



Good Food, Good Life

# 2005 Financial Statements

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



# Consolidated Financial Statements of the Nestlé Group

3	<b>Consolidated income statement for the year ended 31 December 2005</b>
4	<b>Consolidated balance sheet as at 31 December 2005</b>
6	<b>Consolidated cash flow statement for the year ended 31 December 2005</b>
8	<b>Consolidated statement of changes in equity</b>
12	<b>Annex</b>
12	Accounting policies
24	Financial risk management and commodity price risk management
25	Modification of the scope of consolidation
26	Notes
64	Principal exchange rates
65	<b>Report of the Group auditors</b>
66	<b>Financial information – five year review</b>
68	<b>Companies of the Nestlé Group</b>

## 139th Annual Report of Nestlé S.A.

88	<b>Income statement for the year ended 31 December 2005</b>
89	<b>Balance sheet as at 31 December 2005</b>
90	<b>Annex to the annual accounts of Nestlé S.A.</b>
90	Accounting policies
92	Notes to the annual accounts
99	<b>Proposed appropriation of profit</b>
100	<b>Report of the statutory auditors</b>



# Consolidated income statement for the year ended 31 December 2005

In millions of CHF	Notes	2005	2004 <sup>(a)</sup>
<b>Sales to customers</b>	1	<b>91 075</b>	84 690
Cost of goods sold		(37 946)	(35 312)
Distribution expenses		(7 402)	(6 838)
Marketing and administration expenses		(32 508)	(30 347)
Research and development costs		(1 499)	(1 433)
<b>EBITA Earnings Before Interest, Taxes and Amortisation of goodwill</b>	1	<b>11 720</b>	10 760
Net other income/(expenses)	2	(920)	(690)
Amortisation of goodwill		—	(1 583)
<b>Profit before interest and taxes</b>		<b>10 800</b>	8 487
Net financing cost	3	(574)	(669)
<b>Profit before taxes</b>		<b>10 226</b>	7 818
Taxes	5	(2 597)	(2 404)
<b>Profit of consolidated companies before discontinued operations</b>		<b>7 629</b>	5 414
Net profit/(loss) on discontinued operations	30	(7)	29
<b>Profit of consolidated companies</b>		<b>7 622</b>	5 443
Share of results of associates	6	896	1 588
<b>Profit for the period</b>		<b>8 518</b>	7 031
of which attributable to minority interests		523	410
of which attributable to the Group (Net profit)		7 995	6 621
<b>As percentages of sales</b>			
EBITA Earnings Before Interest, Taxes and Amortisation of goodwill		12.9%	12.7%
Profit for the period attributable to the Group (Net profit)		8.8%	7.8%
<b>Earnings per share from continuing operations <sup>(b)</sup> (in CHF)</b>			
Basic earnings per share	7	20.58	16.97
Fully diluted earnings per share	7	20.39	16.65

<sup>(a)</sup> Restated following first application of IFRS 2 Share-based Payment and the discontinued operation resulting from the announcement made in December 2005 for the Chilled dairy activities in Europe.

<sup>(b)</sup> Based on the profit for the period attributable to the Group adjusted for the net profit/(loss) on discontinued operations.

# Consolidated balance sheet as at 31 December 2005

before appropriations

In millions of CHF	Notes	2005	2004
<b>Assets</b>			
<b>Current assets</b>			
Liquid assets	8		
Cash and cash equivalents		4 658	4 902
Other liquid assets		12 735	10 380
		17 393	15 282
Trade and other receivables	9	14 291	11 809
Assets held for sale	30	633	—
Inventories	10	8 162	7 025
Derivative assets	11	645	585
Prepayments and accrued income		641	584
<b>Total current assets</b>		<b>41 765</b>	<b>35 285</b>
<b>Non-current assets</b>			
Property, plant and equipment	12		
Gross value		44 976	41 045
Accumulated depreciation and impairment		(26 142)	(23 993)
		18 834	17 052
Investments in associates	13	7 073	4 091
Deferred tax assets <sup>(a)</sup>	23	1 697	1 469
Financial assets	14	2 513	2 410
Employee benefits assets	21	1 673	928
Goodwill	15	26 990	23 854
Intangible assets	16	2 852	2 028
<b>Total non-current assets <sup>(a)</sup></b>		<b>61 632</b>	<b>51 832</b>
<b>Total assets <sup>(a)</sup></b>		<b>103 397</b>	<b>87 117</b>

<sup>(a)</sup> 2004 comparatives restated following first application of IFRS 2 Share-based Payment

In millions of CHF	Notes	2005	2004
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Trade and other payables <sup>(a)</sup>	17	11 117	9 074
Liabilities directly associated with assets held for sale	30	38	—
Financial liabilities	18	18 805	14 722
Tax liabilities		705	584
Derivative liabilities	19	922	856
Accruals and deferred income <sup>(a)</sup>		4 231	3 839
<b>Total current liabilities <sup>(a)</sup></b>		<b>35 818</b>	<b>29 075</b>
<b>Non-current liabilities</b>			
Financial liabilities	20	8 153	10 731
Employee benefits liabilities <sup>(a)</sup>	21	3 794	3 234
Deferred tax liabilities	23	665	447
Other payables		185	327
Provisions	24	3 347	3 004
<b>Total non-current liabilities <sup>(a)</sup></b>		<b>16 144</b>	<b>17 743</b>
<b>Total liabilities</b>		<b>51 962</b>	<b>46 818</b>
<b>Equity</b>			
Share capital	25	404	404
Share premium and reserves			
Share premium		5 926	5 926
Reserve for treasury shares		2 616	2 619
Translation reserve		(3 984)	(7 189)
Retained earnings <sup>(a)</sup>		47 655	39 911
		52 213	41 267
Treasury shares	26	(2 770)	(2 435)
<b>Total equity attributable to the Group <sup>(a)</sup></b>		<b>49 847</b>	<b>39 236</b>
Minority interests <sup>(a)</sup>		1 588	1 063
<b>Total equity <sup>(a)</sup></b>		<b>51 435</b>	<b>40 299</b>
<b>Total liabilities and equity <sup>(a)</sup></b>		<b>103 397</b>	<b>87 117</b>

<sup>(a)</sup> 2004 comparatives restated following first application of IFRS 2 Share-based Payment

# Consolidated cash flow statement for the year ended 31 December 2005

In millions of CHF	Notes	2005 <sup>(a)</sup>	2004 <sup>(a)</sup>
<b>Operating activities</b>			
Profit of consolidated companies <sup>(b)</sup>		7 622	5 443
Depreciation of property, plant and equipment	12	2 382	2 506
Impairment of property, plant and equipment	12	360	130
Amortisation of goodwill	15	—	1 599
Impairment of goodwill	15	218	—
Depreciation of intangible assets	16	346	278
Impairment of intangible assets	16	30	—
Increase/(decrease) in provisions and deferred taxes <sup>(b)</sup>		(448)	55
Decrease/(increase) in working capital	27	(315)	227
Other movements <sup>(b)</sup>		10	174
<b>Operating cash flow <sup>(c)</sup></b>		<b>10 205</b>	<b>10 412</b>
<b>Investing activities</b>			
Capital expenditure	12	(3 375)	(3 295)
Expenditure on intangible assets	16	(758)	(736)
Sale of property, plant and equipment		220	246
Acquisitions	28	(995)	(633)
Disposals	29	193	266
Income from associates		259	201
Other movements		(202)	(23)
<b>Cash flow from investing activities</b>		<b>(4 658)</b>	<b>(3 974)</b>

<sup>(a)</sup> Cash flow statement information related to the discontinued operation following the announcement made in December 2005 for the Chilled dairy activities in Europe is disclosed in Note 30.

<sup>(b)</sup> 2004 comparatives restated following first application of IFRS 2 Share-based Payment

<sup>(c)</sup> Taxes paid amount to CHF 2540 million (2004: CHF 2523 million). Net interest paid amounts to CHF 437 million (2004: CHF 578 million)



In millions of CHF	Notes	2005	2004
<b>Financing activities</b>			
Dividend for the previous year		(3 114)	(2 800)
Purchase of treasury shares		(1 553)	(715)
Sale of treasury shares and options <sup>(a)</sup>		1 295	573
Movements with minority interests		5	(189)
Bonds issued		1 617	558
Bonds repaid <sup>(a)</sup>		(2 443)	(903)
Increase in other non-current financial liabilities		279	162
Decrease in other non-current financial liabilities		(207)	(845)
Increase/(decrease) in current financial liabilities		(492)	(1 204)
Decrease/(increase) in marketable securities and other liquid assets		(2 811)	(2 077)
Decrease/(increase) in short-term investments		901	(487)
Other movements		2	—
<b>Cash flow from financing activities</b>		<b>(6 521)</b>	<b>(7 927)</b>
Translation differences on flows		336	(494)
<b>Increase/(decrease) in cash and cash equivalents</b>		<b>(638)</b>	<b>(1 983)</b>
Cash and cash equivalents retranslated at beginning of year			
Cash and cash equivalents at beginning of year		4 902	7 074
Effects of exchange rate changes on opening balance		394	(189)
		5 296	6 885
<b>Cash and cash equivalents at end of year</b>	8	<b>4 658</b>	<b>4 902</b>

<sup>(a)</sup> In 2005, 1 287 940 Nestlé S.A. shares were exchanged with Stock Warrants and Applicable Note Securities (SWANS) for USD 299 million.

## Consolidated statement of changes in equity

In millions of CHF	Share capital	Share premium	Reserve for treasury shares	Translation reserve	Retained earnings	Less: Treasury shares	Total equity attributable to the Group	Minority interests	Total equity
<b>Equity as at 31 December 2003</b>	404	5 926	2 458	(5 630)	36 093 <sup>(a)(b)</sup>	(2 371)	36 880	943	37 823
<b>Gains and losses</b>									
Profit for the period as published					6 717			422	
Restatement Share-based Payment <sup>(c)</sup>					(96)			(12)	
Profit for the period restated <sup>(c)</sup>					6 621		6 621	410	7 031
Currency retranslations				(1 559)			(1 559)	(70)	(1 629)
Taxes on equity items					(1)		(1)	(0)	(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 operations									
– Recognised in hedging reserve					4		4		4
– Removed from hedging reserve					2		2		2
Recovery on disposal of goodwill charged to equity prior to 1 January 1995					17		17		17
Equity-settled share-based transactions cost <sup>(c)</sup>					113		113	18	131
<b>Total gains and losses <sup>(c)</sup></b>				(1 559)	6 857		5 298	358	5 656

In millions of CHF	Share capital	Share premium	Reserve for treasury shares	Translation reserve	Retained earnings	Less: Treasury shares	Total equity attributable to the Group	Minority interests	Total equity
<b>Distributions to and transactions with shareholders</b>									
Dividend for the previous year					(2 800)		(2 800)		(2 800)
Movement of treasury shares (net)			161		(161)	(142)	(142)		(142)
Result on options and treasury shares held for trading purposes					(78)	78	—		—
<b>Total distributions to and transactions with shareholders</b>									
			161		(3 039)	(64)	(2 942)		(2 942)
<b>Movement with minority interests (net)</b>									
								(238)	(238)
<b>Equity restated as at 31 December 2004</b> <sup>(c)</sup>	404	5 926	2 619	(7 189)	39 911 <sup>(a)(b)</sup>	(2 435)	39 236	1 063	40 299

<sup>(a)</sup> In the event of a redemption of the Turbo Zero Equity-Link bond issue, part of the USD 123 million premium received in June 2001 on warrants issued would be repaid, i.e. up to USD 47 million in 2006. At 1 January 2005, the premium has been reclassified to current liabilities.

