

Consolidated Financial Statements of the Nestlé Group 2011



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Principal exchange rates

CHF per		2011	2010	2011	2010
		Year ending rates		Weighted average annual rates	
1 US Dollar	USD	0.940	0.938	0.887	1.045
1 Euro	EUR	1.217	1.253	1.233	1.380
1 Pound Sterling	GBP	1.450	1.454	1.421	1.606
100 Brazilian Reais	BRL	50.124	56.291	52.935	59.141
100 Japanese Yen	JPY	1.212	1.153	1.121	1.188
100 Mexican Pesos	MXN	6.712	7.568	7.122	8.241
1 Canadian Dollar	CAD	0.921	0.938	0.890	1.012
1 Australian Dollar	AUD	0.954	0.955	0.913	0.957
100 Philippine Pesos	PHP	2.144	2.146	2.048	2.313
100 Chinese Yuan Renminbi	CNY	14.926	14.227	13.796	15.362

Consolidated income statement for the year ended 31 December 2011

In millions of CHF	Notes	2011	2010 (a)	2010 (a)	2010 (a)
		Total	Continuing operations	Discontinued operations (b)	Total
Sales	3	83 642	87 906	5 109	93 015
Other revenue		128	109	—	109
Cost of goods sold		(44 127)	(44 775)	(1 074)	(45 849)
Distribution expenses		(7 602)	(7 953)	(125)	(8 078)
Marketing and administration expenses		(17 395)	(19 846)	(1 276)	(21 122)
Research and development costs		(1 423)	(1 403)	(478)	(1 881)
Other trading income	4	51	168	—	168
Other trading expenses	4	(736)	(1 530)	—	(1 530)
Trading operating profit	3	12 538	12 676	2 156	14 832
Other operating income	4	112	38	24 535	24 573
Other operating expenses	4	(179)	(571)	(14)	(585)
Operating profit		12 471	12 143	26 677	38 820
Financial income	13	115	72	22	94
Financial expense	13	(536)	(834)	(13)	(847)
Profit before taxes and associates		12 050	11 381	26 686	38 067
Taxes	14	(3 112)	(3 343)	(350)	(3 693)
Share of results of associates	15	866	1 010	—	1 010
Profit for the year		9 804	9 048	26 336	35 384
of which attributable to non-controlling interests		317	271	880	1 151
of which attributable to shareholders of the parent (Net profit)		9 487	8 777	25 456	34 233
As percentages of sales					
Trading operating profit		15.0%	14.4%	42.2%	15.9%
Profit for the year attributable to shareholders of the parent (Net profit)		11.3%			36.8%
Earnings per share (in CHF)					
Basic earnings per share	16	2.97	2.60	7.56	10.16
Diluted earnings per share	16	2.96	2.60	7.52	10.12

(a) 2010 restated following the changes in the Income Statement described in Note 1 – Accounting Policies.

(b) Detailed information related to Alcon discontinued operations is disclosed in Note 2.

Consolidated statement of comprehensive income for the year ended 31 December 2011

In millions of CHF	2011	2010
Profit for the year recognised in the income statement	9 804	35 384
Currency retranslations	(1 166)	(4 801)
Fair value adjustments on available-for-sale financial instruments		
– Unrealised results	(199)	227
– Recognition of realised results in the income statement	7	(10)
Fair value adjustments on cash flow hedges		
– Recognised in hedging reserve	(423)	704
– Removed from hedging reserve	(42)	(752)
Actuarial gains/(losses) on defined benefit schemes	(2 503)	(153)
Share of other comprehensive income of associates	456	(89)
Taxes	859	268
Other comprehensive income for the year	(3 011)	(4 606)
Total comprehensive income for the year	6 793	30 778
of which attributable to non-controlling interests	284	941
of which attributable to shareholders of the parent	6 509	29 837

Consolidated balance sheet as at 31 December 2011

before appropriations

In millions of CHF	Notes	2011	2010
Assets			
Current assets			
Cash and cash equivalents	13/17	4 938	8 057
Short-term investments	13	3 050	8 189
Inventories	5	9 255	7 925
Trade and other receivables	6/13	13 340	12 083
Prepayments and accrued income		900	748
Derivative assets	13	731	1 011
Current income tax assets		1 094	956
Assets held for sale		16	28
Total current assets		33 324	38 997
Non-current assets			
Property, plant and equipment	7	23 971	21 438
Goodwill	8	29 008	27 031
Intangible assets	9	9 356	7 728
Investments in associates	15	8 629	7 914
Financial assets	13	7 161	6 366
Employee benefits assets	10	127	166
Current income tax assets		39	90
Deferred tax assets	14	2 476	1 911
Total non-current assets		80 767	72 644
Total assets		114 091	111 641

In millions of CHF	Notes	2011	2010
Liabilities and equity			
Current liabilities			
Financial debt	13	16 100	12 617
Trade and other payables	13	13 584	12 592
Accruals and deferred income		2 909	2 798
Provisions	12	576	601
Derivative liabilities	13	646	456
Current income tax liabilities		1 417	1 079
Liabilities directly associated with assets held for sale		—	3
Total current liabilities		35 232	30 146
Non-current liabilities			
Financial debt	13	6 207	7 483
Employee benefits liabilities	10	7 105	5 280
Provisions	12	3 094	3 510
Deferred tax liabilities	14	2 060	1 371
Other payables	13	2 119	1 253
Total non-current liabilities		20 585	18 897
Total liabilities		55 817	49 043
Equity			
Share capital	18	330	347
Treasury shares		(6 722)	(11 108)
Translation reserve		(16 927)	(15 794)
Retained earnings and other reserves		80 116	88 422
Total equity attributable to shareholders of the parent		56 797	61 867
Non-controlling interests		1 477	731
Total equity		58 274	62 598
Total liabilities and equity		114 091	111 641

Consolidated cash flow statement for the year ended 31 December 2011

In millions of CHF	Notes	2011	2010
Operating activities			
Profit for the year		9 804	35 384
Non-cash items of income and expense	17	3 039	(20 948)
Decrease/(increase) in working capital	17	(1 837)	(632)
Variation of other operating assets and liabilities	17	(1 243)	(196)
Operating cash flow ^(a)		9 763	13 608
Investing activities			
Capital expenditure	7	(4 779)	(4 576)
Expenditure on intangible assets	9	(247)	(408)
Sale of property, plant and equipment		111	113
Acquisition of businesses	2	(3 742)	(5 582)
Disposal of businesses	2	7	27 715
Cash flows with associates		357	254
Inflows/(outflows) from non-current financial investments		(1 802)	(2 528)
Other investing cash flows		(448)	(439)
Cash flow from investing activities ^(a)		(10 543)	14 549
Financing activities			
Dividend paid to shareholders of the parent	18	(5 939)	(5 443)
Purchase of treasury shares	17	(5 480)	(12 135)
Sale of treasury shares		527	278
Cash flows with non-controlling interests		(266)	(791)
Bonds issued		595	1 219
Bonds repaid		(1 751)	(832)
Inflows from other non-current financial liabilities		93	130
Outflows from other non-current financial liabilities		(93)	(225)
Inflows/(outflows) from current financial liabilities		3 504	(2 174)
Inflows/(outflows) from short-term investments		6 452	(5 835)
Cash flow from financing activities ^(a)		(2 358)	(25 808)
Currency retranslations		19	(117)
Increase/(decrease) in cash and cash equivalents		(3 119)	2 232
Cash and cash equivalents at beginning of year		8 057	5 825
Cash and cash equivalents at end of year	17	4 938	8 057

(a) Detailed information related to Alcon discontinued operations is disclosed in Note 2. In 2010, even if Alcon's assets and liabilities were classified as held for sale, individual lines of the cash flow statement comprise Alcon's movements until disposal.

Consolidated statement of changes in equity for the year ended 31 December 2011

In millions of CHF

	Share capital	Treasury shares	Translation reserve	Retained earnings and other reserves	Total equity attributable to shareholders of the parent	Non-controlling interests	Total equity
Equity as at 31 December 2009	365	(8 011)	(11 175)	67 736	48 915	4 716	53 631
Profit for the year				34 233	34 233	1 151	35 384
Other comprehensive income for the year			(4 619)	223	(4 396)	(210)	(4 606)
Total comprehensive income for the year			(4 619)	34 456	29 837	941	30 778
Dividend paid to shareholders of the parent				(5 443)	(5 443)		(5 443)
Dividends paid to non-controlling interests						(729)	(729)
Movement of treasury shares (net) ^(a)		(11 859)		77	(11 782)		(11 782)
Equity compensation plans		179		2	181	19	200
Changes in non-controlling interests				(146)	(146)	(4 216)	(4 362)
Adjustment for hyperinflation ^(b)				305	305		305
Reduction in share capital	(18)	8 583		(8 565)	—		—
Total transactions with owners	(18)	(3 097)		(13 770)	(16 885)	(4 926)	(21 811)
Equity as at 31 December 2010	347	(11 108)	(15 794)	88 422	61 867	731	62 598
Profit for the year				9 487	9 487	317	9 804
Other comprehensive income for the year			(1 133)	(1 845)	(2 978)	(33)	(3 011)
Total comprehensive income for the year			(1 133)	7 642	6 509	284	6 793
Dividend paid to shareholders of the parent				(5 939)	(5 939)		(5 939)
Dividends paid to non-controlling interests						(226)	(226)
Movement of treasury shares (net) ^(a)		(4 615)		(355)	(4 970)		(4 970)
Equity compensation plans		175		5	180		180
Changes in non-controlling interests ^(c)				(996)	(996)	688	(308)
Adjustment for hyperinflation ^(b)				146	146		146
Reduction in share capital	(17)	8 826		(8 809)	—		—
Total transactions with owners	(17)	4 386		(15 948)	(11 579)	462	(11 117)
Equity as at 31 December 2011	330	(6 722)	(16 927)	80 116	56 797	1 477	58 274

(a) Movements reported under retained earnings and other reserves mainly relate to written put options on own shares.

(b) Relates to Venezuela, considered as a hyperinflationary economy.

(c) Movements reported under retained earnings and other reserves include a put option for the acquisition of non-controlling interests.

1. 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 Consolidated Financial Statements have been prepared on an accrual 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 provisions, goodwill impairment tests, employee benefits, allowance for doubtful receivables, share-based payments and taxes, and key assumptions are detailed in the related notes.

Scope of consolidation

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

Consolidated companies

Companies, in which the Group has the power to exercise control, are fully consolidated. This applies irrespective of the percentage of interest in the share capital. Control refers to the power to govern the financial and operating policies of a company so as to obtain the benefits from its activities. Non-controlling interests are shown as a component of equity in the balance sheet and the share

of the profit attributable to non-controlling interests is shown as a component of profit for the year in the income statement.

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

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

Associates

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

Venture funds

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

Foreign currencies

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

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

On consolidation, assets and liabilities of Group entities reported 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 weighted average rates of exchange or at the rate on the date of the transaction for significant items.

Differences arising from the retranslation of opening net assets of Group entities, together with differences arising from the restatement of the net results for the year of Group entities, are recognised in other comprehensive income.

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.

When there is a change of control in a foreign entity, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on disposal.

Segment reporting

Operating segments reflect the Group's management structure and the way financial information is regularly reviewed by the Group's chief operating decision maker (CODM), which is defined as the Executive Board.

The CODM considers the business from both a geographic and product perspective, through three geographic Zones and several Globally Managed Businesses (GMB). Zones and GMB that meet the quantitative threshold of 10% of sales, trading operating profit or assets, are presented on a standalone basis as reportable segments. Other GMB that do not meet the threshold, like Nestlé Professional, Nespresso, Nestlé Health Science and the Joint Ventures in the Food and Beverages and Pharmaceutical activities are aggregated and presented in Other. Therefore, the Group's reportable operating segments are:

- Zone Europe;
- Zone Americas;
- Zone Asia, Oceania and Africa;
- Nestlé Waters;
- Nestlé Nutrition;
- Other.

As some operating segments represent geographic zones, information by product is also disclosed. The seven product groups that are disclosed represent the highest categories of products that are followed internally.

Finally, the Group provides information attributed to the country of domicile of the Group's parent company (Nestlé S.A. – Switzerland) and to the ten most important countries in terms of sales.

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

Segment assets and liabilities are aligned with internal reported information to the CODM. Segment assets comprise property, plant and equipment, intangible assets, goodwill, trade and other receivables, assets held for sale, inventories, prepayments and accrued income as well as specific financial assets associated to the reportable segments. Segment liabilities comprise trade and other payables, liabilities directly associated with assets held for sale, some other payables as well as accruals and deferred income. Eliminations represent inter-company balances between the different segments.

Segment assets by operating segment represent the situation at the end of the year. Assets and liabilities by product 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 amortisation of intangible assets. Impairment of 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 related assets/liabilities;
- research and development costs and related assets/liabilities; and
- some goodwill and intangible assets.

Non-current assets by geography include property, plant and equipment, intangible assets and goodwill that are attributable to the ten most important countries and the country of domicile of Nestlé S.A.

Valuation methods, presentation and definitions

Revenue

Revenue represents amounts received and receivable from third parties for goods supplied to the customers and for services rendered. Revenue from the sales of goods is recognised in the income statement at the moment when the significant risks and rewards of ownership of the goods have been transferred to the buyer, which is mainly upon shipment. It is measured at the list price applicable to

a given distribution channel after deduction of returns, sales taxes, pricing allowances, other trade discounts and couponing and price promotions to consumers. Payments made to the customers for commercial services received are expensed.

Expenses

Cost of goods sold is determined on the basis of the cost of production or of purchase, adjusted for the variation of inventories. All other expenses, including those in respect of advertising and promotions, are recognised when the Group receives the risks and rewards of ownership of the goods or when it receives the services.

Other trading income/(expenses)

These comprise mainly restructuring costs, impairment of all assets except goodwill, litigations and onerous contracts, result on disposal of property, plant and equipment, and specific other income and expenses that fall within the control of operating segments.

Restructuring costs are restricted to dismissal indemnities and employee benefits paid to terminated employees upon the reorganisation of a business. Dismissal indemnities paid for normal attrition such as poor performance, professional misconduct, etc. are part of the expenses by functions.

Other operating income/(expenses)

These comprise impairment of goodwill, results on disposals of businesses, acquisition-related costs and other income and expenses that fall beyond the control of operating segments and relate to events such as natural disasters and expropriation of assets.

Net financing cost

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

Net financing cost also includes other financial income and expense, such as exchange differences on loans and borrowings, results on foreign currency and interest rate hedging instruments that are recognised in the income statement. Certain borrowing costs are capitalised as explained under the section on Property, plant and equipment. Others are expensed.

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

Taxes

The Group is subject to taxes in different countries all over the world. Taxes and fiscal risks recognised in the Consolidated Financial Statements reflect Group Management's best estimate of the outcome based on the facts known at the balance sheet date in each individual country. These facts may include but are not limited to change in tax laws and interpretation thereof in the various jurisdictions where the Group operates. They may have an impact on the income tax as well as the resulting assets and liabilities. 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 or other comprehensive income, in which case it is recognised against equity or other comprehensive income.

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 the principles of the Consolidated Financial Statements. It also arises on temporary differences stemming from tax losses carried forward.

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

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

Financial instruments

Classes of financial instruments

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

Financial assets

Financial assets are initially recognised at fair value plus directly attributable transaction costs. However when a financial asset at fair value through profit or loss is recognised, the transaction costs are expensed immediately. Subsequent remeasurement of financial assets is determined by their classification that is revisited at each reporting date.

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

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

At each balance sheet date, the Group assesses whether its financial assets are to be impaired. Impairment losses are recognised in the income statement where there is objective evidence of impairment, such as where the issuer is in bankruptcy, default or other significant financial difficulty. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. Impairment losses are reversed when the reversal can be objectively related to an event occurring after the recognition of the impairment loss. For debt instruments measured at amortised cost or fair value, the reversal is recognised in the income statement. For equity instruments classified as available for sale, the reversal is recognised in other comprehensive income. Impairment losses on financial assets carried at cost because their fair value cannot be reliably measured are never reversed.

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

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

Loans and receivables

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

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

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

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

Held-for-trading assets

The Group does not apply the fair value option. Held-for-trading assets are marketable securities and derivative financial instruments.

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

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities. Currently the Group does not have any investments in this category.

Available-for-sale assets

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

investments. They are included in non-current financial assets unless an investment matures or management intends to dispose of it within 12 months of the end of the reporting period. In that case it would be accounted for as short-term investments, or cash and cash equivalents, as appropriate.

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

Interest earned on available-for-sale assets is calculated using the effective interest rate method and is recognised in the income statement as part of interest income under net financing cost. Accrued interest on available-for-sale financial assets is included in the balance sheet line prepayments and accrued income.

Financial liabilities at amortised cost

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

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

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

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

Derivative financial instruments

A derivative is a financial instrument that changes its values in response to changes in the underlying variable, requires no or little net initial investment and is settled at a future date. Derivatives are mainly used to manage exposures to foreign exchange, interest rate and commodity price risk. Whilst some derivatives are also acquired with the aim of

managing the return of marketable securities portfolios, these derivatives are only acquired when there are underlying financial assets.

Derivatives are initially recognised at fair value. These are subsequently remeasured at fair value on a regular basis and at each reporting date as a minimum. The fair values of exchange-traded derivatives are based on market prices, while the fair value of the over-the-counter derivatives are determined using accepted mathematical models based on market data.

Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

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

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

Hedge accounting

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

Fair value hedges

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

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

Cash flow hedges

The Group uses cash flow hedges to mitigate a particular risk associated with a recognised asset or liability or highly probable forecast transactions, such as anticipated future export sales, purchases of equipment and raw materials, as well as the variability of expected interest payments and receipts.

1. Accounting policies (continued)

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

Net investment hedges

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

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

Undesignated derivatives

Undesignated derivatives are comprised of two categories. The first includes derivatives acquired in the frame of risk management policies for which hedge accounting is not applied. The second category relates to derivatives that are acquired with the aim of delivering performance over agreed benchmarks of marketable securities portfolios.

Subsequent to initial measurement, undesignated derivatives are carried at fair value and all their gains and losses, realised and unrealised, are recognised in the income statement.

Fair value

The Group determines the fair value of its financial instruments on the basis of the following hierarchy.

- i) The fair value of financial instruments quoted in active markets is based on their quoted closing price at the balance sheet date. Examples include commodity derivative assets and liabilities and other financial assets such as investments in equity and debt securities.
- ii) The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques using observable market data. Such valuation techniques include discounted cash

flows, standard valuation models based on market parameters, dealer quotes for similar instruments and use of comparable arm's length transactions. For example, the fair value of forward exchange contracts, currency swaps and interest rate swaps is determined by discounting estimated future cash flows using a risk-free interest rate.

- iii) The fair value of financial instruments that are determined on the basis of entity specific valuations using inputs that are not based on observable market data (unobservable inputs). When the fair value of unquoted instruments cannot be measured with sufficient reliability, the Group carries such instruments at cost less impairment, if applicable.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand and other short-term highly liquid investments with maturities of three months or less from the initial recognition.

Short-term investments

Short-term investments include investments from the available-for-sale category if their maturity is more than three months from the initial recognition and if they are due within a period of 12 months or less; or there is no maturity but the assets are expected to be realised within 12 months after the reporting period.

Inventories

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

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

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

Prepayments and accrued income

Prepayments and accrued income comprise payments made in advance relating to the following year, and income relating to the current year, which will not be invoiced 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 and nil for all other asset types. The useful lives are as follows:

Buildings	20–40 years
Machinery and equipment	10–25 years
Tools, furniture, information technology and sundry equipment	3–10 years
Vehicles	3–8 years
Land is not depreciated.	

Useful lives, components and residual amounts are reviewed annually. Such a review takes into consideration the nature of the assets, their intended use including but not limited to the closure of facilities and the evolution of the technology and competitive pressures that may lead to technical obsolescence.

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

Borrowing costs incurred during the course of construction are capitalised if the assets under construction are significant and if their construction requires a substantial period to complete (typically more than one year). The capitalisation rate is determined on the basis of the short-term borrowing rate for the period of construction. Premiums capitalised for leasehold land or buildings are amortised over the length of the lease. Government grants are recognised in accordance with the deferral method, whereby the grant is set up as deferred income which is released to the income statement over the useful life of the related assets. Grants that are not related to assets are credited to the income statement when they are received.

Leased assets

Leasing agreements which transfer to the Group substantially all the rewards and risks of ownership of an asset are treated as finance leases. All other leases are classified as operating leases.

Assets acquired under finance leases are capitalised and depreciated in accordance with the Group's policy on property, plant and equipment unless the lease term is

shorter. Land and building leases are recognised separately provided an allocation of the lease payments between these categories is reliable. The associated obligations are included under financial liabilities.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

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

Business combinations and related goodwill

Business combinations are accounted for using the acquisition method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The consideration transferred is measured at fair value and includes the fair value of any contingent consideration. Subsequent changes in contingent consideration, when not classified as equity, are recognised in profit or loss. The acquisition-related costs are charged to the income statement in the period in which they are incurred. Where not all of the equity of a subsidiary is acquired the non-controlling interests are recognised at the non-controlling interest's share of the acquiree's net identifiable assets. Upon obtaining control in a business combination achieved in stages, the Group remeasures its previously held equity interest at fair value and recognises a gain or a loss to the income statement.

Goodwill is recorded as the surplus of the consideration transferred over the Group's interest in the fair value of the acquired net assets. 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.

Acquisitions and disposals of non-controlling interests

The Group treats transactions with non-controlling interests that do not result in loss of control as transactions with equity holders in their capacity as equity holders. For purchases of shares from non-controlling interests, the

difference between any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. The same principle is applied to disposals of shares to non-controlling interests.

Intangible assets

This heading includes intangible assets that are internally generated or 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. Internally generated intangible assets are capitalised, provided they generate future economic benefits and their costs are clearly identifiable. Borrowing costs incurred during the development of internally generated intangible assets are capitalised if the assets are significant and if their development requires a substantial period to complete (typically more than one year).

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 amortised but tested for impairment annually or more frequently if an impairment indicator is triggered. They mainly comprise certain brands, trademarks and intellectual property rights. The assessment of the classification of intangible assets as indefinite is reviewed annually.

Finite life intangible assets are those for which there is an expectation of obsolescence that limits their useful economic life or where the useful life is limited by contractual or other terms. They are amortised over the shorter of their contractual or useful economic lives. They comprise mainly management information systems, patents and rights to carry on an activity (e.g. exclusive rights to sell products or to perform a supply activity). Finite life intangible assets are amortised on a straight-line basis assuming a zero residual value: management information systems over a period ranging from 3 to 5 years; and other finite life intangible assets over 5 to 20 years. Useful lives and residual values are reviewed annually. Amortisation of intangible assets is allocated to the appropriate headings of expenses by function in the income statement.

Research and development

Internal research costs are charged to the income statement in the year in which they are incurred. Development costs are also charged to the income statement in the year in which they are incurred due to uncertainties inherent in the development of new products because the expected future economic benefits cannot be reliably determined. As long as the products have not reached the market place, there is no reliable evidence that positive future cash flows would be obtained.

Payments made to third parties in order to in-license or acquire intellectual property rights, compounds and products are capitalised as they are separately identifiable and are expected to generate future benefits.

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

Impairment of goodwill and indefinite life intangible assets

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

The impairment tests are performed annually at the same time each year and at the cash generating unit (CGU) level. The Group defines its CGU 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 CGU 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 CGU (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.

An impairment loss in respect of goodwill is never subsequently reversed.

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. Indication could be unfavourable development of a business under competitive pressures or severe economic slowdown in a given market as well as reorganisation of the operations to leverage their scale. 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 time value of money and the risks specific to the country where the assets are located. The risks specific to the asset are included in the determination of the cash flows.

Assets that suffered an impairment are tested for possible reversal of the impairment at each reporting date if indications exist that impairment losses recognised in prior periods no longer exist or have decreased.

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 income statement of the discontinued operations is presented separately in the consolidated income statement. Comparative information is restated accordingly. Balance sheet and cash flow information related to discontinued operations are disclosed separately in the notes.

Provisions

Provisions comprise liabilities of uncertain timing or amount that arise from restructuring plans, environmental, litigation and other risks. Provisions are recognised when there exists a legal or constructive obligation stemming

from a past event and when the future cash outflows can be reliably estimated. Obligations arising from restructuring plans are recognised when detailed formal plans have been established and when there is a valid expectation that such plans will be carried out by either starting to implement them or announcing their main features. Obligations under litigations reflect Group Management's best estimate of the outcome based on the facts known at the balance sheet date.

