

Consolidated Accounts of the Nestlé Group

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Consolidated income statement for the year ended 31 December 2004

In millions of CHF	Notes	2004	2003
Sales to customers	1	86 769	87 979
Cost of goods sold		(36 146)	(37 583)
Distribution expenses		(7 045)	(7 104)
Marketing and administration expenses		(31 195)	(31 081)
Research and development costs		(1 413)	(1 205)
EBITA Earnings Before Interest, Taxes and Amortisation of goodwill	1	10 970	11 006
Net other income (expenses)	2	(699)	(534)
Amortisation of goodwill		(1 599)	(1 571)
Profit before interest and taxes		8 672	8 901
Net financing cost	3	(669)	(594)
Profit before taxes	4	8 003	8 307
Taxes	5	(2 452)	(2 307)
Net profit of consolidated companies		5 551	6 000
Share of profit attributable to minority interests		(422)	(380)
Share of results of associates	6	1 588	593
Net profit		6 717	6 213
As percentages of sales			
EBITA Earnings Before Interest, Taxes and Amortisation of goodwill		12.6%	12.5%
Net profit		7.7%	7.1%
Earnings per share (in CHF)			
Basic earnings per share	7	17.29	16.05
Fully diluted earnings per share	7	16.96	15.92

Consolidated balance sheet as at 31 December 2004

before appropriations

In millions of CHF	Notes	2004	2003
Assets			
Current assets			
Liquid assets	8		
Cash and cash equivalents		4 902	7 074
Other liquid assets		10 380	8 054
		15 282	15 128
Trade and other receivables	9	11 809	12 851
Inventories	10	7 025	6 995
Derivative assets	11	585	669
Prepayments and accrued income		584	590
Total current assets		35 285	36 233
Non-current assets			
Property, plant and equipment	12		
Gross value		41 045	41 778
Accumulated depreciation		(23 993)	(24 339)
		17 052	17 439
Investments in associates	13	4 091	2 707
Deferred tax assets	23	1 446	1 398
Financial assets	14	2 410	2 394
Employee benefits assets	21	928	1 070
Goodwill	15	23 854	26 745
Intangible assets	16	2 028	1 575
Total non-current assets		51 809	53 328
Total assets		87 094	89 561

In millions of CHF

Notes

2004

2003

Liabilities, minority interests and equity**Current liabilities**

Trade and other payables	17	9 107	9 852
Financial liabilities	18	14 722	15 419
Tax liabilities		584	549
Derivative liabilities	19	856	846
Accruals and deferred income		3 848	3 699

Total current liabilities		29 117	30 365
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Non-current liabilities

Financial liabilities	20	10 731	14 064
Employee benefits liabilities	21	3 192	3 363
Deferred tax liabilities	23	447	576
Other payables		327	309
Provisions	24	3 004	3 061

Total non-current liabilities		17 701	21 373
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Total liabilities		46 818	51 738
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Minority interests		1 057	943
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Equity

Share capital	25	404	404
Share premium and reserves			
Share premium		5 926	5 926
Reserve for treasury shares		2 619	2 458
Translation reserve		(7 189)	(5 630)
Retained earnings		39 894	36 093

		41 250	38 847
		41 654	39 251

Less:

Treasury shares	26	(2 435)	(2 371)
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Total equity		39 219	36 880
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Total liabilities, minority interests and equity		87 094	89 561
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Consolidated cash flow statement for the year ended 31 December 2004

In millions of CHF

Notes

2004

2003

		2004	2003
Operating activities			
Net profit of consolidated companies		5 551	6 000
Depreciation of property, plant and equipment	12	2 506	2 408
Impairment of property, plant and equipment	12	130	148
Amortisation of goodwill	15	1 599	1 571
Depreciation of intangible assets	16	278	255
Impairment of intangible assets	16	—	74
Increase/(decrease) in provisions and deferred taxes		78	312
Decrease/(increase) in working capital	27	227	(688)
Other movements		43	45
Operating cash flow ^(a)		10 412	10 125
Investing activities			
Capital expenditure	12	(3 295)	(3 337)
Expenditure on intangible assets	16	(736)	(682)
Sale of property, plant and equipment		246	244
Acquisitions ^(b)	28	(633)	(1 950)
Disposals	29	266	725
Income from associates		201	208
Other movements		(23)	64
Cash flow from investing activities		(3 974)	(4 728)

^(a) Taxes paid amount to CHF 2523 million (2003: CHF 2267 million). Net interest paid amounts to CHF 578 million (2003: CHF 532 million).

^(b) 2003 comparatives exclude the CHF 3 billion payable for the Dreyer's acquisition recorded under non-current financial liabilities.

In millions of CHF

Notes

2004

2003

Financing activities

Dividend for the previous year	(2 800)	(2 705)
Purchase of treasury shares	(715)	(318)
Sale of treasury shares and options	573	660
Movements with minority interests	(189)	(197)
Bonds issued	558	2 305
Bonds repaid	(903)	(693)
Increase/(decrease) in non-current financial liabilities	(683)	(134)
Increase/(decrease) in current financial liabilities	(1 204)	(2 930)
Decrease/(increase) in marketable securities and other liquid assets	(2 077)	(736)
Decrease/(increase) in short-term investments	(487)	734

Cash flow from financing activities	(7 927)	(4 014)
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Translation differences on flows	(494)	(457)
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Increase/(decrease) in cash and cash equivalents	(1 983)	926
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Cash and cash equivalents retranslated at beginning of year

Cash and cash equivalents at beginning of year	7 074	6 338
Effects of exchange rate changes on opening balance	(189)	(190)
	6 885	6 148

Cash and cash equivalents at end of year	8	4 902	7 074
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Consolidated statement of changes in equity

In millions of CHF	Share premium	Reserve for treasury shares	Translation reserve	Retained earnings	Total reserves	Share capital	Less: Treasury shares	Total equity
Equity as at 31 December 2002	5 926	2 830	(4 070)	32 307 ^(a)	36 993	404	(2 578)	34 819
Gains and losses								
Net profit				6 213	6 213			6 213
Currency retranslations			(1 560)		(1 560)			(1 560)
Taxes on equity items				7	7			7
Fair value adjustments on available-for-sale financial instruments								
– Unrealised results				15	15			15
– Recognition of realised results in the income statement				2	2			2
Fair value adjustments on cash flow hedges and on hedges of net investments in foreign entities								
– Unrealised results				(198)	(198)			(198)
– Recognition of realised results in the income statement				(74)	(74)			(74)
Recovery on disposal of goodwill charged to equity prior to 1 January 1995								
				19	19			19
Total gains and losses			(1 560)	5 984	4 424			4 424
Distributions to and transactions with shareholders								
Dividend for the previous year				(2 705)	(2 705)			(2 705)
Movement of treasury shares (net)		(372)		372	–		372	372
Result on options and treasury shares held for trading purposes				135	135		(165)	(30)
Premium on warrants issued ^(b)				(0)	(0)			(0)
Total distributions to and transactions with shareholders		(372)		(2 198)	(2 570)		207	(2 363)
Equity as at 31 December 2003	5 926	2 458	(5 630)	36 093 ^{(a)(c)}	38 847	404	(2 371)	36 880

(a) In the event of a redemption of the Turbo Zero Equity-Link bond issue, part of the USD 123 million premium received in June 2001 on warrants issued would be repaid, i.e. up to USD 103 million in 2003 and up to USD 47 million in 2006 (see note 20).

(b) Partial redemption of the Turbo Zero Equity-Link bond issue

(c) Includes a negative Hedging Reserve of CHF 32 million.

In millions of CHF	Share premium	Reserve for treasury shares	Translation reserve	Retained earnings	Total reserves	Share capital	Less: Treasury shares	Total equity
Equity as at 31 December 2003	5 926	2 458	(5 630)	36 093 ^(a)	38 847	404	(2 371)	36 880
Gains and losses								
Net profit				6 717	6 717			6 717
Currency retranslations			(1 559)		(1 559)			(1 559)
Taxes on equity items				(1)	(1)			(1)
Fair value adjustments on available-for-sale financial instruments								
– Unrealised results				114	114			114
– Recognition of realised results in the income statement				(13)	(13)			(13)
Fair value adjustments on cash flow hedges and on hedges of net investments in foreign entities								
– Unrealised results				4	4			4
– Recognition of realised results in the income statement				2	2			2
Recovery on disposal of goodwill charged to equity prior to 1 January 1995								
				17	17			17
Total gains and losses			(1 559)	6 840	5 281			5 281
Distributions to and transactions with shareholders								
Dividend for the previous year				(2 800)	(2 800)			(2 800)
Movement of treasury shares (net)		161		(161)	–		(142)	(142)
Result on options and treasury shares held for trading purposes				(78)	(78)		78	–
Total distributions to and transactions with shareholders		161		(3 039)	(2 878)		(64)	(2 942)
Equity as at 31 December 2004	5 926	2 619	(7 189)	39 894 ^{(a)(b)}	41 250	404	(2 435)	39 219

(a) In the event of a redemption of the Turbo Zero Equity-Link bond issue, part of the USD 123 million premium received in June 2001 on warrants issued would be repaid, i.e. up to USD 47 million in 2006 (see note 20).

(b) Includes a negative Hedging Reserve of CHF 20 million.

Annex

Accounting policies

Accounting convention and accounting standards

The Consolidated Accounts 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) of the IASB that are effective as of the balance sheet date.

The accounts have been prepared on an accruals basis and under the historical cost convention, except that the following assets and liabilities are stated at their fair values: derivative financial instruments, investments held for trading, available-for-sale investments and recognised assets and liabilities subject to fair value hedges. All significant consolidated companies have a 31 December accounting year-end. All disclosures required by the 4th and 7th European Union company law directives are provided.

Scope of consolidation

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

Consolidated companies

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

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

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

Associates

Companies where the Group has a significant influence but does not exercise management control are accounted for by the equity method. The net assets and results are recognised on the basis of the associate's own accounting policies, where it is impractical to make adjustments to the Group's accounting policies.

Foreign currencies

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 companies denominated in foreign currencies are translated into Swiss Francs at year-end exchange rates. Income and expense items are translated into Swiss Francs at the annual average rate of exchange or at the rate on the date of the transaction for significant items.

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

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

Segmental information

Segmental information is based on two segment formats: the primary format reflects the Group's management structure, whereas the secondary format is product oriented.

The primary segment format – by management responsibility and geographic area – represents the Group's management structure. The principal activity of the Group is the food business, which is managed through three geographic zones. Nestlé Waters, managed on a worldwide basis, is disclosed separately. The other activities encompass mainly pharmaceutical products as well as other food businesses, which are generally managed on a worldwide basis. The secondary segment format, representing products, is divided into six product groups (segments).

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

Segment assets comprise property, plant and equipment, trade and other receivables, inventories and prepayments and accrued income. Unallocated items represent mainly corporate and research and development assets, including goodwill. Liabilities comprise trade and other payables and accruals and deferred income. Eliminations represent inter-company balances between the different segments.

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

Financial risk management and commodity price risk management

Financial risk management is an integral part of the way the Group is managed. The Board establishes the Group's financial policies and the Chief Executive Officer (CEO) establishes objectives in line with these policies. An Asset and Liability Management Committee (ALMC), under the supervision of the Chief Financial Officer (CFO), is then responsible for setting financial strategies, which are executed by the Centre Treasury, the Regional Treasury Centres and, in specific local circumstances, by the affiliated companies. The activities of the Centre Treasury and of the various Regional Treasury Centres are supervised by an independent Middle Office which verifies the compliance of the strategies proposed and/or operations executed within the approved guidelines and limits set by the ALMC. Approved Treasury Management Guidelines define and classify risks as well as determine, by category of transaction, specific approval, limit and monitoring procedures. In the course of its business, the Group is exposed to financial market risks, credit risk, settlement risk and liquidity risk. In accordance with the aforementioned policies, the Group only enters into derivative transactions relating to operating and/or financial assets or liabilities or anticipated future transactions. The Group does not enter into trading derivative transactions without underlying assets or liabilities.

Financial market risks are essentially caused by exposures to foreign currencies, interest rates and commodity prices. Foreign currency transaction risk arises because affiliated companies sometimes undertake transactions in foreign currencies such as the import of raw materials, the export of finished goods and the related borrowings. Translation exposure arises from the consolidation of the Group accounts into Swiss Francs. Interest rate risk comprises the interest price risk that results from borrowing at fixed rates and the interest cash flow risk that results from borrowing at variable rates. Commodity price risk arises from transactions on the world commodity markets for securing the supplies of green coffee, cocoa beans and other commodities necessary for the manufacture of some of the Group's products. These risks are mitigated by the use of derivative financial instruments (see valuation methods and definitions below).

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

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

Liquidity risk arises from the fact that a counterparty may not be able to unwind or offset a position because of inadequate market depth or disruption or refinancing problems. This risk is managed by limiting exposures in instruments that may be affected by liquidity problems and by actively matching the funding horizon of debt with incoming cash flows. As a result of its strong credit ratings, the Group does not expect any refinancing issues.

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

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

Valuation methods and definitions

Sales to customers

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

Net financing cost

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

Taxes

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

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

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

Current financial assets

Current financial assets include liquid assets and receivables. Receivables are classified as originated by the enterprise and measured at cost less appropriate bad debt allowances.

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

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

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

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

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

Inventories

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

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

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

Derivative financial instruments and hedging

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

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

The derivative financial instruments consist mainly of currency forwards and options, commodity futures and options, interest forwards, options and swaps as well as interest rate and currency swaps.

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

Fair value hedges are derivative financial instruments that hedge the currency risk and/or the interest price risk. The changes in fair value of fair value hedges are recognised in the income statement. The hedged item

is also stated at fair value in respect of the risk being hedged, with any gain or loss being recognised in the income statement.

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

Hedges of the net investment in a foreign entity are currency derivative financial instruments that hedge the translation exposure on the net investment in affiliated companies. The changes in fair value of such derivatives are recognised in equity until the net investment is sold or otherwise disposed of.

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

Prepayments and accrued income

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

Property, plant and equipment

Property, plant and equipment are shown in the balance sheet at their historical cost. Depreciation is provided on the straight-line method so as to depreciate the initial cost over the estimated useful lives, which are as follows:

Buildings	25–50 years
Machinery and equipment	10–15 years
Tools, furniture, information technology and sundry equipment	3–8 years
Vehicles	5 years

Financing costs incurred during the course of construction are expensed. Land is not depreciated. Premiums capitalised for leasehold land or buildings are amortised over the length of the lease.

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

Leased assets

Assets acquired under long term finance leases are capitalised and depreciated in accordance with the Group's policy on property, plant and equipment. The associated obligations are included in financial liabilities.

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

Non-current financial assets

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

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

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

Impairment losses are recognised where there is objective evidence of impairment.

Goodwill

As from 1 January 1995, the excess of the cost of an acquisition over the fair value of the net identifiable assets acquired is capitalised. Previously these amounts had been written off through equity. This value also includes those intangible assets acquired that are not separately identifiable, in particular trademarks and industrial property rights.

Gains on the disposal of businesses acquired prior to 1 January 1995 are taken to equity to the extent of the goodwill previously written off. Any excess is taken to the income statement.

