



Good Food, Good Life

NESTLÉ HOLDINGS, INC.
(A Wholly Owned Subsidiary of Nestlé S.A.)
AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2007 and 2006

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' Report

The Board of Directors
Nestlé Holdings, Inc.:

We have audited the accompanying consolidated balance sheets of Nestlé Holdings, Inc. (a wholly owned subsidiary of Nestlé S.A.) and subsidiaries (the Company) as of December 31, 2007 and 2006, and the related consolidated statements of operations, recognized income and expense, and cash flows for the years then ended, which, as described in note 1 to the consolidated financial statements, have been prepared on the basis of International Financial Reporting Standards. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing and auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with International Financial Reporting Standards.

KPMG LLP

July 2, 2008

NESTLÉ HOLDINGS, INC.
(A Wholly Owned Subsidiary of Nestlé S.A.)
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Consolidated Balance Sheets

December 31, 2007 and 2006

(Dollars in Thousands, Except Capital Stock Par Value and Shares)

Assets	2007	2006
Current assets:		
Cash and cash equivalents	\$ 134,460	100,835
Trade and other receivables, net (notes 3 and 13)	2,418,479	1,862,042
Assets held for sale (note 15)	1,114,975	310,587
Inventories (note 4)	1,316,009	1,045,738
Derivative assets (notes 5 and 13)	317,738	130,133
Prepayments	87,727	89,652
	<u>5,389,388</u>	<u>3,538,987</u>
Non-current assets:		
Property, plant and equipment, net (note 7)	3,618,522	2,927,703
Employee benefits assets (note 8)	779,553	237,846
Investments in associated companies (note 9)	13,379	16,033
Deferred tax assets (note 10)	951,753	923,592
Financial assets (notes 6 and 13)	2,179,516	872,012
Goodwill (note 11)	16,826,711	13,389,341
Intangible assets, net (note 12)	724,505	333,095
	<u>25,093,939</u>	<u>18,699,622</u>
Total assets	<u>\$ 30,483,327</u>	<u>22,238,609</u>
Liabilities and Equity		
Current liabilities:		
Trade and other payables (note 13)	\$ 1,186,766	1,266,602
Financial liabilities (note 13)	11,492,336	7,118,604
Derivative liabilities (notes 5 and 13)	71,378	34,905
Income taxes payable	29	38,275
Accruals (note 16)	1,292,621	956,479
	<u>14,043,130</u>	<u>9,414,865</u>
Non-current liabilities:		
Financial liabilities (note 13)	10,317,066	9,110,963
Employee benefits liabilities (note 8)	1,297,809	1,043,764
Deferred tax liabilities (note 10)	1,325,269	657,588
Other accrued liabilities	1,118,924	479,671
Provisions (note 17)	179,229	165,040
	<u>14,238,297</u>	<u>11,457,026</u>
Total liabilities	<u>28,281,427</u>	<u>20,871,891</u>
Equity:		
Capital stock, \$100 par value. Authorized, issued, and outstanding, 1,000 shares	100	100
Additional paid-in capital	1,650,353	1,650,353
Hedging and available-for-sale reserve	(29,025)	31,212
Accumulated earnings (deficit)	580,472	(314,947)
Total equity	<u>2,201,900</u>	<u>1,366,718</u>
Total liabilities and equity	<u>\$ 30,483,327</u>	<u>22,238,609</u>

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Consolidated Statements of Operations
For the Years Ended December 31, 2007 and 2006
(Dollars in Thousands)

	<u>2007</u>	<u>2006</u>
Net sales	\$ 18,324,372	16,199,119
Cost of goods sold	(8,399,888)	(7,099,123)
Distribution expenses	(1,571,474)	(1,391,757)
Marketing, general and administrative expenses	(5,553,171)	(5,268,979)
Royalties to affiliated company	<u>(768,651)</u>	<u>(664,498)</u>
	2,031,188	1,774,762
Net financing costs (note 18)	(943,674)	(787,705)
Share of results from associated companies	(939)	(241)
Net other (expense) income (note 19)	<u>(36,992)</u>	<u>177,457</u>
Income from continuing operations before income taxes	1,049,583	1,164,273
Income tax expense (note 20)	<u>(421,526)</u>	<u>(372,055)</u>
Income from continuing operations	628,057	792,218
Income from discontinued operations, net of taxes	<u>4,026</u>	<u>2,658</u>
Net income	<u><u>\$ 632,083</u></u>	<u><u>794,876</u></u>

NESTLÉ HOLDINGS, INC.
(A Wholly Owned Subsidiary of Nestlé S.A.)
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Consolidated Statements of Recognized Income and Expense
For the Years Ended December 31, 2007 and 2006
(Dollars in Thousands)

	<u>2007</u>	<u>2006</u>
Net income	\$ 632,083	794,876
Unrealized results of fair value adjustments on cash flow hedges	49,662	14,717
Net change in fair value of cash flow hedges recognized in net income	(121,621)	(1,657)
Net change in fair value of available-for-sale assets	11,722	419
Foreign currency translation differences for foreign operations	1,674	935
Defined benefit plan actuarial gains	387,955	121,915
Taxes on equity items	<u>(126,293)</u>	<u>(52,806)</u>
Income and expense recognized directly in equity	203,099	83,523
Total recognized income and expense	<u><u>\$ 835,182</u></u>	<u><u>878,399</u></u>

NESTLÉ HOLDINGS, INC.
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Consolidated Statements of Cash Flows
For the Years Ended December 31, 2007 and 2006
(Dollars in Thousands)

	2007	2006
Cash flows from operating activities:		
Net income	\$ 632,083	794,876
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property, plant, and equipment (note 7)	365,874	353,441
Loss on sales of property, plant, and equipment	13,225	30,933
Provision for impairment of property, plant, and equipment (note 7)	8,853	15,011
Amortization of intangible assets (note 12)	62,985	24,778
Gain on disposal of assets held for sale and other	(16,665)	(216,849)
Increase in cash surrender value of Company-owned life insurance policies	(42,407)	(43,413)
Decrease (increase) in provisions	8,309	(40,053)
Deferred income tax expense	108,622	155,084
Change in working capital (excluding effects from acquisitions and divestitures):		
Trade and other receivables	(213,882)	(184,198)
Inventories	1,734	(79,737)
Prepaid taxes and current tax payable	(38,335)	47,566
Prepayments and other current assets	7,128	(9,883)
Trade and other payables and other current liabilities	(202,701)	(216,816)
Accruals	14,555	(135,158)
Increase in working capital	(431,501)	(578,226)
Other movements, net	(143,261)	(79,773)
Total adjustments	(65,966)	(379,067)
Net cash provided by operating activities	566,117	415,809
Cash flows from investing activities:		
Expenditure on property, plant and equipment (note 7)	(841,796)	(583,824)
Proceeds from sale of property, plant and equipment	5,157	11,879
Business acquisitions, net of cash acquired (note 24)	(5,163,135)	(657,624)
Disposals of assets held for sale and other	311,242	574,136
Expenditure on intangible assets (note 12)	(56,792)	(181,769)
Other movements	(29,269)	29,432
Net cash used in investing activities	(5,774,593)	(807,770)
Cash flows from financing activities:		
Net borrowings of commercial paper	4,794,995	191,500
Bonds issued	1,691,348	1,199,814
Bonds repaid	(1,132,682)	(400,000)
Notes to affiliates issued	1,700,708	2,750,139
Notes to affiliates repaid	(1,792,000)	(833,515)
Acquisition payment for minority interest	—	(2,626,952)
Other changes in financial liabilities	(21,942)	100,948
Net cash provided by financing activities	5,240,427	381,934
Net increase (decrease) in cash and cash equivalents	31,951	(10,027)
Cash and cash equivalents at beginning of year	100,835	109,927
Effect of exchange rate changes on opening balances	1,674	935
Cash and cash equivalents at end of year	\$ 134,460	100,835
Supplemental information:		
Cash paid for:		
Interest	\$ 786,661	726,103
Taxes	513,987	732,596

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(Dollars in Thousands)

(1) Significant Accounting Policies and Changes in Accounting Policies

Nestlé Holdings, Inc. (hereinafter referred to as “the Company” or “NHI”) is a wholly owned subsidiary of Nestlé S.A., a company incorporated in Switzerland. NHI is the holding company for Nestlé S.A.’s principal operating subsidiaries in the United States, other than Nestlé Waters North America, Inc. and Alcon Laboratories, Inc. The Company and its subsidiaries engage primarily in the manufacture and sale of food and beverage products. The Company had 36,467 employees as of December 31, 2007.

The financial statements were authorized for issue by the Company’s directors.

(a) Significant Accounting Policies

Basis of Preparation

The consolidated financial statements of the Company comply with International Financial Reporting Standards (“IFRS”) as adopted by the International Accounting Standards Board (“IASB”), and with the interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) and its predecessor.

The consolidated financial statements have been prepared on an accrual basis and under the historical cost convention, except that the following assets and liabilities are stated at their fair value: derivative financial instruments, investments held for trading, available-for-sale investments and recognized assets and liabilities subject to fair value hedges.

Assets held for sale are stated at the lower of carrying amount or fair value less costs to sell.

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of December 31, 2007 and 2006, and the reported amounts of income and expenses for the years then ended. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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. The areas affected by estimation include goodwill, employee benefits, income taxes and financial assets and liabilities.

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Scope of Consolidation

The consolidated financial statements are comprised of those of the Company and its subsidiaries. All material intercompany profits, transactions and balances have been eliminated. The subsidiary companies, which are wholly and directly owned and incorporated in the United States, are as follows:

Nestlé USA, Inc.
Nestlé Purina PetCare Company
Nespresso USA, Inc.
Nestlé Capital Corporation
Nestlé NPR, Inc.
NPB Services, Inc.
TSC Holdings, Inc.
Jenny Craig, Inc.
Nestlé HealthCare Nutrition, Inc. (formerly Novartis Nutrition Corporation)
Gerber Life Insurance Company
Gerber Products Company

Investments in associated companies, including joint ventures, in which the Company either owns at least a 20% but less than a 50% interest, or where the Company owns less than a 20% interest but has significant influence but does not exercise control, are accounted for under the equity method. Investments in which the Company has less than a 20% interest and does not have significant influence are reported at cost.

Foreign Currency

For the Company and its individual subsidiaries, transactions in currencies other than the Company's operating currency (U.S. Dollars) are recorded at the rate of exchange at the transaction date. Monetary assets and liabilities that are denominated in foreign currencies are translated at the year-end rates of exchange. Any resulting exchange differences are taken to the consolidated statements of operations.

On consolidation, assets and liabilities of the Company and its subsidiaries denominated in their functional currencies are translated into U.S. Dollars at year end exchange rates. Income and expense items are translated into U.S. Dollars 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 the Company and its subsidiaries, together with differences arising from the restatement of the net results for the year of the Company and its subsidiaries from average or actual rates to year-end rates, are recognized in consolidated statements of recognized income and expense.

Segmental Information

Segmental information is based on the Company's divisional management structure. Assets disclosed in the segmental information footnote are comprised of operational assets including trade

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and other receivables, inventories, and property, plant and equipment. Liabilities disclosed in the segmental information footnote are comprised of trade and other payables and accruals. Earnings before interest and taxes ("EBIT") exclude net financing costs, share of results from associated companies, discontinued operations, other expense and income tax expense. The Company generates substantially all of its net sales within the United States.