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.

Post-employment 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. Actuarial advice is provided both by external consultants and by actuaries employed by the Group. The actuarial assumptions used to calculate the defined benefit obligations vary according to the economic conditions of the country in which the plan is located. Such plans are either externally funded (in the form of independently administered funds) or unfunded.

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 available in the form of refunds from the plan or reductions in future contributions to the plan. When these criteria are not met, it is not recognised but is disclosed in the notes. Impacts of minimum funding requirements in relation to past service are considered when determining pension obligations.

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 in other comprehensive income.

1. Accounting policies (continued)

For defined benefit plans, the pension cost charged to the income statement consists of current service cost, interest cost, expected return on plan assets, effects of early retirements, curtailments or settlements, and past service cost. The past service cost for the enhancement of pension benefits is accounted for when such benefits vest or become a constructive obligation.

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

Equity compensation plans

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 generally accepted pricing models. 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 generally accepted pricing models. 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 invoiced until after the balance sheet date, and income received in advance relating to the following year.

Dividend

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

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.

Changes in presentation – Revenue

Certain allowances and discounts, granted to trade chains, distributors, retailers and consumers for services rendered to the Group concerning trade and consumer promotions, selling, distribution, advertising etc. were previously reported as expenses under marketing and administration expenses as well as distribution expenses on grounds that they are incurred to generate sales. These allowances and discounts, as from 1 January 2011, are disclosed as a deduction of sales in conformity with the practice generally applied by consumer goods companies. The impact of this change for the year ended 31 December 2010 is a reduction in distribution expenses of CHF 432 million as well as marketing and administration expenses of CHF 16 166 million. Moreover, a separate line for other revenues such as license fees received from third parties has been added to the Income Statement, for an amount of CHF 109 million for this same period. The total impact is a reduction in sales of CHF 16 707 million. 2010 comparatives have been restated accordingly.

Changes in presentation – Operating profit

Previously the Group Income Statement included EBIT (Earnings before Interest, Taxes, Restructuring and Impairments) and Profit before Interest and Taxes. As from 2011, the Income Statement displays a Trading Operating Profit that is after restructuring costs, impairment of all assets except goodwill, litigations and onerous contracts, result on disposal of property, plant and equipment and specific other income and expenses that fall within the control of operating segments. This represents the new internal performance view that is also utilised in the segment reporting. Finally the line Profit before Interest and Taxes is renamed Operating Profit and is after impairment of goodwill, results on disposals of businesses, acquisition-related costs and other income and expenses that fall beyond the control of operating segments and relate to events such as natural disasters and expropriation of assets. 2010 comparatives have been restated accordingly.

Changes in presentation – Analyses by segment

The scope of the operating segments has been modified following on the changes in management responsibilities: HealthCare Nutrition, now managed by Nestlé Health Science, is reported under “Other”. Moreover Pharma is reported under “Other” as a result of the disposal of Alcon. Information by product has been modified accordingly. 2010 comparatives have been restated.

Changes in accounting policies

The accounting policies are the same as those applied in the Consolidated Financial Statements for the year ended 31 December 2010. The revised standards and the new or revised interpretations that are effective for the 2011 reporting year are either not applicable to the Group, or do not have a material impact on the Consolidated Financial Statements.

Changes in IFRS that may affect the Group after 31 December 2011

The following standards and amendments to existing standards have been published and are mandatory as well as applicable for the Group’s accounting period beginning on 1 January 2013, unless otherwise stated. The Group will not early adopt them.

IFRS 9 – Financial Instruments

The standard addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard will affect the Group’s accounting for its available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Such gains and losses are never reclassified to the Income Statement at a later date. There will be no impact on the Group’s accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, and the Group does not have any such liabilities. This standard is effective for the Group’s accounting period beginning on 1 January 2015.

IFRS 10 – Consolidated Financial Statements

This standard introduces a new single control model as the basis for consolidation applicable to all investees. It also introduces a changed definition of control. It is not expected to have a material impact on the Group Financial Statements.

IFRS 11 – Joint Arrangements

This standard establishes principles for the financial reporting by parties to a joint arrangement. The standard will affect the Group’s accounting for companies over which the Group exercises joint control with partners. The current proportionate consolidation method will be replaced by the equity method and this change will affect almost all Financial Statement line items resulting in decreasing revenues and expenses, assets and liabilities. Nevertheless, profit for the period and equity will remain unchanged.

IFRS 12 – Disclosure of Interests in Other Entities

This standard combines, enhances and replaces disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Group will modify its disclosures accordingly.

IFRS 13 – Fair Value Measurement

This standard applies when other IFRS require or permit fair value measurements. It defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. It is not expected to have a material impact on the Group Financial Statements.

IAS 19 Revised 2011 – Employee Benefits

The amendments that are expected to have the most significant impact include:

- replacement of the expected return on plan assets and interests costs on the defined benefit obligation with a single net interest component which is calculated by applying the discount rate to the net defined benefits asset or liability;
- past-service costs that will be recognised in the period of a plan amendment and unvested benefits that will no longer be spread over a future period until the benefits become vested.

1. Accounting policies (continued)

These changes will affect the profit for the period and the earnings per share by increasing employee benefit costs of the Group. It will also impact the amounts presented in other comprehensive income, and the net employee benefits liabilities/(assets) in the Balance Sheet.

Improvements and other amendments to IFRS/IAS

A number of standards have been modified on miscellaneous points. Such changes include IAS 1 – Presentation of Financial Statements, which requires entities to separate items presented in Other Comprehensive Income into two groups, based on whether or not they may be recycled to the Income Statement in the future. None of these amendments are expected to have a material effect on the Group's Financial Statements.

2. Acquisitions, disposals and discontinued operations

2.1 Modification of the scope of consolidation

The scope of consolidation has been affected by acquisitions and disposals made in 2011.

Main acquisitions

Full consolidation

Hsu Fu Chi, China, confectionery products, 60% (December).

Yinlu Foods Group, China, ready-to-drink peanut milk and ready-to-eat canned rice porridge, 60% (November).

Prometheus, USA, HealthCare, 100% (July).

Proportionate consolidation

Q-Med, Sweden, HealthCare, 100% (March), acquired by our joint-venture Galderma.

Disposals

There were no major disposals in 2011.

2.2 Acquisitions of businesses

The major classes of assets acquired and liabilities assumed at the acquisition date are:

In millions of CHF				2011	2010 ^(a)
	Hsu Fu Chi	Yinlu Foods Group	Other acquisitions		
Property, plant and equipment	396	427	200	1 023	342
Intangible assets ^(b)	479	694	724	1 897	2 134
Inventories and other assets	670	254	373	1 297	292
Assets held for sale ^(c)	—	—	—	—	845
Financial debt	(81)	(185)	(16)	(282)	(18)
Employee benefits, deferred taxes and provisions	(175)	(171)	(114)	(460)	(35)
Other liabilities	(326)	(250)	(229)	(805)	(74)
Liabilities directly associated with assets held for sale ^(c)	—	—	—	—	(177)
Fair value of identifiable net assets	963	769	938	2 670	3 309

(a) Mainly Kraft Foods' frozen pizza.

(b) Mainly Brands and intellectual property rights.

(c) Alcon's acquisitions.

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

2. Acquisitions, disposals and discontinued operations (continued)

The goodwill arising on acquisitions and the cash outflow are:

In millions of CHF				2011	2010 (a)
	Hsu Fu Chi	Yinlu Foods Group	Other acquisitions		
Fair value of consideration transferred	1 489	1 150	1 423	4 062	5 740
Non-controlling interests (b)	385	308	11	704	6
Fair value of pre-existing interests (c)	—	—	48	48	—
Fair value of identifiable net assets	(963)	(769)	(938)	(2 670)	(3 309)
Goodwill	911	689	544	2 144	2 437

(a) Mainly Kraft Foods' frozen pizza.

(b) Non-controlling interests have been measured in accordance with the accounting principle described in Note 1 – Business combinations and related goodwill.

(c) The remeasurement to fair value of pre-existing interests in one of the business acquisitions resulted in a gain of CHF 34 million and has been recognised under other operating income in the income statement (Note 4.2).

In millions of CHF				2011	2010 (a)
	Hsu Fu Chi	Yinlu Foods Group	Other acquisitions		
Fair value of consideration transferred	1 489	1 150	1 423	4 062	5 740
Cash and cash equivalents acquired	(132)	(34)	(134)	(300)	(41)
Consideration payable	—	(25)	(16)	(41)	(135)
Payment of consideration payable on prior years acquisitions	—	—	21	21	18
Cash outflow on acquisitions	1 357	1 091	1 294	3 742	5 582

(a) Mainly Kraft Foods' frozen pizza.

The consideration transferred consists of payments made in cash with some consideration remaining payable.

Hsu Fu Chi acquisition

On 22 December 2011, the Group acquired a 60% share in Hsu Fu Chi in China. Hsu Fu Chi is a leading manufacturer and distributor of confectionery products in China. It will complement Nestlé's existing product portfolio in China, which includes culinary products, coffee, confectionery, bottled water, milk powder and products for the foodservice industry. The goodwill arising on this acquisition includes elements that cannot be recognised as intangible assets such as synergies, complementary market share and competitive position. The goodwill arising from this acquisition is expected to be deductible for tax purposes. Because the impact of the activity of 10 days in December 2011 on sales and profit of Hsu Fu Chi being insignificant for the Group, it has been consolidated for the first time on 31 December 2011. The Group's total sales and profit for the year 2011 would have amounted respectively to CHF 84 457 million and CHF 9917 million if the acquisition had been effective 1 January 2011. These amounts have been determined based on the assumption that the fair value adjustments at the acquisition date, determined provisionally, would have been the same at 1 January.

Yinlu Foods Group acquisition

On 17 November 2011, the Group acquired a 60% share in the Yinlu Foods Group (Yinlu) in China. Yinlu is a significant marketer for ready-to-drink peanut milk and ready-to-eat canned rice porridge in China. It will complement Nestlé's existing product portfolio in China.

The goodwill arising on this acquisition includes elements that cannot be recognised as intangible assets such as synergies, complementary market share and competitive position. The goodwill arising from this acquisition is expected to be deductible for tax purposes. Sales and profit for the year 2011 of Yinlu Foods Group included in the Consolidated Financial Statements amount respectively to CHF 123 million and CHF 13 million. The Group's total sales and profit for

2. Acquisitions, disposals and discontinued operations (continued)

the year 2011 would have amounted respectively to CHF 84 782 million and CHF 9926 million if the acquisition had been effective 1 January 2011. These amounts have been determined based on the assumption that the fair value adjustments at the acquisition date, determined provisionally, would have been the same at 1 January.

Other acquisitions

There were other cash outflows in 2011 related to several individually non significant acquisitions, of which the main ones are Q-Med by Galderma and Prometheus. The Group's sales and profit for the year are not significantly impacted by them. Cash outflows of the comparative period were impacted by the Kraft Foods' frozen pizza acquisition (cash outflow of CHF 3969 million) and other several non significant acquisitions.

Acquisition-related costs

2011 acquisition-related costs have been recognised under Other operating expenses in the income statement (Note 4.2) for an amount of CHF 34 million (2010: CHF 23 million).

2.3 Disposals of businesses

In millions of CHF	2011	2010 (a)
Property, plant and equipment	1	4
Goodwill and intangible assets	—	1
Other assets	10	8
Non-controlling interests	—	(4 352)
Other liabilities	(3)	(31)
Alcon net assets held for sale disposed of	—	8 936
Net assets and non-controlling interests disposed of	8	4 566
Cumulative other comprehensive income items, net, reclassified to income statement	—	899
Profit/(loss) on current year disposals	(3)	24 472
Total disposal consideration	5	29 937
Cash and cash equivalents disposed of	(1)	(2 242)
Consideration receivable	(2)	(2)
Receipt of consideration receivable on prior years disposals	5	22
Cash inflow on disposals	7	27 715

(a) 2010 impacted by Alcon disposal (refer to Note 2.4).

2.4 Discontinued operations – Alcon

On 4 January 2010, Novartis exercised its call option to acquire the remaining 52% of Alcon outstanding capital from Nestlé, at a price of USD 181.– per share. The transaction received regulatory approval and was completed on 25 August 2010.

The cash inflow on Alcon disposal was as follows:

In millions of CHF	2010
Consideration received	29 926
Cash and cash equivalents disposed of	(2 242)
Cash inflow on Alcon disposal	27 684

2. Acquisitions, disposals and discontinued operations (continued)

The consideration received included the disposal price as per the selling agreement and interests due from the date of the exercise of the call to the regulatory approval, as well as the results on hedges of the cash proceeds. In accordance with IFRS 5, Alcon's related assets and liabilities were classified as a disposal group in Assets held for sale and Liabilities directly associated with assets held for sale as at 31 December 2009 and until the disposal date. Consequently, the depreciation and amortisation of non-current assets had been stopped as from 1 January 2010. Additionally, Alcon operations were presented separately in the income statement as discontinued operations.

The assets held for sale and liabilities directly associated with assets held for sale related to the Alcon discontinued operations were the following:

In millions of CHF	2010 ^(a)
Cash, cash equivalents and short-term investments	2 950
Inventories	664
Trade and other receivables	1 474
Property, plant and equipment	1 435
Goodwill and intangible assets	4 188
Other assets	1 127
Assets held for sale	11 838
Financial debt	(395)
Trade and other payables	(530)
Employee benefits and provisions	(763)
Other liabilities	(1 214)
Liabilities directly associated with assets held for sale	(2 902)
Net assets held for sale from discontinued operations	8 936

(a) Represent the amounts at the date of the disposal. The non-controlling interests disposed of amounted to CHF 4.4 billion.

The cumulative income or expense recognised in other comprehensive income related to Alcon discontinued operations were as follows:

In millions of CHF	2010 ^(a)
Currency retranslations, net of taxes	(902)
Fair value adjustments on available-for-sale financial instruments, net of taxes	3
Actuarial gains/(losses) on defined benefit schemes, net of taxes	(82)
Cumulative income or expense recognised in other comprehensive income	(981)

(a) Represent the amounts at the date of the disposal.

The main elements of the cash flow of the Alcon discontinued operations were as follows:

In millions of CHF	2010
Cash flow from discontinued operations	
Operating cash flow	1 884
Cash flow from investing activities	(1 035)
Cash flow from financing activities	(1 650)

3. Analyses by segment

3.1 Operating segments

In millions of CHF

2010 ^(e)

	Zone Europe	Zone Americas	Zone Asia, Oceania and Africa
Revenues and results			
Sales ^(e)	16 417	28 733	15 370
Trading operating profit	2 179	5 364	2 762
Impairment of goodwill	(4)	(4)	(18)
Net other operating income/(expenses) excluding impairment of goodwill			
Operating profit			
Net financing cost			
Profit before taxes and associates			
Net other trading income/(expenses) included in Trading operating profit	(544)	(287)	(179)
<i>of which impairment of assets other than goodwill</i>	(86)	(17)	(21)
<i>of which restructuring costs</i>	(245)	(72)	(14)
Assets			
Segment assets	10 935	22 312	8 765
Non-segment assets			
Total assets			
<i>of which goodwill and intangible assets</i>	2 453	9 862	1 862
Other information			
Capital additions	1 075	5 678	877
<i>of which capital expenditure</i>	906	1 127	840
Depreciation and amortisation of segment assets	679	931	468

(a) 2010 comparatives have been restated following the changes in the Income Statement described in Note 1 – Accounting Policies. Moreover, the scope of the operating segments has been reviewed to be aligned with the changes of management responsibility as of 1 January 2011. HealthCare Nutrition has been reclassified under "Other" as now managed as part of Nestlé Health Science. As a result of the disposal of Alcon, Pharma has been reclassified under "Other" as now managed together with the Food and Beverages Joint Ventures.

(b) Mainly Nespresso, Nestlé Professional, Nestlé Health Science, Food and Beverages Joint Ventures and Pharma Joint Ventures managed on a worldwide basis.

(c) Refer to the Segment reporting section of Note 1 – Accounting policies for the definition of unallocated items.

(d) Detailed information related to Alcon discontinued operations is disclosed in Note 2. In 2010, goodwill and intangible assets are included in Assets held for sale in the Balance Sheet, before being disposed of.

(e) Inter-segment sales are not significant.

3. Analyses by segment (continued)

Nestlé Waters	Nestlé Nutrition	Other ^(b)	Unallocated items ^(c)	Inter-segment eliminations	Total continuing operations	Pharma discontinued operations ^(d)	Total
7 209	7 700	12 477			87 906	5 109	93 015
512	1 562	2 102	(1 805)		12 676	2 156	14 832
(204)	(105)	(2)	—		(337)	—	(337)
					(196)	24 521	24 325
					12 143	26 677	38 820
					(762)	9	(753)
					11 381	26 686	38 067
(157)	(80)	(93)	(22)		(1 362)	—	(1 362)
(31)	(9)	(30)	—		(194)	—	(194)
(83)	(16)	(33)	(6)		(469)	—	(469)
6 596	12 006	8 887	10 924	(1 757)	78 668	—	78 668
							32 973
							111 641
1 665	6 395	3 461	9 061		34 759	—	34 759
529	470	685	232		9 546	1 168	10 714
413	378	509	211		4 384	192	4 576
561	155	283	105		3 182	—	3 182

3. Analyses by segment (continued)

3.1 Operating segments (continued)

In millions of CHF

2011

	Zone Europe	Zone Americas	Zone Asia, Oceania and Africa
Revenues and results			
Sales ^(c)	15 243	26 756	15 291
Trading operating profit	2 372	4 922	2 892
Impairment of goodwill	—	—	(9)
Net other operating income/(expenses) excluding impairment of goodwill			
Operating profit			
Net financing cost			
Profit before taxes and associates			
Net other trading income/(expenses) included in Trading operating profit	(169)	(273)	(74)
<i>of which impairment of assets other than goodwill</i>	(66)	(18)	(31)
<i>of which restructuring costs</i>	(43)	(21)	(12)
Assets			
Segment assets	11 561	23 081	13 806
Non-segment assets			
Total assets			
<i>of which goodwill and intangible assets</i>	2 304	9 831	4 561
Other information			
Capital additions	971	1 267	4 819
<i>of which capital expenditure</i>	871	1 102	1 142
Depreciation and amortisation of segment assets	(574)	(783)	(441)

(a) Mainly Nespresso, Nestlé Professional, Nestlé Health Science, Food and Beverages Joint Ventures and Pharma Joint Ventures managed on a worldwide basis.

(b) Refer to the Segment reporting section of Note 1 – Accounting policies for the definition of unallocated items.

(c) Inter-segment sales are not significant.

3. Analyses by segment (continued)

	Nestlé Waters	Nestlé Nutrition	Other ^(a)	Unallocated items ^(b)	Inter-segment eliminations	Total
	6 520	7 233	12 599			83 642
	520	1 443	2 119	(1 730)		12 538
	(5)	—	(2)	—		(16)
						(51)
						12 471
						(421)
						12 050
	(19)	(36)	(78)	(36)		(685)
	(8)	(18)	(9)	—		(150)
	(1)	(9)	(14)	—		(100)
	6 602	12 848	10 936	11 117	(2 140)	87 811
						26 280
						114 091
	1 720	6 486	4 438	9 024		38 364
	594	590	1 595	254		10 090
	407	477	537	243		4 779
	(474)	(198)	(338)	(117)		(2 925)

3. Analyses by segment (continued)

3.2 Products

In millions of CHF

	Powdered and Liquid Beverages	Water	Milk products and Ice cream
2010 (a)			
Revenues and results			
Sales	18 114	7 215	17 202
Trading operating profit	4 150	513	2 409
Impairment of goodwill	(2)	(204)	(1)
Net other operating income/(expenses) excluding impairment of goodwill			
Operating profit			
Net financing cost			
Profit before taxes and associates			
Net other trading income/(expenses) included in Trading operating profit	(179)	(157)	(213)
<i>of which impairment of assets other than goodwill</i>	(7)	(31)	(25)
<i>of which restructuring costs</i>	(44)	(83)	(67)
Assets	9 219	7 477	13 333
<i>of which goodwill and intangible assets</i>	432	1 959	4 579
Liabilities	3 693	1 894	3 466
2011			
Revenues and results			
Sales	18 204	6 526	16 406
Trading operating profit	4 129	520	2 251
Impairment of goodwill	(2)	(5)	(5)
Net other operating income/(expenses) excluding impairment of goodwill			
Operating profit			
Net financing cost			
Profit before taxes and associates			
Net other trading income/(expenses) included in Trading operating profit	(151)	(19)	(211)
<i>of which impairment of assets other than goodwill</i>	(35)	(8)	(37)
<i>of which restructuring costs</i>	(40)	(1)	(25)
Assets	9 770	6 640	13 496
<i>of which goodwill and intangible assets</i>	393	1 678	4 397
Liabilities	3 872	1 747	3 456

(a) 2010 comparatives have been restated following the changes in the Income Statement described in Note 1 – Accounting Policies.

(b) Include Pharmaceutical products, previously disclosed separately.

(c) Refer to the Segment reporting section of Note 1 – Accounting policies for the definition of unallocated items.

(d) Detailed information related to Alcon discontinued operations is disclosed in Note 2. In 2010, goodwill and intangible assets are included in Assets held for sale in the Balance Sheet, before being disposed of.

3. Analyses by segment (continued)

Nutrition and HealthCare ^(b)	Prepared dishes and cooking aids	Confectionery	PetCare	Unallocated items ^(c) and intra-group eliminations	Total continuing operations	Pharma discontinued operations ^(c)	Total
10 098	14 899	9 735	10 643		87 906	5 109	93 015
1 906	1 884	1 443	2 176	(1 805)	12 676	2 156	14 832
(105)	(19)	(4)	(2)	—	(337)	—	(337)
					(196)	24 521	24 325
					12 143	26 677	38 820
					(762)	9	(753)
					11 381	26 686	38 067
(135)	(344)	(224)	(88)	(22)	(1 362)	—	(1 362)
(38)	(62)	(31)	—	—	(194)	—	(194)
(35)	(178)	(42)	(14)	(6)	(469)	—	(469)
16 669	12 995	6 112	14 510	974	81 289	4 370	85 659
10 038	6 285	850	9 956	2 389	36 488	2 131	38 619
2 939	2 901	2 181	1 509	(2 388)	16 195	701	16 896
9 744	13 933	9 065	9 764		83 642		83 642
1 820	2 016	1 524	2 008	(1 730)	12 538		12 538
—	—	(4)	—	—	(16)		(16)
					(51)		(51)
					12 471		12 471
					(421)		(421)
					12 050		12 050
(55)	(69)	(136)	(8)	(36)	(685)		(685)
(20)	(18)	(30)	(2)	—	(150)		(150)
(16)	(9)	(11)	2	—	(100)		(100)
16 837	12 922	6 482	13 569	911	80 627		80 627
9 762	6 308	1 023	9 141	2 184	34 886		34 886
2 959	2 703	2 034	1 514	(2 614)	15 671		15 671

3. Analyses by segment (continued)

3.3 Customers

There is no single customer amounting to 10% or more of Group's revenues.

3.4 Geography (top ten countries and Switzerland)

In millions of CHF	2011		2010	
	Sales	Non-current assets ^(a)	Sales ^(b)	Non-current assets ^(a)
USA	21 474	17 115	24 075	16 661
France	5 646	1 722	5 958	1 727
Brazil	5 418	1 242	5 602	1 228
Germany	3 444	1 356	3 656	1 406
Mexico	2 962	596	3 005	612
United Kingdom	2 678	877	2 900	900
Greater China Region	2 509	4 298	2 173	578
Italy	2 273	895	2 397	960
Australia	2 101	1 080	2 070	1 030
Canada	2 017	452	2 139	438
Switzerland ^(c)	1 799	2 636	1 750	2 480
Rest of the world and unallocated items	31 321	30 066	32 181	28 177
Total continuing operations	83 642	62 335	87 906	56 197
Discontinued operations			5 109	
Total	83 642	62 335	93 015	56 197

(a) Relate to property, plant and equipment, intangible assets and goodwill.

(b) 2010 comparatives have been restated following the changes in the Income Statement described in Note 1 – Accounting Policies.

