings includes unsecured loans £805,400,000 (2016 - £1,028,732,000), cash pooling arrangements £40,278,000 (2016 - £50,334,000) and current trading balances £87,931,000 (2016 - £69,462,000).

Amounts owed to group undertakings under group cash pooling arrangement and current account balances must be repaid on request.

Settlement date	Interest rate	£000
14 February 2018	6 month LIBOR plus 122 basis points	425,000
14 February 2018	3 month LIBOR plus 136 basis points	51,400
30 June 2018	6 month LIBOR plus 122 basis points	129,000
20 September 2018	3 month LIBOR plus 20 basis points	200,000
		805,400

19. Creditors: Amounts falling due after more than one year

	2017	2016
	£000	£000
Net obligations under finance leases and hire purchase contracts	-	2,730
Amounts owed to group undertakings	804,437	804,437
	804,437	807,167

NESTLÉ UK LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

19. Creditors falling due after more than one year (continued)

Amounts owed to group undertakings comprise the following unsecured loan:

Settlement date	Interest rate	£000
November 2020	3 month LIBOR plus 182 basis points	804,437
		804,437

20. Hire purchase and finance leases

Future minimum lease payments for:

	2017 £000	2016 £000
Within one year	2,963	2,963
Between 1-5 years	-	2,963
	2,963	5,926

The present value of minimum lease payments is analysed as follows:

	2017 £000	2016 £000
Within one year	2,730	2,730
Between 1-5 years	-	2,516
	2,730	5,246

21. Deferred taxation

	2017 £000
At beginning of year	(23,809)
Charged to the Profit and Loss Account	(9,196)
Utilised in year	11,319
At end of year	(21,686)

NESTLÉ UK LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

21. Deferred taxation (continued)

The provision for deferred taxation is made up as follows:

	2017 £000	2016 £000
Accelerated capital allowances	(28,668)	(30,821)
Movement in general provisions	3,752	1,964
Other timing differences	3,230	5,048
	<u>(21,686)</u>	<u>(23,809)</u>

Potential deferred tax assets of £3,127,000 (2016 - £545,000) have not been recognised as there is insufficient evidence that they will ultimately be realised.

22. Provisions

	Post retirement benefits £000	Factory/division reorganisation £000	Business restructuring £000	Total £000
At 1 January 2017	2,868	780	669	4,317
Charged to Profit and Loss Account	70	13,600	1,578	15,248
Released to Profit and Loss Account	-	(777)	(153)	(930)
Utilised in year	(448)	(3,174)	(839)	(4,461)
Charged to other comprehensive income	382	-	-	382
At 31 December 2017	<u>2,872</u>	<u>10,429</u>	<u>1,255</u>	<u>14,556</u>

Post retirement benefits

The post retirement benefits provision relates to post retirement medical benefits of a closed scheme (see note 28)

Factory/division reorganisation

At 31 December 2016 there was a provision of £780,000 remaining in respect of the restructuring of the Hayes site. During the year £3,000 was utilised and the remaining balance of £777,000 was released to the Profit and Loss Account. An additional factory restructuring provision of £13,600,000 was created during the year, of which £3,171,000 was utilised, resulting in a balance outstanding of £10,429,000 at 31 December 2017.

Business restructuring

Provisions in respect of business restructuring totalled £669,000 at 31 December 2016. During the year additional provisions of £1,578,000 were charged to the Profit and Loss Account and £839,000 was utilised. In addition, £153,000 was released back to the Profit and Loss Account resulting in provisions outstanding at 31 December 2017 of £1,255,000.

NESTLÉ UK LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

23. Share capital

	2017 £000	2016 £000
Allotted, called up and fully paid		
260,000,000 Ordinary shares of £0.50 each	130,000	130,000

24. Reserves

Share premium account

The balance of the share premium account represents the premium paid in excess of the nominal value of the issued share capital of the Company.

Other reserves

This is the hedging reserve balance which reflects the recognition of the results of effective hedge transactions.

Profit and loss account

This relates to the undistributed profits of the Company.

25. Equity compensation plan

Certain employees are eligible to receive long-term incentives in the form of equity compensation plans. Each unit granted gives the right to one Nestlé S.A. share.

Equity compensation plans are settled either by remittance of Nestlé S.A. shares (accounted for as equity-settled share-based payment transactions) or by the payment of an equivalent amount in cash (accounted for as cash-settled share-based payment transactions). As the shares are in Nestlé S.A. and not Nestlé UK Ltd., all charges for equity compensation plans are accrued in 'creditors 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
FOR THE YEAR ENDED 31 DECEMBER 2017**

25. Equity compensation plan (continued)

Restricted Stock Unit Plan (RSUP)

Members of senior management are awarded Restricted Stock Units (RSU) that entitle participants to receive freely disposable Nestlé S.A. shares (accounted for as equity-settled share-based payment transactions) or an equivalent amount in cash (accounted for as cash-settled share-based payment transactions) at the end of a three year restriction period subject to service conditions. There were no RSU granted in 2017 or 2016.

	2017	2016
	Number	Number
Number of RSU in units		
Outstanding at the beginning of the year	-	48,235
Forfeited during the year	-	-
Settled and transfers to and from other group companies	-	(48,235)
Outstanding at the end of the year	-	-

The fair value of equity-settled RSU is determined on the basis of the market price of Nestlé S.A. shares at grant date, discounted at a risk-free interest rate and adjusted for the dividends that participants are not entitled to receive during the restricted period of three years. There were no equity-settled RSU granted in 2017 (2016 - no equity-settled RSU granted).

NESTLÉ UK LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

25. Equity compensation plan (continued)

Performance Share Unit Plan (PSUP)

As from 2014, members of senior management are awarded Performance Share Units (PSU) that entitle participants to receive freely disposable Nestlé S.A. shares (accounted for as equity-settled share based payment transactions) or an equivalent amount of cash (accounted for as cash-settled share based payment transactions) at the end of a three year restriction period.

Upon vesting, the number of shares to be delivered will range from 0% to 200% of the initial grant and be determined by the degree by which the performance measures of the PSUP have been met. These measures are the relative Total Shareholder Return of the Nestlé S.A. share in relation to the STOXX Global 1800 Food and Beverage Net Return Index; and the growth of the underlying earnings per share in constant currencies. Each of the two measures has equal weighting in determining the vesting level of the initial PSU award.

