2006 Financial Statements

Good Food, Good Life

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

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140th Annual Report of Nestlé S.A.

Principal exchange rates

CHF per		2006	2005	2006	2005
		Year ending rates		Average annual rates	
1 US Dollar	USD	1.222	1.310	1.250	1.248
1 Euro	EUR	1.609	1.560	1.574	1.549
1 Pound Sterling	GBP	2.400	2.270	2.314	2.267
100 Brazilian Reais	BRL	57.220	56.400	57.820	51.610
100 Japanese Yen	JPY	1.027	1.120	1.075	1.129
100 Mexican Pesos	MXN	11.250	12.300	11.470	11.460
1 Canadian Dollar	CAD	1.052	1.130	1.104	1.037
1 Australian Dollar	AUD	0.967	0.963	0.943	0.950
100 Philippine Pesos	PHP	2.492	2.480	2.444	2.265

Consolidated income statement for the year ended 31 December 2006

In millions of CHF	Notes		2006		2005 [a]
Sales to customers	1		98 458		91 115
Cost of goods sold			(40 713)		(37 917)
Distribution expenses			(8 244)		(7 402)
Marketing and administration expenses			(34 465)		(32 421)
Research and development costs			(1 734)		(1 499)
EBIT Earnings Before Interest, Taxes, restructuring and impairments [b]	1		13 302		11 876
Net other income/(expenses)	2		(516)		(920)
Profit before interest and taxes			12 786		10 956
Net financing cost					
Financial income	3	537		605	
Financial expense		(1 218)		(1 192)	
			(681)		(587)
Profit before taxes and associates			12 105		10 369
Taxes	5		(3 293)		(2 647)
Share of results of associates	6		963		896
Profit from continuing operations			9 775		8 618
Net profit/(loss) on discontinued operations	29		74		(14)
Profit for the period			9 849		8 604
of which attributable to minority interests			652		523
of which attributable to shareholders of the parent (Net profit)			9 197		8 081

As percentages of sales		
EBIT Earnings Before Interest, Taxes, restructuring and impairments	13.5%	13.0%
Profit for the period attributable to shareholders of the parent (Net profit)	9.3%	8.9%

Earnings per share from continuing operations [c] (in CHF)			
Basic earnings per share	7	23.71	20.82
Fully diluted earnings per share	7	23.56	20.63

[a] 2005 comparatives have been restated following the first application of the option of IAS 19 Employee Benefits § 93A ss. and IFRIC 4 Determining whether an Arrangement contains a Lease, as well as the decision to transfer the fresh cheese activities in Italy to Nestlé Nutrition (refer to Note 29).
[b] Prior to the repeal of goodwill amortisation, named EBITA (Earnings Before Interest, Taxes and Amortisation of goodwill)
[c] Based on the profit for the period attributable to shareholders of the parent adjusted for the net profit/(loss) on discontinued operations

Consolidated balance sheet as at 31 December 2006

before appropriations

In millions of CHF	Notes		2006		2005
Assets					
Current assets					
Liquid assets	8				
Cash and cash equivalents		5 278		4 658	
Short term investments		6 197		12 735	
			11 475		17 393
Trade and other receivables	9		14 577		14 291
Assets held for sale	29		74		633
Inventories	10		8 029		8 162
Derivative assets	11		556		645
Prepayments and accrued income			594		641
Total current assets			**35 305**		**41 765**
Non-current assets					
Property, plant and equipment	12				
Gross value [a]		47 077		45 242	
Accumulated depreciation and impairment [a]		(26 847)		(26 252)	
			20 230		18 990
Investments in associates	6		8 430		7 073
Deferred tax assets [a][b]	22		2 433		2 466
Financial assets	13		2 778		2 513
Employee benefits assets [b]	20		343		69
Goodwill	14		28 513		26 990
Intangible assets	15		3 773		2 852
Total non-current assets			**66 500**		**60 953**
Total assets			**101 805**		**102 718**

[a] 2005 comparatives have been restated following the first application of IFRIC 4 Determining whether an Arrangement contains a Lease.
[b] 2005 comparatives have been restated following the first application of the option of IAS 19 Employee Benefits § 93A ss.

In millions of CHF	Notes		2006		2005
Liabilities and equity					
Current liabilities					
Trade and other payables	16		12 572		11 117
Liabilities directly associated with assets held for sale	29		–		38
Financial liabilities [a]	17		15 494		18 841
Tax liabilities			884		705
Derivative liabilities	18		470		922
Accruals and deferred income			3 059		4 231
Total current liabilities			**32 479**		**35 854**
Non-current liabilities					
Financial liabilities [a]	19		6 952		8 277
Employee benefits liabilities [b]	20		5 415		5 747
Deferred tax liabilities [a][b]	22		706		240
Other payables			366		185
Provisions	23		3 039		3 347
Total non-current liabilities			**16 478**		**17 796**
Total liabilities			**48 957**		**53 650**
Equity					
Share capital [c]	24		401		404
Share premium and reserves					
Share premium		5 926		5 926	
Reserve for treasury shares		4 550		2 616	
Translation reserve		(5 205)		(4 172)	
Retained earnings [a][b]		49 963		45 494	
			55 234		49 864
Treasury shares [c]	25		(4 644)		(2 770)
Total equity attributable to shareholders of the parent			**50 991**		**47 498**
Minority interests [a][b]			1 857		1 570
Total equity			**52 848**		**49 068**
Total liabilities and equity			**101 805**		**102 718**

[a] 2005 comparatives have been restated following the first application of IFRIC 4 Determining whether an Arrangement contains a Lease.
[b] 2005 comparatives have been restated following the first application of the option of IAS 19 Employee Benefits § 93A ss.
[c] At the Annual General Meeting on 6 April 2006, the shareholders approved the cancellation of 2 784 300 shares.

Consolidated cash flow statement for the year ended 31 December 2006

In millions of CHF	Notes	2006 [a]	2005 [a]
Operating activities [b]			
Profit from continuing operations [c]		9 775	8 618
Less share of results of associates		(963)	(896)
Depreciation of property, plant and equipment	12	2 581	2 382
Impairment of property, plant and equipment	12	96	360
Impairment of goodwill	14	38	218
Depreciation of intangible assets	15	480	346
Impairment of intangible assets	15	–	30
Increase/(decrease) in provisions and deferred taxes [c]		(338)	(526)
Decrease/(increase) in working capital	26	348	(315)
Other movements [c]		(341)	(12)
Operating cash flow [d]		**11 676**	**10 205**
Investing activities			
Capital expenditure	12	(4 200)	(3 375)
Expenditure on intangible assets	15	(689)	(758)
Sale of property, plant and equipment		98	220
Acquisitions [e]	27	(6 469)	(995)
Disposals	28	447	193
Movements with associates		323	259
Other movements		(30)	(202)
Cash flow from investing activities		**(10 520)**	**(4 658)**

[a] Cash flow statement information related to the discontinued operation following the announcement made in December 2005 for the Chilled dairy activities in Europe are disclosed in Note 29.
[b] 2005 comparatives have been restated as Operating activities now start with Profit from continuing operations (previously Profit of consolidated companies).
[c] For 2005 comparatives, some non-cash components of the cash flow statement have been restated following the first application of the option of IAS 19 Employee Benefits § 93A ss. and IFRIC 4 Determining whether an Arrangement contains a Lease, as well as the decision to transfer the fresh cheese activities in Italy to Nestlé Nutrition (refer to Note 29).
[d] Taxes paid amount to CHF 2811 million (2005: CHF 2540 million). Net interest paid amounts to CHF 599 million (2005: CHF 437 million).
[e] USD 2.6 billion relating to the Dreyer's acquisition have been settled on 17 January 2006, mostly by decreasing marketable securities.

In millions of CHF	Notes	2006	2005
Financing activities			
Dividend for the previous year		(3 471)	(3 114)
Purchase of treasury shares		(2 788)	(1 553)
Sale of treasury shares and options [a]		906	1 295
Movements with minority interests		(191)	5
Bonds issued [b]		1 625	1 617
Bonds repaid [a]		(2 331)	(2 443)
Increase in other non-current financial liabilities		134	279
Decrease in other non-current financial liabilities		(289)	(207)
Increase/(decrease) in current financial liabilities		(14)	(492)
Decrease/(increase) in short-term investments [b]		6 393	(1 910)
Other movements		(4)	2
Cash flow from financing activities		**(30)**	**(6 521)**
Translation differences on flows		(360)	336
Increase/(decrease) in cash and cash equivalents		**766**	**(638)**
Cash and cash equivalents retranslated at beginning of year			
Cash and cash equivalents at beginning of year		4 658	4 902
Effects of exchange rate changes on opening balance		(146)	394
		4 512	5 296
Cash and cash equivalents at end of period	8	**5 278**	**4 658**

[a] In 2005, 1 287 940 Nestlé S.A. shares were exchanged with Stock Warrants and Applicable Note Securities (SWANS) for USD 299 million.
[b] USD 2.6 billion relating to the Dreyer's acquisition have been settled on 17 January 2006, mostly by decreasing marketable securities.

Consolidated statement of recognised income and expense and changes in equity

Statement of recognised income and expense for the year ended 31 December 2005

In millions of CHF	Share capital	Share premium	Reserve for treasury shares	Translation reserve	Retained earnings	Less: Treasury shares	Total equity attributable to shareholders of the parent	Minority interests	Total equity
Profit for the period as reported last year					7 995		7 995	523	8 518
Restatement related to IAS 19 [a]					85		85	–	85
Restatement related to IFRIC 4 [b]					1		1	–	1
Profit for the period restated recognised in the income statement					**8 081**		**8 081**	**523**	**8 604**
Currency retranslations [a][b]				3 017			3 017	81	3 098
Taxes on equity items [a]					(57)		(57)	–	(57)
Fair value adjustments on available-for-sale financial instruments									
– Unrealised results					107		107		107
– Recognition of realised results in the income statement					1		1		1
Fair value adjustments on cash flow hedges									
– Recognised in hedging reserve					122		122		122
– Removed from hedging reserve					(6)		(6)		(6)
Actuarial gains/(losses) on defined benefit schemes					(19)		(19)	(3)	(22)
Changes in equity of associates [c]					1 024		1 024		1 024
Equity-settled share-based transactions cost					173		173	24	197
Income and expense recognised directly in equity				**3 017**	**1 345**		**4 362**	**102**	**4 464**
Total recognised income and expense for the year ended 31 December 2005				**3 017**	**9 426**		**12 443**	**625**	**13 068**
Premium on warrants issued [d]					(53)		(53)		(53)
Restatement related to IAS 19 [a]					(2 219)		(2 219)	(14)	(2 233)
Restatement related to IFRIC 4 [b]					(2)		(2)	–	(2)
Effect of changes in accounting policies					**(2 274)**		**(2 274)**	**(14)**	**(2 288)**

[a] Restated following the first application of the option of IAS 19 Employee Benefits § 93A ss.
[b] Restated following first application of IFRIC 4 Determining whether an Arrangement contains a Lease
[c] Mainly resulting from fair value adjustment on available-for-sale financial instruments of L'Oréal
[d] At 1 January 2005, the premium on warrants issued has been reclassified to current liabilities.

Changes in equity for the year ended 31 December 2005

In millions of CHF	Share capital	Share premium	Reserve for treasury shares	Translation reserve	Retained earnings	Less: Treasury shares	Total equity attributable to shareholders of the parent	Minority interests	Total equity
Equity as at 31 December 2004 as reported last year	404	5 926	2 619	(7 189)	39 911 [a][b]	(2 435)	39 236	1 063	40 299
Restatement of L'Oréal [c]					1 106		1 106		1 106
Effect of changes in accounting policies					(2 274)		(2 274)	(14)	(2 288)
Equity restated as at 1 January 2005	404	5 926	2 619	(7 189)	38 743 [b]	(2 435)	38 068	1 049	39 117
Total recognised income and expense				3 017	9 426		12 443	625	13 068
Distributions to and transactions with shareholders of the parent									
Dividend for the previous year					(3 114)		(3 114)		(3 114)
Movement of treasury shares (net) [d]			(3)		3	103	103		103
Result on options and treasury shares held for trading purposes					438	(438)	–		–
Equity-settled share-based transactions settlement					(2)		(2)		(2)
Total distributions to and transactions with shareholders of the parent			(3)		(2 675)	(335)	(3 013)		(3 013)
Movements with minority interests (net)								(104)	(104)
Equity as at 31 December 2005	404	5 926	2 616	(4 172)	45 494 [b]	(2 770)	47 498	1 570	49 068

[a] In the event of a redemption of the Turbo Zero Equity-Link bond issue, part of the USD 123 million premium received in June 2001 on warrants issued would be repaid, i.e. up to USD 47 million in 2006. At 1 January 2005, the premium has been reclassified to current liabilities.
[b] Includes a Hedging Reserve of CHF 97 million (31 December 2004: negative CHF 20 million).
[c] Restated following first time adoption of IFRS by L'Oréal in 2005
[d] 1 287 940 Nestlé S.A. shares were exchanged with Stock Warrants and Applicable Note Securities (SWANS) for USD 299 million.

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

In millions of CHF	Share capital	Share premium	Reserve for treasury shares	Translation reserve	Retained earnings	Less: Treasury shares	Total equity attributable to shareholders of the parent	Minority interests	Total equity
Profit for the period recognised in the income statement					9 197		9 197	652	9 849
Currency retranslations				(1 033)			(1 033)	(39)	(1 072)
Taxes on equity items					(234)		(234)	4	(230)
Fair value adjustments on available-for-sale financial instruments									
– Unrealised results					205		205		205
– Recognition of realised results in the income statement					7		7		7
Fair value adjustments on cash flow hedges									
– Recognised in hedging reserve					15		15		15
– Removed from hedging reserve					(54)		(54)		(54)
Actuarial gains/(losses) on defined benefit schemes					472		472	(10)	462
Changes in equity of associates					27		27		27
Equity-settled share-based transactions cost					193		193	25	218
Income and expense recognised directly in equity				(1 033)	631		(402)	(20)	(422)
Total recognised income and expense for the year ended 31 December 2006				(1 033)	9 828		8 795	632	9 427
Restatement related to IAS 19 [(a)]				(188)	(2 160)		(2 348)	(18)	(2 366)
Restatement related to IFRIC 4 [(b)]					(1)		(1)	–	(1)
Effect of changes in accounting policies				(188)	(2 161)		(2 349)	(18)	(2 367)

[(a)] Restated following the first application of the option of IAS 19 Employee Benefits § 93A ss.
[(b)] Restated following first application of IFRIC 4 Determining whether an Arrangement contains a Lease

Changes in equity for the year ended 31 December 2006

In millions of CHF	Share capital	Share premium	Reserve for treasury shares	Translation reserve	Retained earnings	Less: Treasury shares	Total equity attributable to shareholders of the parent	Minority interests	Total equity
Equity as at 31 December 2005 as reported last year	404	5 926	2 616	(3 984)	47 655 (a)	(2 770)	49 847	1 588	51 435
Effect of changes in accounting policies				(188)	(2 161)		(2 349)	(18)	(2 367)
Equity restated as at 31 December 2005	404	5 926	2 616	(4 172)	45 494 (a)	(2 770)	47 498	1 570	49 068
Total recognised income and expense				(1 033)	9 828		8 795	632	9 427
Distributions to and transactions with shareholders of the parent									
Dividend for the previous year					(3 471)		(3 471)		(3 471)
Movement of treasury shares (net)			1 934		(1 934)	(1 884)	(1 884)		(1 884)
Result on options and treasury shares held for trading purposes					(3)	3	–		–
Equity-settled share-based transactions settlement					(4)	4	–		–
Reduction in share capital (b)	(3)					3	–		–
Premium on warrants issued (c)					53		53		53
Total distributions to and transactions with shareholders of the parent	(3)		1 934		(5 359)	(1 874)	(5 302)		(5 302)
Movements with minority interests (net)								(345)	(345)
Equity as at 31 December 2006	401	5 926	4 550	(5 205)	49 963 (a)	(4 644)	50 991	1 857	52 848

(a) Includes a Hedging Reserve of CHF 56 million (31 December 2005: CHF 97 million).
(b) At the Annual General Meeting on 6 April 2006, the shareholders approved the cancellation of 2 784 300 shares.
(c) Since the investors have not exercised their option to put the notes related to the Turbo Zero Equity-Link bond issue at their accreted value, USD 47 million of premium on warrants issued are reclassified from current liabilities to retained earnings.

Annex

Accounting policies

Accounting convention and accounting standards

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

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

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

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

Scope of consolidation

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

Consolidated companies

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

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

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

Associates

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

Foreign currencies

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

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

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

Exchange differences on intra group loans qualified as net investment in a foreign operation are recorded in equity. The exchange results on loans that do not satisfy the aforementioned criteria are recorded in the income statement in "Net Financing Cost."

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

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

Segmental information

Segmental information is based on two segment formats:

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

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

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

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

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

Eliminations represent inter-company balances between the different segments.

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

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

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

Unallocated items represent non specific items whose allocation to a segment would be arbitrary. They mainly comprise:
– corporate expenses and assets/liabilities
– research and development costs and assets/liabilities
– some goodwill and intangible assets
– capital additions related to administration and distribution assets for the secondary segment
– assets held for sale and liabilities directly associated with assets held for sale linked to a discontinued operation.

Valuation methods and definitions

Sales to customers
Sales to customers represent the sale of products and services rendered to third parties, net of general price reductions and sales taxes. Sales are recognised in the income statement at the moment when the significant risks and rewards of ownership of the goods have been transferred to the buyer, which is mainly upon shipment.

Net financing cost
This item includes the financial expense on borrowings from third parties as well as the financial income earned on funds invested outside the Group. Exchange differences on loans and borrowings and results on currency and interest hedging instruments that are recognised in the income statement are also presented in net financing cost.

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

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

Deferred taxation is the tax attributable to the temporary differences that arise when taxation authorities recognise and measure assets and liabilities with rules that differ from those of the Consolidated Financial Statements.

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

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

Current financial assets

Current financial assets include liquid assets, loans and receivables. Receivables are measured at cost less appropriate bad debt allowances.

Liquid assets encompass cash at bank and in hand, cash equivalents, marketable securities and current investments. Cash equivalents consist of bank deposits and fixed term investments whose maturities are three months or less from the date of acquisition. Short term investments consist of bank deposits and fixed term investments whose maturities are more than three months from the date of acquisition.

Liquid assets classified as available-for-sale comprise fixed rate deposits and marketable securities such as commercial paper. They are stated at fair value with all unrealised gains and losses recognised against equity until the disposal of the investment when, at such time, gains and losses previously carried to equity are recognised in the income statement.

Liquid assets not classified as available-for-sale are marketable securities and other portfolios that are managed with the aim of delivering performance over agreed benchmarks and are therefore classified as trading. They are carried at fair value and all their gains and losses, realised and unrealised, are recognised in the income statement.

Financial assets that are acquired in market places that require the delivery within a time frame established by a convention are accounted for in accordance with the settlement date.

Fair value is determined on the basis of market prices at the balance sheet date for listed instruments and on the basis of discounted cash flow techniques based on market data for the other financial instruments.

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

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

Derivative financial instruments and hedging

Derivative financial instruments (derivatives) are mainly used to manage exposures to foreign exchange, interest rate and commodity price risks. Whilst some derivatives are also acquired with the aim of managing the return of marketable securities portfolios, these derivatives are only acquired when there are underlying financial assets.

All derivatives are carried at fair value, being the market value for listed instruments or a valuation based on a mathematical model, such as option pricing models and discounted cash flow calculations for unlisted instruments. These models take into consideration assumptions based on market data.

Derivatives consist mainly of currency forwards, options and swaps, commodity futures and options, interest rate forwards, options and swaps, as well as interest rate and currency swaps.

