

2007 Financial Statements



Nestlé

Good Food, Good Life

Consolidated Financial Statements of the Nestlé Group
Financial Statements of Nestlé S.A.

Consolidated Financial Statements of the Nestlé Group

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Principal exchange rates

CHF per		2007	2006	2007	2006
		Year ending rates		Average annual rates	
1 US Dollar	USD	1.126	1.222	1.196	1.250
1 Euro	EUR	1.657	1.609	1.644	1.574
1 Pound Sterling	GBP	2.248	2.400	2.395	2.314
100 Brazilian Reais	BRL	63.200	57.220	61.810	57.820
100 Japanese Yen	JPY	1.005	1.027	1.019	1.075
100 Mexican Pesos	MXN	10.320	11.250	10.960	11.470
1 Canadian Dollar	CAD	1.151	1.052	1.128	1.104
1 Australian Dollar	AUD	0.991	0.967	1.006	0.943
100 Philippine Pesos	PHP	2.730	2.492	2.606	2.444

Consolidated income statement for the year ended 31 December 2007

In millions of CHF	Notes	2007	2006
Sales	1	107 552	98 458
Cost of goods sold		(45 037)	(40 713)
Distribution expenses		(9 104)	(8 244)
Marketing and administration expenses		(36 512)	(34 465)
Research and development costs		(1 875)	(1 734)
EBIT Earnings Before Interest, Taxes, restructuring and impairments	1	15 024	13 302
Net other income/(expenses)	2	(590)	(516)
Profit before interest and taxes		14 434	12 786
Net financing cost	3		
Financial income		576	537
Financial expense		(1 492)	(1 218)
		(916)	(681)
Profit before taxes and associates		13 518	12 105
Taxes	5	(3 416)	(3 293)
Share of results of associates	6	1 280	963
Profit from continuing operations		11 382	9 775
Net profit/(loss) on discontinued operations	25	–	74
Profit for the period		11 382	9 849
of which attributable to minority interests		733	652
of which attributable to shareholders of the parent (Net profit)		10 649	9 197
As percentages of sales			
EBIT Earnings Before Interest, Taxes, restructuring and impairments		14.0%	13.5%
Profit for the period attributable to shareholders of the parent (Net profit)		9.9%	9.3%
Earnings per share from continuing operations (in CHF)			
Basic earnings per share	7	27.81	23.71
Fully diluted earnings per share	7	27.61	23.56

Consolidated balance sheet as at 31 December 2007

before appropriations

In millions of CHF	Notes	2007	2006
Assets			
Current assets			
Liquid assets	18		
Cash and cash equivalents		6 594	5 278
Short term investments		2 902	6 197
		9 496	11 475
Trade and other receivables	8/18	15 421	14 577
Assets held for sale	25	22	74
Inventories	10	9 272	8 029
Derivative assets	9/18	754	556
Prepayments and accrued income		805	594
Total current assets		35 770	35 305
Non-current assets			
Property, plant and equipment	11		
Gross value		49 474	47 077
Accumulated depreciation and impairment		(27 409)	(26 847)
		22 065	20 230
Investments in associates	6	8 936	8 430
Deferred tax assets	16	2 224	2 433
Financial assets	18	4 213	2 778
Employee benefits assets	14	811	343
Goodwill	12	33 423	28 513
Intangible assets	13	7 217	3 773
Total non-current assets		78 889	66 500
Total assets		114 659	101 805

In millions of CHF	Notes	2007	2006
Liabilities and equity			
Current liabilities			
Trade and other payables	18	14 179	12 572
Liabilities directly associated with assets held for sale	25	7	–
Financial liabilities	18	24 541	15 494
Tax liabilities		856	884
Derivative liabilities	9/18	477	470
Accruals and deferred income		3 266	3 059
Total current liabilities		43 326	32 479
Non-current liabilities			
Financial liabilities	18	6 129	6 952
Employee benefits liabilities	14	5 165	5 415
Deferred tax liabilities	16	1 398	706
Other payables		1 091	366
Provisions	17	3 316	3 039
Total non-current liabilities		17 099	16 478
Total liabilities		60 425	48 957
Equity			
Share capital ^(a)	20	393	401
Share premium and reserves			
Share premium ^(a)		5 883	5 926
Reserve for treasury shares ^(a)		7 839	4 550
Translation reserve		(6 302)	(5 205)
Retained earnings ^(a)		52 285	49 963
		59 705	55 234
Treasury shares ^(a)	21	(8 013)	(4 644)
Total equity attributable to shareholders of the parent		52 085	50 991
Minority interests		2 149	1 857
Total equity		54 234	52 848
Total liabilities and equity		114 659	101 805

^(a) At the Annual General Meeting on 19 April 2007, the shareholders approved the cancellation of 7 663 200 shares.

Consolidated cash flow statement for the year ended 31 December 2007

In millions of CHF	Notes	2007	2006
Operating activities			
Profit from continuing operations		11 382	9 775
Less share of results of associates		(1 280)	(963)
Depreciation of property, plant and equipment	11	2 620	2 581
Impairment of property, plant and equipment	11	225	96
Impairment of goodwill	12	251	38
Depreciation of intangible assets	13	591	480
Impairment of intangible assets	13	6	–
Increase/(decrease) in provisions and deferred taxes		162	(338)
Decrease/(increase) in working capital	22	82	348
Other operating cash flows		(600)	(341)
Operating cash flow ^(a)		13 439	11 676
Investing activities			
Capital expenditure	11	(4 971)	(4 200)
Expenditure on intangible assets	13	(619)	(689)
Sale of property, plant and equipment		323	98
Acquisition of businesses	23	(11 232)	(6 469)
Disposal of businesses	24	456	447
Cash flows with associates		264	323
Other investing cash flows		26	(30)
Investing cash flow		(15 753)	(10 520)

^(a) Taxes paid amount to CHF 3072 million (2006: CHF 2811 million). Net interest paid amounts to CHF 788 million (2006: CHF 599 million).

In millions of CHF	2007	2006
Financing activities		
Dividend paid to shareholders of the parent	(4 004)	(3 471)
Purchase of treasury shares	(5 455)	(2 788)
Sale of treasury shares	980	906
Cash flows with minority interests	(205)	(191)
Bonds issued	2 023	1 625
Bonds repaid	(2 780)	(2 331)
Increase in other non-current financial liabilities	348	134
Decrease in other non-current financial liabilities	(99)	(289)
Increase/(decrease) in current financial liabilities	9 851	(14)
Decrease/(increase) in short-term investments	3 238	6 393
Other financing cash flows	–	(4)
Financing cash flow	3 897	(30)
Translation differences on flows	(64)	(360)
Increase/(decrease) in cash and cash equivalents	1 519	766
Cash and cash equivalents at beginning of year	5 278	4 658
Effects of exchange rate changes on opening balance	(203)	(146)
Cash and cash equivalents retranslated at beginning of year	5 075	4 512
Cash and cash equivalents at end of period	6 594	5 278
of which		
Cash at bank and in hand	2 610	2 380
Time deposits ^(a)	3 039	2 579
Commercial paper ^(a)	945	319

^(a) With original maturity of less than three months

Consolidated statement of recognised income and expense and changes in equity

Statement of recognised income and expense for the year ended 31 December 2006

In millions of CHF

	Share capital	Share premium	Reserve for treasury shares	Translation reserve	Retained earnings	Less: Treasury shares	Total equity attributable to shareholders of the parent	Minority interests	Total equity
Profit for the period recognised in the income statement					9 197		9 197	652	9 849
Currency retranslations				(1 033)			(1 033)	(39)	(1 072)
Fair value adjustments on available-for-sale financial instruments									
– Unrealised results					205		205		205
– Recognition of realised results in the income statement					7		7		7
Fair value adjustments on cash flow hedges									
– Recognised in hedging reserve					15		15		15
– Removed from hedging reserve					(54)		(54)		(54)
Actuarial gains/(losses) on defined benefit schemes					472		472	(10)	462
Changes in equity of associates					27		27		27
Equity-settled share-based transactions cost					193		193	25	218
Taxes on equity items					(234)		(234)	4	(230)
Income and expense recognised directly in equity				(1 033)	631		(402)	(20)	(422)
Total recognised income and expense for the year ended 31 December 2006				(1 033)	9 828		8 795	632	9 427

Changes in equity for the year ended 31 December 2006

In millions of CHF

	Share capital	Share premium	Reserve for treasury shares	Translation reserve	Retained earnings		Less: Treasury shares	Total equity attributable to shareholders of the parent	Minority interests	Total equity
Equity restated as at 31 December 2005 as reported last year	404	5 926	2 616	(4 172)	45 494 ^(a)		(2 770)	47 498	1 570	49 068
Total recognised income and expense				(1 033)	9 828			8 795	632	9 427
Distributions to and transactions with shareholders of the parent										
Dividend for the previous year					(3 471)			(3 471)		(3 471)
Movement of treasury shares (net)			1 934		(1 934)		(1 884)	(1 884)		(1 884)
Result on options and treasury shares held for trading purposes					(3)		3	–		–
Equity-settled share-based transactions settlement					(4)		4	–		–
Reduction in share capital ^(b)	(3)						3	–		–
Premium on warrants issued ^(c)					53			53		53
Total distributions to and transactions with shareholders of the parent	(3)		1 934		(5 359)		(1 874)	(5 302)		(5 302)
Movements with minority interests (net)									(345)	(345)
Equity as at 31 December 2006	401	5 926	4 550	(5 205)	49 963 ^(a)		(4 644)	50 991	1 857	52 848

^(a) Includes a Hedging Reserve of CHF 56 million (31 December 2005: CHF 97 million).

^(b) At the Annual General Meeting on 6 April 2006, the shareholders approved the cancellation of 2 784 300 shares.

^(c) Since the investors have not exercised their option to put the notes related to the Turbo Zero Equity-Link bond issue at their accreted value, USD 47 million of premium on warrants issued are reclassified from current liabilities to retained earnings.

Statement of recognised income and expense for the year ended 31 December 2007

In millions of CHF

	Share capital	Share premium	Reserve for treasury shares	Translation reserve	Retained earnings	Less: Treasury shares	Total equity attributable to shareholders of the parent	Minority interests	Total equity
Profit for the period recognised in the income statement					10 649		10 649	733	11 382
Currency retranslations				(1 097)			(1 097)	(98)	(1 195)
Fair value adjustments on available-for-sale financial instruments									
– Unrealised results					(15)		(15)		(15)
– Recognition of realised results in the income statement					(18)		(18)		(18)
Fair value adjustments on cash flow hedges									
– Recognised in hedging reserve					94		94		94
– Removed from hedging reserve					(168)		(168)		(168)
Actuarial gains/(losses) on defined benefit schemes					600		600	(3)	597
Changes in equity of associates					(631)		(631)		(631)
Equity-settled share-based transactions cost					222		222	24	246
Taxes on equity items					(213)		(213)	–	(213)
Income and expense recognised directly in equity				(1 097)	(129)		(1 226)	(77)	(1 303)
Total recognised income and expense for the year ended 31 December 2007				(1 097)	10 520		9 423	656	10 079

Changes in equity for the year ended 31 December 2007

In millions of CHF

	Share capital	Share premium	Reserve for treasury shares	Translation reserve	Retained earnings	Less: Treasury shares	Total equity attributable to shareholders of the parent	Minority interests	Total equity
Equity as at 31 December 2006 as reported last year	401	5 926	4 550	(5 205)	49 963 ^(a)	(4 644)	50 991	1 857	52 848
Total recognised income and expense				(1 097)	10 520		9 423	656	10 079
Distributions to and transactions with shareholders of the parent									
Dividend for the previous year					(4 004)		(4 004)		(4 004)
Movement of treasury shares (net) ^(b)			4 442		(4 442)	(4 290)	(4 290)		(4 290)
Result on options and treasury shares held for trading purposes					232	(232)	–		–
Equity-settled share-based transactions settlement			(14)		(35)	14	(35)	(6)	(41)
Reduction in share capital ^(c)	(8)	(43)	(1 139)		51	1 139	–		–
Total distributions to and transactions with shareholders of the parent	(8)	(43)	3 289		(8 198)	(3 369)	(8 329)	(6)	(8 335)
Movements with minority interests (net)								(358)	(358)
Equity as at 31 December 2007	393	5 883	7 839	(6 302)	52 285 ^(a)	(8 013)	52 085	2 149	54 234

^(a) Includes a negative Hedging Reserve of CHF 21 million (31 December 2006: positive CHF 56 million).

^(b) 527 210 Nestlé S.A. shares were exchanged with warrants related to the Turbo Zero Equity-Link issue for USD 155 million.

^(c) At the Annual General Meeting on 19 April 2007, the shareholders approved the cancellation of 7 663 200 shares.

Annex

Accounting policies

Accounting convention and accounting standards

The Consolidated Financial Statements comply with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and with the Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

The accounts have been prepared on an accruals basis and under the historical cost convention, unless stated otherwise. All significant consolidated companies and associates have a 31 December accounting year-end.

The preparation of the Consolidated Financial Statements requires Group Management to exercise judgement and to make estimates and assumptions that affect the application of policies, reported amounts of revenues, expenses, assets and liabilities and disclosures. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Those areas affect mainly impairment tests, employee benefits and unrecognised tax losses.

Scope of consolidation

The Consolidated Financial Statements comprise those of Nestlé S.A. and of its affiliated companies, including joint ventures, and associates (the Group). The list of the principal companies is provided in the section "Companies of the Nestlé Group."

Consolidated companies

Companies, in which the Group has the power to exercise control, are fully consolidated. This applies irrespective of the percentage of interest in the share capital. Control refers to the power to govern the financial and operating policies of a company so as to obtain the benefits from its activities. Minority interests are shown as a component of equity in the balance sheet and the share of the profit attributable to minority interests is shown as a component of profit for the period in the income statement.

Proportionate consolidation is applied for companies over which the Group exercises joint control with partners. The individual assets, liabilities, income and expenses are consolidated in proportion to the Nestlé participation in their equity (usually 50%).

Newly acquired companies are consolidated from the effective date of control, using the purchase method.

Associates

Companies where the Group has the power to exercise a significant influence but does not exercise control are accounted for by the equity method. The net assets and results are adjusted to comply with the Group's accounting policies. The carrying amount of goodwill arising from the acquisition of associates is included in the carrying amount of investments in associates.

Venture funds

Investments in venture funds are recognised in accordance with the consolidation methods described above, depending on the level of control or significant influence exercised.

Foreign currencies

The functional currency of the Group's entities is the currency of their primary economic environment.

In individual companies, transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at year-end rates. Any resulting exchange differences are taken to the income statement.

On consolidation, assets and liabilities of Group entities denominated in their functional currencies are translated into Swiss Francs, the Group's presentation currency, at year-end exchange rates. Income and expense items are translated into Swiss Francs at the annual average rate of exchange or at the rate on the date of the transaction for significant items.

Differences arising from the retranslation of opening net assets of Group entities, together with differences arising from the restatement of the net results for the year of Group entities, from average or actual rates to year-end rates, are recognised against equity.

The balance sheet and net results of Group entities operating in hyperinflationary economies are restated for the changes in the general purchasing power of the local currency, using official indices at the balance sheet date, before translation into Swiss Francs at year-end rates.

Segmental information

Segmental information is based on two segment formats:

The primary segment format – by management responsibility and geographic area – reflects the Group's management structure. The Group manages its Food and Beverages business through three geographic Zones and globally for Nestlé Waters and Nestlé Nutrition. The Group's pharmaceuticals activities are also managed on a worldwide basis and are presented separately from Food and Beverages.

The secondary segment format – by product group – is divided into six product groups (segments).

Segment results represent the contribution of the different segments to central overheads, research and development costs and the profit of the Group. Specific corporate expenses as well as specific research and development costs are allocated to the corresponding segments.

Segment assets comprise property, plant and equipment, intangible assets, goodwill, trade and other receivables, assets held for sale, inventories as well as prepayments and accrued income.

Segment liabilities comprise trade and other payables, liabilities directly associated with assets held for sale as well as accruals and deferred income.

Eliminations represent inter-company balances between the different segments.

Segment assets and liabilities by management responsibilities and geographic area represent the situation at the end of the year. Segment assets by product group represent the annual average as this provides a better indication of the level of invested capital for management purposes.

Capital additions represent the total cost incurred to acquire property, plant and equipment, intangible assets and goodwill, including those arising from business combinations. Capital expenditure represents the investment in property, plant and equipment only.

Depreciation of segment assets includes depreciation of property, plant and equipment and intangible assets. Impairment of segment assets includes impairment related to property, plant and equipment, intangible assets and goodwill.

Unallocated items represent non specific items whose allocation to a segment would be arbitrary. They mainly comprise:

- corporate expenses and assets/liabilities
- research and development costs and assets/liabilities
- some goodwill and intangible assets
- capital additions related to administration and distribution assets for the secondary segment
- assets held for sale and liabilities directly associated with assets held for sale linked to a discontinued operation.

Valuation methods and definitions

Revenue

Revenue represents amounts received and receivable from third parties for goods supplied to the customers and for services rendered. Revenue from the sales of goods is recognised in the income statement at the moment when the significant risks and rewards of ownership of the goods have been transferred to the buyer, which is mainly upon shipment. It is measured at the list price applicable to a given distribution channel after deduction of all returns, sales taxes, pricing allowances and similar trade discounts. Payments made to the customers for commercial services received are expensed.

Net financing cost

Net financing cost includes the financial expense on borrowings from third parties as well as the financial income earned on funds invested outside the Group.

Net financing cost also includes other financial income and expense, such as exchange differences on loans and borrowings, results on foreign currency and interest rate hedging instruments that are recognised in the income statement.

Unwind of discount on provisions is presented in net financing cost.

Taxes

The Group is subject to taxes in different countries all over the world. Taxes and fiscal risks recognised in the Consolidated Financial Statements reflect Group Management's best estimate of the outcome based on the facts known at the balance sheet date in each individual country. Any differences between tax estimates and final tax assessments are charged to the income statement in the period in which they are incurred, unless anticipated.

Taxes include current taxes on profit and other taxes such as taxes on capital. Also included are actual or potential withholding taxes on current and expected transfers of income from Group companies and tax adjustments relating to prior years. Income tax is recognised in the income statement, except to the extent that it relates to items directly taken to equity, in which case it is recognised against equity.

Deferred taxation is the tax attributable to the temporary differences that arise when taxation authorities recognise and measure assets and liabilities with rules that differ from those of the Consolidated Financial Statements. It also arises on temporary differences stemming from tax losses carry-forward.

Deferred taxes are calculated under the liability method at the rates of tax expected to prevail when the temporary differences reverse subject to such rates being substantially enacted at the balance sheet date. Any changes of the tax rates are recognised in the income statement unless related to items directly recognised against equity. Deferred tax liabilities are recognised on all taxable temporary differences excluding non-deductible goodwill. Deferred tax assets are recognised on all deductible temporary differences provided that it is probable that future taxable income will be available.

For share-based payments, a deferred tax asset is recognised in the income statement over the vesting period, provided that a future reduction of the tax expense is both probable and can be reliably estimated. The deferred tax asset for the future tax deductible amount exceeding the total share-based payment cost is recognised against equity.

Financial Instruments

Classes of financial instruments

The Group aggregates its financial instruments into classes based on their nature and characteristics. The details of financial instruments by class are disclosed in the notes to the accounts.

Financial assets

The Group designates its financial assets into the following categories, as appropriate: loans and receivables, held-to-maturity investments, financial assets at fair value through profit and loss and available-for-sale assets.

Financial assets are initially recognised at fair value plus directly attributable transaction costs. Subsequent remeasurement of financial assets is determined by their designation that is revisited at each reporting date.

Derivatives embedded in other contracts are separated and treated as stand-alone derivatives when their risks and characteristics are not closely related to those of their host contracts and the respective host contracts are not carried at fair value.

In case of regular way purchase or sale (purchase or sale under a contract whose terms require delivery within the time frame established by regulation or convention in the market place), the settlement date is used for both initial recognition and subsequent derecognition.

At each balance sheet date, the Group assesses whether its financial assets are to be impaired. Impairment losses are recognised in the income statement where there is objective evidence of impairment. These losses are never reversed unless they refer to a debt instrument measured at fair value and classified as available-for-sale and the increase in fair value can objectively be related to an event occurring after the recognition of the impairment loss.

Financial assets are derecognised (in full or partly) when the Group's rights to cash flows from the respective assets have expired or have been transferred and the Group has neither exposure to the risks inherent in those assets nor entitlement to rewards from them.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This category includes the following three classes of financial assets: loans, trade and other receivables.

Subsequent to initial measurement, loans and receivables are carried at amortised cost using the effective interest rate method less appropriate allowances for doubtful receivables.

Allowances for doubtful receivables represent the Group's estimates of incurred losses arising from the failure or inability of customers to make payments when due. These estimates are based on the ageing of customers balances, specific credit circumstances and the Group's historical bad receivables experience.

Loans and receivables are further classified as current and non-current depending whether these will be realised within twelve months after the balance sheet date or beyond.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities. The Group uses this designation when it has an intention and ability to hold until maturity and the re-sale of such investments is prohibited.

Subsequent to initial recognition held-to-maturity investments are recognised at amortised cost less impairment losses.

Held-to-maturity investments are further classified as current and non-current depending whether these will mature within twelve months after the balance sheet date or beyond.

Financial assets at fair value through profit and loss

The financial assets at fair value through profit and loss category includes the following two classes of financial assets: held for trading assets and trading derivatives.

Held-for-trading assets

Held-for-trading assets are marketable securities and other fixed income portfolios that are managed with the aim of delivering performance over agreed benchmarks and are therefore classified as trading. Short-term investments in securities and fixed income instruments are made in line with the Group's liquidity and credit risk management policies.

Subsequent to initial measurement, held for trading assets are carried at fair value and all their gains and losses, realised and unrealised, are recognised in the income statement.

Trading derivatives

Trading derivatives are comprised of two categories. The first includes derivatives for which hedge accounting is not applied because these are either not designated as hedging instruments or not effective as hedging instruments. The second category relates to derivatives that are acquired with the aim of delivering performance over agreed benchmarks of marketable securities portfolios.

Subsequent to initial measurement, trading derivatives are carried at fair value and all their gains and losses, realised and unrealised, are recognised in the income statement. In both cases, derivatives are acquired in full compliance with the Group's risk management policies.

Available-for-sale assets

Available-for-sale assets are those non-derivative financial assets that are either designated as such upon initial recognition or are not classified in any of the other financial assets categories. This category includes the following classes of financial assets: cash and cash equivalents, commercial paper and time deposits.

Subsequent to initial measurement available-for-sale assets are stated at fair value with all unrealised gains or losses recognised against equity until their disposal when such gains or losses are recognised in the income statement.

Interests on available-for-sale assets are calculated using the effective interest rate method and is recognised in the income statement as part of interest income under net financing cost.

Available-for-sale assets are further classified as current and non-current depending whether these will be realised within twelve months after the balance sheet date or beyond.

Financial liabilities at amortised cost

Financial liabilities are initially recognised at the fair value of consideration received less directly attributable transaction costs.

Subsequent to initial measurement, financial liabilities are recognised at amortised cost unless they are part of a fair value hedge relationship (see fair value hedges). The difference between the initial carrying amount of the financial liabilities and their redemption value is recognised in the income statement over the contractual terms using the effective interest rate method. This category includes the following four classes of financial liabilities: trade and other payables, commercial paper, bonds and other financial liabilities.

Financial liabilities at amortised cost are further classified as current and non-current depending whether these will fall due within twelve months after the balance sheet date or beyond.

Financial liabilities are derecognised (in full or partly) when either the Group is discharged from its obligation, it expires, is cancelled or replaced by a new liability with substantially modified terms.

Derivative financial instruments

A derivative is a financial instrument that changes its values in response to changes in the underlying variable, requires no or little net initial investment and is settled at a future date. Derivatives are mainly used to manage exposures to foreign exchange, interest rate and commodity price risk. Whilst some derivatives are also acquired with the aim of managing the return of marketable securities portfolios, these derivatives are only acquired when there are underlying financial assets. The classification of derivatives is determined upon initial recognition and is monitored on a regular basis.

Derivatives are initially recognised at fair value plus directly attributable transaction costs. These are subsequently remeasured at fair value on a regular basis and at each reporting date as a minimum. The fair values of exchange-traded derivatives are based on respective market prices, while the fair value of the over-the-counter derivatives are using accepted mathematical models based on market data and assumptions. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Any gains or losses arising from changes in fair values of derivatives that do not qualify for hedge accounting are recognised directly in the income statement.

The Group's derivatives mainly consist of currency forwards, futures, options and swaps; commodity futures and options; interest rate forwards, futures, options and swaps.

The use of derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on the use of derivatives consistent with the Group's overall risk management strategy.

Hedge accounting

The Group designates and documents certain derivatives as hedging instruments against changes in fair values of recognised assets and liabilities (fair value hedges), highly probable forecast transactions (cash flow hedges) and hedges of net investments in foreign operations (net investment hedges). The effectiveness of such hedges is demonstrated at inception and verified at regular intervals and at least on a quarterly basis, using prospective and retrospective testing.

Fair value hedges

The Group uses fair value hedges to mitigate foreign currency and interest rate risks of its recognised assets and liabilities.

The changes in fair values of hedging instruments are recognised in the income statement. Hedged items are also stated at fair value in respect of the risk being hedged, with any gain or loss being recognised in the income statement.