	2017 Number	2016 Number
Number of PSU in units		
Outstanding at the beginning of the year	136,849	96,590
Granted during the year	51,735	52,501
Forfeited during the year	(11,958)	(1,890)
Settled and transfers to and from other group companies	(37,794)	(10,352)
Outstanding at the end of the year	138,832	136,849

The fair value of the equity-settled PSU is determined using a valuation model which reflects the probability of over-achievement or under-achievement on the Total Shareholder Return measure, which is a market condition, and based on five-year historical data. The other inputs incorporated into the valuation model comprise the market price of Nestlé S.A. shares at the grant date, discounted at a risk-free interest rate and adjusted for the dividends that participants are not entitled to receive during the restricted period of three years. The weighted average fair value of the equity-settled PSU granted in 2017 is CHF 55.96 (2016 - CHF 65.85).

26. Contingent liabilities

At 31 December 2017 the Company had provided indemnities given in the normal course of business totalling £7,980,000 (2016 - £7,480,000).

The Company participates in a joint venture (see note 14). Under the terms of the partnership agreement the Company acts as guarantor for its share of the partnership pension scheme deficit. At 31 December 2017 the Company's share of the pension deficit amounted to £14,363,000 (2016 - £18,777,000).

27. Capital commitments

At 31 December the Company had capital commitments as follows:

	2017 £000	2016 £000
Contracted for but not provided in these financial statements	3,097	10,078
	3,097	10,078

NESTLÉ UK LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

28. Pension commitments

(a) Nestlé UK Pension Fund

Nestlé UK Ltd. participates in the Nestlé UK Pension Fund ("the Fund") which includes a defined benefit and a defined contribution section. The current defined benefit section provides career average benefits to employees on retirement based on their salary and the length of their service.

The Fund is a registered Pension scheme and is subject to the statutory scheme-specific funding requirements outlined in UK legislation, including the payment of levies to the Pension Protection Fund. It is established under trust and the responsibility for its governance lies with the trustees who also agree the funding arrangements with the Company.

The last triennial funding valuation of the fund was carried out at 31 December 2015 and deficit recovery contributions for the period 2017 to 2022 were confirmed in an agreement between the Company and the Trustees signed on 21 February 2017.

An updated valuation of the entire scheme was prepared at 31 December 2017 by an independent qualified actuary for the purpose of IAS 19. At that date the liabilities exceeded the assets of the scheme by £334,233,000 (2016 - £692,290,000).

The Company made contributions totalling £103,785,000 to the defined benefit section of the fund during 2017 (2016 - £77,209,000).

	2017 £000	2016 £000
The amounts recognised in the balance sheet are as follows		
Present value of funded obligations	(5,224,313)	(5,304,013)
Fair value of scheme assets	4,890,080	4,611,723
Gross deficit	(334,233)	(692,290)
Related deferred tax asset	60,750	123,625
Net deficit	(273,483)	(568,665)

	2017 £000	2016 £000
Composition of plan assets		
Equity investments	1,385,203	1,519,562
Debt instruments	2,909,107	1,832,176
Cash and cash equivalents	(465,216)	494,935
Real estate	258,552	239,210
Hedge funds	649,561	358,807
Other	152,873	167,033
	4,890,080	4,611,723

NESTLÉ UK LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

28. Pension commitments (continued)

Net deficit in the scheme

	2017 £000	2016 £000
At 1 January	(568,665)	(329,000)
Current service cost	(46,730)	(42,177)
Past service cost	-	500
Net interest cost	(15,620)	(13,037)
Pension curtailments (see note 11)	2,895	-
Actuarial gains/losses	290,760	(312,126)
Deferred tax on actuarial movement	(62,875)	36,074
Contributions - special	85,806	86,000
Contributions - normal	46,591	10,415
Contributions - scheme participants	-	1,086
Transfer of liability to unfunded scheme	1,155	-
Administrative expenses	(6,800)	(6,400)
At 31 December	(273,483)	(568,665)

Amounts recognised in the Profit and Loss Account to arrive at operating profit

	2017 £000	2016 £000
Current service cost	(46,730)	(41,091)
Past service cost	-	500
Pension curtailments (see note 11)	2,895	-
Administrative expenses	(6,800)	(6,400)
Defined benefit scheme	(50,635)	(46,991)
Defined contribution scheme	(6,470)	(4,547)
Unfunded defined benefit scheme	(870)	(1,066)
Recovery from affiliate companies for the defined benefit scheme	26,167	16,979
Recognised in operating profit	(31,808)	(35,625)

Amounts recognised in the Profit and Loss Account in Interest payable and similar charges

	2017 £000	2016 £000
Net interest on defined benefit obligations	(15,620)	(13,037)
	(15,620)	(13,037)

NESTLÉ UK LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

28. Pension commitments (continued)

Reconciliation of fair value of plan liabilities

	2017 £000	2016 £000
At 1 January	(5,304,013)	(4,255,083)
Current service cost	(47,768)	(42,177)
Past service cost	-	500
Pension curtailments (see note 11)	2,895	-
Interest expense on defined benefit obligation	(140,883)	(154,106)
Changes in demographic assumptions	16,069	-
Changes in financial assumptions	82,106	(1,090,511)
Effect of experience adjustments	(25,337)	57,251
Transfer of liability to unfunded scheme	1,155	-
Benefits paid	191,463	180,113
At 31 December	<u>(5,224,313)</u>	<u>(5,304,013)</u>

Reconciliation of fair value of plan assets

	2017 £000	2016 £000
At 1 January	4,611,723	3,838,532
Interest on plan assets	125,263	141,069
Contributions by employer	132,397	96,415
Contributions by scheme participants	1,038	1,086
Administrative expenses	(6,800)	(6,400)
Remeasurements - return on scheme assets	217,922	721,134
Benefits paid	(191,463)	(180,113)
At 31 December	<u>4,890,080</u>	<u>4,611,723</u>

The cumulative amount of actuarial losses recognised in the Statement of Comprehensive Income was £1,842,546,000 (2016 - £2,133,306,000). The Company expects to pay £147,782,000 to its defined benefit plans during 2018.

NESTLÉ UK LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

28. Pension commitments (continued)

The principal actuarial assumptions at the balance sheet date were as follows:

	2017	2016
Discount rate (Defined benefit obligation)	2.60%	2.70%
Discount rate (Service cost)	2.60%	2.70%
Price inflation	3.20%	3.40%
Future increases in salaries	2.20%	3.40%
Future increases in pensions	3.05%	3.25%
Life expectancy of a male member aged 65	21.8 years	21.5 years
Life expectancy of a female member aged 65	23.1 years	23.2 years

The discount rate assumption was derived using a methodology consistent with that used in the prior year, with a "Single Agency" approach incorporated.