Hedge accounting is applied to derivatives that are effective in offsetting the changes in fair value or cash flows of the hedged items. The effectiveness of such hedges is verified at regular intervals and at least on a quarterly basis.

Fair value hedges are derivatives that hedge the currency risk and/or the interest price risk. The changes in fair value of fair value hedges are recognised in the income statement. The hedged item is also stated at fair value in respect of the risk being hedged, with any gain or loss being recognised in the income statement.

Cash flow hedges are derivatives that hedge the currency risks of anticipated future export sales, cash flow risks of anticipated future purchases of equipment, the currency and/or commodity risk of future purchases of raw materials as well as the cash flow risk from changes in interest rates. The effective part of the changes in fair value of cash flow hedges are recognised against equity, while any ineffective part is recognised immediately in the income statement. When the hedged item results in a non-financial asset or liability, the gains and losses previously recognised against equity are included in the measurement cost of the asset or of the liability. As a result of the short product business cycle of the Group, the majority of the raw material future transactions outstanding at the balance sheet date are expected to occur in the next period. Otherwise the gains and losses previously recognised against equity are removed from equity and recognised in the income statement at the same time as the hedged transaction.

Hedges of net investments in a foreign operation are currency derivatives that hedge the translation exposure on the net investments in affiliated companies. The changes in fair value of such derivatives are recognised against equity until the net investments are sold or otherwise disposed of.

Trading derivatives are comprised of two categories. The first includes derivatives for which hedge accounting is not applied because they are either not designated as hedging instruments or not effective as hedging instruments. For example, certain foreign exchange derivatives that are used to reduce the currency exposure of financial assets or liabilities are not designated as hedging instruments. The second category relates to derivatives that are acquired with the aim of delivering performance over agreed benchmarks of marketable security portfolios. In all cases, derivatives are acquired in full compliance with the risk management policies of the Group.

Prepayments and accrued income

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

Property, plant and equipment

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

The useful lives are as follows:

Buildings	20–35 years
Machinery and equipment	10–20 years
Tools, furniture, information technology and sundry equipment	3–8 years
Vehicles	5 years

Land is not depreciated.

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

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

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

Leased assets

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

The associated obligations are included in financial liabilities.

Rentals payable under operating leases are charged to the income statement.

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

Non-current financial assets

Non-current financial assets, which have maturities over one year (except equity instruments), include notes receivable and other financial instruments such as investments in companies where the Group exercises neither management control nor a significant influence. Notes receivable bearing zero or below market interest rates are discounted to their present value using the rate at the date of inception. Most non-current financial assets are classified as available-for-sale and measured at fair value with unrealised gains and losses recognised against equity until the disposal of the financial asset when, at such time, gains and losses previously carried to equity are recognised in the income statement.

Fair value is determined on the basis of market prices at the balance sheet date for listed instruments and on the basis of discounted cash flow techniques based on market data for other financial instruments.

Notes receivable and other debt instruments, the re-sale of which is prohibited in accordance with the clauses of their agreements, are classified as held-to-maturity and recognised at amortised cost less impairment losses.

Impairment losses are recognised in the income statement where there is objective evidence of impairment. These losses are never reversed unless they refer to a debt instrument measured at fair value and classified as available-for-sale and the increase in fair value can objectively be related to an event occurring after the recognition of the impairment loss.

Business combinations and related goodwill

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

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

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

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

Intangible assets

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

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

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

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

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

Research and development

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

Development costs relating to new products are not capitalised because the future economic benefits can only be reliably determined once the products are in the market place.

Impairment of goodwill and indefinite life intangible assets

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

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

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

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

Assets held for sale and discontinued operations

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

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

Current and non-current liabilities

Current and non-current liabilities are stated at amortised cost with any difference between the cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest rate basis.

Current liabilities include current or renewable liabilities due within a maximum period of one year.

Provisions

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

Employee benefits

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

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

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

Actuarial gains and losses arise mainly from changes in actuarial assumptions and differences between actuarial assumptions and what has actually occurred. They are recognised in the period in which they occur outside the income statement directly in equity under the statement of recognised income and expense.

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

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

Share-based payment

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

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

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

Accruals and deferred income

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

Dividends

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

Contingent assets and liabilities

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

Events occurring after the balance sheet date

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

Changes in accounting policies

The Group has applied the following IFRSs and revised IASs as from 1 January 2006 onwards:

IAS 19 – Employee Benefits

The Group has applied for the first time in 2006 the option of IAS 19 § 93A ss. whereby actuarial gains and losses are recognised in the period in which they occur outside the income statement in equity. Previously actuarial gains and losses were recognised in the income statement, 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 plan assets at the end of the previous year.

2005 comparatives have been restated as follows:
As at 1 January 2005, "Employee benefits assets" decreased by CHF 896 million and "Employee benefits liabilities" increased by CHF 2470 million.
The related "Deferred tax assets" increased by CHF 702 million and "Deferred tax liabilities" decreased by CHF 431 million. These amounts reduced equity attributable to shareholders of the parent by CHF 2219 million and Minority interests by CHF 14 million.
EBIT was impacted by the related suspension of recognition of actuarial gains and losses, and increased by CHF 132 million. Related taxes increased by CHF 47 million.

The Group performs full pensions and retirement benefits reporting once a year, in December, at which point actuarial gains and losses for the period are determined. As all actuarial gains and losses are now recognised in equity, the balance sheet more accurately represents the funding status of the various plans.

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 an 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 to the underlying asset, subject to the contract, or takes essentially all the output. Then the entity shall determine whether the lease component of the agreement is a financial or an operating lease in accordance with IAS 17.

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

2005 comparatives have been restated as follows:
Additional finance lease assets and finance lease obligations have been recorded for CHF 156 million and CHF 160 million respectively. The related "Deferred tax assets" increased by CHF 2 million. These amounts reduced equity attributable to shareholders of the parent by CHF 2 million.
EBIT increased by CHF 13 million and "Net Financing Cost" by CHF 12 million.

Changes in presentation

2005 comparatives have been restated for the following changes in presentation:

Income Statement / Cash Flow Statement

As a result of the repeal of the goodwill amortisation, EBITA (Earnings Before Interest, Taxes and Amortisation of goodwill) has been renamed EBIT (Earnings Before Interest, Taxes, restructuring and impairments).
The breakdown of "Net Financing Cost" is now shown on the face of the income statement (previously in a note).
"Profit of consolidated companies before discontinued operations" has been changed to "Profit from continuing operations," which includes the share of results of associates.
The subtotal "Profit of consolidated companies" has been removed. As a result, the Cash Flow Statement now starts with "Profit from continuing operations."

Statement of recognised income and expense and changes in equity

As a result of the retrospective application of IAS 19 Employee benefits § 93A ss., the Group made certain presentational changes regarding equity movements.

Segmental information

Globally managed nutrition activities are now disclosed separately from the Zones, and pharmaceutical activities separately from Food and Beverages. Unallocated items are disclosed within Food and Beverages, as they mainly relate to those activities.

Changes in IFRS that may affect the Group after 31 December 2006

The Group will apply IFRS 7 Financial Instruments: Disclosures in 2007. The application of this new standard will result in additional disclosures on financial instruments.

The IASB has published IFRS 8 on operating segments which requires to present segment information as it is reviewed by the Chief Executive Officer. The Group will apply IFRS 8 in 2009.

Consequences from the European Union's IFRS endorsement and application of IFRS in Switzerland

As a Swiss company, the Group is not affected by the European Union (EU) decision requiring EU-listed companies to present their accounts in accordance with IFRS. However the Swiss Exchange Authority (SWX) requires listed companies on the main exchange segment to apply IFRS (or US GAAP) for periods beginning on or after 1 January 2005. Since the Group has reported under IFRS/IAS since 1989, it will continue to comply with all IFRSs/IASs.

Financial risk management and commodity price risk management

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

A similar process has been established for commodity price risk management.

Financial market risk is essentially caused by exposures to foreign currencies, interest rates and commodity prices. Foreign currency transaction risk arises because affiliated companies sometimes undertake transactions in foreign currencies such as the import of raw materials, the export of finished goods and the related borrowings. Translation exposure arises from the consolidation of the Group accounts into Swiss Francs and is not hedged. Interest rate risk comprises the interest price risk that results from borrowing at fixed rates and the interest cash flow risk that results from borrowing at variable rates. Commodity price risk arises from transactions on the world commodity markets for securing the supplies of green coffee, cocoa beans and other commodities necessary for the manufacture of some of the Group's products. These risks are mitigated by the use of derivative financial instruments (see valuation methods and definitions).

Credit risk arises because a counterparty may fail to perform its obligations. The Group is exposed to credit risk on financial instruments such as liquid assets, derivative assets and trade receivable portfolios. Credit risk is managed by investing liquid assets and acquiring derivatives with high credit quality financial institutions in accordance with the Group's Treasury Management Guidelines. The Group is not exposed to concentrations of credit risk on its liquid assets as these are spread over several institutions and sectors. Trade receivables are subject to credit limits, control and approval procedures in all the affiliated companies. Due to its large geographic base and number of customers, the Group is not exposed to material concentrations of credit risk on its trade receivables.

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

Liquidity risk arises when a company encounters difficulties to meet commitments associated with financial instruments. Such risk may result from inadequate market depth or disruption or refinancing problems. This risk is managed by limiting exposures in instruments that may be affected by liquidity problems and by actively matching the funding horizon of debt with incoming cash flows. As a result of its strong credit rating, the Group does not expect any refinancing issues.

The Group has several benchmarks and approval requirements for borrowing and investing as well as for using derivatives. In general, affiliated companies may borrow in their respective local currency up to six months forward while Group Management approval is required for longer terms and for any indebtedness in foreign currency as well as for interest and foreign exchange derivatives on such positions. The affiliated companies may also hedge their foreign currency exposures up to six months forward mainly through the Regional Treasury Centres but they must obtain the approval of Group Management for longer maturities. The affiliated companies must repatriate all their excess liquidities to Group finance companies or require the approval of Group Management for the rare cases where they may have a justification to invest them locally. The ALMC reviews and decides the currency and interest rate framework of Nestlé's intragroup loans portfolio on a monthly basis.

With regard to commodity price exposures, Group Management defines the hedging policy for affiliated companies. This policy is sufficiently flexible to allow them to rapidly adjust their hedges following possible changes in their raw material needs.

Modification of the scope of consolidation

The scope of consolidation has been affected by the acquisitions and disposals made in 2006. The principal businesses are detailed below.

Fully consolidated

Newly included:
Delta Ice-Cream, Greece, Ice cream, 99.8% (June)
Jenny Craig, USA, Weight management, 100% (July)
Uncle Tobys*, Australia, Nutrition bars, soups, 100% (July)

* excluding Breakfast cereals; proportionate consolidation through CPW (50%)

1. Segmental information

By management responsibility and geographic area

In millions of CHF	Zone Europe	Zone Americas	Zone Asia, Oceania and Africa	Nestlé Waters	Nestlé Nutrition (a)
2006					
Segment revenues and results					
Sales to customers	26 698	31 286	15 439	9 616	5 955
EBIT Earnings Before Interest, Taxes, restructuring and impairments	3 110	4 946	2 583	834	1 005
Segment assets and liabilities					
Segment assets	15 566	19 191	8 741	8 884	3 774
Non segment assets					
Total assets					
of which goodwill and intangible assets	3 416	8 141	2 102	2 822	1 480
Segment liabilities	6 057	4 003	2 214	2 229	795
Non segment liabilities					
Total liabilities					
Other segment information					
Capital additions	1 493	1 604	1 174	1 207	1 206
of which Capital expenditure	812	1 125	588	923	194
Depreciation of segment assets	800	751	418	465	88
Impairment of segment assets	52	–	9	61	–
Restructuring costs	366	37	43	42	6
2005 (d)					
Segment revenues and results					
Sales to customers	25 599	28 956	14 296	8 787	5 270
EBIT Earnings Before Interest, Taxes, restructuring and impairments	3 082	4 364	2 334	709	932
Segment assets and liabilities					
Segment assets	14 387	19 228	8 153	8 468	2 577
Non segment assets					
Total assets					
of which goodwill and intangible assets	2 677	8 313	1 694	2 632	521
Segment liabilities	6 077	4 099	1 965	2 331	624
Non segment liabilities					
Total liabilities					
Other segment information					
Capital additions	1 842	1 130	699	686	161
of which Capital expenditure	797	908	546	601	134
Depreciation of segment assets	682	657	402	426	75
Impairment of segment assets	184	116	120	121	20
Restructuring costs	164	75	47	46	28

(a) Globally managed nutrition activities are now disclosed separately from the Zones, and pharmaceutical activities separately from Food and Beverages. 2005 comparatives have been restated, including the ones resulting from the decision to transfer the fresh cheese activities in Italy to Nestlé Nutrition (refer to Note 29). Only dedicated segment assets are allocated to Nestlé Nutrition.

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

Other Food and Beverages [b]	Unallocated items [c]	Inter-segment eliminations	Total Food and Beverages	Pharma [a]	Total	
						2006
						Segment revenues and results
2 777			91 771	6 687	98 458	Sales to customers
362	(1 674)		11 166	2 136	13 302	EBIT Earnings Before Interest, Taxes, restructuring and impairments
						Segment assets and liabilities
1 473	13 878	(1 745)	69 762	6 028	75 790	Segment assets
					26 015	Non segment assets
					101 805	Total assets
240	11 306		29 507	2 779	32 286	of which goodwill and intangible assets
622	408	(1 745)	14 583	1 048	15 631	Segment liabilities
					33 326	Non segment liabilities
					48 957	Total liabilities
						Other segment information
400	131		7 215	1 411	8 626	Capital additions
141	131		3 914	286	4 200	of which Capital expenditure
72	208		2 802	259	3 061	Depreciation of segment assets
8	–		130	4	134	Impairment of segment assets
17	3		514	–	514	Restructuring costs
						2005 [d]
						Segment revenues and results
2 245			85 153	5 962	91 115	Sales to customers
273	(1 651)		10 043	1 833	11 876	EBIT Earnings Before Interest, Taxes, restructuring and impairments
						Segment assets and liabilities
1 011	15 616	(1 859)	67 581	4 978	72 559	Segment assets
					30 159	Non segment assets
					102 718	Total assets
13	12 017		27 867	1 975	29 842	of which goodwill and intangible assets
541	627	(1 859)	14 405	981	15 386	Segment liabilities
					38 264	Non segment liabilities
					53 650	Total liabilities
						Other segment information
88	94		4 700	766	5 466	Capital additions
86	94		3 166	209	3 375	of which Capital expenditure
61	184		2 487	241	2 728	Depreciation of segment assets
6	–		567	41	608	Impairment of segment assets
2	–		362	1	363	Restructuring costs

[b] Mainly Nespresso and Food and Beverages Joint Ventures managed on a worldwide basis
[c] Refer to the Segmental information section of the Accounting policies for the definition of Unallocated items.
[d] 2005 comparatives have been restated following the first application of the option of IAS 19 Employee Benefits § 93A ss. and IFRIC 4 Determining whether an Arrangement contains a Lease.

By product group

In millions of CHF	Beverages	Milk products, Nutrition and Ice cream [a]	Prepared dishes and cooking aids	Chocolate, confectionery and biscuits
2006				
Segment revenues and results				
Sales to customers	25 882	25 435	17 635	11 399
EBIT Earnings Before Interest, Taxes, restructuring and impairments	4 475	3 003	2 323	1 309
Segment assets				
Segment assets	16 640	17 970	10 553	6 319
of which goodwill and intangible assets	3 231	6 398	4 178	897
Other segment information				
Capital additions	1 406	2 169	493	658
of which Capital expenditure	1 105	702	272	258
Impairment of segment assets	60	28	1	47
Restructuring costs	89	140	95	178
2005 [c]				
Segment revenues and results				
Sales to customers	23 842	23 275	16 673	10 794
EBIT Earnings Before Interest, Taxes, restructuring and impairments	4 131	2 598	2 176	1 257
Segment assets				
Segment assets	15 105	15 516	9 386	5 745
of which goodwill and intangible assets	2 855	5 221	3 616	540
Other segment information				
Capital additions	795	746	989	194
of which Capital expenditure	752	689	261	194
Impairment of segment assets	183	226	40	96
Restructuring costs	158	93	27	60

(a) 2005 comparatives have been restated following the decision to transfer the fresh cheese activities in Italy to Nestlé Nutrition (refer to Note 29).
(b) Refer to the Segmental information section of the Accounting policies for the definition of Unallocated items.
(c) 2005 comparatives have been restated following the first application of the option of IAS 19 Employee Benefits § 93A ss. and IFRIC 4 Determining whether an Arrangement contains a Lease.

PetCare	Pharmaceutical products	Total segments	Unallocated items (b)	Total	
					2006
					Segment revenues and results
11 420	6 687	98 458		98 458	Sales to customers
1 730	2 136	14 976	(1 674)	13 302	EBIT Earnings Before Interest, Taxes, restructuring and impairments
					Segment assets
15 763	5 492	72 737			Segment assets
11 687	2 371	28 762			of which goodwill and intangible assets
					Other segment information
345	1 246	6 317	2 309	8 626	Capital additions
345	122	2 804	1 396	4 200	of which Capital expenditure
(6)	4	134	–	134	Impairment of segment assets
9	–	511	3	514	Restructuring costs
					2005 (c)
					Segment revenues and results
10 569	5 962	91 115		91 115	Sales to customers
1 532	1 833	13 527	(1 651)	11 876	EBIT Earnings Before Interest, Taxes, restructuring and impairments
					Segment assets
15 030	4 538	65 320			Segment assets
11 215	1 675	25 122			of which goodwill and intangible assets
					Other segment information
274	653	3 651	1 815	5 466	Capital additions
274	97	2 267	1 108	3 375	of which Capital expenditure
22	41	608	–	608	Impairment of segment assets
24	1	363	–	363	Restructuring costs

2. Net other income/(expenses)

In millions of CHF	2006	2005
Other expenses		
Loss on disposal of property, plant and equipment	(27)	(4)
Loss on disposal of activities	(92)	(91)
Restructuring costs	(514)	(363)
Impairment of property, plant and equipment	(96)	(360)
Impairment of goodwill	(38)	(218)
Impairment of intangible assets	–	(30)
Other [a]	(249)	(454)
	(1 016)	(1 520)

Other income		
Profit on disposal of property, plant and equipment	29	77
Profit on disposal of activities [b]	257	303
Other	214	220
	500	600

Net other income/(expenses)	(516)	(920)

[a] In 2005, a patent infringement lawsuit was filed against Alcon in the United States by Advanced Medical Optics, Inc. (AMO). The court ruled in favour of AMO and set damages at USD 213.9 million and also awarded pre-judgement interest and reasonable attorney fees and costs bringing the total to approximately USD 240 million. On 11 July 2006, the lawsuit was settled. This lawsuit had been provided for in 2005 and therefore this settlement did not significantly impact the 2006 income statement.

[b] Mainly resulting from the exercise of stock options by Alcon employees and related dilution on issuance of new shares

Impairment of property, plant and equipment

Impairment of property, plant and equipment arise mainly from the plans to optimise industrial manufacturing capacities by closing or selling inefficient production facilities.

3. Financial income

Interest income includes CHF 168 million (2005: CHF 205 million) of gains arising on marketable security portfolios classified as trading, and CHF 15 million of losses (2005: CHF 28 million of gains) arising on derivatives acquired within the Group’s risk management policies but for which hedge accounting is not applied.

4. Expenses by nature

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

In millions of CHF	2006	2005 [a]
Depreciation of property, plant and equipment	2 581	2 382
Salaries and welfare expenses	15 472	14 296
Operating lease charges	561	608
Exchange differences	45	(45)

[a] 2005 comparatives have been restated following the first application of the option of IAS 19 Employee Benefits § 93A ss. and IFRIC 4 Determining whether an Arrangement contains a Lease.