<sup>(b)</sup> Includes a negative Hedging Reserve of CHF 20 million (31 December 2003: negative CHF 32 million)

<sup>(c)</sup> Restated following first application of IFRS 2 Share-based Payment

In millions of CHF	Share capital	Share premium	Reserve for treasury shares	Translation reserve	Retained earnings	Less: Treasury shares	Total equity attributable to the Group	Minority interests	Total equity
<b>Equity restated as at 31 December 2004 <sup>(c)</sup></b>	<b>404</b>	<b>5 926</b>	<b>2 619</b>	<b>(7 189)</b>	<b>39 911 <sup>(a)(b)</sup></b>	<b>(2 435)</b>	<b>39 236</b>	<b>1 063</b>	<b>40 299</b>
Premium on warrants issued <sup>(a)</sup>					(53)		(53)		(53)
Restatement of L'Oréal <sup>(d)</sup>					1 106		1 106		1 106
<b>Equity restated as at 1 January 2005 <sup>(a)(c)(d)</sup></b>	<b>404</b>	<b>5 926</b>	<b>2 619</b>	<b>(7 189)</b>	<b>40 964 <sup>(b)</sup></b>	<b>(2 435)</b>	<b>40 289</b>	<b>1 063</b>	<b>41 352</b>
<b>Gains and losses</b>									
Profit for the period					7 995		7 995	523	8 518
Currency retranslations				3 205			3 205	82	3 287
Taxes on equity items					(50)		(50)	(0)	(50)
Fair value adjustments on available-for-sale financial instruments									
– Unrealised results					107		107		107
– Recognition of realised results in the income statement					1		1		1
Fair value adjustments on cash flow hedges and on hedges of net investments in foreign operations									
– Recognised in hedging reserve					122		122		122
– Removed from hedging reserve					(6)		(6)		(6)
Changes in equity of associated companies <sup>(e)</sup>					1 024		1 024		1 024
Equity-settled share-based transactions cost					173		173	24	197
<b>Total gains and losses</b>				<b>3 205</b>	<b>9 366</b>		<b>12 571</b>	<b>629</b>	<b>13 200</b>

In millions of CHF	Share capital	Share premium	Reserve for treasury shares	Translation reserve	Retained earnings	Less: Treasury shares	Total equity attributable to the Group	Minority interests	Total equity
<b>Distributions to and transactions with shareholders</b>									
Dividend for the previous year					(3 114)		(3 114)		(3 114)
Movement of treasury shares (net) <sup>(f)</sup>			(3)		3	103	103		103
<b>Result on options and treasury shares held for trading purposes</b>									
					438	(438)	—		—
<b>Equity-settled share-based transactions settlement</b>									
					(2)		(2)		(2)
<b>Total distributions to and transactions with shareholders</b>									
			(3)		(2 675)	(335)	(3 013)		(3 013)
<b>Movement with minority interests (net)</b>									
								(104)	(104)
<b>Equity as at 31 December 2005</b>	<b>404</b>	<b>5 926</b>	<b>2 616</b>	<b>(3 984)</b>	<b>47 655</b> <sup>(b)</sup>	<b>(2 770)</b>	<b>49 847</b>	<b>1 588</b>	<b>51 435</b>

<sup>(a)</sup> In the event of a redemption of the Turbo Zero Equity-Link bond issue, part of the USD 123 million premium received in June 2001 on warrants issued would be repaid, i.e. up to USD 47 million in 2006. At 1 January 2005, the premium has been reclassified to current liabilities.

<sup>(b)</sup> Includes a Hedging Reserve of CHF 97 million (31 December 2004: negative CHF 20 million)

<sup>(c)</sup> Restated following first application of IFRS 2 Share-based Payment

<sup>(d)</sup> Restated following first time adoption of IFRS by L'Oréal in 2005

<sup>(e)</sup> Mainly resulting from fair value adjustment on available-for-sale financial instruments of L'Oréal

<sup>(f)</sup> 1 287 940 Nestlé S.A. shares were exchanged with Stock Warrants and Applicable Note Securities (SWANS) for USD 299 million.

# Annex

## Accounting policies

### Accounting convention and accounting standards

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

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

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

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

### Scope of consolidation

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

### Consolidated companies

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

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

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

### Associates

Companies where the Group has the power to exercise a significant influence but does not exercise control are accounted for by the equity method. The net assets and results are adjusted to comply with the Group's accounting policies.

## Foreign currencies

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

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

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

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

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

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

## Segmental information

Segmental information is based on two segment formats:

The primary segment format – by management responsibility and geographic area – 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 – by product group – is divided into six product groups (segments).

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

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

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

Eliminations represent inter-company balances between the different segments.

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

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

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

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

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

## Valuation methods and definitions

### Sales to customers

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

### Net financing cost

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

## Taxes

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 against equity.

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

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

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



### Current financial assets

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

Liquid assets encompass cash at bank and in hand, cash equivalents, current investments and marketable securities. 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 against equity until the disposal of the investment when, at such time, gains and losses previously carried to equity are recognised in the income statement.

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

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

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

### Inventories

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

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

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

### Derivative financial instruments and hedging

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

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

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

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

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

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

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

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

#### Prepayments and accrued income

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

#### Property, plant and equipment

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

The useful lives are as follows:

Buildings	20–35 years
Machinery and equipment	10–20 years
Tools, furniture, information technology and sundry equipment	3–8 years
Vehicles	5 years
Land is not depreciated.	

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

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

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

### Leased assets

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

The associated obligations are included in financial liabilities.

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

### Non-current financial assets

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

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

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

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

### Business combinations and related goodwill

As from 1 January 1995, the excess of the cost of an acquisition over the fair value of the net identifiable assets, liabilities and contingent liabilities acquired is capitalised. Previously these amounts had been written off through equity. As from 2005, upon disposal of businesses acquired prior to 1 January 1995, the goodwill previously recognised as a deduction from equity is not recognised in the income statement.

Goodwill arising on acquisitions for which the agreement date is on or after 31 March 2004 no longer includes any intangible assets acquired when these are separately identifiable and can be reliably measured.

Goodwill existing at 31 December 2004 is not amortised but tested for impairment at least annually and upon the occurrence of an indication of impairment. The impairment testing process is described in the appropriate section of these policies. Until 31 December 2004, goodwill arising on pre 31 March 2004 acquisitions was amortised on a straight-line basis over its anticipated useful life. The majority of goodwill was amortised over 20 years.

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

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

### Intangible assets

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

Indefinite life intangible assets are those for which there is no foreseeable limit to their useful economic life. They are not depreciated but tested for impairment annually or more frequently if an impairment indicator is triggered. They mainly comprise certain brands, trademarks and intellectual property rights. The assessment of the classification of intangible assets as indefinite is reviewed annually.

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

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

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

### Research and development

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

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

### Impairment of goodwill and indefinite life intangible assets

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

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

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

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

### Assets held for sale and discontinued operations

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

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

### Current and non-current liabilities

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

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

### Provisions

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 by either starting to implement them or announcing their main features. Obligations under litigations reflect Group Management's best estimate of the outcome based on the facts known at the balance sheet date.

### Employee benefits

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

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

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

Actuarial gains and losses arise mainly from changes in actuarial assumptions and differences between actuarial assumptions and what has actually occurred. They are recognised in the 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 pension 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.

### Share-based payment

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

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

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

#### Accruals and deferred income

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

#### Dividends

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

#### Contingent assets and liabilities

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

#### Events occurring after the balance sheet date

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

#### Changes in accounting policies and where applicable changes in accounting estimates

The Group has applied the following IFRSs and revised IASs as from 1 January 2005 onwards:

##### IFRS 2 – Share-based Payment

The charge for equity-settled share-based payments in the 2005 Consolidated income statement is CHF 197 million. The related deferred tax assets amount to CHF 33 million.

Comparative information has been restated for grants of share options (equity-settled) awarded after 7 November 2002 and not vested at 1 January 2005. The charge for equity-settled share-based payments in the 2004 Consolidated income statement is CHF 131 million. The related deferred tax assets amount to CHF 23 million.

Liabilities arising from cash-settled share-based payment transactions had already been charged through the income statement. At 31 December 2004, "Trade and other payables" and "Accruals and deferred income" included cash-settled share-based payments liabilities of CHF 33 million and CHF 9 million respectively. These amounts have been reclassified into "Employee benefits liabilities".

### IFRS 3 – Business Combinations; and consequential amendments to IAS 36 (Impairment of Assets) and IAS 38 (Intangible Assets)

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 separately identifiable and can be reliably measured. Intangible assets comprise indefinite life intangible assets and finite life intangible assets.

Goodwill and intangible assets with indefinite useful lives are no longer amortised or depreciated, but tested for impairment annually.

As per the transitional provisions of the aforementioned standards, comparative information has not been restated. Therefore the 2005 Consolidated income statement includes impairment of goodwill of CHF 218 million, whereas the 2004 Consolidated income statement includes goodwill amortisation of CHF 1583 million and no impairment of goodwill. As at 1 January 2005, the Group conducted a review of the intangible assets acquired before 31 March 2004 and has not identified any material intangible assets with indefinite useful lives.

### Segmental information

As a consequence of the adoption of IFRS 3 and amendments to IAS 36 and IAS 38, goodwill and intangible assets with indefinite useful lives are now allocated to segments, as long as this allocation is not arbitrary. Comparative information has been restated accordingly.

### IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations

IFRS 5 requires that non-current assets held for sale (and disposal groups) are presented separately in the current section of the balance sheet and measured at the lower of their carrying amount and fair value less cost to sell. Such assets shall be measured in accordance with their applicable accounting policy prior to their classification as held for sale and are no longer depreciated. The transitional provisions require a prospective application of this standard.

### IAS 1 – Presentation of Financial Statements

The amendment to IAS 1 requires minority interests to be disclosed within equity. The presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity has been modified accordingly.

### IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

The amendment to IAS 8 requires that changes in accounting policies be applied in conformity with the transitional provisions of the standard or, failing that, that any change be applied retrospectively, unless it is impracticable to do so. In such a case the Group discloses the reasons for not applying a change retrospectively.

### IAS 16 – Property, Plant and Equipment

Depreciation of property, plant and equipment is now provided on components that have homogenous useful lives. Furthermore residual values of 30% on head offices and of 20% on distribution centres for products stored at ambient temperature have now been taken into consideration. Other asset types have residual values of nil. Previously the Group considered all residual values to be nil.