The weighted average duration of the benefit payments reflected in the fair value of the Fund's liabilities is 18 years.

Sensitivity analysis

The sensitivity of the fair value of plan liabilities to a change in the assumptions adopted in the valuation is as follows:

	2017 £000	2017 £000	2016 £000	2016 £000
	Increase by 0.5%	Decrease by 0.5%	Increase by 0.5%	Decrease by 0.5%
Change in discount rate	(4,787,657)	(5,724,875)	(4,845,785)	(5,831,539)
Change in salary increase	(5,224,313)	(5,224,313)	(5,304,013)	(5,304,013)
Change in pension increase	(5,546,043)	(4,889,627)	(5,640,326)	(4,952,877)
Change in member mortality assumption by 1 year	(5,052,392)	(5,396,863)	(5,131,966)	(5,477,506)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated.

NESTLÉ UK LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

28. Pension commitments (continued)

The five year history of the defined benefit obligation and plan assets is as follows:

	2017 £000	2016 £000	2015 £000	2014 £000	2013 £000
Defined benefit obligation	(5,224,313)	(5,304,013)	(4,255,083)	(4,442,870)	(3,958,371)
Plan assets	4,890,080	4,611,723	3,838,532	3,806,920	3,383,670
Scheme deficit	<u>(334,233)</u>	<u>(692,290)</u>	<u>(416,551)</u>	<u>(635,950)</u>	<u>(574,701)</u>
Experience adjustments on plan liabilities	25,337	(57,251)	(96,949)	(17,404)	64,986
Experience adjustments on plan assets	217,922	721,134	(65,647)	303,069	208,695

(b) Other personnel obligations

The Company has the following liability in respect of the unfunded pension fund:

	2017 £000	2016 £000
Pension liability	(10,929)	(10,369)
Deferred tax (note 21)	2,077	1,970
Net deficit	<u>(8,852)</u>	<u>(8,399)</u>

The principal actuarial assumptions at the balance sheet date were as follows:

	2017	2016
Discount rate (Defined benefit obligation)	2.60%	2.70%
Discount rate (Service cost)	2.60%	2.70%
Price inflation	3.20%	3.30%
Future increases in salaries	2.20%	3.45%
Future increases in pensions	3.05%	3.30%
Life expectancy of a male aged 65	21.8 years	21.5 years

The amounts recognised in the Profit and Loss Account within operating profit are as follows:

	2017 £000	2016 £000
Current service cost	(883)	(592)
Past service cost	-	(474)
Gains/losses on settlements	13	-
	<u>(870)</u>	<u>(1,066)</u>

NESTLÉ UK LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

28. Pension commitments (continued)

The amounts recognised in interest payable and similar charges are as follows:

	2017 £000	2016 £000
Interest on obligations	(308)	(336)
	<u>(308)</u>	<u>(336)</u>

(c) Post-retirement benefits

The Company provides certain post-retirement benefits, mainly healthcare to 121 (2016 - 123) pensioned former employees. The plan is unfunded and the liability in respect of these benefits is assessed by a qualified independent actuary on a bi-annual basis.

The gross liability reported is £2,872,000 (2016 - £2,868,000) and is disclosed within "Provisions for liabilities and charges" in the Balance Sheet (see note 22).

The following table sets out the key assumptions used for the scheme:

	2017	2016
Core price inflation	3.20%	3.45%
Discount rate	2.55%	2.65%
Future increases in salaries	2.20%	3.45%
Future increases in pensions	3.05%	3.30%
Medical expense inflation	5.20%	5.95%
Life expectancy of a male aged 65	<u>21.8 years</u>	<u>21.5 years</u>

The amounts recognised in interest payable and similar charges are as follows:

	2017 £000	2016 £000
Interest on obligations	(70)	(88)
	<u>(70)</u>	<u>(88)</u>

Assumed medical expense inflation has an effect on the amounts reported for the Post-retirement medical Scheme. A 50 basis point change in assumed medical expense inflation would have the following effect on the Company's Post-retirement Medical Scheme:

NESTLÉ UK LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

28. Pension commitments (continued)

	2017 £000	2017 £000	2016 £000	2016 £000
	Increase by 0.5%	Decrease by 0.5%	Increase by 0.5%	Decrease by 0.5%
Gross liability at year-end	(3,035)	(2,718)	(3,043)	(2,703)

(d) Long term sickness and disability scheme

The Company operates 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 18)

The following table sets out the key assumptions used for the scheme.

	2017	2016
Core price inflation	3.20%	3.45%
Discount rate	2.55%	2.65%
Benefit increases	2.70%	2.95%

29. Commitments under operating leases

At 31 December 2017 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2017 £000	2016 £000
Not later than 1 year	6,217	5,041
Later than 1 year and not later than 5 years	17,668	15,978
Later than 5 years	31,223	34,311
	55,108	55,330

30. Related party transactions

The Company pays for certain costs on behalf of the Nestlé UK Pension Fund ("NUKPF"), Cereal Partners Pension Fund and Nestlé Europe Pension Fund. These pension funds reimburse the Company with the cost of these expenses. For the year ended 31 December 2017 the total expenses reimbursed amounted to £9,457,378 (2016 - £10,111,705). Of this figure £2,192,540 (2016 - £2,006,918) relates to salaries and other benefits of the staff and £7,264,838 (2016 - £8,104,787) to other administrative costs.

These transactions were undertaken on terms equivalent to those that prevail in arm's length transactions.

NESTLÉ UK LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

31. Post balance sheet events

There have been no significant events affecting the Company since the year end that require disclosure in these financial statements.

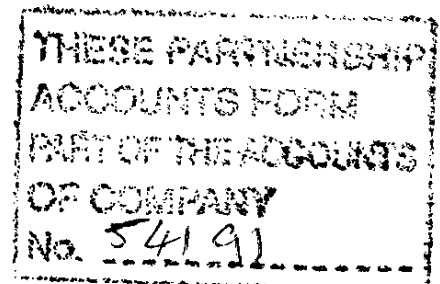
32. Controlling party

Nestlé Holdings (U.K.) PLC, a company registered in England and Wales, is the Company's immediate parent company and the holding company for some other Nestlé S.A. group companies based in the United Kingdom.

The ultimate holding company and controlling party is Nestlé S.A., CH-1800 Vevey, Switzerland, from whom copies of their group accounts can be obtained.

CEREAL PARTNERS U.K.

**STRATEGIC REPORT, MEMBERS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**



COMPANIES HOUSE

CEREAL PARTNERS U.K.

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CEREAL PARTNERS UK

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

INTRODUCTION

The members present the Strategic report for the year ended 31 December 2017.