Cash flow hedges

The Group uses cash flow hedges to mitigate foreign currency risks of highly probable forecast transactions, such as anticipated future export sales, purchases of equipment and raw materials, as well as the variability of expected interest payments and receipts.

The effective part of the changes in fair value of hedging instruments are recognised against equity, while any ineffective part is recognised immediately in the income statement. When the hedged item results in the recognition of a non-financial asset or liability, the gains or losses previously recognised against equity are included in the measurement cost of the asset or of the liability. Otherwise the gains or losses previously recognised against equity are removed from equity and recognised in the income statement at the same time as the hedged transaction.

Net investment hedges

The Group uses net investment hedges to mitigate translation exposure on its net investments in affiliated companies.

The changes in fair values of hedging instruments are taken directly to equity together with gains or losses on the foreign currency translation of the hedged investments. All of these fair value gains or losses are deferred in equity until the investments are sold or otherwise disposed of.

Fair values

The Group determines the fair values of its financial instruments using market prices for quoted instruments and widely accepted valuation techniques for other instruments.

Valuation techniques include discounted cash flows, standard valuation models based on market parameters, dealer quotes for similar instruments and use of comparable arm's length transactions.

When fair values of unquoted instruments cannot be measured with sufficient reliability, the Group carries such instruments at cost less impairments, if applicable.

Inventories

Raw materials and purchased finished goods are valued at purchase cost. Work in progress and manufactured finished goods are valued at production cost. Production cost includes direct production costs and an appropriate proportion of production overheads and factory depreciation.

Raw material inventories and purchased finished goods are accounted for using the FIFO (first in, first out) method. The weighted average cost method is used for other inventories.

An allowance is established when the net realisable value of any inventory item is lower than the value calculated above.

Prepayments and accrued income

Prepayments and accrued income comprise payments made in advance relating to the following year, and income relating to the current year, which will not be received until after the balance sheet date.

Property, plant and equipment

Property, plant and equipment are shown in the balance sheet at their historical cost. Depreciation is provided on components that have homogenous useful lives by using the straight-line method so as to depreciate the initial cost down to the residual value over the estimated useful lives. The residual values are 30% on head offices, 20% on distribution centres for products stored at ambient temperature and nil for all other asset types.

The useful lives are as follows:

Buildings	20–35 years
Machinery and equipment	10–20 years
Tools, furniture, information technology and sundry equipment	3–8 years
Vehicles	3–8 years
Land is not depreciated.	

Useful lives, components and residual amounts are reviewed annually. Such a review takes into consideration the nature of the assets, their intended use and the evolution of the technology.

Depreciation of property, plant and equipment is allocated to the appropriate headings of expenses by function in the income statement.

Financing costs incurred during the course of construction are expensed. Premiums capitalised for leasehold land or buildings are amortised over the length of the lease.

Leased assets

Assets acquired under finance leases are capitalised and depreciated in accordance with the Group's policy on property, plant and equipment unless the lease term is shorter. Land and building leases are recognised separately provided an allocation of the lease payments between these categories is reliable.

The associated obligations are included under financial liabilities.

Rentals payable under operating leases are expensed.

The costs of the agreements that do not take the legal form of a lease but convey the right to use an asset are separated into lease payments and other payments if the entity has the control of the use or of the access to the asset or takes essentially all the output of the asset. Then the entity determines whether the lease component of the agreement is a finance or an operating lease.

Business combinations and related goodwill

As from 1 January 1995, the excess of the cost of an acquisition over the fair value of the net identifiable assets, liabilities and contingent liabilities acquired is capitalised. Previously these amounts had been written off through equity.

Goodwill is not amortised but tested for impairment at least annually and upon the occurrence of an indication of impairment. The impairment testing process is described in the appropriate section of these policies.

Goodwill is recorded in the functional currencies of the acquired operations.

All assets, liabilities and contingent liabilities acquired in a business combination are recognised at the acquisition date and measured at their fair value.

Intangible assets

This heading includes intangible assets that are acquired either separately or in a business combination when they are identifiable and can be reliably measured. Intangible assets are considered to be identifiable if they arise from contractual or other rights, or if they are separable i.e. they can be disposed of either individually or together with other assets. Intangible assets comprise indefinite life intangible assets and finite life intangible assets.

Indefinite life intangible assets are those for which there is no foreseeable limit to their useful economic life as they arise from contractual or other legal rights that can be renewed without significant cost and are the subject of continuous marketing support. They are not depreciated but tested for impairment annually or more frequently if an impairment indicator is triggered. They mainly comprise certain brands, trademarks and intellectual property rights. The assessment of the classification of intangible assets as indefinite is reviewed annually.

Finite life intangible assets are those for which there is an expectation of obsolescence that limits their useful economic life or where the useful life is limited by contractual or other terms. They are depreciated over the shorter of their contractual or useful economic lives. They comprise mainly management information systems, patents and rights to carry on an activity (i.e. exclusive rights to sell products or to perform a supply activity). Finite life intangible assets are depreciated on a straight-line basis assuming a zero residual value: management information systems over a period ranging from three to five years; and other finite life intangible assets over five to 20 years. The depreciation period and depreciation method are reviewed annually by taking into account the risk of obsolescence.

Depreciation of intangible assets is allocated to the appropriate headings of expenses by function in the income statement.

Internally generated intangible assets are capitalised, provided they generate future economic benefits and their costs are clearly identifiable.

Research and development

Research costs are charged to the income statement in the year in which they are incurred.

Development costs relating to new products are not capitalised because the expected future economic benefits cannot be reliably determined. As long as the products have not reached the market place, there is no reliable evidence that positive future cash flows would be obtained.

Other development costs (essentially management information system software) are capitalised provided that there is an identifiable asset that will be useful in generating future benefits in terms of savings, economies of scale, etc.

Impairment of goodwill and indefinite life intangible assets

Goodwill and indefinite life intangible assets are tested for impairment at least annually and upon the occurrence of an indication of impairment.

The impairment tests are performed annually at the same time each year and at the cash generating unit (CGU) level. The Group defines its CGUs based on the way that it monitors and derives economic benefits from the acquired goodwill and intangibles. The impairment tests are performed by comparing the carrying value of the assets of these CGUs with their recoverable amount, based on their future projected cash flows discounted at an appropriate pre-tax rate of return. Usually, the cash flows correspond to estimates made by Group Management in financial plans and business strategies covering a period of five years. They are then projected to 50 years using a steady or declining growth rate given that the Group businesses are of a long-term nature. The Group assesses the uncertainty of these estimates by making sensitivity analyses. The discount rate reflects the current assessment of the time value of money and the risks specific to the CGUs (essentially country risk). The business risk is included in the determination of the cash flows. Both the cash flows and the discount rates exclude inflation.

Impairment of property, plant and equipment and finite life intangible assets

Consideration is given at each balance sheet date to determine whether there is any indication of impairment of the carrying amounts of the Group's property, plant and equipment and finite life intangible assets. If any indication exists, an asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value based on the average borrowing rate of the country where the assets are located, adjusted for risks specific to the asset.

Assets held for sale and discontinued operations

Non-current assets held for sale (and disposal groups) are presented separately in the current section of the balance sheet. Immediately before the initial classification of the assets (and disposal groups) as held for sale, the carrying amounts of the assets (or all the assets and liabilities in the disposal groups) are measured in accordance with their applicable accounting policy. Non-current assets held for sale (and disposal groups) are subsequently measured at the lower of their carrying amount and fair value less cost to sell. Non-current assets held for sale (and disposal groups) are no longer depreciated.

Upon occurrence of discontinued operations, the net profit/(loss) on discontinued operations is presented on the face of the Consolidated income statement. Comparative information is restated accordingly. Income statement and cash flow information related to discontinued operations are disclosed separately in the notes to the accounts.

Provisions

Provisions comprise liabilities of uncertain timing or amount that arise from restructuring plans, environmental, litigation and other risks. Provisions are recognised when there exists a legal or constructive obligation stemming from a past event and when the future cash outflows can be reliably estimated. Obligations arising from restructuring plans are recognised when detailed formal plans have been established and when there is a valid expectation that such plans will be carried out by either starting to implement them or announcing their main features. Obligations under litigations reflect Group Management's best estimate of the outcome based on the facts known at the balance sheet date.

Employee benefits

The liabilities of the Group arising from defined benefit obligations, and the related current service cost, are determined using the projected unit credit method. Valuations are carried out annually for the largest plans and on a regular basis for other plans. Actuarial advice is provided both by external consultants and by actuaries employed by the Group. The actuarial assumptions used to calculate the defined benefit obligations vary according to the economic conditions of the country in which the plan is located.

Such plans are either externally funded, with the assets of the schemes held separately from those of the Group in independently administered funds, or unfunded with the related liabilities carried on the balance sheet.

For the funded defined benefit plans, the deficit or excess of the fair value of plan assets over the present value of the defined benefit obligation is recognised as a liability or an asset in the balance sheet, taking into account any unrecognised past service cost. However, an excess of assets is recognised only to the extent that it represents a future economic benefit which is actually available to the Group, for example in the form of refunds from the plan or reductions in future contributions to the plan. When such an excess is not available or does not represent a future economic benefit, it is not recognised but is disclosed in the notes to the accounts.

Actuarial gains and losses arise mainly from changes in actuarial assumptions and differences between actuarial assumptions and what has actually occurred. They are recognised in the period in which they occur outside the income statement directly in equity under the statement of recognised income and expense. The Group performs full pensions and retirement benefits reporting once a year, in December, at which point actuarial gains and losses for the period are determined.

For defined benefit plans, the pension cost charged to the income statement consists of current service cost, interest cost, expected return on plan assets and past service cost. Recycling to the income statement of cumulated actuarial gains and losses recognised against equity is not permitted by IAS 19. The past service cost for the enhancement of pension benefits is accounted for when such benefits vest or become a constructive obligation.

Some benefits are also provided by defined contribution plans; contributions to such plans are charged to the income statement as incurred.

Share-based payment

The Group has equity-settled and cash-settled share-based payment transactions.

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

Liabilities arising from cash-settled share-based payment transactions are recognised in the income statement over the vesting period. They are fair valued at each reporting date and measured using the Black and Scholes model. The cost of cash-settled share-based payment transactions is adjusted for the forfeitures of the participants' rights that no longer satisfy the plan conditions, as well as for early vesting.

Accruals and deferred income

Accruals and deferred income comprise expenses relating to the current year, which will not be paid until after the balance sheet date and income received in advance, relating to the following year.

Dividends

In accordance with Swiss law and the Company's Articles of Association, dividends are treated as an appropriation of profit in the year in which they are ratified at the Annual General Meeting and subsequently paid.

Contingent assets and liabilities

Contingent assets and liabilities are possible rights and obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not fully within the control of the Group. They are disclosed in the notes to the accounts.

Events occurring after the balance sheet date

The values of assets and liabilities at the balance sheet date are adjusted if there is evidence that subsequent adjusting events warrant a modification of these values. These adjustments are made up to the date of approval of the Consolidated Financial Statements by the Board of Directors. Other non-adjusting events are disclosed in the notes to the accounts.

Changes in accounting policies

The Group has applied the following IFRS as from 1 January 2007 onwards:

IFRS 7 – Financial Instruments: Disclosures.

The application of this new standard has only resulted in additional disclosures on financial instruments.

IFRIC Interpretations

IFRIC 9 Reassessment of embedded derivatives, IFRIC 10 Interim Financial Reporting and Impairment, and IFRIC 11 IFRS 2 – Group and treasury share transactions. The first adoption of these new interpretations does not have a material effect on the Consolidated Financial Statements in the current or comparative period.

Changes in presentation

Segmental information

Structure of management responsibilities may vary from one year to another. In such a case, segmental information is restated and aligned with the structure as at 1 January of the year under review, in order to present comparable information and be consistent with internal reporting.

Changes in IFRS that may affect the Group after 31 December 2007

IFRS 8 – Operating segments

This standard will be applied in 2009. The Group has assessed its impact and determined that it should not significantly change its segments previously identified under IAS 14 Segment Reporting.

IAS 1 Revised – Presentation of financial statements

This revised standard introduces a statement of comprehensive income but it allows the preparers an option to present an income statement and a statement of other comprehensive income. It also includes non-mandatory changes of the titles of the financial statements. Since the Group already publishes a statement of recognised income and expense, it will apply the option of the revised standard and consequently not change the Group's presentation of financial statements. The Group will also elect not to change the current names of its financial statements. Therefore this standard will have no effect on the Consolidated Financial Statements when it is effective in 2009.

IAS 23 Revised – Borrowing costs

The revised standard removes the option of expensing borrowing costs directly attributable to acquisition, construction or production of a qualifying asset. IAS 23 Revised is not expected to have a significant impact when the Group applies it in 2009.

IFRIC 13 – Consumer loyalty programmes

The Group will apply this interpretation in 2009. It requires that the fair value of the consideration related to award credits programmes be separately identified as a component of the sales transaction and recognised when the awards are redeemed by the customers and the corresponding obligations are fulfilled by the Group. Such programmes are not numerous in the Group and this interpretation is unlikely to have a material effect on its results.

IFRIC 14 – IAS 19 – The Limit on a defined benefit asset – Minimum funding requirements and their interaction

The Group will apply this interpretation in 2008. It requires to determine the availability of a refund or a reduction in future contribution in accordance with the terms and conditions of the plans and the statutory requirements of the various jurisdictions. The Group is currently assessing the impact of this interpretation.

Modification of the scope of consolidation

The scope of consolidation has been affected by the acquisitions and disposals made in 2007. The principal businesses are detailed below.

Fully consolidated

Newly included:

Novartis Medical Nutrition, worldwide, HealthCare Nutrition, 100% (July)

Gerber, worldwide, baby foods, baby care products and juvenile life insurance, 100% (September)

1. Segmental information

By management responsibility and geographic area

In millions of CHF

2007

	Zone Europe	Zone Americas	Zone Asia, Oceania and Africa	Nestlé Waters	Nestlé Nutrition
Segment revenues and results					
Sales	28 464	32 917	16 556	10 404	8 434
EBIT Earnings Before Interest, Taxes, restructuring and impairments	3 412	5 359	2 697	851	1 447
Segment assets and liabilities					
Segment assets	15 794	19 503	9 153	9 298	13 990
Non segment assets					
Total assets					
of which goodwill and intangible assets	3 457	7 702	2 113	2 859	10 070
Segment liabilities	6 096	4 067	2 595	2 220	1 385
Non segment liabilities					
Total liabilities					
Other segment information					
Capital additions	1 118	1 667	811	1 382	9 768
of which Capital expenditure	932	1 371	675	1 043	271
Depreciation of segment assets	878	753	458	527	155
Impairment of segment assets	85	66	13	243	–
Restructuring costs	89	15	60	237	46

2006 (c)

Segment revenues and results					
Sales	26 652	31 287	15 504	9 636	5 964
EBIT Earnings Before Interest, Taxes, restructuring and impairments	3 109	4 946	2 571	834	1 009
Segment assets and liabilities					
Segment assets	15 566	19 191	8 741	8 884	3 774
Non segment assets					
Total assets					
of which goodwill and intangible assets	3 416	8 141	2 102	2 822	1 480
Segment liabilities	6 057	4 003	2 214	2 229	795
Non segment liabilities					
Total liabilities					
Other segment information					
Capital additions	1 493	1 604	1 174	1 207	1 206
of which Capital expenditure	812	1 125	588	923	194
Depreciation of segment assets	800	751	418	465	88
Impairment of segment assets	52	–	9	61	–
Restructuring costs	366	37	43	42	6

(a) Mainly Nespresso and Food and Beverages Joint Ventures managed on a worldwide basis

(b) Refer to the Segmental information section of the Accounting policies for the definition of Unallocated items.

The analysis of sales by geographic area is stated by customer location. Inter-segment sales are not significant.

Other Food and Beverages (a)	Unallocated items (b)	Inter-segment eliminations	Total Food and Beverages	Pharma	Total	
						Segment revenues and results
3 458			100 233	7 319	107 552	Sales
548	(1 725)		12 589	2 435	15 024	EBIT Earnings Before Interest, Taxes, restructuring and impairments
						Segment assets and liabilities
1 792	13 140	(1 565)	81 105	7 120	88 225	Segment assets
					26 434	Non segment assets
					114 659	Total assets
237	10 667		37 105	3 535	40 640	of which goodwill and intangible assets
768	796	(1 565)	16 362	1 090	17 452	Segment liabilities
					42 973	Non segment liabilities
					60 425	Total liabilities
						Other segment information
272	135		15 153	1 483	16 636	Capital additions
269	134		4 695	276	4 971	of which Capital expenditure
31	146		2 948	263	3 211	Depreciation of segment assets
4	–		411	71	482	Impairment of segment assets
7	–		454	27	481	Restructuring costs
						Segment revenues and results
2 728			91 771	6 687	98 458	Sales
371	(1 674)		11 166	2 136	13 302	EBIT Earnings Before Interest, Taxes, restructuring and impairments
						Segment assets and liabilities
1 473	13 878	(1 745)	69 762	6 028	75 790	Segment assets
					26 015	Non segment assets
					101 805	Total assets
240	11 306		29 507	2 779	32 286	of which goodwill and intangible assets
622	408	(1 745)	14 583	1 048	15 631	Segment liabilities
					33 326	Non segment liabilities
					48 957	Total liabilities
						Other segment information
400	131		7 215	1 411	8 626	Capital additions
141	131		3 914	286	4 200	of which Capital expenditure
72	208		2 802	259	3 061	Depreciation of segment assets
8	–		130	4	134	Impairment of segment assets
17	3		514	–	514	Restructuring costs

(c) 2006 comparatives have been restated to reflect internal changes in management responsibility as of 1 January 2007.

By product group

In millions of CHF

2007

	Beverages	Milk products, Nutrition and Ice cream	Prepared dishes and cooking aids	Confectionery ^(a)
Segment revenues and results				
Sales	28 245	29 106	18 504	12 248
EBIT Earnings Before Interest, Taxes, restructuring and impairments	4 854	3 744	2 414	1 426
Segment assets				
Segment assets	17 937	23 047	10 959	6 663
of which goodwill and intangible assets	3 374	10 318	4 167	1 021
Other segment information				
Capital additions	1 678	10 519	313	304
of which Capital expenditure	1 409	933	305	316
Impairment of segment assets	243	112	47	(1)
Restructuring costs	288	91	20	53

2006

Segment revenues and results				
Sales	25 882	25 435	17 635	11 399
EBIT Earnings Before Interest, Taxes, restructuring and impairments	4 475	3 003	2 323	1 309
Segment assets				
Segment assets	16 640	17 970	10 553	6 319
of which goodwill and intangible assets	3 231	6 398	4 178	897
Other segment information				
Capital additions	1 406	2 169	493	658
of which Capital expenditure	1 105	702	272	258
Impairment of segment assets	60	28	1	47
Restructuring costs	89	140	95	178

^(a) Chocolate, sugar confectionery and biscuits

^(b) Refer to the Segmental information section of the Accounting policies for the definition of Unallocated items.

PetCare	Pharmaceutical products	Total segments	Unallocated items ^(b)	Total	
					Segment revenues and results
12 130	7 319	107 552		107 552	Sales
1 876	2 435	16 749	(1 725)	15 024	EBIT Earnings Before Interest, Taxes, restructuring and impairments
					Segment assets
15 652	6 704	80 962			Segment assets
11 347	3 286	33 513			of which goodwill and intangible assets
					Other segment information
496	1 363	14 673	1 963	16 636	Capital additions
402	155	3 520	1 451	4 971	of which Capital expenditure
10	71	482	–	482	Impairment of segment assets
2	27	481	–	481	Restructuring costs
					Segment revenues and results
11 420	6 687	98 458		98 458	Sales
1 730	2 136	14 976	(1 674)	13 302	EBIT Earnings Before Interest, Taxes, restructuring and impairments
					Segment assets
15 763	5 492	72 737			Segment assets
11 687	2 371	28 762			of which goodwill and intangible assets
					Other segment information
345	1 246	6 317	2 309	8 626	Capital additions
345	122	2 804	1 396	4 200	of which Capital expenditure
(6)	4	134	–	134	Impairment of segment assets
9	–	511	3	514	Restructuring costs

2007

2006

2. Net other income/(expenses)

In millions of CHF	Notes	2007	2006
Other expenses			
Loss on disposal of property, plant and equipment	11	(9)	(27)
Loss on disposal of businesses	24	(59)	(92)
Restructuring costs	17	(481)	(514)
Impairment of property, plant and equipment	11	(225)	(96)
Impairment of goodwill	12	(251)	(38)
Impairment of intangible assets	13	(6)	–
Other		(254)	(249)
		(1 285)	(1 016)
Other income			
Profit on disposal of property, plant and equipment	11	185	29
Profit on disposal of businesses	24	318	257
Other		192	214
		695	500
Net other income/(expenses)		(590)	(516)

3. Net financing cost

In millions of CHF	2007	2006
Financial income		
Interest income	418	420
Gains/(losses) on instruments at fair value to income statement	158	117
	576	537
Financial expense		
Interest expense	(1 481)	(1 198)
Unwind of the discount on provisions	(11)	(20)
	(1 492)	(1 218)
Net financing cost	(916)	(681)

4. Expenses by nature

The following items are allocated to the appropriate headings of expenses by function in the income statement:

In millions of CHF	2007	2006
Depreciation of property, plant and equipment	2 620	2 581
Depreciation of intangible assets	591	480
Salaries and welfare expenses	16 831	15 472
Operating lease charges	625	561
Exchange differences	146	45

5. Taxes

In millions of CHF	2007	2006
Components of taxes		
Current taxes	3 400	2 845
Deferred taxes	229	647
Taxes reclassified to equity	(213)	(230)
Taxes reclassified to discontinued operations	–	31
	3 416	3 293

Deferred taxes by types

Property, plant and equipment	3	82
Goodwill and intangible assets	(36)	(43)
Employee benefits	266	261
Inventories, receivables, payables and provisions	(31)	(6)
Unused tax losses and unused tax credits	14	194
Other	13	159
	229	647

Reconciliation of taxes

Taxes at the theoretical domestic rates applicable to profits of taxable entities in the countries concerned ^(a)	3 134	3 051
Tax effect of non-deductible or non-taxable items	(225)	(152)
Prior years' taxes	(58)	(105)
Transfers to unrecognised deferred tax assets	62	42
Transfers from unrecognised deferred tax assets	(46)	(80)
Changes in tax rates	–	46
Withholding taxes levied on transfers of income	403	312
Other ^(b)	146	179
	3 416	3 293

^(a) The applicable Group tax rate varies from one year to the other depending on the weight of each individual company in the taxable Group profit.

^(b) Include taxes on capital.

6. Associates

Share of results of associates is analysed as follows:

In millions of CHF	2007	2006
Share of results before taxes	1 692	1 198
Less share of taxes	(412)	(235)
Share of results	1 280	963

L'Oréal is the main investment of the Group with a 30% ^(a) participation in the equity (representing 178 381 021 shares held by Nestlé) for CHF 8197 million (2006: CHF 7795 million). Its market value at 31 December 2007 amounts to CHF 28 961 million (2006: CHF 21 784 million). In 2007, Nestlé's share of results represents CHF 1302 million (2006: CHF 947 million). More detailed information can be found in the 2007 Annual Report of the L'Oréal group.

^(a) Considering own shares held by L'Oréal in relation to the employee stock option plans and the share buy-back programmes.

7. Earnings per share from continuing operations

	2007	2006
Basic earnings per share (in CHF)	27.81	23.71
Net profit from continuing operations (in millions of CHF)	10 649	9 123
Weighted average number of shares outstanding	382 880 947	384 801 089

Fully diluted earnings per share (in CHF)	27.61	23.56
Net profit from continuing operations, net of effects of dilutive potential ordinary shares (in millions of CHF)	10 678	9 152
Weighted average number of shares outstanding, net of effects of dilutive potential ordinary shares	386 787 626	388 509 548

Reconciliation of net profit from continuing operations (in millions of CHF)		
Net profit used to calculate basic earnings per share	10 649	9 123
Elimination of interest expense, net of taxes, related to the Turbo Zero Equity-Link issued with warrants on Nestlé S.A. shares	29	29
Net profit used to calculate diluted earnings per share	10 678	9 152

Reconciliation of weighted average number of shares outstanding		
Weighted average number of shares outstanding used to calculate basic earnings per share	382 880 947	384 801 089
Adjustment for assumed exercise of warrants, where dilutive	1 966 621	2 230 249
Adjustment for share-based payment schemes, where dilutive	1 940 058	1 478 210
Weighted average number of shares outstanding used to calculate diluted earnings per share	386 787 626	388 509 548

8. Trade and other receivables

By type

In millions of CHF	2007	2006
Trade receivables	12 025	11 693
Other receivables	3 396	2 884
	15 421	14 577

The five major receivables represent 9% (2006: 8%) of trade and other receivables, none of them exceeding 3%.

Past due and impaired receivables

In millions of CHF	2007	2006
Not past due	12 708	11 772
Past due 1–30 days	1 638	1 619
Past due 31–60 days	396	404
Past due 61–90 days	177	188
Past due 91–120 days	150	208
Past due more than 120 days	858	839
Allowance for doubtful receivables	(506)	(453)
	15 421	14 577

Allowances for doubtful receivables

In millions of CHF	2007	2006
At 1 January	453	491
Currency retranslations	3	2
Allowances made in the period	58	22
Amounts used and reversal of unused amounts	(46)	(61)
Modification of the scope of consolidation	38	(1)
At 31 December	506	453

Based on the historic trend and expected performance of the customers, the Group believes that the above allowance for doubtful receivables sufficiently covers the risk of default.