The following useful lives have been modified in 2005:

Buildings	from 25–50 to 20–35 years
Machinery and equipment	from 10–15 to 10–20 years

The change in useful lives and the introduction of residual values do not result in material effects on the Consolidated Financial Statements. These changes have been applied prospectively as changes in accounting estimates.



### IAS 21 – The Effects of Changes in Foreign Exchange Rates

Following the amendment made by the IASB on IAS 21, intra group loans of a permanent nature granted between two affiliates can be treated as a net investment in a foreign operation. This amendment has been immediately implemented in the 2005 Consolidated Financial Statements. Consequently, the Group has repealed its policy, implemented in June 2005 whereby intra group loans of a permanent nature would be treated as a net investment in a foreign operation only if they were granted by the parent and denominated in either the functional currency of the parent (CHF) or of the foreign operation.

### IAS 39 – Financial Instruments: Recognition and Measurement and IAS 32 – Financial Instruments: Disclosure and Presentation

The Group has applied the new amendment “Cash Flow Hedge Accounting of Forecast Intragroup Transaction” on 1 January 2005, i.e. before the effective date of 1 January 2006. The change is not material.

The changes of the IAS 32 criteria for determining when a financial instrument is a liability or equity imply that a premium cashed on a bond issue with warrants is classified as a liability. As a result, the premium received in relation with the Turbo Zero Equity-Link bond issue has been reclassified as at 1 January 2005.

### Changes in IFRS that may affect the Group after 31 December 2005

#### IFRIC 4 – Determining whether an Arrangement contains a Lease

This interpretation requires that when an entity enters into an agreement that does not take the legal form of a lease but conveys the right to use an asset, the entity shall separate the lease payments from the other payments under the agreement if the entity has the right to control the use of the underlying asset, subject to the contract, or take essentially all the output. Then the entity shall determine whether the lease component of the agreement is a financial or an operating lease in accordance with IAS 17.

The Group has entered into several outsourcing or take or pay agreements that qualify under IFRIC 4 and for 2005 has identified additional finance lease assets and obligations, estimated to be CHF 156 million and CHF 160 million respectively. The 2005 Consolidated income statement includes costs related to operating leases amounting to CHF 68 million with related minimum lease payments future values of CHF 196 million. Corresponding amounts will be adjusted as a result of the retrospective application of IFRIC 4 in 2006.

#### IAS 19 – Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures

The Group will disclose the experience adjustments arising on plan assets and liabilities.

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

As a Swiss company, which is no longer listed in the European Union, the Group is not affected by the EU decision requiring EU-listed companies to present their accounts in accordance with IFRS. However the Swiss Exchange Authority (SWX) requires listed companies on the main exchange segment to apply IFRS (or US GAAP) for periods beginning on or after 1 January 2005. Since the Group has reported under IFRS/IAS since 1989, it will continue to comply with all IFRSs/IASs.

## Financial risk management and commodity price risk management

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

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

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

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

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

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

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

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

## Modification of the scope of consolidation

The scope of consolidation has been affected by the acquisitions and disposals made in 2005. The principal businesses are detailed below.

### Fully consolidated

Newly included:

Wagner, Germany, frozen food, 49% <sup>(a)</sup> (January)

<sup>(a)</sup> The Group exercises control; further financial investments are subject to regulatory review.

## 1. Segmental information

### By management responsibility and geographic area

In millions of CHF

	Zone Europe <sup>(a)</sup>	Zone Americas	Zone Asia, Oceania and Africa	Nestlé Waters	Other activities <sup>(b)</sup>
<b>2005</b>					
<b>Segment revenues and results</b>					
Sales to customers	27 620	30 757	15 704	8 787	8 207
EBITA Earnings Before Interest, Taxes and Amortisation of goodwill	3 259	4 708	2 628	709	2 109
<b>Segment assets and liabilities</b>					
Segment assets	15 322	19 784	8 703	8 468	5 988
Non segment assets					
Total assets					
of which goodwill and intangible assets	2 763	8 327	1 734	2 632	1 988
Segment liabilities	6 314	4 344	2 106	2 331	1 522
Non segment liabilities					
Total liabilities					
<b>Other segment information</b>					
Capital additions	1 896	1 165	771	686	854
of which Capital expenditure	849	943	593	601	295
Depreciation of segment assets	714	684	418	426	302
Impairment of segment assets	204	116	120	121	47
Restructuring costs	191	76	47	46	3
<b>2004 <sup>(c)</sup></b>					
<b>Segment revenues and results</b>					
Sales to customers	26 484	27 776	14 673	8 039	7 718
EBITA Earnings Before Interest, Taxes and Amortisation of goodwill	3 395	4 142	2 538	666	1 670
<b>Segment assets and liabilities</b>					
Segment assets	13 760	16 067	7 530	7 541	4 841
Non segment assets					
Total assets					
of which goodwill and intangible assets	1 870	7 155	1 504	2 547	1 371
Segment liabilities	5 778	3 198	1 795	1 942	1 282
Non segment liabilities					
Total liabilities					
<b>Other segment information</b>					
Capital additions	1 340	1 208	768	600	655
of which Capital expenditure	890	813	587	558	285
Depreciation of segment assets	695	678	406	434	273
Impairment of segment assets	30	29	14	57	—
Restructuring costs	325	28	17	126	10

<sup>(a)</sup> 2004 comparatives restated for the discontinued operation following the announcement made in December 2005 for the Chilled dairy activities in Europe.

<sup>(b)</sup> Mainly Pharmaceutical products and Joint Ventures managed on a worldwide basis. 2004 comparatives include Eismann.

<sup>(c)</sup> Refer to the Segmental information section of the Accounting policies for the definition of Unallocated items.

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

Total segments	Unallocated items <sup>(c)</sup>	Inter-segment eliminations	Total	
				<b>Segment revenues and results</b>
91 075			91 075	Sales to customers
13 413	(1 693)		11 720	EBITA Earnings Before Interest, Taxes and Amortisation of goodwill
				<b>Segment assets and liabilities</b>
58 265	15 997	(1 859)	72 403	Segment assets
			30 994	Non segment assets
			103 397	Total assets
17 444	12 398		29 842	of which goodwill and intangible assets
16 617	628	(1 859)	15 386	Segment liabilities
			36 576	Non segment liabilities
			51 962	Total liabilities
				<b>Other segment information</b>
5 372	94		5 466	Capital additions
3 281	94		3 375	of which Capital expenditure
2 544	184		2 728	Depreciation of segment assets
608			608	Impairment of segment assets
363			363	Restructuring costs
				<b>Segment revenues and results</b>
84 690			84 690	Sales to customers
12 411	(1 651)		10 760	EBITA Earnings Before Interest, Taxes and Amortisation of goodwill
				<b>Segment assets and liabilities</b>
49 739	14 114	(1 501)	62 352	Segment assets
			24 765	Non segment assets
			87 117	Total assets
14 447	11 435		25 882	of which goodwill and intangible assets
13 995	419	(1 501)	12 913	Segment liabilities
			33 905	Non segment liabilities
			46 818	Total liabilities
				<b>Other segment information</b>
4 571	162		4 733	Capital additions
3 133	162		3 295	of which Capital expenditure
2 486	298		2 784	Depreciation of segment assets
130			130	Impairment of segment assets
506			506	Restructuring costs

<sup>(d)</sup> Restated following first application of IFRS 2 Share-based Payment. As a consequence of the changes made in accounting policies, goodwill and intangible assets with indefinite useful lives are allocated to segments.

## By product group

In millions of CHF

2005

	Beverages	Milk products, Nutrition and Ice cream <sup>(a)</sup>	Prepared dishes and cooking aids	Chocolate, confectionery and biscuits	PetCare
<b>Segment revenues and results</b>					
Sales to customers	23 842	23 235	16 673	10 794	10 569
<b>EBITA Earnings Before Interest, Taxes and Amortisation of goodwill</b>	<b>4 112</b>	<b>2 609</b>	<b>2 132</b>	<b>1 215</b>	<b>1 515</b>
<b>Segment assets</b>					
Segment assets	15 071	15 482	9 366	5 710	14 997
of which goodwill and intangible assets	2 855	5 221	3 616	540	11 215
<b>Other segment information</b>					
Capital additions	795	746	989	194	274
of which Capital expenditure	752	689	261	194	274
Impairment of segment assets	183	226	40	96	22
Restructuring costs	145	93	27	60	24

2004 <sup>(c)</sup>

<b>Segment revenues and results</b>					
Sales to customers	21 793	21 503	15 878	10 258	9 934
<b>EBITA Earnings Before Interest, Taxes and Amortisation of goodwill</b>	<b>3 852</b>	<b>2 593</b>	<b>1 916</b>	<b>1 148</b>	<b>1 443</b>
<b>Segment assets</b>					
Segment assets	14 198	14 512	8 600	5 456	14 009
of which goodwill and intangible assets	2 746	4 631	2 895	423	10 518
<b>Other segment information</b>					
Capital additions	839	864	264	201	276
of which Capital expenditure	806	541	250	201	276
Impairment of segment assets	59	13	12	22	3
Restructuring costs	186	80	43	152	41

<sup>(a)</sup> 2004 comparatives restated for the discontinued operation following the announcement made in December 2005 for the Chilled dairy activities in Europe.

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

<sup>(c)</sup> Restated following first application of IFRS 2 Share-based Payment. As a consequence of the changes made in accounting policies, goodwill and intangible assets with indefinite useful lives are allocated to segments.

Pharmaceutical products	Total segments	Unallocated items <sup>(b)</sup>	Total	
				<b>Segment revenues and results</b>
5 962	91 075		91 075	Sales to customers
1 830	13 413	(1 693)	11 720	EBITA Earnings Before Interest, Taxes and Amortisation of goodwill
				<b>Segment assets</b>
4 538	65 164			Segment assets
1 675	25 122			of which goodwill and intangible assets
				<b>Other segment information</b>
653	3 651	1 815	5 466	Capital additions
97	2 267	1 108	3 375	of which Capital expenditure
41	608		608	Impairment of segment assets
14	363		363	Restructuring costs
				<b>Segment revenues and results</b>
5 324	84 690		84 690	Sales to customers
1 459	12 411	(1 651)	10 760	EBITA Earnings Before Interest, Taxes and Amortisation of goodwill
				<b>Segment assets</b>
4 093	60 868			Segment assets
1 385	22 598			of which goodwill and intangible assets
				<b>Other segment information</b>
435	2 879	1 854	4 733	Capital additions
69	2 143	1 152	3 295	of which Capital expenditure
—	109	21	130	Impairment of segment assets
3	505	1	506	Restructuring costs

2005

2004 (c)

## 2. Net other income/(expenses)

In millions of CHF	2005	2004 <sup>(a)</sup>
<b>Other expenses</b>		
Loss on disposal of property, plant and equipment	(4)	(18)
Loss on disposal of activities	(91)	(37)
Restructuring costs <sup>(b)</sup>	(363)	(506)
Impairment of property, plant and equipment	(360)	(130)
Impairment of goodwill	(218)	—
Impairment of intangible assets	(30)	—
Other <sup>(c)</sup>	(454)	(358)
	<b>(1 520)</b>	<b>(1 049)</b>
<b>Other income</b>		
Profit on disposal of property, plant and equipment	77	89
Profit on disposal of activities <sup>(d)</sup>	303	145
Other	220	125
	<b>600</b>	<b>359</b>
<b>Net other income/(expenses)</b>	<b>(920)</b>	<b>(690)</b>

<sup>(a)</sup> Restated for the discontinued operation following the announcement made in December 2005 for the Chilled dairy activities in Europe.