Goodwill is amortised on a straight-line basis over its anticipated useful life. The majority of goodwill is amortised over 20 years. Where a period in excess of 20 years is used this is separately disclosed for each element of goodwill together with the principal factors determining that useful life. The recoverable amount, as well as the amortisation period and method, is reviewed annually.

Goodwill is usually recorded in the functional currencies of the acquired companies.

Goodwill arising on acquisitions for which the agreement date is on or after 31 March 2004 is not amortised. Instead it is tested for impairment annually. This value no longer includes identifiable intangible assets which are recognised separately under the corresponding heading.

Intangible assets

This heading includes separately acquired intangible assets such as management information systems, intellectual property rights and rights to carry on an activity (i.e. exclusive rights to sell products or to perform a supply activity). Intangible assets are depreciated on a straight-line basis, management information systems over a period ranging from three to five years, other intangible assets over five to twenty years. Where a period in excess of twenty years is used, this is separately disclosed for each element of intangible asset together with the principal factors determining that useful life. The recoverable amount, as well as depreciation period and depreciation method, is reviewed annually.

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

Internally generated intangible assets are capitalised, provided they generate future economic benefits and their costs are well identified. They consist mainly of management information systems.

Intangible assets arising on acquisitions for which the agreement date is on or after 31 March 2004 are recognised separately from goodwill when they are identifiable and can be reliably measured. Intangible assets are classified as finite or indefinite life assets. Finite life intangible assets are those where the useful life arises from contractual or other rights. Such intangibles are amortised over their useful lives as stated above. Indefinite life intangible assets are those for which there is no foreseeable limit to useful economic life. They are not amortised but tested for impairment annually.

Research and development

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

Development costs relating to new products are not capitalised because the assured availability of future economic benefits is evident only once the products are in the market place.

Impairment of 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 assets. If any indication exists, an asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value based on the average borrowing rate of the country where the assets are located, adjusted for risks specific to the asset.

Goodwill and indefinite life intangible assets which are recognised on acquisitions for which the agreement date is on or after 31 March 2004 are tested for impairment annually.

Goodwill and indefinite life intangible assets arising on acquisitions for which the agreement date is before 31 March 2004 have been tested for impairment only where there has been an indication of impairment.

Impairment tests are performed at the cash generating unit level. The Group defines its cash generating units based on the way that it monitors its goodwill and will derive economic benefit from the acquired goodwill and intangibles.

Current and non-current liabilities

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

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

Provisions

These comprise liabilities of uncertain timing or amount that arise from restructuring, environmental, litigation and other risks. Provisions are recognised when there exists a legal or constructive obligation stemming from a past event and when the future cash outflows can be reliably estimated. Obligations arising from restructuring plans are recognised when detailed formal plans have been established and when there is a valid expectation that such plans will be carried out.

Employee benefits

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. Valuations are carried out annually for the largest plans and on a regular basis for other plans. Actuarial advice is provided both by external consultants and by actuaries employed by the Group. The actuarial assumptions used to calculate the benefit obligations vary according to the economic conditions of the country in which the plan is located.

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

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

Actuarial gains and losses arise mainly from changes in actuarial assumptions and differences between actuarial assumptions and what has actually occurred. They are recognised in the income statement, over the expected average remaining working lives of the employees, only to the extent that their net cumulative amount exceeds 10% of the greater of the present value of the obligation or of the fair value of plan assets at the end of the previous year. Unrecognised actuarial gains and losses are reflected on the balance sheet.

For defined benefit plans the actuarial cost charged to the income statement consists of current service cost, interest cost, expected return on plan assets and past service cost as well as actuarial gains or losses to the extent that they are recognised. 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.

Pensions and retirement benefits

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

Post retirement health care and other employee benefits

Group companies, principally in the USA and Canada, maintain health care benefit 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.

Equity compensation plans

Members of the Group's Management

Members of the Group's Management are entitled to participate each year in a share option plan without payment. The benefits consist of the right to buy Nestlé S.A. shares at a pre-determined fixed price.

As from 1 January 1999, this plan has a rolling seven-year duration and the rights are fully vested after three years (previously five and two years, respectively).

In order to cover the related exposure, the Group buys or transfers from existing treasury shares portfolios the number of shares necessary to satisfy all potential outstanding obligations under the plan when the benefit is awarded and holds them until the maturity of the plan or the exercise of the rights. No additional shares are issued as a result of the equity compensation plan. When the options are exercised, equity is increased by the amount of the proceeds received.

The Group is not exposed to any additional cost and there is no dilution of the rights of the shareholders.

Board of Directors

The annual remuneration of the members of the Board of Directors is partly paid in kind through the granting of Nestlé S.A. shares. See details in note 22.

The Group is not exposed to any additional cost and there is no dilution of the rights of the shareholders.

Accruals and deferred income

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

Dividends

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

Contingent assets and liabilities

Contingent assets and liabilities arise from conditions or situations, the outcome of which depends on future events. They are disclosed in the notes to the accounts.

Events occurring after the balance sheet date

The values of assets and liabilities at the balance sheet date are adjusted if there is evidence that subsequent adjusting events warrant a modification of these values.

These adjustments are made up to the date of approval of the consolidated accounts by the Board of Directors.

Other non-adjusting events are disclosed in the notes.

Changes in accounting policies and modification of the scope of consolidation

Changes in accounting policies

In conformity with the transitional provisions of IFRS 3 on business combinations, the revised IAS 36 on impairment of assets and the revised IAS 38 on intangible assets, goodwill and indefinite life intangible assets arising on acquisitions for which the agreement date is on or after 31 March 2004 are no longer amortised but tested for impairment annually.

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

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

These standards comprise in particular IFRS 2 on share-based payments, IFRS 3 on business combinations together with the consequential changes of IAS 36 on impairment of assets and IAS 38 on intangible assets, IFRS 5 on non-current assets held for sale and discontinued operations as well as the revision of existing IAS such as IAS 16 on property, plant and equipment, and IAS 32 and 39 on financial instruments.

Modification of the scope of consolidation

The scope of consolidation has been affected by the acquisitions and disposals made in 2004. The principal businesses are detailed below.

Fully consolidated

Disposal:

Trinks, Germany, distribution business, 51% (January)
Eismann, Germany, frozen food distributor, 100% (August)

Notes

1. Segmental information

By management responsibility and geographic area

In millions of CHF	2004	2003	2004	2003
	Sales		EBITA	
Zone Europe	28 563	28 574	3 492	3 561
Zone Americas	27 776	27 655	4 152	4 150
Zone Asia, Oceania and Africa	14 673	14 432	2 547	2 508
Nestlé Waters	8 039	8 066	669	782
Other activities ^(a)	7 718	9 252	1 744	1 537
	86 769	87 979	12 604	12 538
Unallocated items ^(b)			(1 634)	(1 532)
EBITA Earnings Before Interest, Taxes and Amortisation of goodwill			10 970	11 006

^(a) Mainly Pharmaceutical products, Joint Ventures managed on a worldwide basis and Eismann. 2003 comparatives include Trinks.

^(b) Mainly corporate expenses as well as research and development costs

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

In millions of CHF	2004	2003	2004	2003
	Assets		Liabilities	
Zone Europe	12 196	12 154	5 812	5 503
Zone Americas	8 913	9 643	3 223	3 205
Zone Asia, Oceania and Africa	6 026	6 071	1 795	1 829
Nestlé Waters	4 993	5 116	1 942	2 137
Other activities ^(a)	3 470	3 730	1 299	1 539
	35 598	36 714	14 071	14 213
Unallocated items ^(b)	28 280	30 507	385	364
Eliminations	(1 501)	(1 026)	(1 501)	(1 026)
	62 377	66 195	12 955	13 551

^(a) Mainly Pharmaceutical products, Joint Ventures managed on a worldwide basis and Eismann. 2003 comparatives include Trinks.

^(b) Corporate and research and development assets/liabilities, including goodwill

In millions of CHF	2004	2003	2004	2003
	Capital expenditure		Depreciation of property, plant and equipment	
Zone Europe	925	925	724	642
Zone Americas	813	739	644	674
Zone Asia, Oceania and Africa	587	541	392	364
Nestlé Waters	558	647	415	391
Other activities ^(a)	285	375	206	215
	3 168	3 227	2 381	2 286
Unallocated items ^(b)	127	110	125	122
	3 295	3 337	2 506	2 408

^(a) Mainly Pharmaceutical products, Joint Ventures managed on a worldwide basis and Eismann. 2003 comparatives include Trinks.

^(b) Corporate and research and development property, plant and equipment

In millions of CHF	2004	2003	2004	2003
	Impairment of assets		Restructuring costs	
Zone Europe	30	42	333	253
Zone Americas	29	43	28	98
Zone Asia, Oceania and Africa	14	81	17	56
Nestlé Waters	57	55	126	182
Other activities ^(a)	—	1	10	9
	130	222	514	598
Unallocated items ^(b)			—	5
			514	603

(a) Mainly Pharmaceutical products, Joint Ventures managed on a worldwide basis and Eismann. 2003 comparatives include Trinks.

(b) Mainly corporate expenses as well as research and development costs

By product group

In millions of CHF	2004	2003	2004	2003
	Sales		EBITA	
Beverages	21 793	23 520	3 867	4 038
Milk products, Nutrition and Ice cream	23 582	23 283	2 682	2 796
Prepared dishes and cooking aids	15 878	16 068	1 924	1 884
Chocolate, confectionery and biscuits	10 258	10 240	1 153	1 047
PetCare	9 934	9 816	1 446	1 444
Pharmaceutical products	5 324	5 052	1 532	1 329
	86 769	87 979	12 604	12 538
Unallocated items ^(a)			(1 634)	(1 532)
EBITA Earnings Before Interest, Taxes and Amortisation of goodwill			10 970	11 006

(a) Mainly corporate expenses as well as research and development costs

In millions of CHF	2004	2003
	Assets	
Beverages	11 452	11 237
Milk products, Nutrition and Ice cream	10 186	10 303
Prepared dishes and cooking aids	5 705	5 787
Chocolate, confectionery and biscuits	5 033	5 208
PetCare	3 490	3 481
Pharmaceutical products	2 709	2 708
	38 575	38 724

In millions of CHF	2004	2003
	Capital expenditure	
Beverages	806	936
Milk products, Nutrition and Ice cream	576	421
Prepared dishes and cooking aids	250	251
Chocolate, confectionery and biscuits	201	208
PetCare	276	254
Pharmaceutical products	69	86
	2 178	2 156
Administration, distribution, research and development	1 117	1 181
	3 295	3 337

In millions of CHF	2004	2003	2004	2003
	Impairment of assets		Restructuring costs	
Beverages	59	121	186	248
Milk products, Nutrition and Ice cream	13	63	88	128
Prepared dishes and cooking aids	12	14	43	60
Chocolate, confectionery and biscuits	22	5	152	133
PetCare	3	19	41	26
Pharmaceutical products	—	—	3	4
	109	222	513	599
Administration, distribution, research and development	21	—	1	4
	130	222	514	603

2. Net other income (expenses)

In millions of CHF	2004	2003
Other expenses		
Loss on disposal of property, plant and equipment	(18)	(6)
Loss on disposal of activities	(37)	(71)
Restructuring costs	(514)	(603)
Impairment of property, plant and equipment	(130)	(148)
Impairment of intangible assets	—	(74)
Other	(360)	(269)
	(1 059)	(1 171)
Other income		
Profit on disposal of property, plant and equipment	89	54
Profit on disposal of activities	145	277
Other	126	306
	360	637
Net other income (expenses)	(699)	(534)

Other expenses

Restructuring costs and impairments result mainly from the Group's industrial reorganisation. Restructuring costs in 2004 arise mainly from the plans to optimise industrial manufacturing capacities by closing inefficient production facilities and reorganising others, essentially in Europe.

3. Net financing cost

In millions of CHF	2004	2003
Financial income	421	608
Financial expense	(1 090)	(1 202)
	(669)	(594)

Financial income includes CHF 105 million (2003: CHF 88 million) of gains arising on marketable security portfolios classified as trading, and CHF 32 million (2003: CHF 112 million) of gains arising on derivatives acquired within the Group's risk management policies but for which hedge accounting is not applied.

4. Expenses by nature

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

In millions of CHF	2004	2003
Depreciation of property, plant and equipment	2 506	2 408
Salaries and welfare expenses	13 778	13 580
Operating lease charges	508	593
Exchange differences	38	13

5. Taxes

In millions of CHF	2004	2003
Components of tax expense		
Current tax	2 245	1 888
Deferred tax	(35)	408
Transfers (from)/to unrecognised tax assets	34	5
Changes in deferred tax rates	—	9
Prior years' tax	(115)	(305)
Taxes on equity items	(1)	7
Other tax ^(a)	324	295
	2 452	2 307
Deferred tax by types		
Property, plant and equipment	97	265
Goodwill and intangible assets	34	100
Employee benefits liabilities	(49)	86
Inventories, receivables, payables and provisions	125	(42)
Unused tax losses and tax credits	(240)	(30)
Other	(2)	29
	(35)	408
Reconciliation of tax expense		
Tax at the theoretical domestic rates applicable to profits of taxable entities in the countries concerned	2 273	2 247
Tax effect of non-deductible amortisation and impairment of goodwill	437	466
Tax effect of non-deductible or non-taxable items	(552)	(410)
Transfers (from)/to unrecognised tax assets	34	5
Difference in tax rates	51	9
Other tax ^(a)	209	(10)
	2 452	2 307

^(a) Includes withholding tax levied on transfers of income.

6. Share of results of associates

In millions of CHF	2004	2003
Share of profit before taxes	2 061	847
Less share of taxes	(473)	(254)
Share of profit after taxes ^(a)	1 588	593

^(a) 2004 includes a substantial exceptional gain resulting from the deconsolidation by L'Oréal of its associated company investment in Sanofi-Synthelabo, on its acquisition of Aventis to create Sanofi-Aventis, in which L'Oréal now owns 10.1% of the share capital.

7. Earnings per share

	2004	2003
Basic earnings per share in CHF	17.29	16.05
Net profit per income statement (in millions of CHF)	6 717	6 213
Weighted average number of shares outstanding	388 449 957	387 018 429
Fully diluted earnings per share in CHF	16.96	15.92
Theoretical net profit assuming the exercise of all outstanding options and sale of all treasury shares (in millions of CHF)	6 842	6 424
Number of shares	403 520 000	403 520 000

8. Liquid assets

In millions of CHF	2004	2003
Cash and cash equivalents		
Cash at bank and in hand	1 534	2 276
Cash equivalents	3 368	4 798
	4 902	7 074
Other liquid assets		
Current investments	1 117	645
Marketable securities	9 263	7 409
	10 380	8 054
Liquid assets	15 282	15 128

Marketable securities include mainly money market and fixed income instruments.

Liquid assets are denominated in the following currencies:

In millions of CHF	2004	2003
USD	6 121	3 843
CHF	3 771	6 559
EUR	3 548	2 422
GBP	644	1 371
Other	1 198	933
	15 282	15 128

Average interest rates are as follows:

	2004	2003
on USD	2.5%	1.8%
on CHF	0.6%	0.6%
on EUR	3.1%	2.2%
on GBP	4.6%	4.1%

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

Liquid assets are classified as follows:

In millions of CHF	2004	2003
Available-for-sale	11 438	11 637
Trading	3 844	3 491
	15 282	15 128

9. Trade and other receivables

In millions of CHF	2004	2003
Trade receivables	9 587	10 179
Other receivables	2 222	2 672
	11 809	12 851
After deduction of allowances for doubtful receivables of	436	513

10. Inventories

In millions of CHF	2004	2003
Raw materials, work in progress and sundry supplies	2 719	2 657
Finished goods	4 474	4 501
Provisions	(168)	(163)
	7 025	6 995

Inventories amounting to CHF 92 million (2003: CHF 88 million) are pledged as security for financial liabilities.