9. Derivative assets and liabilities

By type

In millions of CHF	2007			2006		
	Contractual or notional amounts	Fair value assets	Fair value liabilities	Contractual or notional amounts	Fair value assets	Fair value liabilities
Fair value hedges						
Currency forwards, futures and swaps	5 282	35	64	1 972	8	43
Interest rate forwards, futures and swaps	2 844	73	2	3 421	34	10
Interest rate and currency swaps	2 904	250	–	2 799	106	24
Cash flow hedges						
Currency forwards, futures and swaps	2 494	50	44	1 959	27	25
Currency options	82	5	7	138	9	–
Interest rate forwards, futures and swaps	4 849	22	74	5 312	67	27
Commodity futures	386	22	5	639	47	33
Commodity options	80	8	3	149	14	12
Hedges of net investments in foreign operations (currency forwards, futures and swaps)						
	3 889	118	114	2 158	18	141
Trading						
Currency forwards, futures, swaps and options	2 065	13	–	1 359	13	9
Interest rate and currency swaps	3 357	133	135	3 411	181	106
Interest rate forwards, futures, swaps and options	3 651	17	22	3 946	24	33
Commodity futures and options	69	8	7	211	8	7
	31 952	754	477	27 474	556	470
of which determined with valuation technique		716	462		487	418

Some derivatives, while complying with the Group's financial risk management policies of managing the risks of the volatility of the financial markets, do not qualify for applying hedge accounting treatments and are therefore classified as trading.

Impact on the income statement of fair value hedges

In millions of CHF	2007	2006
on hedged items	(127)	132
on hedging instruments	94	(105)

Ineffective portion of gains/(losses) recognised in the income statement

In millions of CHF	2007	2006
on cash flow hedges	2	(1)
on net investment hedges	4	(4)

10. Inventories

In millions of CHF	2007	2006
Raw materials, work in progress and sundry supplies	3 590	3 102
Finished goods	5 957	5 164
Allowance for write-down at net realisable value	(275)	(237)
	9 272	8 029

Inventories amounting to CHF 153 million (2006: CHF 114 million) are pledged as security for financial liabilities.

11. Property, plant and equipment

In millions of CHF

2006

	Land and buildings	Machinery and equipment	Tools, furniture and other equipment	Vehicles	Total
Gross value					
At 1 January	12 756	24 525	7 087	874	45 242
Currency retranslations	(210)	(344)	(87)	(11)	(652)
Capital expenditure	774	2 242	1 024	160	4 200
Disposals	(129)	(997)	(369)	(103)	(1 598)
Reclassified as held for sale	(69)	(99)	(11)	–	(179)
Modification of the scope of consolidation	123	128	(198)	11	64
At 31 December	13 245	25 455	7 446	931	47 077
Accumulated depreciation and impairments					
At 1 January	(5 111)	(15 501)	(5 159)	(481)	(26 252)
Currency retranslations	63	155	55	5	278
Depreciation	(408)	(1 295)	(769)	(109)	(2 581)
Impairments	19	(106)	(9)	–	(96)
Disposals	117	910	341	82	1 450
Reclassified as held for sale	48	49	8	–	105
Modification of the scope of consolidation	21	56	170	2	249
At 31 December	(5 251)	(15 732)	(5 363)	(501)	(26 847)
Net at 31 December	7 994	9 723	2 083	430	20 230

At 31 December 2006, property, plant and equipment include CHF 770 million of assets under construction. Net property, plant and equipment held under finance leases amount to CHF 492 million. Net property, plant and equipment of CHF 224 million are pledged as security for financial liabilities. Fire risks, reasonably estimated, are insured in accordance with domestic requirements.

In millions of CHF

2007

	Land and buildings	Machinery and equipment	Tools, furniture and other equipment	Vehicles	Total
Gross value					
At 1 January	13 245	25 455	7 446	931	47 077
Currency retranslations	(156)	(478)	(171)	(86)	(891)
Capital expenditure	860	2 695	1 209	207	4 971
Disposals	(258)	(884)	(492)	(78)	(1 712)
Reclassified as held for sale	(30)	(38)	(3)	–	(71)
Modification of the scope of consolidation	90	51	3	(44)	100
At 31 December	13 751	26 801	7 992	930	49 474
Accumulated depreciation and impairments					
At 1 January	(5 251)	(15 732)	(5 363)	(501)	(26 847)
Currency retranslations	60	284	60	14	418
Depreciation	(398)	(1 307)	(800)	(115)	(2 620)
Impairments	(26)	(148)	(50)	(1)	(225)
Disposals	165	758	468	67	1 458
Reclassified as held for sale	22	30	3	–	55
Modification of the scope of consolidation	80	228	12	32	352
At 31 December	(5 348)	(15 887)	(5 670)	(504)	(27 409)
Net at 31 December	8 403	10 914	2 322	426	22 065

At 31 December 2007, property, plant and equipment include CHF 1178 million of assets under construction. Net property, plant and equipment held under finance leases amount to CHF 354 million. Net property, plant and equipment of CHF 117 million are pledged as security for financial liabilities. Fire risks, reasonably estimated, are insured in accordance with domestic requirements.

12. Goodwill

In millions of CHF	2007	2006
Gross value ^(a)		
At 1 January	30 007	28 478
Currency retranslations	(1 620)	(1 200)
Goodwill from acquisitions ^(b)	6 903	2 581
Disposals	(148)	(130)
Reclassified as held for sale	–	278
At 31 December	35 142	30 007
Accumulated impairments		
At 1 January	(1 494)	(1 488)
Currency retranslations	9	29
Impairments	(251)	(38)
Disposals	17	3
At 31 December	(1 719)	(1 494)
Net at 31 December	33 423	28 513

^(a) In accordance with IFRS 3 Business Combinations, gross value includes prior years' accumulated amortisation.

^(b) Refer to Note 23.

Impairment charge during the period

Nestlé Waters Home and Office Delivery business in Europe

Goodwill related to the 2003 acquisition of Powwow has been allocated for the impairment test to the Cash Generating Unit (CGU) defined as the Nestlé Waters Home and Office Delivery (HOD) business in Europe. The carrying amounts of all goodwill items allocated to this CGU are expressed in various European currencies for an equivalent of CHF 1119 million before impairment as at 31 December 2007 (2006: CHF 1117 million).

The unfavourable evolution of the business in various countries, notably in the United Kingdom, together with the increase in interest rates since the beginning of the year have indicated signs of impairment. Consequently, an impairment test was conducted during the first half of this year, which indicated that the recoverable amount of the CGU was lower than its carrying amount. An impairment of goodwill amounting to CHF 210 million has been recognised in 2007.

The recoverable amount of the CGU has been determined based upon a value-in-use calculation. Deflated cash flow projections covering the next 50 years, discounted at a weighted average rate of 5.0%, were used in this calculation. The cash flows for the first five years were based upon financial plans approved by Group Management; years six to ten were based upon Group Management's best expectations. Cash flows were assumed to increase by 1% for years eleven to 50, this growth rate being consistent with the expected long-term average growth of the HOD business in Europe. Cash flows have been adjusted to reflect the specific business risks.

Main assumptions, based on past experiences and current initiatives, were the following:

- Sales: annual growth between 0.5% (in 2008) and 5.3% (in 2009 and 2010), and between 4.0 and 4.2% in the six years afterwards;
- EBIT margin evolution: consistent with sales growth and enhanced cost management and efficiency, with a higher growth during the first three years and then steadily improving by 8–9% over the following years.

Yearly impairment tests

Goodwill impairment reviews have been conducted for more than 200 goodwill items allocated to some 50 Cash Generating Units (CGUs). There are no significant carrying values of goodwill that are allocated across multiple CGUs.

Detailed results of the impairment tests are presented below for the three significant goodwill items, representing more than 50% of the net book value at 31 December 2007. For the purpose of the tests, they have been allocated to the following CGUs: PetCare, Gerber and Ice Cream USA.

PetCare

Goodwill related to the 2001 acquisition of Ralston Purina has been allocated for the impairment test to the CGU of the product category PetCare on a worldwide basis. As at 31 December 2007, the carrying amounts, expressed in various currencies, represent an equivalent of CHF 10 618 million (2006: CHF 11 218 million) for the goodwill and CHF 29 million (2006: none) for the intangible assets with indefinite useful life.

The recoverable amount of the CGU is higher than its carrying amount. The recoverable amount has been determined based upon a value-in-use calculation. Deflated cash flow projections covering the next 50 years, discounted at a weighted average rate of 5.7%, were used in this calculation. The cash flows for the first five years were based upon financial plans approved by Group Management; years six to ten were based upon Group Management's best expectations, which are consistent with the Group's approved strategy for this period. Cash flows were assumed to be flat for years eleven to 50, although Group Management expects continuing growth. Cash flows have been adjusted to reflect the specific business risks.

Main assumptions, based on past experiences and current initiatives, were the following:

- Sales: annual growth between 3 and 7% for North America and Europe over the first ten-year period;
- EBIT margin evolution: stable for North America, with a slight increase for Europe, consistent with sales growth and portfolio rationalisation.

Assumptions used in the calculation are consistent with the expected long-term average growth rate of the PetCare business in the regions concerned.

The key sensitivity for the impairment test is the growth in sales and EBIT margin. Assuming no growth in the cash flow projections would not result in the carrying amount exceeding the recoverable amount.

An increase of 100 basis points in the discount rate assumption would not change the conclusions of the impairment test.

Gerber

Goodwill and intangible assets with indefinite useful life related to the 2007 acquisition of Gerber have been determined on provisional values. As at 31 December 2007, the carrying amounts, expressed in various currencies, represent an equivalent of CHF 4227 million for the goodwill and CHF 1497 million for the intangible assets with indefinite useful life.

For the purposes of the impairment testing in 2007, these items have been tested based on a temporary CGU representing the entire acquired Gerber business. The appropriate CGUs will be redefined in 2008 once the process of integrating Gerber into the existing Nutrition business is complete.

The recoverable amount of the CGU is higher than its carrying amount. The recoverable amount has been determined based upon a value-in-use calculation. Deflated cash flow projections covering the next 50 years, discounted at a weighted average rate of 5.5%, were used in the calculation. The cash flows for the first five years were based on the documentation provided during the acquisition process and approved by Group Management. Cash flows were assumed to be flat after, although Group Management expects continuing growth.

Main assumptions were the following:

- Sales: annual growth between 5 and 11% over the first five-year period;
- EBIT margin evolution: steadily improving margin over the period, representing an average increase of EBIT within the range of 50–90 basis points per year.

The key sensitivity for the impairment test is the growth in sales and EBIT margin. Assuming no sales growth from 2011 onwards and no improvement in EBIT margin over the entire period would not result in the carrying amount exceeding the recoverable amount.

An increase of 100 basis points in the discount rate assumption would not change the conclusions of the impairment test.

Ice Cream USA

Goodwill and intangible assets with indefinite useful life related to the Group's Ice cream businesses in the USA (Nestlé Ice Cream Company and Dreyer's) has been allocated for the impairment test to the Ice Cream USA CGU. As at 31 December 2007, the carrying amounts, expressed in USD, represent an equivalent of CHF 3301 million (2006: CHF 3581 million) for the goodwill and CHF 81 million (2006: CHF 70 million) for the intangible assets with indefinite useful life.

The recoverable amount of the CGU is higher than its carrying amount. The recoverable amount has been determined based upon a value-in-use calculation. Deflated cash flow projections covering the next 50 years, discounted at 5.5%, were used in this calculation. The cash flows for the first five years were based upon financial plans approved by Group Management; years six to ten were based upon Group Management's best expectations, which are consistent with the Group's approved strategy for this period. Cash flows were assumed to be flat for years eleven to 50, although Group Management expects continuing growth. Cash flows have been adjusted to reflect the specific business risks.

Main assumptions, based on past experiences and current initiatives, were the following:

- Sales: annual growth between 5 and 10% over the first ten-year period;
- EBIT margin evolution: steadily improving margin over the period, in a range of 50–90 basis points per year, which is consistent with strong sales growth and enhanced cost management and efficiency.

The key sensitivity for the impairment test is the growth in sales and EBIT margin. Limiting annual growth to only 6% until 2015 and 0% thereafter would not result in the carrying amount exceeding the recoverable amount. Reaching 80% of the expectations in terms of EBIT evolution would not result in the carrying amount exceeding the recoverable amount.

An increase of 100 basis points in the discount rate assumption would not change the conclusions of the impairment test.

13. Intangible assets

In millions of CHF

2006

	Brands and intellectual property rights	Operating rights and others	Management information systems	Total
Gross value				
At 1 January	841	708	2 932	4 481
of which indefinite useful life	468	–	–	468
Currency retranslations	7	(40)	(23)	(56)
Expenditures	11	36	642	689
Disposals	–	(7)	(7)	(14)
Reclassified as held for sale	–	–	(5)	(5)
Modification of the scope of consolidation	691	56	(6)	741
At 31 December	1 550	753	3 533	5 836
of which indefinite useful life	1 167	–	–	1 167
Accumulated depreciation and impairments				
At 1 January	(202)	(478)	(949)	(1 629)
Currency retranslations	(1)	23	10	32
Depreciation	(21)	(73)	(386)	(480)
Disposals	–	7	7	14
At 31 December	(224)	(521)	(1 318)	(2 063)
Net at 31 December	1 326	232	2 215	3 773

In millions of CHF

2007

	Brands and intellectual property rights	Operating rights and others	Management information systems	Total
Gross value				
At 1 January	1 550	753	3 533	5 836
of which indefinite useful life	1 167	–	–	1 167
Currency retranslations	(153)	(38)	(24)	(215)
Expenditures	11	61	547	619
Disposals	(8)	(18)	(58)	(84)
Modification of the scope of consolidation	3 129	478	(6)	3 601
At 31 December	4 529	1 236	3 992	9 757
of which indefinite useful life ^(a)	4 133	–	–	4 133
Accumulated depreciation and impairments				
At 1 January	(224)	(521)	(1 318)	(2 063)
Currency retranslations	–	29	12	41
Depreciation	(16)	(90)	(485)	(591)
Impairments	(2)	(2)	(2)	(6)
Disposals	8	14	56	78
Modification of the scope of consolidation	–	1	–	1
At 31 December	(234)	(569)	(1 737)	(2 540)
Net at 31 December	4 295	667	2 255	7 217

^(a) Yearly impairment test performed together with goodwill items (refer to Note 12)

Internally generated intangible assets consist mainly of management information systems.

14. Employee benefits

Pensions and retirement benefits

The majority of Group employees are eligible for retirement benefits under defined benefit schemes based on pensionable remuneration and length of service, consisting mainly of final salary plans.

Post-employment medical benefits and other employee benefits

Group companies, principally in the USA and Canada, maintain medical benefits plans, which cover eligible retired employees. The obligations for other employee benefits consist mainly of end of service indemnities, which do not have the character of pensions.

Reconciliation of assets and liabilities recognised in the balance sheet

In millions of CHF	2007			2006			2005
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Total
Present value of funded obligations	22 664	434	23 098	23 020	448	23 468	22 863
Fair value of plan assets	(24 572)	(277)	(24 849)	(23 560)	(259)	(23 819)	(21 814)
Excess of liabilities/(assets) over funded obligations	(1 908)	157	(1 751)	(540)	189	(351)	1 049
Present value of unfunded obligations	1 176	1 517	2 693	1 161	1 466	2 627	2 656
Unrecognised past service cost of non-vested benefits	5	–	5	(3)	(2)	(5)	7
Unrecognised assets	1 869	4	1 873	1 390	–	1 390	886
Defined benefits net liabilities/(assets)	1 142	1 678	2 820	2 008	1 653	3 661	4 598
Liabilities from defined contribution plans and non-current deferred compensation			1 369			1 294	982
Liabilities from cash-settled share-based transactions ^(a)			165			117	98
Net liabilities			4 354			5 072	5 678
Reflected in the balance sheet as follows:							
Employee benefits assets			(811)			(343)	(69)
Employee benefits liabilities			5 165			5 415	5 747
Net liabilities			4 354			5 072	5 678

^(a) The intrinsic value of liabilities from cash-settled share-based transactions that are vested amounts to CHF 72 million (2006: CHF 39 million; 2005: CHF 3 million).

Movement in fair value of defined benefit plan assets

In millions of CHF	2007			2006		
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total
At 1 January	(23 560)	(259)	(23 819)	(21 623)	(191)	(21 814)
Currency retranslations	615	9	624	(66)	9	(57)
Expected return on plan assets	(1 412)	(17)	(1 429)	(1 218)	(17)	(1 235)
Employees' contributions	(110)	–	(110)	(99)	–	(99)
Employer contributions	(518)	(34)	(552)	(678)	(23)	(701)
Actuarial (gains)/losses	(423)	2	(421)	(1 020)	(7)	(1 027)
Benefits paid on funded defined benefit schemes	1 188	24	1 212	1 132	17	1 149
Modification of the scope of consolidation	(336)	–	(336)	(29)	–	(29)
Transfer from/(to) defined contribution plans	(16)	(2)	(18)	41	(47)	(6)
At 31 December	(24 572)	(277)	(24 849)	(23 560)	(259)	(23 819)

The plan assets include property occupied by affiliated companies with a fair value of CHF 31 million (2006: CHF 32 million) and assets loaned to affiliated companies with a fair value of CHF 24 million (2006: CHF 20 million).

The actual return on plan assets amounts to CHF 1850 million (2006: CHF 2261 million).

The Group expects to contribute CHF 501 million to its funded defined benefit schemes in 2008.

The major categories of plan assets as a percentage of total plan assets are as follows:

At 31 December	2007	2006
Equities	46%	48%
Bonds	27%	26%
Real estate property	7%	6%
Alternative investments	16%	18%
Cash/Deposits	4%	2%

The overall investment policy and strategy for the Group's funded defined benefit schemes is guided by the objective of achieving an investment return which, together with the contributions paid, is sufficient to maintain reasonable control over the various funding risks of the plans. The investment advisors appointed by plan trustees are responsible for determining the mix of asset types and target allocations which are reviewed by the plan trustees on an ongoing basis. Actual asset allocation is determined by a variety of current economic and market conditions and in consideration of specific asset class risk.

The expected long-term rates of return on plan assets are based on long-term expected inflation, interest rates, risk premiums and targeted asset class allocations. These estimates take into consideration historical asset class returns and are determined together with the plans' investment and actuarial advisors.

Movement in the present value of defined benefit obligations

In millions of CHF	2007			2006		
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total
At 1 January	24 181	1 914	26 095	23 699	1 820	25 519
of which unfunded defined benefit schemes	1 161	1 466	2 627	1 185	1 471	2 656
Currency retranslations	(608)	(104)	(712)	85	(101)	(16)
Current service cost	677	76	753	675	70	745
Interest cost	1 132	110	1 242	1 042	106	1 148
Early retirements, curtailments, settlements	8	(4)	4	(40)	(1)	(41)
Past service cost of vested benefits	11	1	12	22	(4)	18
Past service cost of non-vested benefits	(9)	–	(9)	11	1	12
Actuarial (gains)/losses	(616)	(42)	(658)	(29)	73	44
Benefits paid on funded defined benefit schemes	(1 188)	(24)	(1 212)	(1 132)	(17)	(1 149)
Benefits paid on unfunded defined benefit schemes	(89)	(107)	(196)	(99)	(101)	(200)
Modification of the scope of consolidation	332	174	506	4	5	9
Transfer from/(to) defined contribution plans	9	(43)	(34)	(57)	63	6
At 31 December	23 840	1 951	25 791	24 181	1 914	26 095
of which unfunded defined benefit schemes	1 176	1 517	2 693	1 161	1 466	2 627

Actuarial gains/(losses) of defined benefit schemes recognised in the Statement of recognised income and expense

In millions of CHF	2007			2006			2005
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Total
Experience adjustments on plan assets	423	(2)	421	1 020	7	1 027	1 522
Experience adjustments on plan liabilities	(291)	(6)	(297)	(38)	59	21	16
Change of assumptions on plan liabilities	907	48	955	67	(132)	(65)	(1 133)
Transfer from/(to) unrecognised assets	(478)	(4)	(482)	(521)	–	(521)	(427)
Actuarial gains/(losses) on defined benefit schemes	561	36	597	528	(66)	462	(22)

Transfer to unrecognised assets represents excess of return of overfunded defined benefit plans that cannot be recognised as assets as well as contributions paid to such plans in excess of their annual cost.

At 31 December, the net cumulative actuarial losses on defined benefit schemes recognised in the Statement of recognised income and expense amount to CHF 2489 million (2006: CHF 3222 million; 2005: CHF 3689 million).

Expenses recognised in the income statement

In millions of CHF	2007			2006		
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total
Current service cost	677	76	753	675	70	745
Employee contributions	(110)	–	(110)	(99)	–	(99)
Interest cost	1 132	110	1 242	1 042	106	1 148
Expected return on plan assets	(1 412)	(17)	(1 429)	(1 218)	(17)	(1 235)
Early retirements, curtailments, settlements	8	(4)	4	(40)	(1)	(41)
Past service cost of vested benefits	11	1	12	22	(4)	18
Past service cost of non-vested benefits	–	2	2	(1)	2	1
Total defined benefit expenses	306	168	474	381	156	537
Total defined contribution expenses			392			408

The expenses for defined benefit and defined contribution plans are allocated to the appropriate headings of expenses by function.

Principal actuarial assumptions

The principal actuarial assumptions are presented by geographic area. Each item is a weighted average in relation to the relevant underlying component.

At 31 December	2007	2006
Discount rates		
Europe	5.1%	4.2%
Americas	6.3%	6.0%
Asia, Oceania and Africa	5.5%	5.3%
Expected long term rates of return on plan assets		
Europe	6.9%	6.5%
Americas	8.3%	8.5%
Asia, Oceania and Africa	6.8%	6.9%
Expected rates of salary increases		
Europe	3.3%	3.3%
Americas	2.9%	3.2%
Asia, Oceania and Africa	3.8%	3.8%
Expected rates of pension adjustments		
Europe	2.2%	2.0%
Americas	0.2%	0.3%
Asia, Oceania and Africa	2.0%	2.2%
Medical cost trend rates		
Americas	6.3%	6.3%

The increase in life expectancy is reflected in the defined benefit obligations by using up-to-date mortality tables of the country in which the plan is located. When those tables do no longer reflect recent evolution, they are adjusted accordingly.

Sensitivity analysis on medical cost trend rates

A one percentage point increase in assumed medical cost trend rates would increase the defined benefit obligations by CHF 101 million and increase the aggregate of current service cost and interest cost by CHF 9 million.

A one percentage point decrease in assumed medical cost trend rates would decrease the defined benefit obligations by CHF 85 million and decrease the aggregate of current service cost and interest cost by CHF 7 million.

15. Share-based payment

The following share-based payment costs are allocated to the appropriate headings of expenses by function in the income statement:

In millions of CHF	2007	2006
Equity-settled share-based payment costs	246	218
Cash-settled share-based payment costs	118	67
Total share-based payment costs	364	285

The following share-based payment schemes are currently available to members of the Executive Board and Senior Management:

Management Stock Option Plan (MSOP)

Members of Group Management are entitled to participate each year in a share option plan without payment.

The benefits consist of the right to buy Nestlé S.A. shares (accounted for as equity-settled share-based payment transactions) at a predetermined fixed price. From 2005 onwards, the grant has been limited to members of the Executive Board.

This plan has a rolling seven-year duration. Vesting is subject to three years service conditions.

Movement of options

	2007	2006
	Number of options	Number of options
Outstanding at 1 January	4 153 228	5 870 831
of which vested and exercisable	2 277 526	2 601 100
New rights	115 500	104 475
Rights exercised ^(a)	(1 531 317)	(1 810 278)
Rights forfeited	–	(11 000)
Rights expired	–	(800)
Outstanding at 31 December	2 737 411	4 153 228
of which vested and exercisable at 31 December	2 457 936	2 277 526
additional options vesting in 2008	59 500	

^(a) Average exercise price: CHF 332.93 (2006: CHF 318.00); average share price at exercise date: CHF 490.74 (2006: CHF 411.67)

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

Options features

Grant date	Expiring on	Exercise price in CHF	Expected volatility	Risk-free interest rate	Expected dividend yield	Fair value at grant in CHF	2007	2006
							Number of options outstanding	Number of options outstanding
01.03.2001	29.02.2008	343.20					145 309	549 504
01.03.2002	28.02.2009	367.35					512 923	814 254
01.02.2003	31.01.2010	278.55	27.16%	1.78%	2.25%	57.44	604 419	818 427
01.10.2003	30.09.2010	308.55	20.58%	2.11%	2.30%	49.26	16 400	27 428
01.02.2004	31.01.2011	329.10	19.41%	2.05%	2.11%	50.50	1 154 235	1 747 015
01.10.2004	30.09.2011	289.40	20.83%	2.09%	2.50%	45.19	17 650	25 625
01.02.2005	31.01.2012	309.20	20.13%	1.84%	2.29%	43.88	66 500	66 500
01.02.2006	31.01.2013	379.50	19.00%	2.20%	2.11%	52.90	104 475	104 475
01.02.2007	31.01.2014	445.00	16.78%	2.72%	2.54%	67.62	115 500	–
							2 737 411	4 153 228

The exercise price corresponds to the weighted average share price of the last ten trading days preceding the grant date.