5. Taxes

In millions of CHF	2006	2005 [a]
Components of taxes		
Current taxes	2 457	2 472
Deferred taxes	647	166
Transfers (from)/to unrecognised tax assets	(38)	(179)
Changes in deferred tax rates	40	8
Prior years' taxes	(105)	(119)
Taxes reclassified to equity	(230)	(57)
Taxes reclassified to discontinued operations	31	5
Other taxes [b]	491	351
	3 293	2 647

Deferred taxes by types		
Property, plant and equipment	82	(86)
Goodwill and intangible assets	(43)	304
Employee benefits	261	114
Inventories, receivables, payables and provisions	(6)	(23)
Unused tax losses and unused tax credits	194	(50)
Other	159	(93)
	647	166

Reconciliation of taxes		
Taxes at the theoretical domestic rates applicable to profits of taxable entities in the countries concerned [c]	3 051	2 939
Tax effect of non-deductible impairment of goodwill	21	41
Tax effect of non-deductible or non-taxable items	(173)	(391)
Transfers (from)/to unrecognised tax assets	(38)	(179)
Difference in tax rates	46	5
Other taxes [b]	386	232
	3 293	2 647

[a] 2005 comparatives have been restated following the first application of the option of IAS 19 Employee Benefits § 93A ss. and IFRIC 4 Determining whether an Arrangement contains a Lease, as well as the decision to transfer the fresh cheese activities in Italy to Nestlé Nutrition (refer to Note 29).
[b] Includes withholding tax levied on transfers of income and taxes on capital.
[c] The applicable Group tax rate varies from one year to the other depending on the weight of each individual company in the taxable Group profit.

6. Associates

Share of results of associates is analysed as follows:

In millions of CHF	2006	2005
Share of results before taxes	1 198	1 071
Less share of taxes	(235)	(175)
Share of results	963	896

L'Oréal is the main investment of the Group with a 29.4% [a] participation in the equity (representing 178 381 021 shares held by Nestlé) for CHF 7795 million (2005: CHF 6971 million). Its market value at 31 December 2006 amounts to CHF 21 784 million (2005: CHF 17 476 million). In 2006, Nestlé's share of results represents CHF 947 million (2005: CHF 870 million). More detailed information can be found in the 2006 Annual Report of the L'Oréal group.

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

7. Earnings per share from continuing operations

	2006	2005 [a]
Basic earnings per share (in CHF) [b]	23.71	20.82
Net profit from continuing operations [a] (in millions of CHF)	9 123	8 095
Weighted average number of shares outstanding	384 801 089	388 812 564
Fully diluted earnings per share (in CHF)	23.56	20.63
Theoretical net profit from continuing operations [b] assuming the exercise of all outstanding options and sale of all treasury shares [c] (in millions of CHF)	9 262	8 248
Number of shares [c]	393 072 500	399 860 700

[a] 2005 comparatives have been restated following the first application of the option of IAS 19 Employee Benefits § 93A ss. and IFRIC 4 Determining whether an Arrangement contains a Lease, as well as the decision to transfer the fresh cheese activities in Italy to Nestlé Nutrition (refer to Note 29).
[b] Profit for the period attributable to the shareholders of the parent adjusted for the net profit/(loss) on discontinued operations
[c] Net of the Nestlé S.A. shares held in connection with the Share Buy-Back Programme (refer to Note 25)

8. Liquid assets

In millions of CHF	2006	2005
Cash and cash equivalents		
Cash at bank and in hand	2 380	1 952
Cash equivalents	2 898	2 706
	5 278	4 658
Short term investments		
Marketable securities	5 856	12 486
Current investments	341	249
	6 197	12 735
Liquid assets	11 475	17 393

Marketable securities include mainly money market and fixed income instruments.

Liquid assets are denominated in the following currencies:

In millions of CHF	2006	2005
USD	5 691	8 805
CHF	3 374	4 145
EUR	733	2 975
GBP	600	645
Other	1 077	823
	11 475	17 393

Average interest rates are as follows:

	2006	2005
on USD	5%	4.2%
on CHF	1.4%	1.1%
on EUR	2.7%	3.1%
on GBP	4.8%	4.8%

Liquid assets have maturities of less than one year or can be converted into cash at short notice.

Liquid assets are classified as follows:

In millions of CHF	2006	2005
Available-for-sale	11 030	12 611
Trading	445	4 782
	11 475	17 393

9. Trade and other receivables

In millions of CHF	2006	2005
Trade receivables	11 693	11 461
Other receivables	2 884	2 830
	14 577	14 291
After deduction of allowances for doubtful receivables of	453	491

10. Inventories

In millions of CHF	2006	2005
Raw materials, work in progress and sundry supplies	3 102	3 187
Finished goods	5 164	5 193
Allowance for write-off at net realisable value	(237)	(218)
	8 029	8 162

Inventories amounting to CHF 114 million (2005: CHF 112 million) are pledged as security for financial liabilities.

11. Derivative assets

In millions of CHF	2006		2005	
	Fair values	Contractual or notional amounts	Fair values	Contractual or notional amounts
Fair value hedges				
Currency forwards, futures and swaps	8	261	13	625
Interest rate forwards, futures and swaps	34	2 100	70	2 619
Interest rate and currency swaps	106	2 229	81	1 118
Cash flow hedges				
Currency forwards, futures and swaps	27	849	27	1 434
Currency options	9	138	1	36
Interest rate forwards, futures and swaps	67	3 485	57	3 617
Commodity futures	47	496	98	773
Commodity options	14	52	31	58
Hedges of net investments in foreign operations	18	381	28	1 956
Trading				
Currency derivatives	13	590	5	406
Interest rate derivatives	205	4 252	231	4 442
Commodity derivatives	8	163	3	53
	556	14 996	645	17 137

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

In millions of CHF	Currencies purchased forward:					
	USD	JPY	CHF	EUR	Other	2005
Currencies sold forward:						
BRL	5	16	–	–	–	21
USD		–	2	–	8	10
JPY	13		–	–	1	14
CHF	3	–		–	1	4
EUR	6	–	2		–	8
Other	17	–	–	–	–	17
2005	44	16	4	–	10	74

Derivative assets related to foreign exchange risks are denominated in the following currencies:

In millions of CHF	Currencies purchased forward:					
	USD	JPY	CHF	EUR	Other	2006
Currencies sold forward:						
BRL	11	12	–	–	–	23
USD		–	5	7	3	15
JPY	7		–	1	6	14
CHF	3	–		6	–	9
EUR	–	–	–		1	1
Other	11	–	–	–	2	13
2006	32	12	5	14	12	75

Other derivative assets, mainly related to interest rate or commodity price risks, are denominated in the following currencies:

In millions of CHF	2006	2005
USD	139	129
EUR	131	149
JPY	81	12
GBP	15	16
Other	115	265
	481	571

Derivative assets related to cash flow hedges have the following maturities:

In millions of CHF	2006	2005
Within one year	96	158
In the second to the fifth year inclusive	63	52
After the fifth year	5	4
	164	214

The underlying hedged items have the same maturities.

Other derivative assets have the following maturities:

In millions of CHF	2006	2005
Within one year	197	72
In the second year	42	103
In the third to the fifth year inclusive	145	234
After the fifth year	8	22
	392	431

12. Property, plant and equipment

In millions of CHF					2005
	Land and buildings	Machinery and equipment	Tools, furniture and other equipment	Vehicles	Total
Gross value [a]					
At 1 January	11 689	22 745	6 162	715	41 311
Currency retranslations	923	2 016	520	73	3 532
Capital expenditure	720	1 747	783	125	3 375
Disposals	(226)	(1 085)	(333)	(40)	(1 684)
Reclassified as held for sale	(269)	(745)	(48)	(2)	(1 064)
Modification of the scope of consolidation	(81)	(153)	3	3	(228)
At 31 December	12 756	24 525	7 087	874	45 242
Accumulated depreciation and impairments [a]					
At 1 January	(4 787)	(14 490)	(4 417)	(409)	(24 103)
Currency retranslations	(316)	(1 167)	(368)	(41)	(1 892)
Depreciation	(368)	(1 154)	(757)	(103)	(2 382)
Impairments	(78)	(257)	(24)	(1)	(360)
Disposals	210	806	364	73	1 453
Reclassified as held for sale	172	587	40	2	801
Modification of the scope of consolidation	56	174	3	(2)	231
At 31 December	(5 111)	(15 501)	(5 159)	(481)	(26 252)
Net at 31 December [a]	7 645	9 024	1 928	393	18 990

At 31 December 2005, property, plant and equipment include CHF 492 million of assets under construction. Net property, plant and equipment held under finance leases amount to CHF 551 million [a]. Net property, plant and equipment of CHF 132 million are pledged as security for financial liabilities. Fire risks, reasonably estimated, are insured in accordance with domestic requirements.

[a] 2005 comparatives have been restated following the first application of IFRIC 4 Determining whether an Arrangement contains a Lease.

In millions of CHF					2006
	Land and buildings	Machinery and equipment	Tools, furniture and other equipment	Vehicles	Total
Gross value					
At 1 January	12 756	24 525	7 087	874	45 242
Currency retranslations	(210)	(344)	(87)	(11)	(652)
Capital expenditure	774	2 242	1 024	160	4 200
Disposals	(129)	(997)	(369)	(103)	(1 598)
Reclassified as held for sale	(69)	(99)	(11)	–	(179)
Modification of the scope of consolidation	123	128	(198)	11	64
At 31 December	**13 245**	**25 455**	**7 446**	**931**	**47 077**
Accumulated depreciation and impairments					
At 1 January	(5 111)	(15 501)	(5 159)	(481)	(26 252)
Currency retranslations	63	155	55	5	278
Depreciation	(408)	(1 295)	(769)	(109)	(2 581)
Impairments	19	(106)	(9)	–	(96)
Disposals	117	910	341	82	1 450
Reclassified as held for sale	48	49	8	–	105
Modification of the scope of consolidation	21	56	170	2	249
At 31 December	**(5 251)**	**(15 732)**	**(5 363)**	**(501)**	**(26 847)**
Net at 31 December	7 994	9 723	2 083	430	20 230

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

13. Non-current financial assets

In millions of CHF	2006	2005
Available-for-sale	2 641	2 370
Loans and receivables	137	143
	2 778	2 513

Non-current financial assets are denominated in the following currencies:

In millions of CHF	2006	2005
USD	1 423	1 333
CHF	986	812
EUR	188	207
Other	181	161
	2 778	2 513

Non-current financial assets have the following maturities:

In millions of CHF	2006	2005
In the second year	176	185
In the third to the fifth year inclusive	185	196
After the fifth year	1 311	1 253
Equity instruments	1 106	879
	2 778	2 513

14. Goodwill

In millions of CHF	2006	2005
Gross value [a]		
At 1 January	28 478	25 047
Currency retranslations	(1 200)	2 773
Goodwill from acquisitions [b]	2 581	930
Disposals	(130)	(8)
Reclassified as held for sale [c]	278	(264)
At 31 December	**30 007**	**28 478**
Accumulated impairments		
At 1 January	(1 488)	(1 193)
Currency retranslations	29	(77)
Impairments	(38)	(218)
Disposals	3	–
At 31 December	**(1 494)**	**(1 488)**
Net at 31 December	**28 513**	**26 990**

(a) In accordance with IFRS 3 Business Combinations, gross value includes prior years' accumulated amortisation.
(b) Of which CHF 1099 million (2005: CHF 473 million) resulting from Alcon's acquisition of own shares to satisfy obligations under the stock option plan of Alcon employees and for shares buy-back programme
(c) As a consequence of the final settlement of the 2005 discontinued operation, the goodwill reclassified as held for sale in 2005 has been reintegrated in goodwill in 2006.

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

Detailed results of the impairment tests are presented below for the three main goodwill items, representing more than 60% of the net book value at 31 December 2006. For the purpose of the tests, they have been allocated to the following CGUs: PetCare, Hand Held Foods Group USA and Ice Cream USA.

PetCare

Goodwill related to the 2001 acquisition of Ralston Purina has been allocated for the impairment test to the CGU of the product category PetCare on a worldwide basis. The carrying amounts of all goodwill items allocated to this CGU are expressed in various currencies for an equivalent of CHF 11 218 million as at 31 December 2006 (2005: CHF 11 810 million).

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 4%, were used in this calculation. The cash flows for the first five years were based upon financial plans approved by Group Management; years six to ten were based upon Group Management's best expectations, which are consistent with the Group's approved strategy for this period. Cash flows were assumed to be flat for years eleven to 50, although Group Management expects continuing growth. Cash flows have been adjusted to reflect the specific business risks.

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

- Sales: growth between 4 and 7% for North America and Europe over the first ten-year period;
- EBIT margin evolution: stable for North America, with a slight increase for Europe, consistent with sales growth and portfolio rationalisation.

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

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

An increase of 1% in the discount rate assumption would not change the conclusions of the impairment test.

Hand Held Foods Group USA

Goodwill related to the 2002 acquisition of Chef America has been allocated for the impairment test to the Hand Held Foods Group USA CGU. The carrying amounts of all goodwill items allocated to this CGU are expressed in USD for an equivalent of CHF 2687 million as at 31 December 2006 (2005: CHF 2880 million).

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 4%, were used in this calculation. The cash flows for the first five years were based upon financial plans approved by Group Management; years six to ten were based upon Group Management's best expectations, which are consistent with the Group's approved strategy for this period. Cash flows were assumed to be flat for years eleven to 50, although Group Management expects continuing growth. Cash flows have been adjusted to reflect the specific business risks.

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

- Sales: growth between 5 and 9% over the first ten-year period;
- EBIT margin evolution: steadily improving margin over the period, representing an average increase of EBIT within the range of 5 and 10% per year, which is consistent with strong sales growth and enhanced cost management and efficiency.

The key sensitivity for the impairment test is the growth in sales and EBIT margin. Assuming no sales growth from 2011 and no improvement in EBIT margin over the entire period 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 USA

Goodwill and intangible assets with indefinite useful life related to the Group's ice cream businesses in the USA (Nestlé Ice Cream Company and Dreyer's) has been allocated for the impairment test to the Ice Cream USA CGU. The carrying amounts of all goodwill items and intangible assets with indefinite useful life allocated to this CGU are expressed in USD for an equivalent of CHF 3581 million as at 31 December 2006 (2005: CHF 3914 million).

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 4%, were used in this calculation. The cash flows for the first five years were based upon financial plans approved by Group Management; years six to ten were based upon Group Management's best expectations, which are consistent with the Group's approved strategy for this period. Cash flows were assumed to be flat for years eleven to 50, although Group Management expects continuing growth. Cash flows have been adjusted to reflect the specific business risks.

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

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

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

An increase of 1% in the discount rate assumption would not change the conclusions of the impairment test.

15. Intangible assets

In millions of CHF				2005
	Brands and intellectual property rights	Operating rights and others	Management information systems	Total
Gross value				
At 1 January	480	592	2 146	3 218
of which indefinite useful life	141	–	–	141
Currency retranslations	20	67	170	257
Expenditures	21	67	670	758
Disposals	2	(12)	(17)	(27)
Reclassified as held for sale	–	(4)	(39)	(43)
Modification of the scope of consolidation	318	(2)	2	318
At 31 December	841	708	2 932	4 481
of which indefinite useful life	468	–	–	468
Accumulated depreciation and impairments				
At 1 January	(147)	(388)	(655)	(1 190)
Currency retranslations	(4)	(39)	(48)	(91)
Depreciation	(21)	(65)	(260)	(346)
Impairments	(30)	–	–	(30)
Disposals	–	8	13	21
Reclassified as held for sale	–	4	3	7
Modification of the scope of consolidation	–	2	(2)	–
At 31 December	(202)	(478)	(949)	(1 629)
Net at 31 December	639	230	1 983	2 852

In millions of CHF				2006
	Brands and intellectual property rights	Operating rights and others	Management information systems	Total
Gross value				
At 1 January	841	708	2 932	4 481
of which indefinite useful life	468	–	–	468
Currency retranslations	7	(40)	(23)	(56)
Expenditures	11	36	642	689
Disposals	–	(7)	(7)	(14)
Reclassified as held for sale	–	–	(5)	(5)
Modification of the scope of consolidation	691	56	(6)	741
At 31 December	1 550	753	3 533	5 836
of which indefinite useful life	1 167	–	–	1 167
Accumulated depreciation and impairments				
At 1 January	(202)	(478)	(949)	(1 629)
Currency retranslations	(1)	23	10	32
Depreciation	(21)	(73)	(386)	(480)
Disposals	–	7	7	14
At 31 December	(224)	(521)	(1 318)	(2 063)
Net at 31 December	1 326	232	2 215	3 773

Internally generated intangible assets consist mainly of management information systems.

16. Trade and other payables

In millions of CHF	2006	2005
Trade payables	8 923	7 841
Other payables	3 649	3 276
	12 572	11 117

17. Current financial liabilities

In millions of CHF	Note	2006	2005 [a]
Commercial paper		10 332	10 048
Line of credit facilities		834	1 200
Other current financial liabilities		1 392	1 651
		12 558	12 899
Current portion of non-current financial liabilities [b]	19	2 936	5 942
		15 494	18 841

[a] 2005 comparatives have been restated following the first application of IFRIC 4 Determining whether an Arrangement contains a Lease.
[b] 2005 comparatives include CHF 3441 million related to the Dreyer's acquisition. "Put" and "call" options were exchanged between Dreyer's Grand Ice Cream Holdings, Inc. (Dreyer's) and the remaining holders of Dreyer's "Class A Callable Puttable Common Stock." These options gave the remaining stockholders the right to sell, and gave Dreyer's the right to buy, the remaining outstanding shares at certain dates and for certain amounts. Although the first put period extended from 1 December 2005 until 13 January 2006, payments relating to these puts occurred on 17 January 2006.

The fair values of current financial liabilities are not materially different from their carrying amounts.

The above financial liabilities are denominated in the following currencies:

In millions of CHF	2006	2005 [a]
USD	8 157	11 862
EUR	3 408	2 075
GBP	720	1 767
Other	3 209	3 137
	15 494	18 841

[a] 2005 comparatives have been restated following the first application of IFRIC 4 Determining whether an Arrangement contains a Lease.

Average interest rates are as follows:

	2006	2005
on USD	5.1%	3.2%
on EUR	3%	2.1%
on GBP	4.8%	4.8%

18. Derivative liabilities

In millions of CHF	2006		2005	
	Fair values	Contractual or notional amounts	Fair values	Contractual or notional amounts
Fair value hedges				
Currency forwards, futures and swaps	43	1 711	12	723
Interest rate forwards, futures and swaps	10	1 321	11	750
Interest rate and currency swaps	24	570	363	2 047
Cash flow hedges				
Currency forwards, futures and swaps	25	1 110	9	634
Currency options	–	–	6	167
Interest rate forwards, futures and swaps	27	1 827	92	2 764
Commodity futures	33	143	29	167
Commodity options	12	97	5	39
Hedges of net investments in foreign operations	141	1 777	147	2 300
Trading				
Currency derivatives	9	769	40	1 130
Interest rate derivatives	139	3 105	205	4 843
Commodity derivatives	7	48	3	45
	470	12 478	922	15 609

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

Derivative liabilities related to foreign exchange risks are denominated in the following currencies:

In millions of CHF	Currencies purchased forward:					
	CHF	EUR	USD	JPY	Other	2005
Currencies sold forward:						
CHF		30	–	–	4	34
BRL	–	1	87	23	–	111
EUR	–		–	–	1	1
USD	5	1		–	–	6
JPY	–	–	–		1	1
Other	1	3	15	2	40	61
2005	6	35	102	25	46	214

In millions of CHF	Currencies purchased forward:					
	CHF	EUR	USD	JPY	Other	2006
Currencies sold forward:						
CHF		74	1	–	–	75
BRL	–	–	18	36	–	54
EUR	5		31	–	–	36
USD	–	2		1	5	8
JPY	–	1	–		2	3
Other	1	–	14	10	17	42
2006	6	77	64	47	24	218

Other derivative liabilities, mainly related to interest rate or commodity price risks, are denominated in the following currencies:

In millions of CHF	2006	2005
USD	63	389
EUR	31	102
GBP	5	45
Other	153	172
	252	708

Derivative liabilities related to cash flow hedges have the following maturities:

In millions of CHF	2006	2005
Within one year	67	50
In the second to the fifth year inclusive	19	29
After the fifth year	11	62
	97	141

The underlying hedged items have the same maturities.