BUSINESS REVIEW

The performance achieved during the year is set out in the Profit and Loss account on page 6.

Turnover increased year on year by 0.8%.

The results of the partnership show a pre-tax profit of £11,082,000 (2016 : £14,941,000).

PRINCIPAL RISKS AND UNCERTAINTIES

The management of the business of the partnership and the execution of its strategy are subject to a number of risks and uncertainties, including a difficult economic environment, a strong competitive environment, currency fluctuations, further trade consolidation, product innovation, employee retention and volatility in input costs.

The members of the partnership are aware of these risks and strategic decisions are made to manage these risks appropriately. These will include monitoring of the performance of key brands, review of costs and the credit exposure to customers. The decision-making process and the assessment of business performance is supported by the experience of the management team, regular sales volume and value data and monthly management accounts, split by business channel.

The partnership has an exposure to the risk of currency fluctuations. The risk is managed by the regular monitoring of fluctuations in key currencies and entering into forward currency contracts to hedge future requirements as appropriate.

The group internal audit department monitors the operation risks of all parts of the business on a rotational/sample basis and will recommend improvements to business processes and controls to assist in the mitigation of identified business risks.

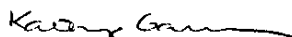
The partnership is in a net current liability position and is reliant on its members, Nestlé UK Limited and General Mills Canada Holding Three Corporation for continued support - refer to note 1.2 for further details.

This report was approved by the members on 15 June 2018 and signed on its behalf.



David McDaniel

Director of Nestlé UK Limited



Kathy K Garrison

President of General Mills Canada Holding Three Corporation

CEREAL PARTNERS UK

MEMBERS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

The members present their report and the financial statements for the year ended 31 December 2017.

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

The members are responsible for preparing the Strategic Report, the Members' Report and the partnership financial statements in accordance with applicable law and regulations.

The Partnerships (Accounts) Regulations 2008 require the members to prepare partnership financial statements for each financial year in accordance with Part 15 and Chapter 1 of Part 16 of the Companies Act 2006. Under that law the members have elected to prepare the partnership financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the members must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the partnership and of the profit or loss of the partnership for that period. In preparing the partnership financial statements, the members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the qualifying partnership's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the qualifying partnership or to cease operations, or have no realistic alternative but to do so.

The members are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the partnership and to prevent and detect fraud and other irregularities.

PRINCIPAL ACTIVITIES

The principal activity of Cereal Partners UK (the partnership) is the manufacture and sale of breakfast cereals.

RESULTS AND DISTRIBUTIONS

The profit for the year, after taxation, amounted to £11,082,000 (2016 - £14,941,000).

The members recommend a distribution of £20,969,000 to be paid in 2018 (2017 - £28,220,000).

MEMBERS

The members who served during the year were:

Nestlé UK Limited
General Mills Canada Holding Three Corporation

ENVIRONMENTAL MATTERS

The partnership will seek to minimise adverse impacts on the environment from its activities, whilst continuing to address health, safety and economic issues. The partnership has complied with all applicable legislation and regulations.

FUTURE DEVELOPMENTS

The external environment is expected to remain competitive and challenging in 2018.

CEREAL PARTNERS UK

MEMBERS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

EMPLOYEE INVOLVEMENT

The partnership 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 partnership 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 continues to receive the same high profile in 2018 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 a continual increase in performance.

DISCLOSURE OF INFORMATION TO AUDITORS

Each of the persons who are members at the time when this Members' report is approved has confirmed that:

- so far as that member is aware, there is no relevant audit information of which the partnership's Auditor is unaware, and
- that member has taken all the steps that ought to have been taken as a member in order to be aware of any relevant audit information and to establish that the partnership's Auditor is aware of that information.

AUDITORS

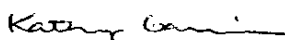
Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to have been reappointed and KPMG LLP will therefore continue in office.

This report was approved by the board on 15 June 2018 and signed on its behalf.



David McDaniel

Director of Nestlé UK Limited
1 City Place
Gatwick
RH6 0PA
United Kingdom



Kathy K Garrison

President of General Mills Canada Holding Three
Corporation
1300-1969 Upper Water Street
Purdy's Wharf
Tower II
Halifax
Nova Scotia
B3J 3R7
Canada

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CEREAL PARTNERS UK

OPINION

We have audited the financial statements of Cereal Partners UK ("the qualifying partnership") for the year ended 31 December 2017 which comprise the Statement of Profit and Loss, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the qualifying partnership's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to qualifying partnerships by The Partnerships (Accounts) Regulations 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the qualifying partnership in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and members report

The general members are responsible for the strategic report and the members' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the strategic report and members' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the members' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 as applied to qualifying partnerships we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CEREAL PARTNERS UK

- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of members' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

General members' responsibilities

As explained more fully in their statement set out on page 2, the general members are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the qualifying partnership's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the qualifying partnership or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the qualifying partnership's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, as required by regulation 4 of the Partnerships (Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the qualifying partnership'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 qualifying partnership and its members, as a body, for our audit work, for this report, or for the opinions we have formed.

B. J. Stapleton

Benjamin Stapleton (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

58 Clarendon Road
Watford
WD17 1DE

Date: *27 June 2018*

CEREAL PARTNERS UK

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 £000	2016 £000
Turnover	2	257,755	255,830
Cost of sales		(103,841)	(98,322)
Gross profit		153,914	157,508
Distribution costs		(77,869)	(78,100)
Administrative expenses		(62,551)	(60,513)
Operating profit	3	13,494	18,895
Interest receivable and similar income	7	6,341	7,577
Interest payable and similar charges	6	(8,753)	(11,531)
Profit before tax		11,082	14,941
Profit for the year		11,082	14,941

All amounts relate to continuing operations.

The notes on pages 13 to 30 form part of these financial statements.

CEREAL PARTNERS UK

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 £000	2016 £000
Profit for the financial year		11,082	14,941
Other comprehensive income			
Actuarial gain/(loss) on defined benefit schemes	18	3,210	(19,962)
Other comprehensive (expense)/income for the year		3,210	(19,962)
Total comprehensive (expense)/income for the year		14,292	(5,021)

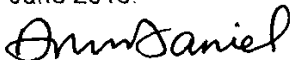
The notes on pages 13 to 30 form part of these financial statements.