11. Derivative assets

In millions of CHF	2004		2003	
	Fair values	Contractual or notional amounts	Fair values	Contractual or notional amounts
Fair value hedges				
Currency forwards, futures and swaps				
	52	735	2	114
Interest rate swaps	100	1 977	91	2 225
Interest rate and currency swaps	164	908	286	1 295
Cash flow hedges				
Currency forwards, futures and swaps				
	18	510	78	1 069
Currency options	2	59	9	133
Interest rate swaps	5	861	23	2 293
Interest rate and currency swaps	—	—	—	312
Interest forwards and futures	—	—	—	281
Commodity futures	89	540	27	386
Commodity options	6	63	4	45
Hedges of net investments				
in foreign entities	53	1 405	93	1 474
Trading				
Currency derivatives	2	142	3	443
Interest derivatives	87	2 740	42	2 416
Commodity derivatives	7	53	11	62
	585	9 993	669	12 548

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

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

In millions of CHF	Currencies purchased forward:						2004	2003
	USD	BRL	EUR	JPY	CHF	Other		
Currencies sold forward:								
USD	4	—	8	—	19	20	51	83
BRL	31	—	—	1	—	—	32	52
EUR	1	—	—	—	22	—	23	18
JPY	1	—	2	—	—	3	6	17
CHF	—	—	—	—	—	—	—	3
Other	1	—	8	—	—	5	14	12
2004	38	—	18	1	41	28	126	
2003	33	—	29	39	31	53		185

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

In millions of CHF	2004	2003
EUR	232	175
USD	75	49
JPY	3	169
GBP	—	1
Other	149	90
	459	484

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

In millions of CHF	2004	2003
Within one year	116	101
In the second year	1	12
In the third to the fifth year inclusive	3	28
	120	141

Other derivative assets have the following maturities:

In millions of CHF	2004	2003
Within one year	138	232
In the second year	9	95
In the third to the fifth year inclusive	315	198
After the fifth year	3	3
	465	528

12. Property, plant and equipment

In millions of CHF					2004	2003
	Land and buildings	Machinery and equipment	Tools, furniture and other equipment	Vehicles	Total	Total
Gross value						
At 1 January	11 890	22 816	6 296	776	41 778	40 797
Currency retranslation and inflation adjustments	(424)	(801)	(217)	19	(1 423)	(491)
Expenditures	591	1 828	736	140	3 295	3 337
Disposals	(306)	(1 023)	(597)	(112)	(2 038)	(2 010)
Modification of the scope of consolidation	(128)	(265)	(66)	(108)	(567)	145
At 31 December	11 623	22 555	6 152	715	41 045	41 778
Accumulated depreciation and impairments						
At 1 January	(4 810)	(14 594)	(4 456)	(479)	(24 339)	(23 772)
Currency retranslation and inflation adjustments	155	391	169	(17)	698	71
Depreciation	(358)	(1 315)	(748)	(85)	(2 506)	(2 408)
Impairments	(54)	(71)	(4)	(1)	(130)	(148)
Disposals	210	940	571	93	1 814	1 756
Modification of the scope of consolidation	83	253	54	80	470	162
At 31 December	(4 774)	(14 396)	(4 414)	(409)	(23 993)	(24 339)
Net at 31 December	6 849	8 159	1 738	306	17 052	17 439

At 31 December 2004, property, plant and equipment include CHF 492 million (2003: CHF 409 million) of assets under construction. Net property, plant and equipment held under finance leases at 31 December 2004 amount to CHF 358 million (2003: CHF 276 million). Net property, plant and equipment of CHF 112 million (2003: CHF 112 million) are pledged as security for financial liabilities. Fire risks, reasonably estimated, are insured in accordance with domestic requirements.

13. Investments in associates

This item primarily includes the Group's 26.9% (considering the share repurchase programme of L'Oréal) participation in the equity of L'Oréal, Paris for CHF 4011 million (2003: CHF 2684 million). Its market value at 31 December 2004 amounts to CHF 15 342 million (2003: CHF 18 088 million).

14. Non-current financial assets

In millions of CHF	2004	2003
Available-for-sale	2 121	2 121
Held-to-maturity	289	273
	2 410	2 394

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

In millions of CHF	2004	2003
USD	1 015	1 059
CHF	988	829
EUR	257	331
Other	150	175
	2 410	2 394

Non-current financial assets have the following maturities:

In millions of CHF	2004	2003
In the second year	296	217
In the third to the fifth year inclusive	136	255
After the fifth year	1 274	1 262
Equity instruments	704	660
	2 410	2 394

15. Goodwill

In millions of CHF	2004	2003
Gross value		
At 1 January	32 445	30 053
Currency retranslations	(2 096)	(2 268)
Goodwill from acquisitions	476	4 726
Disposals	(46)	(160)
Other	(28)	94
At 31 December	30 751	32 445
Accumulated amortisation and impairments		
At 1 January	(5 700)	(4 335)
Currency retranslations	363	154
Amortisation	(1 599)	(1 571)
Disposals	11	48
Other	28	4
At 31 December	(6 897)	(5 700)
Net at 31 December	23 854	26 745

16. Intangible assets

In millions of CHF

				2004	2003
	Intellectual property rights	Operating rights and others	Manage- ment information systems	Total	Total
Gross value					
At 1 January	405	538	1 697	2 640	2 048
Currency retranslations	(4)	(40)	(53)	(97)	(55)
Expenditures	20	106	610	736	682
Disposals	(82)	(12)	(100)	(194)	(46)
Modification of the scope of consolidation	141	—	(8)	133	8
Other	—	—	—	—	3
At 31 December	480	592	2 146	3 218	2 640
of which indefinite useful life	141	—	—	141	—
Accumulated depreciation and impairments					
At 1 January	(141)	(379)	(545)	(1 065)	(806)
Currency retranslations	1	25	20	46	26
Depreciation	(21)	(47)	(210)	(278)	(255)
Disposals	14	5	75	94	42
Impairments	—	—	—	—	(74)
Modification of the scope of consolidation	—	8	5	13	3
Other	—	—	—	—	(1)
At 31 December	(147)	(388)	(655)	(1 190)	(1 065)
Net at 31 December	333	204	1 491	2 028	1 575

17. Trade and other payables

In millions of CHF	2004	2003
Trade payables	6 370	6 710
Other payables	2 737	3 142
	9 107	9 852

18. Current financial liabilities

In millions of CHF	2004	2003
Commercial paper	9 738	10 515
Line of credit facilities	958	1 829
Other current financial liabilities	1 344	1 697
	12 040	14 041
Current portion of non-current financial liabilities	2 682	1 378
	14 722	15 419

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

The above financial liabilities are denominated in the following currencies:

In millions of CHF	2004	2003
USD	7 422	9 626
EUR	2 356	2 138
GBP	1 387	1 120
Other	3 557	2 535
	14 722	15 419

Average interest rates are as follows:

	2004	2003
on USD	1.3%	1.2%
on EUR	2.1%	2.5%
on GBP	4.6%	4.1%

19. Derivative liabilities

In millions of CHF	2004		2003	
	Fair values	Contractual or notional amounts	Fair values	Contractual or notional amounts
Fair value hedges				
Currency forwards, futures and swaps	23	774	49	810
Interest rate swaps	4	592	12	538
Interest rate and currency swaps	507	1 771	440	2 159
Cash flow hedges				
Currency forwards, futures and swaps	30	779	28	808
Currency options	12	134	5	121
Interest rate swaps	71	2 595	105	2 373
Interest options	—	44	1	78
Commodity futures	42	599	73	698
Commodity options	7	24	1	2
Hedges of net investments				
in foreign entities	48	1 417	41	606
Trading				
Currency derivatives	5	619	47	1 990
Interest derivatives	103	4 524	27	2 660
Commodity derivatives	4	33	17	306
	856	13 905	846	13 149

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

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

In millions of CHF	Currencies purchased forward:						2004	2003
	BRL	EUR	USD	CHF	JPY	Other		
Currencies sold forward:								
BRL	—	—	16	—	8	—	24	7
EUR	—	—	12	—	1	4	17	25
USD	—	—	—	—	—	6	6	45
CHF	—	—	3	—	—	2	5	36
JPY	—	—	1	—	—	—	1	27
Other	—	1	29	1	1	33	65	29
2004	—	1	61	1	10	45	118	
2003	—	—	105	3	6	55		169

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

In millions of CHF	2004	2003
USD	584	225
GBP	24	65
EUR	15	312
Other	115	75
	738	677

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

In millions of CHF	2004	2003
Within one year	99	112
In the second year	13	3
In the third to the fifth year inclusive	38	55
After the fifth year	12	43
	162	213

Other derivative liabilities have the following maturities:

In millions of CHF	2004	2003
Within one year	139	247
In the second year	519	3
In the third to the fifth year inclusive	34	372
After the fifth year	2	11
	694	633

20. Non-current financial liabilities

In millions of CHF	2004	2003
Loans from financial institutions and other	331	1 285
Liabilities in respect of unexercised options ^(a)	2 908	3 026
Bonds	9 871	10 859
Obligations under finance leases	303	272
	13 413	15 442
Current portion	(2 682)	(1 378)
	10 731	14 064

^(a) Relate to the Dreyer's acquisition. Put and call options were exchanged between Dreyer's Grand Ice Cream Holdings, Inc. (Dreyer's) and the remaining holders of Dreyer's Class A Callable Puttable Common Stock. These options give the remaining stockholders the right to sell, and give Dreyer's the right to buy, the remaining outstanding shares at certain dates and for certain amounts. Although the first put period extends from 1 December 2005 until 13 January 2006, payments relating to these puts will not occur until at least 2 January 2006.

The fair value of non-current financial liabilities amounts to CHF 10 943 million (2003: CHF 14 427 million).

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

In millions of CHF	2004	2003
In the second year	2 297	3 335
In the third to the fifth year inclusive	7 737	8 916
After the fifth year	697	1 813
	10 731	14 064

The above financial liabilities are denominated in the following currencies:

In millions of CHF	2004	2003
USD	6 906	9 764
EUR	2 243	2 997
Other	1 582	1 303
	10 731	14 064

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

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

	2004	2003
on EUR	2.3%	2.4%

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

The interest rate structure is as follows:

In millions of CHF	2004	2003
Financial liabilities at fixed rates	10 273	13 673
Financial liabilities at variable rates	458	391
	10 731	14 064

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

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

In millions of CHF						2004	2003
Issuer	Face value in millions	Interest rates		Year of issue/ maturity	Comments		
		Nominal	Effective				
Nestlé Holdings, Inc.,	USD 250	7.38%	7.38%	1995–2005		282	310
USA	USD 300	3.00%	7.48%	2000–2005	(a)	334	351
	USD 699	0.00%	6.15%	2001–2008	(b)	641	662
	USD 950	3.50%	3.76%	2001–2005	(c)	1 070	1 170
	USD 300	5.13%	5.19%	2001–2007		338	371
	USD 500	4.75%	4.98%	2002–2007		563	616
	USD 400	4.50%	4.64%	2002–2006	(d)	453	501
	NOK 2000	5.25%	4.70%	2003–2007	(e)	391	393
	USD 250	3.00%	3.00%	2003–2009	(f)	282	309
Nestlé Purina Petcare Company,	USD 83	9.25%	9.50%	1989–2009		106	120
USA	USD 48	7.75%	7.84%	1995–2015		60	66
	USD 63	9.30%	9.42%	1991–2021		92	102
	USD 79	8.63%	8.72%	1992–2022		109	121
	USD 44	8.13%	8.27%	1993–2023		58	65
	USD 51	7.88%	8.05%	1995–2025		67	74
Nestlé Finance-France S.A.,	ZAR 100	12.50%	13.07%	2000–2005	(e)(g)	21	19
France	ZAR 100	11.00%	11.52%	2001–2006	(e)(g)	20	20
	EUR 370	4.75%	4.87%	2002–2007	(e)(h)	599	657
	USD 249	4.24%	4.24%	2002–2006	(e)(i)(p)	286	322
	USD 600	3.00%	2.94%	2002–2006	(e)(j)	677	630
	EUR 147	3.38%	3.38%	2002–2007	(e)(k)(p)	230	236
	EUR 175	2.56%	2.56%	2003–2006	(e)(p)	269	272
	EUR 500	3.50%	3.55%	2003–2008	(e)	787	786
	EUR 150	2.50%	3.14%	2003–2007	(e)(l)	230	154
	USD 100	2.25%	3.04%	2003–2007	(e)	109	119
	AUD 200	6.00%	6.03%	2004–2008	(e)	179	—
	HUF 25 000	7.00%	7.93%	2004–2009	(e)	154	—
Nestlé Holdings (U.K.) PLC,	EUR 300	4.75%	4.75%	2001–2005	(e)	480	493
United Kingdom	USD 300	5.25%	5.35%	2001–2006	(e)	359	405
Nestlé Australia Ltd., Australia	AUD 400	4.75%	4.94%	2002–2005	(e)(m)	350	366
	USD 54	7.40%	7.40%	2002–2012	(n)(o)	—	66
Nestlé Capital Canada Ltd., Canada	USD 200	5.50%	5.47%	1999–2004	(o)	—	252
Nestlé Japan Ltd., Japan	EUR 350	5.25%	5.31%	2000–2004	(o)	—	558
Nestlé (Thai) Ltd, Thailand	THB 5000	2.16%	2.16%	2003–2008		145	156
Other bonds						130	117
Total						9 871	10 859
of which due within one year						2 546	810
of which due after one year						7 325	10 049

Bonds subject to fair value hedges are carried at fair value for CHF 5440 million (2003: CHF 5874 million) and the related derivatives are shown under derivative assets for CHF 224 million (2003: CHF 374 million) and under derivative liabilities for CHF 509 million (2003: CHF 394 million).

(a) Stock Warrants and Applicable Note Securities (SWANS)

The issue has warrants attached which give the right to acquire Nestlé S.A. shares. The debt component (issue of the notes) was recognised under bonds for USD 249 million at inception, while the equity component (premium on warrants issued) was recognised under equity for USD 51 million.

Exercise conditions of the warrants: 30 000 warrants to purchase Nestlé S.A. shares. Each warrant gives the right to purchase 43.14 shares. The holders of warrants may exercise their warrants to purchase shares of Nestlé S.A. either:

- 1) during the note exercise period from June 2000 to May 2005 by tendering a note and a warrant in exchange for shares, on the basis that one note is required to exercise each warrant; or
- 2) on the cash exercise date, 9 May 2005, by tendering warrants together with the exercise price in cash.

The exercise price per share is USD 231.803 (or CHF 380.621 based on a fixed exchange rate of CHF 1.642 for each USD) prior to any anti-dilution adjustment.

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

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

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

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

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

(c) The initial USD 650 million bond issue in 2001 was increased by USD 300 million in 2002.

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

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

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

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

(g) The proceeds have been re-lent to a South African affiliated company.