<sup>(b)</sup> Refer to Note 24

<sup>(c)</sup> A patent infringement lawsuit was filed against Alcon in the United States by Advanced Medical Optics, Inc. (AMO). The court ruled in favour of AMO and set damages at USD 213.9 million and also awarded pre-judgement interest and reasonable attorney fees and costs bringing the total to approximately USD 240 million. Alcon is appealing the decision and believes it has multiple legal and factual grounds to support its appeal. Alcon has also filed a motion for a new trial. The Group considers it would be seriously prejudicial to make further disclosures in relation to this matter. A best estimate of any provision required has been made.

<sup>(d)</sup> Mainly resulting from the exercise of stock options by Alcon employees and related dilution on issuance of new shares.

### Impairment of property, plant and equipment

Impairment of property, plant and equipment result mainly from the Group's industrial reorganisation. In 2005, the impairments arise mainly from the plans to optimise industrial manufacturing capacities by closing or selling inefficient production facilities all over the world.

### Impairment of goodwill

Impairment of goodwill in 2005 is essentially due to numerous goodwill items which are individually insignificant.

## 3. Net financing cost

In millions of CHF	2005	2004
Financial income	606	421
Financial expense	(1 180)	(1 090)
	<b>(574)</b>	<b>(669)</b>

Interest income includes CHF 205 million (2004: CHF 105 million) of gains arising on marketable security portfolios classified as trading, and CHF 28 million (2004: CHF 32 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	2005	2004
Depreciation of property, plant and equipment	2 382	2 506
Salaries and welfare expenses <sup>(a)</sup>	14 428	13 909
Operating lease charges	540	508
Exchange differences	(45)	38

<sup>(a)</sup> 2004 comparatives restated following first application of IFRS 2 Share-based Payment.

## 5. Taxes

In millions of CHF	2005	2004 <sup>(a)</sup>
<b>Components of tax expense</b>		
Current tax	2 473	2 220
Deferred tax	113	(58)
Transfers (from)/to unrecognised tax assets	(179)	34
Changes in deferred tax rates	8	—
Prior years' tax	(119)	(115)
Taxes on equity items	(50)	(1)
Other tax <sup>(b)</sup>	351	324
	<b>2 597</b>	<b>2 404</b>
<b>Deferred tax by types</b>		
Property, plant and equipment	(86)	97
Goodwill and intangible assets	304	34
Employee benefits	61	(72)
Inventories, receivables, payables and provisions	(23)	125
Unused tax losses and tax credits	(50)	(240)
Other	(93)	(2)
	<b>113</b>	<b>(58)</b>
<b>Reconciliation of tax expense</b>		
Tax at the theoretical domestic rates applicable to profits of taxable entities in the countries concerned	2 889	2 234
Tax effect of non-deductible amortisation and impairment of goodwill	41	432
Tax effect of non-deductible or non-taxable items	(391)	(552)
Transfers (from)/to unrecognised tax assets	(179)	34
Difference in tax rates	5	47
Other tax <sup>(b)</sup>	232	209
	<b>2 597</b>	<b>2 404</b>

<sup>(a)</sup> Restated following first application of IFRS 2 Share-based Payment and the discontinued operation resulting from the announcement made in December 2005 for the Chilled dairy activities in Europe.

<sup>(b)</sup> Includes withholding tax levied on transfers of income

## 6. Share of results of associates

In millions of CHF	2005	2004
Share of profit before taxes	1 071	2 061
Less share of taxes	(175)	(473)
<b>Share of profit after taxes <sup>(a)</sup></b>	<b>896</b>	<b>1 588</b>

<sup>(a)</sup> 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.

## 7. Earnings per share from continuing operations

	2005	2004 <sup>(a)</sup>
Basic earnings per share in CHF	20.58	16.97
Net profit from continuing operations <sup>(b)</sup> (in millions of CHF)	8 002	6 592
Weighted average number of shares outstanding	388 812 564	388 449 957
Fully diluted earnings per share in CHF	20.39	16.65
Theoretical net profit from continuing operations <sup>(b)</sup> assuming the exercise of all outstanding options and sale of all treasury shares <sup>(c)</sup> (in millions of CHF)	8 155	6 717
Number of shares <sup>(c)</sup>	399 860 700	403 520 000

<sup>(a)</sup> Restated following first application of IFRS 2 Share-based Payment

<sup>(b)</sup> Profit for the period attributable to the Group adjusted for the net profit/(loss) on discontinued operations

<sup>(c)</sup> Net of the Nestlé S.A. shares held in connection with the Share Buy-Back Programme

## 8. Liquid assets

In millions of CHF	2005	2004
<b>Cash and cash equivalents</b>		
Cash at bank and in hand	1 952	1 534
Cash equivalents	2 706	3 368
	<b>4 658</b>	<b>4 902</b>
<b>Other liquid assets</b>		
Current investments	249	1 117
Marketable securities	12 486	9 263
	<b>12 735</b>	<b>10 380</b>
<b>Liquid assets</b>	<b>17 393</b>	<b>15 282</b>

Marketable securities include mainly money market and fixed income instruments.

Liquid assets are denominated in the following currencies:

In millions of CHF	2005	2004
USD	8 805	6 121
CHF	4 145	3 771
EUR	2 975	3 548
GBP	645	644
Other	823	1 198
	<b>17 393</b>	<b>15 282</b>

Average interest rates are as follows:

	2005	2004
on USD	4.2%	2.5%
on CHF	1.1%	0.6%
on EUR	3.1%	3.1%
on GBP	4.8%	4.6%

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	2005	2004
Available-for-sale	12 611	11 438
Trading	4 782	3 844
	<b>17 393</b>	<b>15 282</b>

## 9. Trade and other receivables

In millions of CHF	2005	2004
Trade receivables	11 461	9 587
Other receivables	2 830	2 222
	<b>14 291</b>	<b>11 809</b>
After deduction of allowances for doubtful receivables of	491	436

## 10. Inventories

In millions of CHF	2005	2004
Raw materials, work in progress and sundry supplies	3 187	2 719
Finished goods	5 193	4 474
Allowance for write-off at net realisable value	(218)	(168)
	<b>8 162</b>	<b>7 025</b>

Inventories amounting to CHF 112 million (2004: CHF 92 million) are pledged as security for financial liabilities.

## 11. Derivative assets

In millions of CHF	2005		2004	
	Fair values	Contractual or notional amounts	Fair values	Contractual or notional amounts
<b>Fair value hedges</b>				
Currency forwards, futures and swaps	13	625	52	735
Interest rate forwards, futures and swaps	70	2 619	100	1 977
Interest rate and currency swaps	81	1 118	164	908
<b>Cash flow hedges</b>				
Currency forwards, futures and swaps	27	1 434	18	510
Currency options	1	36	2	59
Interest rate forwards, futures and swaps	57	3 617	5	861
Commodity futures	98	773	89	540
Commodity options	31	58	6	63
<b>Hedges of net investments</b>				
in foreign operations	28	1 956	53	1 405
<b>Trading</b>				
Currency derivatives	5	406	2	142
Interest rate derivatives	231	4 442	87	2 740
Commodity derivatives	3	53	7	53
	<b>645</b>	<b>17 137</b>	<b>585</b>	<b>9 993</b>

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:					2005	2004
	JPY	USD	EUR	CHF	Other		
Currencies sold forward:							
BRL	16	5	—	—	—	21	32
JPY	—	13	—	—	1	14	6
USD	—	—	—	2	8	10	51
EUR	—	6	—	2	—	8	23
CHF	—	3	—	—	1	4	—
Other	—	17	—	—	—	17	14
2005	16	44	—	4	10	74	
2004	1	38	18	41	28		126

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

In millions of CHF	2005	2004
EUR	149	232
USD	129	75
GBP	16	—
JPY	12	3
Other	265	149
	571	459

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

In millions of CHF	2005	2004
Within one year	158	116
In the second year	—	1
In the third to the fifth year inclusive	52	3
After the fifth year	4	—
	214	120

The underlying hedged items have the same maturities.

Other derivative assets have the following maturities:

In millions of CHF	2005	2004
Within one year	72	138
In the second year	103	9
In the third to the fifth year inclusive	234	315
After the fifth year	22	3
	431	465

## 12. Property, plant and equipment

In millions of CHF					2005	2004
	Land and buildings	Machinery and equipment	Tools, furniture and other equipment	Vehicles	Total	Total
<b>Gross value</b>						
At 1 January	11 623	22 555	6 152	715	41 045	41 778
Currency retranslation and inflation adjustments	923	2 016	520	73	3 532	(1 423)
Capital expenditure	720	1 747	783	125	3 375	3 295
Disposals	(226)	(1 085)	(333)	(40)	(1 684)	(2 038)
Reclassified as held for sale	(269)	(745)	(48)	(2)	(1 064)	—
Modification of the scope of consolidation	(81)	(153)	3	3	(228)	(567)
<b>At 31 December</b>	<b>12 690</b>	<b>24 335</b>	<b>7 077</b>	<b>874</b>	<b>44 976</b>	<b>41 045</b>
<b>Accumulated depreciation and impairments</b>						
At 1 January	(4 774)	(14 396)	(4 414)	(409)	(23 993)	(24 339)
Currency retranslation and inflation adjustments	(316)	(1 167)	(368)	(41)	(1 892)	698
Depreciation	(368)	(1 154)	(757)	(103)	(2 382)	(2 506)
Impairments	(78)	(257)	(24)	(1)	(360)	(130)
Disposals	210	806	364	73	1 453	1 814
Reclassified as held for sale	172	587	40	2	801	—
Modification of the scope of consolidation	56	174	3	(2)	231	470
<b>At 31 December</b>	<b>(5 098)</b>	<b>(15 407)</b>	<b>(5 156)</b>	<b>(481)</b>	<b>(26 142)</b>	<b>(23 993)</b>
<b>Net at 31 December</b>	<b>7 592</b>	<b>8 928</b>	<b>1 921</b>	<b>393</b>	<b>18 834</b>	<b>17 052</b>

At 31 December 2005, property, plant and equipment include CHF 492 million (2004: CHF 492 million) of assets under construction. Net property, plant and equipment held under finance leases at 31 December 2005 amount to CHF 395 million (2004: CHF 358 million). Net property, plant and equipment of CHF 132 million (2004: 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 28.8% <sup>(a)</sup> participation in the equity of L'Oréal, Paris for CHF 6971 million (2004: CHF 4011 million). Its market value at 31 December 2005 amounts to CHF 17 476 million (2004: CHF 15 342 million).