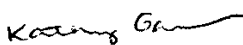
CEREAL PARTNERS UK

BALANCE SHEET
AS AT 31 DECEMBER 2017

	Note	2017 £000	2016 £000
Fixed assets			
Tangible assets	9	92,653	95,320
		<u>92,653</u>	<u>95,320</u>
Current assets			
Stocks	10	17,639	15,696
Debtors	11	4,461	6,665
Cash at bank and in hand	12	352	325
		<u>22,452</u>	<u>22,686</u>
Creditors: amounts falling due within one year	13	(41,187)	(41,543)
Net current liabilities		<u>(18,735)</u>	<u>(18,857)</u>
Net assets excluding pension scheme liability		<u>73,918</u>	<u>76,463</u>
Defined benefit pension fund liability	18	(28,727)	(37,554)
Net assets including pension scheme liability		<u><u>45,191</u></u>	<u><u>38,909</u></u>
Capital and reserves			
Members' interests	15	123,962	103,752
Reserves	14	(78,771)	(64,843)
Total members' interests		<u><u>45,191</u></u>	<u><u>38,909</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 15 June 2018.


David McDaniel
Director of Nestlé UK Limited


Kathy K Garrison
President of General Mills Canada Holding Three Corporation

The notes on pages 13 to 30 form part of these financial statements.

CEREAL PARTNERS UK
STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2017

	Members' capital	Hedging reserve	Retained earnings	Total equity
	£000	£000	£000	£000
At 1 January 2017	103,752	(46)	(64,797)	38,909
Comprehensive income for the year				
Profit for the year	-	235	10,847	11,082
Actuarial gains/(losses) on pension scheme	-	-	3,210	3,210
Members working capital movement	20,210	-	-	20,210
Other comprehensive income for the year	20,210	-	3,210	23,420
Total comprehensive income for the year	20,210	235	14,057	34,502
Contributions by and distributions to owners				
Distributions	-	-	(28,220)	(28,220)
Total transactions with owners	-	-	(28,220)	(28,220)
At 31 December 2017	123,962	189	(78,960)	45,191

The notes on pages 13 to 30 form part of these financial statements

CEREAL PARTNERS UK

**STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2016**

	Members' capital	Hedging reserve	Retained earnings	Total equity
	£000	£000	£000	£000
At 1 January 2016	107,303	234	(51,522)	56,015
Comprehensive income for the year				
Profit for the year	-	(280)	15,221	14,941
Actuarial gains/(losses) on pension scheme	-	-	(19,962)	(19,962)
Members working capital movement	(3,551)	-	-	(3,551)
Other comprehensive income for the year	(3,551)	-	(19,962)	(23,513)
Total comprehensive income for the year	(3,551)	(280)	(4,741)	(8,572)
Contributions by and distributions to owners				
Distributions	-	-	(8,534)	(8,534)
Total transactions with owners	-	-	(8,534)	(8,534)
At 31 December 2016	<u>103,752</u>	<u>(46)</u>	<u>(64,797)</u>	<u>38,909</u>

The notes on pages 13 to 30 form part of these financial statements

CEREAL PARTNERS UK

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017**

	2017 £000	2016 £000
Cash flows from operating activities		
Profit for the financial year	11,082	14,941
Adjustments for:		
Depreciation of tangible assets	11,488	11,209
Loss on disposal of tangible assets	17	49
(Increase)/decrease in stocks	(1,943)	(625)
Interest payable	8,753	11,531
Interest receivable	(6,341)	(7,577)
(Increase)/decrease in debtors	2,089	(548)
(Increase)/decrease in amounts owed by groups	115	70
Increase)/(decrease) in creditors	(276)	1,187
Increase/(decrease) in amounts owed to group undertakings	(80)	978
(Increase)/decrease in net pension liabilities	(6,485)	(7,581)
Members interests working capital movements	20,210	(3,551)
Net cash generated from operating activities	38,629	20,083
Cash flows from investing activities		
Purchase of tangible fixed assets	(8,839)	(7,970)
Interest received	39	84
Exchange gain on revaluation	16	-
Joint ventures interest received	-	7
Net cash outflow from investing activities	(8,784)	(7,879)

CEREAL PARTNERS UK

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017**

	2017 £000	2016 £000
Cash flows from financing activities		
Distributions	(28,220)	(8,534)
Interest and similar charges paid	(1,598)	(3,341)
Net cash used in financing activities	(29,818)	(11,875)
Net increase / (decrease) in cash and cash equivalents	27	329
Cash and cash equivalents at beginning of year	325	(4)
Cash and cash equivalents at the end of year	<u>352</u>	<u>325</u>
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	352	325
	<u>352</u>	<u>325</u>

CEREAL PARTNERS UK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. ACCOUNTING POLICIES

1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS102").

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the partnership's accounting policies.

The following principal accounting policies have been applied:

1.2 Going concern

The partnership's business activities, together with the factors likely to affect its future development and position, are set out in the Business review section of the Members' report on pages 2 to 3.

The partnership has net assets attributable to members of £45,191,000 including £123,962,000 owed to the members in the form of loans, other debts and other capital and reserves. The members have provided the partnership with an undertaking that for at least twelve months from the date of approval of these financial statements they will continue to provide financial and other support to enable the partnership to continue in operational existence for the foreseeable future and that repayment of the above amounts will not be sought if it would impede the partnership's ability to meet its obligations to third parties and operate as a going concern.

1.3 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the partnership and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the partnership has transferred the significant risks and rewards of ownership to the buyer;
- upon despatch;
- the partnership retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the partnership will receive the consideration due under the transaction;
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.4 Intangible fixed assets and amortisation

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

CEREAL PARTNERS UK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1.5 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The partnership adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the partnership. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives range as follows:

Depreciation is provided on the following bases:

Freehold property	-	25 to 35 years
Plant and machinery	-	5 to 20 years
Computer equipment	-	3 to 10 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other operating income' in the Profit and Loss account.

1.6 Leasing and hire purchase

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets. Assets acquired by finance lease are depreciated over the shorter of the lease term and their useful lives. Assets acquired by hire purchase are depreciated over their useful lives. Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the partnership. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the Profit and Loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

1.7 Operating leases

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

1.8 Stocks

Stocks are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving inventory. Cost includes all direct costs and an appropriate proportion of fixed and variable overheads.

CEREAL PARTNERS UK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1.9 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

1.10 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

1.11 Hedging

The partnership has entered into currency forward contracts to manage its exposure to fluctuations in the value of foreign currencies. In addition the partnership utilise the futures market to stabilise the long term price of major raw materials.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income. Any ineffective portion of the hedge is recognised immediately in profit or loss.