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

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

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

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

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

(m) The initial AUD 300 million bond issued in 2002 was increased by AUD 100 million in 2003.

(n) Callable range accrual note, called in 2004.

(o) Was subject to an interest rate and /or currency swap that created a liability at floating rates in the currency of the issuer.

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

21. Employee benefits

Reconciliation of assets and liabilities recognised in the balance sheet

In millions of CHF			2004	2003
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Total
Present value of funded obligations	19 701	217	19 918	19 227
Fair value of plan assets	(17 839)	(105)	(17 944)	(17 260)
Excess of liabilities/(assets) over funded obligations	1 862	112	1 974	1 967
Present value of unfunded obligations	1 005	1 287	2 292	2 340
Unrecognised past service cost of non-vested benefits	10	(5)	5	(10)
Net unrecognised actuarial gains/(losses)	(3 119)	(247)	(3 366)	(3 344)
Unrecognised assets	450	—	450	349
Defined benefits net liabilities	208	1 147	1 355	1 302
Liabilities from defined contribution plans and non-current deferred compensation			909	991
Net liabilities			2 264	2 293
Reflected in the balance sheet as follows:				
Employee benefits assets			(928)	(1 070)
Employee benefits liabilities			3 192	3 363
Net liabilities			2 264	2 293

The plan assets include property occupied by affiliated companies with a fair value of CHF 17 million (2003: CHF 14 million).

Expenses recognised in the income statement

In millions of CHF			2004	2003
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Total
Current service cost	624	66	690	662
Employees' contributions	(93)	—	(93)	(101)
Interest cost	989	84	1 073	1 074
Expected return on plan assets	(1 224)	(8)	(1 232)	(1 127)
Net actuarial (gains)/losses recognised in the year	117	8	125	124
Early retirements, curtailments, settlements	42	(2)	40	9
Past service cost	10	7	17	50
Transfer (from)/to unrecognised assets	192	—	192	153
Total defined benefit expenses	657	155	812	844
Total defined contribution expenses			320	298

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

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

Actual gain/(loss) on plan assets			1 462	1 910
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Movement of defined benefit net liabilities recognised in the balance sheet

In millions of CHF	2004		2003	
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Total
At 1 January	103	1 199	1 302	1 302
Currency retranslations	18	(91)	(73)	(29)
Expense recognised in the income statement	657	155	812	844
Contributions	(487)	(12)	(499)	(699)
Benefits paid	(76)	(103)	(179)	(119)
Modification of the scope of consolidation	(6)	—	(6)	2
Transfer from/(to) defined contribution plans	(1)	(1)	(2)	1
At 31 December	208	1 147	1 355	1 302

Principal actuarial assumptions

At 31 December	2004	2003
Discount rates		
Europe	3 – 5.3 %	3.5 – 5.5 %
Americas	5.8 – 8.2 %	6 – 8.2 %
Asia, Oceania and Africa	2 – 8.3 %	2 – 8.5 %
Expected long term rates of return on plan assets		
Europe	5.8 – 7.5 %	6 – 7.5 %
Americas	7.8 – 9.2 %	6 – 9.2 %
Asia, Oceania and Africa	4.5 – 9.3 %	4.5 – 9.5 %
Expected rates of salary increases		
Europe	2 – 3.9 %	2.5 – 3.8 %
Americas	3 – 7.1 %	3 – 7.1 %
Asia, Oceania and Africa	0.5 – 6.3 %	0.5 – 5.5 %
Expected rates of pension adjustments		
Europe	1 – 3.5 %	1 – 3.5 %
Americas	0.3 – 4.0 %	0.5 – 7.1 %
Asia, Oceania and Africa	2.5 – 4.4 %	2 – 3.8 %
Medical cost trend rates		
Americas	4 – 7.1 %	5 – 10 %
Average remaining working life of employees (in years)		
Europe	8 – 22	8 – 21
Americas	11 – 25	11 – 25
Asia, Oceania and Africa	15 – 20	15 – 20

22. Equity compensation plans and remuneration

Equity compensation plans

The following are the movements and expiry dates of the options held by members of the Board of Directors, Executive Board and Senior Management.

Movement of options

In millions of CHF	2004		2003	
	Number of options	Value of shares	Number of options	Value of shares
Outstanding at 1 January	5 002 224	1 606	3 545 247	1 198
of which vested	665 302		748 315	
New rights	1 846 122	607	1 562 619	436
Rights exercised ^(a)	(92 972)	(25)	(81 853)	(20)
Rights cancelled	(109 733)	(36)	(23 789)	(8)
Outstanding at 31 December	6 645 641	2 152	5 002 224	1 606
of which vested				
at 31 December	1 839 449		665 302	
additional options vesting				
on 1 March 2005	1 434 344			

^(a) Average exercise price: CHF 269.26 (2003: CHF 238.58)

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

Expiry dates of options

2004

Grant date	Expiring within	Number	Exercise price
01.01.1999	One year	190 670	CHF 260.90
01.01.2000	Two years	381 660	CHF 281.90
01.03.2001	Four years	1 267 119	CHF 343.20
01.03.2002	Five years	1 434 344	CHF 367.35
01.02.2003	Six years	1 491 998	CHF 278.55
01.10.2003	Six years	33 728	CHF 308.55
01.02.2004	Seven years	1 819 397	CHF 329.10
01.10.2004	Seven years	26 725	CHF 289.40
	Total	6 645 641	

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

Remuneration of the Board of Directors and of the Executive Board

	2004		2003	
	Number	CHF millions	Number	CHF millions
Non-Executive Board of Directors				
Remuneration		4		4
Shares	6 772	2	6 848	2
Executive Board ^(a)				
Remuneration		13		11
Bonus		5		7
Shares	21 542	7	15 107	4
Options	216 000		126 200	
Total		31		28

^(a) Includes the Executive member of the Board of Directors.

Board of Directors

Members of the Board of Directors receive an annual remuneration of CHF 262 500 each, members of the Committee of the Board receive an additional CHF 200 000 each. Members of the Audit Committee receive an additional CHF 25 000 each. Members of the Board of Directors also receive an annual expense allowance of CHF 15 000 each. The Chairman of the Board is entitled to a salary, a bonus and share options.

50% of the remuneration of the members of the Board of Directors and the total additional remuneration of the members of the Committee of the Board are paid through the granting of Nestlé S.A. shares at the ex-dividend closing price at the day of payment of the dividend. These shares are subject to a 2-year blocking period.

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) and share options.

Members of the Executive Board can choose to receive part or all of their bonus in Nestlé S.A. shares at the average price of the last 10 trading days of January of the year of allocation. These shares are subject to a 3-year blocking period.

Alcon Incentive plan

Alcon sponsors an Incentive plan whereby the Board of Directors of Alcon awards incentives in different forms, for instance stock options, stock appreciation rights and restricted shares.

The total number of Alcon shares with respect to which awards may be issued under the Alcon Incentive Plan shall not exceed in the aggregate 30 million Alcon shares. Shares are issued at the grant price of stock options upon exercise. Stock option grant prices are determined by the Board of Directors of Alcon and shall not be less than the fair market value of the shares on the date of grant.

Details of the Incentive Plan are disclosed in Alcon's financial statements.

23. Deferred taxes

In millions of CHF	2004	2003
Tax assets by types of temporary difference		
Property, plant and equipment	308	269
Intangible assets	82	65
Employee benefits	1 190	1 216
Inventories, receivables, payables and provisions	897	930
Unused tax losses and unused tax credits	413	139
Other	403	491
	3 293	3 110
Tax liabilities by types of temporary difference		
Property, plant and equipment	1 138	1 113
Intangible assets	479	438
Employee benefits	303	376
Inventories, receivables, payables and provisions	124	14
Other	250	347
	2 294	2 288
Net assets	999	822
Reflected in the balance sheet as follows:		
Deferred tax assets	1 446	1 398
Deferred tax liabilities	(447)	(576)
Net assets	999	822
Temporary differences for which no deferred tax is recognised:		
on investments in affiliated companies (taxable temporary difference)	13 525	10 882
on unused tax losses, tax credits and other items	2 508	1 442

Unused tax losses expire mainly within 2 to 5 years.

24. Provisions

In millions of CHF					2004	2003
	Restructuring	Environmental	Litigation	Other	Total	Total
At 1 January	935	39	1 927	160	3 061	3 381
Currency retranslations	(37)	(3)	(94)	(5)	(139)	(123)
Provisions made in the period	475	2	273	72	822	973
Modification of the scope of consolidation	(42)	—	(6)	147	99	68
Amounts used	(328)	(4)	(175)	(75)	(582)	(861)
Unused amounts reversed	(80)	—	(166)	(11)	(257)	(377)
At 31 December	923	34	1 759	288	3 004	3 061

Restructuring provisions arise from a number of projects across the Group. These include plans to optimise industrial manufacturing capacities by closing inefficient production facilities and reorganizing others, essentially in Europe. Efficiencies stemming from the implementation of GLOBE and project FitNes aimed at reducing administrative costs result in restructuring programmes mainly in Zone Europe. Restructuring provisions are expected to result in future cash outflows when implementing the plans (usually over the following two years) and are consequently not discounted.

Litigation provisions have been set up to cover legal and administrative proceedings that arise in the ordinary course of business. Reversal of such provisions refer to cases resolved in favour of the Group. The timing of cash outflows of litigation provisions is uncertain as it depends upon the outcome of the proceedings. These provisions are therefore not discounted because their present value would not represent meaningful information.

25. Share capital of Nestlé S.A.

	2004	2003
Number of registered shares of nominal value CHF 1.– each	403 520 000	403 520 000
In millions of CHF	404	404

Additional information is given in the annex to the annual accounts of Nestlé S.A., note 19.
The share capital includes the nominal value of treasury shares (see note 26).

26. Treasury shares

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

Number of shares	2004	2003
Purpose of holding		
Freely available shares	1 735 298	3 493 743
Management option rights	6 645 641	5 002 224
Warrants on SWANS and Turbo bond issues of		
Nestlé Holdings Inc., USA	3 524 490	3 524 490
Trading	4 262 759	3 551 694
Total at 31 December	16 168 188	15 572 151

In millions of CHF	2004	2003
Book value at 31 December	2 435	2 371
Market value at 31 December	4 810	4 812

The movement of these shares is described in the annex to the annual accounts of Nestlé S.A., note 21.

27. Decrease/(increase) in working capital

Disregarding exchange differences and effect of acquisitions and disposals.

In millions of CHF	2004	2003
Inventories	(457)	(234)
Trade receivables	(6)	(351)
Trade payables	28	49
Other payables	(60)	(122)
Net accruals and deferrals	271	(23)
Other	451	(7)
	227	(688)

28. Acquisitions

In millions of CHF	2004	2003
Fair value of net assets acquired		
Property, plant and equipment	72	395
Financial assets	21	(18)
Intangible assets	154	11
Minority interests	(9)	18
Purchase of minority interests in existing participations	41	8
Net working capital	(12)	100
Financial liabilities	(24)	(507)
Employee benefits, deferred taxes and provisions	(73)	(38)
Liquid assets	8	30
	178	(1)
Goodwill	476	4 726
Total acquisition cost	654	4 725
less:		
Cash and cash equivalents acquired	(8)	(30)
Consideration payable	(13)	(3 041)
Payment of consideration payable on prior years acquisition	—	296
Cash outflow on acquisitions	633	1 950

The Group's sales and net profit are not significantly impacted by acquisitions for which the agreement date is on or after 31 March 2004, even if the acquisition date for all these acquisitions had been 1 January 2004.

29. Disposals

In millions of CHF	2004	2003
Net assets disposed of		
Property, plant and equipment	169	88
Financial assets	1	—
Goodwill and intangible assets	43	112
Minority interests	(19)	(2)
Net working capital	(16)	37
Financial liabilities	(47)	(9)
Employee benefits, deferred tax and provisions	(35)	18
Liquid assets	45	(2)
	141	242
Recovery on disposal of goodwill charged to equity prior to 1 January 1995	17	19
Profit/(loss) on current year disposals	108	210
Profit/(loss) on prior years disposals	—	(4)
Total disposal consideration	266	467
less:		
Cash and cash equivalents disposed of	(45)	2
Consideration receivable	(23)	(183)
Receipt of consideration receivable on prior years disposal	68	439
Cash inflow on disposals	266	725

30. Dividends

Dividends payable are not accounted for until they have been ratified at the Annual General Meeting. At the meeting on 14 April 2005, the following dividend in respect of 2004 will be proposed:

Dividend per share	CHF 8.–
resulting in a total dividend of ^(a)	CHF 3 187 302 832.–

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

The accounts for the year ended 31 December 2004 do not reflect this proposed distribution, which will be treated as an appropriation of profit in the year ending 31 December 2005.

31. Guarantees

In the normal course of business, the Group has granted guarantees to third parties, totalling CHF 87 million (2003: CHF 331 million) on 31 December 2004.

32. Commitments for expenditure on property, plant and equipment

At 31 December 2004, the Group was committed to expenditure amounting to CHF 219 million (2003: CHF 139 million).

33. Lease commitments

The following charges arise from these commitments:

Operating leases

In millions of CHF	2004	2003
	Minimum lease payments	
	Future value	
Within one year	413	458
In the second year	355	378
In the third to the fifth year inclusive	651	705
After the fifth year	722	893
	2 141	2 434

Finance leases

In millions of CHF	2004		2003	
	Present value	Future value	Present value	Future value
Within one year	49	70	48	64
In the second year	44	60	42	53
In the third to the fifth year inclusive	86	124	76	106
After the fifth year	124	178	106	137
	303	432	272	360

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

34. Contingent assets and liabilities

The Group is exposed to contingent liabilities amounting to CHF 690 million (2003: CHF 470 million) representing various potential litigations (CHF 550 million) and other items (CHF 140 million).

Contingent assets for litigation claims in favour of the Group amount to CHF 170 million (2003: CHF 170 million).

35. Events after the balance sheet date

Wagner, Germany

On 7 December 2004 Nestlé Deutschland AG entered into an agreement with Wagner Tiefkühlprodukte GmbH whereby Nestlé Deutschland AG would acquire control of Wagner in 2005. The approval of the appropriate authorities has been received in January 2005.

Garoto, Brazil

After almost 2 years analyzing Nestlé Brasil Ltda.'s acquisition of Chocolates Garoto S.A. the Brazilian Antitrust Agency (Administrative Council of Economic Defence or CADE) completely blocked such transaction in February 2004, when it issued a ruling requesting Nestlé Brasil Ltda. to sell the chocolate confectionery business, assets and intellectual property it acquired from the Meyerfreund Group when the purchase of 100% shares of Chocolates Garoto S.A. was completed in 2002. CADE said the combined operations of Nestlé and Garoto were a threat to fair competition. Nestlé Brasil Ltda. filed an administrative revision recourse with CADE (based on the "new facts" concept). CADE rejected this recourse in October 2004 including subsequent clarification motions. The decision on the latter has been officially published on 3 February 2005. Nestlé has now agreed on the next steps, including filing a recourse to CADE, as provided within the administrative guidelines, to request clarification on certain matters documented in CADE's decisions, including ambiguities and inconsistencies identified in the individual commissioner's written decisions. The recourse, EMBARGOS DECLARATORIOS (administrative recourse), will also present CADE with an opportunity to amend its decision. The filing of this new recourse effectively halts the requirement for Nestlé to dispose of the Garoto business until the result of the procedure is known.