(c) Country of domicile of Nestlé S.A.

The analysis of sales by geographic area is stated by customer location.

4. Net other trading and operating income/(expenses)

4.1 Net other trading income/(expenses)

In millions of CHF	Notes	2011	2010 ^(a)
Profit on disposal of property, plant and equipment		18	41
Miscellaneous trading income		33	127
Other trading income		51	168
Loss on disposal of property, plant and equipment		(15)	(9)
Restructuring costs		(100)	(469)
Impairment of assets other than goodwill	7/9	(150)	(194)
Litigations and onerous contracts ^(b)		(341)	(584)
Miscellaneous trading expenses		(130)	(274)
Other trading expenses		(736)	(1 530)
Net other trading income/(expenses) of continuing operations		(685)	(1 362)
Net other trading income/(expenses) of discontinued operations ^(c)			—
Total net other trading income/(expenses)		(685)	(1 362)

(a) 2010 comparatives have been restated following the changes in the Income Statement described in Note 1 – Accounting Policies.

(b) It relates mainly to numerous separate legal cases (for example labour, civil and tax litigations) as well as several separate onerous contracts, predominantly in Latin America.

(c) Detailed information related to Alcon discontinued operations is disclosed in Note 2.

4.2 Net other operating income/(expenses)

In millions of CHF	Notes	2011	2010 ^(a)
Profit on disposal of businesses	2	4	10
Miscellaneous operating income		108	28
Other operating income		112	38
Loss on disposal of businesses	2	(7)	(13)
Impairment of goodwill	8	(16)	(337)
Miscellaneous operating expenses		(156)	(221)
Other operating expenses		(179)	(571)
Net other operating income/(expenses) of continuing operations		(67)	(533)
Net other operating income/(expenses) of discontinued operations ^(b)			24 521
Total net other operating income/(expenses)		(67)	23 988

(a) 2010 comparatives have been restated following the changes in the Income Statement described in Note 1 – Accounting Policies.

(b) Detailed information related to Alcon discontinued operations is disclosed in Note 2.

5. Inventories

In millions of CHF	2011	2010
Raw materials, work in progress and sundry supplies	3 904	3 243
Finished goods	5 488	4 812
Allowance for write-down at net realisable value	(137)	(130)
	9 255	7 925

Inventories amounting to CHF 227 million (2010: CHF 169 million) are pledged as security for financial liabilities.

6. Trade and other receivables

6.1 By type

In millions of CHF	2011	2010
Trade receivables	9 541	8 899
Other receivables	3 799	3 184
	13 340	12 083

The five major customers represent 9% (2010: 9%) of trade and other receivables, none of them exceeding 5% (2010: 4%).

6.2 Past due and impaired receivables

In millions of CHF	2011	2010
Not past due	11 326	10 522
Past due 1–30 days	1 119	742
Past due 31–60 days	353	273
Past due 61–90 days	100	121
Past due 91–120 days	90	107
Past due more than 120 days	724	727
Allowance for doubtful receivables	(372)	(409)
	13 340	12 083

6.3 Allowance for doubtful receivables

In millions of CHF	2011	2010
At 1 January	409	451
Currency retranslations	(15)	(52)
Allowance made during the year	59	94
Amounts used and reversal of unused amounts	(81)	(84)
At 31 December	372	409

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

7. Property, plant and equipment

In millions of CHF

	Land and buildings	Machinery and equipment	Tools, furniture and other equipment	Vehicles	Total
Gross value					
At 1 January 2010	12 931	25 562	7 717	876	47 086
Currency retranslations	(961)	(2 722)	(670)	(95)	(4 448)
Capital expenditure ^(a)	872	2 468	893	151	4 384
Disposals	(137)	(688)	(541)	(65)	(1 431)
Reclassified as held for sale	(48)	(31)	(5)	—	(84)
Modification of the scope of consolidation	148	186	(9)	2	327
At 31 December 2010	12 805	24 775	7 385	869	45 834
Currency retranslations	(104)	(719)	(187)	(21)	(1 031)
Capital expenditure ^(a)	1 022	2 643	950	164	4 779
Disposals	(140)	(624)	(507)	(65)	(1 336)
Reclassified as held for sale	—	5	1	—	6
Modification of the scope of consolidation	526	392	86	14	1 018
At 31 December 2011	14 109	26 472	7 728	961	49 270
Accumulated depreciation and impairments					
At 1 January 2010	(5 014)	(14 596)	(5 384)	(493)	(25 487)
Currency retranslations	434	1 461	512	52	2 459
Depreciation	(370)	(1 319)	(765)	(98)	(2 552)
Impairments	(38)	(131)	(17)	—	(186)
Disposals	107	641	492	56	1 296
Reclassified as held for sale	30	29	4	—	63
Modification of the scope of consolidation	—	1	10	—	11
At 31 December 2010	(4 851)	(13 914)	(5 148)	(483)	(24 396)
Currency retranslations	76	286	125	14	501
Depreciation	(341)	(1 263)	(728)	(90)	(2 422)
Impairments	(51)	(81)	(17)	(1)	(150)
Disposals	99	525	490	56	1 170
Reclassified as held for sale	—	(5)	(1)	—	(6)
Modification of the scope of consolidation	—	3	1	—	4
At 31 December 2011	(5 068)	(14 449)	(5 278)	(504)	(25 299)
Net at 31 December 2010	7 954	10 861	2 237	386	21 438
Net at 31 December 2011	9 041	12 023	2 450	457	23 971

(a) Including borrowing costs.

At 31 December 2011, property, plant and equipment include CHF 1267 million of assets under construction (2010: CHF 802 million). Net property, plant and equipment held under finance leases amount to CHF 194 million (2010: CHF 240 million). Net property, plant and equipment of CHF 323 million are pledged as security for financial liabilities (2010: CHF 112 million). Fire risks, reasonably estimated, are insured in accordance with domestic requirements.

7. Property, plant and equipment (continued)

Impairment

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

Commitments for expenditure

At 31 December 2011, the Group was committed to expenditure amounting to CHF 734 million (2010: CHF 624 million).

8. Goodwill

In millions of CHF	Notes	2011	2010
Gross value			
At 1 January		29 003	29 282
Currency retranslations		(196)	(2 716)
Goodwill from acquisitions	2	2 144	2 437
At 31 December		30 951	29 003
Accumulated impairments			
At 1 January		(1 972)	(1 780)
Currency retranslations		45	145
Impairments		(16)	(337)
At 31 December		(1 943)	(1 972)
Net at 31 December		29 008	27 031

Goodwill impairment reviews have been conducted for more than 200 goodwill items allocated to some 50 Cash Generating Units (CGU).

Detailed results of the impairment tests are presented below for the three largest goodwill items, representing more than 50% of the net book value at 31 December 2011. For the purpose of the tests, they have been allocated to the following CGU: PetCare by geographical zone, Infant Nutrition, Frozen Pizza and Ice Cream USA. For each of the CGU, the recoverable amount is higher than its carrying amount. The recoverable amount has been determined based upon a value-in-use calculation. Deflated cash flow projections covering the next 50 years, discounted at a deflated pre-tax weighted average rate, 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.

8. Goodwill (continued)

8.1 PetCare

The goodwill related to the acquisition of Ralston Purina in 2001 is allocated for impairment tests purpose to three distinct CGU corresponding to the three operating segments that are covering geographically the PetCare business: Zone Europe, Zone Americas and Zone Asia, Oceania and Africa.

As at 31 December, the carrying amounts of the PetCare goodwill and intangible assets with indefinite useful life, expressed in various currencies, represent an equivalent of:

In millions of CHF	2011			2010		
	Total	of which Zone Europe	of which Zone Americas	Total	of which Zone Europe	of which Zone Americas
Goodwill	8 982	1 762	7 148	9 006	1 802	7 131
Intangible assets with indefinite useful life	197	—	158	197	—	158
	9 179	1 762	7 306	9 203	1 802	7 289

Assumptions

The main assumptions for the two most important CGU, PetCare Zone Europe and PetCare Zone Americas, were the following:

	Zone Europe	Zone Americas
Deflated pre-tax weighted average discount rate	6.5%	7.4%
Annual sales growth over the first ten-year period	between 3.0 and 6.4%	between 4.0 and 4.4%
Trading operating profit margin ^(a) evolution over the first ten-year period	steady improvement in a range of 20–40 basis points per year	stable

Assumptions used in the calculations are consistent with the expected long-term average growth rate of the PetCare businesses in the Zones concerned. The margin evolution is consistent with sales growth and portfolio rationalisation.

Sensitivity analyses

The key sensitivity for the impairment tests is the growth in sales and trading operating profit margin ^(a). For Zone Americas and Zone Europe, assuming no sales growth and no improvement in trading operating profit margin ^(a) over the entire period would not result in the carrying amount exceeding the recoverable amount. An increase of 100 basis points in the discount rate assumption would not change the conclusions of the impairment tests.

(a) Before net other trading income/(expenses).

8.2 Infant Nutrition

Goodwill and intangible assets with indefinite useful life related to the 2007 acquisition of Gerber have been allocated for the impairment test to the CGU of the Infant Nutrition businesses on a worldwide basis. As at 31 December 2011, the carrying amounts, expressed in various currencies, represent an equivalent of CHF 3580 million (2010: CHF 3557 million) for the goodwill and CHF 1250 million (2010: CHF 1248 million) for the intangible assets with indefinite useful life.

Assumptions

A deflated pre-tax weighted average discount rate of 7.8% was used in this calculation.

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

- sales: annual growth between 4.7 and 7.0% for North America over the first ten-year period, and between 4.5 and 6.0% for the rest of the world over the first six-year period and flat thereafter;
- trading operating profit margin ^(a) evolution: steadily improving trading operating profit margin ^(a) over the first six-year period, in a range of 20 to 60 basis points per year and then declining or stable from a range of –10 to 0 basis points per year from year seven to ten.

Sensitivity analyses

The key sensitivity for the impairment test is the growth in sales and trading operating profit margin ^(a). Assuming no sales growth and no improvement in trading operating profit margin ^(a) over the entire period would not result in the carrying amount exceeding the recoverable amount. An increase of 100 basis points in the discount rate assumption would not change the conclusions of the impairment test.

8.3 Frozen Pizza and 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) and related to the acquisition in March 2010 of the Kraft Food's frozen pizza business in the USA have been allocated to the CGU Frozen Pizza and Ice Cream USA. As at 31 December 2011, the carrying amounts, expressed in USD, represent an equivalent of CHF 4274 million (2010: CHF 4263 million) for the goodwill and CHF 1683 million (2010: CHF 1679 million) for the intangible assets with indefinite useful life.

Assumptions

A deflated pre-tax weighted average discount rate of 7.2% was used in this calculation.

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

- sales: annual growth between 3.9 and 5.1% over the first ten-year period;
- trading operating profit margin ^(a) evolution: steadily improving trading operating profit margin ^(a) over the first four-year period, in a range of 110 to 210 basis points per year and then from a range of 30 to 70 basis points per year from year five to ten.

Sensitivity analyses

The key sensitivity for the impairment test is the growth in sales and trading operating profit margin ^(a). Assuming no sales growth and no trading operating profit margin ^(a) improvement after the first five-year period would not result in the carrying amount exceeding the recoverable amount. An increase of 90 basis points in the discount rate assumption would not change the conclusions of the impairment test.

(a) Before net other trading income/(expenses).

9. Intangible assets

In millions of CHF

	Brands and intellectual property rights	Operating rights and others	Management information systems	Total	of which internally generated
Gross value					
At 1 January 2010	4 662	959	4 034	9 655	3 696
of which indefinite useful life	4 100	—	—	4 100	—
Currency retranslations	(494)	(97)	(341)	(932)	(300)
Expenditure	6	124	119	249	94
Disposals	—	(14)	(20)	(34)	—
Modification of the scope of consolidation	2 057	78	(5)	2 130	(4)
At 31 December 2010	6 231	1 050	3 787	11 068	3 486
of which indefinite useful life ^(a)	5 689	—	—	5 689	—
Currency retranslations	23	(14)	(87)	(78)	(85)
Expenditure	13	113	121	247	97
Disposals	—	(104)	(2)	(106)	(2)
Modification of the scope of consolidation	1 846	51	(2)	1 895	(2)
At 31 December 2011	8 113	1 096	3 817	13 026	3 494
of which indefinite useful life ^(a)	7 272	—	—	7 272	—
Accumulated amortisation and impairments					
At 1 January 2010	(256)	(288)	(2 453)	(2 997)	(2 190)
Currency retranslations	11	35	216	262	183
Amortisation	(30)	(79)	(521)	(630)	(506)
Impairments	(8)	—	—	(8)	—
Disposals	—	11	19	30	—
Modification of the scope of consolidation	—	—	3	3	3
At 31 December 2010	(283)	(321)	(2 736)	(3 340)	(2 510)
Currency retranslations	1	(1)	65	65	63
Amortisation	(44)	(67)	(392)	(503)	(371)
Disposals	—	104	2	106	2
Modification of the scope of consolidation	—	—	2	2	2
At 31 December 2011	(326)	(285)	(3 059)	(3 670)	(2 814)
Net at 31 December 2010	5 948	729	1 051	7 728	976
Net at 31 December 2011	7 787	811	758	9 356	680

(a) Yearly impairment tests are performed together with goodwill items (refer to Note 8).

Internally generated intangible assets consist mainly of management information systems.

Commitments for expenditure

At 31 December 2011, the Group was committed to expenditure amounting to CHF 35 million (2010: CHF 36 million).

10. Employee benefits

Salaries and welfare expenses

The Group's total salaries and welfare expenses (continuing operations) amount to CHF 13 643 million (2010: CHF 14 738 million). They are allocated to the appropriate headings of expenses by function.

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.

Post-employment medical benefits and other employee benefits

Group companies, principally in the Americas, 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.

10.1 Reconciliation of assets and liabilities recognised in the balance sheet

In millions of CHF			2011	2010	2009	2008	2007
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Total	Total	Total	Total
Present value of funded obligations	22 733	69	22 802	21 394	22 006	19 139	23 098
Fair value of plan assets	(19 526)	(42)	(19 568)	(19 852)	(19 545)	(17 228)	(24 849)
Excess of liabilities/(assets) over funded obligations	3 207	27	3 234	1 542	2 461	1 911	(1 751)
Present value of unfunded obligations	650	2 007	2 657	2 499	2 334	2 337	2 693
Unrecognised past service cost of non-vested benefits	(12)	21	9	9	(18)	7	5
Unrecognised assets and minimum funding requirements	81	—	81	35	62	91	1 171
Defined benefits net liabilities/(assets)	3 926	2 055	5 981	4 085	4 839	4 346	2 118
Liabilities from defined contribution plans and non-current deferred compensation			937	943	1 081	960	1 369
Liabilities from cash-settled share-based transactions ^(a)			60	86	99	98	165
Net liabilities			6 978	5 114	6 019	5 404	3 652
Reflected in the balance sheet as follows:							
Employee benefits assets			(127)	(166)	(230)	(60)	(1 513)
Employee benefits liabilities			7 105	5 280	6 249	5 464	5 165
Net liabilities			6 978	5 114	6 019	5 404	3 652

(a) The intrinsic value of liabilities from cash-settled share-based transactions that are vested amounts to CHF 31 million (2010: CHF 42 million; 2009: CHF 29 million; 2008: CHF 34 million; 2007: CHF 72 million).

10. Employee benefits (continued)

10.2 Movement in fair value of defined benefit plan assets

In millions of CHF	2011			2010		
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total
At 1 January	(19 805)	(47)	(19 852)	(19 443)	(102)	(19 545)
Currency retranslations	217	2	219	1 521	14	1 535
Expected return on plan assets	(1 328)	(2)	(1 330)	(1 348)	(3)	(1 351)
Employees' contributions	(117)	—	(117)	(120)	—	(120)
Employer contributions	(524)	(4)	(528)	(819)	(6)	(825)
Actuarial (gains)/losses	1 025	1	1 026	(609)	(1)	(610)
Benefits paid on funded defined benefit schemes	1 005	7	1 012	1 080	8	1 088
Reclassified as held for sale	—	—	—	109	—	109
Transfer (from)/to defined contribution plans	1	1	2	(176)	43	(133)
At 31 December	(19 526)	(42)	(19 568)	(19 805)	(47)	(19 852)

The plan assets include property occupied by affiliated companies with a fair value of CHF 13 million (2010: CHF 13 million) and assets loaned to affiliated companies with a fair value of CHF 34 million (2010: CHF 24 million). The actual return on plan assets is positive in 2011 by CHF 304 million (2010: positive by CHF 1961 million). The Group expects to contribute CHF 622 million to its funded defined benefit schemes in 2012.

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

At 31 December	2011	2010
Equities	36%	39%
Bonds	32%	32%
Real estate	7%	6%
Alternative investments	21%	20%
Cash/Deposits	4%	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.

10. Employee benefits (continued)

10.3 Movement in the present value of defined benefit obligations

In millions of CHF	2011			2010		
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total
At 1 January	21 936	1 957	23 893	22 471	1 869	24 340
of which funded defined benefit schemes	21 320	74	21 394	21 863	143	22 006
of which unfunded defined benefit schemes	616	1 883	2 499	608	1 726	2 334
Currency retranslations	(231)	(65)	(296)	(1 672)	(186)	(1 858)
Current service cost	632	73	705	640	74	714
Interest cost	972	114	1 086	1 097	116	1 213
Early retirements, curtailments and settlements	(11)	(2)	(13)	(66)	(7)	(73)
Past service cost of vested benefits	(103)	(110)	(213)	4	(2)	2
Past service cost of non-vested benefits	1	(3)	(2)	(1)	(24)	(25)
Actuarial (gains)/losses	1 200	230	1 430	543	197	740
Benefits paid on funded defined benefit schemes	(1 005)	(7)	(1 012)	(1 080)	(8)	(1 088)
Benefits paid on unfunded defined benefit schemes	(35)	(115)	(150)	(46)	(131)	(177)
Reclassified as held for sale	—	—	—	(152)	—	(152)
Modification of the scope of consolidation	30	1	31	—	16	16
Transfer from/(to) defined contribution plans	(3)	3	—	198	43	241
At 31 December	23 383	2 076	25 459	21 936	1 957	23 893
of which funded defined benefit schemes	22 733	69	22 802	21 320	74	21 394
of which unfunded defined benefit schemes	650	2 007	2 657	616	1 883	2 499

10.4 Actuarial gains/(losses) of defined benefit schemes recognised in other comprehensive income

In millions of CHF	2011			2010	2009	2008	2007
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Total	Total	Total	Total
Experience adjustments on plan assets	(1 025)	(1)	(1 026)	610	744	(5 719)	421
Experience adjustments on plan liabilities	(154)	(99)	(253)	71	(303)	95	(297)
Change of assumptions on plan liabilities	(1 046)	(131)	(1 177)	(811)	(2 146)	1 471	955
Transfer from/(to) unrecognised assets and other	(47)	—	(47)	23	33	1 014	(806)
Actuarial gains/(losses) on defined benefit schemes	(2 272)	(231)	(2 503)	(107)	(1 672)	(3 139)	273

At 31 December 2011, the net cumulative actuarial losses on defined benefit schemes recognised in equity amount to CHF 7859 million (2010: CHF 5419 million).

10. Employee benefits (continued)

10.5 Expenses recognised in the income statement

In millions of CHF	2011			2010		
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total
Current service cost	632	73	705	640	74	714
Employee contributions	(117)	—	(117)	(120)	—	(120)
Interest cost	972	114	1 086	1 097	116	1 213
Expected return on plan assets	(1 328)	(2)	(1 330)	(1 348)	(3)	(1 351)
Early retirements, curtailments and settlements	(11)	(2)	(13)	(66)	(7)	(73)
Past service cost of vested benefits	(103)	(110)	(213)	4	(2)	2
Past service cost of non-vested benefits	1	(1)	—	2	2	4
Total defined benefit expenses	46	72	118	209	180	389
Total defined contribution expenses			240			259
Expenses from discontinued operations						117
Total			358			765

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

10.6 Principal financial actuarial assumptions

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

At 31 December	2011	2010
Discount rates		
Europe	3.5%	4.0%
Americas	5.7%	6.3%
Asia, Oceania and Africa	4.7%	5.2%
Expected long-term rates of return on plan assets		
Europe	6.0%	6.3%
Americas	8.8%	8.8%
Asia, Oceania and Africa	7.1%	7.4%
Expected rates of salary increases		
Europe	2.9%	3.1%
Americas	3.0%	3.0%
Asia, Oceania and Africa	3.6%	3.7%
Expected rates of pension adjustments		
Europe	1.8%	1.9%
Americas	0.9%	0.9%
Asia, Oceania and Africa	1.7%	2.0%
Medical cost trend rates		
Americas	7.0%	7.1%

10.7 Mortality tables and life expectancies for the major schemes

Country	Mortality table	Life expectancy at age 65 for a male member currently aged 65 (in years)		Life expectancy at age 65 for a female member currently aged 65 (in years)	
		2011	2010	2011	2010
At 31 December		2011	2010	2011	2010
Switzerland	LPP 2010	19.0	18.9	21.5	21.4
United Kingdom	S1NA 2008, CMI 2009	20.8	20.8	21.7	21.6
United States	RP-2000	19.1	19.0	21.0	20.9
Germany	Heubeck Richttafeln 1998	21.3	21.3	22.8	22.8
Netherlands	AG Prognosetafel 2010–2060	21.3	21.6	23.9	23.5

Life expectancy is reflected in the defined benefit obligations by using mortality tables of the country in which the plan is located. When those tables no longer reflect recent experience, they are adjusted by appropriate loadings.

10.8 Sensitivity analysis on medical cost trend rates

A one percentage point increase in assumed medical cost trend rates would increase the defined benefit obligations by CHF 143 million and increase the aggregate of current service cost and interest cost by CHF 14 million.

A one percentage point decrease in assumed medical cost trend rates would decrease the defined benefit obligations by CHF 115 million and decrease the aggregate of current service cost and interest cost by CHF 11 million.

11. Equity compensation plans

Select Group employees are eligible to receive long-term incentives in the form of equity compensation plans. Members of the Executive Board are entitled to Management Stock Option Plan (MSOP) and Performance Share Unit Plan (PSUP), whereas members of Group Management are entitled to Restricted Stock Unit Plans (RSUP) or Share Appreciation Rights (SAR).

Equity compensation plans are settled either by remittance of Nestlé S.A. shares (accounted for as equity-settled share-based payment transactions) or by the payment of an equivalent amount in cash (accounted for as cash-settled share-based payment transactions).

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

In millions of CHF	2011	2010
Equity-settled share-based payment costs	158	158
Cash-settled share-based payment costs	21	46
Total share-based payment costs from continuing operations	179	204
Total share-based payment costs from discontinued operations		39
Total share-based payment costs	179	243

11. Equity compensation plans (continued)

The share-based payment costs from continuing operations are composed of the following plans:

In millions of CHF	2011	2010
RSUP	166	180
MSOP	9	9
PSUP	8	5
SAR	(4)	10
Total share-based payment costs from continuing operations	179	204

11.1 Restricted Stock Unit Plan (RSUP)

Members of Group Management are awarded Restricted Stock Units (RSU) that entitle participants to receive freely disposable Nestlé S.A. shares (accounted for as equity-settled share-based payment transactions) or an equivalent amount in cash (accounted for as cash-settled share-based payment transactions) at the end of a three-year restriction period.

Number of RSU in millions of units	2011	2010
Outstanding at 1 January	10.7	11.1
Granted	3.5	3.5
Settled	(3.4)	(3.8)
Forfeited	(0.2)	(0.1)
Outstanding at 31 December	10.6	10.7
of which vested at 31 December	0.5	0.5
of which cash-settled at 31 December	1.4	1.4

The fair value of equity-settled RSU is determined on the basis of the market price of Nestlé S.A. shares at grant date, discounted at a risk-free interest rate and adjusted for the dividends that participants are not entitled to receive during the restricted period of three years. The weighted average fair value of the equity-settled RSU granted in 2011 is CHF 48.75 (2010: CHF 50.74).

For cash-settled outstanding RSU, the liability is re-measured at each reporting date based on subsequent changes in the market price of Nestlé S.A. shares. The average fair value of the cash-settled RSU outstanding at 31 December 2011 is CHF 52.23 (2010: CHF 53.43).