Cash and Cash Equivalents

Cash and cash equivalents include cash at bank and in hand, bank deposits and fixed-term investments whose maturities are three months or less from the date of acquisition.

Financial Instruments

Classes of financial instruments

The Company 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 consolidated financial statements.

Financial assets

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

Financial assets are initially recognized 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.

At each balance sheet date, the Company assesses whether its financial assets are to be impaired. Impairment losses are recognized in the consolidated statements of operations when 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 derecognized (in full or partly) when the Company's rights to cash flows from the respective asset have expired or have been transferred and the Company 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.

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

Allowances for doubtful receivables represent the Company'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 Company's historical bad receivables experience.

Loans and receivables are further classified as current and non-current depending whether these are expected to be realized 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 are trading derivatives. Trading derivatives are derivatives for which hedge accounting is not applied because these are either not designated as hedging instruments or not effective as hedging instruments.

Subsequent to initial measurement, trading derivatives are carried at fair value and all their gains and losses, realized and unrealized are recognized in the consolidated statements of operations.

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, investments in securities, cash surrender value of Company owned life insurance and investments in companies where the Company does not exercise management control or have significant influence.

Subsequent to initial measurement, available-for-sale assets are stated at fair value with all unrealized gains or losses recognized in the consolidated statements of recognized income and expense through the available-for-sale reserve until their disposal, at which time such gains or losses previously recognized against equity are recognized in the consolidated statements of operations, except as noted below.

Life insurance policies are reported at their cash surrender value with any changes in cash surrender value being recognized in the consolidated statements of operations. An investment in a foreign entity comprised of unquoted equity securities in which the Company holds a non-controlling interest and no significant influence over operations is measured at cost.

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

Financial liabilities at amortized cost

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

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Subsequent to initial measurement, financial liabilities are recognized at amortized 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 recognized in the consolidated statements of operations 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 amortized 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 derecognized (in full or partly) when either the Company 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. The classification of derivatives is determined upon initial recognition and monitored on a regular basis.

Derivatives are initially recognized at fair value. These are subsequently remeasured at fair value on a quarterly basis. 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 recognized directly in the consolidated statements of operations.

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

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

Hedge accounting

The Company designates and documents certain derivatives as hedging instruments against changes in fair values of recognized assets and liabilities (fair value hedges) and highly probably forecast transactions (cash flow hedges). The effectiveness of such hedges is demonstrated at inception and verified on a quarterly basis, using prospective and retrospective testing.

Fair value hedges

The Company uses fair value hedges to mitigate the foreign currency and interest rate risks of its recognized assets and liabilities. The changes in fair values of hedging instruments are recognized in

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the consolidated statements of operations. Hedged items are also stated at fair value in respect of the risk being hedged, with any gain/loss being recognized in the consolidated statements of operations.

Cash flow hedges

The Company uses cash flow hedges to mitigate currency and/or commodity risks of highly probable forecasted transactions, such as purchases of raw materials and finished goods and equipment.

The effective part of the changes in fair value of hedging instruments are recognized in the consolidated statements of recognized income and expense through the hedge reserve, while any ineffective part is recognized immediately in the consolidated statements of operations. When the hedged item results in the recognition of a non-financial asset or liability, the gains or losses previously recognized in the consolidated statements of recognized income and expense are included in the measurement cost of the asset or of the liability. Otherwise the gains or losses previously recognized in the consolidated statements of recognized income and expense are removed and recognized in the consolidated statements of operations at the same time as the hedged transaction.

Fair values

The Company 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 Company 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. Movements in raw materials 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. A provision is established when the net realizable value of any inventory item is lower than the value calculated using the methods noted above.

Property, Plant and Equipment

Property, plant and equipment are stated at historical cost and are depreciated using the straight-line method over their estimated useful lives. The Company reviews the depreciation periods on an annual basis. Land is not depreciated.

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The rates of depreciation used are based on the following useful lives:

Land improvements	20 to 40 years
Buildings	40 to 50 years
Plant and machinery	8 to 13 years
Tools, furniture and sundry	5 years
Vehicles	5 to 8 years
Information technology equipment	3 to 4 years

Leased Assets

Assets acquired under long-term finance leases are capitalized and amortized in accordance with the Company's policy on property, plant and equipment. The associated obligations are included in financial liabilities. Leasehold improvements are amortized over their life or lease term, whichever is shorter.

Rents payable under operating leases are charged to the consolidated statements of operations on a straight-line basis over the term of the lease.

Goodwill

Goodwill, representing the excess of the cost of acquisitions over the fair value of the identifiable net assets acquired, is capitalized. Goodwill is not amortized but tested for impairment at least annually and upon the occurrence of an indication of impairment.

Intangible Assets

Intangible assets include acquired or internally developed intangible assets, primarily software and various rights connected with business activities. These assets are amortized on a straight-line basis over their estimated useful lives (between 3 and 20 years), unless such lives are indefinite. Intangible assets with indefinite useful lives are systematically tested for impairment at each balance sheet date and upon the occurrence of an indication of impairment. Amortization of intangible assets is allocated to marketing, general and administrative expenses in the consolidated statements of operations. The Company reviews the amortization periods on an annual basis.

Impairment of Assets

The carrying amounts of the Company's long-lived assets, other than pension assets and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see below).

For goodwill, assets that have an indefinite useful life and for intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the consolidated statements of operations.

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When a decline in the fair value of an available-for-sale financial asset has been recognized directly in the consolidated statements of recognized income and expense and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized directly in equity is recognized in the consolidated statements of operations even though the financial asset has not been derecognized. The amount of the cumulative loss that is recognized is the difference between the acquisition cost and current fair value, less any impairment loss previously recognized.

(i) Calculation of recoverable amount

The recoverable amount is the greater of 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 using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through the consolidated statements of operations. An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Assets Held for Sale and Discontinued Operations

Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up-to-date in accordance with applicable IFRSs. Then, on initial classification as held for sale, non-current assets and disposal groups are recognized at the lower of carrying amount or fair value less cost to sell.

Impairment losses on initial classification as held for sale are included in the consolidated statements of operations. The same applies to gains and losses on subsequent measurements.

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resell.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

Pensions and Retirement Benefits

The Company accounts for its defined benefit plans in accordance with IAS 19, *Employee Benefits (revised 2004)*. The liabilities of the Company arising from its defined benefit obligations are determined using the projected unit credit method. The Company's external actuaries perform

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valuations on an annual basis. Such plans are either externally funded, with the plan assets held separately from those of the Company in independently administered funds, or unfunded with the related liabilities recorded on the consolidated balance sheets.

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 recognized as a liability or an asset on the consolidated balance sheets, taking into account any unrecognized actuarial gains or losses and past service costs. However, an excess of assets is recognized only to the extent that it represents a future economic benefit which is actually available to the Company, for example in the form of refunds from the plan or reductions in future contributions to the plan.

Actuarial gains and losses arise mainly from changes in actuarial assumptions and differences between actuarial assumptions and what has actually occurred. They are recognized outside of net income in the period in which they occur directly in the consolidated statements of recognized income and expense.

For defined benefit plans, the pension cost charged to the consolidated statements of operations consists of current service cost, interest cost, expected return on plan assets and past service cost. The past service cost for the enhancement of pension benefits is accounted for when such benefits vest or become a constructive obligation. The expected rate of return on plan assets takes into consideration historical asset class returns, current market conditions, portfolio strategy, future market expectations, and is determined by plan investment and actuarial advisors.

The Company also provides for benefits under defined contribution plans. Contributions to these plans are charged to the consolidated statements of operations as incurred.

In addition, the Company provides post employment health care benefit plans to eligible retired employees. These plans are accounted for in accordance with IAS 19.

Full pensions and retirement benefit reporting is done once a year in December, at which point actuarial gains and losses for the period are determined.

Share-Based Payment

Share-based payments are granted to certain key members of management. Liabilities arising from such transactions are recognized in the consolidated statements of operations over the vesting period. Share-based payments are comprised of Nestlé S.A. Share Appreciation Rights (SARs) and Nestlé S.A. Restricted Stock Units (RSUs).

Share Appreciation Rights

The Company granted SARs to key members of management entitling employees to a cash payment. No SARs have been granted subsequent to July 2005. The amount of the cash payment is determined based on the increase in the share price of Nestlé S.A. from grant date until exercise date. All of the SARs vest after the employee has completed three years of service from the grant date and expire if the employee has not elected to receive a cash payment within seven years from the grant

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date. Upon voluntary resignation or termination of employment for cause, all SARs granted and outstanding become null and void without any compensation. However, upon termination of employment, as a result of death, redundancy, disability, retirement, termination without cause or divestiture, all SARs granted and outstanding vest immediately. SARs are fair valued at each reporting date and measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the instruments were granted. The cost of such transactions is adjusted for the forfeitures of the participants' rights that no longer satisfy the plan conditions, as well as for early vesting.

Restricted Stock Units

In January 2006, the Company began granting RSUs to key members of management entitling employees to a cash payment. The RSU vests on the third anniversary of the grant date and may be redeemed on a date determined by the Company (generally within 2.5 months following vesting). The amount of the cash payment is determined based on the number of RSUs multiplied by the ten-day average of both the share price of Nestlé S.A. and the exchange rate preceding the redemption date. Upon voluntary resignation or termination of employment for cause, all RSUs granted and outstanding become null and void without any compensation. However, upon termination of employment, as a result of death, redundancy, disability, retirement, termination without cause or divestiture, all RSUs granted and outstanding will continue to vest and become vested on the third anniversary of the grant date and will be redeemed on a date determined by the Company.

Other Accrued Liabilities

Other accrued liabilities are comprised mainly of amounts expected to be paid under the Company's long-term management incentive plan and other Company obligations.

Provisions

Provisions include liabilities of uncertain timing or amounts that arise from restructuring, environmental, litigation and other risks. Provisions are recognized when a legal or constructive obligation exists stemming from a past event, when it is probable that a cash outflow will be necessary to settle the obligation and when the amount of the obligation can be reasonably estimated. Obligations from restructuring plans are recognized when detailed formal plans have been established and when there is a valid expectation that such plan will be carried out.

Events 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. Such adjustments are made up to the date of issuance of the consolidated financial statements. Other non-adjusting events are disclosed in the notes.

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Net Sales

Net sales represent the sales of products and services, net of general price reductions and sales taxes. Net sales are recognized in the consolidated statements of operations when shipped and when the significant risks and rewards of ownership of the goods have been transferred to the buyer.

Net Financing Costs

Net financing costs include interest on borrowings to or from third parties and affiliated companies. Borrowing costs are recognized as an expense in the period in which they are incurred. Exchange differences on financial assets and liabilities, the results of interest hedging instruments that are recognized in the consolidated statements of operations, and amortization of financing premiums and discounts are also presented in net financing costs.

Taxation

Taxes include current taxes on income and other taxes such as taxes on capital and adjustments relating to prior years. Income tax is recognized in the consolidated statements of operations, except to the extent that it relates to items directly taken to equity, in which case it is recognized in the consolidated statements of recognized income and expense.

Deferred taxation is the tax attributable to the temporary differences that appear when taxation authorities recognize and measure assets and liabilities with rules that differ from those of the consolidated financial statements.