Other derivative liabilities have the following maturities:

In millions of CHF	2006	2005
Within one year	226	622
In the second year	–	49
In the third to the fifth year inclusive	144	105
After the fifth year	3	5
	373	781

19. Non-current financial liabilities

In millions of CHF	Note	2006	2005 [a]
Loans from financial institutions and other		589	599
Liabilities in respect of unexercised options [b]		107	3 450
Bonds		8 708	9 658
Obligations under finance leases		484	512
		9 888	14 219
Current portion	17	(2 936)	(5 942)
		6 952	8 277

[a] 2005 comparatives have been restated following the first application of IFRIC 4 Determining whether an Arrangement contains a Lease.
[b] 2005 comparatives mainly related to the Dreyer's acquisition. Refer to Note 17 – Current portion.

The fair value of non-current financial liabilities amounts to CHF 6982 million (2005: CHF 8221 million).

The above non-current financial liabilities are repayable as follows:

In millions of CHF	2006	2005 [a]
In the second year	3 132	3 176
In the third to the fifth year inclusive	2 510	4 207
After the fifth year	1 310	894
	6 952	8 277

[a] 2005 comparatives have been restated following the first application of IFRIC 4 Determining whether an Arrangement contains a Lease.

The above financial liabilities are denominated in the following currencies:

In millions of CHF	2006	2005 [a]
USD	2 973	4 216
EUR	1 570	2 290
Other	2 409	1 771
	6 952	8 277

[a] 2005 comparatives have been restated following the first application of IFRIC 4 Determining whether an Arrangement contains a Lease.

Loans from financial institutions in other currencies are individually not significant.

Average interest rates on loans from financial institutions are as follows:

	2006	2005
on EUR	3.4%	3.4%
on JPY	1.4%	1.4%

The effective interest rates of bonds are disclosed below. The effective interest rates of other non-current financial liabilities are not materially different from their nominal interest rates.

The interest rate structure is as follows:

In millions of CHF	2006	2005 [(a)]
Financial liabilities at fixed rates	6 673	8 029
Financial liabilities at variable rates	279	248
	6 952	8 277

[(a)] 2005 comparatives have been restated following the first application of IFRIC 4 Determining whether an Arrangement contains a Lease.

These figures are those from the original financial liabilities, without impact from hedges that are disclosed in the appropriate notes.

Bond issues subject to interest rate fair value hedges are carried at fair value, while those that are not subject to such hedges are carried at amortised cost.

In millions of CHF

Issuer	Face value in millions	Interest rates Nominal	Interest rates Effective	Year of issue/ maturity	Comments	2006	2005
Nestlé Holdings, Inc., USA	USD 699	0%	6.25%	2001–2008	(a)	783	790
	USD 300	5.13%	5.24%	2001–2007		367	392
	USD 500	4.75%	4.98%	2002–2007		611	653
	USD 400	4.50%	4.64%	2002–2006	(b)	–	524
	NOK 2000	5.25%	5.16%	2003–2007	(c)	393	397
	USD 250	3.25%	3.42%	2003–2009	(d)	305	327
	USD 400	3.50%	3.81%	2005–2008	(c)	477	513
	EUR 250	2.13%	2.97%	2005–2009	(c)(e)	378	229
	USD 300	4.38%	4.49%	2005–2009	(c)	362	393
	AUD 300	5.50%	5.68%	2005–2009	(c)(f)	280	192
	USD 300	5%	5.19%	2006–2008	(c)	363	–
	AUD 200	6%	6.23%	2006–2010	(c)	190	–
	CHF 450	2.50%	2.57%	2006–2013	(c)	449	–
	GBP 100	5.13%	5.24%	2006–2009	(c)	238	–
Nestlé Purina Petcare Company, USA	USD 83	9.25%	5.90%	1989–2009		110	121
	USD 48	7.75%	6.25%	1995–2015		64	69
	USD 63	9.30%	6.46%	1991–2021		98	106
	USD 79	8.63%	6.46%	1992–2022		116	126
	USD 44	8.13%	6.47%	1993–2023		62	67
	USD 51	7.88%	6.45%	1995–2025		72	78
Nestlé Finance-France S.A., France	ZAR 100	11%	11.52%	2001–2006	(c)	–	21
	EUR 370	4.75%	3.22%	2002–2007	(c)(g)	598	596
	USD 249	4.24%	4.24%	2002–2006	(c)(h)(l)	–	329
	USD 600	3%	2.88%	2002–2006	(c)(i)	–	783
	EUR 147	3.38%	3.38%	2002–2007	(c)(j)(l)	235	231
	EUR 175	2.56%	2.60%	2003–2006	(c)(l)	–	273
	EUR 500	3.50%	3.51%	2003–2008	(c)	802	788
	EUR 150	2.50%	2.55%	2003–2007	(c)(k)	238	233
	USD 100	2.25%	2.33%	2003–2007	(c)	119	127
	AUD 200	6%	6.03%	2004–2008	(c)	192	197
	HUF 25000	7%	7%	2004–2009	(c)	158	155
	EUR 100	3.50%	3.52%	2006–2009	(c)	159	–
Nestlé Holdings (U.K.) PLC, United Kingdom	USD 300	5.25%	5.35%	2001–2006	(c)	–	395
Nestlé Japan Holding Ltd, Japan	USD 200	4.13%	4.14%	2005–2007	(c)	241	259
Nestlé (Thai) Ltd, Thailand	THB 5000	2.16%	2.16%	2003–2008		169	159
Other bonds						79	135
Total						8 708	9 658
of which due within one year						2 807	2 377
of which due after one year						5 901	7 281

Bonds subject to fair value hedges are carried at fair value for CHF 5874 million (2005: CHF 6241 million) and the related derivatives are shown under derivative assets for CHF 134 million (2005: CHF 87 million) and under derivative liabilities for CHF 33 million (2005: CHF 366 million). The full fair value of bonds amounts to CHF 8739 million (2005: CHF 9726 million).

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

Exercise conditions of the warrants: 70 000 warrants to purchase Nestlé S.A. shares. Each warrant gives the right to purchase 31.9065 shares. The holders of warrants may exercise their warrants to purchase shares of Nestlé S.A. either:
1) during the note exercise period from July 2001 to June 2008 by tendering a note and a warrant in exchange for shares on the basis that one note is required to exercise each warrant; or
2) on the cash exercise date, 11 June 2008, by tendering warrants together with the exercise price in cash.

The effective initial exercise price per share is USD 261.119 (or CHF 455.–, based on a fixed exchange rate of CHF 1.7425 for each USD), growing by 2.625% per annum, prior to any anti-dilution adjustment. In June 2003, 100 units (at USD 10 000 each) of this issue were put for cash by a holder on the put date at the prescribed price as per the terms and conditions of the issue. In 2006, one unit was exercised.

(b) Partially subject to an interest rate swap that creates a liability at floating rates

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

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

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

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

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

(h) USD 1 million of the initial USD 250 million bond issued in 2002 were bought back during 2004. The swap was adjusted accordingly.

(i) The initial USD 500 million bond issued in 2002 was increased by USD 100 million in 2004.

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

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

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

20. Employee benefits

Pensions and retirement benefits

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

Post-employment medical benefits and other employee benefits

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

Reconciliation of assets and liabilities recognised in the balance sheet

			2006			2005 [a]
In millions of CHF	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total
Present value of funded obligations	23 020	448	23 468	22 514	349	22 863
Fair value of plan assets	(23 560)	(259)	(23 819)	(21 623)	(191)	(21 814)
Excess of liabilities/(assets) over funded obligations	(540)	189	(351)	891	158	1 049
Present value of unfunded obligations	1 161	1 466	2 627	1 185	1 471	2 656
Unrecognised past service cost of non-vested benefits	(3)	(2)	(5)	11	(4)	7
Unrecognised assets	1 390	–	1 390	886	–	886
Defined benefits net liabilities/(assets)	**2 008**	**1 653**	**3 661**	**2 973**	**1 625**	**4 598**
Liabilities from defined contribution plans and non-current deferred compensation			1 294			982
Liabilities from cash-settled share-based transactions [b]			117			98
Net liabilities			**5 072**			**5 678**
Reflected in the balance sheet as follows:						
Employee benefits assets			(343)			(69)
Employee benefits liabilities			5 415			5 747
Net liabilities			**5 072**			**5 678**

[a] 2005 comparatives have been restated following the first application of the option of IAS 19 Employee benefits § 93A ss.
[b] The intrinsic value of liabilities from cash-settled share-based transactions that are vested amounts to CHF 39 million (2005: CHF 3 million).

Movement in the present value of defined benefit obligations

In millions of CHF	Defined benefit retirement plans (2006)	Post-employment medical benefits and other benefits (2006)	Total (2006)	Defined benefit retirement plans (2005)	Post-employment medical benefits and other benefits (2005)	Total (2005)
At 1 January	23 699	1 820	25 519	20 706	1 504	22 210
of which unfunded defined benefit schemes	1 185	1 471	2 656	1 005	1 287	2 292
Currency retranslations	85	(101)	(16)	1 099	215	1 314
Current service cost	675	70	745	654	73	727
Interest cost	1 042	106	1 148	1 001	88	1 089
Early retirements, curtailments, settlements	(40)	(1)	(41)	(23)	–	(23)
Past service cost of vested benefits	22	(4)	18	17	7	24
Past service cost of non-vested benefits	11	1	12	–	–	–
Actuarial (gains)/losses	(29)	73	44	1 155	(38)	1 117
Benefits paid on funded defined benefit schemes	(1 132)	(17)	(1 149)	(980)	(10)	(990)
Benefits paid on unfunded defined benefit schemes	(99)	(101)	(200)	(68)	(110)	(178)
Modification of the scope of consolidation	4	5	9	–	13	13
Transfer from/(to) defined contribution plans	(57)	63	6	138	78	216
At 31 December	24 181	1 914	26 095	23 699	1 820	25 519
of which unfunded defined benefit schemes	1 161	1 466	2 627	1 185	1 471	2 656

Movement in fair value of defined benefit plan assets

In millions of CHF	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total 2006	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total 2005
At 1 January	(21 623)	(191)	**(21 814)**	(17 839)	(105)	(17 944)
Currency retranslations	(66)	9	**(57)**	(889)	(18)	(907)
Expected return on plan assets	(1 218)	(17)	**(1 235)**	(985)	(6)	(991)
Employees' contributions	(99)	–	**(99)**	(98)	–	(98)
Employer contributions	(678)	(23)	**(701)**	(1 150)	(20)	(1 170)
Actuarial (gains)/losses	(1 020)	(7)	**(1 027)**	(1 524)	2	(1 522)
Benefits paid on funded defined benefit schemes	1 132	17	**1 149**	980	10	990
Modification of the scope of consolidation	(29)	–	**(29)**	8	–	8
Transfer from/(to) defined contribution plans	41	(47)	**(6)**	(126)	(54)	(180)
At 31 December	**(23 560)**	**(259)**	**(23 819)**	(21 623)	(191)	(21 814)

The plan assets include property occupied by affiliated companies with a fair value of CHF 32 million (2005: CHF 26 million) and assets loaned to affiliated companies with a fair value of CHF 20 million (2005: CHF 16 million).

The actual return on plan assets amounts to CHF 2261 million (2005: CHF 2514 million).

The Group expects to contribute CHF 568 million to its funded defined benefit schemes in 2007.

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

At 31 December	2006	2005
Equities	48%	48%
Bonds	26%	26%
Real estate property	6%	6%
Alternative investments	18%	17%
Cash/Deposits	2%	3%

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

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

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

In millions of CHF	Defined benefit retirement plans 2006	Post-employment medical benefits and other benefits 2006	Total 2006	Defined benefit retirement plans 2005	Post-employment medical benefits and other benefits 2005	Total 2005
Experience adjustments on plan assets	1 020	7	**1 027**	1 524	(2)	1 522
Experience adjustments on plan liabilities	(38)	59	**21**	82	(66)	16
Change of assumptions on plan liabilities	67	(132)	**(65)**	(1 237)	104	(1 133)
Transfer from/(to) unrecognised assets	(521)	–	**(521)**	(427)	–	(427)
Actuarial gains/(losses) on defined benefit schemes	528	(66)	**462**	(58)	36	(22)

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

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

Expenses recognised in the income statement

In millions of CHF	Defined benefit retirement plans 2006	Post-employment medical benefits and other benefits 2006	Total 2006	Defined benefit retirement plans 2005 (a)	Post-employment medical benefits and other benefits 2005 (a)	Total 2005 (a)
Current service cost	675	70	**745**	654	73	727
Employee contributions	(99)	–	**(99)**	(98)	–	(98)
Interest cost	1 042	106	**1 148**	1 001	88	1 089
Expected return on plan assets	(1 218)	(17)	**(1 235)**	(985)	(6)	(991)
Early retirements, curtailments, settlements	(40)	(1)	**(41)**	(23)	–	(23)
Past service cost of vested benefits	22	(4)	**18**	17	7	24
Past service cost of non-vested benefits	(1)	2	**1**	–	–	–
Total defined benefit expenses	**381**	**156**	**537**	566	162	728
Total defined contribution expenses			**408**			322

(a) 2005 comparatives have been restated following the first application of the option of IAS 19 Employee benefits § 93A ss.

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

Principal actuarial assumptions

At 31 December	2006	2005 [a]
Discount rates		
Europe	4.2%	3.9%
Americas	6%	5.9%
Asia, Oceania and Africa	5.3%	5%
Expected long term rates of return on plan assets		
Europe	6.5%	6.4%
Americas	8.5%	8.3%
Asia, Oceania and Africa	6.9%	6.8%
Expected rates of salary increases		
Europe	3.3%	3.1%
Americas	3.2%	3.2%
Asia, Oceania and Africa	3.8%	2.8%
Expected rates of pension adjustments		
Europe	2%	1.8%
Americas	0.3%	0.3%
Asia, Oceania and Africa	2.2%	1.8%
Medical cost trend rates		
Americas	6.3%	5.7%
Average remaining working life of employees (in years)		
Europe	20	19
Americas	15	15
Asia, Oceania and Africa	15	14

[a] From 2006 onwards, the weighted average of principal actuarial assumptions is disclosed. 2005 comparatives have been restated to be on a comparable basis.

Sensitivity analysis on medical cost trend rates

A one percentage point increase in assumed medical cost trend rates would increase the defined benefit obligation by CHF 59 million and increase the aggregate of current service cost and interest cost by CHF 5 million.

A one percentage point decrease in assumed medical cost trend rates would decrease the defined benefit obligation by CHF 48 million and decrease the aggregate of current service cost and interest cost by CHF 5 million.

21. Share-based Payment

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

In millions of CHF	2006	2005
Equity-settled share-based payment costs	218	197
Cash-settled share-based payment costs	67	75
Total share-based payment costs	285	272

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

Management Stock Option Plan (MSOP)

Members of the Group's management are entitled to participate each year in a share option plan without payment. The benefits consist of the right to buy Nestlé S.A. shares (accounted for as equity-settled share-based payment transactions) at a predetermined fixed price. From 2005 onwards, the grant has been limited to members of the Executive Board.

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

Movement of options

	2006 Number of options	2005 Number of options
Outstanding at 1 January	5 870 831	6 645 641
of which vested and exercisable	2 601 100	1 839 449
New rights	104 475	66 500
Rights exercised [(a)]	(1 810 278)	(764 967)
Rights forfeited	(11 000)	(76 343)
Rights expired	(800)	–
Outstanding at 31 December	**4 153 228**	5 870 831
of which vested and exercisable at 31 December	2 277 526	2 601 100
additional options vesting in 2007	1 704 727	

[(a)] Average exercise price: CHF 318.00 (2005: CHF 315.11); average share price at exercise date: CHF 411.67 (2005: CHF 374.04)

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

Options features

Grant date	Expiring on	Exercise price in CHF	Expected volatility	Risk-free interest rate	Dividend yield	Fair value at grant in CHF	2006 Number of options outstanding	2005 Number of options outstanding
01.01.2000	31.12.2006	281.90					–	244 770
01.03.2001	29.02.2008	343.20					549 504	978 472
01.03.2002	28.02.2009	367.35					814 254	1 278 717
01.02.2003	31.01.2010	278.55	27.16%	1.78%	2.25%	57.44	818 427	1 459 384
01.10.2003	30.09.2010	308.55	20.58%	2.11%	2.30%	49.26	27 428	33 228
01.02.2004	31.01.2011	329.10	19.41%	2.05%	2.11%	50.50	1 747 015	1 784 135
01.10.2004	30.09.2011	289.40	20.83%	2.09%	2.50%	45.19	25 625	25 625
01.02.2005	31.01.2012	309.20	20.13%	1.84%	2.29%	43.88	66 500	66 500
01.02.2006	31.01.2013	379.50	19%	2.20%	2.11%	52.90	104 475	–
							4 153 228	5 870 831

The exercise price corresponds to the average price of the last 10 trading days preceding the grant date.

Group Management has assumed that, on average, the participants exercise their options after 5 years. The expected volatility is based on the historical volatility, adjusted for any expected changes to future volatility due to publicly available information.