The Group intends to vigorously defend its interest in this matter, however the complete or partial disposal of the Garoto business would not have a material impact.

36. Transactions with related parties

The Group has not entered into any material transactions with related parties. Furthermore, throughout 2004, no director had a personal interest in any transaction of significance for the business of the Group.

37. Nestlé Group Companies

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

Principal exchange rates

CHF per		2004	2003	2004	2003
		Year ending rates		Average annual rates	
1 US Dollar	USD	1.13	1.24	1.241	1.344
1 Euro	EUR	1.54	1.56	1.544	1.522
1 Pound Sterling	GBP	2.18	2.20	2.269	2.200
100 Brazilian Reais	BRL	42.50	42.60	42.490	43.680
100 Japanese Yen	JPY	1.09	1.16	1.147	1.165
100 Mexican Pesos	MXN	10.10	11.00	11.020	12.480
1 Canadian Dollar	CAD	0.94	0.96	0.956	0.967
1 Australian Dollar	AUD	0.88	0.93	0.912	0.880
100 Philippine Pesos	PHP	2.02	2.23	2.210	2.484

Report of the Group auditors

to the General Meeting of Nestlé S.A.

As Group auditors we have audited the Consolidated Accounts (balance sheet, income statement, cash flow statement, statement of changes in equity and annex) of the Nestlé Group for the year ended 31 December 2004.

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

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

In our opinion, the Consolidated Accounts give a true and fair view of the financial position, the net profit and cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law. We recommend that the Consolidated Accounts submitted to you be approved.

 Klynveld Peat Marwick Goerdeler SA



Scott Cormack
Auditor in charge



Stéphane Gard

London and Zurich, 23 February 2005

Financial information – five year review

In millions of CHF (except for per share data and personnel) 2004 2003

Results

Consolidated sales	86 769	87 979
EBITA Earnings Before Interest, Taxes and Amortisation of goodwill	10 970	11 006
<i>as % of sales</i>	12.6%	12.5%
Taxes	2 452	2 307
Consolidated net profit	6 717	6 213
<i>as % of sales</i>	7.7%	7.1%
<i>as % of average equity</i>	17.7%	17.3%
Total amount of dividend	3 187 ^(a)	2 800
Depreciation of property, plant and equipment	2 506	2 408
<i>as % of sales</i>	2.9%	2.7%
Amortisation of goodwill	1 599	1 571

Balance sheet

Current assets	35 285	36 233
of which liquid assets	15 282	15 128
Non-current assets	51 809	53 328
Total assets	87 094	89 561
Current liabilities	29 117	30 365
Non-current liabilities and minority interests	18 758	22 316
Equity	39 219	36 880
Capital expenditure	3 295	3 337
<i>as % of sales</i>	3.8%	3.8%

Data per share

Weighted average number of shares outstanding	388 449 957	387 018 429
Consolidated net profit ^(b)	17.29	16.05
Equity ^(b)	100.96	95.29
Dividend ^(b)	8.00 ^(d)	7.20
Pay-out ratio	46.3% ^(d)	44.8%
Stock prices (high/low) ^(b)	346.0/276.0	314.5/233.3
Yield ^(c)	2.3/2.9 ^(d)	2.3/3.1

Number of personnel (in thousands) **247** **253**

(a) As proposed by the Board of Directors of Nestlé S.A.. This amount includes dividends payable in respect of shares with right to dividend at the balance sheet date (CHF 3099 million) as well as those potentially payable on the shares covering options and shares held for trading purposes (CHF 88 million).

(b) Figures prior to 2001 adjusted in order to make comparable the data per share.

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

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

(e) Excludes Ralston Purina.

(f) Figures prior to 2001 have not been restated following the first application of IAS 39 Financial Instruments.

2002	2001	2000 ^(f)
89 160	84 698	81 422
10 940	9 987	9 911
12.3%	11.8%	12.2%
2 295	2 429	2 761
7 564	6 681	5 763
8.5%	7.9%	7.1%
22.1%	21.0%	21.2%
2 705	2 484	2 127
2 542	2 581	2 737
2.9%	3.0%	3.4%
1 438	494	414
35 342	39 045	30 747
14 291	16 042	10 131
52 010	54 741	34 777
87 352	93 786	65 524
33 737	41 492	23 174
18 796	18 641	12 446
34 819	33 653	29 904
3 577	3 611	3 305
4.0%	4.3%	4.1%
387 641 752	387 369 846	386 527 830
19.51	17.25	14.91
89.82	86.88	77.40
7.00	6.40	5.50
35.9%	37.1%	36.9%
397.0/271.0	386.5/289.0	389.3/254.0
1.8/2.6	1.7/2.2	1.4/2.2
254	230 ^(e)	225

Companies of the Nestlé Group

Operating companies

Principal affiliated companies ^(a) which operate in the food and water sectors, with the exception of those marked with an asterisk (*) which are engaged in the pharmaceutical sector.

- Companies listed on the stock exchange.

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

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

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

% capital shareholding corresponds to voting powers unless stated otherwise.

1. Affiliated companies for which full consolidation treatment is applied (see “Scope of consolidation”).

Companies	City	% capital shareholdings	Currency	Capital
Europe				
Germany				
Nestlé Deutschland AG	Frankfurt am Main	100%	EUR	214 266 628.49
Nestlé Waters Deutschland AG	Mainz	100%	EUR	10 565 335.43
PowerBar Europe GmbH	München	100%	EUR	25 000.00
Alcon Pharma GmbH*	Freiburg/Breisgau	75.33%	EUR	511 291.88
Geti Wilba Wild- und Geflügelverarbeitung GmbH & Co. KG	Bremervörde	100%	EUR	6 135 502.57
Erlenbacher Backwaren GmbH	Gross-Gerau	100%	EUR	2 582 024.00
Family Frost International Tiefkühlheimdienst GmbH	Mettmann	100%	EUR	4 116 000.00
Nestlé Schöller GmbH & Co. KG	Nürnberg	100%	EUR	60 000 000.00
Nestlé Schöller Produktions-GmbH	Nürnberg	100%	EUR	30 000.00
Gut Adlersreuth Wildspezialitäten GmbH & Co. KG	Oberreute	100%	EUR	511 291.88
Distributa Gesellschaft für Lebensmittel-Logistik mbH	Wildau	70%	EUR	511 291.88
Family Frost Tiefkühlheimdienst GmbH	Wildau	100%	EUR	2 056 000.00
Austria				
Nestlé Österreich GmbH	Wien	100%	EUR	7 270 000.00
Nespresso Österreich GmbH & Co. OHG	Wien	100%	EUR	35 000.00
Alcon Ophthalmika GmbH*	Wien	75.33%	EUR	36 336.42
Schöller Lebensmittel GmbH	Wien	100%	EUR	7 231 000.00
Belgium				
Nestlé Belgilux S.A.	Bruxelles	100%	EUR	8 924 200.00
Nestlé Waters Benelux S.A.	Etalle	100%	EUR	19 924 000.00
S.A. Nespresso Belgilux N.V.	Bruxelles	100%	EUR	550 000.00
S.A. Alcon-Couvreur N.V.*	Puurs	75.33%	EUR	4 491 830.00
Nestlé Purina PetCare Belgilux N.V.	Bruxelles	100%	EUR	2 961 854.76
Nestlé Catering Services S.A.	Bruxelles	100%	EUR	10 535 500.00

Companies	City	% capital shareholdings	Currency	Capital
Bulgaria				
Nestlé Bulgaria A.D.	Sofia	99.97%	BGN	8 787 000.00
Denmark				
Nestlé Danmark A/S	Copenhagen	100%	DKK	42 000 000.00
Alcon Danmark A/S*	Rodovre	75.33%	DKK	500 000.00
Food Specialities A/S	Esbjerg	100%	DKK	13 095 000.00
Spain				
Nestlé España S.A.	Esplugues de Llobregat (Barcelona)	100%	EUR	100 000 000.00
Productos del Café S.A.	Reus	100%	EUR	6 600 000.00
Davigel España S.A.	Sant Just Desvern (Barcelona)	100%	EUR	984 000.00
La Cocinera Alimentación S.A.	Barcelona	100%	EUR	150 000.00
Aquarel Iberica S.A.	Barcelona	100%	EUR	300 506.05
Nestlé Waters España S.A.	Barcelona	100%	EUR	8 400 000.00
Alcon Cusi S.A.*	El Masnou (Barcelona)	75.33%	EUR	11 599 783.00
Helados y Postres S.A.	Vitoria	100%	EUR	140 563 200.00
Nestlé PetCare España S.A.	Castellbisbal (Barcelona)	100%	EUR	12 000 000.00
Family Frost S.L.	Sevilla	100%	EUR	420 708.47
Finland				
Suomen Nestlé Oy	Helsinki	100%	EUR	3 363 758.53
Nestlé Purina PetCare Finland Oy	Vantaa	100%	EUR	84 093.96
Kotijätelö Oy	Helsinki	100%	EUR	500 000.00
France				
Nestlé France SAS	Noisiel	100%	EUR	129 130 560.00
Nestlé Grand Froid S.A.	Noisiel	100%	EUR	14 910 000.00
Nestlé Clinical Nutrition France	Noisiel	100%	EUR	57 943 072.00
Nestlé Produits Laitiers Frais S.A.	Noisiel	99.97%	EUR	3 196 200.00
Herta S.A.	Noisiel	100%	EUR	12 908 610.00
Davigel S.A.	Dieppe	100%	EUR	7 681 250.00
Nestlé Waters France	Issy-les-Moulineaux	100%	EUR	42 824 105.00
S.A. des Eaux Minérales de Ribeaupillé	Ribeaupillé	100%	EUR	846 595.13
Eau Minérale Naturelle de Plancoët				
“Source Sassay”	Plancoët	100%	EUR	430 028.19
Nespresso France S.A.	Paris	100%	EUR	1 360 000.00
Laboratoires Alcon S.A.*	Rueil-Malmaison	75.33%	EUR	12 579 101.00
Nestlé Purina PetCare France	Rueil-Malmaison	100%	EUR	21 091 872.00
Nestlé HomeCare	Noisiel	100%	EUR	2 080 600.00
Société Industrielle de transformation de produits agricoles “SITPA” S.A.	Villers-les-Pots	100%	EUR	9 718 000.00
Schöller Glaces et Desserts SAS	Vitry-sur-Seine	100%	EUR	1 232 598.00
Nestlé Waters Powwow France	Issy-les-Moulineaux	100%	EUR	8 864 000.00
Mistral Constructeur SAS	Evry	100%	EUR	724 133.00

Companies	City	% capital shareholdings	Currency	Capital
Greece				
Nestlé Hellas S.A.	Maroussi	100%	EUR	18 437 936.00
Alcon Laboratories Hellas Commercial and Industrial S.A.*	Maroussi	75.33%	EUR	757 171.30
Hungary				
Nestlé Hungária Kft.	Budapest	100%	HUF	6 000 000 000.00
Kékkúti Ásványvíz Rt.	Budapest	100%	HUF	238 326 000.00
Alcon Hungary Pharmaceuticals Trading LLC*	Budapest	75.33%	HUF	75 000 000.00
Nestlé-Schöller Kft.	Törökbálint	100%	HUF	3 762 470 000.00
Family Frost Kft.	Törökbálint	100%	HUF	220 000 000.00
Italy				
Nestlé Italiana S.p.A.	Milano	100%	EUR	25 582 492.00
San Pellegrino S.p.A.	Milano	100%	EUR	58 742 145.00
Alcon Italia S.p.A.*	Milano	75.33%	EUR	1 300 000.00
Nestlé Purina PetCare Italia S.p.A.	Milano	100%	EUR	10 000 000.00
Nespresso Italy S.p.A.	Milano	100%	EUR	250 000.00
Lithuania				
UAB "Nestlé Baltics"	Vilnius	100%	LTL	110 000.00
Malta				
Nestlé Malta Ltd	Valletta	100%	MTL	50 000.00
Norway				
A/S Nestlé Norge	Sandvika	100%	NOK	81 250 000.00
Alcon Norge AS*	Sandvika	75.33%	NOK	100 000.00
Hjem-IS A/S	Oslo	100%	NOK	2 250 000.00
Netherlands				
Nestlé Nederland B.V.	Amsterdam	100%	EUR	68 067 032.41
Alcon Nederland B.V.*	Gorinchem	75.33%	EUR	18 151.20
Nestlé Purina PetCare Nederland B.V.	Amsterdam	100%	EUR	18 152.00
Nespresso Nederland B.V.	Amsterdam	100%	EUR	681 000.00
Maître Paul B.V.	Tilburg	100%	EUR	4 991 582.38
Nestlé Waters Powwow (Netherlands) B.V.	Zoetermee	100%	EUR	1 606 430.00
Poland				
Nestlé Polska S.A.	Warszawa	100%	PLN	301 314 000.00
Nestlé Waters Polska S.A.	Warszawa	100%	PLN	40 100 000.00
Alcon Polska Sp. z o.o.*	Warszawa	75.33%	PLN	750 000.00
Schöller Artykuly Sp. z o.o.	Warszawa	100%	PLN	34 995 500.00
Family Frost Polen Sp. z o.o.	Tychy	100%	PLN	8 203 815.75

Companies	City	% capital shareholdings	Currency	Capital
Portugal				
Nestlé Portugal S.A.	Linda-a-Velha	100%	EUR	30 000 000.00
Longa Vida-Indústrias Lácteas S.A.	Matosinhos	100%	EUR	5 000 000.00
Nestlé Waters Portugal S.A.	Porto Salvo	100%	EUR	3 500 000.00
Alcon Portugal-Produtos e Equipamentos				
Oftalmologicos, Ltda.*	Paço d'Arcos	75.33%	EUR	4 500 000.00
Family Frost – Gelados e Congelados Ltda.	Lisboa	100%	EUR	254 000.00
Prolacto-Lactinios de Sao Miguel S.A.	Ponta Delgada	100%	EUR	700 000.00
Selda-Comércio e Representacoes, S.A.	S. João da Talha	100%	EUR	600 000.00
Republic of Ireland				
Nestlé (Ireland) Ltd	Tallaght-Dublin	100%	EUR	3 530 600.00
Czech Republic				
Nestlé Cesko s.r.o.	Praha	100%	CZK	1 154 000 000.00
Schöller Zmrzlina a Mrazene Vyrobyky				
spol. s.r.o.	Praha	100%	CZK	35 229 000.00
Family Frost spol. s.r.o.	Praha	100%	CZK	17 000 000.00
Romania				
Nestlé Romania SRL	Bucharest	100%	ROL	934 748 000 000.00
United Kingdom				
Nestlé UK Ltd	Croydon	100%	GBP	240 800 000.00
Nestlé Waters UK Ltd	Rickmansworth	100%	GBP	14 000 000.00
Buxton Mineral Water Company Ltd	Rickmansworth	100%	GBP	14 000 000.00
Nestlé Watercoolers UK Ltd	Rickmansworth	100%	GBP	3 000 000.00
Alcon Laboratories (UK) Ltd*	Herts	75.33%	GBP	3 100 000.00
Nestlé Purina PetCare (UK) Ltd	New Malden	100%	GBP	24 000 000.00
Schöller Ice-Cream Ltd	Croydon	100%	GBP	1 584 626.00
Nestlé Waters Powwow Ltd	Stockley Park	100%	GBP	640.00
Nespresso UK Ltd	London	100%	GBP	275 000.00
Russia				
OJSC Confectionery Union Rossiya	Samara	100%	RUB	90 244 000.00
Nestlé Zhukovsky LLC	Zhukovsky	100%	RUB	364 884 000.00
Nestlé Food LLC	Moscow	100%	RUB	1 655 572 000.00
OJSC “Kamskaya”	Perm	87.35%	RUB	88 997 000.00
OJSC “Khladoprodukt”	Timashevsk	95.28%	RUB	175 858 000.00
OJSC Confectionery Firm “Altai”	Barnaul	95.70%	RUB	113 281 000.00
OJSC Vologda Baby Food Factory	Vologda	100%	RUB	17 499 000.00
Schöller Eiscrem GmbH	Moscow	100%	RUB	788 000.00
Alcon Farmaceutika LLC*	Moscow	75.33%	RUB	44 055 000.00
Nestlé Waters LLC	Moscow	100%	RUB	211 575 000.00
Nestlé Watercoolers Service CIS	Moscow	100%	RUB	17 363 425.50
Nestlé Watercoolers CIS	Moscow	100%	RUB	6 500.00