Deferred taxes are calculated under the liability method at the rates of tax expected to prevail when the temporary differences reverse. Any changes of tax rates are recognized in the consolidated statements of operations unless related to items directly recognized in the consolidated statements of recognized income and expense. Deferred tax liabilities are recognized on all taxable temporary differences excluding non-deductible goodwill. Deferred tax assets are recognized on all deductible temporary differences provided that it is probable that future taxable income will be available.

Reclassifications

Certain reclassifications have been made to the 2006 consolidated financial statement balances to conform to the 2007 presentation.

(b) *Changes in Accounting Policies*

The Company has applied the following IFRSs and revised IASs from January 1, 2006 onwards:

IFRIC 4 – Determining whether an Arrangement contains a Lease

This interpretation requires that when an entity enters into an agreement that does not take the legal form of a lease but conveys the right to use the asset, the entity shall separate the lease payments from the other payments under the agreement if the entity has the right to control the use of or access

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to the underlying asset, subject to the contract, or takes essentially all the output. The entity shall determine whether the lease component of the agreement is a financial or an operation lease in accordance with IAS 17 *Leases* (revised 2003).

The Company has entered into several outsourcing or take or pay agreements that qualify as lease arrangements under IFRIC 4.

IAS 19 – Employee Benefits

IAS 19 ¶ 93A has been applied for the first time in 2006, whereby actuarial gains and losses are recognized in the period in which they occur outside profit or loss in the consolidated statement of recognized income and expense in equity. Previously recorded actuarial gains and losses were recognized in the consolidated statements of operations, over the expected average remaining working lives of the employees, to the extent that their net cumulative amount exceeded 10% of the greater of the present value of the obligation or of the fair value of the plan assets at the end of the previous year.

The Company has applied the following IFRSs and revised IASs from January 1, 2007 onwards:

IFRS 7 – Financial Instruments: Disclosures

The application of this new standard in 2007 has only resulted in additional disclosures on financial instruments.

IFRIC Interpretations

The adoption of IFRIC 9 *Reassessment of Embedded Derivatives*, IFRIC 10 *Interim Financial Reporting and Impairment*, and IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* did not have a material effect on the consolidated financial statements in the current or prior period.

Changes in IFRS and IAS that may affect the Company after December 31, 2007:

IFRS 8 – Operating Segments

In November 2006, the IASB published IFRS 8 *Operating Segments*, which supersedes IAS 14 *Segment Reporting* and is effective for annual periods beginning on or after January 1, 2009. IFRS 8 impacts the manner by which entities identify operating segments and requires additional disclosures. The Company is currently evaluating the impact of the adoption of IFRS 8 on the segment disclosures.

IAS 1 Revised – Presentation of Financial Statements

In September 2007, the IASB published the revised version of IAS 1 *Presentation of Financial Statements*, which is effective for annual periods beginning on or after January 1, 2009. This revised standard introduces a statement of comprehensive income but permits an option to present an income statement and a statement of other comprehensive income. It also includes a voluntary change in the titles of certain financial statements. The Company is currently evaluating the impact of the adoption of the revised IAS 1 on the consolidated financial statements, however, does not believe the impact of adoption will be significant.

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IAS 23 Revised – Borrowing Costs

In March 2007, the IASB published the revised version of IAS 23 *Borrowing Costs*, which is effective for annual periods beginning on or after January 1, 2009. The revised IAS 23 generally requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Further, it does not permit the option of immediately recognizing all borrowing costs as an expense, which was the treatment in the previous version of the standard. The Company is currently evaluating the impact of the adoption of the revised IAS 23 on the consolidated balance sheets, statements of operations and financial disclosures, but does not believe the impact of adoption will be material.

IFRIC 13 – Consumer Loyalty Programs

In June 2007, the International Financial Reporting Interpretations Committee published IFRIC 13 *Customer Loyalty Programs*, which is effective for annual periods beginning on or after January 1, 2008. IFRIC 13 provides guidance on accounting for award credits granted under customer loyalty programs in a sales transaction. It requires that the fair value of the consideration related to award credits programs be separately identified as a component of the sales transaction and recognized when the awards are redeemed by the customers and the corresponding obligations are fulfilled by the Company. The Company is currently evaluating the impact of the adoption of IFRIC 13 on the consolidated balance sheets and statements of operations and financial statement disclosures, however, do not believe the impact will be material.

IFRIC 14 – IAS 19 – The Limit on a Defined Benefit Asset - Minimum Funding Requirements and their Interaction

In July 2007, the International Financial Reporting Interpretations Committee published IFRIC 14 *IAS 19 - The Limit on a Defined Benefit Asset - Minimum Funding Requirements and their Interaction*, which is effective for annual periods beginning on or after January 1, 2008. IFRIC 14 clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements on such assets. It also addresses when a minimum funding requirement might give rise to a liability. The Company is currently evaluating the impact of the adoption of IFRIC 14 on the consolidated balance sheets, statements of operations and financial statement disclosures.

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 in the Nutrition segment:

HealthCare Nutrition (Nestlé HealthCare Nutrition, Inc), medical nutrition, 100% (July 2007)

Gerber (Gerber Products Company, Gerber Finance Company and Gerber Life Insurance Company), baby foods, baby care products and juvenile life insurance, 100% (September 2007)

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(2) Segmental Information

Segmental information is as follows. 2006 comparatives have been restated to reflect internal changes in management responsibility as of January 1, 2007.

	Nestlé USA brands (i)	Petcare	Ice cream	Nutrition (i)	Other (i)	Total
2007						
<i>Segment revenue and results</i>						
Net sales	\$ 8,431,950	5,553,634	2,195,445	2,091,099	52,244	18,324,372
EBIT (ii)	974,169	904,720	(25,120)	175,539	1,880	2,031,188
Segment assets	2,757,646	1,647,896	1,056,587	972,387	31,377	6,465,893
Segment liabilities	1,225,510	429,846	223,545	586,838	13,648	2,479,387
Capital expenditures	415,327	248,398	138,824	35,640	3,607	841,796
Depreciation of segment assets	141,507	94,900	90,342	37,901	1,224	365,874
Impairment of segment assets	-	4,844	4,009	-	-	8,853
Restructuring costs	5,051	-	1,256	14,745	-	21,052
2006						
<i>Segment revenue and results</i>						
Net sales	\$ 7,949,132	5,142,666	2,143,360	930,190	33,771	16,199,119
EBIT (ii)	923,370	838,097	(25,785)	49,329	(10,249)	1,774,762
Segment assets	2,542,939	1,462,982	1,043,886	182,230	17,701	5,249,738
Segment liabilities	1,338,217	407,791	241,757	232,163	6,225	2,226,153
Capital expenditures	246,169	174,846	147,181	12,172	3,456	583,824
Depreciation of segment assets	142,292	107,529	84,872	18,220	528	353,441
Impairment of segment assets	15,011	-	-	-	-	15,011
Restructuring costs	9,176	-	-	5,900	-	15,076

- (i) Nestlé USA brands primarily consist of beverage, prepared foods, confections and snacks, and other food products. Nutrition primarily consists of baby foods, baby care products, medical nutritional food products and performance related food products. Other is comprised of certain immaterial segments.
- (ii) The Company determines EBIT by allocating corporate expenses to its operating segments based on activity based cost drivers.

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(3) Trade and Other Receivables

Trade and other receivables are as follows:

By Type

	<u>2007</u>	<u>2006</u>
Trade, less allowances of \$41,921 and \$9,939, respectively	\$ 1,210,001	1,080,721
Due from Nestlé S.A. controlled companies	950,510	723,673
Other	257,968	57,648
	<u>\$ 2,418,479</u>	<u>1,862,042</u>

The Company's largest customer represents 9% and 10% of trade and other receivables at December 31, 2007 and December 31, 2006, respectively.

Past due and impaired receivables

	<u>2007</u>	<u>2006</u>
Not past due	\$ 2,244,225	1,584,190
Past due 1-30 days	214,914	278,275
Past due 31-60 days	8,361	11,650
Past due 61-90 days	4,211	6,169
Past due 91-120 days	4,236	5,120
Past due more than 120 days	2,940	806
Unapplied credit memos	(18,487)	(14,229)
Allowance for doubtful receivables	(41,921)	(9,939)
	<u>\$ 2,418,479</u>	<u>1,862,042</u>

Allowance for doubtful receivables

	<u>2007</u>	<u>2006</u>
At January 1	\$ 9,939	22,730
Allowances made in the period	3,849	-
Amounts used and reversal of unused amounts	(1,644)	(13,265)
Acquisitions	29,777	474
At December 31	<u>\$ 41,921</u>	<u>9,939</u>

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(4) Inventories

Inventories are as follows:

	<u>2007</u>	<u>2006</u>
Raw materials	\$ 360,386	275,828
Finished goods and work in progress	991,798	801,472
	1,352,184	1,077,300
Provisions	(36,175)	(31,562)
Inventories, net	<u>\$ 1,316,009</u>	<u>1,045,738</u>

(5) Derivative Assets and Liabilities

Derivative Assets				
	<u>2007</u>		<u>2006</u>	
	<u>Fair value</u>	<u>Contractual or notional amount</u>	<u>Fair value</u>	<u>Contractual or notional amount</u>
Fair value hedges:				
Currency forwards	\$ 23,061	347,478	5,261	152,988
Interest rate swaps	45,658	1,500,000	2,247	400,000
Interest rate and currency swaps	213,917	2,258,703	67,651	1,337,833
Cash flow hedges:				
Currency forwards and options	701	79,720	375	18,735
Interest rate swaps	14	100,000	46,513	2,325,000
Interest rate and currency swaps	15,834	352,889	—	—
Commodity futures and options	5,048	51,102	5,137	91,730
Trading:				
Currency options	140	981	233	(92)
Interest rate swaps	7,518	250,000	—	—
Commodity futures	5,847	9,512	2,716	12,442
	<u>\$ 317,738</u>	<u>4,950,385</u>	<u>130,133</u>	<u>4,338,636</u>

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	Derivative Liabilities			
	2007		2006	
	Fair value	Contractual or notional amount	Fair value	Contractual or notional amount
Fair value hedges:				
Currency forwards	\$ 897	14,675	2,311	95,128
Interest rate swaps	—	—	1,217	600,000
Interest rate and currency swaps	—	—	5,494	369,155
Cash flow hedges:				
Currency forwards	—	—	342	40,599
Interest rate swaps	60,826	2,825,000	17,976	775,000
Commodity futures and options	3,732	40,846	4,126	54,728
Trading:				
Interest rate options	1,393	259,632	458	250,054
Interest rate swaps	—	—	75	250,000
Commodity futures	4,530	8,596	2,906	16,092
	<u>\$ 71,378</u>	<u>3,148,749</u>	<u>34,905</u>	<u>2,450,756</u>

Net gains (losses) recorded in the consolidated statement of operations for fair value hedges:

	2007	2006
Hedged items	\$ (192,429)	(51,472)
Hedging instruments	155,449	37,704
Net loss	<u>\$ (36,980)</u>	<u>(13,768)</u>

There was no gain (loss) recorded during the years ended December 31, 2007 and 2006 in the consolidated statement of operations for the ineffective portion of cash flow hedges.