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

Restricted Stock Unit Plan (RSUP)

As from 1 March 2005, members of Group Management are also awarded Restricted Stock Units (RSU) that each gives the right to one Nestlé S.A. share. Vesting is subject to three years service conditions. Upon vesting, the Group either delivers Nestlé S.A. shares (accounted for as equity-settled share-based payment transactions) or pays the equivalent amount in cash (accounted for as cash-settled share-based payment transactions).

Movement of Restricted Stock Units

	2007	2006
	Number of RSU	Number of RSU
Outstanding at 1 January	764 886	429 853
New RSU	373 920	376 995
RSU settled ^(a)	(51 985)	(35 587)
RSU forfeited	(9 695)	(6 375)
Outstanding at 31 December	1 077 126	764 886
of which vested at 31 December	4 147	5 200
of which considered cash-settled	79 813	110 663

^(a) Average price at vesting date: CHF 478.63 (2006: CHF 399.93)

Restricted Stock Units features

Grant date	Restricted until	Risk-free interest rate	Expected dividend yield	Fair value at grant in CHF	2007	2006
					Number of RSU outstanding	Number of RSU outstanding
01.03.2005	29.02.2008	1.59%	2.45%	318.00	362 532	390 669
01.10.2005	30.09.2008	1.50%	2.15%	371.60	5 827	6 187
01.02.2006	31.01.2009	2.10%	2.13%	374.70	339 564	363 390
01.10.2006	30.09.2009	2.40%	2.15%	439.25	4 640	4 640
01.02.2007	31.01.2010	2.71%	2.15%	463.90	359 095	–
01.10.2007	30.09.2010	3.02%	2.00%	538.95	5 468	–
					1 077 126	764 886

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

US plans

The US affiliates sponsor Share Appreciation Rights (SAR) plans. Those plans give right, upon exercise, to the payment in cash of the difference between the market price of a Nestlé S.A. share and the exercise price. They are accounted for as cash-settled share-based payment transactions.

From 2006 onwards, the US affiliates sponsor a separate Restricted Stock Unit Plan, that will be settled in cash.

Alcon Incentive Plan

Under the 2002 Alcon Incentive Plan, the Board of Directors of Alcon may award to officers, directors and key employees share-based compensation, including stock options, share-settled stock appreciation rights (SSARs), restricted shares, restricted share units (RSUs) and certain cash-settled liability awards.

The total number of Alcon shares that may be issued with respect to such awards shall not exceed the lesser of 30 million Alcon shares or 10% of Alcon's issued and outstanding shares. Alcon intends to satisfy all equity awards granted prior to 31 December 2003 with the issuance of new shares from conditional capital authorised for the 2002 Alcon Incentive Plan. Shares are issued at the grant price of stock options upon exercise.

The Board of Directors of Alcon has authorised the acquisition on the open market of Alcon shares to, among other things, satisfy the exercise of stock options and SSARs and the issuance of restricted shares and RSUs granted under the 2002 Alcon Incentive Plan.

Alcon stock options and SSARs

Movement of Alcon stock options and SSARs

	2007	2006	2007	2006
	Number of options	Number of options	Number of SSARs	Number of SSARs
Outstanding at 1 January	12 154 336	15 095 417	1 326 945	–
of which vested and exercisable	5 433 353	3 326 147	407	–
New rights	187 551	176 455	1 477 132	1 345 604
Rights exercised ^(a)	(3 977 693)	(2 986 379)	(947)	–
Rights forfeited	(140 685)	(130 357)	(105 819)	(18 659)
Rights expired	–	(800)	–	–
Outstanding at 31 December	8 223 509	12 154 336	2 697 311	1 326 945
of which vested and exercisable at 31 December	4 977 306	5 433 353	3 852	407
additional awards scheduled to vest in 2008	2 890 605		–	

^(a) Weighted average options exercise price: USD 47.71 (2006: USD 36.78); weighted average share price at options exercise date: USD 134.60 (2006: USD 109.68). Weighted average SSARs exercise price: USD 122.90 (2006: none); weighted average share price at SSARs exercise date: USD 138.01 (2006: none)

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

Alcon stock options features

Grant date	Expiring on	Exercise price in USD	Remaining life in years	Expected volatility	Risk-free interest rate	Expected dividend yield	Fair value at grant in USD	2007	2006
								Number of options outstanding	Number of options outstanding
21.03.2002	21.03.2012	33.00	4.22	33.00%	4.75%	1.00%	10.03	743 329	1 437 655
18.02.2003	18.02.2013	36.39	5.14	33.00%	2.92%	1.00%	10.06	1 623 011	3 211 531
Various 2003	Various 2013	48.03	5.55	33.00%	3.01%	1.00%	13.37	20 600	49 500
11.02.2004	11.02.2014	63.32	6.12	33.00%	2.99%	1.00%	19.59	2 334 890	3 878 185
Various 2004	Various 2014	77.07	6.70	33.00%	3.23%	1.00%	22.96	58 000	62 000
09.02.2005	09.02.2015	79.00	7.11	33.00%	3.60%	1.00%	25.48	3 059 413	3 299 481
Various 2005	Various 2015	90.84	7.23	33.00%	3.80%	1.00%	30.26	46 000	46 000
08.02.2006	08.02.2016	122.90	8.11	33.00%	4.56%	1.00%	42.54	156 459	169 984
12.02.2007	12.02.2017	130.56	9.11	31.00%	4.80%	1.50%	40.37	181 807	–
								8 223 509	12 154 336

Stock option grant prices are determined by the Board of Directors of Alcon and shall not be lower than the prevailing stock exchange price on the date of grant.

Alcon SSARs features

Grant date	Expiring on	Exercise price in USD	Remaining life in years	Expected volatility	Risk-free interest rate	Expected dividend yield	Fair value at grant in USD	2007	2006
								Number of SSARs outstanding	Number of SSARs outstanding
08.02.2006	08.02.2016	122.90	8.11	33.00%	4.56%	1.00%	41.51	1 261 036	1 311 895
Various 2006	Various 2016	100.42	8.40	33.00%	5.03%	1.00%	32.67	15 050	15 050
12.02.2007	12.02.2017	130.56	9.11	31.00%	4.80%	1.50%	40.37	1 399 823	–
Various 2007	Various 2017	135.08	9.52	31.00%	4.41%	1.50%	40.81	21 402	–
								2 697 311	1 326 945

Expected volatility rates are estimated based on daily historical trading data of its common shares from March 2002 through the grant dates and, due to Alcon's short history as a public company, other factors, such as the volatility of the common share prices of other pharmaceutical and surgical companies.

Alcon Restricted shares and Restricted Share Units (RSUs)

Movement of Alcon Restricted shares and Restricted Share Units (RSUs)

Restricted shares and RSUs are recognised at the closing market price on the day of grant over the required service period. The participants will receive dividend equivalents over the scheduled three-year vesting period.

	2007	2006	2007	2006
	Number of Restricted shares	Number of Restricted shares	Number of RSUs	Number of RSUs
Outstanding at 1 January	185 939	530 872	27 705	–
New granted ^(a)	184 884	191 113	27 249	29 658
Settled ^(b)	(7 612)	(532 309)	(846)	(1 239)
Forfeited	(18 969)	(3 737)	(2 622)	(714)
Outstanding at 31 December	344 242	185 939	51 486	27 705

^(a) Weighted average fair value of Restricted shares at grant date: USD 130.63 (2006: USD 122.59); weighted average fair value of RSUs at grant date: USD 130.65 (2006: USD 121.90)

^(b) Weighted average price of Restricted shares at vesting date: USD 124.80 (2006: USD 134.11); weighted average price of RSUs at vesting date: USD 115.60 (2006: USD 106.94)

The fair value corresponds to the market price at grant.

16. Deferred taxes

In millions of CHF	2007	2006
Tax assets by types of temporary difference		
Property, plant and equipment	277	317
Goodwill and intangible assets	285	297
Employee benefits	1 823	1 905
Inventories, receivables, payables and provisions	962	997
Unused tax losses and unused tax credits	278	288
Other	608	565
	4 233	4 369
Tax liabilities by types of temporary difference		
Property, plant and equipment	1 168	1 239
Goodwill and intangible assets	1 342	952
Employee benefits	241	52
Inventories, receivables, payables and provisions	71	99
Other	585	300
	3 407	2 642
Net assets	826	1 727
Reflected in the balance sheet as follows:		
Deferred tax assets	2 224	2 433
Deferred tax liabilities	(1 398)	(706)
Net assets	826	1 727
Temporary differences for which no deferred tax is recognised:		
on investments in affiliated companies (taxable temporary difference)	22 270	19 436
on unused tax losses, tax credits and other items ^(a)	1 743	2 175

^(a) Of which CHF 115 million (2006: CHF 223 million) expire within one year, CHF 739 million (2006: CHF 930 million) between one and five years and CHF 890 million (2006: CHF 1022 million) in more than five years.

17. Provisions

In millions of CHF					2006
	Restructuring	Environmental	Litigation	Other	Total
At 1 January	950	41	2 070	286	3 347
Currency retranslations	6	(2)	(59)	(6)	(61)
Provisions made in the period	437	2	327	73	839
Amounts used	(326)	(3)	(591)	(87)	(1 007)
Unused amounts reversed	(34)	–	(100)	(80)	(214)
Modification of the scope of consolidation	1	–	103	31	135
At 31 December	1 034	38	1 750	217	3 039

In millions of CHF					2007
	Restructuring	Environmental	Litigation	Other	Total
At 1 January	1 034	38	1 750	217	3 039
Currency retranslations	2	(2)	(44)	–	(44)
Provisions made in the period	392	7	510	121	1 030
Amounts used	(393)	(4)	(77)	(64)	(538)
Unused amounts reversed	(28)	–	(271)	(47)	(346)
Modification of the scope of consolidation	–	–	131	44	175
At 31 December	1 007	39	1 999	271	3 316

Restructuring

Restructuring provisions arise from a number of projects across the Group. These include plans to optimise production, sales and administration structures, mainly in Europe. Restructuring provisions are expected to result in future cash outflows when implementing the plans (usually over the following two to three years) and are consequently not discounted.

Litigation

Litigation provisions have been set up to cover legal and administrative proceedings that arise in the ordinary course of business. These provisions concern numerous cases that are not of public knowledge and whose detailed disclosure could seriously prejudice the interests of the Group. Reversal of such provisions refer to cases resolved in favour of the Group. The timing of cash outflows of litigation provisions is uncertain as it depends upon the outcome of the proceedings. These provisions are therefore not discounted because their present value would not represent meaningful information. Group Management does not believe it is possible to make assumptions on the evolution of the cases beyond the balance sheet date.

Other

Other provisions are mainly constituted by onerous contracts, liabilities for partial refund of selling prices of divested businesses and various damage claims having occurred during the period but not covered by insurance companies. Onerous contracts result from unfavourable leases or supply agreements above market prices in which the unavoidable costs of meeting the obligations under the contracts exceed the economic benefits expected to be received or for which no benefits are expected to be received. These agreements have been entered into as a result of selling and closing inefficient facilities and have an average duration of 2.5 years.

18. Financial instruments

Financial assets and liabilities

In millions of CHF	2007	2006
Liquid assets	9 496	11 475
Trade and other receivables	15 421	14 577
Financial assets – non current	4 213	2 778
Derivative assets	754	556
Total financial assets	29 884	29 386
Trade and other payables	14 179	12 572
Financial liabilities – current	24 541	15 494
Financial liabilities – non current	6 129	6 952
Derivative liabilities	477	470
Total financial liabilities	45 326	35 488
Net financial position	(15 442)	(6 102)

By category

In millions of CHF	2007	2006
Loans and receivables	15 927	14 714
Held-for-trading	1 510	445
Derivative assets ^(a)	754	556
Available-for-sale assets	11 693	13 671
Total financial assets	29 884	29 386
Financial liabilities at amortised cost	39 271	29 144
Financial liabilities at fair value under hedge accounting	5 578	5 874
Derivative liabilities ^(a)	477	470
Total financial liabilities	45 326	35 488
Net financial position	(15 442)	(6 102)

^(a) Include derivatives classified as trading (refer to Note 9).

The Group does not apply the fair value option.

Bonds

In millions of CHF						2007	2006
Issuer	Face value in millions	Interest rates		Year of issue/ maturity	Comments		
		Nominal	Effective				
Nestlé Holdings, Inc., USA	USD 535	0.00%	6.25%	2001–2008	(a)	587	783
	USD 300	5.13%	5.24%	2001–2007		–	367
	USD 500	4.75%	4.98%	2002–2007		–	611
	NOK 2000	5.25%	5.16%	2003–2007	(b)	–	393
	USD 250	3.88%	3.42%	2003–2009	(c)	281	305
	USD 400	3.50%	3.81%	2005–2008	(b)	449	477
	EUR 250	2.13%	2.97%	2005–2009	(b)(d)	392	378
	USD 300	4.38%	4.49%	2005–2009	(b)	339	362
	AUD 300	5.50%	5.68%	2005–2009	(b)(e)	286	280
	USD 300	5.00%	5.19%	2006–2008	(b)	338	363
	GBP 100	5.13%	5.24%	2006–2009	(b)	222	238
	AUD 200	6.00%	6.23%	2006–2010	(b)	195	190
	CHF 450	2.50%	2.57%	2006–2013	(b)	435	449
	GBP 100	5.13%	5.53%	2007–2009	(b)	221	–
	CHF 400	2.75%	2.75%	2007–2010	(f)	398	–
	NOK 1000	4.75%	4.80%	2007–2010	(b)	188	–
	AUD 100	6.00%	6.62%	2007–2010	(b)	90	–
	HUF 10000	6.88%	7.20%	2007–2010	(b)	64	–
	USD 500	4.75%	4.90%	2007–2011	(b)	572	–
	CHF 200	3.00%	3.03%	2007–2012	(b)	199	–
CHF 250	2.63%	2.75%	2007–2018	(b)	235	–	
Nestlé Purina Petcare Company, USA	USD 83	9.25%	5.90%	1989–2009		98	110
	USD 63	9.30%	6.46%	1991–2021		89	98
	USD 79	8.63%	6.46%	1992–2022		107	116
	USD 44	8.13%	6.47%	1993–2023		57	62
	USD 48	7.75%	6.25%	1995–2015		59	64
	USD 51	7.88%	6.45%	1995–2025		66	72
Nestlé Finance-France S.A., France	EUR 370	4.75%	3.22%	2002–2007	(b)(g)	–	598
	EUR 147	3.38%	3.38%	2002–2007	(b)(h)(i)	–	235
	EUR 500	3.50%	3.51%	2003–2008	(b)	828	802
	EUR 150	2.50%	2.55%	2003–2007	(b)(j)	–	238
	USD 100	2.25%	2.33%	2003–2007	(b)	–	119
	AUD 200	6.00%	6.03%	2004–2008	(b)	198	192
	HUF 25000	7.00%	7.00%	2004–2009	(b)	163	158
	EUR 100	3.50%	3.52%	2006–2009	(b)	164	159
Nestlé Japan Holding Ltd, Japan	USD 200	4.13%	4.14%	2005–2007	(b)	–	241
Nestlé (Thai) Ltd, Thailand	THB 5000	2.16%	2.16%	2003–2008		167	169
Other bonds						56	79
Total						7 543	8 708
	of which due within one year					2 601	2 807
	of which due after one year					4 942	5 901

Bonds subject to fair value hedges are carried at fair value for CHF 5578 million (2006: CHF 5874 million) and the related derivatives are shown under derivative assets for CHF 340 million (2006: CHF 134 million) and under derivative liabilities for CHF 0 million (2006: CHF 33 million). The full fair value of bonds amounts to CHF 7560 million (2006: CHF 8739 million).

(a) Turbo Zero Equity-Link issue with warrants on Nestlé S.A. shares

The debt component (issue of the notes) was recognised under bonds for USD 451 million at inception, while the equity component (premium on warrants issued) was recognised under equity for USD 123 million. The investors had the option to put the notes to Nestlé Holdings, Inc. and the warrants to Nestlé S.A. at their accreted value in June 2003 and in June 2006.

Exercise conditions of the warrants: 70 000 warrants to purchase Nestlé S.A. shares. Each warrant gives the right to purchase 31.9065 shares. The holders of warrants may exercise their warrants to purchase shares of Nestlé S.A. either:

- 1) during the note exercise period from July 2001 to June 2008 by tendering a note and a warrant in exchange for shares on the basis that one note is required to exercise each warrant; or
- 2) on the cash exercise date, 11 June 2008, by tendering warrants together with the exercise price in cash.

The effective initial exercise price per share is USD 261.119 (or CHF 455.–, based on a fixed exchange rate of CHF 1.7425 for each USD), growing by 2.625% per annum, prior to any anti-dilution adjustment. In June 2003, 100 units (at USD 10 000 each) of this issue were put for cash by a holder on the put date at the prescribed price as per the terms and conditions of the issue. In 2006, one warrant was exercised. In 2007, 16 524 warrants were exercised. Notes valued at amortised cost of USD 155 million (nominal USD 165 million) were exchanged with 527 210 Nestlé S.A. shares.

(b) Subject to an interest rate and/or currency swap that creates a liability at floating rates in the currency of the issuer

(c) Step-up fixed rate callable medium term note

Currently a related swap synthetically creates a liability at floating rates. However the note issuer sold an option to the swap counterparty giving it the right to terminate the swap early, annually starting on 31 March 2005. Further, the note's coupon rate increases on March 31, to the following rates: 2005: 3.25%, 2007: 3.75%, 2008: 4%. The current swap takes into consideration this rate step-up, and, if not terminated by the swap issuer prior to its maturity in 2009, would continuously synthetically create a liability at floating rates.

(d) The initial EUR 150 million bond issued in 2005 was increased by EUR 100 million in 2006.

(e) The initial AUD 200 million bond issued in 2005 was increased by AUD 100 million in 2006.

(f) Subject to an interest rate and currency swap that creates a liability at fixed rates in the currency of the issuer

(g) EUR 30 million of the initial EUR 400 million bond issued in 2002 were bought back during 2004. The swap was adjusted accordingly.

(h) EUR 3 million of the initial EUR 150 million bond issued in 2002 were bought back during 2004. The swap was adjusted accordingly.

(i) Uridashi issue sold to retail investors in Japan.

(j) The initial EUR 100 million bond issued in 2003 was increased by EUR 50 million in 2004.

19. Financial risks

In the course of its business, the Group is exposed to a number of financial risks: credit risk, liquidity risk, market risk (including foreign currency and interest rate), commodity price risk and other risks (including equity price risk and settlement risk). This note presents the Group's objectives, policies and processes for managing its financial risk and capital.

Financial risk management is an integral part of the way the Group is managed. The Board of Directors establishes the Group's financial policies and the Chief Executive Officer establishes objectives in line with these policies. An Asset and Liability Management Committee (ALMC), under the supervision of the Chief Financial Officer, is then responsible for setting financial strategies, which are executed by the Centre Treasury, the Regional Treasury Centres and, in specific local circumstances, by the affiliated companies. The activities of the Centre Treasury and of the various Regional Treasury Centres are supervised by an independent Middle Office, which verifies the compliance of the strategies proposed and/or operations executed within the approved guidelines and limits set by the ALMC. Approved Treasury Management Guidelines define and classify risks as well as determine, by category of transaction, specific approval, limit and monitoring procedures. In accordance with the aforementioned policies, the Group only enters into derivative transactions relating to assets, liabilities or anticipated future transactions.

Credit risk

Credit risk management

Credit risk arises because counterparty may fail to perform its obligations. The Group is exposed to credit risk on financial instruments such as liquid assets, derivative assets and trade receivable portfolios.

The Group's objective is to set credit limits based on a counterparty value computed with their probability of default. The methodology used to set the list of counterparty limits includes both Enterprise Value (EV), if available, and counterparty Credit Ratings (CR). Limits accomplishment as well as the evolution of EV and CR are monitored on a continuous basis.

The Group avoids the concentration of credit risk on its liquid assets by spreading them over several institutions and sectors.

Credit rating of financial assets (excl. loans and receivables)

In millions of CHF	2007	2006
Investment grade A and above	13 119	14 013
Investment grade BBB+, BBB and BBB-	416	186
Non-investment grade (BB+ and below)	160	70
Not rated	262	403
	13 957	14 672

The source of the credit ratings is mainly Standard & Poor's; if not available, the Group uses Moody's and Fitch's equivalents. The Group deals essentially with financial institutions located in Switzerland, the European Union and North America.

Trade receivables are subject to credit limits, control and approval procedures in all the affiliated companies. Due to its large geographic base and number of customers, the Group is not exposed to material concentrations of credit risk on its trade receivables (refer to Note 8).

Liquidity risk

Liquidity risk management

Liquidity risk arises when a company encounters difficulties to meet commitments associated with liabilities and other payment obligations. Such risk may result from inadequate market depth or disruption or refinancing problems. The Group's objective is to manage this risk by limiting exposures in instruments that may be affected by liquidity problems and by maintaining sufficient back-up facilities. The Group does not expect any refinancing issues.

Maturity of financial instruments

In millions of CHF

2006

	In the first year	In the second year	In the third to the fifth year	After the fifth year	Contractual amount	Carrying amount
Financial assets (excl. currency derivatives)						
Cash at bank and in hand	2 380	-	-	-	2 380	2 380
Commercial paper	5 731	-	-	-	5 731	5 731
Time deposits	2 670	-	-	-	2 670	2 670
Trade and other receivables	14 577	-	-	-	14 577	14 577
Trading portfolios	445	-	-	-	445	445
Non-currency derivative assets	94	24	71	6	195	194
Other financial assets	249	176	185	1 311	1 921	1 921
	26 146	200	256	1 317	27 919	27 918
Financial investments without contractual maturities						1 106
	26 146	200	256	1 317	27 919	29 024
Financial liabilities (excl. currency derivatives)						
Trade and other payables	12 572	-	-	-	12 572	12 572
Commercial paper ^(a)	10 402	-	-	-	10 402	10 332
Bonds ^(a)	3 158	3 133	2 485	1 147	9 923	8 708
Non-currency derivative liabilities	57	-	55	15	127	122
Other financial liabilities	2 387	37	693	648	3 765	3 406
	28 576	3 170	3 233	1 810	36 789	35 140
Currency derivative assets and liabilities						
Gross amount receivable from currency derivatives	8 935	295	4 840	-	14 070	13 772
Gross amount payable from currency derivatives	(8 928)	(285)	(4 809)	-	(14 022)	(13 758)
	7	10	31	-	48	14
Net financial position	(2 423)	(2 960)	(2 946)	(493)	(8 822)	(6 102)
of which Cash flow hedges ^(b)						
Derivative assets	96	4	59	5		164
Derivative liabilities	67	-	19	11		97

^(a) Commercial paper (liabilities) of CHF 9326 million and bonds of CHF 1575 million have maturities of less than three months.

^(b) The periods when the cash flow hedges affect the income statement do not differ significantly from the maturities disclosed above.

In millions of CHF

2007

	In the first year	In the second year	In the third to the fifth year	After the fifth year	Contractual amount	Carrying amount
Financial assets (excl. currency derivatives)						
Cash at bank and in hand	2 610	-	-	-	2 610	2 610
Commercial paper	2 071	-	-	-	2 071	2 071
Time deposits	3 144	-	-	-	3 144	3 144
Trade and other receivables	15 421	-	-	-	15 421	15 421
Trading portfolios	1 510	-	-	-	1 510	1 510
Non-currency derivative assets	76	19	52	3	150	150
Other financial assets	213	208	163	2 689	3 273	3 273
	25 045	227	215	2 692	28 179	28 179
Financial investments without contractual maturities						1 101
	25 045	227	215	2 692	28 179	29 280
Financial liabilities (excl. currency derivatives)						
Trade and other payables	14 179	-	-	-	14 179	14 179
Commercial paper ^(a)	18 647	-	-	-	18 647	18 544
Bonds ^(a)	2 909	2 312	2 167	1 345	8 733	7 543
Non-currency derivative liabilities	40	17	45	7	109	113
Other financial liabilities	3 738	500	590	505	5 333	4 583
	39 513	2 829	2 802	1 857	47 001	44 962
Currency derivative assets and liabilities						
Gross amount receivable from currency derivatives	14 655	4 417	1 819	701	21 592	21 411
Gross amount payable from currency derivatives	(14 669)	(4 447)	(1 401)	(664)	(21 181)	(21 171)
	(14)	(30)	418	37	411	240
Net financial position	(14 482)	(2 632)	(2 169)	872	(18 411)	(15 442)
of which Cash flow hedges ^(b)						
Derivative assets	71	-	34	2		107
Derivative liabilities	66	14	47	6		133

^(a) Commercial paper (liabilities) of CHF 17 436 million and bonds of CHF 1621 million have maturities of less than three months.

^(b) The periods when the cash flow hedges affect the income statement do not differ significantly from the maturities disclosed above.

Market risk

The Group is exposed to risks from movements in foreign currency exchange rates, interest rates and market prices that affect its assets, liabilities and anticipated future transactions.

Foreign currency risk

Foreign currency risk management

The Group is exposed to foreign currency risk from transactions and translation. Transaction exposure arises because affiliated companies undertake transactions in foreign currencies. Translation exposure arises from the consolidation of the Group Financial Statements in Swiss Francs, which is not hedged.

The Group's objective is to manage its foreign currency exposure through the use of currency forwards, futures, swaps and options.