Restricted Stock Unit Plan (RSUP)

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

Movement of Restricted Stock Units

	2006 Number of RSU	2005 Number of RSU
Outstanding at 1 January	429 853	–
New RSU	376 995	438 810
RSU settled [a]	(35 587)	(6 179)
RSU forfeited	(6 375)	(2 778)
Outstanding at 31 December	**764 886**	429 853
of which vested at 31 December	5 200	–
of which considered cash-settled	110 663	41 039

[a] Average price at vesting date: CHF 399.93 (2005: CHF 334.84)

Restricted Stock Units features

Grant date	Restricted until	Risk-free interest rate	Dividend yield	Fair value at grant in CHF	2006 Number of RSU outstanding	2005 Number of RSU outstanding
01.03.2005	29.02.2008	1.59%	2.45%	318.00	390 669	423 546
01.10.2005	30.09.2008	1.50%	2.15%	371.60	6 187	6 307
01.02.2006	31.01.2009	2.10%	2.13%	374.70	363 390	–
01.10.2006	30.09.2009	2.40%	2.15%	439.25	4 640	–
					764 886	429 853

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

US plans

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

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

Alcon Incentive Plan

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

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

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

Movement of Alcon stock options and SSARs

	2006 Number of options	2005 Number of options	2006 Number of SSARs
Outstanding at 1 January	15 095 417	16 278 653	–
of which vested and exercisable	3 326 147	879 689	–
New rights	176 455	3 478 611	1 345 604
Rights exercised [(a)]	(2 986 379)	(4 555 104)	–
Rights forfeited	(130 357)	(106 323)	(18 659)
Rights expired	(800)	(420)	–
Outstanding at 31 December	**12 154 336**	**15 095 417**	**1 326 945**
of which vested and exercisable at 31 December	5 433 353	3 326 147	407
additional options scheduled to vest in 2007	3 375 680		–

[(a)] Weighted average options exercise price: USD 36.78 (2005: USD 33.61); weighted average share price at options exercise date: USD 109.68 (2005: USD 98.71)

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

Alcon stock option features

Grant date	Expiring on	Exercise price in USD	Expected life in years	Expected volatility	Risk-free interest rate	Dividend yield	Fair value at grant in USD	2006 Number of options outstanding	2005 Number of options outstanding
21.03.2002	21.03.2012	33.00	5.22	33%	4.75%	1%	10.03	1 437 655	2 082 664
01.07.2002	01.07.2012	32.85	–	33%	4.75%	1%	9.98	–	35 000
18.02.2003	18.02.2013	36.39	6.14	33%	2.92%	1%	10.06	3 211 531	5 413 051
Various 2003	Various 2013	49.63	6.62	33%	3.01%	1%	13.79	49 500	55 750
11.02.2004	11.02.2014	63.32	7.12	33%	2.99%	1%	19.59	3 878 185	3 994 825
Various 2004	Various 2014	77.07	7.67	33%	3.23%	1%	22.84	62 000	62 000
09.02.2005	09.02.2015	79.00	8.11	33%	3.60%	1%	25.48	3 299 481	3 406 127
Various 2005	Various 2015	90.84	8.23	33%	3.80%	1%	30.26	46 000	46 000
08.02.2006	08.02.2016	122.90	9.11	33%	4.56%	1%	42.54	169 984	–
								12 154 336	15 095 417

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

Alcon SSARs features

Grant date	Expiring on	Exercise price in USD	Expected life in years	Expected volatility	Risk-free interest rate	Dividend yield	Fair value at grant in USD	2006 Number of SSARs outstanding
08.02.2006	08.02.2016	122.90	9.11	33%	4.56%	1%	41.51	1 311 895
Various 2006	Various 2016	100.42	9.40	33%	5.03%	1%	32.67	15 050
								1 326 945

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

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

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

	2006	2006
	Number of Restricted shares	Number of RSU
Outstanding at 1 January	530 872	–
New granted [(a)]	191 113	29 658
Settled [(b)]	(532 309)	(1 239)
Forfeited	(3 737)	(714)
Outstanding at 31 December	**185 939**	**27 705**

[(a)] Weighted average fair value of Restricted shares at grant date: USD 122.59; weighted average fair value of RSU at grant date: USD 121.90
[(b)] Weighted average price of Restricted shares at vesting date: USD 134.11; weighted average price of RSU at vesting date: USD 106.94

The Restricted shares outstanding at 1 January 2006 related to the 2002 conversion of 1994 Alcon Phantom Stock interests by certain Alcon employees, and vested on 1 January 2006. No such instruments were granted between 20 March 2002 and February 2006.

22. Deferred taxes

In millions of CHF	2006	2005 [a]
Tax assets by types of temporary difference		
Property, plant and equipment	317	311
Goodwill and intangible assets	297	148
Employee benefits	1 905	2 171
Inventories, receivables, payables and provisions	997	1 018
Unused tax losses and unused tax credits	288	536
Other	565	564
	4 369	4 748
Tax liabilities by types of temporary difference		
Property, plant and equipment	1 239	1 150
Goodwill and intangible assets	952	905
Employee benefits	52	33
Inventories, receivables, payables and provisions	99	110
Other	300	324
	2 642	2 522
Net assets	1 727	2 226
Reflected in the balance sheet as follows:		
Deferred tax assets	2 433	2 466
Deferred tax liabilities	(706)	(240)
Net assets	1 727	2 226
Temporary differences for which no deferred tax is recognised:		
on investments in affiliated companies (taxable temporary difference)	19 436	15 441
on unused tax losses, tax credits and other items [b]	2 175	2 026

[a] 2005 comparatives have been restated following the first application of the option of IAS 19 Employee Benefits § 93A ss. and IFRIC 4 Determining whether an Arrangement contains a Lease.
[b] Of which more than half expire in more than five years

23. Provisions

In millions of CHF					2005
	Restructuring	Environmental	Litigation	Other	Total
At 1 January	923	34	1 759	288	3 004
Currency retranslations	47	5	145	20	217
Provisions made in the period	324	7	449	107	887
Amounts used	(314)	(3)	(117)	(157)	(591)
Unused amounts reversed	(30)	(2)	(167)	(32)	(231)
Modification of the scope of consolidation	–	–	1	60	61
At 31 December	950	41	2 070	286	3 347

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

Restructuring

Restructuring provisions arise from a number of projects across the Group. These include plans to optimise industrial manufacturing capacities by closing inefficient production facilities and reorganising others, mainly in Europe. Restructuring provisions are expected to result in future cash outflows when implementing the plans (usually over the following two to three years) and are consequently not discounted.

Litigation

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

Other

Other provisions are mainly constituted by onerous contracts for CHF 91 million (2005: CHF 149 million) resulting from unfavourable leases or supply agreements above world market prices in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received or for which no benefits are received. These agreements have been entered into as a result of selling and closing inefficient facilities. The duration of those contracts is an average of three years.

24. Share capital of Nestlé S.A.

	2006	2005
Number of registered shares of nominal value CHF 1.– each	400 735 700	403 520 000
In millions of CHF	401	404

At the Annual General Meeting on 6 April 2006, the shareholders approved the cancellation of 2 784 300 shares.
The share capital includes the nominal value of treasury shares (see Note 25).

25. Treasury shares

This item represents the treasury shares held in Nestlé S.A.:

Number of shares	Note	2006	2005
Purpose of holding			
Freely available shares		1 601 764	1 724 069
Management option rights [(a)]		4 153 228	5 870 831
Restricted stock units [(a)]		764 886	429 853
Warrants on Turbo bond issues of Nestlé Holdings Inc., USA	19	2 230 269	2 230 300
Share Buy-Back Programme		7 663 200	3 659 300
Trading		600 279	1 372 101
Total at 31 December		**17 013 626**	**15 286 454**

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

In millions of CHF	2006	2005
Book value at 31 December	4 644	2 770
Market value at 31 December	7 367	6 008

26. Decrease/(increase) in working capital

Disregarding currency retranslations and effect of acquisitions and disposals.

In millions of CHF	2006	2005
Inventories	(43)	(455)
Trade receivables	(673)	(998)
Trade payables	1 183	761
Other current assets	(297)	(212)
Other current liabilities	178	589
	348	**(315)**

27. Acquisitions

In millions of CHF	2006	2005
Fair value of net assets acquired		
Property, plant and equipment	407	85
Intangible assets	749	318
Other assets	287	106
Minority interests	(20)	(68)
Purchase of minority interests in existing participations	19	45
Financial liabilities	(275)	(32)
Employee benefits, deferred taxes and provisions	(299)	(141)
Other liabilities	(179)	(63)
	689	250
Goodwill [a]	2 581	930
Total acquisition cost	3 270	1 180
Cash and cash equivalents acquired	(18)	(29)
Consideration payable	(151)	(168)
Payment of consideration payable on prior years' acquisitions	3 368	12
Cash outflow on acquisitions	6 469	995

[a] Of which CHF 1099 million (2005: CHF 473 million) resulting from Alcon's acquisition of own shares to satisfy obligations under the stock option plan of Alcon employees and for shares buy-back programme

Since the valuation of the assets and liabilities of businesses recently acquired is still in process, the above values are determined provisionally.

The carrying amounts of assets and liabilities determined in accordance with IFRSs immediately before the combination do not differ significantly from those disclosed above except from internally generated intangible assets and goodwill which were not recognised.

The sales and the profit for the period are not significantly impacted by acquisitions.

Novartis Medical Nutrition

On 14 December 2006, the Group publicly announced that it has agreed to acquire Novartis Medical Nutrition for a total amount of USD 2.5 billion. Novartis Medical Nutrition achieved sales of about USD 950 million in 2006 and its business is complementary to Nestlé's healthcare nutrition division. The transaction, which is expected to be completed during the second half of 2007, is subject to regulatory approval.

28. Disposals

In millions of CHF	2006	2005
Net assets disposed of		
Property, plant and equipment	94	82
Goodwill and intangible assets	135	8
Other assets	128	29
Minority interests [a]	(155)	(107)
Financial liabilities	(59)	(6)
Employee benefits, deferred taxes and provisions	14	57
Other liabilities	(147)	(167)
	10	(104)
Profit/(loss) on current year disposals [a]	165	212
Total disposal consideration	**175**	**108**
Cash and cash equivalents disposed of	(16)	(3)
Consideration receivable	(33)	(1)
Receipt of consideration receivable on prior years' disposals	321	89
Cash inflow on disposals	**447**	**193**

[a] Mainly resulting from the exercise of stock options by Alcon employees and related dilution on issuance of new shares

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

Discontinued operations: Chilled dairy business in Europe

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

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

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

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

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

In millions of CHF	2006	2005 [a]
Sales to customers	1 678	1 924
Expenses	(1 642)	(1 919)
EBIT Earnings Before Interest, Taxes, restructuring and impairments	36	5
Net other income/(expenses)	(12)	(28)
Profit/(loss) from activities before taxes	24	(23)
Taxes	(8)	9
Net profit/(loss) from activities	16	(14)
Profit/(loss) on disposal of assets and liabilities before taxes	19	–
Taxes	39	–
Net profit/(loss) on disposal of assets and liabilities constituting the discontinued operations	58	–
Net profit/(loss) on discontinued operations	74	(14)
Earnings per share from discontinued operations (in CHF)		
Basic earnings per share	0.19	(0.04)
Fully diluted earnings per share	0.19	(0.04)
Cash flow statement from discontinued operations		
Operating cash flow	10	28
Cash flow from investing activities	(15)	(31)

[a] 2005 comparatives have been restated following the decision to transfer the fresh cheese activities in Italy to Nestlé Nutrition.

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

In millions of CHF	2006	2005
Property, plant and equipment	57	275
Goodwill	–	264
Intangible assets	–	39
Net working capital	17	49
Employee benefits, deferred taxes and provisions	–	(32)
Net assets held for sale	74	595
Reflected in the balance sheet as follows:		
Assets held for sale	74	633
Liabilities directly associated with assets held for sale	–	(38)
Net assets held for sale	74	595

The assets held for sale and liabilities directly associated with assets held for sale in the year ending 31 December 2005 were mainly related to the discontinued operation of the Chilled dairy business in Europe.

30. Dividends

Dividends payable are not accounted for until they have been ratified at the Annual General Meeting. At the meeting on 19 April 2007, the following dividend in respect of 2006 will be proposed:

Dividend per share	CHF 10.40
resulting in a total dividend of [a]	CHF 4 043 833 539.–

[a] Number of shares with right to dividend: see Annual Report of Nestlé S.A.

The Financial Statements for the year ended 31 December 2006 do not reflect this proposed distribution, which will be treated as an appropriation of profit in the year ending 31 December 2007.

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

At 31 December 2006, the Group was committed to expenditure amounting to CHF 482 million (2005: CHF 419 million).

32. Lease commitments

Operating leases

In millions of CHF	2006	2005 [a]
	Minimum lease payments Future value	
Within one year	480	568
In the second year	389	415
In the third to the fifth year inclusive	702	708
After the fifth year	555	562
	2 126	2 253

[a] 2005 comparatives have been restated following the first application of IFRIC 4 Determining whether an Arrangement contains a Lease.

Finance leases

In millions of CHF	2006		2005 [a]	
	Minimum lease payments			
	Present value	Future value	Present value	Future value
Within one year	78	87	93	101
In the second year	81	97	87	102
In the third to the fifth year inclusive	166	229	177	243
After the fifth year	159	331	155	250
	484	744	512	696

[a] 2005 comparatives have been restated following the first application of IFRIC 4 Determining whether an Arrangement contains a Lease.

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

33. Transactions with related parties

Remuneration of the Board of Directors and the Executive Board

Board of Directors

Members of the Board of Directors received an annual remuneration that varied with the Board and the Committee responsibilities as follows: Board members CHF 280 000; members of the Chairman's and Corporate Governance Committee an additional CHF 200 000; members of the Compensation and Nomination Committee an additional CHF 50 000 (Chair CHF 150 000); members of the Audit Committee an additional CHF 100 000 (Chair CHF 150 000).

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

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

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

Executive Board

The total annual remuneration of the members of the Executive Board comprised a salary, sundry allowances, a bonus (based on the individual's performance and the achievement of the Group's objectives), share options and restricted stock units.

Members of the Executive Board can choose to receive part or all of their bonus in Nestlé S.A. shares at the average price of the last ten trading days of January of the year of allocation. These shares are subject to a three-year blocking period.

	2006		2005	
	Number	CHF millions	Number	CHF millions
Non-Executive members of the Board of Directors				
Remuneration		3		3
Shares	6 831	3	7 044	2
Executive Board [a]				
Remuneration		14		13
Bonus		6		6
Shares	23 892	10	19 957	7
Options [b]	104 475		66 500	
Restricted stock units [b]	25 020		36 450	
Pension contributions		4		1

[a] Includes the Executive member of the Board of Directors.
[b] Both options and restricted stock units are equity-settled share-based payment transactions whose cost is recognised over the vesting period.

Other transactions with related parties

The Group has not entered into any material transactions with related parties. Furthermore, throughout 2006, no director had a personal interest in any transaction of significance for the business of the Group.

34. Guarantees

The Group has no significant guarantees given to third parties.

35. Contingent assets and liabilities

The Group is exposed to contingent liabilities amounting to CHF 957 million (2005: CHF 870 million) representing various potential litigations for CHF 905 million (2005: CHF 784 million) and other items for CHF 52 million (2005: CHF 86 million).

Contingent assets for litigation claims in favour of the Group amount to CHF 267 million (2005: CHF 258 million).

36. Events after the balance sheet date

At 21 February 2007, date of approval of the Financial Statements by the Board of Directors, the Group had no subsequent adjusting events that warrant a modification of the value of the assets and liabilities.

37. Group companies

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

Report of the Group auditors

to the General Meeting of Nestlé S.A.

As Group auditors we have audited the Consolidated Financial Statements (balance sheet, income statement, cash flow statement, statement of recognised income and expense and changes of equity and annex) of the Nestlé Group for the year ended 31 December 2006.

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

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

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

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

KPMG Klynveld Peat Marwick Goerdeler SA

Mark Baillache
Auditor in charge

Stéphane Gard

London and Zurich, 21 February 2007

Financial information – five year review

In millions of CHF (except for per share data and personnel)	2006		2005 [a]
Results			
Sales	98 458		91 115
EBIT Earnings Before Interest, Taxes, restructuring and impairments	13 302		11 876
as % of sales	*13.5%*		*13%*
Taxes	3 293		2 647
Profit for the period attributable to shareholders of the parent (Net profit)	9 197		8 081
as % of sales	*9.3%*		*8.9%*
as % of average equity attributable to shareholders of the parent	*18.7%*		*18.6%*
Total amount of dividend	4 044	(c)	3 471
Depreciation of property, plant and equipment	2 581		2 382
as % of sales	*2.6%*		*2.6%*
Amortisation of goodwill [d]	–		–
Balance sheet and Cash flow statement			
Current assets	35 305		41 765
of which liquid assets	11 475		17 393
Non-current assets	66 500		60 953
Total assets	101 805		102 718
Current liabilities	32 479		35 854
Non-current liabilities	16 478		17 796
Equity attributable to shareholders of the parent	50 991		47 498
Minority interests	1 857		1 570
Operating cash flow	11 676		10 205
Free cash flow [e]	7 018		6 557
Capital expenditure	4 200		3 375
as % of sales	*4.3%*		*3.7%*
Data per share			
Weighted average number of shares outstanding	384 801 089		388 812 564
Basic earnings per share from continuing operations	23.71		20.82
Basic earnings per share from discontinued operations	0.19		(0.04)
Equity attributable to shareholders of the parent	132.51		122.16
Dividend	10.40	(f)	9.00
Pay-out ratio based on Total basic earnings per share	43.5%	(f)	43.3%
Stock prices (high)	448.30		404.30
Stock prices (low)	355.00		298.30
Yield [g]	2.3/2.9	(f)	2.2/3.0
Market capitalisation	166 152		152 576
Number of personnel (in thousands)	265		250

(a) 2005 comparatives have been restated following the first application of the option of IAS 19 Employee Benefits § 93A ss. and IFRIC 4 Determining whether an Arrangement contains a Lease, as well as the decision to transfer the fresh cheese activities in Italy to Nestlé Nutrition (refer to Note 29).

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

(c) As proposed by the Board of Directors of Nestlé S.A. This amount includes dividends payable in respect of shares with right to dividend at the balance sheet date (CHF 3991 million) as well as those potentially payable on the shares covering options and shares held for trading purposes (CHF 53 million).

2004 (b)	2003	2002	
			Results
84 690	87 979	89 160	Sales
10 760	11 006	10 940	EBIT Earnings Before Interest, Taxes, restructuring and impairments
12.7%	*12.5%*	*12.3%*	*as % of sales*
2 404	2 307	2 295	Taxes
6 621	6 213	7 564	Profit for the period attributable to shareholders of the parent (Net profit)
7.8%	*7.1%*	*8.5%*	*as % of sales*
17.4%	*17.3%*	*22.1%*	*as % of average equity attributable to shareholders of the parent*
3 114	2 800	2 705	Total amount of dividend
2 454	2 408	2 542	Depreciation of property, plant and equipment
2.9%	*2.7%*	*2.9%*	*as % of sales*
1 583	1 571	1 438	Amortisation of goodwill (d)
			Balance sheet and Cash flow statement
35 285	36 233	35 342	Current assets
15 282	15 128	14 291	of which liquid assets
51 832	53 328	52 010	Non-current assets
87 117	89 561	87 352	Total assets
29 075	30 365	33 737	Current liabilities
17 743	21 373	17 983	Non-current liabilities
39 236	36 880	34 819	Equity attributable to shareholders of the parent
1 063	943	813	Minority interests
10 412	10 125	10 248	Operating cash flow
6 640	6 361	6 278	Free cash flow (e)
3 260	3 337	3 577	Capital expenditure
3.8%	*3.8%*	*4%*	*as % of sales*
			Data per share
388 449 957	387 018 429	387 641 752	Weighted average number of shares outstanding
16.97	16.05	19.51	Basic earnings per share from continuing operations
0.07	–	–	Basic earnings per share from discontinued operations
101.01	95.29	89.82	Equity attributable to shareholders of the parent
8.00	7.20	7.00	Dividend
46.9%	44.8%	35.9%	Pay-out ratio based on Total basic earnings per share
346.00	314.50	397.00	Stock prices (high)
276.00	233.30	271.00	Stock prices (low)
2.3/2.9	2.3/3.1	1.8/2.6	Yield (g)
115 237	**119 876**	**113 368**	**Market capitalisation**
244	**253**	**254**	**Number of personnel** (in thousands)

(d) From 2005 onwards, goodwill is no longer amortised but tested for impairment annually.
(e) Operating cash flow less capital expenditure, disposal of tangible assets, purchase and disposal of intangible assets, movements with associates as well as with minority interests.
(f) As proposed by the Board of Directors of Nestlé S.A.
(g) Calculated on the basis of the dividend for the year concerned but which is paid in the following year.

Companies of the Nestlé Group

Operating companies

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

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

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

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

% capital shareholding corresponds to voting powers unless stated otherwise.

All companies listed below are fully consolidated unless stated otherwise.