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

## 14. Non-current financial assets

In millions of CHF	2005	2004
Available-for-sale	2 370	1 938
Loans and receivables	143	183
Held-to-maturity	—	289
	2 513	2 410

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

In millions of CHF	2005	2004
USD	1 333	1 015
CHF	812	988
EUR	207	257
Other	161	150
	2 513	2 410

Non-current financial assets have the following maturities:

In millions of CHF	2005	2004
In the second year	185	296
In the third to the fifth year inclusive	196	136
After the fifth year	1 253	1 274
Equity instruments	879	704
	2 513	2 410

## 15. Goodwill

In millions of CHF	2005	2004
<b>Gross value <sup>(a)</sup></b>		
At 1 January	25 047	27 956
Currency retranslations	2 773	(1 751)
Goodwill from acquisitions <sup>(b)</sup>	930	476
Disposals	(8)	(35)
Reclassified as held for sale	(264)	—
Amortisation	—	(1 599)
<b>At 31 December</b>	<b>28 478</b>	<b>25 047</b>
<b>Accumulated impairments</b>		
At 1 January	(1 193)	(1 211)
Currency retranslations	(77)	18
Impairments	(218)	—
<b>At 31 December</b>	<b>(1 488)</b>	<b>(1 193)</b>
<b>Net at 31 December</b>	<b>26 990</b>	<b>23 854</b>

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

<sup>(b)</sup> Of which CHF 473 million resulting from Alcon's acquisition of own shares to satisfy obligations under the stock option plan of Alcon employees.

Goodwill impairment reviews have been conducted for more than 200 goodwill items allocated to some 50 cash generating units (CGUs).

Detailed results of the impairment tests are presented below for the three main goodwill items, representing more than 65% of the net book value at 31 December 2005. For the purpose of the tests, they have been allocated to the following CGUs: PetCare, Hand Held Foods Group USA and Ice Cream USA.

### PetCare

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

The recoverable amount of the CGU is higher than its carrying amount. The recoverable amount has been determined based upon a value-in-use calculation. Deflated cash flow projections covering the next 50 years, discounted at 4%, were used in this calculation. The cash flows for the first 5 years were based upon financial plans approved by Group Management; years 5 to 10 were based upon Group Management's best expectations. Cash flows were assumed to be flat for years 11 to 50, although Group Management expects continuing growth.

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

- Sales: average growth of 4% for North America, between 2 and 3% for Europe;
- EBITA margin evolution: stable for North America, with a slight increase for Europe, consistent with sales growth and portfolio rationalisation.

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



The key sensitivity for the impairment test is the growth in sales and EBITA margin. Assuming a 0% growth in the cash flow projections would not result in the carrying amount exceeding the recoverable amount.

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

#### Hand Held Foods Group USA

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

The recoverable amount of the CGU is higher than its carrying amount. The recoverable amount has been determined based upon a value-in-use calculation. Deflated cash flow projections covering the next 50 years, discounted at 4%, were used in this calculation. The cash flows for the first 5 years were based upon financial plans approved by Group Management; years 5 to 10 were based upon Group Management's best expectations. Cash flows were assumed to be flat for years 11 to 50, although Group Management expects continuing growth.

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

- Sales: average growth of 6.5% over the first 10-year period;
- EBITA margin evolution: steadily improving margin over the period, representing an average increase of EBITA of around 10% per year, which is consistent with strong sales growth and enhanced cost management and efficiency.

The key sensitivity for the impairment test is the growth in sales and EBITA margin. Assuming 0% sales growth from 2010 and 0% improvement in EBITA margin over the entire period would not result in the carrying amount exceeding the recoverable amount.

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

#### Ice Cream USA

Goodwill related to the Group's ice cream businesses in the USA (Nestlé Ice Cream Company and Dreyer's) has been allocated for the impairment test to the Ice Cream USA CGU. The carrying amounts of all goodwill items allocated to this CGU are expressed in USD for an equivalent of CHF 3839 million as at 31 December 2005.

The recoverable amount of the CGU is higher than its carrying amount. The recoverable amount has been determined based upon a value-in-use calculation. Deflated cash flow projections covering the next 50 years, discounted at 4%, were used in this calculation. The cash flows for the first 5 years were based upon financial plans approved by Group Management; years 5 to 10 were based upon Group Management's best expectations. Cash flows were assumed to be flat for years 11 to 50, although Group Management expects continuing growth.

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

- Sales: average growth of 8.5% over the first 10-year period;
- EBITA margin evolution: steadily improving margin over the period, in a range of 50–90 basis points per year, which is consistent with strong sales growth and enhanced cost management and efficiency.

The key sensitivity for the impairment test is the growth in sales and the EBITA evolution. Limiting growth to only 6% until 2014 and 0% thereafter would not result in the carrying amount exceeding the recoverable amount. Reaching 80% of the expectations in terms of EBITA evolution would not result in the carrying amount exceeding the recoverable amount.

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

## 16. Intangible assets

In millions of CHF				2005	2004
	Brands and intellectual property rights	Operating rights and others	Manage- ment information systems	Total	Total
<b>Gross value</b>					
At 1 January	480	592	2 146	3 218	2 640
of which indefinite useful life	141	—	—	141	—
Currency retranslations	20	67	170	257	(97)
Expenditures	21	67	670	758	736
Disposals	2	(12)	(17)	(27)	(194)
Reclassified as held for sale	—	(4)	(39)	(43)	—
Modification of the scope of consolidation	318	(2)	2	318	133
<b>At 31 December</b>	<b>841</b>	<b>708</b>	<b>2 932</b>	<b>4 481</b>	<b>3 218</b>
of which indefinite useful life	468	—	—	468	141
<b>Accumulated depreciation and impairments</b>					
At 1 January	(147)	(388)	(655)	(1 190)	(1 065)
Currency retranslations	(4)	(39)	(48)	(91)	46
Depreciation	(21)	(65)	(260)	(346)	(278)
Impairments	(30)	—	—	(30)	—
Disposals	—	8	13	21	94
Reclassified as held for sale	—	4	3	7	—
Modification of the scope of consolidation	—	2	(2)	—	13
<b>At 31 December</b>	<b>(202)</b>	<b>(478)</b>	<b>(949)</b>	<b>(1 629)</b>	<b>(1 190)</b>
<b>Net at 31 December</b>	<b>639</b>	<b>230</b>	<b>1 983</b>	<b>2 852</b>	<b>2 028</b>

Internally generated intangible assets consist mainly of management information systems.

## 17. Trade and other payables

In millions of CHF	2005	2004 <sup>(a)</sup>
Trade payables	7 841	6 370
Other payables	3 276	2 704
	<b>11 117</b>	<b>9 074</b>

<sup>(a)</sup> Restated following first application of IFRS 2 Share-based Payment

## 18. Current financial liabilities

In millions of CHF	2005	2004
Commercial paper	10 048	9 738
Line of credit facilities	1 200	958
Other current financial liabilities	1 651	1 344
	<b>12 899</b>	<b>12 040</b>
Current portion of non-current financial liabilities <sup>(a)</sup>	5 906	2 682
	<b>18 805</b>	<b>14 722</b>

<sup>(a)</sup> Including CHF 3441 million related to the Dreyer's acquisition. Put and call options were exchanged between Dreyer's Grand Ice Cream Holdings, Inc. (Dreyer's) and the remaining holders of Dreyer's Class A Callable Puttable Common Stock. These options gave the remaining stockholders the right to sell, and gave Dreyer's the right to buy, the remaining outstanding shares at certain dates and for certain amounts. Although the first put period extended from 1 December 2005 until 13 January 2006, payments relating to these puts occurred on 17 January 2006.

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

The above financial liabilities are denominated in the following currencies:

In millions of CHF	2005	2004
USD	11 854	7 422
EUR	2 071	2 356
GBP	1 767	1 387
Other	3 113	3 557
	<b>18 805</b>	<b>14 722</b>

Average interest rates are as follows:

	2005	2004
on USD	3.2%	1.3%
on EUR	2.1%	2.1%
on GBP	4.8%	4.6%

## 19. Derivative liabilities

In millions of CHF	2005		2004	
	Fair values	Contractual or notional amounts	Fair values	Contractual or notional amounts
<b>Fair value hedges</b>				
Currency forwards, futures and swaps	12	723	23	774
Interest rate forwards, futures and swaps	11	750	4	592
Interest rate and currency swaps	363	2 047	507	1 771
<b>Cash flow hedges</b>				
Currency forwards, futures and swaps	9	634	30	779
Currency options	6	167	12	134
Interest rate forwards, futures and swaps	92	2 764	71	2 595
Interest rate options	—	—	—	44
Commodity futures	29	167	42	599
Commodity options	5	39	7	24
<b>Hedges of net investments</b>				
in foreign operations	147	2 300	48	1 417
<b>Trading</b>				
Currency derivatives	40	1 130	5	619
Interest rate derivatives	205	4 843	103	4 524
Commodity derivatives	3	45	4	33
	<b>922</b>	<b>15 609</b>	<b>856</b>	<b>13 905</b>

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

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

In millions of CHF

Currencies purchased forward:

	CHF	USD	EUR	JPY	Other	2005	2004
<b>Currencies sold forward:</b>							
BRL	—	87	1	23	—	111	24
CHF	—	—	30	—	4	34	5
USD	5	—	1	—	—	6	6
EUR	—	—	—	—	1	1	17
JPY	—	—	—	—	1	1	1
Other	1	15	3	2	40	61	65
<b>2005</b>	<b>6</b>	<b>102</b>	<b>35</b>	<b>25</b>	<b>46</b>	<b>214</b>	
2004	1	61	1	10	45		118

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

In millions of CHF

	2005	2004
USD	389	584
EUR	102	15
GBP	45	24
Other	172	115
	<b>708</b>	<b>738</b>

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

In millions of CHF

	2005	2004
Within one year	50	99
In the second year	—	13
In the third to the fifth year inclusive	29	38
After the fifth year	62	12
	<b>141</b>	<b>162</b>

The underlying hedged items have the same maturities.

Other derivative liabilities have the following maturities:

In millions of CHF

	2005	2004
Within one year	622	139
In the second year	49	519
In the third to the fifth year inclusive	105	34
After the fifth year	5	2
	<b>781</b>	<b>694</b>

## 20. Non-current financial liabilities

In millions of CHF	2005	2004
Loans from financial institutions and other	599	331
Liabilities in respect of unexercised options <sup>(a)</sup>	3 450	2 908
Bonds	9 658	9 871
Obligations under finance leases	352	303
	<b>14 059</b>	<b>13 413</b>
Current portion	(5 906)	(2 682)
	<b>8 153</b>	<b>10 731</b>

<sup>(a)</sup> Mainly related to the Dreyer's acquisition. Refer to Note 18 – Current portion.

The fair value of non-current financial liabilities amounts to CHF 8221 million (2004: CHF 10 943 million).