Financial instruments by currency

In millions of CHF							2006
	CHF	EUR	USD	GBP	AUD	Other	Total
Financial assets (excl. currency derivatives)							
Liquid assets	3 374	733	5 691	600	6	1 071	11 475
Trade and other receivables	258	5 114	2 813	779	271	5 342	14 577
Non current financial assets	986	188	1 423	2	2	177	2 778
Non-currency derivative assets	–	49	79	9	–	57	194
	4 618	6 084	10 006	1 390	279	6 647	29 024
Financial liabilities (excl. currency derivatives)							
Trade and other payables	422	4 930	3 275	387	230	3 328	12 572
Commercial paper	298	2 121	6 878	488	–	547	10 332
Bonds	449	2 415	3 925	238	662	1 019	8 708
Non-currency derivative liabilities	–	31	45	5	–	41	122
Other financial liabilities	72	442	327	238	113	2 214	3 406
	1 241	9 939	14 450	1 356	1 005	7 149	35 140
Currency derivative assets and liabilities							
Gross amount receivable from currency derivatives	3 133	2 937	2 827	352	1 599	2 924	13 772
Gross amount payable from currency derivatives	(2 076)	(3 739)	(3 655)	(258)	(1 232)	(2 798)	(13 758)
	1 057	(802)	(828)	94	367	126	14
Net financial position	4 434	(4 657)	(5 272)	128	(359)	(376)	(6 102)

In millions of CHF							2007
	CHF	EUR	USD	GBP	AUD	Other	Total
Financial assets (excl. currency derivatives)							
Liquid assets	1 663	711	5 213	347	7	1 555	9 496
Trade and other receivables	463	5 324	2 923	637	290	5 784	15 421
Non current financial assets	966	246	2 753	2	3	243	4 213
Non-currency derivative assets	–	49	84	5	–	12	150
	3 092	6 330	10 973	991	300	7 594	29 280
Financial liabilities (excl. currency derivatives)							
Trade and other payables	1 098	5 379	3 248	495	213	3 746	14 179
Commercial paper	740	1 647	15 361	66	–	730	18 544
Bonds	1 268	1 383	3 080	444	768	600	7 543
Non-currency derivative liabilities	–	21	84	5	–	3	113
Other financial liabilities	126	1 135	463	88	156	2 615	4 583
	3 232	9 565	22 236	1 098	1 137	7 694	44 962
Currency derivative assets and liabilities							
Gross amount receivable from currency derivatives	5 504	3 437	5 507	607	2 072	4 284	21 411
Gross amount payable from currency derivatives	(2 785)	(8 402)	(3 554)	(452)	(1 235)	(4 743)	(21 171)
	2 719	(4 965)	1 953	155	837	(459)	240
Net financial position	2 579	(8 200)	(9 310)	48	–	(559)	(15 442)

Interest rate risk

Interest risk management

Interest rate risk comprises the interest price risk that results from borrowings at fixed rates and the interest cash flow risk that results from borrowings at variable rates.

The Group's objective is to manage its interest rate exposure through the use of interest rate forwards, futures and swaps.

Average interest rates

	2006			
	USD	CHF	EUR	GBP
Liquid assets	5.00%	1.40%	2.70%	4.80%
Financial liabilities (excl. bonds)	5.10%	1.70%	3.00%	4.80%

	2007			
	USD	CHF	EUR	GBP
Liquid assets	5.29%	2.17%	3.81%	5.30%
Financial liabilities (excl. bonds)	5.27%	2.49%	4.07%	5.99%

Interest rates of bonds are disclosed in Note 18.

Interest structure of non-current financial liabilities

In millions of CHF	2007		2006
Financial liabilities at fixed rates	5 603		6 673
Financial liabilities at variable rates	526		279
	6 129		6 952

Commodity price risk

Commodity risk management

The Group's activities expose it to the risk of changes in commodity prices. The Group's objective is to minimise the impact of commodity price fluctuations and this exposure is hedged in accordance with the commodity risk management policies set by the Board of Directors.

The regional Commodity Purchasing Competence Centres are responsible for managing commodity price risks on the basis of internal directives and centrally determined limits. They ensure that the Group benefits from guaranteed contract performance through the use of exchange traded commodity derivatives.

Commodity price risk

Commodity price risk arises from transactions on the world commodity markets for securing the supplies of green coffee, cocoa beans and other commodities necessary for the manufacture of some of the Group's products.

The commodity price risk exposure of anticipated future purchases is managed using a combination of derivatives (futures and options) and executory contracts (differentials and ratios). The vast majority of these contracts are for physical delivery, while cash-settled contracts are treated as trading derivatives.

As a result of the short product business cycle of the Group, the majority of the anticipated future raw material transactions outstanding at the balance sheet date are expected to occur in the next period.

Other risks

Equity price risk

The Group is exposed to equity price risk on short-term investments held as trading and available-for-sale assets. To manage its price risk arising from investments in securities, the Group diversifies its portfolios in accordance with the Guidelines set by the Board of Directors.

The Group's external investments are only with publicly traded counterparties that have an investment grade rating by one of the recognised rating agencies.

Settlement risk

Settlement risk results from the fact that the Group may not receive financial instruments from its counterparties at the expected time. This risk is managed by monitoring counterparty activity and settlement limits.

Value at risks (VaR)

Description of the method

The VaR is a single measure to assess market risk. The VaR estimates the size of losses given current positions and possible changes in financial markets. The Group uses historic simulation to calculate VaR based on the historic data for a 250 days period.

The VaR calculation is based on 95% confidence level and, accordingly, does not take into account losses that might occur beyond this level of confidence.

The VaR is calculated on the basis of exposures outstanding at the close of business and does not necessarily reflect intra-day exposures.

Objective of the method

The Group uses the described VaR analysis to estimate the potential one-day loss in the fair value of its financial and commodity instruments.

The Group cannot predict the actual future movements in market rates and commodity prices, therefore the below VaR numbers neither represent actual losses nor consider the effects of favourable movements in underlying variables. Accordingly, these VaR numbers may only be considered indicative of future movements to the extent the historic market patterns repeat in the future.

VaR figures

The VaR computation includes the Group's financial assets and liabilities that are subject to foreign currency, interest rate and commodity price risk.

The estimated potential one-day loss from the Group's foreign currency and interest rate risk sensitive instruments, as calculated using the above described historic VaR model, are as follows:

In millions of CHF	2007	2006
Foreign currency	15	10
Interest rate	44	27
Foreign currency and interest rate combined	41	36

The estimated potential one-day loss from the Group's commodity price risk sensitive instruments, as calculated using the above described historic VaR model, are as follows:

In millions of CHF	2007	2006
Commodity price	2	5

Capital risk management

The Group's capital management is driven by the impact on shareholders of the level of total capital employed. It is the Group's policy to maintain a sound capital base to support the continued development of its business.

The Board of Directors seeks to maintain a prudent balance between different components of the Group's capital. The ALMC monitors capital on the basis of operating cash flow as a percentage of net financial debt. Net financial debt is defined as current and non-current financial liabilities less liquid assets, as shown on the Consolidated balance sheet.

The operating cash flow-to-net financial debt ratio as at 31 December 2007 was 63.5% (2006: 106.4%).

The Group's subsidiaries have complied with local statutory capital requirements as appropriate.

20. Share capital of Nestlé S.A.

	2007	2006
Number of registered shares of nominal value CHF 1.– each	393 072 500	400 735 700
In millions of CHF	393	401

At the Annual General Meeting on 19 April 2007, the shareholders approved the cancellation of 7 663 200 shares. The share capital includes the nominal value of treasury shares (refer to Note 21).

21. Treasury shares

This item represents the treasury shares held:

Number of shares	Note	2007	2006
Purpose of holding			
Management option rights ^(a)		2 737 411	4 153 228
Restricted Stock Units ^(a)		1 077 126	764 886
Future Long-Term Incentive Plans		1 116 441	1 601 764
Warrants on Turbo bond issues of Nestlé Holdings Inc., USA	18	1 703 059	2 230 269
Share Buy-Back Programme		8 294 000	7 663 200
Trading		1 872 705	600 279
Total at 31 December		16 800 742	17 013 626

^(a) The Group buys or transfers from existing treasury shares portfolios the number of shares necessary to satisfy all potential outstanding obligations under the Management Stock Option Plan (MSOP) and the Restricted Stock Unit Plan (RSUP) when the benefit is awarded and holds them until the maturity of the plan or the exercise of the rights/delivery of RSU.

In millions of CHF	2007	2006
Book value at 31 December	8 013	4 644
Market value at 31 December	8 736	7 367

22. Decrease/(increase) in working capital

Disregarding currency retranslations and effect of acquisitions and disposals.

In millions of CHF	2007	2006
Inventories	(1 001)	(43)
Trade receivables	(108)	(673)
Trade payables	968	1 183
Other current assets	(363)	(297)
Other current liabilities	586	178
	82	348

23. Acquisition of businesses

In millions of CHF	Gerber	Novartis Medical Nutrition	Other acquisitions	2007	2006
Fair value of net assets acquired					
Property, plant and equipment	327	98	108	533	407
Intangible assets	1 886	1 518	206	3 610	749
Other assets	2 282	579	204	3 065	287
Minority interests	–	–	(2)	(2)	(20)
Purchase of minority interests in existing participations	–	–	130	130	19
Financial liabilities	(13)	(51)	(14)	(78)	(275)
Employee benefits, deferred taxes and provisions	(1 050)	(49)	(26)	(1 125)	(299)
Other liabilities	(1 266)	(198)	(122)	(1 586)	(179)
	2 166	1 897	484	4 547	689
Goodwill	4 515	1 186	1 202 ^(a)	6 903	2 581
Total acquisition cost	6 681	3 083	1 686	11 450	3 270
Cash and cash equivalents acquired	(75)	(24)	(33)	(132)	(18)
Consideration payable	(80)	(50)	(2)	(132)	(151)
Payment of consideration payable on prior years acquisition	–	–	46	46	3 368
Cash outflow on acquisitions	6 526	3 009	1 697	11 232	6 469

^(a) Of which CHF 1 006 million (2006: CHF 1 099 million) resulting from Alcon's acquisition of own shares to satisfy obligations under the stock option plan of Alcon employees and for shares buy-back programme.

Since the valuation of the assets and liabilities of businesses recently acquired is still in process, the above values are determined provisionally. The carrying amounts of assets and liabilities determined in accordance with IFRSs immediately before the combination do not differ significantly from those disclosed above except for internally generated intangible assets and goodwill which were not recognised. The goodwill represents elements that cannot be recognised as intangible assets such as synergies, complementary market share and competitive position.

The profit for the period of Gerber and Novartis Medical Nutrition included in the Consolidated Financial Statements amount to CHF 0.09 billion and CHF 0.05 billion. The Group's sales and profit for the period would have amounted to CHF 109.8 billion and CHF 10.9 billion if the acquisitions had been effective 1 January 2007.

24. Disposal of businesses

In millions of CHF	2007	2006
Net assets disposed of		
Property, plant and equipment	81	94
Goodwill and intangible assets	139	135
Other assets	297	128
Minority interests ^(a)	(29)	(155)
Financial liabilities	(18)	(59)
Employee benefits, deferred taxes and provisions	36	14
Other liabilities	(244)	(147)
	262	10
Profit/(loss) on current year disposals ^(a)	259	165
Total disposal consideration	521	175
Cash and cash equivalents disposed of	(30)	(16)
Consideration receivable	(41)	(33)
Receipt of consideration receivable on prior years disposal	6	321
Cash inflow on disposals	456	447

^(a) Mainly resulting from the exercise of stock options by Alcon employees and related dilution on issuance of new shares

25. Discontinued operations and Assets held for sale and Liabilities directly associated with assets held for sale

Discontinued operations: Chilled dairy business in Europe

As announced on 15 December 2005, the Group has established with the French-based group Lactalis a new venture called Lactalis Nestlé Produits Frais (LNPF). Operating in the chilled dairy sector in Europe, LNPF started its activity as from 1 November 2006. The new organisation is managed by a board composed of senior executives from both groups, with Lactalis in a majority.

The European Commission approved the venture on 19 September 2006. As a result of discussions with the latter, the fresh cheese activities in Italy, under the MIO brand, have not been transferred to LNPF, but have been classified within the Nutrition segment.

As at 31 December 2005, the assets and liabilities of the Group's European Chilled dairy business were classified as a disposal group in Assets held for sale and Liabilities directly associated with assets held for sale. As at 1 November 2006, they were transferred to LNPF. The Group's interest in LNPF (40%) qualifies as an investment in associates. This investment has initially been recognised at a cost of CHF 434 million. The difference between this amount and the carrying amount of the net assets transferred has been recognised as a profit to the extent the transaction was realised with Lactalis.

As the assets and liabilities related to the Group's European Chilled dairy business were exchanged with shares in our associate LNPF, the transfer did not generate any cash movement.

The result and the cash flow of the discontinued operations until 31 October 2006 are as follows:

In millions of CHF	2006
Sales	1 678
Expenses	(1 642)
EBIT Earnings Before Interest, Taxes, restructuring and impairments	36
Net other income/(expenses)	(12)
Profit/(loss) from activities before taxes	24
Taxes	(8)
Net profit/(loss) from activities	16
Profit/(loss) on disposal of assets and liabilities before taxes	19
Taxes	39
Net profit/(loss) on disposal of assets and liabilities constituting the discontinued operations	58
Net profit/(loss) on discontinued operations	74

Earnings per share from discontinued operations (in CHF)

Basic earnings per share	0.19
Fully diluted earnings per share	0.19

Cash flow statement from discontinued operations

Operating cash flow	10
Cash flow from investing activities	(15)

Assets held for sale and Liabilities directly associated with assets held for sale

In millions of CHF	2007	2006
Property, plant and equipment	10	57
Financial assets	2	–
Net working capital	5	17
Employee benefits, deferred taxes and provisions	(2)	–
Net assets held for sale	15	74

Reflected in the balance sheet as follows:

Assets held for sale	22	74
Liabilities directly associated with assets held for sale	(7)	–
Net assets held for sale	15	74

26. Dividends

Dividends payable are not accounted for until they have been ratified at the Annual General Meeting. At the meeting on 10 April 2008, the following dividend in respect of 2007 will be proposed:

Dividend per share	CHF 12.20
resulting in a total dividend of ^(a)	CHF 4 690 888 105.–

^(a) Number of shares with right to dividend: see Financial Statements of Nestlé S.A.

The Financial Statements for the year ended 31 December 2007 do not reflect this proposed distribution, which will be treated as an appropriation of profit in the year ending 31 December 2008.

27. Commitments for expenditure on property, plant and equipment and financial assets

At 31 December 2007, the Group was committed to expenditure amounting to CHF 497 million (2006: CHF 482 million).

28. Lease commitments

Operating leases

In millions of CHF	2007	2006
	Minimum lease payments Future value	
Within one year	559	480
In the second year	425	389
In the third to the fifth year inclusive	859	702
After the fifth year	571	555
	2 414	2 126

Finance leases

In millions of CHF	2007		2006	
	Present value	Future value	Present value	Future value
Within one year	78	88	78	87
In the second year	100	120	81	97
In the third to the fifth year inclusive	146	208	166	229
After the fifth year	122	264	159	331
	446	680	484	744

The difference between the future value of the minimum lease payments and their present value represents the discount on the lease obligations.

29. Transactions with related parties

Remuneration of the Board of Directors and the Executive Board

Board of Directors

Members of the Board of Directors received an annual compensation that varied with the Board and the Committee responsibilities as follows:

Board members CHF 280 000; members of the Chairman's and Corporate Governance Committee additional CHF 200 000; members of the Compensation and Nomination Committee additional CHF 50 000 (Chair CHF 150 000); members of the Audit Committee additional CHF 100 000 (Chair CHF 150 000).

Half of the compensation was paid through the granting of Nestlé S.A. shares at the ex-dividend closing price on the day of payment of the dividend. These shares are subject to a two-year blocking period.

Members of the Board of Directors also received an annual expense allowance of CHF 15 000 each. This allowance covers travel and hotel accommodation in Switzerland, as well as sundry out-of-pocket expenses. For Board members from outside Europe, the Company reimburses additionally the airline tickets. When the Board meets outside of Switzerland, all expenses are borne and paid directly by the Company.

The Chairman/CEO was in addition entitled to a salary, a bonus, share options and restricted stock units.

Executive Board

The total annual remuneration of the members of the Executive Board comprised a salary, sundry allowances, a bonus (based on the individual's performance and the achievement of the Group's objectives), share options and restricted stock units. Members of the Executive Board can choose to receive part or all of their bonus in Nestlé S.A. shares at the average price of the last ten trading days of January of the year of allocation. These shares are subject to a three-year blocking period.

	2007		2006	
	Number	CHF millions	Number	CHF millions
Board of Directors				
Remuneration cash		3		3
Shares	5 875	3	7 463	3
Executive Board				
Remuneration cash		15		14
Bonus		6		6
Shares	24 517	10	23 260	9
Options ^(a)	115 500	8	104 475	6
Restricted Stock Units ^(a)	24 250	11	25 020	9
Pension contributions		5		4

^(a) Both options and restricted stock units are equity-settled share-based payment transactions whose cost is recognised over the vesting period.

Other transactions with related parties

Nestlé Capital Management Ltd, one of the Group's subsidiaries, is an asset manager authorised and regulated by the Financial Services Authority, United Kingdom. As from 2007, it is engaged to manage some of the assets of the Group's pension funds. In this function, it executes trading and investment transactions on behalf of these pension funds directly or for the Robusta Funds. The fees received in 2007 for those activities amounted to CHF 13 million (2006: none). The assets under direct management represented an amount of CHF 8.4 billion at 31 December 2007 (2006: none).

In addition, Robusta Asset Management Ltd (RAML), another Group's subsidiary, is in charge of selecting and monitoring investment managers for the Robusta Funds pension investment vehicles. No fees are charged by RAML for this activity. The assets under supervision of RAML, including assets under direct management of Nestlé Capital Management Ltd (CHF 6.3 billion), amounted to CHF 10.6 billion at 31 December 2007 (2006: none).

Furthermore, throughout 2007, no director had a personal interest in any transaction of significance for the business of the Group.

30. Guarantees

The Group has no significant guarantees given to third parties.

31. Contingent assets and liabilities

The Group is exposed to contingent liabilities amounting to CHF 1016 million (2006: CHF 957 million) representing various potential litigations (CHF 956 million) and other items (CHF 60 million).

Contingent assets for litigation claims in favour of the Group amount to CHF 252 million (2006: CHF 267 million).

32. Events after the balance sheet date

Litigation in the Confectionery business

Nestlé Canada and other market participants in Canada are subject to an investigation in the Confectionery business by the Competition Authorities. Two class actions have been lodged against Nestlé Canada.

In the United States, the Department of Justice is also gathering information. As of 20 February 2008, several class actions have been lodged against Nestlé USA and other Nestlé companies.

In the European Union, the Directorate General for Competition has sent out an information request on the Confectionery business.

In Germany, Nestlé Germany and other market participants are also being investigated by the Federal Cartel Authorities.

It is premature at this stage to make any estimation on the possible outcome on any of these investigations and to estimate monetary consequences, as there are a number of variables that Group Management is not aware of.

Other subsequent events

At 20 February 2008, date of approval of the Financial Statements by the Board of Directors, the Group had no subsequent adjusting events that warrant a modification of the value of the assets and liabilities or an additional disclosure.

33. Group companies

The list of companies appears in the section Companies of the Nestlé Group.

Report of the Group auditors

to the General Meeting of Nestlé S.A.

As Group auditors we have audited the Consolidated Financial Statements (balance sheet, income statement, cash flow statement, statement of recognised income and expense and changes of equity and annex) of the Nestlé Group for the year ended 31 December 2007.

These Consolidated Financial Statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, and with International Standards on Auditing, which require that an audit be planned and performed to obtain reasonable assurance about whether the Consolidated Financial Statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the Consolidated Financial Statements. We have also assessed the accounting principles used, significant estimates made and the overall Consolidated Financial Statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Consolidated Financial Statements give a true and fair view of the financial position, the net profit and cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

We recommend that the Consolidated Financial Statements submitted to you be approved.

 Klynveld Peat Marwick Goerdeler SA



Mark Baillache
Auditor in charge



Stéphane Gard

London and Zurich, 20 February 2008

Financial information – five year review

In millions of CHF (except for per share data and personnel)

	2007	2006
Results		
Sales	107 552	98 458
EBIT Earnings Before Interest, Taxes, restructuring and impairments	15 024	13 302
<i>as % of sales</i>	14.0%	13.5%
Taxes	3 416	3 293
Profit for the period attributable to shareholders of the parent (Net profit)	10 649	9 197
<i>as % of sales</i>	9.9%	9.3%
<i>as % of average equity attributable to shareholders of the parent</i>	20.7%	18.7%
Total amount of dividend	4 691 ^(c)	4 004
Depreciation of property, plant and equipment	2 620	2 581
<i>as % of sales</i>	2.4%	2.6%
Balance sheet and Cash flow statement		
Current assets	35 770	35 305
of which liquid assets	9 496	11 475
Non-current assets	78 889	66 500
Total assets	114 659	101 805
Current liabilities	43 326	32 479
Non-current liabilities	17 099	16 478
Equity attributable to shareholders of the parent	52 085	50 991
Minority interests	2 149	1 857
Net financial debt	21 174	10 971
Operating cash flow	13 439	11 676
<i>as % of net financial debt</i>	63.5%	106.4%
Free cash flow ^(d)	8 231	7 018
Capital expenditure	4 971	4 200
<i>as % of sales</i>	4.6%	4.3%
Data per share		
Weighted average number of shares outstanding	382 880 947	384 801 089
Basic earnings per share from continuing operations	27.81	23.71
Basic earnings per share from discontinued operations	–	0.19
Equity attributable to shareholders of the parent	136.03	132.51
Dividend	12.20 ^(e)	10.40
Pay-out ratio based on Total basic earnings per share	43.9% ^(e)	43.5%
Stock prices (high)	553.50	448.30
Stock prices (low)	426.50	355.00
Yield ^(f)	2.2/2.9 ^(e)	2.3/2.9
Market capitalisation	195 661	166 152
Number of personnel (in thousands)	276	265

(a) 2005 comparatives restated following the first application of the option of IAS 19 Employee Benefits § 93A ss. and IFRIC 4 Determining whether an Arrangement contains a Lease, as well as the decision to transfer the fresh cheese activities in Italy to Nestlé Nutrition.

(b) 2004 comparatives restated following first application of IFRS 2 Share-based Payment and for the discontinued operation following the announcement made in December 2005 for the Chilled dairy activities in Europe.

(c) As proposed by the Board of Directors of Nestlé S.A.. This amount includes dividends payable in respect of shares with right to dividend at the balance sheet date (CHF 4591 million) as well as those potentially payable on the shares covering options and shares held for trading purposes (CHF 100 million).

2005 ^(a)	2004 ^(b)	2003	
Results			
91 115	84 690	87 979	Sales
11 876	10 760	11 006	EBIT Earnings Before Interest, Taxes, restructuring and impairments
13.0%	12.7%	12.5%	<i>as % of sales</i>
2 647	2 404	2 307	Taxes
8 081	6 621	6 213	Profit for the period attributable to shareholders of the parent (Net profit)
8.9%	7.8%	7.1%	<i>as % of sales</i>
18.6%	17.4%	17.3%	<i>as % of average equity attributable to shareholders of the parent</i>
3 471	3 114	2 800	Total amount of dividend
2 382	2 454	2 408	Depreciation of property, plant and equipment
2.6%	2.9%	2.7%	<i>as % of sales</i>
Balance sheet and Cash flow statement			
41 765	35 285	36 233	Current assets
17 393	15 282	15 128	of which liquid assets
60 953	51 832	53 328	Non-current assets
102 718	87 117	89 561	Total assets
35 854	29 075	30 365	Current liabilities
17 796	17 743	21 373	Non-current liabilities
47 498	39 236	36 880	Equity attributable to shareholders of the parent
1 570	1 063	943	Minority interests
9 725	10 171	14 355	Net financial debt
10 205	10 412	10 125	Operating cash flow
104.9%	102.4%	70.5%	<i>as % of net financial debt</i>
6 557	6 640	6 361	Free cash flow ^(d)
3 375	3 260	3 337	Capital expenditure
3.7%	3.8%	3.8%	<i>as % of sales</i>
Data per share			
388 812 564	388 449 957	387 018 429	Weighted average number of shares outstanding
20.82	16.97	16.05	Basic earnings per share from continuing operations
(0.04)	0.07	–	Basic earnings per share from discontinued operations
122.16	101.01	95.29	Equity attributable to shareholders of the parent
9.00	8.00	7.20	Dividend
43.3%	46.9%	44.8%	Pay-out ratio based on Total basic earnings per share
404.30	346.00	314.50	Stock prices (high)
298.30	276.00	233.30	Stock prices (low)
2.2/3.0	2.3/2.9	2.3/3.1	Yield ^(f)
152 576	115 237	119 876	Market capitalisation
250	244	253	Number of personnel (in thousands)

^(d) Operating cash flow less capital expenditure, disposal of tangible assets, purchase and disposal of intangible assets, movements with associates as well as with minority interests.

^(e) As proposed by the Board of Directors of Nestlé S.A..

^(f) Calculated on the basis of the dividend for the year concerned but which is paid in the following year.