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(6) Financial Assets

Non-current financial assets are as follows:

	<u>2007</u>	<u>2006</u>
Cash surrender value of Company-owned life insurance policies	\$ 756,682	726,808
Available-for-sale securities	1,340,153	98,095
Tax settlement receivable	29,262	26,369
Contract loans receivable	35,044	—
Other	18,375	20,740
	<u>\$ 2,179,516</u>	<u>872,012</u>

Available-for-sale securities primarily represent portfolio assets totaling \$1,241,884 that includes both debt and equity securities acquired through the purchase of Gerber in September 2007. Additionally, the Company was party to a legal amalgamation dated January 1, 2003 whereby the former Ralston Purina Canada, a wholly owned subsidiary of Nestlé Purina PetCare Company, and Nestlé Canada, Inc. (old) were combined, via exchange of share capital, to form Nestlé Canada, Inc. (new). In exchange for its 5,698 common shares of the former Ralston Purina Canada, the Company received 34,000 Class A voting convertible preferred shares of Nestlé Canada, Inc. (new) representing a 12.9% non-controlling net investment in a foreign entity and is classified as an available-for-sale equity security in accordance with IAS 39. The investment is recorded at its historical cost of \$93,287 since the underlying equity instruments are not quoted on a public stock exchange.

Contract loans, acquired through the purchase of Gerber Life in September 2007, represent funds borrowed by insurance policy holders against the cash value of their corresponding whole life insurance policies. If a borrower's contract loan (principal and interest) equate to the cash surrender value of the corresponding policy, then this policy would decrease by the amount of the outstanding policy holder's contract loan.

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(7) Property, Plant and Equipment

Property, plant and equipment are comprised of the following:

	Land and Buildings	Plant and Machinery	Tools, Furniture and Sundry Vehicles	Information Technology Equipment	Total 2007	Total 2006
Gross value:						
At January 1	\$ 1,511,184	3,147,017	204,480	106,574	234,088	5,203,343
Additions	144,350	594,050	49,269	18,334	35,793	841,796
Disposals/other	8,334	(136,950)	(1,818)	(2,238)	(17,156)	(149,828)
Business acquisitions	64,578	179,742	11,405	1,055	1,228	258,008
At December 31	<u>\$ 1,728,446</u>	<u>3,783,859</u>	<u>263,336</u>	<u>123,725</u>	<u>253,953</u>	<u>6,153,319</u>
Accumulated depreciation:						
At January 1	\$ (508,422)	(1,383,314)	(115,941)	(70,514)	(197,449)	(2,275,640)
Depreciation	(53,893)	(241,236)	(32,948)	(12,723)	(25,074)	(365,874)
Disposals/other	(4,112)	97,562	3,090	1,865	17,165	115,570
Impairment of assets (note 19)	(62)	(8,791)	—	—	—	(8,853)
At December 31	<u>(566,489)</u>	<u>(1,535,779)</u>	<u>(145,799)</u>	<u>(81,372)</u>	<u>(205,358)</u>	<u>(2,534,797)</u>
Net at December 31	<u>\$ 1,161,957</u>	<u>2,248,080</u>	<u>117,537</u>	<u>42,353</u>	<u>48,595</u>	<u>3,618,522</u>

The 2007 impairment was attributable to certain fixed assets used in the production lines of the Ice Cream and PetCare segments due to changes in product mix. The impairment recognized in 2006 resulted primarily from fixed assets associated with the production of Nestea. The impairment charge (included in net other expense) was calculated by deducting the anticipated proceeds from the sale of the assets from the net book value of the assets.

In 2007, the Company acquired certain real property related to the purchase of Novartis Nutrition Corporation and Gerber amounting to \$46,011 and \$211,631, respectively. Additional smaller acquisitions added \$366 of real property in 2007. During 2006, the purchases of Joseph's Pasta and Jenny Craig contributed \$21,441 and \$15,008, respectively, of real property.

There were no capital lease financed purchases in 2007. There was \$38,193 of capital lease financed purchases in 2006. The net book value of assets held under finance leases included in property, plant and equipment at December 31, 2007 and 2006 was \$60,394 and \$76,168, respectively.

At December 31, 2007 and 2006, property, plant and equipment included \$547,572 and \$272,164, respectively, of assets under construction. There were \$80,040 and \$164,427 (note 22) in commitments for future capital expenditures as of December 31, 2007 and 2006, respectively.

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(8) Employee Benefits

The majority of the Company's employees are eligible for retirement benefits under defined benefit schemes based on pensionable remuneration and length of service, consisting mainly of final salary plans. The Company also maintains medical benefit plans, which cover eligible retired employees.

Reconciliation of assets and liabilities recognized in the consolidated balance sheets is as follows:

	2007			2006		
	Defined benefit retirement plans	Post- employment medical benefits	Total	Defined benefit retirement plans	Post- employment medical benefits	Total
Present value of funded obligations	\$ 2,550,683	737,888	3,288,571	2,428,015	491,800	2,919,815
Fair value of plan assets	(3,252,033)	(77,000)	(3,329,033)	(2,665,807)	—	(2,665,807)
Excess of liabilities (assets) on funded obligations	(701,350)	660,888	(40,462)	(237,792)	491,800	254,008
Present value of unfunded obligations	473,579	—	473,579	494,128	—	494,128
Unrecognized past service cost on nonvested benefits	(109)	1,067	958	(53)	43	(10)
Net (assets) liabilities related to defined benefit plans	(227,880)	661,955	434,075	256,283	491,843	748,126
Cash settled transactions liability	—	84,181	84,181	—	57,792	57,792
Net (assets) liabilities	\$ (227,880)	746,136	518,256	256,283	549,635	805,918

The net liabilities are reflected in the consolidated balance sheets as follows:

	2007	2006
Employee benefits assets	\$ (779,553)	(237,846)
Employee benefits liabilities	1,297,809	1,043,764
Net liabilities	\$ 518,256	805,918

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The movement in the present value of defined benefit obligations is reflected as follows:

	2007			2006		
	Defined benefit retirement plans	Post- employment medical benefits	Total	Defined benefit retirement plans	Post- employment medical benefits	Total
At January 1	\$ 2,922,143	491,800	3,413,943	2,910,054	464,446	3,374,500
of which unfunded defined benefit schemes	494,128	—	494,128	492,254	—	492,254
Current service cost	67,518	17,109	84,627	62,689	14,641	77,330
Interest cost	169,043	31,301	200,344	160,121	26,555	186,676
Past service cost of vested benefits	4,296	—	4,296	2,840	—	2,840
Past service cost of non- vested benefits	156	—	156	92	—	92
Actuarial (gains)/losses	(156,005)	(19,226)	(175,231)	11,984	8,309	20,293
Benefits paid on funded defined benefit schemes	(175,316)	—	(175,316)	(170,290)	—	(170,290)
Benefits paid on unfunded defined benefit schemes	(41,245)	(25,041)	(66,286)	(55,347)	(22,151)	(77,498)
Transfer of benefit balance through acquisitions	233,672	241,945	475,617	—	—	—
At December 31	\$ 3,024,262	737,888	3,762,150	2,922,143	491,800	3,413,943
of which unfunded defined benefit schemes	473,579	—	473,579	494,128	—	494,128

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The movement in the fair value of defined benefit assets is reflected as follows:

	2007			2006		
	Defined benefit retirement plans	Post- employment medical benefits	Total	Defined benefit retirement plans	Post- employment medical benefits	Total
At January 1	\$ (2,665,807)	–	(2,665,807)	(2,396,095)	–	(2,396,095)
Expected return on plan assets	(234,023)	–	(234,023)	(206,174)	–	(206,174)
Employer contributions	(66,000)	–	(66,000)	(91,620)	–	(91,620)
Actuarial gains and losses	(212,724)	–	(212,724)	(142,208)	–	(142,208)
Benefits paid on funded defined benefit schemes	175,316	–	175,316	170,290	–	170,290
Transfer of benefit balance through acquisitions	(248,795)	(77,000)	(325,795)	–	–	–
At December 31	<u>\$ (3,252,033)</u>	<u>(77,000)</u>	<u>(3,329,033)</u>	<u>(2,665,807)</u>	<u>–</u>	<u>(2,665,807)</u>

The Company expects to contribute \$3,000 to its funded defined benefit plans in 2008 and contributed \$66,000 in 2007.

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

	2007	2006
At December 31		
Equities	53.0%	53.0%
Bonds	26.0%	26.0%
Alternative investments	21.0%	21.0%
Total	<u>100.0%</u>	<u>100.0%</u>

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Actuarial gains (losses) of defined benefit schemes recognized in the consolidated statements of recognized income and expense are reflected as follows:

	Defined benefit retirement plans	Post- employment medical benefits	Total	Defined benefit retirement plans	Post- employment medical benefits	Total
Experience adjustments:						
Plan assets	\$ 212,724	–	212,724	142,208	–	142,208
Plan liabilities	156,005	19,226	175,231	(11,984)	(8,309)	(20,293)
At December 31	<u>\$ 368,729</u>	<u>19,226</u>	<u>387,955</u>	<u>130,224</u>	<u>(8,309)</u>	<u>121,915</u>

Expenses recognized in the consolidated statements of operations are as follows:

	2007			2006		
	Defined benefit retirement plans	Post- employment medical benefits	Total	Defined benefit retirement plans	Post- employment medical benefits	Total
Current service cost	\$ 67,518	17,109	84,627	62,689	14,641	77,330
Interest cost	169,043	31,301	200,344	160,121	26,555	186,676
Expected return on plan assets	(234,023)	–	(234,023)	(206,174)	–	(206,174)
Past service cost	4,396	1,024	5,420	2,901	1,024	3,925
At December 31	<u>\$ 6,934</u>	<u>49,434</u>	<u>56,368</u>	<u>19,537</u>	<u>42,220</u>	<u>61,757</u>

The above expenses are allocated to the appropriate headings of expenses by function.

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	<u>2007</u>	<u>2006</u>
Actual return on plan assets	\$ 445,786	347,144

	<u>2007</u>	<u>2006</u>
Principal actuarial assumptions:		
Discount rates	6.25%	5.75%
Expected long-term rates of return on plan assets	8.50%	8.50%
Expected rates of salary increases	4.00%	4.00%
Medical cost trend rates	10.0 - 5.0%	8.0 - 5.0%
Average remaining working lives of employees (in years)	7.0 - 16.0	5.0 - 22.0

In 2007, a one percentage point increase in assumed medical cost trend rates would increase the defined benefit obligation by \$11,870 and increase the sum of service cost and interest cost components by \$610. In 2006, a one percentage point increase in assumed medical cost trend rates would increase the defined benefit obligation by \$5,500 and increase the sum of service cost and interest cost components by \$330.

The Company sponsors and contributes to employee savings plans. Contributions are determined by either the matching of employee contributions or discretionary contributions, as defined by the plans. Amounts charged to expense for defined contribution plans totaled \$69,084 in 2007 and \$61,492 in 2006. As of December 31, 2007 and 2006, the Company recorded an accrued liability totaling \$23,252 and \$22,267 (note 16), respectively, in connection with certain defined contribution plans that call for annual lump sum payments and a discretionary contribution.

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Share Appreciation Rights

At January 1, 2003, the Company began granting SARs to key members of management entitling employees to a cash payment. The table below summarizes SARs granted through December 31, 2007:

Grant date	Number of SARs
January 1, 2003	268,375
April 1, 2003	1,291
July 1, 2003	275
October 1, 2003	108
January 1, 2004	218,336
April 1, 2004	749
July 1, 2004	37
October 1, 2004	327
January 1, 2005	238,734
April 1, 2005	1,413
July 1, 2005	247
Total	729,892

The number and weighted average exercise prices of the SARs at December 31, 2007 and 2006 are listed in the following table. The weighted average Nestlé S.A. stock price was CHF 487.05 in 2007 and CHF 400.47 in 2006. The weighted average exercise prices below were translated from Swiss francs, the denomination currency of Nestlé S.A. stock, at the December 31, 2007 and 2006 spot rates; the exchange rates were 0.8881 and 0.8183 USD/CHF, respectively.