Companies	City	% capital shareholdings	Currency	Capital
Slovakia				
Nestlé Slovensko s.r.o.	Bratislava	100%	SKK	400 000 000.00
Schöller Potraviny, spol. s.r.o.	Bratislava	100%	SKK	200 000.00
Sweden				
Nestlé Sverige AB	Helsingborg	100%	SEK	20 000 000.00
Zoégas Kaffee AB	Helsingborg	100%	SEK	20 000 000.00
Jede AB	Mariestad	100%	SEK	7 000 000.00
Alcon Sverige AB*	Bromma	75.33%	SEK	100 000.00
Nestlé Purina PetCare Sverige AB	Malmö	100%	SEK	1 000 000.00
Hemglass AB	Strängnäs	100%	SEK	14 000 000.00
Switzerland				
Société des Produits Nestlé S.A.	Vevey	100%	CHF	54 750 000.00
Nestlé Suisse S.A.	Vevey	100%	CHF	250 000.00
Nestlé Waters (Suisse) S.A.	Gland	100%	CHF	1 200 000.00
Alcon Pharmaceuticals Ltd*	Hünenberg	75.33%	CHF	100 000.00
Nestrade – Nestlé World Trade Corporation	La Tour-de-Peilz	100%	CHF	6 500 000.00
Nestlé Nespresso S.A.	Paudex	100%	CHF	2 000 000.00
Nestlé International Travel Retail S.A.	Châtel-St-Denis	100%	CHF	3 514 000.00
Turkey				
Nestlé Türkiye Gıda Sanayi A.S.	Istanbul	99.94%	TRL	30 032 503 699 253.00
Alcon Laboratuvarlari Tic. A.S.*	Istanbul	75.33%	TRL	17 724 114 600 000.00
Nestlé Waters Gıda Ve Mesrubat Sanayi Ticaret A.S.	Istanbul	95%	TRL	8 000 000 000 000.00
Ukraine				
JSC Lviv Confectionery Firm "Svitoch"	Lviv	96.46%	UAK	84 990 000.00
LLC Nestlé Ukraine	Kiev	100%	UAK	792 000.00
OJSC Volynholding	Torchyn	100%	UAK	100 000.00
Africa				
South Africa				
Nestlé (South Africa) (Pty) Ltd	Randburg	100%	ZAR	51 200 000.00
Nestlé Purina PetCare	Randburg	100%	ZAR	1 000.00
Alcon Laboratories (South Africa) Pty Ltd*	Randburg	75.33%	ZAR	201 820.00
Cameroon				
Nestlé Cameroun	Douala	99.80%	XAF	1 300 000 000.00
Côte d'Ivoire				
• Nestlé Côte d'Ivoire	Abidjan	86.30%	XOF	5 517 600 000.00
<i>Listed on the Abidjan Stock Exchange, market capitalisation XOF 71 350 mio, quotation code (ISIN) CI0009240728</i>				
Nestlé Sahel	Abidjan	100%	XOF	4 217 000 000.00

Companies	City	% capital shareholdings	Currency	Capital
Egypt				
Nestlé Egypt S.A.E.	Cairo	100%	EGP	73 000 000.00
Dolce Company for Food Industries S.A.E.	Cairo	100%	EGP	7 722 000.00
Société des eaux minérales Vittor S.A.E.	Cairo	99.16%	EGP	36 500 000.00
Gabon				
Nestlé Gabon	Libreville	90%	XAF	344 000 000.00
Ghana				
Nestlé Ghana Ltd	Tema-Accra	70%	GHC	1 000 000 000.00
Guinea				
Nestlé Guinée S.A.	Conakry	99%	GNF	3 424 000 000.00
Kenya				
Nestlé Foods Kenya Ltd	Nairobi	100%	KES	37 145 000.00
Mauritius				
Nestlé's Products (Mauritius) Ltd	Port Louis	100%	BSD	71 500.00
Nestlé South East Africa Trading Ltd	Port Louis	100%	USD	100.00
Morocco				
Nestlé Maroc S.A.	El Jadida	94.50%	MAD	156 933 000.00
Mozambique				
Nestlé Mozambique Limitada	Maputo	100%	MZM	4 000 000.00
Niger				
Nestlé Niger	Niamey	75%	XOF	10 000 000.00
Nigeria				
• Nestlé Nigeria PLC	Ilupeju-Lagos	62.32%	NGN	264 093 750.00
<i>Listed on the Lagos stock exchange, market capitalisation NGN 79 065 mio, quotation code (ISIN) NG00000NSTL3</i>				
Senegal				
Nestlé Sénégal	Dakar	100%	XOF	1 620 000 000.00
Tunisia				
Nestlé Tunisie	Tunis	59.20%	TND	8 438 280.00
Zimbabwe				
Nestlé Zimbabwe (Pvt) Ltd	Harare	100%	ZWD	7 000 000.00

Companies	City	% capital shareholdings	Currency	Capital
Americas				
Argentina				
Nestlé Argentina S.A.	Buenos Aires	100%	ARS	572 000.00
Eco de Los Andes S.A.	Buenos Aires	50.89%	ARS	33 949 244.00
Alcon Laboratorios Argentina S.A.*	Buenos Aires	75.33%	ARS	7 176 282.00
Bolivia				
Nestlé Bolivia S.A.	La Paz	100%	BOB	190 000.00
Brazil				
Nestlé Brasil Ltda.	São Paulo	100%	BRL	470 601 498.00
Industrias Alimenticias Itacolomy S/A	Montes Claros	100%	BRL	241 979 385.00
Nestlé Waters Brasil – Bebidas e Alimentos Ltda.	Rio de Janeiro	100%	BRL	87 248 341.00
Alcon Laboratorios do Brasil Ltda.*	São Paulo	75.33%	BRL	7 729 167.00
Chocolates Garoto S.A.	Vila Velha-ES	100%	BRL	160 620 000.00
Ralston Purina do Brasil Ltda.	Ribeirão Preto	77%	BRL	79 473 771.00
Canada				
Nestlé Canada, Inc.	Toronto (Ontario)	100%	CAD	27 989 556.00
177833 Canada, Inc.	Toronto (Ontario)	50%	CAD	50 000.00
Alcon Canada, Inc.*	Mississauga (Ontario)	75.33%	CAD	5 002 500.00
Chile				
Nestlé Chile S.A.	Santiago de Chile	99.50%	CLP	11 832 926 051.00
Alcon Laboratorios Chile Ltda.*	Santiago de Chile	75.33%	CLP	9 750 000.00
Colombia				
Nestlé de Colombia S.A.	Bogotá	100%	COP	1 291 305 400.00
Laboratorios Alcon de Colombia S.A.*	Bogotá	75.33%	COP	20 872 000.00
Nestlé Purina PetCare de Colombia S.A.	Bogotá	100%	COP	17 030 000 000.00
Costa Rica				
Compañía Nestlé Costa Rica S.A.	Barreal de Heredia	100%	CRC	1 694 000 000.00
Cuba				
Los Portales S.A.	La Habana	50.02%	USD	24 110 000.00
El Salvador				
Nestlé El Salvador S.A.	San Salvador	100%	SVC	39 000 000.00
Lacteos Finos de Centroamérica, S.A.	San Salvador	100%	SVC	22 573 000.00
Ecuador				
Nestlé Ecuador S.A.	Quito	100%	USD	188 497.00
Industrial Surindu S.A.	Guayaquil	100%	USD	3 900 994.00

Companies	City	% capital shareholdings	Currency	Capital
United States				
Nestlé USA, Inc.	Glendale (California)	100%	USD	1 000.00
Nestlé Prepared Foods Company	Solon (Ohio)	100%	USD	476 760.00
Nestlé Purina PetCare Company	St. Louis (Missouri)	100%	USD	1 000.00
Nestlé Waters North America, Inc.	Wilmington (Delaware)	100%	USD	10 000 000.00
Nespresso USA, Inc.	New York (New York)	100%	USD	1 000.00
Alcon Laboratories, Inc.*	Fort Worth (Texas)	75.33%	USD	1 000.00
Falcon Pharmaceuticals, Ltd.	Fort Worth (Texas)	75.33%	USD	0.00
Alcon (Puerto Rico), Inc.*	San Juan (Puerto Rico)	75.33%	USD	100.00
• Dreyer's Grand Ice Cream Holdings, Inc.	Oakland (California)	100%	USD	963 946.47
<i>Listed on the NASDAQ, market capitalisation USD 2438.2 mio, quotation code "DRYR"</i>				
Guatemala				
Nestlé Guatemala S.A.	Mixco/Guatemala	100%	GTQ	23 460 600.00
NZMP Guatemala S.A.	Guatemala City	100%	GTQ	1 958 800.00
Honduras				
Nestlé Hondureña S.A.	Tegucigalpa (Branch)	100%	USD	200 000.00
Jamaica				
Nestlé Jamaica Ltd	Kingston	100%	JMD	49 200 000.00
Mexico				
Nestlé México S.A. de C.V.	México, D.F.	100%	MXN	1 056 377 220.00
Alcon Laboratorios S.A. de C.V.*	México, D.F.	75.33%	MXN	5 915 300.00
Nescalín, S.A. de C.V.	México, D.F.	100%	MXN	445 826 740.00
Ralston Purina Mexico S.A. de C.V.	México, D.F.	100%	MXN	1 000.00
Manantiales La Asunción, S.A. de C.V.	México, D.F.	100%	MXN	115 646 364.00
Nicaragua				
Productos Nestlé (Nicaragua) S.A.	Managua (Branch)	100%	USD	150 000.00
Panama				
Nestlé Panamá S.A.	Panamá City	100%	USD	17 500 000.00
Lacteos de Centroamérica, S.A.	Panamá City	100%	USD	1 500 000.00
Paraguay				
Nestlé Paraguay S.A.	Asunción	100%	PYG	100 000 000.00
Peru				
Nestlé Perú S.A.	Lima	97.38%	PEN	88 535 000.00
Puerto Rico				
Nestlé Puerto Rico, Inc.	Catano	100%	USD	500 000.00
Dominican Republic				
Nestlé Dominicana S.A.	Santo Domingo	97%	DOP	48 500 000.00

Companies	City	% capital shareholdings	Currency	Capital
Trinidad and Tobago				
Nestlé Trinidad and Tobago Ltd	Valsayn	100%	TTD	35 540 000.00
Nestlé Caribbean, Inc.	Valsayn	100%	USD	100 000.00
Uruguay				
Nestlé del Uruguay S.A.	Montevideo	100%	UYU	32 000.00
Venezuela				
Nestlé Venezuela S.A.	Caracas	100%	VEB	516 590 000.00
Cadipro Milk Products, C.A.	Caracas	100%	VEB	9 505 123 000.00
Alcon Pharmaceutical C.A.*	Caracas	75.33%	VEB	2 366 000.00
Asia				
Saudi Arabia				
Saudi Food Industries Co. Ltd	Jeddah	51%	SAR	51 000 000.00
Al Manhal Water Factory Co. Ltd	Riyadh	60%	SAR	7 000 000.00
Springs Water Factory Co. Ltd	Dammam	75%	SAR	5 000 000.00
Bangladesh				
Nestlé Bangladesh Ltd	Dhaka	100%	BDT	1 100 000 000.00
Cambodia				
Nestlé Dairy (Cambodia) Ltd	Phnom Penh	80%	USD	5 000 000.00
United Arab Emirates				
Nestlé Middle East FZE	Dubai	100%	USD	816 770.00
Nestlé Food – Dubai	Dubai	49%	AED	2 000 000.00
India				
• Nestlé India Ltd	New Delhi	61.85%	INR	964 157 160.00
<i>Listed on the Mumbai and Dehli stock exchange, market capitalisation INR 56.4 bio, quotation code (ISIN) INE239A01016</i>				
Indonesia				
P.T. Nestlé Indonesia	Jakarta	90.24%	IDR	60 000 000 000.00
Israel				
• OSEM Investments Ltd	Petach-Tikva	51.86%	ILS	96 644 000.00
<i>Listed on the Tel-Aviv stock exchange, market capitalisation USD 1075.7 mio, quotation code (ISIN) IL0003040149</i>				

Companies	City	% capital shareholdings	Currency	Capital
Japan				
Nestlé Japan Ltd	Kobe	100%	JPY	10 000 000.00
Nestlé Japan Holding Ltd	Ibaragi	100%	JPY	20 000 000 000.00
Nestlé International Foods K.K.	Kobe	100%	JPY	10 000 000.00
Nestlé Confectionery K.K.	Kobe	100%	JPY	10 000 000.00
Nestlé Purina PetCare Ltd.	Kobe	100%	JPY	20 000 000.00
Nestlé Beverage K.K.	Kobe	100%	JPY	20 000 000.00
Nestlé Snow K.K.	Tokyo	85%	JPY	20 000 000.00
Nestlé Japan Administration Ltd	Kobe	100%	JPY	10 000 000.00
Alcon Japan Ltd*	Tokyo	75.33%	JPY	27 500 000.00
Nestlé Japan Manufacturing Ltd	Kobe	100%	JPY	10 000 000.00
Venet Tohoku K.K.	Sendai	100%	JPY	80 000 000.00
Venet Tokyo K.K.	Tokyo	100%	JPY	95 000 000.00
Venet Chubu K.K.	Nagoya	100%	JPY	10 000 000.00
Venet Kinki K.K.	Osaka	100%	JPY	70 000 000.00
Venet Chugoku K.K.	Hiroshima	100%	JPY	95 000 000.00
Venet Shikoku K.K.	Takamatsu	100%	JPY	12 000 000.00
Venet Kyusyu K.K.	Fukuoka	100%	JPY	50 000 000.00
Tokyo Skol K.K.	Chiba	100%	JPY	20 000 000.00
Venet Hokkaido K.K.	Sapporo	100%	JPY	50 000 000.00
Jordan				
Nestlé Jordan Trading Co. Ltd	Amman	87%	JDD	410 000.00
Kuwait				
Nestlé Kuwait General Trading Co. W.L.L.	Safat/Kuwait	49%	KWD	300 000.00
Lebanon				
Société pour l'Exportation des Produits				
Nestlé S.A.	Beyrouth	100%	CHF	1 750 000.00
SOHAT Distribution S.A.L.	Hazmieh	100%	LBP	160 000 000.00
Société des Eaux Minérales Libanaises S.A.L.	Hazmieh	100%	LBP	1 610 000 000.00
Malaysia				
• Nestlé (Malaysia) Bhd.	Petaling Jaya	72.18%	MYR	234 500 000.00
<i>Listed on the KLSE, market capitalisation MYR 5.4 bio, quotation code (ISIN) MYL470700005</i>				
Nestlé Foods (Malaysia) Sdn. Bhd.	Petaling Jaya	72.18%	MYR	100 000 000.00
Nestlé Products Sdn. Bhd.	Petaling Jaya	72.18%	MYR	25 000 000.00
Nestlé Asean (Malaysia) Sdn. Bhd.	Petaling Jaya	72.18%	MYR	42 000 000.00
Nestlé Manufacturing (Malaysia) Sdn. Bhd.	Petaling Jaya	72.18%	MYR	32 500 000.00
Oman				
Nestlé Oman Trading LLC	Muscat	49%	OMR	300 000.00
Pakistan				
• Nestlé Milkpak Ltd	Lahore	59%	PKR	452 731 000.00
<i>Listed on the Karachi and Lahore stock exchange, market capitalisation PKR 23 539 mio, quotation code NESTLE</i>				