Companies of the Nestlé Group

Operating companies

Principal affiliated ^(a) and associated companies which operate in the Food and Beverages business, with the exception of those marked with an asterisk * which are engaged in the pharmaceutical activities and with an ° which are engaged in the health and beauty activities.

^(a) In the context of the SWX Swiss Exchange Directive on Information relating to Corporate Governance, the disclosure criteria are as follows:

- Operating companies are disclosed if their sales exceed CHF 10 million or equivalent;
- Financial companies are disclosed if either their equity exceed CHF 10 million or equivalent and/or the total balance sheet is higher than CHF 50 million or equivalent.

Countries within the continents are listed according to the alphabetical order of the country names.

% capital shareholding corresponds to voting powers unless stated otherwise.

All companies listed below are fully consolidated unless stated otherwise.

1) Affiliated companies for which the method of proportionate consolidation is used.

2) Principal associated companies for which the equity method is used.

△ Companies listed on the stock exchange

◇ Sub-holding, financial and property companies

Companies	City	% capital shareholdings	Currency	Capital
Europe				
Austria				
Alcon Ophthalmika GmbH*	Wien	77.4%	EUR	36 336.42
C.P.A. Cereal Partners Handelsgesellschaft M.B.H. & Co. OHG	¹⁾ Wien	50%	EUR	145 345.64
Nespresso Österreich GmbH & Co. OHG	Wien	100%	EUR	35 000.00
Nestlé Austria Holding GmbH	◇ Wien	100%	EUR	7 270 000.00
Nestlé Österreich GmbH	Wien	100%	EUR	3 000 000.00
Novartis Nutrition GmbH	Wien	100%	EUR	364 000.00
Schöller Lebensmittel GmbH	Wien	100%	EUR	7 231 000.00
Belgium				
Centre de Coordination Nestlé S.A.	◇ Bruxelles	100%	EUR	7 596 391 600.00
Davigel Belgilux S.A.	Bruxelles	100%	EUR	1 487 361.15
N.V. Alcon Coordination Center*	◇ Puurs	77.4%	EUR	415 000 000.00
Nespresso Belgique S.A.	Bruxelles	100%	EUR	550 000.00
Nestlé Belgilux S.A.	Bruxelles	100%	EUR	8 924 200.00
Nestlé Catering Services N.V.	Bruxelles	100%	EUR	10 535 500.00
Nestlé European Information Technology Operations (ITOC) Center S.A.	Bruxelles	100%	EUR	62 000.00
Nestlé Purina PetCare Belgilux SPRL	Bruxelles	100%	EUR	2 961 854.76
Nestlé Waters Benelux S.A.	Etalle	100%	EUR	19 924 000.00
S.A. Alcon-Couvreur N.V.*	Puurs	77.4%	EUR	4 491 830.67
Bosnia and Herzegovina				
Nestlé Ice Cream B&H d.o.o. Bijeljina	Bijeljina	100%	BAM	2 432 357.00
Nestlé Adriatic BH d.o.o.	Sarajevo	100%	BAM	2 000.00

Companies	City	% capital shareholdings	Currency	Capital
Bulgaria				
Alcon Bulgaria EOOD*	Sofia	77.4%	BGN	850 000.00
Nestlé Ice Cream Bulgaria S.A.	Sofia	75.8%	BGN	37 524 118.00
Nestlé Bulgaria A.D.	Sofia	100%	BGN	8 786 941.00
Croatia				
Nestlé Adriatic doo	Zagreb	100%	HRK	14 685 500.00
Czech Republic				
Cereal Partners Czech Republic	1) Praha	50%	CZK	23 100 000.00
Nestlé Cesko s.r.o.	Praha	100%	CZK	1 154 000 000.00
Nestlé Zmrzlina CR, spol. s.r.o.	Praha	100%	CZK	35 209 000.00
Denmark				
Alcon Danmark A/S*	Rodovre	77.4%	DKK	500 000.00
Food Specialities A/S	Esbjerg	100%	DKK	15 000 000.00
Hjem-IS Europa A/S	∅ Esbjerg	100%	DKK	17 235 000.00
Nestlé Danmark A/S	Copenhagen	100%	DKK	42 000 000.00
Nestlé Danmark Holding A/S	∅ Copenhagen	100%	DKK	203 015 000.00
Finland				
Alcon Finland Oy*	Vantaa	77.4%	EUR	84 093.96
Kotijäätelö Oy	Helsinki	100%	EUR	500 000.00
Suomen Nestlé Oy	Helsinki	100%	EUR	3 363 758.53
France				
Cereal Partners France	1) Noisiel	50%	EUR	3 000 000.00
Davigel S.A.S.	Dieppe	100%	EUR	7 681 250.00
Eau Minérale Naturelle de Plancoët «Source Sassay» S.A.S.	Plancoët	100%	EUR	430 028.00
Galderma International SAS°	1) Courbevoie	50%	EUR	931 905.00
Herta S.A.S.	Noisiel	100%	EUR	12 908 610.00
Houdebine S.A.S.	Pontivy	50%	EUR	726 000.00
Δ L'Oréal S.A.°	2) Paris	30%	EUR	127 923 282.00
<i>Listed on the Paris stock exchange, market capitalisation EUR 60.5 billion, quotation code (ISIN) FR0000120321</i>				
Laboratoires Alcon S.A.*	Rueil-Malmaison	77.4%	EUR	12 579 102.00
Laboratoires Innéov SNC°	1) Asnières	50%	EUR	500 000.00
Lactalis Nestlé Produits Frais SAS	2) Laval	40%	EUR	69 208 831.78
Nespresso France S.A.S.	Paris	100%	EUR	1 360 000.00
Nestlé Clinical Nutrition France S.A.S.	Noisiel	100%	EUR	57 943 072.00
Nestlé Entreprises SAS	∅ Noisiel	100%	EUR	739 559 392.00
Nestlé Finance France S.A.	∅ Noisiel	100%	EUR	440 000.00
Nestlé France S.A.S.	Noisiel	100%	EUR	129 130 560.00
Nestlé Grand Froid S.A.	Noisiel	100%	EUR	6 674 000.00
Nestlé HomeCare S.A.S.	Noisiel	100%	EUR	1 077 860.00
Nestlé Purina PetCare France S.A.S.	Rueil-Malmaison	100%	EUR	21 091 872.00
Nestlé Waters Direct France S.A.S.	Rungis	100%	EUR	8 864 000.00
Nestlé Waters France S.A.S.	∅ Issy-les-Moulineaux	100%	EUR	44 856 149.00

Companies	City	% capital shareholdings	Currency	Capital
France (continued)				
Nestlé Waters Marketing & Distribution	Issy-les-Moulineaux	100%	EUR	26 740 940.00
Nestlé Waters SAS	◊ Issy-les-Moulineaux	100%	EUR	154 893 080.00
Nestlé Waters Supply Centre	Issy-les-Moulineaux	100%	EUR	2 577 000.00
Nestlé Waters Supply Est	Issy-les-Moulineaux	100%	EUR	17 539 660.00
Nestlé Waters Supply Sud	Issy-les-Moulineaux	100%	EUR	8 130 105.17
S.A. des Eaux Minérales de Ribeaupillé	Ribeaupillé	100%	EUR	846 595.13
Schöller Glaces et Desserts S.A.S.	Vitry-sur-Seine	100%	EUR	104 400.00
Société de Bouchages Emballages Conditionnement Moderne	²⁾ Lavardac	50%	EUR	10 200 000.00
Société Financière Menier	◊ Noisiel	100%	EUR	53 964 945.00
Société Française des Eaux Régionales	◊ Issy-les-Moulineaux	100%	EUR	1 490 098.00
Société Immobilière de Noisiel	◊ Noisiel	100%	EUR	22 753 550.00
Société Industrielle de Transformation de Produits Agricoles «SITPA» S.A.S.	Dijon	100%	EUR	9 718 000.00
Germany				
Alcon Pharma GmbH*	Freiburg/Breisgau	77.4%	EUR	511 291.88
Alois Dallmayr Kaffee OHG	²⁾ München	25%	EUR	10 250 000.00
C.P.D. Cereal Partners Deutschland GmbH & Co. OHG	¹⁾ Frankfurt am Main	50%	EUR	511 291.88
Distributa Gesellschaft für Lebensmittel-Logistik mbH	Wildau	70%	EUR	515 000.00
Erlenbacher Backwaren GmbH	Gross-Gerau	100%	EUR	2 582 024.00
FUCATUS Vermietungsgesellschaft mbH & Co. Objekt Mainz OHG	Düsseldorf	100%	EUR	71 785.39
Galderma Laboratorium GmbH°	¹⁾ Düsseldorf	50%	EUR	800 000.00
Geti Wilba GmbH & Co. KG	Bremervörde	100%	EUR	6 135 502.57
Gut Adlersreuth Wildspezialitäten GmbH & Co. KG	Oberreute	100%	EUR	511 291.88
Herta GmbH	Herten	100%	EUR	51 129.19
Nespresso Deutschland GmbH	Düsseldorf	100%	EUR	25 000.00
Nestlé Deutschland AG	Frankfurt am Main	100%	EUR	214 266 628.49
Nestlé Purina PetCare Deutschland GmbH	Euskirchen	100%	EUR	30 000.00
Nestlé Schöller GmbH & Co. KG	Nürnberg	100%	EUR	60 000 000.00
Nestlé Schöller Produktions GmbH	Nürnberg	100%	EUR	30 000.00
Nestlé Unternehmungen Deutschland GmbH	◊ Frankfurt am Main	100%	EUR	1 000 000.00
Nestlé Versorgungskasse GmbH	◊ Frankfurt am Main	100%	EUR	60 000.00
Nestlé Waters Deutschland AG	Mainz	100%	EUR	10 566 000.00
Nestlé Waters Direct Deutschland GmbH	Neuss	100%	EUR	31 000.00
Novartis Nutrition GmbH	München	100%	EUR	23 520 000.00
PowerBar Europe GmbH	München	100%	EUR	25 000.00
Schöller Holding GmbH & Co KG	◊ Nürnberg	100%	EUR	167 669 861.39
Trinks GmbH	²⁾ Goslar	49%	EUR	2 360 000.00
Trinks Süd GmbH	²⁾ München	49%	EUR	260 000.00
Wagner Tiefkühlprodukte GmbH	Nonnweiler	49%	EUR	511 291.88
<i>Nestlé acquired control, further financial investments subject to regulatory review.</i>				
Δ WaveLight AG*	Erlangen	59.9%	EUR	6 577 026.00
<i>Listed on the Xetra stock exchange, market capitalisation EUR 0.1 billion, quotation code (ISIN) DE0005125603</i>				
WCO Kinderkost GmbH Conow	Conow	100%	EUR	26 000.00

Companies	City	% capital shareholdings	Currency	Capital
Greece				
Alcon Laboratories Hellas Commercial and Industrial S.A.*	Maroussi	77.4%	EUR	1 657 189.05
C.P. Hellas E.E.I.G.	¹⁾ Maroussi	50%	EUR	146 735.14
Nestlé Hellas Ice Cream S.A.	Tavros-Attica	100%	EUR	12 655 458.00
Nestlé Hellas S.A.	Maroussi	100%	EUR	18 656 726.00
Hungary				
Alcon Hungary Pharmaceuticals Trading LLC*	Budapest	77.4%	HUF	75 000 000.00
Cereal Partners Hungária Kft.	¹⁾ Budapest	50%	HUF	22 000 000.00
Kékkúti Ásványvíz Rt.	Budapest	100%	HUF	238 326 000.00
Nestlé Hungária Kft.	Budapest	100%	HUF	6 000 000 000.00
Nestlé Ice Cream Hungária Kft.	Törökbálint	100%	HUF	3 762 470 000.00
Italy				
Acqua Claudia S.r.l.	Milano	99.6%	EUR	7 910 000.00
Alcon Italia S.p.A.*	Milano	77.4%	EUR	1 300 000.00
Fastlog S.p.A.	Milano	99.6%	EUR	154 935.00
Galderma Italia S.p.A.°	¹⁾ Milano	50%	EUR	112 000.00
Koiné S.p.A.	Madone (Bergamo)	50.9%	EUR	258 230.00
Nespresso Italiana S.p.A.	Milano	100%	EUR	250 000.00
Nestlé Italiana S.p.A.	Milano	100%	EUR	25 582 492.00
Nestlé Purina PetCare Italia S.p.A.	Milano	100%	EUR	10 000 000.00
Nestlé Vera s.r.l.	Castroville di Sicilia, Palermo	99.6%	EUR	5 000 000.00
Novartis Medical Nutrition s.r.l.	Varese	100%	EUR	2 000 000.00
Sanpellegrino S.p.A.	Milano	99.6%	EUR	58 742 145.00
Kazakhstan				
Nestlé Food Kazakhstan LLP	Almaty	100%	KZT	91 900.00
Lithuania				
UAB "Nestlé Baltics"	Vilnius	100%	LTL	110 000.00
Luxemburg				
Balkan Ice Cream Holding S.A.	∅ Luxemburg	100%	EUR	52 425 000.00
Compagnie Financière du Haut-Rhin	∅ Luxemburg	100%	EUR	105 200 000.00
Nestlé Waters Powwow European Investments Sàrl	∅ Luxemburg	100%	EUR	12 525.00
NTC-Europe S.A.	∅ Luxemburg	100%	EUR	3 565 000.00
Macedonia				
Nestlé Ice Cream A.D. Skopje	Skopje	100%	MKD	100 301 200.00
Nestlé Adriatik Makedonija d.o.o.e.l.	Skopje-Karpos	100%	MKD	306 700.00
Malta				
Nestlé Malta Ltd	Lija	100%	MTL	50 000.00

Companies	City	% capital shareholdings	Currency	Capital
Netherlands				
Alcon Nederland B.V.*	Gorinchem	77.4%	EUR	18 151.21
East Springs International N.V.	◊ Amsterdam	100%	EUR	25 370 000.00
Maître Paul B.V.	Tilburg	100%	EUR	4 991 582.38
Nespresso Nederland B.V.	Amsterdam	100%	EUR	680 670.32
Nestlé Nederland B.V.	Amsterdam	100%	EUR	68 067 032.41
Nestlé Purina PetCare Nederland B.V.	Zwijndrecht	100%	EUR	18 152.00
Nestlé Waters Direct Netherlands B.V.	Zoetermeer	100%	EUR	1 606 430.00
Norway				
A/S Nestlé Norge	Sandvika	100%	NOK	81 250 000.00
Alcon Norge AS*	Sandvika	77.4%	NOK	100 000.00
Hjem-IS A/S	Oslo	100%	NOK	2 250 000.00
Poland				
Alcon Polska Sp. z o.o.*	Warszawa	77.4%	PLN	750 000.00
Cereal Partners Poland Torun-Pacific Sp. z o.o.	¹⁾ Torun	50%	PLN	14 572 838.00
Nestlé Polska S.A.	Warszawa	100%	PLN	50 000 000.00
Nestlé Waters Polska S.A.	Warszawa	100%	PLN	46 100 000.00
Z.L. Uzdrawisko Naleczów S.A.	Naleczów	99.9%	PLN	10 634 160.00
Alima-Gerber S.A.	Warszawa	100%	PLN	57 075 370.00
Portugal				
Alcon Portugal-Produtos e Equipamentos Oftalmologicos, Ltda.*	Paço d'Arcos	77.4%	EUR	4 500 000.00
Cereal Associados Portugal A.E.I.E.	¹⁾ Oeiras	50%	EUR	99 759.58
Nestlé Portugal S.A.	Linda-a-Velha	100%	EUR	30 000 000.00
Nestlé Waters Direct Portugal - Comércio e Distribuicao de Produtos Alimentares S.A.	S. João da Talha	100%	EUR	1 000 000.00
Nestlé Waters Portugal S.A.	Porto Salvo	100%	EUR	3 500 000.00
Prolacto-Lacticinios de Sao Miguel S.A.	Ponta Delgada	100%	EUR	700 000.00
Republic of Ireland				
Nestlé (Ireland) Ltd	Dublin	100%	EUR	3 530 600.00
Romania				
Alcon Romania SRL*	Bucharest	77.4%	RON	3 291 000.00
Nestlé Ice Cream Romania S.R.L.	Climceni	100%	RON	49 547 943.00
Nestlé Romania SRL	Bucharest	100%	RON	30 783 700.00
Russia				
Alcon Farmaceutika LLC*	Moscow	77.4%	RUB	44 055 000.00
Aqua Star LLC	Kostroma	100%	RUB	100 583 571.12
Cereal Partners Trading, LLC	¹⁾ Moscow	50%	RUB	5 000 000.00
Cereals Partners LLC	¹⁾ Perm	50%	RUB	15 420 000.00
Nestlé Food LLC	Moscow	100%	RUB	1 538 507 372.00
Nestlé Kuban, LLC	Timashevsk	100%	RUB	48 675.00
Nestle Rossiya	Moscow	100%	RUB	668 380 775.77

Companies	City	% capital shareholdings	Currency	Capital
Russia (continued)				
Nestlé Watercoolers Service	Moscow	100%	RUB	20 372 925.50
OJSC "Confectionery Union Rossiya"	Samara	100%	RUB	49 350 000.00
OJSC Confectionery Firm "Altai"	Barnaul	100%	RUB	167 000.00
Schöller Eiscrem GmbH	Moscow	100%	RUB	750 217.00
Serbia				
Nestlé Ice Cream Srbija A.D. Beograd	Belgrade	99.1%	RSD	2 097 324 193.00
Nestlé Adriatic Foods doo	Belgrade	100%	RSD	52 022 596.00
Slovakia				
Nestlé Slovensko s.r.o.	Bratislava	100%	SKK	400 000 000.00
Spain				
Alcon Cusi S.A.*	El Masnou (Barcelona)	77.4%	EUR	11 599 783.00
Aquarel Iberica S.A.	Barcelona	100%	EUR	300 506.05
Cereal Partners España A.E.I.E.	¹⁾ Esplugues de Llobregat (Barcelona)	50%	EUR	120 212.42
Davigel España S.A.	Sant Just Desvern (Barcelona)	100%	EUR	984 000.00
Helados y Postres S.A.	Vitoria	100%	EUR	140 563 200.00
Innéov España S.A.°	¹⁾ Madrid	50%	EUR	120 000.00
Laboratorios Galderma S.A.°	¹⁾ Madrid	50%	EUR	432 480.00
Nestlé España S.A.	Esplugues de Llobregat (Barcelona)	100%	EUR	100 000 000.00
Nestlé Healthcare Nutrition, S.A.	Esplugues de Llobregat (Barcelona)	100%	EUR	300 000.00
Nestlé PetCare España S.A.	Castellbisbal (Barcelona)	100%	EUR	12 000 000.00
Nestlé Waters España S.A.	Barcelona	100%	EUR	11 000 000.00
Productos del Café S.A.	Reus (Tarragona)	100%	EUR	6 600 000.00
Sweden				
Alcon Sverige AB*	Bromma	77.4%	SEK	100 000.00
Galderma Nordic AB°	¹⁾ Bromma	50%	SEK	63 400 000.00
Hemglass AB	Strängnäs	100%	SEK	14 000 000.00
Jede AB	Mariestad	100%	SEK	7 000 000.00
Nestlé Sverige AB	Helsingborg	100%	SEK	20 000 000.00
Novartis Medical Nutrition (Sweden) AB	Tåby	100%	SEK	100 000.00
Svenska Glasskiosken AB	Kristiansstad	100%	SEK	3 000 000.00
Switzerland				
Alcon Credit Corporation*	◇ Hünenberg	77.4%	CHF	1 000 000.00
Δ Alcon Inc.*	◇ Hünenberg	77.4%	CHF	63 468 796.40
<i>Listed on the New York stock exchange, market capitalisation USD 42.6 billion, quotation code (ISIN) CH0013826497</i>				
Alcon Pharmaceuticals Ltd*	Hünenberg	77.4%	CHF	100 000.00
Belté Schweiz AG	Urdorf	99.6%	CHF	3 100 000.00
Beverage Partners Worldwide (Europe) AG	¹⁾ Urdorf	50%	CHF	2 000 000.00
Beverage Partners Worldwide S.A.	¹⁾ ◇ Urdorf	50%	CHF	14 000 000.00
CP Suisse	¹⁾ Vevey	50%	CHF	0.00
CPW Operations Sàrl	¹⁾ Prilly	50%	CHF	20 000.00
Entreprises Maggi S.A.	◇ Cham	100%	CHF	100 000.00

Companies	City	% capital shareholdings	Currency	Capital
Switzerland (continued)				
Galderma Pharma S.A.°	1) † Lausanne	50%	CHF	48 900 000.00
Galderma S.A.°	1) Cham	50%	CHF	100 000.00
Life Ventures S.A.	† La Tour-de-Peilz	100%	CHF	30 000 000.00
Nestlé Business Services S.A.	† Bussigny-près-Lausanne	100%	CHF	100 000.00
Nestlé Finance S.A.	† Cham	100%	CHF	30 000 000.00
Nestlé International Travel Retail S.A.	Châtel-St-Denis	100%	CHF	3 514 000.00
Nestlé Nespresso S.A.	Paudex	100%	CHF	2 000 000.00
Nestlé Suisse S.A.	Vevey	100%	CHF	250 000.00
Nestlé Waters (Suisse) S.A.	Gland	100%	CHF	1 200 000.00
Nestrade - Nestlé World Trade Corporation	La Tour-de-Peilz	100%	CHF	6 500 000.00
NTC-Latin America S.A.	† Cham	100%	CHF	500 000.00
Nutrition-Wellness Venture AG	† Zürich	100%	CHF	100 000.00
Rive-Reine S.A.	† La Tour-de-Peilz	100%	CHF	2 000 000.00
S.I. En Bergère Vevey S.A.	† Vevey	100%	CHF	19 500 000.00
Société des Produits Nestlé S.A.	Vevey	100%	CHF	54 750 000.00
Sofinol S.A.	Manno	100%	CHF	3 000 000.00
Sources Minérales Henniez S.A.	Henniez	99.6%	CHF	5 000 000.00
Turkey				
Alcon Laboratuvarlari Ticaret A.S.*	Istanbul	77.4%	TRY	25 169 000.00
Cereal Partners Gıda Ticaret Limited Sirketi	1) Istanbul	50%	TRY	20 000.00
Erikli Dagitim ve Pazarlama A.S.	Istanbul	60%	TRY	3 849 975.00
Erikli Su Ve Mesrubat Sanayi Ticaret A.S.	Istanbul	60%	TRY	1 000.00
Nestlé Türkiye Gıda Sanayi A.S.	Istanbul	99.9%	TRY	35 000 000.00
Nestlé Waters Gıda Ve Mesrubat Sanayi Ticaret A.S.	Istanbul	95%	TRY	8 000 000.00
Ukraine				
JSC "Lviv Confectionery Firm Svitoch"	Lviv	96.9%	UAH	88 111 060.00
LLC Nestlé Ukraine	Kyiv	100%	USD	150 000.00
OJSC Volynholding	Torchyn	100%	UAH	100 000.00
United Kingdom				
Alcon Laboratories (UK) Ltd*	Hemel Hempstead	77.4%	GBP	3 100 000.00
Buxton Mineral Water Ltd	Rickmansworth	100%	GBP	14 000 000.00
Cereal Partners U.K.	1) Welwyn Garden	50%	GBP	0.00
Galderma (U.K.) Ltd°	1) Watford	50%	GBP	1 500 000.00
Nespresso UK Ltd	Croydon	100%	GBP	275 000.00
Nestec York Ltd	York	100%	GBP	500 000.00
Nestlé Holdings (U.K.) PLC	† Croydon	100%	GBP	77 940 000.00
Nestlé Purina Investments (U.K.) Ltd	† New Malden	100%	GBP	2.00
Nestlé Purina PetCare (UK) Ltd	New Malden	100%	GBP	24 000 000.00
Nestlé UK Ltd	Croydon	100%	GBP	130 000 000.00
Nestlé Watercoolers UK Ltd	Rickmansworth	100%	GBP	3 000 000.00

Companies	City	% capital shareholdings	Currency	Capital
United Kingdom (continued)				
Nestlé Waters Powwow (U.K.) Holdings Ltd	◊ Croydon	100%	GBP	6 500 002.00
Nestlé Waters Powwow Ltd	Croydon	100%	GBP	640.00
Nestlé Waters UK Ltd	Rickmansworth	100%	GBP	14 000 000.00
Raw Products Ltd	Croydon	100%	GBP	200 000.00
Schöller Ice-Cream Ltd	Guildford	100%	GBP	1 584 626.00
Uzbekistan				
Nestlé Uzbekistan MChJ	Namangan	98%	USD	32 200 000.00