	2007			2006		
	Weighted average exercise price	Number of SARs	Average remaining contractual life	Weighted average exercise price	Number of SARs	Average remaining contractual life
Outstanding at the beginning of the period	\$ 244.53	552,805		227.16	709,742	
Forfeited during the period	262.89	(6,174)		245.65	(15,557)	
Exercised during the period	266.64	(203,403)		241.20	(141,380)	
Outstanding at the end of the period	264.67	343,228	3.4 years	244.53	552,805	4.2 years
Exercisable at the end of the period	\$ 264.98	268,322		243.91	392,613	

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The fair value of the SARs liability is determined based on the Black-Scholes model and is measured at each balance sheet date and at the settlement date. The expected volatility is based upon the historical volatility of the Nestlé S.A. stock price, adjusted for any expected changes to future volatility due to publicly available information. The assumptions and related SARs data at December 31, 2007 and 2006 are as follow (share price and exercise price are not in thousands):

		<u>2007</u>	<u>2006</u>
Share price	CHF	520.0	433.0
Exchange rate	(USD/CHF)	0.8881	0.8183
Exercise price	CHF	270.10 - 335.30	270.10 - 335.30
Expected volatility	%	26.48 - 27.88	18.49 - 20.23
Expiry	date	01/01/10 - 07/01/12	01/01/10 - 07/01/12
Expected dividends	%	1.99 - 2.78	2.19 - 2.84
Risk-free interest rate	%	2.72 - 2.89	2.60 - 2.64

Restricted Stock Units

At January 1, 2006, the Company began granting RSUs to key members of management entitling employees to a cash payment. The table below summarizes RSUs granted through December 31, 2007:

<u>Grant date</u>	<u>Number of RSUs</u>
January 1, 2006	35,107
April 1, 2006	34
July 1, 2006	493
October 1, 2006	84
January 1, 2007	30,683
April 1, 2007	116
July 1, 2007	166
October 1, 2007	45
Total	<u><u>66,728</u></u>

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The table below summarizes the number and weighted average exercise prices of the RSUs at December 31, 2007 and 2006.

	2007			2006		
	Weighted average exercise price	Number of RSUs	Average remaining contractual life	Weighted average exercise price	Number of RSUs	Average remaining contractual life
Outstanding at the beginning of the period	\$ 297.51	35,085		-	-	
Forfeited during the period	323.96	(431)		298.92	(458)	
Granted during the period	359.48	31,185		297.53	35,543	
Outstanding at the end of the period	326.73	65,839	5.5 years	297.51	35,085	6.0 years
Exercisable at the end of the period	\$ -	-		-	-	

The fair value of the RSU liability is measured at each balance sheet and settlement dates and is determined based on the number of RSUs multiplied by the ten-day average of both the share price of Nestlé S.A. and the exchange rate preceding the redemption date.

Combined, SAR and RSU expense totaled \$56,934 and \$30,834 in 2007 and 2006 respectively.

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(9) Investments in Associated Companies

The Company has the following investments in associated companies:

	Ownership interest		Net book value	
	2007	2006	2007	2006
Williams Inland Distributors, LLC	45.0%	45.0%	\$ 1,770	1,802
Joint Juice, Inc.	33.0%	33.0%	7,332	12,552
Starbucks Ice Cream Partnership	50.0%	50.0%	524	928
Beverage Partners North America	50.0%	50.0%	3,753	751
			<u>\$ 13,379</u>	<u>16,033</u>

The Company's share of recognized profit or loss in the above associated companies for the years ended December 31, 2007 and 2006 was \$(939) and \$228, respectively.

Unaudited summary financial information for associated companies – 100%:

2007	Assets	Liabilities	Revenues	Profit/(Loss)
Williams Inland Distributors, LLC	\$ 6,640	2,683	33,954	412
Joint Juice, Inc.	10,898	19,255	13,925	(15,819)
Starbucks Ice Cream Partnership	1,755	708	17,765	2,191
Beverage Partners North America	41,848	34,343	58,641	5,309
	<u>\$ 61,141</u>	<u>56,989</u>	<u>124,285</u>	<u>(7,907)</u>
2006	Assets	Liabilities	Revenues	Profit/(Loss)
Williams Inland Distributors, LLC	\$ 6,682	2,700	31,386	458
Joint Juice, Inc.	8,567	3,294	18,320	(6,270)
Starbucks Ice Cream Partnership	3,438	1,582	22,136	3,283
Beverage Partners North America	37,817	35,621	84,903	603
	<u>\$ 56,504</u>	<u>43,197</u>	<u>156,745</u>	<u>(1,926)</u>

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(10) Deferred Taxes

Deferred tax assets by types of temporary differences are as follows:

	<u>2007</u>	<u>2006</u>
Employee benefits	\$ 695,583	660,468
Inventories, receivables, payables, accruals and provisions	149,163	164,128
Financial instruments	34,245	—
Net operating losses	53,218	75,499
Other	19,544	23,497
	<u>\$ 951,753</u>	<u>923,592</u>

Deferred tax liabilities by types of temporary differences are as follows:

	<u>2007</u>	<u>2006</u>
Tangible fixed assets	\$ 270,638	262,284
Long-term receivables	2,765	4,509
Employee benefits	160,345	40,178
Goodwill and other intangible assets	717,538	341,502
Financial instruments	—	9,115
Other	173,983	—
	<u>\$ 1,325,269</u>	<u>657,588</u>

At December 31, 2007, deferred taxes were recognized for all temporary differences. Additionally, the Company had net operating losses, which can be carried forward to the extent taxable income will be generated. To date, a benefit has been fully recognized based on the Company's expectation of probable taxable profits before the unused tax losses expire.

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(11) Goodwill

Goodwill is as follows:

	<u>2007</u>	<u>2006</u>
Gross goodwill at January 1 ^(a)	\$ 13,460,931	12,924,631
Goodwill from acquisitions (note 24)	3,437,370	511,996
Other	—	24,304
At December 31	<u>16,898,301</u>	<u>13,460,931</u>
Accumulated impairments at January 1	(71,590)	(71,590)
Impairment of goodwill	—	—
At December 31	<u>(71,590)</u>	<u>(71,590)</u>
Net goodwill, at December 31	<u>\$ 16,826,711</u>	<u>13,389,341</u>

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

In 2007, the Company recorded \$3,189,531 and \$296,845 of goodwill as a result of the purchases of Gerber and Novartis Nutrition Corporation, respectively. Additionally, smaller acquisitions, including Trim Way and Eskimo Pie, contributed \$10,114 and \$1,762 of goodwill, respectively, in 2007. Purchase accounting adjustments of (\$60,882) were made in 2007 to the 2006 goodwill attributed to the Jenny Craig Holdings Inc. and Joseph's Gourmet Pasta and Sauces Company acquisitions. In 2006, the Company recorded \$483,231 and \$28,765 of goodwill as a result of the purchase of Jenny Craig Holdings Inc. and Joseph's Gourmet Pasta and Sauces Company, respectively.

Impairment Testing for Cash Generating Units (CGUs) containing Goodwill

Impairment reviews have been conducted for goodwill allocated to 6 CGUs, which is the lowest level at which the goodwill is monitored for internal management purposes. Detailed results of the impairment tests are presented below for the two main goodwill items tested, representing 63% of the net book value at December 31, 2007. For purpose of the tests, they are the following CGUs: PetCare and Ice Cream.

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. The carrying amounts of all goodwill items allocated to this CGU total \$8,172,477 at December 31, 2007.

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 of 5.6%, were used in this calculation. The cash flows for the first five years were based upon financial plans approved by Company management; years six to ten were based upon Company management's best expectations, which are consistent with the Company's approved strategy for this period. Cash flows were assumed to be flat for years 11 to 50, although Company management expects continuing growth. Cash flows have been adjusted to reflect specific business risks.

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

- Sales: annual growth between 3% and 5% over the first ten year period;
- EBIT margin evolution: stable EBIT consistent with sales growth and portfolio rationalization.

Assumptions used in the calculation are consistent with the expected long-term average growth rate of the PetCare business. 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 1% in the discount rate assumption would not change the conclusions of the impairment test.

Ice Cream

Goodwill related to the 2003 acquisition of Dreyer's Grand Ice Cream, Inc. as well as the former Nestlé Ice Cream Company has been allocated for the impairment test to the Ice Cream CGU. The carrying amounts of all goodwill items allocated to this CGU total \$2,505,412 at December 31, 2007.

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 Company management; years six to ten were based upon Company management's best expectations, which are consistent with the Company's approved strategy for this period. Cash flows were assumed to be flat for years 11 to 50, although Company 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 8% over the first ten year period;
- EBIT margin evolution: steadily improving margin over the period, consistent with sales growth and enhanced cost management and efficiency.

The key sensitivity for the impairment test is the growth in sales and EBIT. Limiting sales 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 growth would not result in the carrying amount exceeding the recoverable amount. An increase of 1% in the discount rate assumption would not change the conclusions of the impairment test.

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(12) Intangible Assets

Intangible assets, which include acquired or internally developed intangible assets, primarily software and various rights connected with business activities, are as follows:

	<u>2007</u>	<u>2006</u>
Gross intangible assets at January 1	\$ 588,182	338,982
of which indefinite useful life	—	—
Additions	56,792	181,769
Other	—	(957)
Intangible assets from acquisitions	1,225,021	349,333
Reclass to assets held for sale (note 24)	<u>(827,418)</u>	<u>(280,945)</u>
At December 31	1,042,577	588,182
of which indefinite useful life	141,300	—
Accumulated amortization at January 1	(255,087)	(230,309)
Amortization of intangible assets	<u>(62,985)</u>	<u>(24,778)</u>
At December 31	<u>(318,072)</u>	<u>(255,087)</u>
Net intangible assets, at December 31	<u>\$ 724,505</u>	<u>333,095</u>

In connection with the 2007 purchases of Gerber and Novartis Nutrition Corporation, the Company acquired certain indefinite-lived intangible assets with a fair value of \$968,718 and definite-lived intangible assets with a fair value of \$256,303. Indefinite-lived intangible assets represent trademarks which management expects to contribute to the cash flows of the Company indefinitely.

During 2006, the Company acquired certain intangible assets with a fair value of \$328,425 and \$20,908 from the purchase of Jenny Craig Holdings, Inc. and Joseph's Pasta and Sauces Company, respectively. In addition, in 2006, the Company capitalized \$176,367 of definite-lived management information system software.

During 2007 and 2006, indefinite-lived intangible assets totaling \$827,418 and \$280,945, respectively, were reclassified to assets held for sale in accordance with IFRS 3 (note 24).