Companies	City	% capital shareholdings	Currency	Capital
Philippines				
Nestlé Philippines, Inc.	Makati City	100%	PHP	2 300 927 200.00
Goya, Inc.	Marikina City	99.80%	PHP	358 234 812.00
Nestlé Waters Philippines, Inc.	Makati City	100%	PHP	420 000 000.00
Penpro, Inc.	Makati City	100%	PHP	630 000 000.00
Republic of Korea				
Nestlé Korea Ltd	Seoul	100%	KRW	17 033 060 000.00
Alcon Korea Ltd*	Seoul	75.33%	KRW	200 000 000.00
Nestlé Purina PetCare Korea Ltd	Seoul	100%	KRW	1 169 000 000.00
Pulmuone Waters Co. Ltd	Chungbuk	51%	KRW	3 778 760 000.00
Greater China Region				
Nestlé (China) Ltd	Beijing	100%	CNY	250 000 000.00
Nestlé Shuangcheng Ltd	Shuangcheng	97.01%	CNY	435 000 000.00
Nestlé Dongguan Ltd	Dongguan	100%	CNY	472 000 000.00
Nestlé Tianjin Ltd	Tianjin	100%	CNY	785 000 000.00
Nestlé Qingdao Ltd	Qingdao	100%	CNY	640 000 000.00
Nestlé Shanghai Ltd	Shanghai	95%	CNY	200 000 000.00
Nestlé Dairy Farm Guangzhou Ltd	Guangzhou	95.04%	CNY	268 000 000.00
Guangzhou Refrigerated Foods Ltd	Guangzhou	96.44%	CNY	122 000 000.00
Shanghai Fuller Foods Co. Ltd	Shanghai	100%	CNY	384 000 000.00
Shanghai Nestlé Product Services Ltd	Shanghai	97%	CNY	83 000 000.00
Shanghai Totole Flavouring Food Co. Ltd	Shanghai	80%	USD	7 800 000.00
Nestlé Sources Shanghai Ltd	Shanghai	100%	CNY	158 000 000.00
Nestlé Sources Tianjin Ltd	Tianjin	93.58%	CNY	159 000 000.00
Nestlé Hong Kong Ltd	Hong Kong	100%	HKD	250 000 000.00
Sichuan Haoji Food Co. Ltd	Chengdu	60%	CNY	80 000 000.00
Alcon (China) Ophthalmic Product Co. Ltd*	Beijing	75.33%	USD	1 357 455.00
Alcon Hong Kong Ltd*	Hong Kong	75.33%	HKD	77 000.00
Nestlé Taiwan Ltd	Taipei	100%	TWD	300 000 000.00
Alcon Pharmaceuticals Ltd*	Taipei (Branch)	75.33%	CHF	100 000.00
Kingdom of Bahrain				
Nestlé Bahrain Trading WLL	Manama, Bahrain	49%	BHD	200 000.00
Singapore				
Nestlé Singapore (Pte) Ltd	Singapore	100%	SGD	1 000 000.00
Sri Lanka				
• Nestlé Lanka Ltd	Colombo	90.80%	LKR	537 254 630.00
<i>Listed on the Colombo stock exchange, market capitalisation LKR 4.8 bio, quotation code (ISIN) LK0128N00005</i>				
International Dairy Products Ltd	Colombo	96.32%	LKR	30 000 000.00
Eastern Food Specialities Ltd	Colombo	90.80%	LKR	20 000 000.00

Companies	City	% capital shareholdings	Currency	Capital
Syria				
Nestlé Syria Ltd	Damas	100%	SYP	800 000 000.00
Société pour l'exportation des produits Nestlé S.A	Damas	100%	CHF	1 750 000.00
Thailand				
Nestlé Products (Thailand), Inc.	Bangkok (Branch)	100%	USD	1 000 000.00
Quality Coffee Products Ltd	Bangkok	49%	THB	400 000 000.00
Nestlé Foods (Thailand) Ltd	Bangkok	100%	THB	700 000 000.00
Nestlé Trading (Thailand) Ltd	Bangkok	49%	THB	750 000.00
Nestlé Manufacturing (Thailand) Ltd	Bangkok	100%	THB	250 000 000.00
Nestlé (Thai) Ltd	Bangkok	100%	THB	880 000 000.00
Nestlé Dairy (Thailand) Ltd	Bangkok	100%	THB	46 000 000.00
Perrier Vittel (Thailand) Ltd	Bangkok	100%	THB	235 000 000.00
Alcon Laboratories (Thailand) Ltd*	Bangkok	75.33%	THB	2 100 000.00
Vietnam				
Nestlé Vietnam Ltd	Bien Hoa	100%	USD	38 598 000.00
La Vie Joint Venture Company	Long An	65%	USD	2 613 000.00
Oceania				
Australia				
Nestlé Australia Ltd	Sydney	100%	AUD	274 000 000.00
Petersville Australia Ltd	Melbourne	100%	AUD	84 702 714.00
Nestlé Echuca Pty Ltd	Melbourne	100%	AUD	270 000.00
Alcon Laboratories (Australia) Pty Ltd*	Frenchs Forest	75.33%	AUD	2 550 000.00
Fiji				
Nestlé (Fiji) Ltd	Ba	74%	FJD	3 000 000.00
New Zealand				
Nestlé New Zealand Ltd	Auckland	100%	NZD	2 668 000.00
Papua-New Guinea				
Nestlé (PNG) Ltd	Lae	100%	PGK	11 850 000.00
French Polynesia				
Nestlé Polynesia SAS	Papeete	100%	XPF	5 000 000.00
New Caledonia				
Nestlé Nouvelle-Calédonie SAS	Noumea	100%	XPF	250 000.00

2. Affiliated companies for which the method of proportionate consolidation is used (see “Scope of consolidation”).

Companies	City	% capital shareholdings	Currency	Capital
Europe				
Germany				
C.P.D. Cereal Partners				
Deutschland GmbH & Co. OHG	Frankfurt am Main	50%	EUR	511 291.88
Galderma Laboratorium GmbH*	Freiburg/Breisgau	50%	EUR	800 000.00
Austria				
C.P.A. Cereal Partners Handelsgesellschaft				
M.B.H. & Co. OHG	Wien	50%	EUR	145 345.64
Spain				
Cereal Partners España S.A.				
	Esplugues de Llobregat (Barcelona)	50%	EUR	120 212.42
Laboratorios Galderma S.A.*	Madrid	50%	EUR	432 480.00
France				
Cereal Partners France				
	Noisiel	50%	EUR	3 000 000.00
Galderma International SAS*	La Défense	50%	EUR	879 000.00
Greece				
C.P. Hellas E.E.I.G.				
	Maroussi	50%	EUR	146 735.14
Hungary				
Cereal Partners Hungaria Kft.				
	Budapest	50%	HUF	22 000 000.00
Italy				
Galderma Italia S.p.A.*				
	Milano	50%	EUR	112 000.00
Poland				
Cereal Partners Poland Torun-Pacific Sp. z o.o.				
	Torun	50%	PLN	14 572 838.00
Portugal				
Cereal Associados Portugal A.E.I.E.				
	Oeiras	50%	EUR	99 759.58
Czech Republic				
Cereal Partners Czech Republic				
	Praha	50%	CZK	23 100 000.00
Russia				
Cereal Partners Trading, LLC				
	Moscow	50%	RUB	5 000 000.00
Sweden				
Galderma Nordic AB*				
	Bromma	50%	SEK	67 400 000.00
United Kingdom				
Cereal Partners U.K.				
	Welwyn Garden	50%	GBP	0.00
Galderma (U.K.) Ltd*	Amersham	50%	GBP	1 500 000.00

Companies	City	% capital shareholdings	Currency	Capital
Switzerland				
Beverage Partners Worldwide Europe S.A.	Urdorf	50%	CHF	2 000 000.00
Belté Schweiz AG	Urdorf	50%	CHF	3 100 000.00
CPW Operations Sàrl	Prilly	50%	CHF	20 000.00
CP Suisse	Vevey	50%	CHF	0.00
Galderma S.A.*	Cham	50%	CHF	100 000.00
Americas				
Argentina				
Dairy Partners Americas Argentina S.A.	Buenos Aires	50%	ARS	12 000.00
Dairy Partners Americas Manufacturing Argentina S.A.	Buenos Aires	50%	ARS	12 000.00
Brazil				
Galderma Brasil Ltda*	São Paulo	50%	BRL	19 741 602.00
CPW Brasil Ltda	Cacapava/São Paulo	50%	BRL	37 885 520.00
Dairy Partners Americas Brazil Ltda.	São Paulo	50%	BRL	27 606 368.00
Dairy Partners Americas Manufacturing Brazil Ltda.	São Paulo	50%	BRL	39 468 974.00
Canada				
Galderma Canada Inc.*	Markham	50%	CAD	100.00
Chile				
Cereales CPW Chile Ltda	Santiago de Chile	50%	CLP	3 026 156 114.00
United States				
Beverage Partners Worldwide (North America)	Wilmington (Delaware)	50%	USD	0.00
Galderma Laboratories, Inc.*	Fort Worth (Texas)	50%	USD	981.00
Mexico				
CPW Mexico S. de R.L. de C.V.	Mexico, D.F.	50%	MXN	132 504 000.00
Galderma Mexico S.A. de C.V.*	Mexico, D.F.	50%	MXN	2 385 000.00
Puerto Rico				
Payco Foods Corporation	Bayamon	50%	PRD	4 630 000.00
Venezuela				
Corporación Inlaca, C.A.	Caracas	50%	VEB	6 584 590 000.00
Asia				
Dubai				
CP Middle East FZCO	Jebel Ali Free Zone Dubai	50%	AED	600 000.00
Malaysia				
Cereal Partners (Malaysia) Sdn. Bhd.	Selangor	50%	MYR	1 025 000.00
Beverage Partners Worldwide (Malaysia) Sdn. Bhd.	Selangor	50%	MYR	5 000 000.00

Companies	City	% capital shareholdings	Currency	Capital
Greater China Region				
Beverage Partners Worldwide (Pacific) Ltd	Hong Kong	50%	HKD	1 000 000.00
Philippines				
CPW Philippines, Inc.	Makati City	50%	PHP	7 500 000.00
Republic of Korea				
Beverage Partners Worldwide Korea	Seoul	50%	KRW	50 000 000.00
Galderma Korea Ltd.	Seoul	50%	KRW	500 000 000.00
Thailand				
Beverage Partners Asia Ltd	Bangkok	49%	THB	20 000 000.00
Oceania				
Australia				
Galderma Australia Pty Ltd.	Frenchs Forest	50%	AUD	2 700 100.00
CPW Australia	Rhodes	50%	AUD	0.00

Principal associated companies for which the equity method is used (see “Scope of consolidation”).

Principal associated companies which operate in the food and water sectors, with the exception of those marked with an asterisk (*) which are engaged in the cosmetics and dermatology sectors.

Germany				
Alois Dallmayr Kaffee OHG	München	25%	EUR	2 562 500.00
Trinks GmbH	Goslar	49%	EUR	2 351 942.65
France				
• L'Oréal S.A.*	Paris	26.90%	EUR	135 212 432.00
<i>Listed on the Paris stock exchange, market capitalisation EUR 38 bio, quotation code (ISIN) FR0000120321</i>				
<i>Considering own shares held by L'Oréal and the share repurchase programme of L'Oréal, Nestlé has 27.95% of the voting rights.</i>				
Société de Bouchages Emballages				
Conditionnement Moderne	Lavardac	50%	EUR	10 200 000.00
Saudi Arabia				
SHAS Company for Water Services Ltd	Riyadh	43.50%	SAR	13 500 000.00
Malaysia				
Premier Milk (Malaysia) Sdn. Bhd.	Kuala Lumpur	25%	MYR	24 000 000.00

Companies	City	% capital shareholdings	Currency	Capital
Sub-holding, financial and property companies				
Europe				
Germany				
Nestlé Unternehmungen Deutschland GmbH	Frankfurt am Main	100%	EUR	1 000 000.00
Schöller Holding GmbH & Co KG	Nürnberg	100%	EUR	166 169 861.39
Belgium				
Centre de Coordination Nestlé S.A.	Bruxelles	100%	EUR	7 596 391 600.00
N.V. Alcon Coordination Center*	Puurs	75.33%	EUR	415 000 000.00
Denmark				
Nestlé Danmark Holding A/S	Copenhagen	100%	DKK	203 015 000.00
Hjem-IS Europa A/S	Esbjerg	100%	EUR	17 235 000.00
France				
Nestlé Entreprises SAS	Noisiel	100%	EUR	739 559 392.00
Nestlé Finance-France S.A.	Noisiel	100%	EUR	440 000.00
Nestlé Waters SAS	Paris	100%	EUR	154 893 080.00
Société Immobilière de Noisiel	Noisiel	100%	EUR	22 753 550.00
Société Financière Meunier	Noisiel	99.98%	EUR	53 964 945.00
Italy				
Nestlé Finanziaria Italia SpA	Milano	100%	EUR	5 000 000.00
Luxemburg				
Nestlé Waters Powwow European Investments				
Sàrl	Luxemburg	100%	EUR	12 525.00
Compagnie Financière du Haut-Rhin	Luxemburg	100%	EUR	105 200 000.00
Netherlands				
East Springs International N.V.	Amsterdam	100%	EUR	25 370 100.00
United Kingdom				
Nestlé Holdings (U.K.) PLC	Croydon	100%	GBP	57 940 000.00
Nestlé Purina Investments (U.K.) Ltd	New Malden	100%	GBP	1.00
Nestlé Waters Powwow (U.K.) Holdings Ltd	Stockley Park	100%	GBP	6 500 002.00