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

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

Δ Companies listed on the stock exchange

◊ Sub-holding, financial and property companies

Companies		City	% capital shareholdings	Currency	Capital
Europe					
Austria					
Alcon Ophthalmika GmbH*		Wien	76.5%	EUR	36 336.42
C.P.A. Cereal Partners Handelsgesellschaft M.B.H. & Co. OHG	1)	Wien	50%	EUR	145 345.64
Nespresso Österreich GmbH & Co. OHG		Wien	100%	EUR	35 000.00
Nestlé Austria Holding GmbH	◊	Wien	100%	EUR	7 270 000.00
Nestlé Österreich GmbH		Wien	100%	EUR	3 000 000.00
Schöller Lebensmittel GmbH		Wien	100%	EUR	7 231 000.00
Belgium					
Centre de Coordination Nestlé S.A.	◊	Bruxelles	100%	EUR	7 596 391 600.00
Davigel Belgilux S.A.		Bruxelles	100%	EUR	1 487 361.15
N.V. Alcon Coordination Center*	◊	Puurs	76.5%	EUR	415 000 000.00
Nespresso Belgique S.A.		Bruxelles	100%	EUR	550 000.00
Nestlé Belgilux S.A.		Bruxelles	100%	EUR	8 924 200.00
Nestlé Catering Services N.V.		Bruxelles	100%	EUR	10 535 500.00
Nestlé European Information Technology Operations (ITOC) Center S.A.		Bruxelles	100%	EUR	62 000.00
Nestlé Purina PetCare Belgilux SPRL		Bruxelles	100%	EUR	2 961 854.76
Nestlé Waters Benelux S.A.		Etalle	100%	EUR	19 924 000.00
S.A. Alcon-Couvreur N.V.*		Puurs	76.5%	EUR	4 491 830.67
Bosnia and Herzegovina					
Delta B d.o.o.		Bijeljina	98.9%	BAM	2 432 357.00
Bulgaria					
Alcon Bulgaria EOOD*		Sofia	76.5%	BGN	850 000.00
Delta Bulgaria S.A.		Sofia	75.7%	BGN	37 524 118.00
Nestlé Bulgaria A.D.		Sofia	100%	BGN	8 786 941.00

Companies		City	% capital shareholdings	Currency	Capital
Croatia					
Nestlé Adriatic doo		Zagreb	100%	HRK	14 685 500.00
Czech Republic					
Cereal Partners Czech Republic	1)	Praha	50%	CZK	23 100 000.00
Family Frost spol. s.r.o.		Praha	100%	CZK	17 000 000.00
Nestlé Cesko s.r.o.		Praha	100%	CZK	1 154 000 000.00
Nestlé Zmrzlina CR, spol. s.r.o.		Praha	100%	CZK	35 209 000.00
Denmark					
Alcon Danmark A/S*		Rodovre	76.5%	DKK	500 000.00
Food Specialities A/S		Esbjerg	100%	DKK	15 000 000.00
Hjem-IS Europa A/S	◊	Esbjerg	100%	EUR	17 235 000.00
Nestlé Danmark A/S		Copenhagen	100%	DKK	42 000 000.00
Nestlé Danmark Holding A/S	◊	Copenhagen	100%	DKK	203 015 000.00
Finland					
Alcon Finland Oy*		Vantaa	76.5%	EUR	84 093.96
Kotijäätelö Oy		Helsinki	100%	EUR	500 000.00
Suomen Nestlé Oy		Helsinki	100%	EUR	3 363 758.53
France					
Cereal Partners France	1)	Noisiel	50%	EUR	3 000 000.00
Davigel S.A.S.		Dieppe	100%	EUR	7 681 250.00
Eau Minérale Naturelle de Plancoët "Source Sassay" S.A.S.		Plancoët	100%	EUR	430 028.00
Galderma International SAS°	1)	Courbevoie	50%	EUR	931 905.00
Herta S.A.S.		Noisiel	100%	EUR	12 908 610.00
Houdebine S.A.S.		Pontivy	50%	EUR	726 000.00
L'Oréal S.A.°	2) Δ	Paris	29.4%	EUR	127 923 282.00
Listed on the Paris stock exchange, market capitalisation EUR 48.5 billion, quotation code (ISIN) FR0000120321					
Laboratoires Alcon S.A.*		Rueil-Malmaison	76.5%	EUR	12 579 102.00
Laboratoires Innéov SNC°	1)	Asnières	50%	EUR	350 000.00
Lactalis Nestlé Produits Frais SAS	2)	Laval	40%	EUR	69 208 831.78
Mistral Constructeur S.A.S.		Ris Orangis	100%	EUR	724 133.00
Nespresso France S.A.S.		Paris	100%	EUR	1 360 000.00
Nestlé Clinical Nutrition France S.A.S.		Noisiel	100%	EUR	57 943 072.00
Nestlé Entreprises SAS	◊	Noisiel	100%	EUR	739 559 392.00
Nestlé Finance France S.A.	◊	Noisiel	100%	EUR	440 000.00
Nestlé France S.A.S.		Noisiel	100%	EUR	129 130 560.00
Nestlé Grand Froid S.A.		Noisiel	100%	EUR	6 674 000.00
Nestlé HomeCare S.A.S.		Noisiel	100%	EUR	2 080 600.00
Nestlé Purina PetCare France S.A.S.		Rueil-Malmaison	100%	EUR	21 091 872.00
Nestlé Waters Direct France S.A.S.	◊	Rungis	100%	EUR	8 864 000.00
Nestlé Waters France S.A.S.	◊	Issy-les-Moulineaux	100%	EUR	42 824 105.00
Nestlé Waters Marketing & Distribution		Paris	100%	EUR	25 722 000.00
Nestlé Waters SAS	◊	Paris	100%	EUR	154 893 080.00
Nestlé Waters Supply Centre		Paris	100%	EUR	2 577 000.00

Companies		City	% capital shareholdings	Currency	Capital
France (continued)					
Nestlé Waters Supply Est		Paris	100%	EUR	17 539 660.00
Nestlé Waters Supply Sud		Paris	100%	EUR	8 130 105.17
S.A. des Eaux Minérales de Ribeauvillé		Ribeauvillé	100%	EUR	846 595.13
Schöller Glaces et Desserts S.A.S.		Vitry-sur-Seine	100%	EUR	1 232 598.00
Société de Bouchages Emballages Conditionnement Moderne	2)	Lavardac	50%	EUR	10 200 000.00
Société Financière Menier	◊	Noisiel	100%	EUR	53 964 945.00
Société Française des Eaux Régionales		Paris	100%	EUR	1 490 098.00
Société Immobilière de Noisiel	◊	Noisiel	100%	EUR	22 753 550.00
Société Industrielle de Transformation de Produits Agricoles "SITPA" S.A.S.		Dijon	100%	EUR	9 718 000.00
Germany					
Alcon Pharma GmbH*		Freiburg/Breisgau	76.5%	EUR	511 291.88
Alois Dallmayr Kaffee OHG	2)	München	25%	EUR	10 250 000.00
C.P.D. Cereal Partners Deutschland GmbH & Co. OHG	1)	Frankfurt am Main	50%	EUR	511 291.88
Distributa Gesellschaft für Lebensmittel-Logistik mbH		Wildau	70%	EUR	511 291.88
Erlenbacher Backwaren GmbH		Gross-Gerau	100%	EUR	2 582 024.00
Family Frost International Tiefkühl-heimdienst GmbH		Mettmann	100%	EUR	4 116 000.00
Family Frost Tiefkühlheimdienst GmbH		Wildau	100%	EUR	2 056 000.00
FUCATUS Vermietungsgesellschaft mbH & Co. Objekt Mainz OHG		Düsseldorf	100%	EUR	71 785.39
Galderma Laboratorium GmbH°	1)	Düsseldorf	50%	EUR	800 000.00
Geti Wilba GmbH & Co. KG		Bremervörde	100%	EUR	6 135 502.57
Gut Adlersreuth Wildspezialitäten GmbH & Co. KG		Oberreute	100%	EUR	511 291.88
Nespresso Deutschland GmbH		Düsseldorf	100%	EUR	25 000.00
Nestlé Deutschland AG		Frankfurt am Main	100%	EUR	214 266 628.49
Nestlé Schöller GmbH & Co. KG		Nürnberg	100%	EUR	60 000 000.00
Nestlé Schöller Produktions GmbH		Nürnberg	100%	EUR	30 000.00
Nestlé Unternehmungen Deutschland GmbH	◊	Frankfurt am Main	100%	EUR	1 000 000.00
Nestlé Versorgungskasse GmbH	◊	Frankfurt am Main	100%	EUR	60 000.00
Nestlé Waters Deutschland AG		Mainz	100%	EUR	10 566 000.00
Nestlé Waters Direct Deutschland GmbH		Neuss	100%	EUR	31 000.00
PowerBar Europe GmbH		München	100%	EUR	25 000.00
Schöller Holding GmbH & Co KG	◊	Nürnberg	100%	EUR	167 669 861.39
TIVAU Tiefkühlvertrieb GmbH		Nürnberg	100%	EUR	500 000.00
Trinks GmbH	2)	Goslar	49%	EUR	2 360 000.00
Trinks Süd GmbH	2)	München	49%	EUR	260 000.00
Wagner Tiefkühlprodukte GmbH		Nonnweiler	49%	EUR	511 291.88
Nestlé acquired control, further financial investments subject to regulatory review.					
WCO Kinderkost GmbH Conow		Conow	100%	EUR	26 000.00

Companies		City	% capital shareholdings	Currency	Capital
Greece					
Alcon Laboratories Hellas Commercial and Industrial S.A.*		Maroussi	76.5%	EUR	1 657 189.05
C.P. Hellas E.E.I.G.	1)	Maroussi	50%	EUR	146 735.14
Nestlé Hellas Ice Cream S.A.		Tavros-Attica	99.8%	EUR	12 655 458.00
Nestlé Hellas S.A.		Maroussi	100%	EUR	18 437 936.00
Hungary					
Alcon Hungary Pharmaceuticals Trading LLC*		Budapest	76.5%	HUF	75 000 000.00
Cereal Partners Hungária Kft.	1)	Budapest	50%	HUF	22 000 000.00
Family Frost Kft.		Budaõrs	100%	HUF	220 000 000.00
Kékkúti Ásvànyvíz Rt.		Budapest	100%	HUF	238 326 000.00
Nestlé Hungária Kft.		Budapest	100%	HUF	6 000 000 000.00
Nestlé Ice Cream Hungária Kft.		Törökbàlint	100%	HUF	3 762 470 000.00
Italy					
Acqua Claudia S.r.l.		Milano	100%	EUR	7 910 000.00
Alcon Italia S.p.A.*		Milano	76.5%	EUR	1 300 000.00
Faslog S.p.A.		Milano	100%	EUR	154 935.00
Galderma Italia S.p.A.°	1)	Milano	50%	EUR	112 000.00
Koiné S.p.A.		Madone (Bergamo)	51%	EUR	258 230.00
Nespresso Italiana S.p.A.		Milano	100%	EUR	250 000.00
Nestlé Finanziaria Italia S.p.A.	◊	Milano	100%	EUR	5 000 000.00
Nestlé Italiana S.p.A.		Milano	100%	EUR	25 582 492.00
Nestlé Purina PetCare Italia S.p.A.		Milano	100%	EUR	10 000 000.00
Sanpellegrino S.p.A.		Milano	99.6%	EUR	58 742 145.00
Lithuania					
UAB "Nestlé Baltics"		Vilnius	100%	LTL	110 000.00
Luxemburg					
Balkan Ice Cream Holding S.A.	◊	Luxemburg	99.8%	EUR	52 425 000.00
Compagnie Financière du Haut-Rhin	◊	Luxemburg	100%	EUR	105 200 000.00
Nestlé Waters Powwow European Investments Sàrl	◊	Luxemburg	100%	EUR	12 525.00
NTC-Europe S.A.	◊	Luxemburg	100%	EUR	3 565 000.00
Macedonia					
AD Delta 6		Skopje	99.8%	MKD	100 301 200.00
Malta					
Nestlé Malta Ltd		Valletta	100%	MTL	50 000.00

Companies		City	% capital shareholdings	Currency	Capital
Netherlands					
Alcon Nederland B.V.*		Gorinchem	76.5%	EUR	18 151.21
East Springs International N.V.	◊	Amsterdam	100%	EUR	25 370 000.00
Maître Paul B.V.		Tilburg	100%	EUR	4 991 582.38
Nespresso Nederland B.V.		Amsterdam	100%	EUR	680 670.32
Nestlé Nederland B.V.		Amsterdam	100%	EUR	68 067 032.41
Nestlé Purina PetCare Nederland B.V.		Zwijndrecht	100%	EUR	18 152.00
Nestlé Waters Direct Netherlands B.V.		Zoetermeer	100%	EUR	1 606 430.00
Norway					
Alcon Norge AS*		Sandvika	76.5%	NOK	100 000.00
A/S Nestlé Norge		Sandvika	100%	NOK	81 250 000.00
Hjem-IS A/S		Oslo	100%	NOK	2 250 000.00
Poland					
Alcon Polska Sp. z o.o.*		Warszawa	76.5%	PLN	750 000.00
Cereal Partners Poland Torun-Pacific Sp. z o.o.	1)	Torun	50%	PLN	14 572 838.00
Family Frost Polska Sp. z o.o.		Tychy	100%	PLN	8 203 815.75
Nestlé Ice Cream Polska Sp z o.o.		Warszawa	100%	PLN	34 995 500.00
Nestlé Polska S.A.		Warszawa	100%	PLN	50 000 000.00
Nestlé Waters Polska S.A.		Warszawa	100%	PLN	46 100 000.00
Portugal					
Alcon Portugal-Produtos e Equipamentos Oftalmologicos, Ltda.*		Paço d’Arcos	76.5%	EUR	4 500 000.00
Cereal Associados Portugal A.E.I.E.	1)	Oeiras	50%	EUR	99 759.58
Family Frost – Gelados e Congelados Ltda.		Lisboa	100%	EUR	254 000.00
Nestlé Portugal S.A.		Linda-a-Velha	100%	EUR	30 000 000.00
Nestlé Waters Direct Portugal – Comérico e Distribuicao de Produtos Alimentares S.A.		S. João da Talha	100%	EUR	1 000 000.00
Nestlé Waters Portugal S.A.		Porto Salvo	100%	EUR	3 500 000.00
Prolacto-Lacticinios de Sao Miguel S.A.		Ponta Delgada	100%	EUR	700 000.00
Republic of Ireland					
Nestlé (Ireland) Ltd		Dublin	100%	EUR	3 530 600.00
Romania					
Delta Romania S.A.		Judet Ilfov	99.8%	RON	49 547 943.00
Nestlé Romania SRL		Bucharest	100%	RON	30 783 700.00

Companies		City	% capital shareholdings	Currency	Capital
Russia					
Alcon Farmacevtika LLC*		Moscow	76.5%	RUB	44 055 000.00
Cereal Partners Trading, LLC	1)	Moscow	50%	RUB	5 000 000.00
Nestlé Food LLC		Moscow	100%	RUB	1 538 507 372.00
Nestlé Kuban, LLC		Timashevsk	100%	RUB	48 675.00
Nestlé Vologda Baby Food LLC		Vologda	100%	RUB	17 499 000.00
Nestlé Watercoolers Service CIS		Moscow	100%	RUB	17 363 425.50
Nestlé Waters LLC		Moscow	100%	RUB	211 575 000.00
Nestlé Zhukovsky LLC		Zhukovsky	100%	RUB	184 379 441.00
OJSC "Confectionery Factory Kamskaya"		Perm	99.9%	RUB	92 488.00
OJSC "Confectionery Union Rossiya"		Samara	100%	RUB	49 350 000.00
OJSC Confectionery Firm "Altai"		Barnaul	100%	RUB	167 000.00
Schöller Eiscrem GmbH		Moscow	100%	RUB	750 217.00
Serbia					
Delyug A.D. Belgrade		Belgrade	98.9%	RSD	2 097 324 193.00
Nestlé Adriatic Foods doo		Belgrade	100%	RSD	52 022 596.00
Slovakia					
Nestlé Slovensko s.r.o.		Bratislava	100%	SKK	400 000 000.00
Spain					
Alcon Cusi S.A.*		El Masnou (Barcelona)	76.5%	EUR	11 599 783.00
Aquarel Iberica S.A.		Barcelona	100%	EUR	300 506.05
Cereal Partners España A.E.I.E.	1)	Esplugues de Llobregat (Barcelona)	50%	EUR	120 212.42
Davigel España S.A.		Sant Just Desvern (Barcelona)	100%	EUR	984 000.00
Family Frost S.L.		Sevilla	100%	EUR	420 708.47
Helados y Postres S.A.		Vitoria	100%	EUR	140 563 200.00
Innéov España S.A.°	1)	Madrid	50%	EUR	120 000.00
Laboratorios Galderma S.A.°	1)	Madrid	50%	EUR	432 480.00
Nestlé España S.A.		Esplugues de Llobregat (Barcelona)	100%	EUR	100 000 000.00
Nestlé PetCare España S.A.		Castellbisbal (Barcelona)	100%	EUR	12 000 000.00
Nestlé Waters España S.A.		Barcelona	100%	EUR	8 400 000.00
Productos del Café S.A.		Reus	100%	EUR	6 600 000.00
Sweden					
Alcon Sverige AB*		Bromma	76.5%	SEK	100 000.00
Galderma Nordic AB°	1)	Bromma	50%	SEK	67 700 000.00
Hemglass AB		Strängnäs	100%	SEK	14 000 000.00
Jede AB		Mariestad	100%	SEK	7 000 000.00
Nestlé Sverige AB		Helsingborg	100%	SEK	20 000 000.00
Svenska Glasskiosken AB		Kristiansstad	100%	SEK	3 000 000.00

Companies		City	% capital shareholdings	Currency	Capital
Switzerland					
Alcon Credit Corporation*	◊	Hünenberg	76.5%	CHF	1 000 000.00
Alcon Inc.*	Δ ◊	Hünenberg	76.5%	CHF	63 468 796.40
Listed on the New York stock exchange, market capitalisation USD 33.663 billion, quotation code (ISIN) CH0013826497					
Alcon Pharmaceuticals Ltd*		Hünenberg	76.5%	CHF	100 000.00
Belté Schweiz AG	[1]	Urdorf	50%	CHF	3 100 000.00
Beverage Partners Worldwide (Europe) AG	[1]	Urdorf	50%	CHF	2 000 000.00
Beverage Partners Worldwide S.A.	[1] ◊	Urdorf	50%	CHF	14 000 000.00
CP Suisse	[1]	Vevey	50%	CHF	0.00
CPW Operations Sàrl	[1]	Prilly	50%	CHF	20 000.00
Entreprises Maggi S.A.	◊	Cham	100%	CHF	100 000.00
Galderma Pharma S.A.°	[1] ◊	Lausanne	50%	CHF	48 900 000.00
Galderma S.A.°	[1]	Cham	50%	CHF	100 000.00
Life Ventures S.A.	◊	La Tour-de-Peilz	100%	CHF	30 000 000.00
Nestlé Business Services S.A.	◊	Bussigny-près-Lausanne	100%	CHF	100 000.00
Nestlé Finance S.A.	◊	Cham	100%	CHF	30 000 000.00
Nestlé International Travel Retail S.A.		Châtel-St-Denis	100%	CHF	3 514 000.00
Nestlé Nespresso S.A.		Paudex	100%	CHF	2 000 000.00
Nestlé Suisse S.A.		Vevey	100%	CHF	250 000.00
Nestlé Waters (Suisse) S.A.		Gland	100%	CHF	1 200 000.00
Nestrade - Nestlé World Trade Corporation		La Tour-de-Peilz	100%	CHF	6 500 000.00
NTC-Latin America S.A.	◊	Cham	100%	CHF	500 000.00
Nutrition-Wellness Venture AG	◊	Zürich	100%	CHF	100 000.00
Rive-Reine S.A.	◊	La Tour-de-Peilz	100%	CHF	2 000 000.00
S.I. En Bergère Vevey S.A.	◊	Vevey	100%	CHF	19 500 000.00
Société des Produits Nestlé S.A.		Vevey	100%	CHF	54 750 000.00
Sofinol S.A.		Manno	80%	CHF	3 000 000.00
Turkey					
Alcon Laboratuvarlari Ticaret A.S.*		Istanbul	76.5%	TRY	17 724 114.60
Cereal Partners Gida Ticaret Limited Sirketi	[1]	Istanbul	50%	TRY	20 000.00
Erikli Su Ve Mesrubat Sanayi Ticaret A.S.		Bursa	60%	TRY	12 700 000.00
Nestlé Turkiye Gida Sanayi A.S.		Istanbul	99.9%	TRY	35 000 000.00
Nestlé Waters Gida Ve Mesrubat Sanayi Ticaret A.S.		Istanbul	95%	TRY	8 000 000.00
Ukraine					
JSC "Lviv Confectionery Firm Svitoch"		Lviv	96.9%	UAH	88 111 060.00
LLC Nestlé Ukraine		Kyiv	100%	USD	150 000.00
OJSC Volynholding		Torchyn	100%	UAH	100 000.00