For cash flow hedges, where the forecast transactions resulted in the recognition of a non-financial asset or non-financial liability, the hedging gain or loss recognised in OCI is included in the initial cost or other carrying amount of the asset or liability. Alternatively when the hedged item is recognised in profit or loss the hedging gain or loss is reclassified to profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

CEREAL PARTNERS UK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1.12 Foreign currency translation

Functional and presentation currency

The company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Exchange gains and losses are recognised in the Profit and Loss account.

During its normal course of business the partnership enters into a number of forward exchange contracts. These transactions are initially recorded at the rate stated in the relevant foreign exchange contract. At the balance sheet date any gains or losses arising on retranslation are recognised in the Profit and Loss account. The corresponding debtor or creditor is included in other debtors or creditors respectively.

1.13 Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.14 Finance costs

Finance costs are charged to the Profit and loss account over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

CEREAL PARTNERS UK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1.15 Pensions

The partnership operates a closed defined benefit pension scheme. The assets of the scheme are held separately from those of the partnership in an independently administered fund.

Pension scheme liabilities are measured using a projected unit method and discounted at the current rate return on a high quality corporate bond of equivalent term and currency to the liability.

The scheme surplus, to the extent that it is recoverable, or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of comprehensive income, actuarial gains and losses.

Further disclosure relating to the partnership defined benefit pension scheme is given in note 18 to these financial statements.

The partnership also participates in the Nestlé UK Pension Fund which includes a defined benefit and a defined contribution scheme. The assets of the scheme are held separately from those of the partnership.

The partnership is unable to identify its share of the underlying assets and liabilities of the Nestlé scheme on a consistent and reasonable basis. It therefore accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the Profit and Loss account represents the contributions paid to the scheme in respect of the accounting period.

For additional information regarding the Nestlé UK Pension Fund please refer to note 18 to these financial statements.

1.16 Taxation

No account is taken of either current taxation on profits or deferred taxation arising on timing differences within these financial statements. All taxation is dealt with as appropriate in the financial statements of the members.

1.17 Distributions

Distributions unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the partnership. Unpaid distributions that do not meet these criteria are disclosed in the notes to the financial statements.

1.18 Interest income

Interest income is recognised in the Profit and Loss account using the effective interest method.

1.19 Borrowing costs

All borrowing costs are recognised in the Profit and Loss account in the year in which they are incurred.

CEREAL PARTNERS UK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1.20 Provisions for Liabilities

Provisions are made where an event has taken place that gives the partnership a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Profit and Loss account in the year that the partnership becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

2. ANALYSIS OF TURNOVER

Analysis of turnover by country of destination:

	2017 £000	2016 £000
United Kingdom	237,865	235,492
Rest of Europe	18,905	19,572
Rest of the world	985	766
	<u>257,755</u>	<u>255,830</u>

3. OPERATING PROFIT

The operating profit is stated after charging:

	2017 £000	2016 £000
Depreciation of tangible fixed assets	11,488	11,209
Auditor's remuneration	90	91
Operating lease rentals;		
- plant and machinery	583	540
- land and buildings	1,108	937
- other lease charges	332	358
Loss on sale of fixed assets	<u>17</u>	<u>48</u>

During the year, no members received any emoluments (2016 - £NIL).

CEREAL PARTNERS UK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

4. EMPLOYEES

Staff costs were as follows:

	2017 £000	2016 £000
Wages and salaries	28,113	26,767
Social security costs	2,883	2,746
Cost of defined benefit pension scheme	5,259	3,897
	<u>36,255</u>	<u>33,410</u>

Included in the total staff costs disclosed above is compensation paid to key management personnel of £1,530,000 (2016 - £1,978,000).

The average monthly number of employees, including the members, during the year was as follows:

	2017 No.	2016 No.
Production	528	501
Sales and administration	136	135
	<u>664</u>	<u>636</u>

5. MEMBERS' REMUNERATION

No directors of the members received any emoluments in respect of their management of the partnership.

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2017 £000	2016 £000
Pension guarantee levy	232	300
Other financial expenses payable to joint venture partners	3	-
Interest payable to joint venture partners	1,277	2,424
Interest payable on pension scheme liabilities	7,155	8,190
Unrealised exchange differences and revaluation	86	617
	<u>8,753</u>	<u>11,531</u>

CEREAL PARTNERS UK

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	2017 £000	2016 £000
Interest on pension fund assets	6,286	7,486
Exchange gain on revaluation	16	-
Inter group financial income	-	7
Interest on bank offset facility	39	84
	<u>6,341</u>	<u>7,577</u>

8. INTANGIBLE FIXED ASSETS

	Systems Development £000	Total £000
Cost or valuation		
At 1 January 2017 and 31 December 2017	<u>8,523</u>	<u>8,523</u>
Depreciation		
At 1 January 2017 and 31 December 2017	<u>8,523</u>	<u>8,523</u>
At 31 December 2017	<u>-</u>	<u>-</u>
At 31 December 2016	<u>-</u>	<u>-</u>

CEREAL PARTNERS UK

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

9. TANGIBLE FIXED ASSETS

	Freehold property	Plant and machinery	Total
	£000	£000	£000
Cost or valuation			
At 1 January 2017	49,698	200,898	250,596
Additions	90	8,748	8,838
Disposals	-	(373)	(373)
At 31 December 2017	49,788	209,273	259,061
Depreciation			
At 1 January 2017	21,037	134,239	155,276
Charge for the period	1,352	10,136	11,488
Disposals	-	(356)	(356)
At 31 December 2017	22,389	144,019	166,408
At 31 December 2017	27,399	65,254	92,653
At 31 December 2016	28,661	66,659	95,320

CEREAL PARTNERS UK

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

10. STOCKS

	2017	2016
	£000	£000
Raw materials and consumables	3,593	3,486
Finished goods and goods for resale	14,046	12,210
	<u>17,639</u>	<u>15,696</u>

11. DEBTORS

	2017	2016
	£000	£000
Amounts owed by group undertakings	239	354
Other debtors	2,988	3,319
Prepayments and accrued income	1,153	2,856
Financial instruments	81	136
	<u>4,461</u>	<u>6,665</u>

12. CASH AND CASH EQUIVALENTS

	2017	2016
	£000	£000
Cash at bank and in hand	352	325
	<u>352</u>	<u>325</u>

CEREAL PARTNERS UK

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

13. CREDITORS: Amounts falling due within one year

	2017 £000	2016 £000
Trade creditors	35,752	35,535
Amounts owed to group undertakings	3,169	3,249
Other creditors	1,994	2,442
Financial Instruments	272	317
	<u>41,187</u>	<u>41,543</u>