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(13) Financial Instruments

Financial assets and liabilities

	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 134,460	100,835
Trade and other receivables	2,418,479	1,862,042
Derivative assets	317,738	130,133
Financial assets - non current	2,179,516	872,012
Total financial assets	<u>5,050,193</u>	<u>2,965,022</u>
Trade and other payables	1,186,766	1,266,602
Financial liabilities - current	11,492,336	7,118,604
Derivative liabilities	71,378	34,905
Financial liabilities - non current	10,317,066	9,110,963
Total financial liabilities	<u>23,067,546</u>	<u>17,531,074</u>
Net financial position	<u>\$ (18,017,353)</u>	<u>(14,566,052)</u>

By category

	<u>2007</u>	<u>2006</u>
Loans and receivables	\$ 2,466,040	1,936,333
Derivative assets ^(a)	317,738	130,133
Available-for-sale assets	2,266,415	898,556
Total financial assets	<u>5,050,193</u>	<u>2,965,022</u>
Financial liabilities at amortized cost	18,151,911	12,994,279
Financial liabilities at fair value under hedge accounting	4,844,257	4,501,890
Derivative liabilities ^(a)	71,378	34,905
	<u>23,067,546</u>	<u>17,531,074</u>
Net financial position	<u>\$ (18,017,353)</u>	<u>(14,566,052)</u>

^(a) Include derivatives classified as trading (Note 5)

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Bonds

Interest rates					Carrying value (in 000's)	
	Comments	Nominal	Effective	Year of issue/ maturity	2007	2006
Eurobonds:						
USD 300,000	(c)	5.13	5.24	2001-2007	\$ —	299,929
USD 500,000	(c)	4.75	4.98	2002-2007	—	499,935
NOK 2,000,000	(b)	5.25	5.16	2003-2007	—	321,415
USD 534,760	(d), (e)	—	6.25	2001-2008	521,154	640,738
USD 400,000	(c)	3.50	3.81	2001-2008	398,335	390,563
USD 300,000	(c)	5.00	5.19	2006-2008	300,341	297,175
USD 250,000	(f)	3.88	3.42	2003-2009	249,860	249,752
AUD 300,000	(b)	5.50	5.68	2005-2009	254,069	229,399
EUR 250,000	(b)	2.13	2.97	2005-2009	347,865	309,614
USD 300,000	(c)	4.38	4.38	2005-2009	300,892	296,077
GBP 100,000	(b)	5.13	5.24	2006-2009	197,408	194,682
GBP 100,000	(b)	5.13	5.39	2007-2009	196,651	—
AUD 200,000	(b)	6.00	6.23	2006-2010	172,745	155,169
CHF 450,000	(b)	2.50	2.57	2006-2013	386,261	367,704
CHF 400,000	(a)	2.75	2.66	2007-2010	353,488	—
NOK 1,000,000	(b)	4.75	4.80	2007-2010	167,366	—
AUD 100,000	(b)	6.00	6.62	2007-2010	79,829	—
HUF 10,000,000	(b)	6.88	7.20	2007-2010	56,971	—
USD 500,000	(c)	4.75	4.90	2007-2011	508,049	—
CHF 200,000	(b)	3.00	3.03	2007-2012	177,079	—
CHF 250,000	(b)	2.63	2.66	2007-2018	209,036	—
Other bonds issued by Nestlé Purina PetCare Company:						
USD 82,775		9.25	5.90	1989-2009	87,417	89,808
USD 47,680		7.75	6.25	1995-2015	52,010	52,433
USD 63,210		9.30	6.46	1991-2021	79,113	79,847
USD 78,963		8.63	6.46	1992-2022	94,614	95,277
USD 43,927		8.13	6.47	1993-2023	50,870	51,136
USD 51,164		7.88	6.45	1995-2025	58,717	58,946
Net debt obligations					5,300,140	4,679,599
Less current portion					(1,219,830)	(1,121,279)
Noncurrent portion					4,080,310	3,558,320
Fair Value of Bonds					\$ 5,315,000	4,708,000

(a) Subject to a currency swap that create a USD liability at fixed rates.

(b) Subject to an interest rate and currency swap that create a USD liability at floating rates.

(c) Subject to an interest rate swap that creates a liability at floating rates.

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

(e) The debt component is recognized under financial liabilities while the equity component has been recorded by Nestlé S.A., which received the premiums related to the warrants issued.

(f) Step-up fixed rate callable medium term note. Currently a related swap creates a liability at floating rates. However, the Company sold an option to the swap counterparty giving it the right to terminate the swap early, annually starting on March 31, 2005. Further, the note's coupon rate increases on March 31 as follows: 2003: 3%, 2005: 3.25%, 2007: 3.75%, 2008: 4%. The current swap takes into consideration this rate step-up, and, if not terminated by the Company prior to its maturity in 2009, would continuously create a liability at floating rates.

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(14) Financial Risks

In the course of its business, the Company 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 settlement risk). This note presents the Company's objectives, policies and processes for managing its financial risk and capital.

Financial risk management is an integral part of the way the Company is managed. The Nestlé S.A. Board of Directors establishes the Nestlé S.A. Group's financial policies and the Nestlé S.A. Chief Executive Officer establishes objectives in line with these policies. An Asset and Liability Management Committee (ALMC) under the supervision of the Nestlé S.A. Chief Financial Officer, is then responsible for setting financial strategies, which are executed by the Nestlé S.A. Centre Treasury, the Regional Treasury Centers and, in specific local circumstances, by the affiliated companies. The activities of the Centre Treasury and the various Regional Treasury Centers are supervised by a separate 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 Company only enters into derivative transactions relating to assets, liabilities or anticipated future transactions.

Credit Risk

Credit Risk Management

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

The Company'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 Company 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)

	<u>2007</u>	<u>2006</u>
Investment grade A and above	\$ 2,112,447	\$ 927,691
Investment grade BB+,BBB and BBB-	302,252	-
Not rated	169,454	100,998
	<u>\$ 2,584,153</u>	<u>\$ 1,028,689</u>

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The source of the credit ratings is mainly Standard & Poor's; if not available, the Company uses Moody's and Fitch's equivalents. The Company 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 Company is not exposed to material concentrations of credit risk on its trade receivables.

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 Company'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 Company does not expect any refinancing issues.

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Maturity of financial instruments

2007

Financial Assets (excl. currency derivatives)

	1st Year	2nd Year	3rd to 5th Year	After the 5th Year	Contractual Amount	Carrying Amount
Cash and cash equivalents	\$ 134,460	-	-	-	134,460	134,460
Trade and other receivables	2,418,479	-	-	-	2,418,479	2,418,479
Non-currency derivative assets	22,494	10,933	30,798	-	64,225	64,225
Other financial assets	-	4,222	13,425	1,988,722	2,006,369	2,006,369
	2,575,433	15,155	44,223	1,988,722	4,623,533	4,623,533
Financial assets without contractual maturities						173,147
	2,575,433	15,155	44,223	1,988,722	4,623,533	4,796,680

Financial liabilities (excl. currency derivatives)

Trade and other payables	1,186,766	-	-	-	1,186,766	1,186,766
Commercial paper	9,481,969	-	-	-	9,481,969	9,481,969
Bonds	1,404,145	1,720,148	1,764,698	1,172,215	6,061,206	5,300,140
Non-currency derivative liabilities	14,250	12,985	40,077	3,169	70,481	70,481
Other financial liabilities	823,895	673,934	3,229,986	1,711,199	6,439,014	6,398,732
	12,911,025	2,407,067	5,034,761	2,886,583	23,239,436	22,438,088
Financial liabilities without contractual maturities						628,561
	12,911,025	2,407,067	5,034,761	2,886,583	23,239,436	23,066,649

Currency derivative assets and liabilities

Gross amount receivable from currency derivatives	404,344	1,209,737	853,673	601,844	3,069,598	3,069,598
Gross amount payable from currency derivatives	(381,479)	(1,084,361)	(783,352)	(567,790)	(2,816,982)	(2,816,982)
	22,865	125,376	70,321	34,054	252,616	252,616

Net financial position

\$	(10,312,727)	(2,266,536)	(4,920,217)	(863,807)	(18,363,287)	(18,017,353)
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2006

Financial Assets (excl. currency derivatives)

	1st Year	2nd Year	3rd to 5th Year	After the 5th Year	Contractual Amount	Carrying Amount
Cash and cash equivalents	\$ 100,835	-	-	-	100,835	100,835
Trade and other receivables	1,862,042	-	-	-	1,862,042	1,862,042
Non-currency derivative assets	8,266	5,322	39,686	3,572	56,846	56,846
Other financial assets	-	31,377	21,905	725,115	778,397	778,397
	1,971,143	36,699	61,591	728,687	2,798,120	2,798,120
Financial assets without contractual maturities	-	-	-	-	-	93,615
	1,971,143	36,699	61,591	728,687	2,798,120	2,891,735

Financial liabilities (excl. currency derivatives)

Trade and other payables	1,266,602	-	-	-	1,266,602	1,266,602
Commercial paper	4,709,232	-	-	-	4,709,232	4,671,741
Bonds	1,292,914	1,528,649	1,730,808	910,929	5,463,300	4,679,599
Non-currency derivative liabilities	7,243	135	18,473	5,184	31,035	31,035
Other financial liabilities	1,330,560	534,701	2,298,065	2,115,830	6,279,156	6,259,765
	8,606,551	2,063,485	4,047,346	3,031,943	17,749,325	16,908,742
Financial liabilities without contractual maturities	-	-	-	-	-	618,462
	8,606,551	2,063,485	4,047,346	3,031,943	17,749,325	17,527,204

Currency derivative assets and liabilities

Gross amount receivable from currency derivatives	643,445	-	1,264,882	-	1,908,327	1,908,327
Gross amount payable from currency derivatives	(590,730)	-	(1,248,180)	-	(1,838,910)	(1,838,910)
	52,715	-	16,702	-	69,417	69,417

Net financial position

\$	(6,582,693)	(2,026,786)	(3,969,053)	(2,303,256)	(14,881,788)	(14,566,052)
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Market risk

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

Foreign currency risk

Foreign currency risk management

The Company is exposed to foreign currency risk from transactions. Transaction exposure arises because affiliated companies undertake transactions in foreign currencies.