11.2 Management Stock Option Plan (MSOP)

Members of Executive Board are awarded Management Stock Option Plan (MSOP) that provides non-tradable options on Nestlé S.A. shares (accounted for as equity-settled share-based payment transactions). Each option gives the right to purchase at the exercise price one Nestlé S.A. share. The stock options vest three years after the grant. Upon vesting, the options have an exercise period of four years before they expire.

11. Equity compensation plans (continued)

The weighted average exercise price (in CHF) and the number of options (in millions of units) are the following:

	2011	2010	2011	2010
	Weighted average exercise price	Weighted average exercise price	Number of options	Number of options
Outstanding at 1 January	42.16	35.37	8.3	15.4
Granted	52.58	53.29	1.4	1.6
Exercised	32.85	32.12	(1.8)	(8.7)
Forfeited	—	—	—	—
Outstanding at 31 December	46.25	42.16	7.9	8.3
of which exercisable at 31 December	43.38	37.10	2.7	3.7

At 31 December 2011, the exercise prices of the outstanding options range from CHF 30.92 to CHF 53.29 and their weighted average remaining contractual life is 4 years. Those options can be divided as follows: 0.8 million options are exercisable at prices ranging from CHF 30.92 to CHF 40.– with a weighted average remaining contractual life of 1 year, 4.1 million at prices ranging from CHF 40.– to CHF 50.– with a weighted average remaining contractual life of 3.4 years and 3 million at prices ranging from CHF 50.– to CHF 53.29 with a remaining contractual life of 5.6 years.

The fair value of the options granted in 2011 is CHF 5.54 (2010: CHF 6.70) and was estimated using a Black and Scholes model. The inputs to the model at grant date were as follows:

	2011	2010
Market price of Nestlé S.A. shares (in CHF)	52.60	53.85
Exercise price (in CHF)	52.58	53.29
Expected volatility	18.42%	19.05%
Expected dividend yield	3.52%	2.97%
Risk-free interest rate	1.59%	1.54%
Grant date	03/03/2011	05/03/2010
Expiry date	02/03/2018	04/03/2017

The exercise price corresponds to the average market price of Nestlé S.A. shares of the last ten trading days preceding the grant date. The expected volatility is based upon historical volatility of the market price of Nestlé S.A. shares and adjusted for any expected changes to future volatility due to publicly available information.

In 2011, the weighted average market price of Nestlé S.A. shares at the date of exercise was CHF 52.86 (2010: CHF 53.43).

11. Equity compensation plans (continued)

11.3 Performance Share Unit Plan (PSUP)

Members of the Executive Board are also awarded Performance Share Unit Plan (PSUP) that provides units (PSU) which entitle participants to receive freely disposable Nestlé S.A. shares (accounted for as equity-settled share-based payment transactions) at the end of a three-year restriction period. Upon vesting, the number of shares delivered ranges from 0% to 200% of the initial grant and is determined by the degree by which the performance measure of the PSUP has been met. The performance measure is the relative Total Shareholder Return of the Nestlé S.A. share compared to the STOXX Europe 600 Food & Beverage Index.

Number of PSU in millions of units	2011	2010
Outstanding at 1 January	0.3	0.2
Granted	0.1	0.1
Settled	—	—
Forfeited	(0.1)	—
Outstanding at 31 December	0.3	0.3

The fair value of the PSU granted in 2011 is CHF 53.63 (2010: CHF 55.81) and was estimated at the grant date using a Monte Carlo simulation approach. The inputs incorporated into the valuation model comprise the market price of Nestlé S.A. shares at grant date, a risk-free interest rate and the expected dividends that participants are not entitled to receive during the restricted period of three years.

11.4 Share Appreciation Rights (SAR)

Key members of Management of some US affiliates are awarded Share Appreciation Rights (SAR). Those plans give the 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 (accounted for as cash-settled share-based payment transactions).

The weighted average exercise price (in CHF) and the number of SAR (in millions of units) are the following:

	2011	2010	2011	2010
	Weighted average exercise price	Weighted average exercise price	Number of SAR	Number of SAR
Outstanding at 1 January	29.70	29.27	0.6	1.9
Granted	—	—	—	—
Exercised	28.39	29.99	(0.5)	(1.3)
Forfeited	—	—	—	—
Outstanding at 31 December	29.69	29.70	0.1	0.6
of which exercisable at 31 December	29.69	29.70	0.1	0.6

The rights outstanding at 31 December 2011 expire at the beginning of 2012. In 2011, the weighted average market price of Nestlé S.A. shares at the date of exercise was CHF 51.70 (2010: CHF 52.88).

12. Provisions and contingencies

12.1 Provisions

In millions of CHF

	Restructuring	Environmental	Litigation	Other	Total
At 1 January 2010	730	30	2 694	411	3 865
Currency retranslations	(115)	1	(183)	(35)	(332)
Provisions made during the year ^(a)	433	6	633	280	1 352
Amounts used	(224)	(3)	(242)	(126)	(595)
Unused amounts reversed	(26)	(5)	(131)	(25)	(187)
Modification of the scope of consolidation	—	—	2	6	8
At 31 December 2010	798	29	2 773	511	4 111
of which expected to be settled within 12 months					601
Currency retranslations	(33)	—	(39)	(16)	(88)
Provisions made during the year ^(a)	115	5	194	162	476
Amounts used	(187)	(5)	(85)	(146)	(423)
Unused amounts reversed	(61)	(2)	(327)	(34)	(424)
Modification of the scope of consolidation	—	—	18	—	18
At 31 December 2011	632	27	2 534	477	3 670
of which expected to be settled within 12 months					576

(a) Including discounting of provisions (refer Note 13).

Restructuring

Restructuring provisions arise from a number of projects across the Group. These include plans to optimise production, sales and administration structures, mainly in Europe. Restructuring provisions are expected to result in future cash outflows when implementing the plans (usually over the following two to three years).

Litigation

Litigation provisions have been set up to cover tax, legal and administrative proceedings that arise in the ordinary course of the business. These provisions cover numerous separate cases whose detailed disclosure could be detrimental to the Group interests. The Group does not believe that any of these litigation proceedings will have a material adverse impact on its financial position. The timing of outflows is uncertain as it depends upon the outcome of the proceedings. In that instance, these provisions are 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 and various damage claims having occurred during the year but not covered by insurance companies. Onerous contracts result from unfavourable leases, breach of contracts or supply agreements above market prices in which the unavoidable costs of meeting the obligations under the contracts exceed the economic benefits expected to be received or for which no benefits are expected to be received.

12. Provisions and contingencies (continued)

12.2 Contingencies

The Group is exposed to contingent liabilities amounting to a maximum potential payment of CHF 1363 million (2010: CHF 1121 million) representing potential litigations of CHF 1344 million (2010: CHF 1110 million) and other items of CHF 19 million (2010: CHF 11 million). Potential litigations relate mainly to labour, civil and tax litigations in Latin America.

Contingent assets for litigation claims in favour of the Group amount to a maximum potential recoverable of CHF 281 million (2010: CHF 247 million).

13. Net financing cost and financial instruments

13.1 Net financing cost

In millions of CHF	2011	2010
Interest income	87	58
Gains on investments at fair value to income statement	28	14
Financial income	115	72
Interest expense	(527)	(828)
Unwind of the discount on provisions	(9)	(6)
Financial expense	(536)	(834)
Net financing cost of continuing operations	(421)	(762)
Net financing cost of discontinued operations		9
Total net financing cost	(421)	(753)

13. Net financing cost and financial instruments (continued)

13.2 Financial assets and liabilities

13.2a By class and by category

Classes	2011				2010			
	Loans, Receivables and Liabilities at amortised cost ^(a)	Held for trading	Available for sale	Total categories	Loans, Receivables and Liabilities at amortised cost ^(a)	Held for trading	Available for sale	Total categories
Cash at bank and in hand	3 591			3 591	2 460			2 460
Commercial paper and bills			474	474			11 259	11 259
Time deposits			2 085	2 085			1 958	1 958
Trading portfolios		553		553		542		542
Bonds			1 274	1 274				—
Other financial assets – current			11	11			27	27
Liquid assets ^(b)	3 591	553	3 844	7 988	2 460	542	13 244	16 246
Trade and other receivables	13 340			13 340	12 083			12 083
Bonds			3 026	3 026			3 522	3 522
Equity instruments			1 737	1 737			1 138	1 138
Other financial assets – non-current	438		1 960	2 398	289		1 417	1 706
Financial assets – non-current	438		6 723	7 161	289		6 077	6 366
Derivative assets ^(c)		731		731		1 011		1 011
Total financial assets	17 369	1 284	10 567	29 220	14 832	1 553	19 321	35 706
Trade and other payables	(15 703)			(15 703)	(13 845)			(13 845)
Financial debt	(22 307)			(22 307)	(20 100)			(20 100)
Derivative liabilities ^(c)		(646)		(646)		(456)		(456)
Total financial liabilities	(38 010)	(646)	—	(38 656)	(33 945)	(456)	—	(34 401)
Net financial position	(20 641)	638	10 567	(9 436)	(19 113)	1 097	19 321	1 305
of which at fair value		638	10 567	11 205		1 097	19 321	20 418

(a) Carrying amount of these instruments is a reasonable approximation of their fair value. For bonds included in financial debt, see section 13.2c.

(b) Liquid assets are composed of cash and cash equivalents (CHF 4938 million) and short-term investments (CHF 3050 million).

(c) Include derivatives that are undesignated and under hedge accounting.

13. Net financing cost and financial instruments (continued)

13.2b Fair value hierarchy of financial instruments

In millions of CHF	2011	2010
Trading portfolios	551	445
Derivative assets	18	102
Bonds	2 366	1 940
Equity instruments	1 433	1 102
Other financial assets	405	342
Derivative liabilities	(244)	(70)
Prices quoted in active markets (Level 1)	4 529	3 861
Commercial paper and bills	474	11 259
Time deposits	2 085	1 958
Derivative assets	713	909
Bonds	1 908	1 557
Other financial assets	1 313	694
Derivative liabilities	(402)	(386)
Valuation techniques based on observable market data (Level 2)	6 091	15 991
Other financial assets	585	566
Valuation techniques based on unobservable input (Level 3)	585	566
Total financial instruments at fair value	11 205	20 418

There have been no significant transfers between the different hierarchy levels in 2011.

13. Net financing cost and financial instruments (continued)

13.2c Bonds

In millions of CHF

2011

2010

Issuer	Face value in millions	Coupon	Effective interest rate	Year of issue/ maturity	Comments	Carrying amount	
Nestlé Holdings, Inc., USA	USD 500	4.75%	4.90%	2007–2011		470	
	AUD 600	7.25%	7.63%	2008–2011		576	
	CHF 300	2.25%	2.30%	2008–2011		301	
	NOK 1000	5.00%	5.55%	2008–2011		161	
	USD 750	4.00%	3.87%	2008–2011		711	
	CHF 675	3.00%	2.86%	2007–2012	(a)	687	699
	AUD 350	6.00%	6.24%	2009–2013	(b)	333	334
	CHF 450	2.50%	2.57%	2006–2013	(c)	468	472
	USD 275	2.00%	2.26%	2009–2013	(d)	259	259
	USD 550	2.13%	2.13%	2010–2014		517	516
	CHF 250	2.63%	2.66%	2007–2018	(c)	276	264
	AUD 275	5.50%	5.69%	2011–2016	(c)	270	
	USD 200	2.00%	2.06%	2011–2016		188	
	NOK 1000	3.38%	3.59%	2011–2016	(c)	156	
Nestlé Purina PetCare Company, USA	USD 48	7.75%	6.25%	1995–2015		47	47
	USD 63	9.30%	6.46%	1991–2021		71	72
	USD 79	8.63%	6.46%	1992–2022		86	87
	USD 44	8.13%	6.47%	1993–2023		47	47
	USD 51	7.88%	6.45%	1995–2025		54	54
Nestlé Finance International Ltd, Luxembourg	CHF 1075	1.25%	1.40%	2009–2012	(e)	1 076	1 078
	CHF 1200	2.00%	2.04%	2009–2013	(f)	1 199	1 199
	CHF 425	2.00%	2.03%	2009–2014	(f)	425	425
	CHF 275	2.13%	2.13%	2009–2014	(f)	275	275
	AUD 450	5.75%	5.81%	2010–2014	(c)	444	431
	NOK 1250	2.50%	2.73%	2010–2014	(c)	192	200
Other bonds	CHF 350	2.13%	2.20%	2009–2015	(f)	349	349
Total						7 509	9 034
of which due within one year						1 788	2 218
of which due after one year						5 721	6 816

13. Net financing cost and financial instruments (continued)

The fair value of bonds amounts to CHF 7866 million (2010: CHF 9358 million). This value includes accrued interest of CHF 88 million (2010: CHF 153 million).

Most of the bonds are hedged by currency and/or interest derivatives. The fair value of these derivatives is shown under derivative assets for CHF 544 million (2010: CHF 832 million) and under derivative liabilities for CHF 7 million (2010: CHF 11 million).

(a) This bond is composed of:

- CHF 200 million issued in 2007 subject to an interest rate and currency swap that creates a liability at floating rates in the currency of the issuer;
- CHF 150 million issued in 2008 subject to an interest rate and currency swap that creates a liability at fixed rates in the currency of the issuer; and
- CHF 325 million issued in 2008 subject to an interest rate and currency swap that creates a liability at floating rates in the currency of the issuer.

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

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

(d) This bond is composed of:

- USD 150 million issued in 2009; and
- USD 125 million issued in 2009 subject to an interest rate swap that creates a liability at floating rates in the currency of the issuer.

(e) This bond is composed of:

- CHF 525 million issued in 2009 subject to interest rate and currency swaps that create a liability at floating rates in the currency of the issuer; and
- CHF 550 million issued in 2009 subject to currency swaps that hedge the CHF face value exposure.

(f) Subject to currency swaps that hedge the CHF face value exposure.

13. Net financing cost and financial instruments (continued)

13.2d Derivative assets and liabilities

By type

In millions of CHF	2011			2010		
	Contractual or notional amounts	Fair value assets	Fair value liabilities	Contractual or notional amounts	Fair value assets	Fair value liabilities
Fair value hedges						
Currency forwards, futures and swaps	7 730	108	3	9 144	198	194
Interest rate forwards, futures and swaps	901	12	3	1 814	60	—
Interest rate and currency swaps	3 257	502	26	3 642	598	15
Cash flow hedges						
Currency forwards, futures, swaps and options	4 920	87	95	3 756	44	68
Interest rate forwards, futures and swaps	2 730	—	250	2 100	6	109
Commodity futures and options	1 935	17	237	910	82	26
Undesignated derivatives						
Currency forwards, futures, swaps and options	1 256	4	8	888	17	7
Interest rate and currency swaps	—	—	—	378	5	5
Interest rate forwards, futures, swaps and options	187	—	17	626	—	31
Commodity futures and options	8	1	7	8	1	1
	22 924	731	646	23 266	1 011	456

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 hedge accounting and are therefore classified as undesignated derivatives.

Impact on the income statement of fair value hedges

In millions of CHF	2011	2010
on hedged items	(82)	(1 005)
on hedging instruments	74	1 004

Ineffective portion of gains/(losses) of cash flow hedges and net investment hedges is not significant.

13.3 Financial risks

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

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

13.3a Credit risk

Credit risk management

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, non-current financial assets, derivative assets and trade receivable portfolios.

The Group sets credit limits based on a counterparty value computed with a probability of default. The methodology used to set the list of counterparty limits includes Enterprise Value (EV), counterparty Credit Ratings (CR) and Credit Default Swaps (CDS). Evolution of counterparties is monitored daily, taking into consideration EV, CR and CDS evolution. As a result of this daily review, changes on investment limits and risk allocation are carried out. The Group avoids the concentration of credit risk on its liquid assets by spreading them 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 (refer to Note 6). Nevertheless global commercial counterparties are constantly monitored following the same methodology used for financial counterparties.

The maximum exposure to credit risk resulting from financial activities, without considering netting agreements and without taking into account any collateral held or other credit enhancements, is equal to the carrying amount of the Group's financial assets.

13. Net financing cost and financial instruments (continued)

Credit rating of financial assets

This includes cash at bank and in hand, held for trading and available for sale financial assets.

In millions of CHF	2011	2010
Investment grade A– and above ^(a)	11 356	20 846
Investment grade BBB+, BBB and BBB–	1 881	1 728
Non-investment grade (BB+ and below)	171	80
Not rated ^(b)	2 034	680
	15 442	23 334

(a) 2010 includes Swiss National Bank bills which implicitly benefit from the AAA-rating of Switzerland.

(b) Mainly equity securities and other investments for which no credit rating is available.

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

13.3b Liquidity risk

Liquidity risk management

Liquidity risk arises when a company encounters difficulties to meet commitments associated with liabilities and other payment obligations. Such risk may result from inadequate market depth or disruption or refinancing problems. The Group's objective is to manage this risk by limiting exposures in instruments that may be affected by liquidity problems and by maintaining sufficient back-up facilities. The Group does not expect any refinancing issues and has successfully completed a EUR 4.5 billion one year revolving credit facility replacing an older facility of EUR 2 billion. The facility currently serves primarily as a backstop to its global commercial paper programme. In total, the Group's revolving credit facilities amount to EUR 9.5 billion.

13. Net financing cost and financial instruments (continued)

Maturity of financial instruments

In millions of CHF

2010

	In the first year	In the second year	In the third to the fifth year	After the fifth year	Contractual amount	Carrying amount
Cash at bank and in hand	2 460				2 460	2 460
Commercial paper and bills	11 259				11 259	11 259
Time deposits	1 958				1 958	1 958
Trade and other receivables	12 083				12 083	12 083
Trading portfolios	542				542	542
Other financial assets	27	1 227	1 099	2 617	4 970	4 970
	28 329	1 227	1 099	2 617	33 272	33 272
Financial investments without contractual maturities						1 423
Financial assets	28 329	1 227	1 099	2 617	33 272	34 695
Trade and other payables	(12 592)	(273)	(39)	(992)	(13 896)	(13 845)
Commercial paper ^(a)	(7 520)				(7 520)	(7 516)
Bonds ^(a)	(2 413)	(1 938)	(4 770)	(646)	(9 767)	(9 034)
Other financial debt	(3 292)	(283)	(256)	(265)	(4 096)	(3 550)
Total financial debt	(13 225)	(2 221)	(5 026)	(911)	(21 383)	(20 100)
Financial liabilities	(25 817)	(2 494)	(5 065)	(1 903)	(35 279)	(33 945)
Non-currency derivative assets	118	(1)	1	30	148	149
Non-currency derivative liabilities	(89)	(45)	(37)	25	(146)	(167)
Gross amount receivable from currency derivatives	15 765	1 182	1 528	270	18 745	18 596
Gross amount payable from currency derivatives	(15 671)	(988)	(1 254)	(290)	(18 203)	(18 023)
Net derivatives	123	148	238	35	544	555
Net financial position	2 635	(1 119)	(3 728)	749	(1 463)	1 305
of which derivatives under cash flow hedges ^(b)	(33)	(47)	(24)	55	(49)	(71)

(a) Commercial paper (liabilities) of CHF 6393 million and bonds of CHF 1305 million have maturities of less than three months.

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

13. Net financing cost and financial instruments (continued)

Maturity of financial instruments

In millions of CHF

2011

	In the first year	In the second year	In the third to the fifth year	After the fifth year	Contractual amount	Carrying amount
Cash at bank and in hand	3 591				3 591	3 591
Commercial paper and bills	474				474	474
Time deposits	2 085				2 085	2 085
Trade and other receivables	13 340				13 340	13 340
Trading portfolios	553				553	553
Other financial assets	1 285	1 228	366	2 468	5 347	5 348
	21 328	1 228	366	2 468	25 390	25 391
Financial investments without contractual maturities						3 098
Financial assets	21 328	1 228	366	2 468	25 390	28 489
Trade and other payables	(13 584)	(48)	(1 095)	(1 123)	(15 850)	(15 703)
Commercial paper ^(a)	(10 540)				(10 540)	(10 535)
Bonds ^(a)	(1 985)	(2 419)	(3 119)	(626)	(8 149)	(7 509)
Other financial debt	(3 931)	(195)	(170)	(228)	(4 524)	(4 263)
Total financial debt	(16 456)	(2 614)	(3 289)	(854)	(23 213)	(22 307)
Financial liabilities	(30 040)	(2 662)	(4 384)	(1 977)	(39 063)	(38 010)
Non-currency derivative assets	29	2	—	—	31	30
Non-currency derivative liabilities	(326)	(72)	(91)	(36)	(525)	(514)
Gross amount receivable from currency derivatives	14 869	960	1 152	263	17 244	17 058
Gross amount payable from currency derivatives	(14 644)	(758)	(1 004)	(196)	(16 602)	(16 489)
Net derivatives	(72)	132	57	31	148	85
Net financial position	(8 784)	(1 302)	(3 961)	522	(13 525)	(9 436)
of which derivatives under cash flow hedges ^(b)	(307)	(69)	(77)	(36)	(489)	(478)

(a) Commercial paper (liabilities) of CHF 7576 million and bonds of CHF 54 million have maturities of less than three months.

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

13. Net financing cost and financial instruments (continued)

13.3c Market risk

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

Foreign currency risk

Foreign currency risk management

The Group is exposed to foreign currency risk from transactions and translation. Transactional exposures are managed within a prudent and systematic hedging policy in accordance with the Group's specific business needs. Translation exposure arises from the consolidation of the financial statements of foreign operations in Swiss francs, which is, in principle, not hedged. The Group's objective is to manage its foreign currency exposure through the use of currency forwards, futures, swaps and options.

Exchange differences recorded in the income statement represented a loss of CHF 113 million in 2011 (2010: loss of CHF 380 million). They are allocated to the appropriate headings of expenses by function.

Financial instruments by currency

Transaction exposure arises because affiliated companies undertake transactions in foreign currencies.

In millions of CHF		2010						
		Currency of financial instruments						
		CHF	USD	EUR	GBP	CAD	Other	Total
Functional currencies	CHF		602	323	50	263	2	1 240
	USD	(23)		(10)	(5)	9	134	105
	EUR	58	(20)		84	(2)	19	139
	GBP	(10)	9	(67)		—	(1)	(69)
	Other exposed	(119)	(375)	(306)	(25)	—	(82)	(907)
	Total exposed	(94)	216	(60)	104	270	72	508
	Not exposed	5 041	3 002	(4 939)	(284)	(417)	(1 606)	797
	Total	4 947	3 218	(4 999)	(180)	(147)	(1 534)	1 305

In millions of CHF		2011						
		Currency of financial instruments						
		CHF	USD	EUR	GBP	CAD	Other	Total
Functional currencies	CHF		378	104	(78)	131	101	636
	USD	2		(28)	(5)	(50)	575	494
	EUR	(50)	24		(1)	(5)	7	(25)
	GBP	(12)	5	21		—	—	14
	Other exposed	(140)	(828)	(217)	(34)	(3)	(51)	(1 273)
	Total exposed	(200)	(421)	(120)	(118)	73	632	(154)
	Not exposed	1 447	(2 082)	(5 196)	(455)	(371)	(2 625)	(9 282)
	Total	1 247	(2 503)	(5 316)	(573)	(298)	(1 993)	(9 436)

13. Net financing cost and financial instruments (continued)

Interest rate risk

Interest risk management

Interest rate risk comprises the interest price risk that results from borrowings at fixed rates and the interest cash flow risk that results from borrowings at variable rates. The ALMC is responsible for setting the overall duration and interest management targets. The Group's objective is to manage its interest rate exposure through the use of interest rate forwards, futures and swaps.

Interest structure of non-current financial debt (including interest effects of derivatives)

In millions of CHF	2011	2010
Financial debt at fixed rates	2 042	2 712
Financial debt at variable rates	4 165	4 771
	6 207	7 483

Price risk

Commodity price risk

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

The Group's objective is to minimise the impact of commodity price fluctuations and this exposure is hedged in accordance with the commodity risk management policies set by the Board of Directors. The regional Commodity Purchasing Competence Centres are responsible for managing commodity price risk on the basis of internal directives and centrally determined limits. They ensure that the Group benefits from guaranteed financial hedges through the use of exchange traded commodity derivatives. The commodity price risk exposure of anticipated future purchases is managed using a combination of derivatives (futures and options) and executory contracts (differentials and ratios). The vast majority of these contracts are for physical delivery, while cash-settled contracts are treated as undesignated derivatives. As a result of the short product business cycle of the Group, the majority of the anticipated future raw material transactions outstanding at the balance sheet date are expected to occur in the next period.