Companies		City	% capital shareholdings	Currency	Capital
United Kingdom					
Alcon Laboratories (UK) Ltd*		Hemel Hempstead	76.5%	GBP	3 100 000.00
Buxton Mineral Water Ltd		Rickmansworth	100%	GBP	14 000 000.00
Cereal Partners U.K.	1)	Welwyn Garden	50%	GBP	0.00
Galderma (U.K.) Ltd°	1)	Watford	50%	GBP	1 500 000.00
Nespresso UK Ltd		Croydon	100%	GBP	275 000.00
Nestec York Ltd		York	100%	GBP	500 000.00
Nestlé Holdings (U.K.) PLC	◊	Croydon	100%	GBP	77 940 000.00
Nestlé Purina Investments (U.K.) Ltd	◊	New Malden	100%	GBP	2.00
Nestlé Purina PetCare (UK) Ltd		New Malden	100%	GBP	24 000 000.00
Nestlé UK Ltd		Croydon	100%	GBP	130 000 000.00
Nestlé Watercoolers UK Ltd		Rickmansworth	100%	GBP	3 000 000.00
Nestlé Waters Powwow (U.K.) Holdings Ltd	◊	Croydon	100%	GBP	6 500 002.00
Nestlé Waters Powwow Ltd		Croydon	100%	GBP	640.00
Nestlé Waters UK Ltd		Rickmansworth	100%	GBP	14 000 000.00
Raw Products Ltd		Croydon	100%	GBP	200 000.00
Schöller Ice-Cream Ltd		Guildford	100%	GBP	1 584 626.00
Uzbekistan					
Nestlé Uzbekistan MChJ		Namangan	97.9%	USD	31 400 000.00
Africa					
Angola					
Nestlé Angola Lda		Luanda	100%	USD	300 000.00
Cameroon					
Nestlé Cameroun		Douala	99.8%	XAF	1 300 000 000.00
Egypt					
Nestlé Egypt S.A.E.		Cairo	100%	EGP	73 000 000.00
Nestlé Waters Egypt S.A.E.		Cairo	99.2%	EGP	36 500 000.00
Gabon					
Nestlé Gabon		Libreville	90%	XAF	344 000 000.00
Ghana					
Nestlé Central & West Africa Ltd		Accra	100%	USD	50 000.00
Nestlé Ghana Ltd		Accra	70%	GHC	1 000 000 000.00
Guinea					
Nestlé Guinée S.A.		Conakry	99%	GNF	3 424 000 000.00
Côte d'Ivoire					
Nestlé Côte d'Ivoire	Δ	Abidjan	86.3%	XOF	5 517 600 000.00
Listed on the Abidjan stock Exchange, market capitalisation XOF 44.663 billion, quotation code (ISIN) CI0009240728					
Nestlé Sahel		Abidjan	100%	XOF	4 217 000 000.00

Companies		City	% capital shareholdings	Currency	Capital
Kenya					
Nestlé Foods Kenya Ltd		Nairobi	100%	KES	37 145 000.00
Mauritius					
Nestlé's Products (Mauritius) Ltd		Port Louis	100%	BSD	71 500.00
Nestlé South East Africa Trading Ltd		Port Louis	100%	USD	100.00
Morocco					
Nestlé Maroc S.A.		El Jadida	94.5%	MAD	156 933 000.00
Mozambique					
Nestlé Mozambique Limitada		Maputo	100%	MZM	4 000 000.00
Niger					
Nestlé Niger		Niamey	75%	XOF	10 000 000.00
Nigeria					
Nestlé Nigeria PLC	Δ	Ilupeju-Lagos	62.3%	NGN	264 093 750.00
Listed on the Lagos stock exchange, market capitalisation NGN 124.183 billion, quotation code (ISIN) NG00000NSTL3					
Senegal					
Nestlé Sénégal		Dakar	100%	XOF	1 620 000 000.00
South Africa					
Alcon Laboratories (South Africa) (Pty) Ltd*		Randburg	76.5%	ZAR	201 820.00
Nestlé (South Africa) (Pty) Ltd		Randburg	100%	ZAR	51 200 000.00
Nestlé Purina Petcare (South Africa) (Pty) Ltd		Randburg	100%	ZAR	1 000.00
Nestlé Waters (South Africa) (Pty) Ltd		Randburg	100%	ZAR	1 000.00
Tunisia					
Nestlé Tunisie		Tunis	59.2%	TND	8 438 280.00
Zimbabwe					
Nestlé Zimbabwe (Pvt) Ltd		Harare	100%	ZWD	7 000 000.00
Americas					
Argentina					
Alcon Laboratorios Argentina S.A.*		Buenos Aires	76.5%	ARS	7 176 282.00
Dairy Partners Americas Argentina S.A.	1)	Buenos Aires	50%	ARS	12 000.00
Dairy Partners Americas Manufacturing Argentina S.A.	1)	Buenos Aires	50%	ARS	12 000.00
Eco de Los Andes S.A.		Buenos Aires	50.9%	ARS	45 400 285.00
Nestlé Argentina S.A.		Buenos Aires	100%	ARS	572 000.00
Union Sancor C.U.L./DPAA Union Transitoria de Empresas	2)	Buenos Aires	25%	ARS	1 000 000.00

Companies		City	% capital shareholdings	Currency	Capital
Barbados					
Lacven Corporation	1) ◊	Barbados	50%	USD	65 179 195.00
Bermuda					
Centram Holdings Ltd	◊	Hamilton	100%	USD	12 000.00
DPA Manufacturing Holding Ltda	1) ◊	Hamilton	50%	USD	23 639 630.00
Trinity River Insurance Co. Ltd *	◊	Hamilton	76.5%	USD	120 000.00
Trinity River International Investments (Bermuda) Ltd *	◊	Hamilton	76.5%	USD	12 000.00
Bolivia					
Nestlé Bolivia S.A.		La Paz	100%	BOB	190 000.00
Brazil					
Alcon Laboratorios do Brasil Ltda.*		São Paulo	76.5%	BRL	7 729 167.00
Chocolates Garoto S.A.		Vila Velha-ES	100%	BRL	160 620 000.00
CPW Brasil Ltda.	1)	Cacapava/São Paulo	50%	BRL	7 885 520.00
Dairy Partners Americas Brazil Ltda.	1)	São Paulo	50%	BRL	27 606 368.00
Dairy Partners Americas Manufacturing Brazil Ltda.	1)	São Paulo	50%	BRL	39 468 974.00
Galderma Brasil Limitada°	1)	São Paulo	50%	BRL	19 741 602.00
Nestlé Brasil Ltda.		São Paulo	100%	BRL	468 208 970.00
Nestlé Waters Brasil – Bebidas e Alimentos Ltda.		Rio de Janeiro	100%	BRL	87 248 341.00
Ralston Purina do Brasil Ltda.		Ribeirão Preto	77%	BRL	79 473 771.00
Canada					
Alcon Canada, Inc.*		Mississauga (Ontario)	76.5%	CAD	5 002 500.00
Galderma Canada Inc.°	1)	Thornhill (Ontario)	50%	CAD	100.00
Galderma Production Canada Inc.°	1)	Baie D'Urfé (Québec)	50%	CAD	100.00
Nestlé Canada, Inc.		Toronto (Ontario)	100%	CAD	29 478 000.00
Nestlé Capital Canada Ltd	◊	Toronto (Ontario)	100%	CAD	1 010.00
Nestlé Globe, Inc.	◊	Toronto (Ontario)	100%	CAD	106 000 100.00
Chile					
Alcon Laboratorios Chile Ltda.*		Santiago de Chile	76.5%	CLP	9 750 000.00
Cereales CPW Chile Ltda	1)	Santiago de Chile	50%	CLP	3 026 156 114.00
Nestlé Chile S.A.		Santiago de Chile	99.5%	CLP	11 832 926 051.00
Colombia					
Comestibles La Rosa S.A.		Bogotá	100%	COP	126 397 400.00
Dairy Partners Americas Manufacturing Colombia Ltda.	1)	Bogotá	50%	COP	200 000 000.00
Distribuciones Lunes S.A.		Bogotá	100%	COP	6 000 000.00
Laboratorios Alcon de Colombia S.A.*		Bogotá	76.5%	COP	20 872 000.00
Nestlé de Colombia S.A.		Bogotá	100%	COP	1 291 305 400.00
Nestlé Purina PetCare de Colombia S.A.		Bogotá	100%	COP	17 030 000 000.00

Companies		City	% capital shareholdings	Currency	Capital
Costa Rica					
Compañía Nestlé Costa Rica S.A.		Barreal de Heredia	100%	CRC	1 694 000 000.00
Cuba					
Coralac S.A.		La Habana	60%	USD	6 350 000.00
Los Portales S.A.		La Habana	50%	USD	24 110 000.00
Dominican Republic					
Nestlé Dominicana S.A.		Santo Domingo	97.6%	DOP	48 500 000.00
Ecuador					
Dairy Partners Americas Del Ecuador S.A.	1)	Quito	50%	USD	90 000.00
Ecuajugos S.A.	1)	Quito	50%	USD	122 000.00
Industrial Surindu S.A.		Quito	100%	USD	3 900 994.00
Latinova S.A.	1)	Quito	50%	USD	10 000.00
Neslandina S.A.	◊	Quito	100%	USD	17 043 150.00
Nestlé Ecuador S.A.		Quito	100%	USD	188 497.00
Guatemala					
Nestlé Guatemala S.A.		Mixco	100%	GTQ	23 460 600.00
Honduras					
Nestlé Hondureña S.A.		Tegucigalpa	100%	USD	200 000.00
Jamaica					
Nestlé Jamaica Ltd		Kingston	100%	JMD	49 200 000.00
Mexico					
Alcon Laboratorios S.A. de C.V.*		México, D.F.	76.5%	MXN	5 915 300.00
Cereal Partners México, S.A. de C.V.	1)	México, D.F.	50%	MXN	500 000.00
CPW México S. de R.L. de C.V.	1)	México, D.F.	50%	MXN	49 328 000.00
Galderma México S.A. de C.V.°	1)	México, D.F.	50%	MXN	2 385 000.00
Manantiales La Asunción, S.A. de C.V.		México, D.F.	100%	MXN	115 646 364.00
Marcas Nestlé, S.A. de C.V.		México, D.F.	100%	MXN	450 050 000.00
Nescalín, S.A. de C.V.	◊	México, D.F.	100%	MXN	445 826 740.00
Nestlé Distribución, S.A. de C.V.		México, D.F.	100%	MXN	130 050 000.00
Nestlé México S.A. de C.V.		México, D.F.	100%	MXN	606 532 730.00
Nestlé Servicios, S.A. de C.V.		México, D.F.	100%	MXN	40 050 000.00
Ralston Purina Holdings México, S.A. de C.V.	◊	México, D.F.	100%	MXN	254 414 750.00
Ralston Purina México S.A. de C.V.		México, D.F.	100%	MXN	9 257 111.80
Nicaragua					
Compãnia Centroamericana de Productos Lácteos, S.A.		Matagalpa	92%	USD	600 525.00
Productos Nestlé (Nicaragua) S.A.		Managua	100%	USD	150 000.00

Companies		City	% capital shareholdings	Currency	Capital
Panama					
Alcon Capital and Investment Panama, S.A.*	◊	Panamá City	76.5%	USD	1 000.00
Food Products (Holdings) S.A.	◊	Panamá City	100%	PAB	286 000.00
Lacteos de Centroamérica, S.A.		Panamá City	100%	USD	1 500 000.00
Nestlé Panamá S.A.		Panamá City	100%	USD	17 500 000.00
Unilac, Inc.	◊	Panamá City	100%	USD	750 000.00
Paraguay					
Nestlé Paraguay S.A.		Asunción	100%	PYG	100 000 000.00
Peru					
Alcon Pharmaceutical del Perú, S. A.*		Lima	76.5%	PEN	3 261 565.00
Nestlé Perú S.A.		Lima	97.9%	PEN	88 535 000.00
Puerto Rico					
Nestlé Puerto Rico, Inc.		Catano	100%	USD	4 600 000.00
Payco Foods Corporation		Bayamon	100%	USD	9 260 000.00
Salvador					
Lacteos Finos de Centroamérica, S.A.		San Salvador	100%	SVC	22 573 000.00
Nestlé El Salvador S.A. de C.V.		San Salvador	100%	SVC	39 000 000.00
Trinidad and Tobago					
Nestlé Caribbean, Inc.		Valsayn	100%	USD	100 000.00
Nestlé Trinidad and Tobago Ltd		Valsayn	100%	TTD	35 540 000.00
United States					
Alcon (Puerto Rico), Inc.*		San Juan (Puerto Rico)	76.5%	USD	100.00
Alcon Capital Corporation*	◊	Fort Worth (Texas)	76.5%	USD	1 000.00
Alcon Holdings, Inc.*	◊	Fort Worth (Texas)	76.5%	USD	10.00
Alcon Laboratories, Inc.*		Fort Worth (Texas)	76.5%	USD	1 000.00
Alcon Manufacturing, Ltd.*	◊	Fort Worth (Texas)	76.5%	USD	0.00
Alcon Pharmaceuticals, Inc.*	◊	Wilmington (Delaware)	76.5%	USD	0.00
Alcon Refractive Horizons, Inc.*	◊	Fort Worth (Texas)	76.5%	USD	10.00
Beverage Partners Worldwide (North America)	1)	Wilmington (Delaware)	50%	USD	0.00
Checkerboard Holding Company, Inc.	◊	Wilmington (Delaware)	100%	USD	1 001.00
Dreyer’s Grand Ice Cream Holdings, Inc.		Oakland (California)	100%	USD	10.00
Dreyer’s Grand Ice Cream, Inc.		Oakland (California)	100%	USD	1.00
Edy’s Grand Ice Cream		Oakland (California)	100%	USD	0.00
Falcon Pharmaceuticals, Ltd.*		Fort Worth (Texas)	76.5%	USD	0.00
Galderma Laboratories, Inc.°	1)	Fort Worth (Texas)	50%	USD	981.00
Jenny Craig Holdings, Inc.	◊	Carlsbad (California)	100%	USD	3 000.00
Jenny Craig, Inc.	◊	Carlsbad (California)	100%	USD	3 000.00
Jenny Craig Operations, Inc.		Carlsbad (California)	100%	USD	0.00
Jenny Craig Weight Loss Centres, Inc.	◊	Carlsbad (California)	100%	USD	100.00

Companies		City	% capital shareholdings	Currency	Capital
United States (continued)					
Nespresso USA, Inc.		Wilmington (Delaware)	100%	USD	1 000.00
Nestlé Capital Corporation	◊	Glendale (California)	100%	USD	1 000 000.00
Nestlé Holdings, Inc.	◊	Norwalk (Connecticut)	100%	USD	100 000.00
Nestlé NPR, Inc.	◊	Solon (Ohio)	100%	USD	50 000.00
Nestlé Prepared Foods Company		Solon (Ohio)	100%	USD	476 760.00
Nestlé Purina PetCare Company		St. Louis (Missouri)	100%	USD	1 000.00
Nestlé Transportation Company	◊	Glendale (California)	100%	USD	100.00
Nestlé USA, Inc.		Glendale (California)	100%	USD	1 000.00
Nestlé Waters North America Holdings, Inc.	◊	Greenwich (Connecticut)	100%	USD	0.00
Nestlé Waters North America, Inc.		Wilmington (Delaware)	100%	USD	0.00
NICC Holdings, Inc.	◊	Norwalk (Connecticut)	100%	USD	10.00
The Haagen-Dazs Shoppe Company, Inc.	◊	Minneapolis (Minnesota)	100%	USD	0.00
The Stouffer Corporation	◊	Solon (Ohio)	100%	USD	0.00
TSC Holdings, Inc.	◊	Glendale (California)	100%	USD	100 000.00
Uruguay					
Nestlé del Uruguay S.A.		Montevideo	100%	UYP	200 000.00
Venezuela					
Alcon Pharmaceutical C.A.*		Caracas	76.5%	VEB	2 366 000.00
Cadipro Milk Products, C.A.		Caracas	100%	VEB	9 505 123 000.00
Corporacíon Inlaca, C.A.	1)	Caracas	50%	VEB	6 584 590 000.00
Nestlé Venezuela S.A.		Caracas	100%	VEB	516 590 000.00
Asia					
Bangladesh					
Nestlé Bangladesh Ltd		Dhaka	100%	BDT	1 100 000 000.00
Cambodia					
Nestlé Dairy (Cambodia) Ltd		Phnom Penh	80%	USD	5 000 000.00
Greater China Region					
Alcon Hong Kong Limited*		Hong Kong	76.5%	HKD	77 000.00
Alcon Medical Device (Shanghai) Co. Limited*		Shanghai	76.5%	USD	200 000.00
Alcon Pharmaceuticals Limited*		Taipei	76.5%	CHF	100 000.00
Beverage Partners Worldwide (Pacific) Limited	1)	Hong Kong	50%	HKD	1 000 000.00
Guangzhou Refrigerated Foods Limited		Guangzhou	96.4%	CNY	122 000 000.00
Nestlé (China) Limited		Beijing	100%	CNY	250 000 000.00
Nestlé Dairy Farm Guangzhou Limited		Guangzhou	95%	CNY	268 000 000.00
Nestlé Dongguan Limited		Dongguan	100%	CNY	472 000 000.00
Nestlé Hong Kong Limited		Hong Kong	100%	HKD	250 000 000.00
Nestlé Hulunbeir Limited		Erguna	100%	CNY	55 000 000.00
Nestlé Purina PetCare Shanghai Limited		Shanghai	100%	CNY	2 000 000.00
Nestlé Qingdao Limited		Qingdao	100%	CNY	640 000 000.00
Nestlé Shanghai Limited		Shanghai	95%	CNY	200 000 000.00
Nestlé Shuangcheng Limited		Shuangcheng	97%	CNY	435 000 000.00