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

In millions of CHF	2005	2004
In the second year	3 143	2 297
In the third to the fifth year inclusive	4 140	7 737
After the fifth year	870	697
	<b>8 153</b>	<b>10 731</b>

The above financial liabilities are denominated in the following currencies:

In millions of CHF	2005	2004
USD	4 184	6 906
EUR	2 275	2 243
Other	1 694	1 582
	8 153	10 731

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

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

	2005	2004
on EUR	3.4%	2.3%
on JPY	1.4%	—

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

The interest rate structure is as follows:

In millions of CHF	2005	2004
Financial liabilities at fixed rates	7 905	10 273
Financial liabilities at variable rates	248	458
	8 153	10 731

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

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

In millions of CHF

Issuer	Face value in millions	Interest rates		Year of issue/ maturity	Comments	2005	2004
		Nominal	Effective				
Nestlé Holdings, Inc.,	USD 250	7.38%	7.38%	1995–2005		—	282
USA	USD 300	3.00%	7.48%	2000–2005	(a)	—	334
	USD 699	0.00%	6.25%	2001–2008	(b)	790	641
	USD 950	3.50%	3.76%	2001–2005	(c)	—	1 070
	USD 300	5.13%	5.24%	2001–2007		392	338
	USD 500	4.75%	4.98%	2002–2007		653	563
	USD 400	4.50%	4.64%	2002–2006	(d)	524	453
	NOK 2000	5.25%	5.16%	2003–2007	(e)	397	391
	USD 250	3.25%	3.42%	2003–2009	(f)	327	282
	USD 400	3.50%	3.81%	2005–2008	(e)	513	—
	EUR 150	2.13%	2.95%	2005–2009	(e)	229	—
	USD 300	4.38%	4.49%	2005–2009	(e)	393	—
	AUD 200	5.50%	5.73%	2005–2009	(e)	192	—
Nestlé Purina Petcare Company,	USD 83	9.25%	5.90%	1989–2009		121	106
USA	USD 48	7.75%	6.25%	1995–2015		69	60
	USD 63	9.30%	6.46%	1991–2021		106	92
	USD 79	8.63%	6.46%	1992–2022		126	109
	USD 44	8.13%	6.47%	1993–2023		67	58
	USD 51	7.88%	6.45%	1995–2025		78	67
Nestlé Finance-France S.A.,	ZAR 100	12.50%	13.07%	2000–2005	(e)(g)	—	21
France	ZAR 100	11.00%	11.52%	2001–2006	(e)(g)	21	20
	EUR 370	4.75%	3.22%	2002–2007	(e)(h)	596	599
	USD 249	4.24%	4.24%	2002–2006	(e)(i)(n)	329	286
	USD 600	3.00%	2.88%	2002–2006	(e)(j)	783	677
	EUR 147	3.38%	3.38%	2002–2007	(e)(k)(n)	231	230
	EUR 175	2.56%	2.60%	2003–2006	(e)(n)	273	269
	EUR 500	3.50%	3.51%	2003–2008	(e)	788	787
	EUR 150	2.50%	2.55%	2003–2007	(e)(l)	233	230
	USD 100	2.25%	2.33%	2003–2007	(e)	127	109
	AUD 200	6.00%	6.03%	2004–2008	(e)	197	179
	HUF 25 000	7.00%	7.00%	2004–2009	(e)	155	154
Nestlé Holdings (U.K.) PLC,	EUR 300	4.75%	4.75%	2001–2005	(e)	—	480
United Kingdom	USD 300	5.25%	5.35%	2001–2006	(e)	395	359
Nestlé Australia Ltd., Australia	AUD 400	4.75%	4.94%	2002–2005	(e)(m)	—	350
Nestlé Japan Ltd., Japan	USD 200	4.13%	4.14%	2005–2007	(e)	259	—
Nestlé (Thai) Ltd, Thailand	THB 5000	2.16%	2.16%	2003–2008		159	145
Other bonds						135	130
<b>Total</b>						<b>9 658</b>	<b>9 871</b>
of which due within one year						2 377	2 546
of which due after one year						7 281	7 325

Bonds subject to fair value hedges are carried at fair value for CHF 6241 million (2004: CHF 5440 million) and the related derivatives are shown under derivative assets for CHF 87 million (2004: CHF 224 million) and under derivative liabilities for CHF 366 million (2004: CHF 509 million). The full fair value of bonds amounts to CHF 9726 million.



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

The issue had warrants attached which gave 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.

Between March and May 2005, 29 855 warrants (99.5%) were exercised. The resulting 1 287 940 shares in Nestlé S.A. were exchanged with the bonds of Nestlé Holdings, Inc. for USD 299 million. An amount of CHF 2 million was repaid in cash on 9 May 2005 for the 145 warrants not exercised.

(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) Uridashi issue sold to retail investors in Japan.

## 21. Employee benefits

### Pensions and retirement benefits

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

### Post-employment medical benefits and other employee benefits

Group companies, principally in the USA and Canada, maintain medical benefits plans, which cover eligible retired employees.

The obligations for other employee benefits consist mainly of end of service indemnities, which do not have the character of pensions.

### Reconciliation of assets and liabilities recognised in the balance sheet

In millions of CHF			2005	2004
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Total
Present value of funded obligations	22 514	349	22 863	19 918
Fair value of plan assets	(21 623)	(191)	(21 814)	(17 944)
Excess of liabilities/(assets) over funded obligations	891	158	1 049	1 974
Present value of unfunded obligations	1 185	1 471	2 656	2 292
Unrecognised past service cost of non-vested benefits	11	(4)	7	5
Net unrecognised actuarial gains/(losses)	(3 316)	(241)	(3 557)	(3 366)
Unrecognised assets	886	—	886	450
<b>Defined benefits net liabilities/(assets)</b>	<b>(343)</b>	<b>1 384</b>	<b>1 041</b>	<b>1 355</b>
Liabilities from defined contribution plans and non-current deferred compensation			982	909
Liabilities from cash-settled share-based transactions <sup>(a)(b)</sup>			98	42
<b>Net liabilities</b>			<b>2 121</b>	<b>2 306</b>
<b>Reflected in the balance sheet as follows:</b>				
Employee benefits assets			(1 673)	(928)
Employee benefits liabilities <sup>(a)</sup>			3 794	3 234
<b>Net liabilities</b>			<b>2 121</b>	<b>2 306</b>

<sup>(a)</sup> 2004 comparatives restated following first application of IFRS 2 Share-based Payment

<sup>(b)</sup> The intrinsic value of liabilities from cash-settled share-based transactions that are vested amounts to CHF 3 million (2004: nil).

The plan assets include property occupied by affiliated companies with a fair value of CHF 26 million (2004: CHF 17 million) and assets loaned to affiliated companies with a fair value of CHF 16 million (2004: nil).

### Expenses recognised in the income statement

In millions of CHF			2005	2004
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Total
Current service cost	654	73	727	690
Employee contributions	(98)	—	(98)	(93)
Interest cost	1 001	88	1 089	1 073
Expected return on plan assets	(1 325)	(6)	(1 331)	(1 232)
Net actuarial (gains)/losses recognised in the year	127	5	132	125
Early retirements, curtailments, settlements	(23)	—	(23)	40
Past service cost	17	7	24	17
Transfer (from)/to unrecognised assets	340	—	340	192
<b>Total defined benefit expenses</b>	<b>693</b>	<b>167</b>	<b>860</b>	<b>812</b>
<b>Total defined contribution expenses</b>			<b>322</b>	<b>320</b>

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.

<b>Actual gain/(loss) on plan assets</b>	<b>2 514</b>	<b>1 462</b>
--	--------------	--------------

### Movement of defined benefit net liabilities recognised in the balance sheet

In millions of CHF			2005	2004
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Total
At 1 January	208	1 147	1 355	1 302
Currency retranslations	(50)	163	113	(73)
Expense recognised in the income statement	693	167	860	812
Contributions	(1 150)	(20)	(1 170)	(499)
Benefits paid	(68)	(110)	(178)	(179)
Modification of the scope of consolidation	8	13	21	(6)
Transfer from/(to) defined contribution plans	16	24	40	(2)
<b>At 31 December</b>	<b>(343)</b>	<b>1 384</b>	<b>1 041</b>	<b>1 355</b>

## Principal actuarial assumptions

At 31 December	2005	2004
<b>Discount rates</b>		
Europe	3 – 4.8 %	3 – 5.3 %
Americas	5.3 – 8.2 %	5.8 – 8.2 %
Asia, Oceania and Africa	2 – 8.2 %	2 – 8.3 %
<b>Expected long term rates of return on plan assets</b>		
Europe	5.5 – 7.2 %	5.8 – 7.5 %
Americas	7.8 – 9.2 %	7.8 – 9.2 %
Asia, Oceania and Africa	4.5 – 8.6 %	4.5 – 9.3 %
<b>Expected rates of salary increases</b>		
Europe	1.5 – 3.8 %	2 – 3.9 %
Americas	3 – 7.1 %	3 – 7.1 %
Asia, Oceania and Africa	0.5 – 5.4 %	0.5 – 6.3 %
<b>Expected rates of pension adjustments</b>		
Europe	1 – 3.5 %	1 – 3.5 %
Americas	0.0 – 4.0 %	0.3 – 4.0 %
Asia, Oceania and Africa	2.5 – 3.5 %	2.5 – 4.4 %
<b>Medical cost trend rates</b>		
Americas	5 – 7.5 %	4 – 7.1 %
<b>Average remaining working life of employees (in years)</b>		
Europe	12 – 23	8 – 22
Americas	9 – 20	11 – 25
Asia, Oceania and Africa	14 – 20	15 – 20

## 22. Share-based Payment and remuneration

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

In millions of CHF	2005	2004 <sup>(a)</sup>
Equity-settled share-based payment costs	197	131
Cash-settled share-based payment costs	75	30
<b>Total share-based payment costs</b>	<b>272</b>	<b>161</b>

<sup>(a)</sup> Restated following first application of IFRS 2 Share-based Payment. 2004 figures are not fully comparable as they relate to two years' grant only.