14. RESERVES

	Members' Other Capital £000	Other Reserves £000	Total Reserves £000
At 1 January 2017	38,107	(102,950)	(64,843)
Profit for the year	11,082	-	11,082
Actuarial gain on defined benefit pension scheme	-	3,210	3,210
Distributions	(28,220)	-	(28,220)
At 31 December 2017	<u>20,969</u>	<u>(99,740)</u>	<u>(78,771)</u>

15. RECONCILIATION OF MEMBERS' INTERESTS

	Members' Other Interests		Loans and Other Debts		
	Members' Other Capital £000	Other Reserves £000	Members' Loan Accounts £000	Members' Working Capital Balances £000	Total Members' Interest £000
At 1 January 2017	38,107	(102,950)	140,000	(36,248)	38,909
Profit for the year	11,082	-	-	-	11,082
Actuarial gain on defined benefit pension scheme	-	3,210	-	-	3,210
Distributions	(28,220)	-	-	-	(28,220)
Working capital movements	-	-	-	20,210	20,210
At 31 December 2017	<u>20,969</u>	<u>(99,740)</u>	<u>140,000</u>	<u>(16,038)</u>	<u>45,191</u>

CEREAL PARTNERS UK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

15. RECONCILIATION OF MEMBERS' INTERESTS (continued)

Members' loans and other debts comprise:	2017	2016
	£000	£000
Amounts due from members and members' group companies	20,054	41,022
Amounts due to members and members' group companies	(144,016)	(144,774)
	<u>(123,962)</u>	<u>(103,752)</u>

Amounts due from members and members' group companies include £6,470,000 (2016 - £25,089,000) representing cash transferred under the group cash pooling arrangement that can be recovered on request.

16. DISTRIBUTIONS

	2017	2016
	£000	£000
Distributions to members	28,220	8,534

17. CAPITAL COMMITMENTS

At 31 December 2017 the partnership had capital commitments as follows:

	2017	2016
	£000	£000
Contracted for but not provided in these financial statements	217	105

18. PENSION COMMITMENTS

The partnership operates a closed defined benefit pension scheme, the Cereal Partners UK Pension Fund (the Fund). At 31 December 2017 the partnership reported a liability of £28,727,000 (2016 - £37,554,000) in respect of this fund. A full actuarial valuation of the fund was carried out as at 31 December 2014. The results of this valuation have been used and updated for the purpose of FRS 102 accounting for the period to 31 December 2017 by a qualified independent actuary to take account of the requirements of FRS 102 in order to assess the liabilities of the company at the balance sheet date. Fund assets are stated at their market value at the balance sheet date. As required by FRS 102 the valuation uses the projected unit method, under which the current service cost will tend to increase as a percentage of pensionable payroll as members of the Fund approach retirement.

CEREAL PARTNERS UK

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

18. PENSION COMMITMENTS (continued)

The amount recognised in the balance sheet is as follows:

	2017	2016
	£000	£000
Present value of Defined Benefit Obligations	(286,306)	(276,941)
Fair value of Fund assets	257,579	239,387
Fund deficit	<u>(28,727)</u>	<u>(37,554)</u>

The Fund assets comprise:

	2017	2016
	£000	£000
UK equities	30,085	26,940
Overseas equities	75,095	63,811
Debt instruments	90,427	94,078
Diversified growth fund	32,944	28,271
Real estate	10,436	9,168
Cash and cash equivalents	17,212	15,284
Others	1,380	1,835
Total Fund assets	<u>257,579</u>	<u>239,387</u>

Movement of Fund deficit

	2017	2016
	£000	£000
Fund deficit at 1 January	(37,554)	(24,469)
Current service cost	(3,858)	(2,815)
Net interest cost	(869)	(704)
Actuarial gains/(losses)	3,210	(19,962)
Contributions paid - normal	2,167	2,313
Contributions paid – deficit funding	8,456	8,250
Other administrative costs	(279)	(267)
Past service cost	-	100
Fund deficit at 31 December	<u>(28,727)</u>	<u>(37,554)</u>

Changes in the present value of Defined Benefit Obligations are as follows:

	2017	2016
	£000	£000
Present value of Defined Benefit Obligations at 1 January	(276,941)	(217,818)
Current service cost	(3,858)	(2,815)
Contributions from Fund members	(190)	(245)
Interest on Fund liabilities	(7,155)	(8,190)
Changes in demographic assumptions	1,500	-
Changes in financial assumptions	(6,100)	(57,543)
Effect of experience adjustments	(987)	2,168
Benefits paid	7,425	7,402
Past service cost	-	100
Present value of Defined Benefit Obligations at 31 December	<u>(286,306)</u>	<u>(276,941)</u>

CEREAL PARTNERS UK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

18. PENSION COMMITMENTS (continued)

Changes in fair value of Fund assets are as follows:

	2017 £000	2016 £000
Fair value of Fund assets at 1 January	239,387	193,349
Interest on Fund assets	6,286	7,486
Actuarial (loss)/gain on Fund assets	8,797	35,413
Employer contributions - normal	2,167	2,313
Employer contributions – deficit funding	8,456	8,250
Fund member contributions	190	245
Other administrative costs	(279)	(267)
Benefits paid	(7,425)	(7,402)
Fair value of Fund assets at 31 December	<u>257,579</u>	<u>239,387</u>

The cumulative amount of actuarial losses recognised in the statement of Comprehensive Income was £99,740,000 (2016 - £102,950,000).

The company expects to contribute £10,800,000 to the Fund in 2018.

Principal actuarial assumptions expressed as a weighted average and expected returns.

	2017	2016
Discount rate	2.4%	2.6%
Future salary increases	1.9%	2.0%
Future pension increases	3.0%	3.1%
Price inflation	3.1%	3.3%
Life expectancy of a current male pensioner aged 65	22.3	22.0
Life expectancy of a current female pensioner aged 65	24.2	24.2
Life expectancy of a future male retiree upon reaching 65	23.7	23.7
Life expectancy of a future female retiree upon reaching 65	25.7	25.7
Expected return on Fund assets	6.6%	6.7%

The following amounts have been recognised within operating costs for the years to 31 December 2017 and 2016.

	2017 £000	2016 £000
Current service cost	3,858	2,815
Past service cost	-	(100)
Other administrative costs	279	267
Total expense in operating cost	<u>4,137</u>	<u>2,982</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

18. PENSION COMMITMENTS (continued)

The following amounts have been recognised within financing costs for the years to 31 December 2017 and 2016.

	2017 £000	2016 £000
Interest on fund liabilities	7,155	8,190
Total expense in financing costs	<u>7,155</u>	<u>8,190</u>

The following amounts have been recognised within financing income for the years to 31 December 2017 and 2016.