Companies		City	% capital shareholdings	Currency	Capital
Greater China Region (continued)					
Nestlé Sources Shanghai Limited		Shanghai	100%	CNY	211 000 000.00
Nestlé Sources Tianjin Limited		Tianjin	93.6%	CNY	159 000 000.00
Nestlé Taiwan Limited		Taipei	100%	TWD	300 000 000.00
Nestlé Tianjin Limited		Tianjin	100%	CNY	785 000 000.00
Shanghai Fuller Foods Co. Limited		Shanghai	100%	CNY	384 000 000.00
Shanghai Nestlé Product Services Limited		Shanghai	97%	CNY	83 000 000.00
Shanghai Totole Flavouring Food Co. Limited		Shanghai	80%	USD	7 800 000.00
Sichuan Haoji Food Co. Limited		Chengdu	60%	CNY	80 000 000.00
India					
Alcon Laboratories (India) Private Limited*		Bangalore	76.5%	INR	29 953 380.00
Nestlé India Ltd	Δ	New Delhi	61.9%	INR	964 157 160.00
Listed on the Mumbai stock exchange, market capitalisation INR 109.6 billion, quotation code (ISIN) INE239A01016					
Indonesia					
P.T. AdeS Waters Indonesia	1) Δ	Jakarta	34%	IDR	149 720 000 000.00
Listed on the Jakarta stock exchange, market capitalisation IDR 166.2 billion, quotation code (ISIN) ID1000067606					
P.T. Cereal Partners Indonesia	1)	Jakarta	50%	IDR	956 500 000.00
P.T. Nestlé Indofood Citarasa Indonesia	1)	Jakarta	50%	IDR	50 000 000 000.00
P.T. Nestlé Indonesia		Jakarta	90.2%	IDR	60 000 000 000.00
Iran					
Nestlé Iran Private Joint Stock Company		Teheran	87.3%	IRR	226 243 000 000.00
Israel					
OSEM Investments Ltd	Δ	Petach-Tikva	53.8%	ILS	96 644 444.00
Listed on the Tel-Aviv stock exchange, market capitalisation ILS 3.796 billion, quotation code (ISIN) IL0003040149					
Japan					
Alcon Japan Ltd*		Tokyo	76.5%	JPY	500 000 000.00
Nestlé Confectionery K.K.		Kobe	100%	JPY	10 000 000.00
Nestlé Japan Ltd		Ibaragi	100%	JPY	20 000 000 000.00
Nestlé Japan Manufacturing Ltd		Kobe	100%	JPY	10 000 000.00
Nestlé Purina PetCare Ltd.		Kobe	100%	JPY	20 000 000.00
Jordan					
Ghadeer Mineral Water Co. Ltd		Amman	75%	JOD	1 785 000.00
Nestlé Jordan Trading Co. Ltd		Amman	87%	JOD	410 000.00
Kingdom of Bahrain					
Nestlé Bahrain Trading WLL		Manama	49%	BHD	200 000.00
Kuwait					
Nestlé Kuwait General Trading Co. W.L.L.		Safat	49%	KWD	300 000.00

Companies		City	% capital shareholdings	Currency	Capital
Lebanon					
Société des Eaux Minérales Libanaises S.A.L.		Hazmieh	100%	LBP	1 610 000 000.00
Société pour l'Exportation des Produits Nestlé S.A.		Beyrouth	100%	CHF	1 750 000.00
SOHAT Distribution S.A.L.		Hazmieh	100%	LBP	160 000 000.00
Malaysia					
Alcon Laboratories (Malaysia) Sdn. Bhd.*		Petaling Jaya	76.5%	MYR	190 000.00
Beverage Partners Worldwide (Malaysia) Sdn.Bhd.	1)	Petaling Jaya	50%	MYR	500 000.00
Cereal Partners (Malaysia) Sdn. Bhd.	1)	Petaling Jaya	50%	MYR	1 025 000.00
Nestlé (Malaysia) Bhd.	Δ	Petaling Jaya	72.6%	MYR	234 500 000.00
Listed on the Kuala Lumpur stock exchange, market capitalisation MYR 5.8 billion, quotation code (ISIN) MYL4707OO005					
Nestlé Asean (Malaysia) Sdn. Bhd.		Petaling Jaya	72.6%	MYR	42 000 000.00
Nestlé Manufacturing (Malaysia) Sdn. Bhd.		Petaling Jaya	72.6%	MYR	32 500 000.00
Nestlé Products Sdn. Bhd.		Petaling Jaya	72.6%	MYR	25 000 000.00
Premier Milk (Malaysia) Sdn. Bhd.	2)	Kuala Lumpur	25%	MYR	24 000 000.00
Purina PetCare (Malaysia) Sdn. Bhd.		Petaling Jaya	100%	MYR	1 100 000.00
Oman					
Nestlé Oman Trading LLC		Muscat	49%	OMR	300 000.00
Pakistan					
Nestlé Pakistan Ltd	Δ	Lahore	59%	PKR	452 731 000.00
Listed on the Karachi and Lahore stock exchange, market capitalisation PKR 45.4 billion, quotation code (ISIN) PK0025101012					
Philippines					
Alcon Laboratories (Philippines), Inc.*		Manila	76.5%	PHP	16 526 000.00
Beverage Partners Worldwide (Philippines) Inc.	1)	Makati City	50%	PHP	10 224 600.00
CPW Philippines, Inc.	1)	Makati City	50%	PHP	7 500 000.00
Goya, Inc.		Marikina City	99.8%	PHP	358 234 812.00
Nestlé Philippines, Inc.		Makati City	100%	PHP	2 300 927 200.00
Nestlé Waters Philippines, Inc.		Makati City	100%	PHP	420 000 000.00
Penpro, Inc.		Makati City	40%	PHP	630 000 000.00
Qatar					
Nestlé Qatar Trading LLC		Doha	49%	QAR	1 680 000.00
Republic of Korea					
Alcon Korea Ltd*		Seoul	76.5%	KRW	200 000 000.00
Beverage Partners Worldwide Korea Ltd	1)	Seoul	50%	KRW	50 000 000.00
Galderma Korea Ltd °	1)	Seoul	50%	KRW	500 000 000.00
Nestlé Korea Ltd		Seoul	100%	KRW	18 202 060 000.00
Pulmuone Waters Co. Ltd		Chungbuk	51%	KRW	3 778 760 000.00

Companies		City	% capital shareholdings	Currency	Capital
Saudi Arabia					
Al Anhar Water Factory Co. Ltd		Jeddah	51%	SAR	5 000 000.00
Al Manhal Water Factory Co. Ltd		Riyadh	64%	SAR	7 000 000.00
Saudi Food Industries Co. Ltd		Jeddah	51%	SAR	51 000 000.00
SHAS Company for Water Services Ltd	2)	Riyadh	43.5%	SAR	13 500 000.00
Springs Water Factory Co. Ltd		Dammam	75%	SAR	5 000 000.00
Singapore					
Alcon Pte Ltd*		Singapore	76.5%	SGD	164 000.00
Nestlé Singapore (Pte) Ltd		Singapore	100%	SGD	1 000 000.00
Sri Lanka					
Nestlé Lanka Ltd	Δ	Colombo	90.8%	LKR	537 254 630.00
Listed on the Colombo stock exchange, market capitalisation LKR 14.7 billion, quotation code (ISIN) LK0128N00005					
Syria					
Nestlé Syria Ltd		Damas	100%	SYP	800 000 000.00
Société pour l'exportation des produits Nestlé S.A		Damas	100%	CHF	1 750 000.00
Thailand					
Alcon Laboratories (Thailand) Ltd*		Bangkok	78.8%	THB	2 100 000.00
Beverage Partners Worldwide (Thailand) Ltd	1)	Bangkok	49%	THB	20 000 000.00
Nestlé (Thai) Ltd		Bangkok	100%	THB	880 000 000.00
Nestlé Dairy (Thailand) Ltd		Bangkok	100%	THB	46 000 000.00
Perrier Vittel (Thailand) Ltd		Bangkok	100%	THB	235 000 000.00
Quality Coffee Products Ltd		Bangkok	50%	THB	400 000 000.00
United Arab Emirates					
CP Middle East FZCO	1)	Jebel Ali Free Zone Dubai	50%	AED	600 000.00
Nestlé Dubai LLC		Dubai	49%	AED	2 000 000.00
Nestlé Middle East FZE		Dubai	100%	AED	3 000 000.00
Nestlé Treasury Centre-Middle East & Africa Ltd	◊	Dubai	100%	USD	500 000.00
Nestlé Waters Middle East Investments FZCO		Dubai	100%	AED	600 000.00
Vietnam					
La Vie Joint Venture Company		Long An	65%	USD	2 663 400.00
Nestlé Vietnam Ltd		Bien Hoa	100%	USD	38 598 000.00

Companies		City	% capital shareholdings	Currency	Capital
Oceania					
Australia					
Alcon Laboratories (Australia) Pty Ltd*		Frenchs Forest	76.5%	AUD	2 550 000.00
Cereal Partners Australia Pty Limited	1)	Rhodes	50%	AUD	107 800 000.00
CPW Australia	1)	Rhodes	50%	AUD	0.00
Galderma Australia Pty Ltd °	1)	Frenchs Forest	50%	AUD	2 700 100.00
Nestlé Australia Ltd		Sydney	100%	AUD	274 000 000.00
The Uncle Tobys Company Pty Limited	◊	Rhodes	100%	AUD	56 896 062.00
Uncle Tobys Foods Pty Limited		Rhodes	100%	AUD	287 230 000.00
Fiji					
Nestlé (Fiji) Ltd		Ba	100%	FJD	3 000 000.00
French Polynesia					
Nestlé Polynésie S.A.		Papeete	100%	XPF	5 000 000.00
New Caledonia					
Nestlé Nouvelle-Calédonie S.A.		Noumea	100%	XPF	250 000 000.00
New Zealand					
Nestlé New Zealand Limited		Auckland	100%	NZD	300 000.00
Papua-New Guinea					
Nestlé (PNG) Pty Ltd		Lae	100%	PGK	11 850 000.00

Companies		City

Technical assistance, research and development companies

Technical assistance	**TA**
Research centres	**RC**
Product Technology Centres and Research & Development centres	**PTC**

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

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Income statement for the year ended 31 December 2006

In millions of CHF	Notes	2006	2005
Income			
Income from Group companies	1	7 887	4 500
Financial income	2	820	743
Profit on disposal of fixed assets	3	27	22
Other income		27	24
Total income		**8 761**	**5 289**
Expenses			
Investment write downs	4	1 140	187
Administration and other expenses	5	159	126
Financial expense	6	218	112
Total expenses before taxes		**1 517**	**425**
Profit before taxes		**7 244**	**4 864**
Taxes	7	346	426
Profit for the year	20	**6 898**	**4 438**

Balance sheet as at 31 December 2006
before appropriations

In millions of CHF	Notes	2006	2005
Assets			
Current assets			
Liquid assets	8	2 462	3 448
Receivables	9	968	1 097
Prepayments and accrued income		68	123
Total current assets		3 498	4 668
Fixed assets			
Financial assets	10	34 745	28 538
Intangible assets	14	–	–
Tangible fixed assets	15	–	–
Total fixed assets		34 745	28 538
Total assets		38 243	33 206
Liabilities and equity			
Liabilities			
Short term payables	16	7 471	5 381
Accruals and deferred income		333	256
Long term payables	17	252	239
Provisions	18	942	1 509
Total liabilities		8 998	7 385
Equity			
Share capital	19/20	401	404
Legal reserves	20	6 392	6 392
Special reserve	20	14 678	14 587
Profit brought forward	20	876	–
Profit for the year	20	6 898	4 438
Total equity		29 245	25 821
Total liabilities and equity		38 243	33 206

Annex to the annual accounts of Nestlé S.A.

Accounting policies

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

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

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

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

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

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

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

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

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

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

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

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

Intangible assets
Trademarks and other industrial property rights are written off on acquisition or exceptionally over a longer period. In the consolidated accounts of the Group this item has a different treatment.

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

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

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

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

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

Notes to the annual accounts

1. Income from Group companies

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

2. Financial income

In millions of CHF	2006	2005
Net result on loans to Group companies	719	595
Other	101	148
	820	743

3. Profit on disposal of fixed assets

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

4. Investment write downs

In millions of CHF	2006	2005
Participations and loans	83	148
Trademarks and other industrial property rights	1 057	39
	1 140	187

The amortised trademarks are mainly those acquired from Group Companies, among them: Uncle Tobys and Dreyer's.

5. Administration and other expenses

In millions of CHF	2006	2005
Salaries and welfare expenses	79	64
Other expenses	80	62
	159	126

6. Financial expense

In millions of CHF	2006	2005
Interest on loans from Group companies	160	93
Other	58	19
	218	112

7. Taxes

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

8. Liquid assets

In millions of CHF	2006	2005
Cash and cash equivalents	446	396
Marketable securities	2 016	3 052
	2 462	3 448

9. Receivables

In millions of CHF	2006	2005
Amounts owed by Group companies (current accounts)	938	797
Other receivables	30	300
	968	1 097

10. Financial assets

In millions of CHF	Notes	2006	2005
Participations in Group companies	11	14 857	14 734
Loans to Group companies	12	16 272	12 376
Own shares	13	3 601	1 414
Other investments		15	14
		34 745	28 538

11. Participations in Group companies

In millions of CHF	2006	2005
At 1 January	14 734	16 107
Net increase	148	1 082
Write downs	(25)	(2 455)
At 31 December	**14 857**	**14 734**

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

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

12. Loans to Group companies

In millions of CHF	2006	2005
At 1 January	12 376	10 477
New loans	6 750	1 776
Repayments and write downs	(2 567)	(859)
Realised exchange differences	14	(17)
Unrealised exchange differences	(301)	999
At 31 December	**16 272**	**12 376**

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

13. Own shares

In millions of CHF	2006		2005	
	Number	Amount	Number	Amount
Share Buy-Back Programmes	7 663 200	3 000	3 659 300	1 345
Reserve shares [a]	4 766 300	5	–	–
Management options rights	1 753 578	596	244 770	69
At 31 December	14 183 078	3 601	3 904 070	1 414

[a] Transferred from a Group company in 2006, the "Reserve Shares" were issued by resolution of the Annual General Meeting in 1989 to cover conversion or option rights resulting from future bond issues, or to be used for other purposes in the interest of the Company as decided by the Board of Directors. The "Reserve Shares" were paid up at their nominal value but were never alloted at market price. The shares are presently earmarked for Nestlé Group remuneration plans in Nestlé S.A. shares and stock options thereon.

At 31 December 2006, the Company held 7 663 200 shares purchased as part of the buy-back programme at an acquisition cost of CHF 3000 million. During the year, 6 788 200 shares were purchased at an acquisition price of CHF 2655 million and 2 784 300 shares were transferred out at the acquisition price of CHF 1000 million to cover management option rights.

The Company held 4 766 300 reserve shares at their nominal value of CHF 5 million, of which 7 550 600 were transferred in from a Group company at their nominal value of CHF 8 million during the year and 2 784 300 were cancelled at their nominal value of CHF 3 million.

The Company also held 1 753 578 shares to cover management option rights, which are held at exercise price as this is lower than the acquisition cost. As previously stated, 2 784 300 shares were transferred in during the year from the shares purchased as part of the buy-back programme. These shares were transferred in at the exercise price of the plans to which they were allocated, totaling CHF 937 million. Additionally, 1 275 492 options were exercised during the year for CHF 410 million.

14. Intangible assets

All intangible assets have been fully written down.

15. Tangible fixed assets

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

The fire insurance value of buildings, furniture and office equipment at 31 December 2006 amounted to CHF 25 million (2005: CHF 25 million).

16. Short term payables

In millions of CHF	2006	2005
Amounts owed to Group companies	7 436	5 230
Other payables	35	151
	7 471	5 381

17. Long term payables

Amounts owed to Group companies represent a long-term loan issued in 1989. The carrying value increased by CHF 13 million to CHF 252 million as a result of an unrealised exchange difference at the end of 2006.

18. Provisions

In millions of CHF	Uninsured risks	Exchange risks	Swiss & foreign taxes	Other	2006 Total	2005 Total
At 1 January	475	864	133	37	**1 509**	3 021
Provisions made in the period	–	237	117	38	**392**	1 026
Amounts used	–	(864)	(50)	(20)	**(934)**	(2 528)
Unused amounts reversed	–	–	(25)	–	**(25)**	(10)
At 31 December	475	237	175	55	942	1 509

The provision for exchange risks includes the unrealised net exchange gains on the revaluation of foreign exchange positions and any associated forward cover at year-end.

19. Share capital

	2006	2005
Number of registered shares of nominal value CHF 1 each	400 735 700	403 520 000
In millions of CHF	401	404

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

At 31 December 2006, the Share Register showed 111 256 registered shareholders. If unprocessed applications for registration and the indirect holders of shares under American Depositary Receipts are also taken into account, the total number of shareholders probably exceeds 250 000. The Company was not aware of any shareholder holding, directly or indirectly, 3% or more of the share capital.

Conditional increase in share capital

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

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

20. Changes in equity

In millions of CHF

	Share capital	General reserve [a]	Reserve for own shares [a][b]	Special reserve	Retained earnings	Total
At 1 January 2006	404	3 776	2 616	14 587	4 438	25 821
Cancellation of 2 784 300 shares (ex buy-back programme)	(3)					(3)
Profit for the year					6 898	6 898
Dividend for 2005					(3 471)	(3 471)
Movement of own shares		(1 934)	1 934			–
Dividend on own shares held on the payment date of 2005 dividend				91	(91)	–
At 31 December 2006	401	1 842	4 550	14 678	7 774	29 245

[a] The general reserve and the reserve for own shares constitute the legal reserves.
[b] See note 21

21. Reserve for own shares

At 31 December 2005, the reserve for own shares amounting to 2616 million, represented the cost of 7 779 983 freely available shares (of which, 5 626 061 shares were reserved to cover option rights granted since 2001 in favour of members of the Group's Management), as well as 244 770 shares reserved to cover option rights granted up to the year 2000, 2 230 300 shares earmarked to cover warrants attached to a bond issue of an affiliated company, 3 659 300 repurchased as part of the buy-back programme and 1 372 101 shares held for trading purposes.

During the year, a total of 7 142 414 shares have been acquired at a cost of CHF 2788 million (of which, 6 788 200 shares repurchased at a cost of CHF 2656 million for the second buy-back programme completed in October) and 2 630 911 shares have been sold for a total amount of CHF 907 million (including 1 810 278 that represented shares for which options were exercised during the year). The reserve for own shares was reduced by the acquisition price of CHF 851 million. Moreover, 31 shares have been delivered upon exercise of a warrant on a bond issue of an affiliated company. In addition, the 2 784 300 shares repurchased in 2005 at a cost of CHF 1000 million have been cancelled and the share capital and reserve for own shares have been reduced by the nominal value (CHF 1 per share) of these shares accordingly.

Another group company holds 2 830 548 Nestlé S.A. shares. The total of own shares of 17 013 626 held by all group companies at 31 December 2006 represents 4.25% of the Nestlé S.A. share capital (15 286 454 own shares held at 31 December 2005, representing 3.8% of the Nestlé S.A. share capital).

22. Contingencies

At 31 December 2006, the total of the guarantees is mainly for credit facilities granted to Group companies and Commercial Paper Programmes, together with the buy-back agreements relating to notes issued, amounted to CHF 15 243 million
(2005: CHF 13 703 million).

Proposed appropriation of profit

In CHF	2006	2005
Retained earnings		
Balance brought forward	875 365 054	383 115
Profit for the year	6 898 667 700	4 437 571 693
	7 774 032 754	4 437 954 808
We propose the following appropriations:		
Transfer to the special reserve	2 500 000 000	–
Dividend for 2006, CHF 10.40 per share on 383 722 074 shares (2005: CHF 9.– on 388 233 546 shares)	3 990 709 569	3 494 101 914
Dividend for 2006, CHF 10.40 per share on 2 277 526 shares reserved for the option rights which may be exercised in the year 2007, on 2 230 269 shares to cover warrants and on 600 279 shares held for trading purposes [a] (2005: CHF 9.– on 7 609 760 shares [b])	53 123 970	68 487 840
	6 543 833 539	3 562 589 754
Balance to be carried forward	1 230 199 215	875 365 054

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

[b] Of the total of CHF 68 487 840, CHF 3 378 231 were actually paid as dividends, whilst the balance of CHF 65 109 609 has been transferred to the special reserve.

If you accept this proposal, the gross dividend will amount to CHF 10.40 per share. After deduction of the federal withholding tax of 35%, a net amount of CHF 6.76 per share will be payable as from Wednesday, 25 April 2007, by bank transfer to the shareholders account or by cheque, in accordance with instructions received from the shareholders.

The Board of Directors

Cham and Vevey, 21 February 2007

Report of the statutory auditors

to the General Meeting of Nestlé S.A.

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and annex) of Nestlé S.A. for the year ended 31 December 2006.

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

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

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

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

KPMG Klynveld Peat Marwick Goerdeler SA

Mark Baillache
Auditor in charge

Stéphane Gard

London and Zurich, 21 February 2007

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