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

#### Management Stock Option Plan (MSOP)

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

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

#### Movement of options

	2005	2004
	Number of options	Number of options
<b>Outstanding at 1 January</b>	<b>6 645 641</b>	5 002 224
of which vested and exercisable	1 839 449	665 302
New rights	66 500	1 846 122
Rights exercised <sup>(a)</sup>	(764 967)	(92 972)
Rights forfeited	(76 343)	(109 733)
<b>Outstanding at 31 December</b>	<b>5 870 831</b>	6 645 641
of which vested and exercisable at 31 December	2 601 100	1 839 449
additional options vesting in 2006	1 406 259	

(a) Average exercise price: CHF 315.11 (2004: CHF 269.26); average share price at exercise date: CHF 374.04 (2004: CHF 332.94)

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

#### Options features

Grant date	Expiring on	Number of options outstanding	Exercise price in CHF	Expected volatility	Risk-free interest rate	Dividend yield	Fair value at grant in CHF
01.01.2000	31.12.2006	244 770	281.90				
01.03.2001	29.02.2008	978 472	343.20				
01.03.2002	28.02.2009	1 278 717	367.35				
01.02.2003	31.01.2010	1 459 384	278.55	27.16%	1.78%	2.25%	57.44
01.10.2003	30.09.2010	33 228	308.55	20.58%	2.11%	2.30%	49.26
01.02.2004	31.01.2011	1 784 135	329.10	19.41%	2.05%	2.11%	50.50
01.10.2004	30.09.2011	25 625	289.40	20.83%	2.09%	2.50%	45.19
01.02.2005	31.01.2012	66 500	309.20	20.13%	1.84%	2.29%	43.88
		<b>5 870 831</b>					

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

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

### Restricted Stock Unit Plan (RSUP)

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

### Movement of Restricted Stock Units

	2005
	Number of RSU
New RSU	438 810
RSU settled <sup>(a)</sup>	(6 179)
RSU forfeited	(2 778)
<b>Outstanding at 31 December</b>	<b>429 853</b>
of which considered cash-settled	41 039

<sup>(a)</sup> Average price at vesting date: CHF 334.84

### Restricted Stock Units features

Grant date	Restricted until	Number of RSU outstanding	Risk-free interest rate	Dividend yield	Fair value at grant in CHF
01.03.2005	29.02.2008	423 546	1.59%	2.45%	318.00
01.10.2005	30.09.2008	6 307	1.50%	2.15%	371.60
		<b>429 853</b>			

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

## US plans

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

## 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.

## Movement of Alcon options

	2005	2004
	Number of options	Number of options
<b>Outstanding at 1 January</b>	<b>16 278 653</b>	12 981 786
of which vested and exercisable	879 689	752 325
New rights	3 478 611	4 199 270
Rights exercised <sup>(a)</sup>	(4 555 104)	(767 279)
Rights forfeited	(106 323)	(135 124)
Rights expired	(420)	—
<b>Outstanding at 31 December</b>	<b>15 095 417</b>	16 278 653
of which vested and exercisable at 31 December	3 326 147	879 689
additional options vesting in 2006	4 888 885	

<sup>(a)</sup> Average exercise price: USD 33.61 (2004: USD 34.87); average share price at exercise date: USD 98.71 (2004: USD 72.15)

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

## Alcon option features

Grant date	Expiring on	Number of options outstanding	Exercise price in USD	Expected life in years	Expected volatility	Risk-free interest rate	Dividend yield	Fair value at grant in USD
21.03.2002	21.03.2012	2 082 664	33.00	6.25	33.00%	4.75%	1.00%	10.03
01.07.2002	01.07.2012	35 000	32.85	6.50	33.00%	4.75%	1.00%	9.98
18.02.2003	18.02.2013	5 413 051	36.39	7.20	33.00%	2.92%	1.00%	10.06
Various 2003	Various 2013	55 750	49.00	7.61	33.00%	2.96%	1.00%	13.59
11.02.2004	11.02.2014	3 994 825	63.32	8.12	33.00%	2.99%	1.00%	19.59
Various 2004	Various 2014	62 000	77.07	8.68	33.00%	3.23%	1.00%	22.84
09.02.2005	09.02.2015	3 406 127	79.00	9.12	33.00%	3.60%	1.00%	25.48
Various 2005	Various 2015	46 000	90.84	9.23	33.00%	3.80%	1.00%	30.20
		<b>15 095 417</b>						



## Remuneration of the Board of Directors and the Executive Board

### Board of Directors

Members of the Board of Directors receive an annual remuneration of CHF 262 500 each, members of the Chairman's and Corporate Governance Committee 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/CEO is entitled to a salary, a bonus, share options and restricted stock units.

Half of the remuneration of the members of the Board of Directors and the total additional remuneration of the members of the Chairman's and Corporate Governance Committee 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, sundry allowances, a bonus (based on the individual's performance and the achievement of the Group's objectives), share options and restricted stock units.

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

	2005		2004	
	Number	CHF millions	Number	CHF millions
<b>Non-Executive members of the Board of Directors</b>				
Remuneration		3		4
Shares	7 044	2	6 772	2
<b>Executive Board <sup>(a)</sup></b>				
Remuneration		13		13
Bonus		6		5
Shares	19 957	7	21 542	7
Options <sup>(b)</sup>	66 500		216 000	
Restricted stock units <sup>(b)</sup>	36 450		—	

<sup>(a)</sup> Includes the Executive member of the Board of Directors.

<sup>(b)</sup> Both options and restricted stock units are equity-settled share-based payment transactions whose cost is recognised over the vesting period.

## 23. Deferred taxes

In millions of CHF	2005	2004 <sup>(a)</sup>
<b>Tax assets by types of temporary difference</b>		
Property, plant and equipment	308	308
Goodwill and intangible assets	148	82
Employee benefits	1 405	1 213
Inventories, receivables, payables and provisions	1 018	897
Unused tax losses and unused tax credits	536	413
Other	564	403
	<b>3 979</b>	<b>3 316</b>
<b>Tax liabilities by types of temporary difference</b>		
Property, plant and equipment	1 150	1 138
Goodwill and intangible assets	905	479
Employee benefits	458	303
Inventories, receivables, payables and provisions	110	124
Other	324	250
	<b>2 947</b>	<b>2 294</b>
<b>Net assets</b>	<b>1 032</b>	<b>1 022</b>
<b>Reflected in the balance sheet as follows:</b>		
Deferred tax assets	1 697	1 469
Deferred tax liabilities	(665)	(447)
<b>Net assets</b>	<b>1 032</b>	<b>1 022</b>
<b>Temporary differences for which no deferred tax is recognised:</b>		
on investments in affiliated companies (taxable temporary difference)	17 790	13 525
on unused tax losses, tax credits and other items <sup>(b)</sup>	2 026	2 508

<sup>(a)</sup> 2004 comparatives restated following first application of IFRS 2 Share-based Payment

<sup>(b)</sup> Of which more than half expire in more than 5 years

## 24. Provisions

In millions of CHF					2005	2004
	Restructuring	Environmental	Litigation	Other	Total	Total
<b>At 1 January</b>	<b>923</b>	<b>34</b>	<b>1 759</b>	<b>288</b>	<b>3 004</b>	3 061
Currency retranslations	47	5	145	20	217	(139)
Provisions made in the period	324	7	449	107	887	822
Modification of the scope of consolidation	—	—	1	60	61	99
Amounts used	(314)	(3)	(117)	(157)	(591)	(582)
Unused amounts reversed	(30)	(2)	(167)	(32)	(231)	(257)
<b>At 31 December</b>	<b>950</b>	<b>41</b>	<b>2 070</b>	<b>286</b>	<b>3 347</b>	3 004

### Restructuring

Restructuring provisions arise from a number of projects across the Group. These include plans to optimise industrial manufacturing capacities by closing inefficient production facilities and reorganising others, essentially in Europe. Efficiencies stemming from the implementation of GLOBE and of 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 to three years) and are consequently not discounted.

### Litigation

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

### Other

Other provisions are mainly constituted by onerous contracts (CHF 149 million) resulting from unfavourable leases or supply agreements above world market prices in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received or for which no benefits are received. These agreements have been entered into as a result of selling and closing inefficient facilities. The duration of those contracts is an average of 5 years.

## 25. Share capital of Nestlé S.A.

	2005	2004
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 18.  
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	2005	2004
<b>Purpose of holding</b>		
Freely available shares	1 724 069	1 735 298
Management option rights <sup>(a)</sup>	5 870 831	6 645 641
Restricted stock units <sup>(a)</sup>	429 853	—
Warrants on SWANS and Turbo bond issues of		
Nestlé Holdings Inc., USA <sup>(b)</sup>	2 230 300	3 524 490
Share Buy-Back Programme	3 659 300	—
Trading	1 372 101	4 262 759
<b>Total at 31 December</b>	<b>15 286 454</b>	<b>16 168 188</b>

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

<sup>(b)</sup> In 2005, 1 287 940 Nestlé S.A. shares were exchanged with Stock Warrants and Applicable Note Securities (SWANS). See Note 20.

In millions of CHF	2005	2004
Book value at 31 December	2 770	2 435
Market value at 31 December	6 008	4 810

The movement of these shares is described in the Annex to the annual accounts of Nestlé S.A., Note 20.

## 27. Decrease/(increase) in working capital

Disregarding exchange differences and effect of acquisitions and disposals.

In millions of CHF	2005	2004
Inventories	(455)	(457)
Trade receivables	(998)	(6)
Other receivables	(150)	487
Trade payables	761	28
Other payables	413	(60)
Net accruals and deferrals	89	271
Other	25	(36)
	<b>(315)</b>	<b>227</b>

## 28. Acquisitions

In millions of CHF	2005	2004
<b>Fair value of net assets acquired</b>		
Property, plant and equipment	85	72
Financial assets	1	21
Intangible assets	318	154
Minority interests	(68)	(9)
Purchase of minority interests in existing participations	45	41
Net working capital	13	(12)
Financial liabilities	(32)	(24)
Employee benefits, deferred taxes and provisions	(141)	(73)
Liquid assets	29	8
	<b>250</b>	<b>178</b>
Goodwill <sup>(a)</sup>	930	476
<b>Total acquisition cost</b>	<b>1 180</b>	<b>654</b>
less:		
Cash and cash equivalents acquired	(29)	(8)
Consideration payable	(168)	(13)
Payment of consideration payable on prior years' acquisition	12	—
<b>Cash outflow on acquisitions</b>	<b>995</b>	<b>633</b>

<sup>(a)</sup> Of which CHF 473 million resulting from Alcon's acquisition of own shares to satisfy obligations under the stock option plan of Alcon employees

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

## 29. Disposals

In millions of CHF	2005	2004
<b>Net assets disposed of</b>		
Property, plant and equipment	82	169
Financial assets	—	1
Goodwill and intangible assets	8	43
Minority interests <sup>(a)</sup>	(107)	(19)
Net working capital	(141)	(16)
Financial liabilities	(6)	(47)
Employee benefits, deferred taxes and provisions	57	(35)
Liquid assets	3	45
	<b>(104)</b>	<b>141</b>
Recovery on disposal of goodwill charged to equity		
prior to 1 January 1995	—	17
Profit/(loss) on current year disposals <sup>(a)</sup>	214	108
Profit/(loss) on prior years' disposals	(2)	—
<b>Total disposal consideration</b>	<b>108</b>	<b>266</b>
less:		
Cash and cash equivalents disposed of	(3)	(45)
Consideration receivable	(1)	(23)
Receipt of consideration receivable on prior years' disposal	89	68
<b>Cash inflow on disposals</b>	<b>193</b>	<b>266</b>

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

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

#### Discontinued operations: Chilled dairy business in Europe

On 15 December 2005, the Group publicly announced its plan to establish a common business in the chilled dairy sector in Europe with the French-based group Lactalis. The Group will hold 40% of the proposed business while Lactalis will hold 60%. The proposed new organization will be managed by a board composed of senior executives from both groups, with Lactalis in a majority. The disposal is still subject to employee consultations and regulatory requirements.

As at 31 December 2005, the assets and liabilities of the Group's European Chilled dairy business were classified as a disposal group in Assets held for sale and Liabilities directly associated with assets held for sale.