	2017 £000	2016 £000
Interest receivable on Fund assets	6,286	7,486
Total interest in financing income	<u>6,286</u>	<u>7,486</u>

Sensitivity Analysis

The calculation of the Defined Benefit Obligation (DBO) is sensitive to assumptions set out above. The following table summarises the impact of a change in these assumptions of half of one percent (0.5%).

	Increase by 0.5% DBO £000	Decrease by 0.5% DBO £000
Discount rate	260,623	315,846
Salary increases	291,737	281,173
Pension increases	298,196	274,416

The five year history of Defined Benefit Obligation, Fund assets and scheme deficit is as follows:

	2017 £000	2016 £000	2015 £000	2014 £000	2013 £000
Defined Benefit Obligation	(286,306)	(276,941)	(217,818)	(237,899)	(203,079)
Fund assets	257,579	239,387	193,349	187,733	161,901
Fund deficit	<u>(28,727)</u>	<u>(37,554)</u>	<u>(24,469)</u>	<u>(50,166)</u>	<u>(41,178)</u>

The five year history of experience gains and losses on Fund liabilities is as follows:

	2017 £000	2016 £000	2015 £000	2014 £000	2013 £000
Experience gain/(loss) on Fund liabilities	-987	2,168	8,986	-	-
% of the present value of Fund liabilities	-0.3%	0.8%	4.1%	-	-

CEREAL PARTNERS UK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

18. PENSION COMMITMENTS (continued)

Cereal Partners UK participates in the Nestlé UK Pension Fund (the Fund), which includes a defined benefit and a defined contribution section. The partnership made contributions of £333,000 to the Fund during 2017 (2016 - £357,000).

Cereal Partners UK 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. 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 2017 by an independent qualified actuary for the purposes of FRS 102. At that date the liabilities exceeded the assets by £334,233,000 (2016 - £692,290,000).

19. OPERATING LEASES

Non-cancellable operating lease rentals are payable as follows :

	Land and buildings		Other	
	2017	2016	2017	2016
	£000	£000	£000	£000
Less than one year	1,108	1,005	825	699
Between one and five years	1,596	1,923	1,161	1,084
	<u>2,704</u>	<u>2,928</u>	<u>1,986</u>	<u>1,783</u>

20. RELATED PARTY TRANSACTIONS

Cereal Partners UK is a jointly owned venture of Nestlé UK Limited and General Mills Canada Holding Three Corporation.

The ultimate parent of Nestlé UK Limited is Nestlé S.A. and the ultimate parent of General Mills Canada Holding Three Corporation is General Mills Inc.

Nestle UK Ltd and Nestle Ireland Ltd act as undisclosed agent for Cereal Partners UK.

	Sales		Expenses	
	2017	2016	2017	2016
	£000	£000	£000	£000
Entities with control, joint control or significant influence				
Nestlé UK Ltd	207,823	210,732	36,038	38,732
General Mills Inc.	-	-	423	468
CPW SA	-	-	10,967	10,783
	<u>207,823</u>	<u>210,732</u>	<u>47,428</u>	<u>49,983</u>
Other related parties				
Nestlé Ireland Ltd	9,103	9,932	2,048	2,471
CPW SARL	4,509	3,637	-	-

CEREAL PARTNERS UK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

CP France	17	121	14,417	14,203
CP Greece	12	18	-	-

RELATED PARTY TRANSACTIONS (continued)

	Sales		Expenses	
	2017	2016	2017	2016
	£000	£000	£000	£000
CP Israel	674	467	-	-
CP Germany	338	357	2	-
CP Poland	8	-	3,741	3,203
Nestlé SA	9	15	-	65
Nestlé Czechoslovakia	-	-	3	-
Nestlé Poland	-	-	2	-
Nestlé Spain	189	189	-	9
Nestlé Suisse	137	152	-	-
Nestlé Portugal	120	159	-	-
Nestlé Austria	92	91	-	-
Nestlé Malta	60	53	-	-
Nestlé Middle East	177	160	-	-
Nestlé SA	-	-	116	150
Nestec SA	-	-	76	66
Nestlé Australia	29	-	1	10
Nestlé France	-	-	121	33
Nestlé Germany	-	-	18	18
Nestlé Globe Centre	-	-	1,085	935
Nestlé Netherlands	-	-	14	2
Nestlé Operational Services Worldwide	-	-	66	218
Nestlé Purina UK	-	-	5	5
Nespresso UK	-	-	4	-
Nestlé UK Pension Trust	-	-	62	52
Nestlé Waters UK	-	-	-	(1)
San Pellegrino Spa	-	-	4	-
	15,474	15,351	21,785	21,439

	Receivables Outstanding		Creditors Outstanding	
	2017	2016	2017	2016
	£000	£000	£000	£000
Entities with control, joint control or significant influence				
Nestlé UK Ltd	12,042	14,872	3,557	3,941
General Mills Inc.	-	-	9	279
CPW SA	-	-	810	870
	12,042	14,872	4,376	5,090
Other related parties				
Nestlé Ireland Ltd	1,266	911	271	329
CPW SARL	216	306	-	-
CP Germany	15	45	-	-
CP France	-	-	2,184	2,080

CEREAL PARTNERS UK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

RELATED PARTY TRANSACTIONS (continued)

	Receivables Outstanding		Creditors Outstanding	
	2017 £000	2016 £000	2017 £000	2016 £000
CP Greece	-	3	-	-
CP Australia	29	-	-	2
CP Mexico	-	-	1	-
CP Poland	8	-	175	297
Nestlé Austria	8	-	-	-
Nestlé Czechoslovakia	-	-	3	-
Nestlé Germany	-	-	1	10
Nestlé Malta	7	15	-	-
Nestlé Netherlands	-	-	2	-
Nestlé Poland	-	-	2	-
Nestlé Spain	16	-	-	-
Nestlé Suisse	20	20	-	-
Nestlé World Trade Centre	-	-	-	67
Osem Food Industries	97	29	-	-
Nestlé Maroc	-	7	-	-
Nestlé Globe Centre	-	-	100	57
Nestlé France	-	-	19	26
Nespresso UK	-	-	1	1
Nestlé Purina UK	-	-	-	1
Nestec SA	-	-	5	7
Nestlé Operational Services Worldwide	-	-	1	10
Nestlé Middle East	99	79	-	-
	<u>1,781</u>	<u>1,415</u>	<u>2,765</u>	<u>2,887</u>

21. CONTROLLING PARTY

In the opinion of the members there is no overall controlling party.