Equity price risk

The Group is exposed to equity price risk on investments held as trading and available-for-sale assets. To manage the price risk arising from investments in securities, the Group diversifies its portfolios in accordance with the Guidelines set by the Board of Directors. The Group's external investments are in principle only with publicly traded counterparties that have an investment grade rating by one of the recognised rating agencies.

13.3d Settlement risk

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

13. Net financing cost and financial instruments (continued)

13.3e Value at Risk (VaR)

Description of the method

The VaR is a single measure to assess market risk. The VaR estimates the size of losses given current positions and possible changes in financial markets. The Group uses simulation to calculate VaR based on the historic data for a 250 days period. The VaR calculation is based on 95% confidence level and, accordingly, does not take into account losses that might occur beyond this level of confidence. The VaR is calculated on the basis of unhedged exposures outstanding at the close of business and does not necessarily reflect intra-day exposures.

Objective of the method

The Group uses the described VaR analysis to estimate the potential one-day loss in the fair value of its financial and commodity instruments. The Group cannot predict the actual future movements in market rates and prices, therefore the below VaR numbers neither represent actual losses nor consider the effects of favourable movements in underlying variables. Accordingly, these VaR numbers may only be considered indicative of future movements to the extent the historic market patterns repeat in the future.

VaR figures

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

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

In millions of CHF	2011	2010
Foreign currency	3	10
Interest rate	4	17
Security price	144	204
Foreign currency, interest rate and security price combined	122	207

The estimated potential one-day loss from the Group's commodity price risk sensitive instruments, as calculated using the above described historic VaR model, is not significant.

13.3f Capital risk management

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

The Board of Directors seeks to maintain a prudent balance between different components of the Group's capital. The ALMC monitors capital on the basis of operating cash flow as a percentage of net financial debt. Net financial debt is defined as current and non-current financial liabilities less liquid assets (refer to section 13.2a).

The operating cash flow-to-net financial debt ratio highlights the ability of a business to repay its debts. As at 31 December 2011, the ratio was 68.2% (2010: 353.2% ^(a)). The Group's subsidiaries have complied with local statutory capital requirements as appropriate.

(a) Impacted by the profit on disposal of 52% of Alcon outstanding capital.

14. Taxes

14.1 Taxes recognised in the income statement

In millions of CHF	2011	2010
Components of taxes		
Current taxes ^(a)	2 554	2 917
Deferred taxes	(301)	181
Taxes reclassified to other comprehensive income	859	248
Taxes reclassified to equity	—	(3)
Taxes from continuing operations	3 112	3 343
Taxes from discontinued operations		350
Total taxes	3 112	3 693
Reconciliation of taxes		
Expected tax expense at weighted average applicable tax rate	3 054	2 882
Tax effect of non-deductible or non-taxable items	(202)	(10)
Prior years' taxes	(215)	(129)
Transfers to unrecognised deferred tax assets	83	53
Transfers from unrecognised deferred tax assets	(123)	(20)
Changes in tax rates	23	9
Withholding taxes levied on transfers of income	313	353
Other, incl. taxes on capital	179	205
Taxes from continuing operations	3 112	3 343

(a) Current taxes related to prior years represent a tax expense of CHF 35 million (2010: tax expense of CHF 25 million).

The expected tax expense at weighted average applicable tax rate is the result from applying the domestic statutory tax rates to profits before taxes of each entity in the country it operates. For the Group, the weighted average applicable tax rate varies from one year to the other depending on the relative weight of the profit of each individual entity in the Group's profit as well as the changes in the statutory tax rates.

14.2 Taxes recognised in other comprehensive income

In millions of CHF	2011	2010
Tax effects relating to		
Currency retranslations	64	195
Fair value adjustments on available-for-sale financial instruments	(29)	(11)
Fair value adjustments on cash flow hedges	159	21
Actuarial gains/(losses) on defined benefit schemes	665	63
	859	268

14. Taxes (continued)

14.3 Reconciliation of deferred taxes by type of temporary differences recognised in the balance sheet

In millions of CHF

	Property, plant and equipment	Goodwill and intangible assets	Employee benefits	Inventories, receivables, payables and provisions	Unused tax losses and unused tax credits	Other	Total
At 1 January 2010	(1 068)	(1 089)	1 965	822	307	(139)	798
Currency retranslations	116	87	(149)	(88)	(28)	(18)	(80)
Deferred tax (expense)/income	(134)	(157)	(98)	101	39	68	(181)
Modification of the scope of consolidation	(7)	(7)	8	2	—	7	3
At 31 December 2010	(1 093)	(1 166)	1 726	837	318	(82)	540
Currency retranslations	5	(12)	(24)	(24)	(15)	4	(66)
Deferred tax (expense)/income	(223)	(46)	408	10	62	90	301
Modification of the scope of consolidation	(36)	(360)	10	14	1	12	(359)
At 31 December 2011	(1 347)	(1 584)	2 120	837	366	24	416

In millions of CHF	2011	2010
Reflected in the balance sheet as follows:		
Deferred tax assets	2 476	1 911
Deferred tax liabilities	(2 060)	(1 371)
Net assets	416	540

14.4 Unrecognised deferred taxes

The deductible temporary differences as well as the unused tax losses and tax credits for which no deferred tax assets are recognised expire as follows:

In millions of CHF	2011	2010
Within one year	20	56
Between one and five years	314	276
More than five years	1 479	1 648
	1 813	1 980

At 31 December 2011, the unrecognised deferred tax assets amount to CHF 464 million (2010: CHF 544 million). In addition, the Group has not recognised deferred tax liabilities in respect of unremitted earnings that are considered indefinitely reinvested in foreign subsidiaries. At 31 December 2011, these earnings amount to CHF 12.9 billion (2010: CHF 13.3 billion). They could be subject to withholding and other taxes on remittance.

15. Associates

In millions of CHF	2011	2010
At 1 January	7 914	8 693
Currency retranslations	(240)	(1 446)
Investments	60	106
Share of results	866	1 010
Dividends received	(417)	(360)
Share of other comprehensive income	456	(89)
Other	(10)	—
At 31 December	8 629	7 914
of which L'Oréal	7 708	6 954

15.1 L'Oréal

The Group holds 178 381 021 shares in L'Oréal, representing a 30.0% participation in its equity after consideration of its own shares (2010: 178 381 021 shares representing a 30.3% participation). At 31 December 2011, the market value of the shares held amounts to CHF 17 514 million (2010: CHF 18 569 million).

15.2 Key financial data of the main associates

The following items are an aggregate of the Financial Statements of the main associates:

In millions of CHF	2011	2010
Total current assets	10 023	9 375
Total non-current assets	24 081	22 222
Total assets	34 104	31 597
Total current liabilities	9 263	8 842
Total non-current liabilities	2 621	3 334
Total liabilities	11 884	12 176
Total equity	22 220	19 421
Total sales	26 469	28 554
Total results	2 969	3 165

16. Earnings per share

	2011	2010
Basic earnings per share (in CHF)	2.97	10.16
Net profit (in millions of CHF)	9 487	34 233
Weighted average number of shares outstanding (in millions of units)	3 196	3 371
Diluted earnings per share (in CHF)	2.96	10.12
Net profit, net of effects of dilutive potential ordinary shares (in millions of CHF)	9 487	34 233
Weighted average number of shares outstanding, net of effects of dilutive potential ordinary shares (in millions of units)	3 205	3 382
Reconciliation of weighted average number of shares outstanding (in millions of units)		
Weighted average number of shares outstanding used to calculate basic earnings per share	3 196	3 371
Adjustment for share-based payment schemes, where dilutive	9	11
Weighted average number of shares outstanding used to calculate diluted earnings per share	3 205	3 382

17. Cash flow statement

17.1 Non-cash items of income and expense

In millions of CHF	2011	2010
Share of results of associates	(866)	(1 010)
Depreciation of property, plant and equipment	2 422	2 552
Impairment of property, plant and equipment	150	186
Impairment of goodwill	16	337
Amortisation of intangible assets	503	630
Impairment of intangible assets	—	8
Net result on disposal of businesses	3	(24 472)
Net result on disposal of assets	25	(29)
Non-cash items in financial assets and liabilities	39	157
Deferred taxes	(301)	236
Taxes in other comprehensive income and equity	859	266
Equity compensation plans	158	187
Other	31	4
	3 039	(20 948)

17.2 Decrease/(increase) in working capital

In millions of CHF	2011	2010
Inventories	(1 280)	(899)
Trade receivables	(628)	(463)
Trade payables	497	718
Other current assets	(1 113)	(1 015)
Other current liabilities	687	1 027
	(1 837)	(632)

17. Cash flow statement (continued)

17.3 Variation of other operating assets and liabilities

In millions of CHF	2011	2010
Variation of employee benefits assets and liabilities	(602)	(543)
Variation of provisions	(371)	566
Other	(270)	(219)
	(1 243)	(196)

17.4 Purchase of treasury shares

In 2011, out of the CHF 5.5 billion (2010: CHF 12.1 billion) of purchase of treasury shares, the Group invested CHF 4.8 billion on its Share Buy-Back Programme (2010: CHF 10.1 billion).

17.5 Cash and cash equivalents at end of year

In millions of CHF	2011	2010
Cash at bank and in hand	3 591	2 460
Time deposits ^(a)	1 334	1 209
Commercial paper ^(a)	13	4 388
	4 938	8 057

(a) With maturity of three months or less as from the initial recognition.

17.6 Interest, taxes and dividends

The following items are allocated to the appropriate headings in the cash flow statement:

In millions of CHF	2011	2010
Interest paid	(491)	(510)
Interest received	49	59
Taxes paid	(2 555)	(2 958)
Dividends paid	(6 165)	(6 172)
Dividends received	437	380

18. Equity

18.1 Share capital issued

The ordinary share capital of Nestlé S.A. authorised, issued and fully paid is composed of 3 300 000 000 registered shares with a nominal value of CHF 0.10 each (2010: 3 465 000 000 registered shares). Each share confers the right to one vote. No shareholder may be registered with the right to vote for shares which it holds, directly or indirectly, in excess of 5% of the share capital. Shareholders have the right to receive dividends.

The share capital changed twice in the last two financial years as a consequence of the Share Buy-Back Programmes. The cancellation of shares was approved at the Annual General Meetings of 15 April 2010 and 14 April 2011. In 2010, the share capital was reduced by 185 000 000 shares from CHF 365 million to CHF 347 million. In 2011, the share capital was further reduced by 165 000 000 shares from CHF 347 million to CHF 330 million.

18. Equity (continued)

18.2 Conditional share capital

The conditional capital of Nestlé S.A. amounts to CHF 10 million as in the preceding year. It confers the right to increase the ordinary share capital, through the exercise of conversion or option rights in connection with debentures and other financial market instruments, by a maximum of CHF 10 million by the issue of a maximum of 100 000 000 registered shares with a nominal value of CHF 0.10 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.

18.3 Treasury shares

Number of shares in millions of units	Notes	2011	2010
Purpose of holding			
Trading		34	40
Share Buy-Back Programme		75	149
Long-Term Incentive Plans	11	19	19
		128	208

At 31 December 2011, the treasury shares held by the Group represent 3.9% of the share capital (2010: 6.0%). Their market value amounts to CHF 6913 million (2010: CHF 11 393 million).

18.4 Number of shares outstanding

Number of shares in millions of units	Shares issued	Treasury shares	Outstanding shares
At 1 January 2010	3 650	(178)	3 472
Purchase of treasury shares		(227)	(227)
Treasury shares delivered in respect of options exercised		9	9
Treasury shares delivered in respect of equity compensation plans		3	3
Treasury shares cancelled	(185)	185	—
At 31 December 2010	3 465	(208)	3 257
Purchase of treasury shares		(99)	(99)
Sale of treasury shares		9	9
Treasury shares delivered in respect of options exercised		2	2
Treasury shares delivered in respect of equity compensation plans		3	3
Treasury shares cancelled	(165)	165	—
At 31 December 2011	3 300	(128)	3 172

18.5 Translation reserve

The translation reserve comprises the cumulative gains and losses arising from translating the financial statements of foreign operations that use functional currencies other than Swiss francs. It also includes the changes in the fair value of hedging instruments used for net investments in foreign operations.

18. Equity (continued)

18.6 Retained earnings and other reserves

Retained earnings represent the cumulative profits, share premium, as well as actuarial gains and losses on defined benefit plans attributable to shareholders of the parent. Other reserves comprise the fair value reserve and the hedging reserve attributable to shareholders of the parent.

The fair value reserve includes the gains and losses on remeasuring available-for-sale financial instruments. At 31 December 2011, the reserve is positive of CHF 254 million (2010: positive of CHF 450 million).

The hedging reserve consists of the effective portion of the gains and losses on hedging instruments related to hedged transactions that have not yet occurred. At 31 December 2011, the reserve is negative of CHF 447 million (2010: positive of CHF 30 million).

18.7 Non-controlling interests

The non-controlling interests comprise the portion of equity of subsidiaries that are not owned, directly or indirectly, by Nestlé S.A.

18.8 Other comprehensive income

In millions of CHF

	Translation reserve	Retained earnings and other reserves	Total attributable to shareholders of the parent	Non-controlling interests	Total
2010					
Currency retranslations	(4 619)		(4 619)	(182)	(4 801)
Fair value adjustments on available-for-sale financial instruments		230	230	(13)	217
Fair value adjustments on cash flow hedges		(48)	(48)	—	(48)
Actuarial gains/(losses) on defined benefit schemes		(128)	(128)	(25)	(153)
Share of other comprehensive income of associates		(89)	(89)		(89)
Taxes		258	258	10	268
Other comprehensive income for the year	(4 619)	223	(4 396)	(210)	(4 606)
2011					
Currency retranslations	(1 133)		(1 133)	(33)	(1 166)
Fair value adjustments on available-for-sale financial instruments		(192)	(192)	—	(192)
Fair value adjustments on cash flow hedges		(465)	(465)	—	(465)
Actuarial gains/(losses) on defined benefit schemes		(2 503)	(2 503)	—	(2 503)
Share of other comprehensive income of associates		456	456		456
Taxes		859	859	—	859
Other comprehensive income for the year	(1 133)	(1 845)	(2 978)	(33)	(3 011)

18. Equity (continued)

18.9 Dividend

The dividend related to 2010 was paid on 21 April 2011 in conformity with the decision taken at the Annual General Meeting on 14 April 2011. Shareholders approved the proposed dividend of CHF 1.85 per share, resulting in a total dividend of CHF 5939 million.

Dividend payable is not accounted for until it has been ratified at the Annual General Meeting. At the meeting on 19 April 2012, a dividend of CHF 1.95 per share will be proposed, resulting in a total dividend of CHF 6279 million. For further details, refer to the Financial Statements of Nestlé S.A.

The Financial Statements for the year ended 31 December 2011 do not reflect this proposed distribution, which will be treated as an appropriation of profit in the year ending 31 December 2012.

19. Lease commitments

19.1 Operating leases

In millions of CHF	2011	2010
	Minimum lease payments	
	Future value	
Within one year	595	600
In the second year	442	467
In the third to the fifth year	866	939
After the fifth year	516	569
	2 419	2 575

Lease commitments refer mainly to buildings, industrial equipment, vehicles and IT equipment. Operating lease charge for the year 2011 amounts to CHF 657 million (2010: CHF 701 million).

19.2 Finance leases

In millions of CHF	2011		2010	
	Minimum lease payments			
	Present value	Future value	Present value	Future value
Within one year	57	63	68	74
In the second year	50	61	57	68
In the third to the fifth year	90	136	106	155
After the fifth year	51	101	69	145
	248	361	300	442

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

20. Transactions with related parties

20.1 Compensation of the Board of Directors and the Executive Board

Board of Directors

With the exception of the Chairman and the CEO, members of the Board of Directors receive an annual compensation that varies with the Board and the Committee responsibilities as follows:

- Board members: CHF 280 000;
- members of the Chairman's and Corporate Governance Committee: additional CHF 200 000;
- members of the Compensation Committee: additional CHF 40 000 (Chair CHF 100 000);
- members of the Nomination Committee: additional CHF 40 000 (Chair CHF 100 000); and
- members of the Audit Committee: additional CHF 100 000 (Chair CHF 150 000).

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

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

The Chairman is entitled to a cash compensation, as well as Nestlé S.A. shares which are blocked for three years.

Executive Board

The total annual remuneration of the members of the Executive Board comprises a salary, a bonus (based on the individual's performance and the achievement of the Group's objectives), equity compensation and other benefits. Members of the Executive Board can choose to receive part or all of their bonus in Nestlé S.A. shares at the average closing price of the last ten trading days of January of the year of the payment of the bonus. These shares are subject to a three-year blocking period.

In millions of CHF	2011	2010
Board of Directors ^(a)		
Chairman's compensation	10	9
Other Board members		
Remuneration – cash	3	3
Shares	2	2
Executive Board ^(a)		
Remuneration – cash	15	16
Bonus – cash	8	10
Bonus – shares	7	9
Equity compensation plans ^(b)	15	14
Pension	5	4

(a) Refer to Note 25 of the Financial Statements of Nestlé S.A. for the detailed disclosures, regarding the remunerations of the Board of Directors and the Executive Board, that are required by Swiss law.

(b) Equity compensation plans are equity-settled share-based payment transactions whose cost is recognised over the vesting period as required by IFRS 2.

20.2 Intra-Group transactions and transactions with associated companies

Intra-Group transactions are eliminated on consolidation:

- when it is between the parent and the fully consolidated affiliates or between fully consolidated affiliates; or
- in proportion to the Nestlé participation in the equity of the joint ventures (usually 50%) when it is between the parent and the joint ventures, or between fully consolidated affiliates and joint ventures. There were no significant transactions between the Group companies and associated companies.

20.3 Other transactions

Nestlé Capital Advisers SA (NCA), one of the Group's subsidiaries, is an unregulated investment and actuarial adviser, based in Switzerland. Further to actuarial advice, NCA renders investment consulting services to some of the Group's pension funds, either directly or indirectly via the Robusta mutual fund umbrella, but NCA never executes trading and investment transactions. The fees received by NCA in 2011 for those activities amounted to CHF 11.0 million (2010: CHF 7.1 million).

Nestlé Capital Management Ltd (NCM), a 100% subsidiary of NCA, is an asset manager authorised and regulated by the Financial Services Authority, in the United Kingdom. NCM manages some of the assets of the Group's pension funds. In this function, NCM executes trading and investment transactions on behalf of these pension funds directly or for the Robusta mutual funds pension investment vehicles. The fees received by NCM in 2011 for those activities amounted to CHF 15.6 million (2010: CHF 14.6 million). The assets under direct management represented an amount of CHF 13.2 billion at 31 December 2011 (2010: CHF 9.6 billion).

In addition, Robusta Asset Management Ltd (RAML), a 100% subsidiary of NCA, is in charge of selecting and monitoring investment managers for the Robusta mutual funds pension investment vehicles. RAML has delegated most its activities to third-parties, including NCA and hence no fee income is generated by RAML. Any remaining expenses are covered by means of fees deducted from its assets under management. The assets under supervision of RAML amounted to CHF 8.6 billion at 31 December 2011 (2010: CHF 9.3 billion). Of this amount CHF 5.4 billion (2010: CHF 4.9 billion) of assets are under direct management of NCM.

Furthermore, throughout 2011, no director had a personal interest in any transaction of significance for the business of the Group.

21. Joint ventures

In millions of CHF	2011	2010
Share of assets and liabilities consolidated in the balance sheet		
Total current assets	924	775
Total non-current assets	1 612	1 134
Total current liabilities		
Total current liabilities	1 752	1 270
Total non-current liabilities	285	208
Share of income and expenses consolidated in the income statement		
Total sales	2 426	2 437
Total expenses	(2 154)	(2 141)

22. Guarantees

At 31 December 2011, the Group has given guarantees to third parties for an amount of CHF 852 million (2010: CHF 698 million). The most significant balance relates to the Nestlé UK pension fund.

23. Group risk management

The Nestlé Group Enterprise Risk Management (ERM) is a process applied across the enterprise, designed to identify potential events that may affect the Company, to manage risk to be within its risk appetite, and to provide reasonable assurance regarding the achievement of objectives. Risk management is an integral element of the Governance, Risk management and Compliance (GRC) model.

GRC is an integrated, holistic approach ensuring that the organisation acts in accordance with its risk appetite, internal policies and guidelines, and external regulations. GRC is thereby promoting a proactive risk management and the effectiveness of internal controls.

ERM enables Nestlé's management to raise risk awareness, to anticipate risks early and to make sound business decisions throughout the Group by understanding relative business impact of different types of risks, root causes and correlations among interdependent risks or major impact of the Company on its social and physical environment.

A global risk appetite is defined by the Executive Board and reviewed and validated on an annual basis by the Board of Directors.

The complexity of the Nestlé Group requires a two-tiered (centralised and decentralised) approach to the evaluation of risk. To allow for this complexity, the ERM has been developed using both "Top-Down" and "Bottom-Up" assessments.

Implementation of this Framework has allowed the Group to achieve the following objectives:

- identification and quantification of tangible (financial, operational, physical, human assets, etc.) and intangible (reputation, brand image, intellectual property, etc.) risks in a transparent manner;
- development of a common language for communicating and consolidating risk; and
- prioritisation and identification of where to focus management resources and activity.

The "Top-Down" assessment occurs annually and focuses on the Group's global risk portfolio. It involves the aggregation of individual "Top-Down" assessments of Zones, Globally Managed Businesses, and all markets. It is intended to provide a high-level mapping of Group risk and allow Group Management to make sound decisions on the future operations of the Company. Risk assessments are the responsibility of line management; this applies equally to a business, a market or a function, and any mitigating actions identified in the assessments are the responsibility of the individual line management. If a Group-level intervention is required, responsibility for mitigating actions will generally be determined by the Executive Board.

The "Bottom-Up" process includes assessments performed at an individual component level (business unit, function, department or project). The reason for performing these component level risk assessments is to highlight localised issues where risks can be mitigated quickly and efficiently. The timing of these assessments varies, and any mitigating actions required are the responsibility of the line management of the individual component unit.

23. Group risk management (continued)

Overall Group ERM reporting combines the total results of the “Top-Down” assessment and the compilations of the individual “Bottom-Up” assessments. The results of the Group ERM are presented to the Executive Board, Audit Committee and Board of Directors annually. In the case of an individual risk assessment identifying a risk which requires action at Group level, an ad hoc presentation is made to the Executive Board.

Financial risks management is described in more details in Note 13.

24. Events after the balance sheet date

At 15 February 2012, date of approval of the Financial Statements by the Board of Directors, the Group had no subsequent events that warrant a modification of the value of the assets and liabilities or an additional disclosure.

25. Group companies

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

Report of the Statutory Auditor on the Consolidated Financial Statements

to the General Meeting of Nestlé S.A.

As statutory auditor, we have audited the consolidated financial statements (income statement, statement of comprehensive income, balance sheet, cash flow statement, statement of changes in equity and notes on pages 46 to 115) of the Nestlé Group for the year ended 31 December 2011.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2011 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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



KPMG SA

A handwritten signature in black ink, appearing to read 'Baillache'.

Mark Baillache
Licensed Audit Expert
Auditor in charge

A handwritten signature in black ink, appearing to read 'Lussu'.