Companies	City	% capital shareholdings	Currency	Capital
Africa				
Angola				
Nestlé Angola Lda	Luanda	100%	USD	300 000.00
Cameroon				
Nestlé Cameroun	Douala	100%	XAF	650 000 000.00
Egypt				
Nestlé Egypt S.A.E.	Cairo	100%	EGP	80 722 000.00
Nestlé Waters Egypt S.A.E.	Cairo	99.7%	EGP	61 250 000.00
Nestlé Waters Distribution S.A.E.	Cairo	51%	EGP	15 200 000.00
Gabon				
Nestlé Gabon	Libreville	90%	XAF	344 000 000.00
Ghana				
Nestlé Central & West Africa Ltd	Accra	100%	USD	50 000.00
Nestlé Ghana Ltd	Accra	76%	GHS	100 000.00
Guinea				
Nestlé Guinée S.A.	Conakry	99%	GNF	3 424 000 000.00
Côte d'Ivoire				
Δ Nestlé Côte d'Ivoire	Abidjan	86.5%	XOF	5 517 600 000.00
<i>Listed on the Abidjan stock exchange, market capitalisation XOF 73.3 billion, quotation code (ISIN) CI0009240728</i>				
Kenya				
Nestlé Foods Kenya Ltd	Nairobi	100%	KES	37 145 000.00
Mauritius				
Nestlé's Products (Mauritius) Ltd	Port Louis	100%	BSD	71 500.00
Nestlé South East Africa Trading Ltd	Port Louis	100%	USD	100.00
Morocco				
Nestlé Maroc S.A.	El Jadida	94.5%	MAD	156 933 000.00
Mozambique				
Nestlé Mozambique Limitada	Maputo	100%	MZM	4 000 000.00
Niger				
Nestlé Niger	Niamey	75%	XOF	50 000 000.00
Nigeria				
Δ Nestlé Nigeria PLC	Ilupeju-Lagos	62.3%	NGN	264 093 750.00
<i>Listed on the Lagos stock exchange, market capitalisation NGN 182.8 billion, quotation code (ISIN) NG00000NSTL3</i>				
Senegal				
Nestlé Sénégal	Dakar	100%	XOF	1 620 000 000.00

Companies	City	% capital shareholdings	Currency	Capital
South Africa				
Alcon Laboratories (South Africa) (Pty) Ltd*	Randburg	77.4%	ZAR	201 820.00
Nestlé (South Africa) (Pty) Ltd	Randburg	100%	ZAR	51 200 000.00
Nestlé Purina PetCare (South Africa) (Pty) Ltd	Randburg	100%	ZAR	1 000.00
Nestlé Waters (South Africa) (Pty) Ltd	Randburg	100%	ZAR	1 000.00
Tunisia				
Nestlé Tunisie	Tunis	59.2%	TND	8 438 280.00
Zimbabwe				
Nestlé Zimbabwe (Pvt) Ltd	Harare	100%	ZWD	7 000 000.00

Companies	City	% capital shareholdings	Currency	Capital
Americas				
Argentina				
Alcon Laboratorios Argentina S.A.*	Buenos Aires	77.4%	ARS	7 176 282.00
Dairy Partners Americas Argentina S.A.	¹⁾ Buenos Aires	50%	ARS	98 800.00
Dairy Partners Americas Manufacturing Argentina S.A.	¹⁾ Buenos Aires	50%	ARS	150 000.00
Eco de Los Andes S.A.	Buenos Aires	50.9%	ARS	45 400 285.00
Nestlé Argentina S.A.	Buenos Aires	100%	ARS	9 000 000.00
Union Sancor C.U.L./DPAA Union Transitoria de Empresas	²⁾ Buenos Aires	25%	ARS	1 000 000.00
Barbados				
Lacven Corporation	¹⁾ ◊ Barbados	50%	USD	65 179 195.00
Bermuda				
Centram Holdings Ltd	◊ Hamilton	100%	USD	12 000.00
DPA Manufacturing Holding Ltda	¹⁾ ◊ Hamilton	50%	USD	23 639 630.00
Trinity River Insurance Co. Ltd*	◊ Hamilton	77.4%	USD	120 000.00
Trinity River International Investments (Bermuda) Ltd*	◊ Hamilton	77.4%	USD	12 000.00
Bolivia				
Nestlé Bolivia S.A.	La Paz	100%	BOB	191 900.00
Brazil				
Alcon Laboratorios do Brasil Ltda.*	São Paulo	77.4%	BRL	7 729 167.00
Chocolates Garoto S.A.	Vila Velha-ES	100%	BRL	160 620 000.00
CPW Brasil Ltda.	¹⁾ Cacapava/São Paulo	50%	BRL	7 885 520.00
Dairy Partners Americas Brazil Ltda.	¹⁾ São Paulo	50%	BRL	27 606 368.00
Dairy Partners Americas Manufacturing Brazil Ltda.	¹⁾ São Paulo	50%	BRL	39 468 974.00
Galderma Brasil Limitada ^o	¹⁾ São Paulo	50%	BRL	19 741 602.00
Gerber Brasil Indústria e Comércio de Produtos Infantis Ltda	Rio de Janeiro	100%	BRL	20 000.00
Nestec BDG Alimentos e Bebidas Ltda	São Paulo	100%	BRL	1 000.00
Nestlé Brasil Ltda.	São Paulo	100%	BRL	468 208 970.00
Nestlé Nordeste Alimentos e Bebidas Ltda.	Feira de Santana	100%	BRL	12 713 641.00
Nestlé Waters Brasil - Bebidas e Alimentos Ltda.	Rio de Janeiro	100%	BRL	87 248 341.00
Novartis Ind. E Com Prod. Nutr e Hosp. Ltda	São Paulo	100%	BRL	23 051 092.00
Ralston Purina do Brasil Ltda.	Ribeirão Preto	77%	BRL	79 473 771.00
Socopal Soc Coml de Corretagem de Seguros e Part. Ltda	São Paulo	100%	BRL	2 155 600.00
Canada				
Alcon Canada, Inc.*	Mississauga (Ontario)	77.4%	CAD	5 002 500.00
Galderma Canada Inc. ^o	¹⁾ Thornhill (Ontario)	50%	CAD	100.00
Galderma Production Canada Inc. ^o	¹⁾ Baie D'Urfé (Québec)	50%	CAD	100.00
Nestlé Canada, Inc.	Toronto (Ontario)	100%	CAD	29 478 000.00

Companies	City	% capital shareholdings	Currency	Capital
Canada (continued)				
Nestlé Capital Canada Ltd	∅ Toronto (Ontario)	100%	CAD	1 010.00
Nestlé Globe, Inc.	Toronto (Ontario)	100%	CAD	106 000 100.00
Novartis Nutrition Canada Inc.	Toronto (Ontario)	100%	CAD	5 000 000.00
Ontario Inc.	∅ Toronto (Ontario)	100%	CAD	50 000.00
Chile				
Alcon Laboratorios Chile Ltda. *	Santiago de Chile	77.4%	CLP	9 750 000.00
Cereales CPW Chile Ltda	¹⁾ Santiago de Chile	50%	CLP	3 026 156 114.00
Nestlé Chile S.A.	Santiago de Chile	99.5%	CLP	11 832 926 051.00
Colombia				
Comestibles La Rosa S.A.	Bogotá	100%	COP	126 397 400.00
Dairy Partners Americas Manufacturing Colombia Ltda.	¹⁾ Bogotá	50%	COP	200 000 000.00
Distribuciones Lunes S.A.	Bogotá	100%	COP	6 000 000.00
Laboratorios Alcon de Colombia, S.A. *	Bogotá	77.4%	COP	20 872 000.00
Nestlé de Colombia S.A.	Bogotá	100%	COP	1 291 305 400.00
Nestlé Purina PetCare de Colombia S.A.	Bogotá	100%	COP	17 030 000 000.00
Costa Rica				
Compañía Nestlé Costa Rica S.A.	Barreal de Heredia	100%	CRC	18 000 000.00
Gerber Ingredients, Sociedad Anónima	San José	100%	CRC	10 000.00
Novartis Consumer Health, Sociedad Anónima	San José	100%	CRC	18 682 500.00
Cuba				
Coralac S.A.	La Habana	60%	USD	6 350 000.00
Los Portales S.A.	La Habana	50%	USD	24 110 000.00
Dominican Republic				
Nestlé Dominicana S.A.	Santo Domingo	97.6%	DOP	48 500 000.00
Ecuador				
Dairy Partners Americas Del Ecuador S.A.	¹⁾ Quito	50%	USD	90 000.00
Ecuajugos S.A.	¹⁾ Quito	50%	USD	122 000.00
Industrial Surindu S.A.	Quito	100%	USD	3 900 994.00
Latinova S.A.	¹⁾ Quito	50%	USD	10 000.00
Neslandina S.A.	∅ Quito	100%	USD	17 043 150.00
Nestlé Ecuador S.A.	Quito	100%	USD	188 497.00
Guatemala				
Nestlé Guatemala S.A.	Mixco	100%	GTQ	23 460 600.00
NZMP Guatemala S.A.	Mixco	100%	GTQ	1 968 800.00
Honduras				
Nestlé Hondureña S.A.	Tegucigalpa	100%	USD	200 000.00

Companies	City	% capital shareholdings	Currency	Capital
Jamaica				
Nestlé Jamaica Ltd	Kingston	100%	JMD	49 200 000.00
Mexico				
Alcon Laboratorios, S.A. de C.V.*	México, D.F.	77.4%	MXN	5 915 300.00
Cereal Partners México, S.A. de C.V.	¹⁾ México, D.F.	50%	MXN	500 000.00
CPW México S. de R.L. de C.V.	¹⁾ México, D.F.	50%	MXN	22 138 000.00
Fundación Purina, S.C.	∅ México, D.F.	50%	MXN	0.00
Galderma México S.A. de C.V.°	¹⁾ México, D.F.	50%	MXN	2 385 000.00
Gerber Holdings de México, S.A. de C.V.	México, D.F.	100%	MXN	830 604 000.00
Manantiales La Asunción S.A.P.I. de C.V.	México, D.F.	51%	MXN	377 827 492.00
Marcas Nestlé, S.A. de C.V.	México, D.F.	100%	MXN	500 050 000.00
Nescalín, S.A. de C.V.	∅ México, D.F.	100%	MXN	445 826 740.00
Nestlé Distribución, S.A. de C.V.	México, D.F.	100%	MXN	130 050 000.00
Nestlé México S.A. de C.V.	México, D.F.	100%	MXN	606 532 730.00
Nestlé Servicios, S.A. de C.V.	México, D.F.	100%	MXN	40 050 000.00
Ralston Purina Holdings México, S.A. de C.V.	∅ México, D.F.	100%	MXN	60 283 210.00
Ralston Purina México S.A. de C.V.	México, D.F.	100%	MXN	9 257 111.80
Waters Partners Services México, S.A.P.I. de C.V.	México, D.F.	51%	MXN	600 000.00
Nicaragua				
Compãnia Centroamericana de Productos Lácteos, S.A.	Matagalpa	92%	NIO	10 294 900.00
Nestlé Nicaragua, S.A.	Managua	100%	USD	150 000.00
Panama				
Alcon Centroamerica, S.A.*	Panamá City	77.4%	USD	1 000.00
Food Products (Holdings) S.A.	∅ Panamá City	100%	PAB	286 000.00
Lacteos de Centroamérica, S.A.	Panamá City	100%	USD	1 500 000.00
Nestlé Caribbean Inc.	Panamá City	100%	PAB	100 000.00
Nestlé Panamá S.A.	Panamá City	100%	USD	17 500 000.00
Nestlé Products (Thailand) Inc.	Panamá City	100%	PAB	1 000 000.00
Unilac, Inc.	∅ Panamá City	100%	USD	750 000.00
Paraguay				
Nestlé Paraguay S.A.	Asunción	100%	PYG	100 000 000.00
Peru				
Alcon Pharmaceutical del Perú, S.A.*	Lima	77.4%	PEN	3 261 565.00
Nestlé Perú S.A.	Lima	97.9%	PEN	88 535 000.00
Puerto Rico				
Alcon (Puerto Rico), Inc.*	San Juan	77.4%	USD	100.00
Gerber Products Company of Puerto Rico, Inc.	Carolina	100%	USD	100 000.00
Nestlé Puerto Rico, Inc.	Catano	100%	USD	4 600 000.00
Payco Foods Corporation	Bayamon	100%	USD	9 260 000.00
Salvador				
Nestlé El Salvador S.A. de C.V.	San Salvador	100%	SVC	39 000 000.00

Companies	City	% capital shareholdings	Currency	Capital
Trinidad and Tobago				
Nestlé Caribbean, Inc.	Valsayn	100%	USD	100 000.00
Nestlé Trinidad and Tobago Ltd	Valsayn	100%	TTD	35 540 000.00
United States				
Alcon Capital Corporation*	◇ Fort Worth (Texas)	77.4%	USD	1 000.00
Alcon Holdings, Inc.*	◇ Fort Worth (Texas)	77.4%	USD	10.00
Alcon Laboratories, Inc.*	Fort Worth (Texas)	77.4%	USD	1 000.00
Alcon RefractiveHorizons, LLC*	◇ Fort Worth (Texas)	77.4%	USD	10.00
Beverage Partners Worldwide (North America)	¹⁾ Wilmington (Delaware)	50%	USD	0.00
Checkerboard Holding Company, Inc.	◇ Wilmington (Delaware)	100%	USD	1 001.00
Dreyer's Grand Ice Cream Holdings, Inc.	Oakland (California)	100%	USD	10.00
Dreyer's Grand Ice Cream, Inc.	Oakland (California)	100%	USD	1.00
Edy's Grand Ice Cream	Oakland (California)	100%	USD	0.00
Falcon Pharmaceuticals, Ltd*	Wilmington (Delaware)	77.4%	USD	10.00
Galderma Laboratories, Inc. ^o	¹⁾ Fort Worth (Texas)	50%	USD	981.00
Gerber Life Insurance Company	New York	100%	USD	148 500 000.00
Gerber Products Company	Freemont (Michigan)	100%	USD	0.00
Jenny Craig Holdings, Inc.	◇ Carlsbad (California)	100%	USD	3 000.00
Jenny Craig, Inc.	◇ Carlsbad (California)	100%	USD	3 000.00
Jenny Craig Operations, Inc.	Carlsbad (California)	100%	USD	0.00
Jenny Craig Weight Loss Centres, Inc.	◇ Carlsbad (California)	100%	USD	100.00
Nespresso USA, Inc.	Wilmington (Delaware)	100%	USD	1 000.00
Nestlé Capital Corporation	◇ Glendale (California)	100%	USD	1 000 000.00
Nestlé Holdings, Inc.	◇ Norwalk (Connecticut)	100%	USD	100 000.00
Nestlé NPR, Inc.	◇ Solon (Ohio)	100%	USD	50 000.00
Nestlé Prepared Foods Company	Solon (Ohio)	100%	USD	476 760.00
Nestlé Purina PetCare Company	St. Louis (Missouri)	100%	USD	1 000.00
Nestlé Transportation Company	◇ Glendale (California)	100%	USD	100.00
Nestlé USA, Inc.	Glendale (California)	100%	USD	1 000.00
Nestlé Waters North America Holdings, Inc.	◇ Greenwich (Connecticut)	100%	USD	0.00
Nestlé Waters North America, Inc.	Wilmington (Delaware)	100%	USD	0.00
NICC Holdings, Inc.	◇ Norwalk (Connecticut)	100%	USD	10.00
Novartis Nutrition Corporation	Wilmington (Delaware)	100%	USD	50 000.00
The Haagen-Dazs Shoppe Company, Inc.	◇ Minneapolis (Minnesota)	100%	USD	0.00
The Stouffer Corporation	◇ Solon (Ohio)	100%	USD	0.00
TSC Holdings, Inc.	◇ Glendale (California)	100%	USD	100 000.00
Uruguay				
Nestlé del Uruguay S.A.	Montevideo	100%	UYP	200 000.00
Venezuela				
Alcon Pharmaceutical C.A.*	Caracas	77.4%	VEB	2 366 000.00
Cadipro Milk Products, C.A.	Caracas	100%	VEB	9 505 123 000.00
Corporación Inlaca, C.A.	¹⁾ Caracas	50%	VEB	6 584 590 000.00
Nestlé Venezuela S.A.	Caracas	100%	VEB	516 590 000.00
Novartis Nutrition de Venezuela S.A.	Caracas	100%	VEB	1 125 024.00

Companies	City	% capital shareholdings	Currency	Capital
Asia				
Bangladesh				
Nestlé Bangladesh Ltd	Dhaka	100%	BDT	100 000 000.00
Greater China Region				
Alcon Hong Kong Limited*	Hong Kong	77.4%	HKD	77 000.00
Alcon Medical Device (Shanghai) Co., Ltd.*	Shanghai	77.4%	USD	200 000.00
Alcon Pharmaceuticals Limited*	Taipei	77.4%	CHF	100 000.00
Beverage Partners Worldwide (Pacific) Limited	¹⁾ Hong Kong	50%	HKD	1 000 000.00
Guangzhou Refrigerated Foods Limited	Guangzhou	96.4%	CNY	122 000 000.00
Nestlé (China) Limited	Beijing	100%	CNY	250 000 000.00
Nestlé Dairy Farm Guangzhou Limited	Guangzhou	95%	CNY	268 000 000.00
Nestlé Dongguan Limited	Dongguan	100%	CNY	472 000 000.00
Nestlé Hong Kong Limited	Hong Kong	100%	HKD	250 000 000.00
Nestlé Hulunbeir Limited	Erguna	100%	CNY	55 000 000.00
Nestlé Purina PetCare Shanghai Limited	Shanghai	100%	CNY	2 000 000.00
Nestlé Purina PetCare Tianjin Limited	Tianjin	100%	CNY	40 000 000.00
Nestlé Qingdao Limited	Qingdao	100%	CNY	640 000 000.00
Nestlé Shanghai Limited	Shanghai	95%	CNY	200 000 000.00
Nestlé Shuangcheng Limited	Shuangcheng	97%	CNY	435 000 000.00
Nestlé Sources Shanghai Limited	Shanghai	100%	CNY	211 000 000.00
Nestlé Sources Tianjin Limited	Tianjin	93.6%	CNY	159 000 000.00
Nestlé Taiwan Limited	Taipei	100%	TWD	300 000 000.00
Nestlé Tianjin Limited	Tianjin	100%	CNY	785 000 000.00
Shanghai Fuller Foods Co. Limited	Shanghai	100%	CNY	384 000 000.00
Shanghai Nestlé Product Services Limited	Shanghai	97%	CNY	83 000 000.00
Shanghai Totole Food Limited	Shanghai	80%	USD	7 800 000.00
Sichuan Haoji Food Co. Limited	Chengdu	60%	CNY	80 000 000.00
India				
Alcon Laboratories (India) Private Limited*	Bangalore	77.4%	INR	29 953 380.00
Δ Nestlé India Ltd	New Delhi	61.9%	INR	964 157 160.00
<i>Listed on the Mumbai stock exchange, market capitalisation INR 144.6 billion, quotation code (ISIN) INE239A01016</i>				
Speciality Foods India Pvt Ltd (SFPII)	New Delhi	100%	INR	140 000 000.00
Indonesia				
Δ P.T. AdeS Waters Indonesia	¹⁾ Jakarta	34%	IDR	149 720 000 000.00
<i>Listed on the Jakarta stock exchange, market capitalisation IDR 430.6 billion, quotation code (ISIN) ID1000067606</i>				
P.T. Cereal Partners Indonesia	¹⁾ Jakarta	50%	IDR	956 500 000.00
P.T. Nestlé Indofood Citarasa Indonesia	¹⁾ Jakarta	50%	IDR	50 000 000 000.00
P.T. Nestlé Indonesia	Jakarta	90.2%	IDR	60 000 000 000.00
Iran				
Nestlé Iran Private Joint Stock Company	Tehran	88.1%	IRR	358 538 000 000.00
Israel				
Δ OSEM Investments Ltd	Petach-Tikva	53.8%	ILS	110 644 444.00
<i>Listed on the Tel-Aviv stock exchange, market capitalisation ILS 5.2 billion, quotation code (ISIN) IL0003040149</i>				

Companies	City	% capital shareholdings	Currency	Capital
Japan				
Alcon Japan Ltd*	Tokyo	77.4%	JPY	500 000 000.00
Nestlé Confectionery K.K.	Kobe	100%	JPY	10 000 000.00
Nestlé Japan Ltd	Ibaragi	100%	JPY	20 000 000 000.00
Nestlé Japan Manufacturing Ltd	Kobe	100%	JPY	10 000 000.00
Nestlé Purina PetCare Ltd.	Kobe	100%	JPY	20 000 000.00
Novartis Nutrition K.K.	Tokyo	100%	JPY	100 000 000.00
Jordan				
Ghadeer Mineral Water Co. Ltd	Amman	75%	JOD	1 785 000.00
Nestlé Jordan Trading Co. Ltd	Amman	87%	JOD	410 000.00
Kingdom of Bahrain				
Nestlé Bahrain Trading WLL	Manama	49%	BHD	200 000.00
Kuwait				
Nestlé Kuwait General Trading Co. W.L.L.	Safat/Kuwait	49%	KWD	300 000.00
Lebanon				
Société des Eaux Minérales Libanaises S.A.L.	Hazmieh	100%	LBP	1 610 000 000.00
Société pour l'Exportation des Produits Nestlé S.A.	Beyrouth	100%	CHF	1 750 000.00
SOHAT Distribution S.A.L.	Hazmieh	100%	LBP	160 000 000.00
Malaysia				
Alcon Laboratories (Malaysia) Sdn. Bhd.*	Petaling Jaya	77.4%	MYR	190 000.00
Cereal Partners (Malaysia) Sdn. Bhd.	¹⁾ Petaling Jaya	50%	MYR	1 025 000.00
Δ Nestlé (Malaysia) Bhd.	Petaling Jaya	72.6%	MYR	234 500 000.00
<i>Listed on the Kuala Lumpur stock exchange, market capitalisation MYR 6.2 billion, quotation code (ISIN) MYL470700005</i>				
Nestlé Asean (Malaysia) Sdn. Bhd.	Petaling Jaya	72.6%	MYR	42 000 000.00
Nestlé Manufacturing (Malaysia) Sdn. Bhd.	Petaling Jaya	72.6%	MYR	32 500 000.00
Nestlé Products Sdn. Bhd.	Petaling Jaya	72.6%	MYR	25 000 000.00
Purina PetCare (Malaysia) Sdn. Bhd.	Petaling Jaya	100%	MYR	1 100 000.00
Oman				
Nestlé Oman Trading LLC	Muscat	49%	OMR	300 000.00
Pakistan				
Δ Nestlé Pakistan Ltd	Lahore	59%	PKR	452 731 000.00
<i>Listed on the Karachi and Lahore stock exchange, market capitalisation PKR 81.6 billion, quotation code (ISIN) PK0025101012</i>				
Philippines				
Alcon Laboratories (Philippines), Inc.*	Manila	77.4%	PHP	16 526 000.00
Beverage Partners Worldwide (Philippines) Inc.	¹⁾ Makati City	50%	PHP	10 224 600.00
CPW Philippines, Inc.	¹⁾ Makati City	50%	PHP	7 500 000.00
Nestlé Philippines, Inc.	Makati City	100%	PHP	2 300 927 200.00
Penpro, Inc.	Makati City	40%	PHP	630 000 000.00

Companies	City	% capital shareholdings	Currency	Capital
Qatar				
Nestlé Qatar Trading LLC	Doha	49%	QAR	1 680 000.00
Republic of Korea				
Alcon Korea Ltd*	Seoul	77.4%	KRW	200 000 000.00
Beverage Partners Worldwide Korea Ltd	¹⁾ Seoul	50%	KRW	50 000 000.00
Galderma Korea Ltd°	¹⁾ Seoul	50%	KRW	500 000 000.00
Nestlé Korea Ltd	Seoul	100%	KRW	18 202 060 000.00
Pulmuone Waters Co. Ltd	Chungbuk	51%	KRW	3 778 760 000.00
Saudi Arabia				
Al Anhar Water Factory Co. Ltd	Jeddah	51%	SAR	5 000 000.00
Al Manhal Water Factory Co. Ltd	Riyadh	64%	SAR	7 000 000.00
Saudi Food Industries Co. Ltd	Jeddah	51%	SAR	51 000 000.00
SHAS Company for Water Services Ltd	²⁾ Riyadh	43.5%	SAR	13 500 000.00
Springs Water Factory Co. Ltd	Dammam	75%	SAR	5 000 000.00
Singapore				
Alcon Pte Ltd*	Singapore	77.4%	SGD	164 000.00
Nestlé Singapore (Pte) Ltd	Singapore	100%	SGD	1 000 000.00
Sri Lanka				
Δ Nestlé Lanka PLC	Colombo	90.8%	LKR	537 254 630.00
<i>Listed on the Colombo stock exchange, market capitalisation LKR 14.1 billion, quotation code (ISIN) LK0128N00005</i>				
Syria				
Nestlé Syria Ltd	Damas	100%	SYP	800 000 000.00
Société pour l'exportation des produits Nestlé S.A.	Damas	100%	CHF	1 750 000.00
Thailand				
Alcon Laboratories (Thailand) Ltd*	Bangkok	89.2%	THB	2 100 000.00
Beverage Partners Worldwide (Thailand) Ltd	¹⁾ Bangkok	50%	THB	20 000 000.00
Nestlé (Thai) Ltd	Bangkok	100%	THB	880 000 000.00
Nestlé Dairy (Thailand) Ltd	Bangkok	100%	THB	46 000 000.00
Perrier Vittel (Thailand) Ltd	Bangkok	100%	THB	235 000 000.00
Quality Coffee Products Ltd	Bangkok	50%	THB	400 000 000.00
United Arab Emirates				
CP Middle East FZCO	¹⁾ Jebel Ali Free Zone Dubai	50%	AED	600 000.00
Nestlé Dubai LLC	Dubai	49%	AED	2 000 000.00
Nestlé Middle East FZE	Dubai	100%	AED	3 000 000.00
Nestlé Treasury Centre-Middle East & Africa Ltd	◇ Dubai	100%	USD	500 000.00
Nestlé Waters Middle East Investments FZCO	Dubai	100%	AED	600 000.00
Vietnam				
La Vie Limited Liability Company	Long An	65%	USD	2 663 400.00
Nestlé Vietnam Ltd	Bien Hoa	100%	USD	54 598 000.00