Companies	City	% capital shareholdings	Currency	Capital
Switzerland				
Entreprises Maggi S.A.	Cham	100%	CHF	60 000.00
Nestlé Finance S.A.	Cham	100%	CHF	30 000 000.00
Rive-Reine S.A.	La Tour-de-Peilz	100%	CHF	2 000 000.00
S.I. En Bergère Vevey S.A.	Vevey	100%	CHF	19 500 000.00
• Alcon Inc.*	Hünenberg	75.33%	CHF	62 012 464.40
<i>Listed on the New York stock exchange, market capitalisation USD 24 867 mio, quotation code (ISIN) CH0013826497</i>				
Galderma Pharma S.A.*	Lausanne	50%	CHF	48 900 000.00
Life Ventures S.A.	La Tour-de-Peilz	100%	CHF	30 000 000.00
NTC-Europe S.A.	Vevey	100%	CHF	100 000.00
NTC-Latin America S.A.	Cham	100%	CHF	500 000.00
Beverage Partners Worldwide S.A.	Urdorf	50%	CHF	14 000 000.00
Americas				
Bahamas				
Nestlé's Holdings Ltd	Nassau	100%	BSD	10 003 000.00
Food Products (Holdings) Ltd	Nassau	100%	BSD	28 600.00
Bermuda				
Centram Holdings Ltd	Hamilton	100%	USD	12 000.00
Canada				
Nestlé Capital Canada Ltd	Toronto (Ontario)	100%	CAD	1 010.00
Nestlé Globe, Inc.	Toronto (Ontario)	100%	CAD	106 000 100.00
Ecuador				
Neslandina S.A.	Quito	100%	USD	17 043 150.00
United States				
Nestlé Holdings, Inc.	Norwalk (Connecticut)	100%	USD	100 000.00
Nestlé Capital Corporation	Glendale (California)	100%	USD	1 000 000.00
Nestlé Waters North America Holdings, Inc.	Greenwich (Connecticut)	100%	USD	10 700 000.00
Alcon Capital Corporation*	Fort Worth (Texas)	75.33%	USD	1 000.00
Alcon Holdings, Inc.*	Fort Worth (Texas)	75.33%	USD	12.10
NICC Holdings, Inc.	Norwalk (Connecticut)	100%	USD	10.00
The Stouffer Corporation	Solon (Ohio)	100%	USD	0.00
TSC Holdings, Inc.	Glendale (California)	100%	USD	100 000.00
Panama				
Unilac, Inc.	Panamá City	100%	USD	750 000.00
Alcon Capital and Investment Panama, S.A.	Panamá City	75.33%	USD	1 000.00
Asia				
Philippines				
NTC-Asia Pacific, Inc.	Makati City	100%	PHP	50 000 000.00
Singapore				
Nestlé TC Asia Pacific (Pte) Ltd	Singapore	100%	SGD	1.00

Companies

City

Technical assistance, research and development companies

Switzerland

Nestec S.A.	Vevey
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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 has done on its behalf by its subsidiary companies. The companies and units involved are:

Research centres

France

Nestlé Research Centre Plant Science	Tours
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Switzerland

Nestlé Research Center	Lausanne
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Product Technology Centres and Research & Development centres

Germany

Nestlé Product Technology Centre Lebensmittelforschung GmbH	Singen
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Greater China Region

Nestlé R&D Center Shanghai Ltd	Shanghai
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United States

Nestlé Product Technology Center	New Milford (Connecticut)
Nestlé R&D Center, Inc.	Marysville (Ohio)
Nestlé R&D Center, Inc.	Solon (Ohio)
Nestlé Purina Product Technology Center	St. Louis (Missouri)
Alcon Research Ltd*	Fort Worth (Texas)
Galderma R&D Inc.*	City of Dover (New Jersey)

France

Nestlé Product Technology Centre	Beauvais
Nestlé Product Technology Centre	Lisieux
Nestlé Purina PetCare R&D Centre Amiens	Aubigny
Galderma R&D S.n.c.*	Sophia Antipolis
Nestlé Waters PTC, Vittel	Paris

United Kingdom

Nestlé Product Technology Centre	York
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Israel

Nestlé R&D Centre Sderot, Ltd.	Sderot
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Singapore

Nestlé R&D Center (Pte) Ltd	Singapore
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Switzerland

Nestlé Product Technology Centre	Konolfingen
Nestlé Product Technology Centre	Orbe

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Income statement for the year ended 31 December 2004

In millions of CHF	Notes	2004	2003
Income			
Income from Group companies	1	3 301	4 755
Financial income	2	175	121
Profit on disposal of fixed assets	3	41	867
Other income		24	25
Total income		3 541	5 768
Expenses			
Investment write downs	4	262	1 506
Administration and other expenses	5	134	151
Financial expense	6	92	267
Provision	7	-	-
Total expenses before taxes		488	1 924
Profit before taxes		3 053	3 844
Taxes	8	209	228
Profit for the year	20	2 844	3 616

Balance sheet as at 31 December 2004

before appropriations

In millions of CHF	Notes	2004	2003
Assets			
Current assets			
Liquid assets	9	2 970	5 876
Receivables	10	627	745
Prepayments and accrued income		17	66
Total current assets		3 614	6 687
Fixed assets			
Financial assets	11	27 968	25 120
Intangible assets	14	-	-
Tangible fixed assets	15	-	-
Total fixed assets		27 968	25 120
Total assets		31 582	31 807
Liabilities and equity			
Liabilities			
Short term payables	16	3 721	3 762
Accruals and deferred income		114	132
Long term payables	17	229	231
Provisions	18	3 021	3 229
Total liabilities		7 085	7 354
Equity			
Share capital	19/20	404	404
Legal reserves	20	6 392	6 392
Special reserve	20	14 856	14 041
Retained earnings	20	2 845	3 616
Total equity		24 497	24 453
Total liabilities and equity		31 582	31 807

Annex to the annual accounts of Nestlé S.A.

Accounting policies

General

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

Foreign currency translation

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

Hedging

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

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

Income statement

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

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

Taxes

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

Financial assets

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

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

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

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

Own shares held to cover option rights in favour of members of the Group's Management are carried at exercise price if lower than cost. Own shares held for trading purposes are carried at cost as are own shares earmarked to cover warrants attached to a bond issue of an affiliated company.

Intangible assets

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

Tangible fixed assets

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

Provisions

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

Employee benefits

Employees are eligible for retirement benefits under a defined benefit plan provided through separate 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. Revaluation losses on open forward exchange contracts at year end rates, as well as the result of the valuation of interest rate swaps, are also included in this caption.

Notes to the annual accounts

1. Income from Group companies

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

2. Financial income

In millions of CHF	2004	2003
Net result on loans to Group companies	59	–
Other	116	121
	175	121

Substantial unrealised exchange losses on long term loans to Group companies were recorded as a result of the strengthening of the Swiss Franc against most foreign currencies. In 2003, the interest income arising on these loans partially compensated these exchange losses. The net charge was included under “Financial expense” in note 6.

3. Profit on disposal of fixed assets

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

4. Investment write downs

In millions of CHF	2004	2003
Participations and loans	–	14
Trademarks and other industrial property rights	262	1 492
	262	1 506

The write down of trademarks and other industrial property rights in 2004 refer mainly to trademarks acquired from Group companies. In 2003, it included a balance of CHF 1030 million in respect of Ralston Purina and Chef America that was capitalised at the end of 2002.

5. Administration and other expenses

In millions of CHF	2004	2003
Salaries and welfare expenses	58	60
Other expenses	76	91
	134	151

6. Financial expense

In millions of CHF	2004	2003
Net result on loans to Group companies (see note 2)	–	208
Interest on loans from Group companies	91	13
Other	1	46
	92	267

7. Provision

In 2002, a fiscal rollover (“remploi”) provision was made to defer the gains on the sale of 25% of Alcon Inc and on the disposal of FIS S.A. This provision can be used to write down the cost of any investments in the books of Nestlé S.A. (see note 18).

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	2004	2003
Cash and cash equivalents	699	2 381
Short term investments	74	130
Marketable securities	2 197	3 365
	2 970	5 876

10. Receivables

In millions of CHF	2004	2003
Amounts owed by Group companies (current accounts)	538	610
Other receivables	89	135
	627	745

11. Financial assets

In millions of CHF	2004	2003
Participations in Group companies (see note 12)	16 107	13 814
Loans to Group companies (see note 13)	10 477	10 397
Own shares	1 085	627
Other investments	299	282
	27 968	25 120

Own shares of the Company are:

- held in order to allow the exercise of option rights by members of the Group's Management (572 330 options were outstanding at the close of 2004, all of which may be exercised in the year 2005);
- earmarked to cover warrants attached to a bond issue of an affiliated company (1 294 190 shares);
- acquired for trading purposes (1 775 100 shares).

12. Participations in Group companies

In millions of CHF	2004	2003
At 1 January	13 814	10 616
Net increase	2 495	3 647
Write downs	(202)	(449)
At 31 December	16 107	13 814

The net increase in participations represents in particular:

- additional funding, through capital increases, of a number of Group companies mainly in Panama;
- the purchase, on the stock exchange or from third parties, of shares of some of our affiliated companies, to increase the participations already held, mainly in Israel and Malaysia;
- acquisition of participations in various companies, and
- the purchase from affiliated companies of certain existing participations.

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

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

13. Loans to Group companies

In millions of CHF	2004	2003
At 1 January	10 397	8 288
New loans	1 400	3 778
Repayments and write downs	(792)	(1 020)
Realised exchange differences	(5)	(128)
Unrealised exchange differences	(523)	(521)
At 31 December	10 477	10 397

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

14. Intangible assets

All intangible assets have been fully written off.

15. Tangible fixed assets

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

The fire insurance value of buildings, furniture and office equipment amounted to CHF 22 million at 31st December 2004 and 2003.

16. Short term payables

In millions of CHF	2004	2003
Amounts owed to Group companies	3 697	3 719
Other payables	24	43
	3 721	3 762

17. Long term payables

Amounts owed to Group companies represent a long-term loan issued in 1989. The carrying value decreased by CHF 2 million to CHF 229 million as a result of an unrealised exchange difference arising in 2004.

18. Provisions

In millions of CHF						2004	2003
	Fiscal rollover "remploi"	Uninsured risks	Exchange risks	Swiss & foreign taxes	Other	Total	Total
At 1 January	2 656	475	–	60	38	3 229	3 742
Provisions made in the period				56	23	79	81
Amounts used	(201)			(48)	(24)	(273)	(594)
Unused amounts reversed				(11)	(3)	(14)	–
At 31 December	2 455	475	–	57	34	3 021	3 229

The provision for fiscal rollover ("remploi") has been partially utilised during the year for the write down of participations acquired in 2004.

19. Share capital

	2004	2003
Number of registered shares of nominal value CHF 1 each	403 520 000	403 520 000
In millions of CHF	404	404

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

At 31 December 2004, the Share Register showed 194 554 registered shareholders. If unprocessed applications for registration and the indirect holders of shares under American Depositary Receipts are also taken into account, the total number of shareholders probably exceeds 250 000. The Company was not aware of any shareholder holding, directly or indirectly, 3% or more of the share capital.

Conditional increase in share capital

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

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

20. Changes in equity

In millions of CHF

	Share capital	General reserve (a)	Reserve for own shares (a)(b)	Special reserve	Retained earnings	Total
At 1 January 2004	404	3 934	2 458	14 041	3 616	24 453
Appropriation of profit to special reserve				757	(757)	—
Profit for the year					2 844	2 844
Dividend for 2003					(2 800)	(2 800)
Movement of own shares		(161)	161			—
Dividend on own shares held on the payment date of 2003 dividend				19	(19)	—
Dividend on own shares in respect of which the corresponding option rights were not exercised by the payment date of 2003 dividend				39	(39)	—
At 31 December 2004	404	3 773	2 619	14 856	2 845	24 497

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

^(b) See note 21

21. Reserve for own shares

At 31 December 2003, the reserve for own shares amounting to CHF 2 458 million, represented the cost of 7 830 665 freely available shares acquired by a Group company (of which, 4 336 922 shares were reserved to cover options rights granted since 2001 in favour of members of the Group's Management), as well as 665 302 shares reserved to cover option rights granted up to the year 2000, 3 524 490 shares earmarked to cover warrants attached to bond issues of an affiliated company and 3 551 694 shares held for trading purposes.

During the year, a total of 2 367 535 shares have been acquired at a cost of CHF 715 million and 1 771 498 shares have been sold for a total amount of CHF 573 million (including 92 972 that represented shares for which options were exercised during the year).

At 31 December 2004, 7 808 609 freely available shares were held by a Group company at an acquisition cost of CHF 28 million. The Board of Directors has decided that these shares will be earmarked for Nestlé Group companies' remuneration plans in Nestlé S.A. shares and options thereon (including the Share Plan of the Board of Directors, the Short Term Bonus-Share Plan of the Executive Board and the Management Stock Option Plan 2001 onwards, under which a total of 6 073 311 options was outstanding at 31 December 2004). As long as these shares are held by the Group company, they will be recorded in the Share Register as being without voting rights and will not rank for dividends. In addition to these, 4 262 759 shares were held for trading purposes, 572 330 shares were reserved to cover Management option rights granted before 2001 and 3 524 490 shares were earmarked to cover warrants attached to bond issues of an affiliated company. As long as the options and warrants are not exercised, or the shares sold, these shares are also recorded in the Share Register as being without voting rights and do not rank for dividends.

The total of 16 168 188 own shares held at 31 December 2004 represents 4.0% of Nestlé S.A.'s share capital.

22. Contingencies

At 31 December 2004 and 2003, the total of the guarantees for credit facilities granted to Group companies and Commercial Paper Programs, together with the buy-back agreements relating to notes issued, amounted to CHF 12 275 million and CHF 15 038 million, respectively.

Proposed appropriation of profit

In CHF	2004	2003
Retained earnings		
Balance brought forward	615 026	687 080
Profit for the year	2 844 070 921	3 615 299 708
	2 844 685 947	3 615 986 788
We propose the following appropriations:		
Transfer to the special reserve		757 000 000
Transfer from the special reserve	(343 000 000)	
Dividend for 2004, CHF 8.– per share on 387 351 812 shares (2003: CHF 7.20 on 387 947 849 shares)	3 098 814 496	2 793 224 513
Dividend for 2004, CHF 8.– per share on 3 273 793 shares reserved for the option rights which may be exercised in the year 2005, on 3 524 490 shares to cover warrants and on 4 262 759 shares held for trading purposes ^(a) (2003: CHF 7.20 on 9 048 229 shares)	88 488 336	65 147 249 ^(b)
	2 844 302 832	3 615 371 762
Balance to be carried forward	383 115	615 026

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

^(b) Of the total of CHF 65 147 249, CHF 7 257 499 were actually paid as dividends, whilst the balance of CHF 57 889 750 has been transferred to the special reserve.

If you accept this proposal, the gross dividend will amount to CHF 8.– per share. After deduction of the federal withholding tax of 35%, a net amount of CHF 5.20 per share will be payable as from Wednesday, 20 April 2005, by bank transfer to the shareholders account or by cheque, in accordance with instructions received from the shareholders.

Cham and Vevey, 23 February 2005
The Board of Directors

Report of the statutory auditors

to the General Meeting of Nestlé S.A

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and annex) of Nestlé S.A. for the year ended 31 December 2004.

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

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

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

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

 Klynveld Peat Marwick Goerdeler SA



Scott Cormack
Auditor in charge



Stéphane Gard

London and Zurich, 23 February 2005