Fabien Lussu
Licensed Audit Expert

Geneva, 15 February 2012

Financial information – 5 year review

In millions of CHF (except for per share data and personnel)	2011	2010
Results		
Sales ^(a)	83 642	93 015
Trading operating profit ^(a)	12 538	14 832
<i>as % of sales ^(a)</i>	<i>15.0%</i>	<i>15.9%</i>
Sales		109 722
EBIT *		16 194
<i>as % of sales</i>		<i>14.8%</i>
Taxes	3 112	3 693
Profit for the year attributable to shareholders of the parent (Net profit)	9 487	34 233 ^(f)
<i>as % of sales ^(a)</i>	<i>11.3%</i>	<i>36.8% ^(f)</i>
Total amount of dividend	6 279 ^(e)	5 939
Depreciation of property, plant and equipment	2 422	2 552
Balance sheet and Cash flow statement		
Current assets	33 324	38 997
of which liquid assets	7 988	16 246
Non-current assets	80 767	72 644
Total assets	114 091	111 641
Current liabilities	35 232	30 146
Non-current liabilities	20 585	18 897
Equity attributable to shareholders of the parent	56 797	61 867
Non-controlling interests	1 477	731
Net financial debt	14 319	3 854
Operating cash flow	9 763	13 608
<i>as % of net financial debt</i>	<i>68.2%</i>	<i>353.2% ^(f)</i>
Free cash flow ^(b)	4 491	7 761
Capital expenditure	4 779	4 576
<i>as % of sales ^(a)</i>	<i>5.7%</i>	<i>4.9%</i>
Data per share ^(c)		
Weighted average number of shares outstanding (in millions of units)	3 196	3 371
Total basic earnings per share	2.97	10.16 ^(f)
Equity attributable to shareholders of the parent	17.77	18.35
Dividend	1.95 ^(e)	1.85
Pay-out ratio based on Total basic earnings per share	65.7% ^(e)	18.2%
Stock prices (high)	55.45	56.90
Stock prices (low)	43.50	48.18
Yield ^(d)	3.5/4.5 ^(e)	3.3/3.8
Market capitalisation	171 287	178 316
Number of personnel (in thousands)	328	281

* Earnings Before Interest, Taxes, restructuring and impairments.

(a) 2010 restated following the changes in the Income Statement described in Note 1 – Accounting Policies.

(b) Operating cash flow less capital expenditure, disposal of tangible assets, purchase and disposal of intangible assets, movements with associates as well as with non-controlling interests, and other investing cash flows.

(c) 2007 has been restated following 1-for-10 share split effective on 30 June 2008.

2009	2008	2007	
			Results
			Sales ^(a)
			Trading operating profit ^(a)
			<i>as % of sales ^(a)</i>
107 618	109 908	107 552	Sales
15 699	15 676	15 024	EBIT *
14.6%	14.3%	14.0%	<i>as % of sales</i>
3 362	3 787	3 416	Taxes
10 428	18 039 ^(g)	10 649	Profit for the year attributable to shareholders of the parent (Net profit)
9.7%	16.4% ^(g)	9.9%	<i>as % of sales ^(a)</i>
5 443	5 047	4 573	Total amount of dividend
2 713	2 625	2 620	Depreciation of property, plant and equipment
			Balance sheet and Cash flow statement
39 870	33 048	35 770	Current assets
5 319	7 131	9 496	of which liquid assets
71 046	73 167	79 591 ^(h)	Non-current assets
110 916	106 215	115 361 ^(h)	Total assets
36 083	33 640	43 326	Current liabilities
21 202	17 659	17 259 ^(h)	Non-current liabilities
48 915	50 774	52 627 ^(h)	Equity attributable to shareholders of the parent
4 716	4 142	2 149	Non-controlling interests
18 085	14 596	21 174	Net financial debt
17 934	10 763	13 439	Operating cash flow
99.2%	73.7%	63.5%	<i>as % of net financial debt</i>
12 369	5 033	8 231	Free cash flow ^(b)
4 641	4 869	4 971	Capital expenditure
4.3%	4.4%	4.6%	<i>as % of sales ^(a)</i>
			Data per share ^(c)
3 572	3 705	3 829	Weighted average number of shares outstanding (in millions of units)
2.92	4.87 ^(g)	2.78	Total basic earnings per share
13.69	13.71	13.75 ^(h)	Equity attributable to shareholders of the parent
1.60	1.40	1.22	Dividend
54.8%	28.8%	43.9%	Pay-out ratio based on Total basic earnings per share
51.25	52.95	55.35	Stock prices (high)
35.04	38.02	42.65	Stock prices (low)
3.1/4.6	2.6/3.7	2.2/2.9	Yield ^(d)
174 294	150 409	195 661	Market capitalisation
278	283	276	Number of personnel (in thousands)

(d) Calculated on the basis of the dividend for the year concerned, which is paid in the following year, and on high/low stock prices.

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

(f) Impacted by the profit on disposal of 52% of Alcon outstanding capital.

(g) Impacted by the profit on disposal of 24.8% of Alcon outstanding capital.

(h) 2007 comparatives have been restated following first application of IFRIC 14.

Companies of the Nestlé Group

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

^(a) In the context of the SIX 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.

Percentage of 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⁾ Associated companies for which the equity method is used.

^Δ Companies listed on the stock exchange

^o Sub-holding, financial and property companies

Companies	City	% capital shareholdings	Currency	Capital
Europe				
Austria				
C.P.A. Cereal Partners Handelsgesellschaft				
M.B.H. & Co. OHG	¹⁾ Wien	50%	EUR	145 346
Nespresso Österreich GmbH & Co. OHG	Wien	100%	EUR	35 000
Nestlé Austria Holding GmbH	^o Wien	100%	EUR	7 270 000
Nestlé Österreich GmbH	Wien	100%	EUR	3 000 000
Schöller Lebensmittel GmbH	Wien	100%	EUR	7 231 000
Belgium				
Centre de Coordination Nestlé S.A.	^o Bruxelles	100%	EUR	3 298 971 818
Davigel Belgilux S.A.	Bruxelles	100%	EUR	1 487 361
Nespresso Belgique S.A.	Bruxelles	100%	EUR	550 000
Nestlé Belgilux S.A.	Bruxelles	100%	EUR	8 924 200
Nestlé Catering Services N.V.	Bruxelles	100%	EUR	14 035 500
Nestlé Waters Benelux S.A.	Etalle	100%	EUR	19 924 000
Bosnia and Herzegovina				
Nestlé Adriatic B&H d.o.o.	Sarajevo	100%	BAM	2 000
Bulgaria				
Nestlé Bulgaria A.D.	Sofia	100%	BGN	10 234 933
Croatia				
Nestlé Adriatic d.o.o.	Žagreb	100%	HRK	14 685 500
Czech Republic				
Cereal Partners Czech Republic	¹⁾ Praha	50%	CZK	23 100 000
Nestlé Cesko s.r.o.	Praha	100%	CZK	1 154 000 000

Companies of the Nestlé Group (continued)

Companies	City	% capital shareholdings	Currency	Capital
Denmark				
Nestlé Danmark A/S	Copenhagen	100%	DKK	44 000 000
Nestlé Waters Powwow (Denmark) Holdings A/S	⁰ Copenhagen	100%	DKK	15 000 000
Oscar A/S	Rønnede	100%	DKK	10 990 000
Finland				
Puljonki Oy	Juuka	100%	EUR	16 000
Suomen Nestlé Oy	Helsinki	100%	EUR	10 000 000
France				
Centres de Recherche et Développement Nestlé S.A.S.	Beauvais	100%	EUR	3 138 230
Cereal Partners France SNC	¹⁾ Noisiel	50%	EUR	3 000 000
Davigel S.A.S.	Martin Eglise	100%	EUR	7 681 250
Eau Minérale Naturelle de Plancoët «Source Sassay» S.A.S.	Plancoët	100%	EUR	430 028
Galderma International S.A.S.°	¹⁾ Courbevoie	50%	EUR	931 905
Galderma Research and Development SNC°	¹⁾ Biot	50%	EUR	70 518 259
Herta S.A.S.	Noisiel	100%	EUR	12 908 610
Houdebine S.A.S.	Noyal Pontivy	50%	EUR	726 000
Jenny Craig France S.A.S.	La Baule-Escoublac	100%	EUR	1 000 000
Δ L'Oréal S.A.°	²⁾ Paris	30%	EUR	120 596 816
<i>Listed on the Paris stock exchange, market capitalisation EUR 48.7 billion, quotation code (ISIN) FR0000120321</i>				
Laboratoires Galderma S.A.S.°	¹⁾ Alby-sur-Chéran	50%	EUR	14 015 454
Laboratoires Innéov SNC°	¹⁾ Nanterre	50%	EUR	650 000
Lactalis Nestlé Produits Frais S.A.S.	²⁾ Laval	40%	EUR	69 208 832
Nespresso France S.A.S.	Paris	100%	EUR	1 360 000
Nestlé Clinical Nutrition France S.A.S.	Noisiel	100%	EUR	57 943 072
Nestlé Entreprises S.A.S.	⁰ Noisiel	100%	EUR	739 559 392
Nestlé France S.A.S.	Noisiel	100%	EUR	130 925 520
Nestlé Grand Froid S.A.	Noisiel	100%	EUR	3 120 000
Nestlé HomeCare S.A.S.	Noisiel	100%	EUR	5 550 979
Nestlé Purina PetCare France S.A.S.	Rueil-Malmaison	100%	EUR	21 091 872
Nestlé Waters S.A.S.	⁰ Issy-les-Moulineaux	100%	EUR	154 893 080
Nestlé Waters France S.A.S.	⁰ Issy-les-Moulineaux	100%	EUR	44 856 149
Nestlé Waters Management & Technology S.A.S.	Issy-les-Moulineaux	100%	EUR	38 113
Nestlé Waters Marketing & Distribution S.A.S.	Issy-les-Moulineaux	100%	EUR	26 740 940
Nestlé Waters Supply Centre S.A.S.	Issy-les-Moulineaux	100%	EUR	2 577 000
Nestlé Waters Supply Est S.A.S.	Issy-les-Moulineaux	100%	EUR	17 539 660
Nestlé Waters Supply Sud S.A.S.	Issy-les-Moulineaux	100%	EUR	8 130 105
S.A. des Eaux Minérales de Ribeaupillé	Ribeaupillé	99.6%	EUR	846 595
Schöller Glaces et Desserts S.A.S.	Vitry-sur-Seine	100%	EUR	104 400
Société de Bouchages Emballages Conditionnement Moderne S.A.S.	²⁾ Lavardac	50%	EUR	10 200 000
Société des Produits Alimentaires de Caudry S.A.S.	Noisiel	100%	EUR	1 440 000
Société Française des Eaux Régionales S.A.S.	⁰ Issy-les-Moulineaux	100%	EUR	1 490 098
Société Immobilière de Noisiel S.A.	⁰ Noisiel	100%	EUR	22 753 550
Société Industrielle de Transformation de Produits Agricoles S.A.S.	Noisiel	100%	EUR	9 718 000

Companies of the Nestlé Group (continued)

Companies	City	% capital shareholdings	Currency	Capital
Germany				
Alois Dallmayr Kaffee OHG	²⁾ München	25%	EUR	10 250 000
C.P.D. Cereal Partners Deutschland GmbH & Co. OHG	¹⁾ Frankfurt am Main	50%	EUR	511 292
Distributa Gesellschaft für Lebensmittel-Logistik mbH	Postdam	94%	EUR	515 000
Erlenbacher Backwaren GmbH	Darmstadt	100%	EUR	2 582 024
Galderma Laboratorium GmbH ^o	¹⁾ Düsseldorf	50%	EUR	800 000
Herta GmbH	Recklinghausen	100%	EUR	51 129
Innéov Deutschland GmbH ^o	¹⁾ Karlsruhe	50%	EUR	25 000
Nespresso Deutschland GmbH	Düsseldorf	100%	EUR	25 000
Nestlé Deutschland AG	Frankfurt am Main	100%	EUR	214 266 628
Nestlé Product Technology Centre Lebensmittelforschung GmbH	Singen	100%	EUR	52 000
Nestlé Purina PetCare Deutschland GmbH	Euskirchen	100%	EUR	30 000
Nestlé Schöller GmbH	Nürnberg	100%	EUR	100 000
Nestlé Schöller Produktions GmbH	Nürnberg	100%	EUR	30 000
Nestlé Unternehmungen Deutschland GmbH	^o Frankfurt am Main	100%	EUR	60 000 000
Nestlé Versorgungskasse GmbH	^o Frankfurt am Main	100%	EUR	60 000
Nestlé Waters Deutschland GmbH	Mainz	100%	EUR	10 566 000
Nestlé Waters Direct Deutschland GmbH	Neuss	100%	EUR	31 000
PowerBar Europe GmbH	München	100%	EUR	25 000
Q-Med GmbH ^o	¹⁾ Bensheim	50%	EUR	26 000
Trinks GmbH	²⁾ Goslar	25%	EUR	2 360 000
Trinks Süd GmbH	²⁾ München	25%	EUR	260 000
Wagner Tiefkühlprodukte GmbH	Saarbrücken	74%	EUR	511 292
WCO Kinderkost GmbH Conow	Schwerin	100%	EUR	26 000
Greece				
C.P.W. Hellas Breakfast Cereals S.A.	¹⁾ Maroussi	50%	EUR	201 070
Nespresso Hellas S.A.	Maroussi	100%	EUR	500 000
Nestlé Hellas S.A.	Maroussi	100%	EUR	18 656 726
Hungary				
Cereal Partners Hungária Kft.	¹⁾ Budapest	50%	HUF	22 000 000
Kékkúti Ásványvíz Zrt.	Budapest	100%	HUF	238 326 000
Nestlé Hungária Kft.	Budapest	100%	HUF	6 000 000 000
Italy				
Fastlog S.p.A.	Milano	100%	EUR	154 935
Galderma Italia S.p.A. ^o	¹⁾ Milano	50%	EUR	112 000
Koiné S.p.A.	Madone (Bergamo)	51%	EUR	258 230
Nespresso Italiana S.p.A.	Milano	100%	EUR	250 000
Nestlé Italiana S.p.A.	Milano	100%	EUR	25 582 492
Q-Med ICT S.r.l. ^o	¹⁾ Codogno	50%	EUR	10 000
Sanpellegrino S.p.A.	Milano	100%	EUR	58 742 145
Kazakhstan				
Nestlé Food Kazakhstan LLP	Almaty	100%	KZT	91 900

Companies of the Nestlé Group (continued)

Companies	City	% capital shareholdings	Currency	Capital
Lithuania				
UAB "Nestlé Baltics"	Vilnius	100%	LTL	110 000
Luxemburg				
Compagnie Financière du Haut-Rhin S.A.	◊ Luxembourg	100%	EUR	105 200 000
Nespresso Luxembourg Sàrl	Luxembourg	100%	EUR	12 525
Nestlé Finance International Ltd	◊ Luxembourg	100%	EUR	440 000
NTC-Europe S.A.	◊ Luxembourg	100%	EUR	3 565 000
Macedonia				
Nestlé Adriatik Makedonija d.o.o.e.l.	Skopje-Karpos	100%	MKD	31 065 780
Malta				
Nestlé Malta Ltd	Lija	100%	EUR	116 469
Netherlands				
East Springs International N.V.	◊ Amsterdam	100%	EUR	25 370 000
Nespresso Nederland B.V.	Amsterdam	100%	EUR	680 670
Nestlé Nederland B.V.	Amsterdam	100%	EUR	11 346 000
Norway				
A/S Nestlé Norge	Oslo	100%	NOK	81 250 000
Kaffeknappen Norge AS	Oslo	75%	NOK	100 000
Poland				
Cereal Partners Poland Torun-Pacific Sp. Z o.o.	¹⁾ Torun	50%	PLN	14 572 838
Galderma Polska Z o.o. ^o	¹⁾ Warszawa	50%	PLN	50 000
Nestlé Polska S.A.	Warszawa	100%	PLN	50 000 000
Nestlé Waters Polska S.A.	Warszawa	100%	PLN	46 100 000
Portugal				
Cereal Associados Portugal A.E.I.E.	¹⁾ Oeiras	50%	EUR	99 760
Nestlé Portugal S.A.	Linda-a-Velha	100%	EUR	30 000 000
Nestlé Waters direct Portugal, comércio e distribuição de produtos alimentares, S.A.	Loures	100%	EUR	1 000 000
Prolacto-Lactinios de São Miguel S.A.	Ponta Delgada	100%	EUR	700 000
Republic of Ireland				
Nestlé (Ireland) Ltd	Dublin	100%	EUR	3 530 600
Republic of Serbia				
Centro-Spice d.o.o.	Surcin, Beograd	100%	EUR	15 039 495
Nestlé Adriatic Foods d.o.o.	Beograd	100%	EUR	13 844 950
Nestlé Ice Cream Srbija d.o.o. Stara Pazova	Stara Pazova	100%	EUR	41 792 988
Romania				
Nestlé Romania S.R.L.	Bucharest	100%	RON	77 906 800

Companies of the Nestlé Group (continued)

Companies	City	% capital shareholdings	Currency	Capital
Russia				
Cereal Partners Russia LLC	¹⁾ Moscow	50%	RUB	20 420 000
LLC Nestlé Watercoolers Service	Moscow	100%	RUB	20 372 926
Nestlé Kuban LLC	Timashevsk	100%	RUB	48 675
Nestlé Rossiya LLC	Moscow	100%	RUB	717 730 776
Slovak Republic				
Cereal Partners Slovak Republic s.r.o.	¹⁾ Prievidza	50%	EUR	165 970
Nestlé Slovensko s.r.o.	Prievidza	100%	EUR	13 277 568
Spain				
Aquarel Iberica S.A.	Barcelona	100%	EUR	300 505
Cereal Partners España A.E.I.E.	¹⁾ Esplugues de Llobregat (Barcelona)	50%	EUR	120 202
Davigel España S.A.	Sant Just Desvern (Barcelona)	100%	EUR	984 000
Helados y Postres S.A.	Vitoria (Alava)	100%	EUR	140 563 200
Innéov España S.A.°	¹⁾ Madrid	50%	EUR	120 000
Laboratorios Galderma, S.A.°	¹⁾ Madrid	50%	EUR	432 480
Nestlé España S.A.	Esplugues de Llobregat (Barcelona)	100%	EUR	100 000 000
Nestlé Healthcare Nutrition, S.A.	Esplugues de Llobregat (Barcelona)	100%	EUR	300 000
Nestlé Purina PetCare España S.A.	Castellbisbal (Barcelona)	100%	EUR	12 000 000
Nestlé Waters España, S.A.	Barcelona	100%	EUR	14 700 000
Productos del Café S.A.	Reus (Tarragona)	100%	EUR	6 600 000
Sweden				
Galderma Holding AB°	¹⁾ ◊ Bromma	50%	SEK	50 000
Galderma Nordic AB°	¹⁾ Bromma	50%	SEK	31 502 698
Hemglass AB	Stockholm	100%	SEK	14 000 000
Jede AB	Mariestad	100%	SEK	7 000 000
Kaffeknappen AB	◊ Stockholm	100%	SEK	100 000
Kaffeknappen Sverige AB	Stockholm	100%	SEK	100 000
Nestlé Sverige AB	Helsingborg	100%	SEK	20 000 000
Q-Med AB°	¹⁾ Uppsala	50%	SEK	24 845 500
Q-Med Production AB°	¹⁾ Uppsala	50%	SEK	100 000
Switzerland				
Beverage Partners Worldwide (Europe) AG	¹⁾ Zürich	50%	CHF	2 000 000
Beverage Partners Worldwide S.A.	¹⁾ ◊ Zürich	50%	CHF	14 000 000
CPW Operations Sàrl	¹⁾ Prilly	50%	CHF	20 000
CPW S.A.	¹⁾ Prilly	50%	CHF	10 000 000
Eckes-Granini (Suisse) S.A.	¹⁾ Henniez	49%	CHF	2 000 000
Emaro S.A.	◊ Romanel-sur-Lausanne	100%	CHF	300 000
Entreprises Maggi S.A.	◊ Cham	100%	CHF	100 000
Galderma Pharma S.A.°	¹⁾ ◊ Lausanne	50%	CHF	48 900 000
Galderma S.A.°	¹⁾ Cham	50%	CHF	100 000
Intercona Re AG	◊ Châtel-St-Denis	100%	CHF	35 000 000
Life Ventures S.A.	◊ La Tour-de-Peilz	100%	CHF	30 000 000
Nestec S.A.	Vevey	100%	CHF	5 000 000
Nestlé Finance S.A.	◊ Cham	100%	CHF	30 000 000
Nestlé International Travel Retail S.A.	Vevey	100%	CHF	3 514 000

Companies of the Nestlé Group (continued)

Companies	City	% capital shareholdings	Currency	Capital
Switzerland (continued)				
Nestlé Nespresso S.A.	Lausanne	100%	CHF	2 000 000
Nestlé Operational Services Worldwide S.A.	Bussigny-près-Lausanne	100%	CHF	100 000
Nestlé Suisse S.A.	Vevey	100%	CHF	250 000
Nestlé Waters (Suisse) S.A.	Henniez	100%	CHF	5 000 000
Nestrad S.A.	La Tour-de-Peilz	100%	CHF	6 500 000
Nutrition-Wellness Venture AG	◊ Vevey	100%	CHF	100 000
Rive-Reine S.A.	◊ La Tour-de-Peilz	100%	CHF	2 000 000
S.I. En Bergère Vevey S.A.	◊ Vevey	100%	CHF	19 500 000
Société des Produits Nestlé S.A.	Vevey	100%	CHF	54 750 000
Sofinol S.A.	Manno	100%	CHF	3 000 000
Turkey				
Balaban Gıda Sanayi ve Ticaret Anonim Şirketi	Sakarya	50.9%	TRY	21 424 364
Cereal Partners Gıda Ticaret Limited Şirketi	¹⁾ Istanbul	50%	TRY	20 000
Erikli Dağıtım ve Pazarlama A.Ş.	Bursa	80%	TRY	3 849 975
Erikli Su ve Mesrubat Sanayi ve Ticaret A.Ş.	Bursa	80%	TRY	12 700 000
NDB Gıda Sanayi ve Ticaret Anonim Şirketi	◊ Istanbul	50.9%	TRY	66 611 123
Nestlé Türkiye Gıda Sanayi A.Ş.	Istanbul	99.9%	TRY	35 000 000
Nestlé Waters Gıda ve Mesrubat Sanayi Ticaret A.Ş.	Bursa	75%	TRY	8 000 000
Ukraine				
LLC Nestlé Ukraine	Kyiv	100%	USD	150 000
LLC Technocom	Kharkiv	100%	UAH	119 658 066
PJSC "Lviv Confectionery Factory Svitoch"	Lviv	97%	UAH	88 111 060
PRJSC Volynholding	Torchyn	100%	UAH	100 000
United Kingdom				
Cereal Partners UK	¹⁾ Welwyn Garden	50%	GBP	—
Galderma (UK) Ltd ^o	¹⁾ Watford	50%	GBP	1 500 000
Nespresso UK Ltd	Croydon	100%	GBP	275 000
Nestec York Ltd	York	100%	GBP	500 000
Nestlé Holdings (UK) PLC	◊ Croydon	100%	GBP	77 940 000
Nestlé Purina PetCare (UK) Ltd	Croydon	100%	GBP	44 000 000
Nestlé UK Ltd	Croydon	100%	GBP	129 972 342
Nestlé Waters (UK) Holdings Ltd	◊ Croydon	100%	GBP	6 500 002
Nestlé Waters UK Ltd	Croydon	100%	GBP	640
Raw Products Ltd	Croydon	100%	GBP	200 000
Schöller Ice-Cream Ltd	Guildford	100%	GBP	1 584 626
Vitaflo (International) Ltd	Liverpool	100%	GBP	625 379

Companies of the Nestlé Group (continued)

Companies	City	% capital shareholdings	Currency	Capital
Africa				
Algeria				
Nestlé Algérie SpA	Alger	70%	DZD	7 000 000
Nestlé Waters Algérie SpA	Blida	100%	DZD	1 622 551 965
Angola				
Nestlé Angola Lda	Luanda	100%	AOA	24 000 000
Burkina Faso				
Nestlé Burkina S.A.	Ouagadougou	100%	XOF	50 000 000
Cameroon				
Nestlé Cameroun	Douala	100%	XAF	650 000 000
Côte d'Ivoire				
△ Nestlé Côte d'Ivoire	Abidjan	86.5%	XOF	5 517 600 000
<i>Listed on the Abidjan stock exchange, market capitalisation XOF 53.0 billion, quotation code (ISIN) CI0009240728</i>				
Democratic Republic of Congo				
Nestlé Congo s.p.r.l.	Kinshasa	100%	USD	3 200 000
Egypt				
Nestlé Egypt S.A.E.	Giza	100%	EGP	80 722 000
Nestlé Waters Distribution Company	Cairo	64%	EGP	15 200 000
Nestlé Waters Egypt S.A.E.	Cairo	63.7%	EGP	81 500 000
Gabon				
Nestlé Gabon	Libreville	90%	XAF	344 000 000
Ghana				
Nestlé Central and West Africa Ltd	Accra	100%	GHS	46 000
Nestlé Ghana Ltd	Accra	76%	GHS	100 000
Guinea				
Nestlé Guinée S.A.	Conakry	99%	GNF	3 424 000 000
Kenya				
Nestlé Equatorial African Region Limited	Nairobi	100%	KES	132 000 000
Nestlé Kenya Ltd	Nairobi	100%	KES	89 625 000
Mali				
Nestlé Mali S.A.U.	Bamako	100%	XOF	10 000 000
Mauritius				
Nestlé SEA Trading Ltd	Port Louis	100%	USD	2
Nestlé's Products (Mauritius) Ltd	Port Louis	100%	BSD	71 500