Companies	City	% capital shareholdings	Currency	Capital
Oceania				
Australia				
Alcon Laboratories (Australia) Pty Ltd*	Frenchs Forest	77.4%	AUD	2 550 000.00
Cereal Partners Australia Pty Limited	¹⁾ Rhodes	50%	AUD	107 800 000.00
Galderma Australia Pty Ltd ^o	¹⁾ Frenchs Forest	50%	AUD	2 700 100.00
Nestlé Australia Ltd	Rhodes	100%	AUD	274 000 000.00
Supercoat Holdings Australia Ltd	North Ryde	100%	AUD	55 814 174.00
Supercoat Petcare Pty Limited	North Ryde	100%	AUD	2.00
Fiji				
Nestlé (Fiji) Ltd	Ba	100%	FJD	3 000 000.00
French Polynesia				
Nestlé Polynésie S.A.	Papeete	100%	XPF	5 000 000.00
New Caledonia				
Nestlé Nouvelle-Calédonie S.A.	Noumea	100%	XPF	250 000 000.00
New Zealand				
Nestlé New Zealand Limited	Auckland	100%	NZD	300 000.00
Papua-New Guinea				
Nestlé (PNG) Ltd	Lae	100%	PGK	11 850 000.00

Companies	City
Technical assistance, research and development companies	
Technical assistance	TA
Research centres	RC
Product Technology Centres and Research & Development centres	PTC
Switzerland	
Nestec S.A.	TA Vevey
<i>Technical, scientific, commercial and business assistance company whose units, specialised in all areas of the business, supply permanent know-how and assistance to operating companies in the Group within the framework of licence and equivalent contracts. It is also responsible for all scientific research and technological development, which it undertakes itself or has done on its behalf by its subsidiary companies. The companies and units involved are:</i>	
France	
Nestlé Research Centre Plant Science	RC Tours
Galderma R&D S.n.c.°	PTC Biot
Nestlé Product Technology Centre	PTC Beauvais
Nestlé Product Technology Centre	PTC Lisieux
Nestlé Purina PetCare R&D Centre Amiens	PTC Aubigny
Nestlé Waters PTC, Vittel	PTC Vittel
Germany	
Nestlé Product Technology Centre Lebensmittelforschung GmbH	PTC Singen
Greater China Region	
Nestlé R&D Centre Shanghai Limited	PTC Shanghai
Israel	
Nestlé R&D Centre Sderot, Ltd.	PTC Sderot
Italy	
Casa Buitoni s.r.l.	PTC Sansepolcro
Singapore	
Nestlé R&D Center (Pte) Ltd	PTC Singapore
Switzerland	
Nestlé Research Center	RC Lausanne
Nestlé Product Technology Centre	PTC Konolfingen
Nestlé Product Technology Centre	PTC Orbe
United Kingdom	
Nestlé Product Technology Centre	PTC York
United States	
Alcon Research Ltd*	PTC Fort Worth (Texas)
Galderma R&D Inc.°	PTC Cranbury (New Jersey)
Nestlé Purina Product Technology Center	PTC St. Louis (Missouri)
Nestlé R&D Center, Inc.	PTC Marysville (Ohio)
Nestlé R&D Center, Inc.	PTC Solon (Ohio)

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Income statement for the year ended 31 December 2007

In millions of CHF	Notes	2007	2006
Income			
Income from Group companies	1	8 656	7 887
Financial income	2	849	820
Profit on disposal of fixed assets	3	115	27
Other income		88	27
Total income		9 708	8 761
Expenses			
Investment write downs	4	1 476	1 140
Administration and other expenses	5	214	159
Financial expenses	6	445	218
Total expenses before taxes		2 135	1 517
Profit before taxes		7 573	7 244
Taxes	7	382	346
Profit for the year	20	7 191	6 898

Balance sheet as at 31 December 2007

before appropriations

In millions of CHF	Notes	2007	2006
Assets			
Current assets			
Liquid assets	8	1 033	2 462
Receivables	9	1 151	968
Prepayments and accrued income		169	68
Total current assets		2 353	3 498
Fixed assets			
Financial assets	10	36 294	34 745
Intangible assets	14	1 378	–
Tangible fixed assets	15	–	–
Total fixed assets		37 672	34 745
Total assets		40 025	38 243
Liabilities and equity			
Liabilities			
Short term payables	16	7 644	7 471
Accruals and deferred income		114	333
Long term payables	17	236	252
Provisions	18	737	942
Total liabilities		8 731	8 998
Equity			
Share capital	19/20	393	401
Legal reserves	20	9 681	6 392
Special reserve	20	12 799	14 678
Profit brought forward	20	1 230	876
Profit for the year	20	7 191	6 898
Total equity		31 294	29 245
Total liabilities and equity		40 025	38 243

Annex to the annual accounts

Accounting policies

General

Nestlé S.A. (the Company) is the ultimate holding company of the Nestlé Group which comprises subsidiaries, associated companies and joint ventures throughout the world. The accounts are prepared in accordance with accounting principles required by Swiss law. They are prepared under the historical cost convention and on the accruals basis.

Foreign currency translation

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward contract. Non-monetary assets and liabilities are carried at historical rates. Monetary assets and liabilities in foreign currencies are translated at year-end rates. Any resulting exchange differences are included in the respective income statement captions depending upon the nature of the underlying transactions. The aggregate unrealised exchange difference is calculated by reference to original transaction date exchange rates and includes hedging transactions. Where this gives rise to a net loss, it is charged to the income statement whilst a net gain is deferred.

Hedging

The Company uses forward foreign exchange contracts, options, financial futures and currency swaps to hedge foreign currency flows and positions. Unrealised foreign exchange differences on hedging instruments are matched and accounted for with those on the underlying asset or liability. Long term loans, in foreign currencies, used to finance investments in participations are generally not hedged.

The Company also uses interest rate swaps to manage interest rate risk. The swaps are accounted for at fair value at each balance sheet date and changes in the market value are recorded in the income statement.

Income statement

Not currently transferable income is recognised only upon receipt. Dividends paid out of pre-acquisition profits are not included under income from Group companies; instead they are credited against the carrying value of the participation.

In accordance with Swiss law and the Company's Articles of Association, dividends are treated as an appropriation of profit in the year in which they are ratified at the Annual General Meeting rather than as an appropriation of profit in the year to which they relate.

Taxes

This caption includes taxes on profit, capital and withholding taxes on transfers from Group companies.

Financial assets

The carrying value of participations and loans comprises the cost of investment, excluding the incidental costs of acquisition, less any write downs.

Participations located in countries where the political, economic or monetary situation might be considered to carry a greater than normal level of risk are carried at a nominal value of one franc.

Participations and loans are written down on a conservative basis, taking into account the profitability of the company concerned.

Marketable securities are valued at the lower of cost and market value.

Own shares held to cover option rights in favour of members of the Group's Management are carried at exercise price if lower than cost. Own shares held for trading purposes are carried at cost as are own shares earmarked to cover warrants attached to a bond issue of an affiliated company. Own shares repurchased for the Share Buy-Back Programme are carried at cost. All gains and losses on own shares are recorded in the income statement.

Intangible assets

Trademarks and other industrial property rights are written off on acquisition or exceptionally over a longer period. In the Consolidated Financial Statements of the Nestlé Group this item has a different treatment.

Tangible fixed assets

The Company owns land and buildings which have been depreciated in the past to one franc. Office furniture and equipment is fully depreciated on acquisition.

Provisions

Provisions recognise contingencies which may arise and which have been prudently provided. A provision for uninsured risks is constituted to cover general risks not insured with third parties, such as consequential loss. Provisions for Swiss taxes are made on the basis of the Company's taxable capital, reserves and profit for the year. A general provision is maintained to cover possible foreign taxes liabilities.

Employee benefits

Employees are eligible for retirement benefits under a defined contribution plan with a retirement pension objective expressed as a percentage of the base salary. Those benefits are mainly provided through separate pension funds.

Prepayments and accrued income

Prepayments and accrued income comprise payments made in advance relating to the following year, and income relating to the current year which will not be received until after the balance sheet date (such as interest receivable on loans or deposits). Revaluation gains on open forward exchange contracts at year-end rates, as well as the result of the valuation of interest rate swaps, are also included in this caption.

Accruals and deferred income

Accruals and deferred income comprise expenses relating to the current year which will not be paid until after the balance sheet date and income received in advance, relating to the following year. Net revaluation losses on open forward exchange contracts at year-end rates, as well as the result of the valuation of interest rate swaps, are also included in this caption.

Notes to the annual accounts

1. Income from Group companies

This represents dividends of the current and prior years and other net income from Group companies.

2. Financial income

In millions of CHF	2007	2006
Net result on loans to Group companies	667	719
Other financial income	182	101
	849	820

3. Profit on disposal of fixed assets

This represents mainly the net gains realised on the sale of trademarks and other industrial property rights previously written down.

4. Investment write downs

In millions of CHF	2007	2006
Participations and loans	284	83
Trademarks and other industrial property rights	1 192	1 057
	1 476	1 140

The trademarks are acquired from Group companies and third parties in the context of business acquisitions.

Trademarks, acquired in 2007 by Nestlé S.A., linked to the acquisitions of Gerber and Novartis Medical Nutrition, have been amortised by one third of the amount paid during the period (CHF 690 million).

In 2007, Jenny Craig has been fully amortised (CHF 340 million). In 2006, the main amortisation of trademarks referred to Uncle Tobys and Dreyer's.

5. Administration and other expenses

In millions of CHF	2007	2006
Salaries and welfare expenses	99	79
Other expenses	115	80
	214	159

6. Financial expenses

In millions of CHF	2007	2006
Interest on loans from Group companies	277	160
Other financial expenses	168	58
	445	218

7. Taxes

This includes withholding taxes on income from foreign sources, as well as Swiss taxes for which adequate provisions have been established.

8. Liquid assets

In millions of CHF	2007	2006
Cash and cash equivalents	373	446
Marketable securities	660	2 016
	1 033	2 462

9. Receivables

In millions of CHF	2007	2006
Amounts owed by Group companies (current accounts)	1 072	938
Other receivables	79	30
	1 151	968

10. Financial assets

In millions of CHF	Notes	2007	2006
Participations in Group companies	11	14 969	14 857
Loans to Group companies	12	15 075	16 272
Own shares	13	6 172	3 601
Other investments		78	15
		36 294	34 745

11. Participations in Group companies

In millions of CHF	2007	2006
At 1 January	14 857	14 734
Net increase	388	148
Write downs	(276)	(25)
At 31 December	14 969	14 857

The carrying value of participations continues to represent a conservative valuation having regard to both the income received by the Company and the net assets of the Group companies concerned.

A list of the most important companies held, either directly by Nestlé S.A. or indirectly through other Group companies, with the percentage of the capital controlled, is given in the section "Consolidated Financial Statements of the Nestlé Group".

12. Loans to Group companies

In millions of CHF	2007	2006
At 1 January	16 272	12 376
New loans	4 703	6 750
Repayments and write downs	(4 984)	(2 567)
Realised exchange differences	(17)	14
Unrealised exchange differences	(899)	(301)
At 31 December	15 075	16 272

Loans granted to Group companies are usually long term to finance investments in participations.

13. Own shares

In millions of CHF	2007		2006	
	Number	Amount	Number	Amount
Share Buy-Back Programme	8 294 000	4 405	7 663 200	3 000
Reserve shares ^(a)	–	–	4 766 300	5
Management Stock Option Plan	2 737 411	908	1 753 578	596
Restricted Stock Unit Plan	1 077 126	422	–	–
Future Long-Term Incentive Plans	1 116 441	437	–	–
	13 224 978	6 172	14 183 078	3 601

^(a) The “Reserve Shares” were issued by resolution of the Annual General Meeting in 1989 to cover conversion or option rights resulting from future bond issues, or to be used for other purposes in the interest of the Company as decided by the Board of Directors. The “Reserve Shares” were paid up at their nominal value but were never allotted at market price. These shares were earmarked for Nestlé Group remuneration plans in Nestlé S.A. shares and stock options thereon and were cancelled at their nominal value of CHF 5 million.

During the year, 7 663 200 shares bought in 2006 were cancelled at their cost value of CHF 3000 million, and 8 294 000 shares were purchased as part of the Share Buy-Back Programme for CHF 4405 million.

The Company held 2 737 411 shares to cover management option rights, 1 077 126 shares designated to the Restricted Stock Unit Plan and 1 116 441 shares designated to the Future Long-Term Incentive Plans, the former held at exercise price as this is lower than the acquisition cost and the latter at market price, of which 4 766 300 shares transferred from “Reserve shares”. During the year 1 588 900 shares were delivered as part of the Nestlé Group remuneration plans for a total value of CHF 539 million.

14. Intangible assets

This amount represents the balance of the trademarks and other industrial property rights’ capitalised value linked with the Gerber and Novartis Medical Nutrition acquisitions. A third of the initial value has been amortised during the period (refer to Note 4).

15. Tangible fixed assets

These are principally the land and buildings at Cham and at La Tour-de-Peilz. Nestlé Suisse S.A., the principal operating company in the Swiss market, is the tenant of the building at La Tour-de-Peilz. The “En Bergère” head office building in Vevey is held by a property company, which is wholly owned by Nestlé S.A.

The fire insurance value of buildings, furniture and office equipment at 31 December 2007 amounted to CHF 23 million (2006: CHF 25 million).

16. Short term payables

In millions of CHF	2007	2006
Amounts owed to Group companies	7 344	7 436
Other payables	300	35
	7 644	7 471

17. Long term payables

Amounts owed to Group companies represent a long-term loan issued in 1989. The carrying value decreased by CHF 16 million to CHF 236 million as a result of an unrealised exchange difference at the end of 2007.

18. Provisions

In millions of CHF	2007				2006	
	Uninsured risks	Exchange risks	Swiss & foreign taxes	Other	Total	Total
At 1 January	475	237	175	55	942	1 509
Provisions made in the period	-	-	97	58	155	392
Amounts used	-	(237)	(101)	(22)	(360)	(934)
Unused amounts reversed	-	-	-	-	-	(25)
At 31 December	475	-	171	91	737	942

19. Share capital

	2007	2006
Number of registered shares of nominal value CHF 1.– each	393 072 500	400 735 700
In millions of CHF	393	401

According to article 6 of the Company's Articles of Association, no natural person or legal entity may be registered as a shareholder with the right to vote for shares which it holds, directly or indirectly, in excess of 3% of the share capital. In addition, article 14 provides that, on exercising the voting rights, no shareholder, through shares owned or represented, may aggregate, directly or indirectly, more than 3% of the total share capital.

At 31 December 2007, the Share Register showed 109 739 registered shareholders. If unprocessed applications for registration and the indirect holders of shares under American Depositary Receipts are also taken into account, the total number of shareholders probably exceeds 250 000. The Company was not aware of any shareholder holding, directly or indirectly, 3% or more of the share capital.

Conditional increase in share capital

According to the Articles of Association, the share capital may be increased, through the exercise of conversion or option rights, by a maximum of CHF 10 000 000 by the issue of a maximum of 10 000 000 registered shares with a nominal value of CHF 1.– each. Thus the Board of Directors has at its disposal a flexible instrument enabling it, if necessary, to finance the activities of the Company through convertible debentures or the issue of bonds with warrants.

Concerning the share capital in general, refer also to the Corporate Governance Report.

20. Changes in equity

In millions of CHF

	Share capital	General reserve ^(a)	Reserve for own shares ^{(a)(b)}	Special reserve	Retained earnings	Total
At 1 January 2007	401	1 842	4 550	14 678	7 774	29 245
Cancellation of 7 663 200 shares (ex Share Buy-Back Programme)	(8)		(1 139)	8		(1 139)
Transfer to the special reserve				2 500	(2 500)	–
Profit for the year					7 191	7 191
Dividend for 2006					(4 004)	(4 004)
Movement of own shares			4 428	(4 428)		–
Dividend on own shares held on the payment date of 2006 dividend				40	(40)	–
At 31 December 2007	393	1 842	7 839	12 799	8 421	31 294

^(a) The general reserve and the reserve for own shares constitute the legal reserves.

^(b) Refer to Note 21.

21. Reserve for own shares

At 31 December 2006, the reserve for own shares amounting to CHF 4550 million, represented the cost of 17 013 626 freely available shares, of which 6 519 878 shares were earmarked to cover the Nestlé Group remuneration plans and 2 230 269 to cover warrants attached to a bond issue of an affiliated company. Another 7 663 200 shares were purchased as part of the Share Buy-Back Programme.

During the year, an additional 8 294 000 shares have been acquired at a cost of CHF 4405 million for the Share Buy-Back Programme and 7 663 200 shares were cancelled. A total of 1 588 900 shares have been delivered to the beneficiaries of the Nestlé Group remuneration plans and 527 210 shares exchanged against warrants.

Another Group company holds 3 575 764 Nestlé S.A. shares. The total of own shares of 16 800 742 held by all Group companies at 31 December 2007 represents 4.3% of the Nestlé S.A. share capital (17 013 626 own shares held at 31 December 2006, representing 4.3% of the Nestlé S.A. share capital).

22. Contingencies

At 31 December 2007, the total of the guarantees is mainly for credit facilities granted to Group companies and Commercial Paper Programmes, together with the buy-back agreements relating to notes issued, amounted to CHF 21 763 million (2006: CHF 15 243 million).

23. Additional information requested by the Swiss Code of Obligations on remuneration

Annual remuneration of members of the Board of Directors

				2007
	Cash in CHF ^(a)	Number of shares	Discounted value of shares in CHF ^(b)	Total remuneration
Peter Brabeck-Letmathe, Chairman and CEO ^(c)	255 000	497	213 645	468 645
Chairman's and Corporate Governance Committee (Chair)				
Andreas Koopmann, 1st Vice Chairman	280 000	549	235 999	515 999
Chairman's and Corporate Governance Committee (Member)				
Compensation and Nomination Committee (Member)				
Rolf Hänggi, 2nd Vice Chairman	330 000	653	280 705	610 705
Chairman's and Corporate Governance Committee (Member)				
Finance Committee (Chair)				
Audit Committee (Chair)				
Edward George (Lord George)	280 000	549	235 999	515 999
Chairman's and Corporate Governance Committee (Member)				
Finance Committee (Member)				
Compensation and Nomination Committee (Member)				
Kaspar Villiger	305 000	601	258 352	563 352
Chairman's and Corporate Governance Committee (Member)				
Finance Committee (Member)				
Audit Committee (Member)				
Jean-Pierre Meyers	205 000	394	169 369	374 369
Audit Committee (Member)				
Peter Böckli	230 000	446	191 722	421 722
Compensation and Nomination Committee (Chair)				
André Kudelski	205 000	394	169 369	374 369
Audit Committee (Member)				
Daniel Borel	180 000	342	147 016	327 016
Compensation and Nomination Committee (Member)				
Carolina Müller-Möhl	155 000	290	124 662	279 662
Günter Blobel	155 000	290	124 662	279 662
Jean-René Fourtou	155 000	290	124 662	279 662
Steven G. Hoch	155 000	290	124 662	279 662
Naïna Lal Kidwai	155 000	290	124 662	279 662
Total	3 045 000	5 875	2 525 486	5 570 486

^(a) The cash amount includes the expense allowance of CHF 15 000.

^(b) Nestlé S.A. shares received as part of the Board membership and the Committee fees are valued at the ex-dividend closing price of Nestlé S.A. share at the dividend payment's date, discounted by 11% to account for the blocking restriction of two years.

^(c) Remuneration of the Chairman/CEO in his capacity as a member of the Board of Directors

Loans to members of the Board of Directors

There are no loans outstanding to executive and non-executive members of the Board of Directors or closely related parties.

Additional fees and remunerations of the Board of Directors

There are no additional fees or remunerations paid by Nestlé S.A. or one of its Group companies, directly or indirectly, to members of the governing body or closely related parties.

Compensations for former members of the Board of Directors

There is no compensation conferred during 2007 on former members of the Board of Directors who gave up their function during the year preceding the year under review or earlier.

Share and stock options ownership of the non-executive members of the Board of Directors and closely related parties as at 31 December 2007

	Number of shares held ^(a)
Andreas Koopmann, 1st Vice Chairman	4 756
Rolf Hänggi, 2nd Vice Chairman	4 522
Edward George (Lord George)	3 286
Kaspar Villiger	3 810
Jean-Pierre Meyers	141 135
Peter Böckli	13 433
André Kudelski	3 385
Daniel Borel	11 785
Carolina Müller-Möhl	1 767
Günter Blobel	1 081
Jean-René Fourtou	759
Steven G. Hoch	23 788
Naina Lal Kidwai	669
Total	214 176

^(a) Including shares subject to a two-year blocking period

The ownership of the Chairman/CEO is disclosed under Executive Board members.

Non-executive members of the Board of Directors and closely related parties did not hold any stock options as at 31 December 2007.

Annual remuneration of members of the Executive Board

The total remuneration of members of the Executive Board amounts to CHF 49 620 852 for the year 2007. Remuneration principles are described in Appendix 1 of the Corporate Governance Report.

The Company also made contributions of CHF 5 146 990 toward future pension benefits of the Executive Boards members in line with Nestlé's pension benefits policy.

Highest total compensation for a member of the Executive Board

In 2007, the highest total compensation for a member of the Executive Board was conferred to Peter Brabeck-Letmathe, Chairman and CEO.

		2007
	Number	Value (in CHF)
Annual Base Salary		3 150 000
Short-term Bonus (cash)		341 778
Short-term Bonus (discounted value of Nestlé S.A. shares)	16 232	6 457 090
Restricted Stock Unit Plan (fair value at grant)	5 950	2 760 205
Management Stock Option Plan (Black-Scholes value at grant)	63 000	4 260 060
Other benefits		3 180
Board fees (including Nestlé S.A. shares and annual expense allowance)	497	468 645
Total		17 440 958

The Company also made a contribution of CHF 1 252 600 towards future pension benefits in line with Nestlé's pension benefits policy.

Loans to members of the Executive Board

On 31 December 2007, there were no loans outstanding to any member of the Executive Board or closely related parties.

Additional fees and remunerations of the Executive Board

There are no additional fees or remunerations paid by Nestlé S.A. or one of its Group companies, directly or indirectly, to members of the Executive Board or closely related parties.

Compensations for former members of the Executive Board

A total of CHF 96 637 was conferred during 2007 on one former member of the Executive Board who gave up his function during the year preceding the year under review or earlier.

Shares and stock options ownership of members of the Executive Board and closely related parties
as at 31 December 2007

	Number of shares held ^(a)	Number of stock options held ^(b)
Peter Brabeck-Letmathe, Chairman and CEO	82 314	333 600
Francisco Castañer	5 904	26 500
Lars Olofsson	1 788	35 500
Werner Bauer	9 003	39 300
Frits van Dijk	2 522	39 000
Paul Bulcke	2 631	25 000
Luis Cantarell	560	20 700
Paul Polman	3 231	11 000
José Lopez	–	4 000
John J. Harris ^(c)	–	–
Richard T. Laube	7 443	8 700
Marc Caira	10	4 875
David P. Frick	155	–
Total ^(d)	115 561	548 175

^(a) Including shares subject to a three-year blocking period

^(b) The subscription ratio is one option for one Nestlé S.A. share.

^(c) As from 1 December 2007

^(d) Includes the Executive members of the Board of Directors.

Proposed appropriation of profit

In CHF	2007	2006
Retained earnings		
Balance brought forward	1 230 199 215	875 365 054
Profit for the year	7 191 297 148	6 898 667 700
	8 421 496 363	7 774 032 754
We propose the following appropriations:		
Transfer to the special reserve	3 000 000 000	2 500 000 000
Dividend for 2007, CHF 12.20 per share on 376 271 758 shares (2006: CHF 10.40 on 383 722 074 shares)	4 590 515 448	3 990 709 569
Dividend for 2007, CHF 12.20 per share on a total of 8 227 267 shares reserved for Long-Term Incentive Plans, to cover warrants and held-for-trading purposes ^(a) (2006: CHF 10.40 on 5 108 074 shares ^(b))	100 372 657	53 123 970
	7 690 888 105	6 543 833 539
Balance to be carried forward	730 608 258	1 230 199 215

^(a) The dividends on those shares for which the option rights will not have been exercised by the date of the dividend payment will be transferred to the special reserve. Dividends on shares held for trading purposes and to cover warrants issued, and which are still held at the date of the dividend payment will also be transferred to the special reserve.

^(b) Of the total of CHF 53 123 970, CHF 12 831 000 were actually paid as dividends, whilst the balance of CHF 40 292 970 has been transferred to the special reserve.

If you accept this proposal, the gross dividend will amount to CHF 12.20 per share. After deduction of the federal withholding tax of 35%, a net amount of CHF 7.93 per share will be payable as from Wednesday, 16 April 2008, by bank transfer to the shareholders account or by cheque, in accordance with instructions received from the shareholders.

The Board of Directors

Cham and Vevey, 20 February 2008

Report of the statutory auditors

to the General Meeting of Nestlé S.A.

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and annex) of Nestlé S.A. for the year ended 31 December 2007.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records, financial statements and the proposed appropriation of retained earnings comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

 Klynveld Peat Marwick Goerdeler SA



Mark Baillache
Auditor in charge



Stéphane Gard

London and Zurich, 20 February 2008

Paper

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