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

Financial instruments by currency

2007

Financial Assets (excl. currency derivatives)

	USD	CHF	EUR	GBP	AUS	Other	Total
Cash and cash equivalents	\$ 134,460	-	-	-	-	-	134,460
Trade and other receivables	2,414,433	-	3,704	-	-	342	2,418,479
Non-currency derivative assets	64,225	-	-	-	-	-	64,225
Other financial assets	2,178,653	-	-	-	-	863	2,179,516
	4,791,771	-	3,704	-	-	1,205	4,796,680

Financial liabilities (excl. currency derivatives)

Trade and other payables	1,173,288	86	13,281	151	-	(40)	1,186,766
Commercial paper	9,161,624	160,299	83,740	-	-	76,306	9,481,969
Bonds	2,726,550	1,125,865	347,865	394,059	506,641	199,160	5,300,140
Non-currency derivative liabilities	70,481	-	-	-	-	-	70,481
Other financial liabilities	7,023,292	-	-	-	-	4,001	7,027,293
	20,155,235	1,286,250	444,886	394,210	506,641	279,427	23,066,649

Currency derivative assets and liabilities

Gross amount receivable from currency derivatives	-	1,289,672	458,436	409,149	523,026	389,315	3,069,598
Gross amount payable from currency derivatives	(2,800,827)	-	-	-	-	(16,155)	(2,816,982)
	(2,800,827)	1,289,672	458,436	409,149	523,026	373,160	252,616

Net financial position

\$ (18,164,291)	3,422	17,254	14,939	16,385	94,938	(18,017,353)
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2006

	USD	CHF	EUR	GBP	AUS	Other	Total
Financial Assets (excl. currency derivatives)							
Cash and cash equivalents	\$ 100,899	-	-	-	-	(64)	100,835
Trade and other receivables	1,927,251	-	6,858	-	-	(72,067)	1,862,042
Non-currency derivative assets	56,846	-	-	-	-	-	56,846
Other financial assets	868,941	-	3,071	-	-	-	872,012
	2,953,937	-	9,929	-	-	(72,131)	2,891,735
Financial liabilities (excl. currency derivatives)							
Trade and other payables	1,258,414	1,502	4,503	83	-	2,100	1,266,602
Commercial paper	4,426,709	89,273	61,706	-	-	94,053	4,671,741
Bonds	3,101,614	367,429	309,614	194,957	384,569	321,416	4,679,599
Non-currency derivative liabilities	31,035	-	-	-	-	-	31,035
Other financial liabilities	6,878,227	-	-	-	-	-	6,878,227
	15,695,999	458,204	375,823	195,040	384,569	417,569	17,527,204
Currency derivative assets and liabilities							
Gross amount receivable from currency derivatives	-	495,606	382,050	195,042	387,326	448,303	1,908,327
Gross amount payable from currency derivatives	(1,838,910)	-	-	-	-	-	(1,838,910)
	(1,838,910)	495,606	382,050	195,042	387,326	448,303	69,417
Net financial position	\$ (14,580,972)	37,402	16,156	2	2,757	(41,397)	(14,566,052)

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

Average interest rates

	2007	2006
Cash and cash equivalents	4.87%	4.90%
Financial liabilities (excl. bonds)	5.81%	5.75%

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Interest structure of non-current financial liabilities

	<u>2007</u>	<u>2006</u>
Financial liabilities at fixed rates	\$ 4,138,505	3,642,501
Financial liabilities at variable rates	5,551,929	4,851,149
Other	626,632	617,313
	<u>\$ 10,317,066</u>	<u>9,110,963</u>

Commodity price risk

Commodity risk management

The Company's activities expose it to the risk of changes in commodity prices. The Company's objective is to minimize 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 Centers are responsible for managing commodity price risks on the basis of internal directives and centrally determined limits. They ensure that the Company 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 Company's products.

The commodity price risk exposure of anticipated future purchases is managed using a combination of future and option derivatives. 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 Company, 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 Company 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 Company diversifies its portfolios in accordance with the Guidelines set by the Board of Directors.

The Company's external investments are primarily with publicly traded counterparties that have an investment grade rating by one of the recognized rating agencies.

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Settlement risk

Settlement risk results from the fact that the Company 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 Company uses historic simulation to calculate VaR based on the historic data for a 250 days period.

The VaR calculation is based on a 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 Company uses the described VaR analysis to estimate the potential one-day loss in the fair value of its financial and commodity instruments.

The Company 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 favorable 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 Company'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 Company's foreign currency and interest rate risk sensitive instruments, as calculated using the above described historic VaR model, are as follows:

	<u>2007</u>	<u>2006</u>
Foreign currency	\$ 18,926	12,850
Interest rate	24,130	21,506
Foreign currency and interest rate combined	8,835	9,309

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

	<u>2007</u>	<u>2006</u>
Commodity price	\$ 114	765

(15) Assets held for sale

	<u>2007</u>	<u>2006</u>
Business units	\$ 285,652	24,264
Intangible assets	829,323	286,323
	<u>\$ 1,114,975</u>	<u>310,587</u>

Business units held for sale represent certain wholly owned foreign subsidiaries which the Company acquired ownership of in connection with the 2007 purchase of Gerber and the 2001 purchase of Ralston Purina and intends to sell or transfer to its respective foreign affiliated companies. As of December 31, 2007, the Company was actively engaged in and progressing with the sale, transfer and liquidation of the remaining subsidiaries and expects their disposition will be completed in 2008 (note 25).

Intangible assets held for sale at December 31, 2007 consist primarily of intellectual property acquired in the Gerber acquisition of \$827,418. At December 31, 2006, intangible assets held for sale represented intellectual property acquired in the Jenny Craig acquisition of \$280,945. The intellectual property for Jenny Craig was sold in 2007 (note 24).

(16) Accruals

Accruals are as follows:

	<u>2007</u>	<u>2006</u>
Accrued trade spend and promotional expenses	\$ 280,506	264,605
Accrued payroll	377,014	323,309
Accrued interest	163,589	86,154
Accrued life insurance policy reserves	141,904	—
Accrued defined contribution expense (note 8)	23,252	22,267
Other accrued expenses	306,356	260,144
	<u>\$ 1,292,621</u>	<u>956,479</u>

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(17) Provisions

Provisions are as follows:

	<u>Restructuring</u>	<u>Environmental</u>	<u>Other</u>	<u>Total</u>
December 31, 2006	\$ 45,281	26,910	92,849	165,040
Provisions made in the period	21,052	5,104	12,859	39,015
Amounts used	(11,606)	(2,310)	(3,179)	(17,095)
Unused amounts reversed	(2,468)	—	(16,003)	(18,471)
Acquisitions	182	—	5,698	5,880
Other	—	—	4,860	4,860
December 31, 2007	<u>\$ 52,441</u>	<u>29,704</u>	<u>97,084</u>	<u>179,229</u>

Restructuring

During the fourth quarter of 2007, the Company announced several initiatives to reorganize its Infant Nutrition business and consolidate the Infant Nutrition operations previously located in Glendale California into the newly acquired Gerber business. The functions previously performed in California were relocated to New Jersey. As part of these actions, a restructuring provision of \$11,395 for related severance pay and other costs was recorded in 2007, of which \$1,282 was paid out. The remaining balance is expected to be utilized during 2008.

Additionally, headcount reductions in both the HealthCare Nutrition and Ice Cream businesses in 2007 resulted in restructuring charges of \$3,350 and \$1,256, respectively, of which \$314 of the Ice Cream provisions were utilized. The remaining balance is expected to be utilized over the next several years.

During 2007 and 2006, the Company used \$1,960 and \$413, respectively of its restructure severance reserves related to the consolidation of its PetCare operations in St. Louis, Missouri. The remaining balance is expected to be paid out in the next three to four years.

In early 2006, the Company announced plans to consolidate the Hand Held Foods group's sales broker network into the Nestlé sales organization and combine certain back office functions with the Prepared Foods group. An \$8,400 restructure provision was established, of which \$1,539 and \$4,116 was utilized in 2007 and 2006, respectively. In addition, the Company approved the rollout of a shared U.S. retail in-store selling organization between Nestlé USA and Nestlé Purina PetCare. The entire restructure provision for the selling organization of \$1,200 was utilized in 2006.

In August 2006, the Company announced the intended move of the Power Bar business to the headquarters location of Nestlé USA. The Company recorded a \$5,900 restructure reserve in 2006 for the move and utilized \$3,750 and \$708 of it in 2007 and 2006, respectively.

During 2005, the Company recorded a restructure provision of \$15,355 related to various outsourcing and reorganization plans involving Corporate, Human Resources, Finance and Control and other business areas. Additional reserves of \$3,900 were established in 2007. These reserves were reduced by \$2,341

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and \$6,440 in payments in 2007 and 2006, respectively. The remainder is expected to be utilized within the next two years.

In 2005, the Company announced the discontinuance of operations at three confectionary manufacturing facilities and recorded a restructure provision of \$8,111 for related severance pay, of which \$397 and \$5,062 was used in 2007 and 2006, respectively, and the remainder is expected to be utilized within the next year. The plants were closed in 2006.

Other Provisions

The Company has obligations under the terms of an onerous distribution agreement (“Drayage Agreement”) required by the U.S. Federal Trade Commission (FTC) as a condition of the closure of the Dreyer’s Nestlé merger in 2003. The Company paid out \$13,155 in 2006 and recognized \$1,914 in additional provision in 2006 related to the unwind of the discount as the contract extends out to 2008. New developments led to the reversal of \$4,901 and \$11,497 of the obligation in 2007 and 2006, respectively.

The remainder of other provisions is comprised primarily of costs related to closed facilities, non-cancelable lease agreements for warehouse and office facilities that the Company ceased to use, a provision to reflect rent expense on certain operating leases, which expire through 2013, on a straight-line basis through their expiration dates and litigation reserves.

(18) Net Financing Costs

Net financing costs are as follows:

	<u>2007</u>	<u>2006</u>
Interest expense	\$ (1,082,938)	(937,175)
Interest income	137,547	151,957
Gains/(losses) on instruments at fair value to income statement	<u>1,717</u>	<u>(2,487)</u>
	<u>\$ (943,674)</u>	<u>(787,705)</u>

Interest income on amounts due from affiliated and associated companies amounted to \$31,488 and \$26,042 in 2007 and 2006, respectively.

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(19) Net Other (Expense) Income

Net other (expense) income is as follows:

	2007	2006
Gain on trademark sold	\$ —	216,868
Gain on business divestitures (note 24)	13,707	—
Reversal of unused provisions	8,796	11,581
Restructuring expense	(21,052)	(25,994)
Impairment of property, plant and equipment (note 7)	(8,853)	(15,011)
Legal settlements and expenses	—	3,322
Dividend income	5,581	9,770
Gain (loss) on disposal of assets	1,830	(17,626)
Pet food recall	(33,500)	—
Other	(3,501)	(5,453)
	<u>\$ (36,992)</u>	<u>177,457</u>

On March 31, 2006, the Company sold intellectual property acquired in the Dreyer's acquisition, included in the Ice Cream segment, to Nestlé S.A. for \$574,136 resulting in a gain of \$216,868.

(20) Income Tax Expense

The components of income tax (expense) benefit from continuing operations are as follows:

	2007	2006
Current taxes	\$ (439,197)	(269,777)
Deferred taxes	(108,622)	(155,084)
Taxes recorded to equity	126,293	52,806
Income tax expense	<u>\$ (421,526)</u>	<u>(372,055)</u>

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The components of deferred tax benefit (expense) by type are as follows:

	<u>2007</u>	<u>2006</u>
Tangible fixed assets	\$ 46,482	30,011
Goodwill and other intangible assets	16,342	83,009
Employee benefits	(154,820)	(35,942)
Inventories, receivables, payables, accruals, and provisions	1,753	(50,960)
Long-term receivables	1,675	6,215
Financial instruments	27,345	(5,533)
Net operating losses	(22,281)	(179,319)
Other	(25,118)	(2,565)
	<u>\$ (108,622)</u>	<u>(155,084)</u>

Reconciliation of tax expense from continuing operations is as follows:

	<u>2007</u>	<u>2006</u>
Tax at theoretical rate	\$ (407,582)	(454,125)
Tax effect on nondeductible amortization of goodwill and other intangible assets	(3,031)	(3,018)
Permanent differences on Company-owned life insurance policies	25,529	26,552
Tax effect on nonallowable items	22,152	2,084
Prior years' tax	(60,020)	57,040
Other taxes	1,426	(588)
	<u>\$ (421,526)</u>	<u>(372,055)</u>
Effective tax rate	<u>40%</u>	<u>32%</u>

(21) Lease Commitments

The Company is obligated under various operating and finance leases primarily for buildings, distribution facilities, equipment, railroad and agricultural properties as follows:

(a) Operating Leases

	<u>Future value</u>
Within one year	\$ 90,260
In the second year	78,794
In the third to fifth year inclusive	192,965
After the fifth year	115,769
	<u>\$ 477,788</u>

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The Company recognized rent expense of \$91,991 and \$75,026 in 2007 and 2006, respectively, in the consolidated statements of operations. This expense was offset by sublease income of \$6,368 and \$6,684 in 2007 and 2006, respectively. Sublease payments of \$30,223 are expected to be received in future years.

b) Finance Leases

	<u>Present value</u>	<u>Future value</u>
Within one year	\$ 23,118	26,853
In the second year	15,991	18,669
In the third to fifth year inclusive	26,599	29,986
After the fifth year	6,749	7,593
	<u>\$ 72,457</u>	<u>83,101</u>

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

(22) Commitments and Contingencies

(a) Litigation

The Company is exposed to a number of asserted claims and unasserted potential claims encountered in the normal course of business. In the opinion of management, the resolution of these matters will not have a material impact on the Company's consolidated financial position.