Companies of the Nestlé Group (continued)

Companies	City	% capital shareholdings	Currency	Capital
Morocco				
Nestlé Maghreb S.A.	Casablanca	100%	MAD	300 000
Nestlé Maroc S.A.	El Jadida	94.5%	MAD	156 933 000
Mozambique				
Nestlé Mocambique Lda	Maputo	100%	MZN	400 004 000
Niger				
Nestlé Niger	Niamey	75%	XOF	50 000 000
Nigeria				
△ Nestlé Nigeria Plc	Ilupeju	63.2%	NGN	396 328 125
<i>Listed on the Lagos stock exchange, market capitalisation NGN 353.3 billion, quotation code (ISIN) NGNESTLE0006</i>				
Senegal				
Nestlé Sénégal	Dakar	100%	XOF	1 620 000 000
South Africa				
Cereal Partners South Africa	¹⁾ Randburg	50%	ZAR	4 999 000
Galderma Laboratories South Africa (Pty) Ltd ^o	¹⁾ Randburg	50%	ZAR	375 000
Nestlé (South Africa) (Pty) Ltd	Johannesburg	100%	ZAR	53 400 000
Specialised Protein Products (Pty) Ltd	Bryanston	100%	ZAR	4 000
Togo				
Nestlé Togo S.A.U.	Lome	100%	XOF	50 000 000
Tunisia				
Nestlé Tunisie Distribution S.A.	Tunis	99.5%	TND	100 000
Nestlé Tunisie S.A.	Tunis	99.5%	TND	8 438 280
Zimbabwe				
Nestlé Zimbabwe (Private) Ltd	Harare	100%	USD	2 000 000

Companies of the Nestlé Group (continued)

Companies	City	% capital shareholdings	Currency	Capital
Americas				
Argentina				
Dairy Partners Americas Argentina S.A.	¹⁾ Buenos Aires	50%	ARS	98 808
Dairy Partners Americas Manufacturing Argentina S.A.	¹⁾ Buenos Aires	50%	ARS	272 500
Eco de Los Andes S.A.	Buenos Aires	50.9%	ARS	92 524 285
Nestlé Argentina S.A.	Buenos Aires	100%	ARS	10 809 000
Nestlé Waters Argentina S.A.	Buenos Aires	100%	ARS	6 420 838
Barbados				
Lacven Corporation	¹⁾ [◇] Barbados	50%	USD	65 159 192
Bermuda				
Centram Holdings Ltd	[◇] Hamilton	100%	USD	12 000
DPA Manufacturing Holdings Ltd	¹⁾ [◇] Hamilton	50%	USD	23 639 630
Bolivia				
Nestlé Bolivia S.A.	Santa Cruz	100%	BOB	191 900
Fagal Srl	Santa Cruz	100%	BOB	126 100 000
Brazil				
ASB-Bebidas e Alimentos Ltda	São Paulo	100%	BRL	1 000
Chocolates Garoto S.A.	Vila Velha	100%	BRL	161 450 000
CPW Brasil Ltda	¹⁾ São Paulo	50%	BRL	7 885 520
Dairy Partners Americas Brasil Ltda	¹⁾ São Paulo	50%	BRL	27 606 368
Dairy Partners Americas Manufacturing Brasil Ltda	¹⁾ São Paulo	50%	BRL	39 468 974
Dairy Partners Americas Nordeste – Produtos Alimentícios Ltda	¹⁾ Garanhuns	50%	BRL	100 000
Galderma Brasil Ltda ^o	¹⁾ São Paulo	50%	BRL	19 741 602
Innéov Brasil Nutricosméticos Ltda ^o	¹⁾ Duque de Caxias	50%	BRL	201 160
Nestlé Brasil Ltda	São Paulo	100%	BRL	450 092 396
Nestlé Nordeste Alimentos e Bebidas Ltda	Feira de Santana	100%	BRL	12 713 641
Nestlé Sul Alimentos e Bebidas Ltda	Carazinho	100%	BRL	100 000
Nestlé Waters Brasil – Bebidas e Alimentos Ltda	São Paulo	100%	BRL	87 248 341
Canada				
G. Production Canada Inc. ^o	¹⁾ Baie D'Urfé (Québec)	50%	CAD	100
Galderma Canada Inc. ^o	¹⁾ New Brunswick	50%	CAD	100
Jenny Craig Weight Loss Centres (Canada) Company	Halifax (Nova Scotia)	100%	CAD	10 000
Nestlé Canada Inc.	Toronto (Ontario)	100%	CAD	47 165 540
Nestlé Capital Canada Ltd	[◇] Toronto (Ontario)	100%	CAD	1 010
Nestlé Globe Inc.	Toronto (Ontario)	100%	CAD	106 000 100
Cayman Islands				
Hsu Fu Chi International Limited	Grand Cayman	60%	SGD	7 950 000
Chile				
Aguas CCU – Nestlé Chile S.A.	²⁾ Santiago de Chile	49.7%	CLP	49 799 375 321
Cereales CPW Chile Ltda	¹⁾ Santiago de Chile	50%	CLP	3 026 156 114
Comercializadora de Productos Nestlé S.A.	Santiago de Chile	99.7%	CLP	1 000 000

Companies of the Nestlé Group (continued)

Companies	City	% capital shareholdings	Currency	Capital
Chile (continued)				
Gerber Chile S.A.	Santiago de Chile	100%	CLP	4 009 604 142
Nestlé Chile S.A.	Santiago de Chile	99.7%	CLP	11 832 926 000
Colombia				
Comestibles La Rosa S.A.	Bogotá	100%	COP	126 397 400
Dairy Partners Americas Manufacturing Colombia Ltda	¹⁾ Bogotá	50%	COP	200 000 000
Nestlé de Colombia S.A.	Bogotá	100%	COP	1 291 305 400
Nestlé Purina PetCare de Colombia S.A.	Bogotá	100%	COP	17 030 000 000
Costa Rica				
Compañía Nestlé Costa Rica S.A.	Barreal de Heredia	100%	CRC	18 000 000
Gerber Ingredients, S.A.	San José	100%	CRC	10 000
Cuba				
Coralac S.A.	La Habana	60%	USD	6 350 000
Los Portales S.A.	La Habana	50%	USD	24 110 000
Dominican Republic				
Nestlé Dominicana S.A.	Santo Domingo	97.2%	DOP	48 500 000
Silsa Dominicana S.A.	Santo Domingo	97.2%	DOP	10 000
Ecuador				
Ecuajugos S.A.	¹⁾ Quito	50%	USD	232 000
Industrial Surindu S.A.	Quito	100%	USD	3 000 000
Nestlé Ecuador S.A.	Quito	100%	USD	1 776 760
El Salvador				
Nestlé El Salvador, S.A. de C.V.	San Salvador	100%	USD	4 457 200
Guatemala				
Malher S.A.	Guatemala	92%	GTQ	100 000 000
Nestlé Guatemala S.A.	Mixco	100%	GTQ	23 460 600
Honduras				
Nestlé Hondureña S.A.	Tegucigalpa	100%	PAB	200 000
Jamaica				
Nestlé Jamaica Ltd	Kingston	100%	JMD	49 200 000
Mexico				
Cereal Partners México, S.A. de C.V.	¹⁾ México, D.F.	50%	MXN	500 000
CPW México, S. de R.L. de C.V.	¹⁾ México, D.F.	50%	MXN	43 138 000
Galderma México, S.A. de C.V. ^o	¹⁾ México, D.F.	50%	MXN	2 385 000
Manantiales La Asunción, S.A.P.I. de C.V.	México, D.F.	40%	MXN	1 205 827 492
Marcas Nestlé, S.A. de C.V.	México, D.F.	100%	MXN	500 050 000
Nescalín, S.A. de C.V.	^o México, D.F.	100%	MXN	445 826 740
Nespresso México, S.A. de C.V.	México, D.F.	100%	MXN	10 050 000
Nestlé México, S.A. de C.V.	México, D.F.	100%	MXN	607 532 730

Companies of the Nestlé Group (continued)

Companies	City	% capital shareholdings	Currency	Capital
Mexico (continued)				
Nestlé Servicios Corporativos, S.A. de C.V.	México, D.F.	100%	MXN	170 100 000
Nestlé Servicios Industriales, S.A. de C.V.	México, D.F.	100%	MXN	1 050 000
Productos Gerber, S.A. de C.V.	México, D.F.	100%	MXN	5 252 440
Ralston Purina México, S.A. de C.V.	México, D.F.	100%	MXN	9 257 112
Waters Partners Services México, S.A.P.I. de C.V.	México, D.F.	40%	MXN	620 000
Nicaragua				
Compañía Centroamericana de Productos Lácteos, S.A.	Managua	92.6%	NIO	10 294 900
Nestlé Nicaragua, S.A.	Managua	100%	USD	150 000
Panama				
Food Products (Holdings), S.A.	◊ Panamá City	100%	PAB	286 000
Garma Enterprises, S.A.	◊ Panamá City	92%	PAB	0
Lacteos de Centroamérica, S.A.	Panamá City	100%	USD	1 500 000
Nestlé Panamá, S.A.	Panamá City	100%	PAB	17 500 000
Unilac, Inc.	◊ Panamá City	100%	USD	750 000
Paraguay				
Nestlé Paraguay S.A.	Asunción	100%	PYG	100 000 000
Peru				
Nestlé Marcas Perú, S.A.C.	Lima	100%	PEN	1 000
Nestlé Perú, S.A.	Lima	99.6%	PEN	120 683 387
Puerto Rico				
Nestlé Puerto Rico, Inc.	Cataño	100%	USD	500 000
Payco Foods Corporation	Bayamon	100%	USD	890 000
SWIRL Corporation	Guaynabo	100%	USD	1 000 000
Trinidad and Tobago				
Nestlé Caribbean, Inc.	Valsayn	100%	USD	100 000
Nestlé Trinidad and Tobago Ltd	Valsayn	100%	TTD	35 540 000
CPW Trinidad & Tobago Limited	¹⁾ Valsayn	50%	USD	50 000
United States				
Beverage Partners Worldwide (North America)	¹⁾ Wilmington (Delaware)	50%	USD	—
Checkerboard Holding Company, Inc.	◊ Wilmington (Delaware)	100%	USD	1 001
Dreyer's Grand Ice Cream Holdings, Inc.	◊ Wilmington (Delaware)	100%	USD	10
Galderma Laboratories, Inc. ^o	¹⁾ Fort Worth (Texas)	50%	USD	981
Galderma Research and Development, Inc. ^o	¹⁾ Dover (New Hampshire)	50%	USD	2 050 000
Gerber Finance Company	◊ Wilmington (Delaware)	100%	USD	1
Gerber Life Insurance Company	New York	100%	USD	148 500 000
Gerber Products Company	Fremont (Michigan)	100%	USD	1 000
Jenny Craig Holdings, Inc.	◊ Wilmington (Delaware)	100%	USD	0
Jenny Craig Operations, Inc.	Los Angeles (California)	100%	USD	0
Jenny Craig Weight Loss Centres, Inc.	◊ Wilmington (Delaware)	100%	USD	2
Jenny Craig, Inc.	◊ Wilmington (Delaware)	100%	USD	0
Nespresso USA, Inc.	Wilmington (Delaware)	100%	USD	1 000

Companies of the Nestlé Group (continued)

Companies	City	% capital shareholdings	Currency	Capital
United States (continued)				
Nestlé Capital Corporation	◊ Wilmington (Delaware)	100%	USD	1 000 000
Nestlé Dreyer's Ice Cream Company	Wilmington (Delaware)	100%	USD	1
Nestlé Holdings, Inc.	◊ Wilmington (Delaware)	100%	USD	100 000
Nestlé Nutrition R&D Centers, Inc.	Wilmington (Delaware)	100%	USD	10 000
Nestlé Prepared Foods Company	Philadelphia (Pennsylvania)	100%	USD	476 760
Nestlé Purina PetCare Company	St. Louis (Missouri)	100%	USD	1 000
Nestlé Purina PetCare Global Resources, Inc.	Wilmington (Delaware)	100%	USD	1 000
Nestlé R&D Center, Inc.	Wilmington (Delaware)	100%	USD	10 000
Nestlé Transportation Company	Wilmington (Delaware)	100%	USD	100
Nestlé USA, Inc.	Wilmington (Delaware)	100%	USD	1 000
Nestlé Waters North America Holdings, Inc.	◊ Wilmington (Delaware)	100%	USD	10 000 000
Nestlé Waters North America, Inc.	Wilmington (Delaware)	100%	USD	10 700 000
Prometheus Laboratories Inc.	Los Angeles (California)	100%	USD	100
Sweet Leaf Tea Company	Austin (Texas)	100%	USD	10
The Stouffer Corporation	◊ Cleveland (Ohio)	100%	USD	0
Tradewinds Beverage Company	Cincinnati (Ohio)	100%	USD	0
TSC Holdings, Inc.	◊ Wilmington (Delaware)	100%	USD	100 000
Vitality Foodservice Holding Corporation	◊ Dover (Delaware)	100%	USD	58 865
Vitality Foodservice, Inc.	Dover (Delaware)	100%	USD	1 240
Waggin' Train LLC	Greenville (South Carolina)	100%	USD	—
Uruguay				
Nestlé del Uruguay S.A.	Montevideo	100%	UYU	9 495 189
Venezuela				
Corporación Inlaca, C.A.	¹⁾ Caracas	50%	VEF	6 585
Laboratorios Galderma Venezuela, S.A.°	¹⁾ Caracas	50%	VEF	5
Nestlé Cadipro, S.A.	Caracas	100%	VEF	50 634
Nestlé Venezuela, S.A.	Caracas	100%	VEF	517
Novartis Nutrition de Venezuela, S.A.	Caracas	100%	VEF	1 125

Companies of the Nestlé Group (continued)

Companies	City	% capital shareholdings	Currency	Capital
Asia				
Bahrain				
Nestlé Bahrain Trading WLL	Manama	49%	BHD	200 000
Bangladesh				
Nestlé Bangladesh Ltd	Dhaka	100%	BDT	100 000 000
Greater China Region				
Beverage Partners Worldwide (Pacific) Limited	¹⁾ Hong Kong	50%	HKD	1 000 000
CPW Hong Kong Limited	¹⁾ Hong Kong	50%	HKD	402 773 606
CPW Tianjin Limited	¹⁾ Tianjin	50%	CNY	305 000 000
Dongguan Andegu Plastic Packaging Material Limited	Dongguan	60%	HKD	10 000 000
Dongguan Hsu Chi Food Co., Limited	Dongguan	60%	HKD	700 000 000
Galderma Hong Kong Limited ^o	¹⁾ Hong Kong	50%	HKD	10 000
Guangzhou Refrigerated Foods Limited	Guangzhou	95.5%	CNY	390 000 000
Henan Hsu Fu Chi Foods Co., Limited	Zhumadian	60%	CNY	210 000 000
Hsu Fu Chi International Holdings Limited	^o Hong Kong	60%	HKD	1 500 000 000
Hubei Yinlu Foods Co., Limited	Hanchuan	60%	CNY	278 000 000
Nestlé (China) Limited	Beijing	100%	CNY	250 000 000
Nestlé Dongguan Limited	Dongguan	100%	CNY	472 000 000
Nestlé Hong Kong Limited	Hong Kong	100%	HKD	250 000 000
Nestlé Hulunbeir Limited	Erguna	100%	CNY	55 000 000
Nestlé Purina PetCare Tianjin Limited	Tianjin	100%	CNY	40 000 000
Nestlé Qingdao Limited	Laixi	100%	CNY	930 000 000
Nestlé R&D Centre Beijing Limited	Beijing	100%	CNY	40 000 000
Nestlé Shanghai Limited	Shanghai	95%	CNY	200 000 000
Nestlé Shuangcheng Limited	Shuangcheng	97%	CNY	435 000 000
Nestlé Sources Shanghai Limited	Shanghai	100%	CNY	211 000 000
Nestlé Sources Tianjin Limited	Tianjin	95%	CNY	204 000 000
Nestlé Taiwan Limited	Taipei	100%	TWD	100 000 000
Nestlé Tianjin Limited	Tianjin	100%	CNY	785 000 000
Shandong Yinlu Foods Co. Limited	Zhangqiu	60%	CNY	71 880 000
Shanghai Fuller Foods Co. Limited	Shanghai	100%	CNY	384 000 000
Shanghai Nestlé Product Services Limited	Shanghai	97%	CNY	83 000 000
Shanghai Totole First Food Limited	Shanghai	80%	CNY	72 000 000
Shanghai Totole Food Limited	Shanghai	80%	USD	7 800 000
Sichuan Haoji Food Co. Limited	Chengdu	80%	CNY	80 000 000
Xiamen Yinlu Foods Group Co., Limited	Xiamen	60%	CNY	311 590 000
Yunnan Dashan Drinks Co., Limited	Kunming	70%	CNY	35 000 000
India				
Galderma India Private Ltd ^o	¹⁾ Mumbai	50%	INR	24 156 000
Δ Nestlé India Ltd	New Delhi	62.8%	INR	964 157 160
<i>Listed on the Mumbai stock exchange, market capitalisation INR 402.3 billion, quotation code (ISIN) INE239A01016</i>				
Indonesia				
P. T. Beverage Partners Worldwide Indonesia	¹⁾ Jakarta	50%	IDR	2 210 500
P. T. Cereal Partners Indonesia	¹⁾ Jakarta	50%	IDR	956 500 000

Companies of the Nestlé Group (continued)

Companies	City	% capital shareholdings	Currency	Capital
Indonesia (continued)				
P. T. Nestlé Indofood Citarasa Indonesia	¹⁾ Jakarta	50%	IDR	200 000 000 000
P. T. Nestlé Indonesia	Jakarta	90.2%	IDR	152 753 440 000
Iran				
Anahita Polour Industrial Mineral Water Company	Tehran	100%	IRR	35 300 000
Nestlé Iran (Private Joint Stock Company)	Tehran	89.7%	IRR	358 538 000 000
Israel				
Nespresso Israel Ltd	Tel-Aviv	100%	ILS	1 000
△ OSEM Investments Ltd	Shoham	53.8%	ILS	110 644 444
<i>Listed on the Tel-Aviv stock exchange, market capitalisation ILS 6.2 billion, quotation code (ISIN) IL0003040149</i>				
Japan				
Galderma K.K.°	¹⁾ Tokyo	50%	JPY	10 000 000
Nestlé Japan Ltd	Kobe	100%	JPY	20 000 000 000
Nestlé Nespresso K.K.	Kobe	100%	JPY	10 000 000
Jordan				
Ghadeer Mineral Water Co. WLL	Amman	75%	JOD	1 785 000
Nestlé Jordan Trading Co. Ltd	Amman	77.8%	JOD	410 000
Kuwait				
Nestlé Kuwait General Trading Co. WLL	Safat	49%	KWD	300 000
Lebanon				
Société des Eaux Minérales Libanaises S.A.L.	Hazmieh	100%	LBP	1 610 000 000
Société pour l'Exportation des Produits Nestlé S.A.	Baabda	100%	CHF	1 750 000
SOHAT Distribution S.A.L.	Hazmieh	100%	LBP	160 000 000
Malaysia				
Cereal Partners (Malaysia) Sdn. Bhd.	¹⁾ Petaling Jaya	50%	MYR	1 025 000
△ Nestlé (Malaysia) Bhd.	Petaling Jaya	72.6%	MYR	234 500 000
<i>Listed on the Kuala Lumpur stock exchange, market capitalisation MYR 13.2 billion, quotation code (ISIN) MYL470700005</i>				
Nestlé Asean (Malaysia) Sdn. Bhd.	Petaling Jaya	72.6%	MYR	42 000 000
Nestlé Manufacturing (Malaysia) Sdn. Bhd.	Petaling Jaya	72.6%	MYR	132 500 000
Nestlé Products Sdn. Bhd.	Petaling Jaya	72.6%	MYR	25 000 000
Purina PetCare (Malaysia) Sdn. Bhd.	Petaling Jaya	100%	MYR	1 100 000
Oman				
Nestlé Oman Trading LLC	Muscat	49%	OMR	300 000
Pakistan				
△ Nestlé Pakistan Ltd	Lahore	59%	PKR	453 495 840
<i>Listed on the Karachi and the Lahore stock exchanges, market capitalisation PKR 163.1 billion, quotation code (ISIN) PK0025101012</i>				
Palestinian Territories				
Nestlé Trading Private Limited Company	Bethlehem	97.5%	JOD	200 000

Companies of the Nestlé Group (continued)

Companies	City	% capital shareholdings	Currency	Capital
Philippines				
Beverage Partners Worldwide (Philippines) Inc.	¹⁾ Makati City	50%	PHP	10 224 600
CPW Philippines, Inc.	¹⁾ Makati City	50%	PHP	7 500 000
Nestlé Business Services AOA, Inc.	Bulacan	100%	PHP	70 000 000
Nestlé Philippines, Inc.	Cabuyao	100%	PHP	2 300 927 400
Penpro, Inc.	Makati City	88.5%	PHP	630 000 000
Qatar				
Al Manhal Water Factory Co. Ltd WLL	Doha	51%	QAR	5 500 000
Nestlé Qatar Trading LLC	Doha	49%	QAR	1 680 000
Republic of Korea				
Beverage Partners Worldwide Korea Limited	Seoul	50%	KRW	50 000 000
Galderma Korea Ltd ^o	¹⁾ Seoul	50%	KRW	500 000 000
Nestlé Korea Ltd	Seoul	100%	KRW	21 141 560 000
Pulmuone Waters Co., Ltd	Goesan-Gun, Chunbuk	51%	KRW	6 778 760 000
Saudi Arabia				
Al Anhar Water Factory Co. Ltd	Jeddah	64%	SAR	7 500 000
Al Manhal Water Factory Co. Ltd	Riyadh	64%	SAR	7 000 000
Nestlé Saudi Arabia LLC	Jeddah	75%	SAR	27 000 000
Nestlé Water Factory Co. Ltd	Riyadh	64%	SAR	15 000 000
Saudi Food Industries Co. Ltd	Jeddah	51%	SAR	51 000 000
SHAS Company for Water Services Ltd	Riyadh	64%	SAR	13 500 000
Springs Water Factory Co. Ltd	Dammam	64%	SAR	5 000 000
Singapore				
Galderma Singapore Private Ltd ^o	¹⁾ Singapore	50%	SGD	1 387 000
Nestlé R&D Center (Pte) Ltd	Singapore	100%	SGD	20 000 000
Nestlé Singapore (Pte) Ltd	Singapore	100%	SGD	1 000 000
Nestlé TC Asia Pacific Pte Ltd	^o Singapore	100%	JPY	10 000 000 000
			SGD	2
Sri Lanka				
△ Nestlé Lanka PLC	Colombo	90.8%	LKR	537 254 630
<i>Listed on the Colombo stock exchange, market capitalisation LKR 47.1 billion, quotation code (ISIN) LK0128N00005</i>				
Syria				
Nestlé Syria S.A.	Damascus	100%	SYP	800 000 000
Thailand				
Nestlé (Thai) Ltd	Bangkok	100%	THB	880 000 000
Perrier Vittel (Thailand) Ltd	Bangkok	100%	THB	235 000 000
Quality Coffee Products Ltd	Bangkok	50%	THB	500 000 000
United Arab Emirates				
CP Middle East FZCO	¹⁾ Dubai	50%	AED	600 000
Nestlé Dubai Manufacturing LLC	Dubai	49%	AED	300 000
Nestlé Middle East FZE	Dubai	100%	AED	3 000 000

Companies of the Nestlé Group (continued)

Companies	City	% capital shareholdings	Currency	Capital
United Arab Emirates (continued)				
Nestlé Treasury Centre-Middle East & Africa Ltd	◊ Dubai	100%	USD	6 650 500 000
Nestlé UAE LLC	Dubai	49%	AED	2 000 000
Nestlé Waters Factory H&O LLC	Dubai	48%	AED	22 300 000
Nestlé Waters Middle East Investments FZCO	◊ Dubai	100%	AED	600 000
Uzbekistan				
Nestlé Uzbekistan MChJ	Namangan	95.9%	USD	32 565 463
Vietnam				
La Vie Limited Liability Company	Long An	65%	USD	2 663 400
Nestlé Vietnam Ltd	Dongnai	100%	USD	75 266 000

Companies of the Nestlé Group (continued)

Companies	City	% capital shareholdings	Currency	Capital
Oceania				
Australia				
Cereal Partners Australia Pty Ltd	¹⁾ Sydney	50%	AUD	107 800 000
Galderma Australia Pty Ltd ^o	¹⁾ Sydney	50%	AUD	2 500 300
Jenny Craig Weight Loss Centres Pty Ltd	^o Melbourne	100%	AUD	210 562
Nestlé Australia Ltd	Sydney	100%	AUD	274 000 000
Fiji				
Nestlé (Fiji) Ltd	Lami	100%	FJD	3 000 000
French Polynesia				
Nestlé Polynésie S.A.S.	Papeete	100%	XPF	5 000 000
New Caledonia				
Nestlé Nouvelle-Calédonie S.A.S.	Nouméa	100%	XPF	250 000 000
New Zealand				
CPW New Zealand	¹⁾ Auckland	50%	NZD	—
Jenny Craig Weight Loss Centres (NZ) Ltd	^o Auckland	100%	NZD	10 000
Nestlé New Zealand Limited	Auckland	100%	NZD	300 000
Papua New Guinea				
Nestlé (PNG) Ltd	Lae	100%	PGK	11 850 000

Technical assistance, research and development units

Technical Assistance	TA
Research centres	R
Research & Development centres	R&D
Product Technology centres	PTC

City of operations

Switzerland

Nestec S.A.	Vevey	TA
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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 through affiliated companies.

The units involved are:

CPW R&D Centre	¹⁾ Orbe	R&D
Nestle Institute of Health Sciences	Ecublens	R
Nestlé Product Technology Centre	Konolfingen	PTC
Nestlé Product Technology Centre	Orbe	PTC
Nestlé R&D Centre	Broc	R&D
Nestlé R&D Centre	Orbe	R&D
Nestlé Research Centre	Lausanne	R
Nestlé System Technology Centre	Orbe	PTC

Australia

CPW R&D Centre	¹⁾ Rutherglen	R&D
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Chile

Nestlé R&D Centre	Santiago de Chile	R&D
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Côte d'Ivoire

Nestlé R&D Centre	Abidjan	R&D
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France

Galderma R&D Centre ^o	¹⁾ Biot	R&D
Nestlé Product Technology Centre	Beauvais	PTC
Nestlé Product Technology Centre	Lisieux	PTC
Nestlé Product Technology Centre	Vittel	PTC
Nestlé R&D Centre	Aubigny	R&D
Nestlé R&D Centre	Tours	R&D

Germany

Nestlé Product Technology Centre	Singen	PTC
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Technical assistance, research and development units (continued)

	City of operations	
Greater China Region		
Nestlé R&D Centre	Beijing	R&D
Nestlé R&D Centre	Shanghai	R&D
Israel		
Nestlé R&D Centre	Sderot	R&D
Italy		
Nestlé R&D Centre	Sansepolcro	R&D
Mexico		
Nestlé R&D Centre	Queretaro	R&D
Singapore		
Nestlé R&D Centre	Singapore	R&D
Sweden		
Galderma R&D Centre°	Uppsala	R&D
United Kingdom		
Nestlé Product Technology Centre	York	PTC
United States		
Galderma R&D Centre°	¹⁾ Cranbury (New Jersey)	R&D
Nestlé Product Technology Centre	Fremont (Michigan)	PTC
Nestlé Product Technology Centre	Marysville (Ohio)	PTC
Nestlé Product Technology Centre	St. Louis (Missouri)	PTC
Nestlé R&D Centre	Bakersfield (California)	R&D
Nestlé R&D Centre	Minneapolis (Minnesota)	R&D
Nestlé R&D Centre	San Diego (California)	R&D
Nestlé R&D Centre	Solon (Ohio)	R&D
Nestlé R&D Centre	St. Joseph (Missouri)	R&D

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Income statement for the year ended 31 December 2011

In millions of CHF	Notes	2011	2010
Income			
Income from Group companies	2	6 460	10 119
Financial income	3	148	—
Profit on disposal of fixed assets	4	2	29 923
Other income		118	104
Total income		6 728	40 146
Expenses			
Investment write downs	5	(843)	(1 511)
Administration and other expenses	6	(242)	(212)
Financial expense	7	(65)	(540)
Total expenses before taxes		(1 150)	(2 263)
Profit before taxes		5 578	37 883
Taxes	8	(378)	(389)
Profit for the year	21	5 200	37 494

Balance sheet as at 31 December 2011

before appropriations

In millions of CHF	Notes	2011	2010
Assets			
Current assets			
Liquid assets	9	2 396	9 189
Receivables	10	1 242	947
Prepayments and accrued income		11	9
Total current assets		3 649	10 145
Fixed assets			
Financial assets	11	46 214	51 532
Intangible assets	15	1 102	1 469
Tangible fixed assets	16	—	—
Total fixed assets		47 316	53 001
Total assets		50 965	63 146
Liabilities and equity			
Liabilities			
Short-term payables	17	5 589	8 300
Accruals and deferred income		35	67
Long-term payables	18	153	153
Provisions	19	878	751
Total liabilities		6 655	9 271
Equity			
Share capital	20/21	330	347
Legal reserves	21	8 470	12 777
Special reserve	21	28 546	2 859
Profit brought forward	21	1 764	398
Profit for the year	21	5 200	37 494
Total equity		44 310	53 875
Total liabilities and equity		50 965	63 146

1. 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 other Long-Term Incentive Plans. Own shares repurchased for the Share Buy-Back Programme are carried at cost. All gains and losses on own shares are recorded in the income statement.

Intangible assets

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

Tangible fixed assets

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

Provisions

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

Employee benefits

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

Prepayments and accrued income

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

Accruals and deferred income

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

2. Income from Group companies

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

3. Financial income

In millions of CHF	2011	2010
Net result on loans to Group companies	90	—
Other financial income	58	—
	148	—

In 2010 substantial exchange losses on long-term loans to Group companies and investments were recorded as a result of the strengthening of the Swiss Franc against most foreign currencies. The interest income arising on these loans and investments partially compensated the exchange losses. The net charge was included under “Financial expense” in Note 7.

4. 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. In 2010, this included the net gains realised on the sale of the remaining 52% of Alcon Inc. to Novartis (CHF 29 903 million).

5. Investment write downs

In millions of CHF	2011	2010
Participations and loans	351	639
Trademarks and other industrial property rights	492	872
	843	1 511

The write down of trademarks and other industrial property rights in 2011 includes a fifth of the amount paid for the acquisition of Kraft Foods frozen pizza (CHF 367 million).

In 2010, trademarks linked to the acquisition of Kraft Foods frozen pizza were amortised by one fifth of the amount paid (CHF 367 million), as well as the balance of the amount paid in 2008 in respect of Gerber North America’s Intellectual Property Rights (CHF 286 million).

6. Administration and other expenses

In millions of CHF	2011	2010
Salaries and welfare expenses	105	104
Other expenses	137	108
	242	212

7. Financial expense

In millions of CHF	2011	2010
Net result on loans from Group companies (see Note 3)	65	501
Other financial expenses (see Note 3)	—	39
	65	540

8. Taxes

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

9. Liquid assets

In millions of CHF	2011	2010
Cash and cash equivalents	1 997	5 346
Marketable securities	399	3 843
	2 396	9 189

Cash and cash equivalents include deposits of CHF 650 million with maturities of less than three months. Marketable securities of CHF 399 million consist of commercial papers with maturities from three to six months.

10. Receivables

In millions of CHF	2011	2010
Amounts owed by Group companies (current accounts)	1 064	763
Other receivables	178	184
	1 242	947

11. Financial assets

In millions of CHF	Notes	2011	2010
Participations in Group companies	12	28 131	28 865
Loans to Group companies	13	13 233	13 845
Own shares	14	4 798	8 764
Other investments		52	58
		46 214	51 532

12. Participations in Group companies

In millions of CHF	2011	2010
At 1 January	28 865	15 441
Net increase/(decrease)	(491)	14 010
Write downs	(243)	(586)
At 31 December	28 131	28 865

The increase in participations is mainly due to the acquisitions made in China. It was overcompensated by the capital decrease in one affiliate resulting in a net decrease for 2011.

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 Consolidated Financial Statements of the Nestlé Group.

13. Loans to Group companies

In millions of CHF	2011	2010
At 1 January	13 845	11 588
New loans	5 438	5 340
Repayments and write downs	(6 112)	(1 515)
Realised exchange differences	(1 602)	(779)
Unrealised exchange differences	1 664	(789)
At 31 December	13 233	13 845

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

14. Own shares

In millions of CHF	2011		2010	
	Number	Amount	Number	Amount
Share Buy-Back Programme	75 200 000	3 930	148 730 000	7 962
Management Stock Option Plan	7 862 930	353	8 257 590	338
Restricted Stock Unit Plan	9 449 256	439	9 510 199	412
Performance Share Unit Plan	363 170	17	301 530	13
Future Long-Term Incentive Plans	1 275 135	59	891 771	39
	94 150 491	4 798	167 691 090	8 764

The share capital of the Company changed twice in the last two financial years as a consequence of the cancellation of registered shares purchased as part of the various Share Buy-Back Programmes. In 2010, the share capital was reduced by 185 000 000 shares from CHF 365 million to CHF 347 million. In 2011, the share capital was further reduced by 165 000 000 shares from CHF 347 million to CHF 330 million. The purchase value of those cancelled shares amount to CHF 8826 million. During the year, 91 470 000 shares were purchased as part of the Share Buy-Back Programme for CHF 4794 million.

The Company held 7 862 930 shares to cover management option rights and 11 087 561 shares to cover the other incentives plans. The Management Stock Option Plan is valued at strike price if lower than acquisition cost, while the shares held for the other plans are valued at acquisition cost. During the year 5 250 599 shares were delivered as part of the Nestlé Group remuneration plans for a total value of CHF 235 million.

15. Intangible assets

This amount represents the balance of the trademarks and other industrial property rights capitalised value linked with the acquisition of Kraft Foods' frozen pizza. A fifth of the initial value has been amortised during the period.

In 2010, this amount represented the balance of the trademarks and other industrial property rights capitalised value linked with the acquisition of Kraft Foods frozen pizza, amortised over a five year period (refer to Note 5).

16. 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 2011 amounted to CHF 24 million (2010: CHF 24 million).

17. Short-term payables

In millions of CHF	2011	2010
Amounts owed to Group companies	5 478	7 898
Other payables	111	402
	5 589	8 300

18. Long-term payables

Amounts owed to Group companies represent a long-term loan issued in 1989.

19. Provisions

In millions of CHF					2011	2010
	Uninsured risks	Exchange risks	Swiss & foreign taxes	Other	Total	Total
At 1 January	475	—	172	104	751	1 035
Provisions made in the period	—	172	101	48	321	155
Amounts used	—	—	(149)	(44)	(193)	(416)
Unused amounts reversed	—	—	—	(1)	(1)	(23)
At 31 December	475	172	124	107	878	751

20. Share capital

The share capital of the Company has been reduced by CHF 16 500 000 through the cancellation of 165 000 000 registered shares purchased as part of the Share Buy-Back Programme. As a result, the share capital of Nestlé S.A. is now structured as follows:

	2011	2010
Number of registered shares of nominal value CHF 0.10 each	3 300 000 000	3 465 000 000
In millions of CHF	330	347

According to article 5 of the Company's Articles of Association, no person or entity shall be registered with voting rights for more than 5% of the share capital as recorded in the commercial register. This limitation on registration also applies to persons who hold some or all of their shares through nominees pursuant to this article. In addition, article 11 provides that no person may exercise, directly or indirectly, voting rights, with respect to own shares or shares represented by proxy, in excess of 5% of the share capital as recorded in the commercial register.

At 31 December 2011, the share register showed 142 059 registered shareholders. If unprocessed applications for registration, the indirect holders of shares under American Depositary Receipts and the beneficial owners of shareholders registered as nominees 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, 5% or more of the share capital. Group companies were holding together 3.9% of the Nestlé S.A. share capital as at 31 December 2011.

Conditional share capital

According to the Articles of Association, the share capital may be increased in an amount not to exceed CHF 10 000 000 (ten million Swiss francs) by issuing up to 100 000 000 registered shares with a nominal value of CHF 0.10 each, which shall be fully paid up, through the exercise of conversion rights and/or option rights granted in connection with the issuance by Nestlé S.A. or one of its subsidiaries of newly or already issued convertible debentures, debentures with option rights or other financial market instruments.

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

21. 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 2011	347	1 888	10 889	2 859	37 892	53 875
Cancellation of 165 000 000 shares (ex Share Buy-Back Programme)	(17)	17	(8 826)			(8 826)
Transfer to the special reserve	—	—	—	30 000	(30 000)	—
Profit for the year	—	—	—	—	5 200	5 200
Dividend for 2010	—	—	—	—	(5 939)	(5 939)
Movement of own shares	—	—	4 502	(4 502)	—	—
Dividend on own shares held on the payment date of 2010 dividend	—	—	—	189	(189)	—
At 31 December 2011	330	1 905	6 565	28 546	6 964	44 310

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

(b) Refer to Note 22.

22. Reserve for own shares

At 31 December 2010, the reserve for own shares amounting to CHF 10 889 million represented the cost of 18 961 090 shares earmarked to cover the Nestlé Group remuneration plans and 40 403 169 shares held for trading purposes. Another 148 730 000 shares were held as part of the Share Buy-Back Programme.

During the year, an additional 91 470 000 shares have been acquired at a cost of CHF 4 794 million under the Share Buy-Back Programmes while 165 000 000 shares were cancelled. A total of 5 250 599 shares have been delivered to the beneficiaries of the Nestlé Group remuneration plans. In addition, 2 077 200 shares have been acquired at a cost of CHF 111 million for trading purposes and 5 240 000 shares at a cost of CHF 274 million to cover Nestlé Group remuneration plans and 8 610 781 shares have been sold for a total amount of CHF 466 million.

Another Group company holds 33 869 588 Nestlé S.A. shares. The total of own shares of 128 020 079 held by Group companies at 31 December 2011 represents 3.9% of the Nestlé S.A. share capital (208 094 259 own shares held at 31 December 2010, representing 6.0% of the Nestlé S.A. share capital).

23. Contingencies

At 31 December 2011, the total of the guarantees 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 19 610 million (2010: CHF 17 877 million).

24. Risk assessment

Nestlé Management considers that the risks for Nestlé S.A. are the same as the ones identified at Group level, as the holding is an ultimate aggregation of all the entities of the Group.

Therefore, we refer to the Nestlé Group Enterprise Risk Management Framework (ERM) described in the Note 23 of the Consolidated Financial Statements.

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

Annual remuneration of members of the Board of Directors

2011

	Cash in CHF ^(a)	Number of shares	Discounted value of shares in CHF ^(b)	Total remuneration
Peter Brabeck-Letmathe, Chairman ^(c)	1 600 000	122 606	5 373 821	6 973 821
Paul Bulcke, Chief Executive Officer ^(c)	—	—	—	—
Andreas Koopmann, 1st Vice Chairman	325 000	5 939	260 306	585 306
Rolf Hänggi, 2nd Vice Chairman	330 000	6 035	264 514	594 514
Jean-René Fourtou	275 000	4 981	218 317	493 317
Daniel Borel	205 000	3 640	159 541	364 541
Jean-Pierre Meyers	175 000	3 066	134 383	309 383
André Kudelski	205 000	3 640	159 541	364 541
Carolina Müller-Möhl	175 000	3 066	134 383	309 383
Steven G. Hoch	175 000	3 066	134 383	309 383
Naiña Lal Kidwai	205 000	3 640	159 541	364 541
Beat Hess	205 000	3 640	159 541	364 541
Titia de Lange	155 000	2 682	117 552	272 552
Jean-Pierre Roth	155 000	2 682	117 552	272 552
Ann M. Veneman	155 000	2 682	117 552	272 552
Total for 2011	4 340 000	171 365	7 510 927	11 850 927
Total for 2010	4 185 000	127 407	8 867 028 ^(d)	13 052 028

(a) The cash amount includes the expense allowance of CHF 15 000. The Chairman receives no expense allowance.

(b) Nestlé S.A. shares received as part of the Board membership and the Committee fees are valued at the closing price of the share on the SIX Swiss Exchange on the ex-dividend date, discounted by 16.038% to account for the blocking period of three years.

(c) The Chairman and the Chief Executive Officer receive neither Board membership or Committee fees nor expense allowance.

(d) Including the fair value of stock options granted to the Chairman in 2010.

During 2011, one new Board member (Ms. Ann M. Veneman) joined the Board.

Peter Brabeck-Letmathe, in his capacity as active Chairman, received a cash compensation as well as Nestlé S.A. shares, which are blocked for three years. This in particular reflects certain responsibilities for the direction and control of the Group including the Nestlé Health Science Company and the direct leadership of Nestlé's interests in L'Oréal, Galderma and Laboratoires inneov. He also represents Nestlé at the European Round Table of Industrialists and at the Foundation Board of the World Economic Forum (WEF). All corresponding compensation is included in the disclosed amount. His total compensation was:

	2011		2010	
	Number	Value in CHF	Number	Value in CHF
Cash Compensation		1 600 000		1 600 000
Blocked Shares (discounted value)	122 606	5 373 821	80 475	3 526 424
Stock options (fair value at grant)	—	—	477 600	3 199 920
Total		6 973 821		8 326 344

Loans to members of the Board of Directors

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

Additional fees and remunerations of the Board of Directors

There are no additional fees or remunerations paid by Nestlé S.A. or one of its Group companies, directly or indirectly, to members of the governing body or closely related parties, except for CHF 35 000 paid to Mrs. T. de Lange who serves as a member of the Nestlé Nutritional Council (NNC).

Compensations and loans for former members of the Board of Directors

There is no compensation conferred during 2011 on former members of the Board of Directors who gave up their function during the year preceding the year under review or earlier. Similarly, there are no loans outstanding to former members of the Board of Directors.

Shares and stock options ownership of the non-executive members of the Board of Directors and closely related parties as at 31 December 2011

	Number of shares held ^(a)	Number of options held ^(b)
Peter Brabeck-Letmathe, Chairman	2 237 853	2 733 600
Andreas Koopmann, 1st Vice Chairman	72 973	—
Rolf Hänggi, 2nd Vice Chairman	72 440	—
Jean-René Fourtou	27 754	—
Daniel Borel	225 426	—
Jean-Pierre Meyers	1 425 574	—
André Kudelski	50 036	—
Carolina Müller-Möhl	168 008	—
Steven G. Hoch	213 844	—
Naïna Lal Kidwai	16 216	—
Beat Hess	15 816	—
Titia de Lange	5 414	—
Jean-Pierre Roth	5 414	—
Ann M. Veneman	2 682	—
Total as at 31 December 2011	4 539 450	2 733 600
Total as at 31 December 2010	4 048 300	3 093 600

(a) Including blocked shares.

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

Annual remuneration of members of the Executive Board

The total remuneration of members of the Executive Board amounts to CHF 43 513 350 for the year 2011 (CHF 48 809 452 for the year 2010). Remuneration principles are described in Appendix 1 of the Corporate Governance Report.

The valuation of equity compensation plans mentioned in this Note differs in some respect from compensation disclosures in Note 20.1 of the Consolidated Financial Statements of the Nestlé Group, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

The Company also made contributions of CHF 3 883 588 toward future pension benefits of the Executive Board members in line with Nestlé's Pension Benefit Policy (CHF 3 689 774 in 2010).

Highest total compensation for a member of the Executive Board

In 2011, the highest total compensation for a member of the Executive Board was conferred to Paul Bulcke, CEO.

	2011		2010	
	Number	Value in CHF	Number	Value in CHF
Annual Base Salary		2 000 000		2 000 000
Short-term Bonus (cash)		856 045		520 019
Short-term Bonus (discounted value of the share)	64 095	2 874 661	89 672	3 929 427
Stock Options (fair value at grant)	361 000	1 999 940	298 500	1 999 950
Performance Share Units (fair value at grant)	38 040	2 040 085	37 530	2 094 549
Other benefits		28 884		28 548
Total		9 799 615		10 572 493

The Company also made a contribution of CHF 949 676 towards future pension benefits in line with Nestlé's Pension Benefits Policy (CHF 1 031 504 in 2010).

Loans to members of the Executive Board

On 31 December 2011, there was an outstanding amount of CHF 91 192 for advances granted to two members of the Executive Board in line with the Nestlé Corporate Expatriation policy (of which CHF 66 664 to Chris Johnson, Head of Zone Americas).

Additional fees and remunerations of the Executive Board

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

Compensations and loans for former members of the Executive Board

A total of CHF 300 000 was conferred during 2011 to a former member of the Executive Board in consideration of ongoing services provided to the Company (CHF 400 000 was conferred during 2010 to a former member of the Executive Board).

On 31 December 2011, there were no loans outstanding to former members of the Executive Board.

Shares and stock options ownership of the members of the Executive Board and closely related parties as at 31 December 2011

	Number of shares held ^(a)	Number of options held ^(b)
Paul Bulcke	325 853	1 396 800
Werner Bauer	210 288	362 200
José Lopez	53 001	347 500
John J. Harris	16 759	279 800
James Singh	47 357	306 700
Laurent Freixe	29 166	240 700
Chris Johnson ^(c)	5 350	81 300
Patrice Bula ^(d)	28 950	69 600
Doreswamy (Nandu) Nandkishore	47 080	68 600
Wan Ling Martello ^(e)	—	—
Marc Caira	39 100	245 350
Jean-Marc Duvoisin	43 862	115 200
Kurt Schmidt ^(f)	—	—
David P. Frick	25 707	—
Total as at 31 December 2011	872 473	3 513 750
Total as at 31 December 2010	1 033 203	3 257 500

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

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

(c) As from 1 January 2011

(d) As from 1 May 2011

(e) As from 1 November 2011

(f) As from 1 September 2011

Proposed appropriation of profit

In CHF 2011 2010

Retained earnings		
Balance brought forward	1 763 699 388	398 264 298
Profit for the year	5 200 333 068	37 493 689 405
	6 964 032 456	37 891 953 703

We propose the following appropriations:		
Transfer to the special reserve	—	30 000 000 000
Dividend for 2011, CHF 1.95 per share on 3 219 823 070 shares ^(a) (2010: CHF 1.85 on 3 312 569 900 shares) ^(b)	6 278 654 986	6 128 254 315
	6 278 654 986	36 128 254 315

Balance to be carried forward	685 377 470	1 763 699 388
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(a) Depending on the number of shares issued as of the dividend record date. Own shares held by the Nestlé Group are not entitled to dividend, consequently the dividend on those shares still held on 20 April 2012 will be transferred to the special reserve.

(b) The amount of CHF 189 358 073, representing the dividend on 102 355 715 own shares held at the date of the dividend payment, has been transferred to the special reserve.

Provided that the proposal of the Board of Directors is approved by the Annual General Meeting, the gross dividend will amount to CHF 1.95 per share, representing a net amount of CHF 1.2675 per share after payment of the Swiss withholding tax of 35%. The last trading day with entitlement to receive the dividend is 20 April 2012. The shares will be traded ex-dividend as of 23 April 2012. The net dividend will be payable as from 26 April 2012.

The Board of Directors

Cham and Vevey, 15 February 2012

Report of the Statutory auditor

to the General Meeting of Nestlé S.A.

As statutory auditor, we have audited the financial statements (income statement, balance sheet and notes to the annual accounts on pages 141 to 156) of Nestlé S.A. for the year ended 31 December 2011.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the Company's Articles of Incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2011 comply with Swiss law and the Company's Articles of Incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the Company's Articles of Incorporation. We recommend that the financial statements submitted to you be approved.



KPMG SA

Mark Baillache
Licensed Audit Expert
Auditor in Charge

Fabien Lussu
Licensed Audit Expert

Geneva, 15 February 2012

Notes