(b) Exposure for Environmental Matters

The Company has certain liabilities and contingent liabilities related to environmental matters. The Company addresses environmental matters as follows:

- (i) Situations where the Company is found liable for remediation or cleanup efforts by the U.S. Environmental Protection Agency ("EPA") or other governmental agencies on specific sites represent known liabilities. In these instances, it is the Company's policy to accrue for environmental cleanup costs when they are assessed. As assessments and cleanups proceed, these liabilities are reviewed and adjusted as additional information becomes available regarding the nature and extent of contamination, methods of remediation required, other actions by governmental agencies or private parties, and the amount, if any, of available coverage by the Company's insurance carriers.
- (ii) The Company has also received "Notices of Potential Liability" from, or has been identified as a "Potentially Responsible Party" by the EPA or other government agencies regarding the

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alleged disposal of hazardous material at various sites around the country that allegedly require environmental cleanup. These represent contingent liabilities.

These proceedings are being vigorously defended or resolutions are being negotiated. Although the outcome of these proceedings is unknown, management does not believe that any resulting liability would be material to the consolidated financial position of the Company.

(c) Commitments for Expenditures on Property, Plant, and Equipment

The Company was committed to expenditures on property, plant, and equipment of \$80,040 and \$164,427 at December 31, 2007 and December 31, 2006, respectively (note 7).

(23) Business Acquisitions and Divestitures

a) Acquisitions

2007

Novartis Nutrition Corporation

Effective July 1, 2007, the Company acquired the net assets of Novartis Nutrition Corporation for \$506,118 in cash which was accounted for using the purchase method of accounting in accordance with IFRS 3 (revised 2005), *Business Combinations*. The fair value of the identifiable net assets acquired was \$209,273, resulting in goodwill of \$296,845 at the acquisition date, including direct costs of acquisition. Novartis Nutrition Corporation is a leading manufacturer and supplier of medical products to consumers and patients. Since the valuation of the assets and liabilities of this acquisition is still in process, the above values are preliminary.

Gerber

Effective September 1, 2007, the Company acquired 100% of the U.S. operations of Gerber Products Company, Gerber Finance Company and their related foreign subsidiaries as well as Gerber Life Insurance Company for \$4,804,948 in cash which was accounted for using the purchase method of accounting in accordance with IFRS 3 (revised 2005), *Business Combinations*. The fair value of the identifiable net assets acquired was \$1,615,417, resulting in goodwill of \$3,189,531 at the acquisition date, including direct costs of acquisition. Intellectual property in the amount of \$827,418 was reflected in assets held for sale in the accompanying consolidated balance sheets. In addition, \$256,768 of foreign subsidiaries was reflected in current financial assets as businesses held for sale at December 31, 2007. Gerber, founded in 1928, is a leading manufacturer and marketer of infant food and infant related products and juvenile insurance. Since the valuation of the assets and liabilities of this acquisition is still in process, the above values are preliminary.

The net (loss) income for 2007 of Novartis Nutrition Corporation and Gerber included in the consolidated statements of operations is \$(15,259) and \$5,821, respectively. The Company's net sales and net income for the period would have been \$19,624,733 and \$740,497, respectively, if the acquisitions had been effective January 1, 2007.

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2006

Jenny Craig Holdings, Inc.

Effective July 27, 2006, the Company acquired all the equity interest of Jenny Craig Holdings, Inc. (Jenny Craig) for \$606,997 in cash which was accounted for using the purchase method of accounting in accordance with IFRS 3 (revised 2005), *Business Combinations*. The fair value of the identifiable net assets acquired was \$123,766 resulting in goodwill of \$483,231 at the acquisition date, including direct costs of acquisition. Intellectual property in the amount of \$280,945 was reflected in assets held for sale at December 31, 2006 and was sold in 2007. Jenny Craig, founded in 1983, offers consumers personalized weight management programs tailored to their specific needs.

Joseph's Gourmet Pasta and Sauces Company

Effective December 1, 2006, the Company acquired certain net assets of Joseph's Gourmet Pasta and Sauces Company (Joseph's Pasta) for \$60,021 in cash. The acquisition was accounted for using the purchase method of accounting in accordance with IFRS 3 (revised 2005), *Business Combinations*. The fair value of the identifiable net assets acquired was \$31,256, which resulted in goodwill of \$28,765 at the acquisition date, including direct costs of acquisition. Nestlé S.A. acquired certain intellectual property of Joseph's Pasta for \$80,700. Joseph's Pasta is a leading maker of premium filled frozen pasta and sauces for the restaurant industry.

b) Divestitures

Turtles

Effective June 1, 2007, the Company sold the U.S. Turtles business for \$18,188. The Company recorded a gain of \$13,707 related to this divestiture (note 19).

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(Dollars in Thousands)

(24) Notes to the Consolidated Statements of Cash Flows

a) Acquisitions

The Company's fair value of assets and liabilities acquired during 2007 and 2006 are summarized below:

	Novartis Nutrition Corporation	Gerber	Other	2007	2006
Cash	\$ -	13,468	1	13,469	9,394
Trade and other receivables	61,676	275,064	5,640	342,380	8,292
Inventories	94,562	178,621	2,303	275,486	23,112
Prepays	1,856	3,335	12	5,203	4,860
Current financial assets (i)	-	253,333	-	253,333	-
Property, plant and equipment	46,011	211,631	366	258,008	36,449
Deferred tax assets	22,372	29,433	-	51,805	-
Long term financial assets	7,215	1,217,357	-	1,224,572	-
Other non-current assets	-	16,446	-	16,446	-
Goodwill (note 11)	296,845	3,189,531	(49,006)	3,437,370	511,996
Intangible assets (i)	43,700	1,181,321	(1,426)	1,223,595	349,333
Trade and other payables	(48,474)	(70,221)	(1,340)	(120,035)	(27,461)
Accrued liabilities	(24,240)	(293,393)	(2,954)	(320,587)	(18,916)
Current financial liabilities	(4,825)	(11,951)	12,522	(4,254)	(13,446)
Non-current financial liabilities	(3,490)	(53,613)	-	(57,103)	2,232
Deferred tax liabilities	-	(582,703)	-	(582,703)	(125,787)
Provisions	(182)	-	(5,698)	(5,880)	(9,500)
Other accrued liabilities	(16,546)	(817,959)	4	(834,501)	(83,540)
Total acquisition cost	476,480	4,739,700	(39,576)	5,176,604	667,018
Cash acquired	-	(13,468)	(1)	(13,469)	(9,394)
Cash outflow for acquisition	\$ 476,480	4,726,232	(39,577)	5,163,135	657,624

- (i) Current financial assets represent certain wholly owned foreign subsidiaries which the Company acquired with the intent to sell or transfer to its respective foreign affiliated companies. This balance, plus activity subsequent to the acquisition date, was included in assets held for sale at December 31, 2007 (note 15). Additionally, intangible assets of \$827,418 and \$280,945 (notes 12 and 15) were reclassified to assets held for sale as of December 31, 2007 and December 31, 2006, respectively, in accordance with IFRS 3.

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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, goodwill and the related deferred tax balances.

Divestitures

The Company's book value of assets and liabilities divested in 2007 is summarized below. No divestiture activity occurred in 2006.

	2007
Inventories	\$ 3,481
Other accrued liabilities	1,000
Net book value	4,481
Gain from divestitures, net (note 19)	13,707
Cash inflow from business divestitures	\$ 18,188

(25) Events after the Balance Sheet Date

Other than the following, the Company was not aware of specific events or transactions occurring after December 31, 2007, and up to the issue date that would have a material impact on the presentation of the accompanying consolidated financial statements.

The following Eurobonds were issued under the U.S. Debt Issuance Program:

	Issue Date		Face value	Coupon	Maturity
(1)	1/31/2008	AUD	300,000	7.250%	1/31/2011
(2)	1/31/2008	NOK	1,000,000	5.000%	1/31/2011
(1)	2/14/2008	CHF	100,000	2.750%	6/14/2010
(2)	2/14/2008	CHF	150,000	3.000%	10/9/2012
(1)	2/14/2008	CHF	100,000	3.000%	10/9/2012
(1)	3/28/2008	CHF	50,000	3.000%	10/9/2012
(2)	3/31/2008	AUD	150,000	7.250%	1/31/2011
(2)	3/31/2008	NZD	100,000	8.250%	3/31/2010
(2)	5/22/2008	NOK	500,000	4.750%	2/12/2010
(2)	5/23/2008	CHF	125,000	2.750%	6/14/2010
(2)	5/23/2008	CHF	175,000	3.000%	10/9/2012
(3)	6/23/2008	USD	400,000	4.000%	6/23/2011

⁽¹⁾Bond is subject to an interest rate and currency swap that creates a USD liability at a fixed rate

⁽²⁾Bond is subject to an interest rate and currency swap that creates a USD liability at a floating rate

⁽³⁾Bond is subject to an interest rate swap that creates a USD liability at a floating rate

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On April 1, 2008, Gerber Products Company, a direct subsidiary of the Company and a component of the Nutrition segment, sold certain intellectual property acquired in the Gerber acquisition to Nestlé S.A. for an estimated sales price of \$193,000 (subject to an adjustment to fair market value). The carrying amount of \$192,577 is included in assets held for sale in the December 31, 2007 consolidated balance sheet.

On April 1, 2008, Gerber Finance Company, an indirect subsidiary of the Company and a component of the Nutrition segment, sold 100% of the shares in the Polish company Alima-Gerber S.A. to Nestlé Polska S.A. for an estimated sales price of \$33,000 (subject to an adjustment to fair market value). The carrying amount of \$32,453 is included in assets held for sale in the December 31, 2007 consolidated balance sheet.

In the United States, the Department of Justice has initiated an investigation into the Confectionery business. In addition, numerous class action lawsuits have been lodged against Nestlé USA and other Confectionery companies. Management considers any estimation of monetary consequence at this stage to be premature regarding the possible outcome of these investigations.

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(26) Consolidated Statements of Changes in Equity

	Capital Stock	Additional Paid-in Capital	Hedging Reserve	Available-For-Sale Assets Reserve	Accumulated Earnings (Deficit)	Total
Balance at December 31, 2005	\$ 100	1,650,353	16,602	1,131	(1,179,867)	488,319
Total recognized income and expense	—	—	13,060	419	864,920	878,399
Balance at December 31, 2006	100	1,650,353	29,662	1,550	(314,947)	1,366,718
Total recognized income and expense	—	—	(71,959)	11,722	895,419	835,182
Balance at December 31, 2007	\$ 100	1,650,353	(42,297)	13,272	580,472	2,201,900