The result and the cash flow of the discontinued operations are as follows:

In millions of CHF	2005	2004
Sales to customers	1 964	2 079
Expenses	(1 948)	(2 000)
<b>EBITA Earnings Before Interest, Taxes and Amortisation of goodwill</b>	<b>16</b>	<b>79</b>
Net other income/(expenses)	(28)	(9)
Amortisation of goodwill	—	(16)
<b>Profit/(loss) before taxes</b>	<b>(12)</b>	<b>54</b>
Taxes	5	(25)
<b>Net profit/(loss) on discontinued operations</b>	<b>(7)</b>	<b>29</b>
<b>Earnings per share from discontinued operations (in CHF)</b>		
Basic earnings per share	(0.02)	0.07
Fully diluted earnings per share	(0.02)	0.07
<b>Cash flow statement from discontinued operations</b>		
Operating cash flow	35	104
Cash flow from investing activities	(31)	(35)

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

The assets held for sale and liabilities directly associated with assets held for sale are mainly related to the discontinued operation of the Chilled dairy business in Europe.

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

### 31. Dividends

Dividends payable are not accounted for until they have been ratified at the Annual General Meeting. At the meeting on 6 April 2006, the following dividend in respect of 2005 will be proposed:

Dividend per share	CHF 9.–
resulting in a total dividend of <sup>(a)</sup>	CHF 3 562 589 754.–

<sup>(a)</sup> Number of shares with right to dividend: see Annual Report of Nestlé S.A.

The Financial Statements for the year ended 31 December 2005 do not reflect this proposed distribution, which will be treated as an appropriation of profit in the year ending 31 December 2006.

### 32. Guarantees

The Group has no significant guarantees given to third parties.

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

At 31 December 2005, the Group was committed to expenditure amounting to CHF 419 million (2004: CHF 219 million).



### 34. Lease commitments

#### Operating leases

In millions of CHF	2005	2004
	Minimum lease payments Future value	
Within one year	465	413
In the second year	380	355
In the third to the fifth year inclusive	669	651
After the fifth year	543	722
	<b>2 057</b>	<b>2 141</b>

#### Finance leases

In millions of CHF	2005		2004	
	Minimum lease payments			
	Present value	Future value	Present value	Future value
Within one year	57	62	49	70
In the second year	54	63	44	60
In the third to the fifth year inclusive	110	151	86	124
After the fifth year	131	211	124	178
	<b>352</b>	<b>487</b>	<b>303</b>	<b>432</b>

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

### 35. Contingent assets and liabilities

The Group is exposed to contingent liabilities amounting to CHF 870 million (2004: CHF 690 million) representing various potential litigations (CHF 784 million) and other items (CHF 86 million).

Contingent assets for litigation claims in favour of the Group amount to CHF 258 million (2004: CHF 170 million).

### 36. Events after the balance sheet date

#### Dreyer's, USA

Following the expiration of the first put period (1 December 2005 to 13 January 2006) during which holders of Dreyer's Class A Callable Puttable Common Stock could require Dreyer's to purchase their shares for USD 83.10 per share, sufficient stockholders exercised their put right resulting in Nestlé Ice Holdings, Inc. ("Nestlé Ice"), a wholly-owned indirect subsidiary of Nestlé Holdings, Inc. ("Nestlé Holdings"), becoming the owner of greater than 90% of Dreyer's outstanding voting stock. As a consequence, all remaining Class A shares were converted into Class B Common Stock, and Dreyer's was de-listed from the NASDAQ National Market System on 17 January 2006. Nestlé was then obligated to merge Nestlé Ice with and into Dreyer's, with Dreyer's being the surviving corporation and becoming a wholly-owned indirect subsidiary of Nestlé Holdings. All then outstanding Class B shares (other than shares held by Nestlé Ice) were automatically converted into the right to receive a cash payment of USD 83.10 per Class B share.

#### Other subsequent events

At 22 February 2006, date of approval of the Financial Statements by the Board of Directors, the Group had no subsequent adjusting events that warrant a modification of the value of the assets and liabilities.

### 37. Transactions with related parties

The Group has not entered into any material transactions with related parties. Furthermore, throughout 2005, no director had a personal interest in any transaction of significance for the business of the Group.

### 38. Nestlé Group Companies

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

#### Principal exchange rates

CHF per		2005	2004	2005	2004
		Year ending rates		Average annual rates	
1 US Dollar	USD	1.31	1.13	1.248	1.241
1 Euro	EUR	1.56	1.54	1.549	1.544
1 Pound Sterling	GBP	2.27	2.18	2.267	2.269
100 Brazilian Reais	BRL	56.40	42.50	51.610	42.490
100 Japanese Yen	JPY	1.12	1.09	1.129	1.147
100 Mexican Pesos	MXN	12.30	10.10	11.460	11.020
1 Canadian Dollar	CAD	1.13	0.94	1.037	0.956
1 Australian Dollar	AUD	0.96	0.88	0.950	0.912
100 Philippine Pesos	PHP	2.48	2.02	2.265	2.210

## Report of the Group auditors

to the General Meeting of Nestlé S.A.

As Group auditors we have audited the Consolidated Financial Statements (balance sheet, income statement, cash flow statement, statement of changes in equity and annex) of the Nestlé Group for the year ended 31 December 2005.

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

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

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

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

 Klynveld Peat Marwick Goerdeler SA



Scott Cormack  
Auditor in charge



Stéphane Gard

London and Zurich, 22 February 2006

## Financial information – five year review

In millions of CHF (except for per share data and personnel) 2005 2004 (a) 2003

### Results (b)

Sales	91 075	84 690	87 979
EBITA Earnings Before Interest, Taxes and Amortisation of goodwill	11 720	10 760	11 006
<i>as % of sales</i>	12.9%	12.7%	12.5%
Taxes	2 597	2 404	2 307
Net profit (c)	7 995	6 621	6 213
<i>as % of sales</i>	8.8%	7.8%	7.1%
<i>as % of average equity attributable to the Group</i>	18.0%	17.4%	17.3%
Total amount of dividend	3 563 (d)	3 114	2 800
Depreciation of property, plant and equipment	2 382	2 454	2 408
<i>as % of sales</i>	2.6%	2.9%	2.7%
Amortisation of goodwill	— (e)	1 583	1 571

### Balance sheet and Cash flow statement

Current assets	41 765	35 285	36 233
of which liquid assets	17 393	15 282	15 128
Non-current assets	61 632	51 832	53 328
Total assets	103 397	87 117	89 561
Current liabilities	35 818	29 075	30 365
Non-current liabilities	16 144	17 743	21 373
Equity attributable to the Group	49 847	39 236	36 880
Minority interests	1 588	1 063	943
Operating cash flow	10 205	10 412	10 125
Capital expenditure (b)	3 375	3 260	3 337
<i>as % of sales</i>	3.7%	3.8%	3.8%

### Data per share

Weighted average number of shares outstanding	388 812 564	388 449 957	387 018 429
Basic earnings per share from continuing operations	20.58	16.97	16.05
Basic earnings per share from discontinued operations	(0.02)	0.07	—
Equity attributable to the Group	128.20	101.01	95.29
Dividend	9.00 (f)	8.00	7.20
Pay-out ratio	43.8% (f)	46.9%	44.8%
Stock prices (high/low)	404.3/298.3	346.0/276.0	314.5/233.3
Yield (g)	2.2/3.0 (f)	2.3/2.9	2.3/3.1

Market capitalisation	152 576	115 237	119 876
-----------------------	---------	---------	---------

Number of personnel (in thousands) (b)	250	244	253
--	-----	-----	-----

(a) Restated following first application of IFRS 2 Share-based Payment

(b) 2004 restated for the discontinued operation following the announcement made in December 2005 for the Chilled dairy activities in Europe.

(c) Profit for the period attributable to the Group

(d) 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 3494 million) as well as those potentially payable on the shares covering options and shares held for trading purposes (CHF 69 million).

2002	2001	
		<b>Results <sup>(b)</sup></b>
89 160	84 698	Sales
10 940	9 987	EBITA Earnings Before Interest, Taxes and Amortisation of goodwill
12.3%	11.8%	<i>as % of sales</i>
2 295	2 429	Taxes
7 564	6 681	Net profit <sup>(c)</sup>
8.5%	7.9%	<i>as % of sales</i>
22.1%	21.0%	<i>as % of average equity attributable to the Group</i>
2 705	2 484	Total amount of dividend
2 542	2 581	Depreciation of property, plant and equipment
2.9%	3.0%	<i>as % of sales</i>
1 438	494	Amortisation of goodwill
		<b>Balance sheet and Cash flow statement</b>
35 342	39 045	Current assets
14 291	16 042	of which liquid assets
52 010	54 741	Non-current assets
87 352	93 786	Total assets
33 737	41 492	Current liabilities
17 983	18 065	Non-current liabilities
34 819	33 653	Equity attributable to the Group
813	576	Minority interests
10 248	8 614	Operating cash flow
3 577	3 611	Capital expenditure <sup>(b)</sup>
4.0%	4.3%	<i>as % of sales</i>
		<b>Data per share</b>
387 641 752	387 369 846	Weighted average number of shares outstanding
19.51	17.25	Basic earnings per share from continuing operations
—	—	Basic earnings per share from discontinued operations
89.82	86.88	Equity attributable to the Group
7.00	6.40	Dividend
35.9%	37.1%	Pay-out ratio
397.0/271.0	386.5/289.0	Stock prices (high/low)
1.8/2.6	1.7/2.2	Yield <sup>(g)</sup>
113 368	137 230	<b>Market capitalisation</b>
254	230 <sup>(h)</sup>	<b>Number of personnel (in thousands) <sup>(b)</sup></b>

<sup>(e)</sup> From 2005 onwards, goodwill is no longer amortised but tested for impairment annually.

<sup>(f)</sup> As proposed by the Board of Directors of Nestlé S.A.

<sup>(g)</sup> Calculated on the basis of the dividend for the year concerned but which is paid in the following year

<sup>(h)</sup> Excludes Ralston Purina

# Companies of the Nestlé Group

## Operating companies

Principal affiliated companies <sup>(a)</sup> 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.

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

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

Countries within the continents are listed according to the alphabetical order of the 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
<b>Europe</b>				
<b>Germany</b>				
Nestlé Deutschland AG	Frankfurt am Main	100%	EUR	214 266 628.49
Nestlé Waters Deutschland AG	Mainz	100%	EUR	10 566 000.00
PowerBar Europe GmbH	München	100%	EUR	25 000.00
Alcon Pharma GmbH*	Freiburg/Breisgau	75.13%	EUR	511 291.88
Geti Wilba GmbH & Co. KG	Bremervörde	100%	EUR	6 135 502.57
Erlenbacher Backwaren GmbH	Gross-Gerau	100%	EUR	2 582 024.00
Family Frost International Tiefkühl-heimdienst GmbH	Mettmann	100%	EUR	4 116 000.00
Wagner Tiefkühlprodukte GmbH	Nonnweiler-Braunshausen	49%	EUR	511 291.88
<i>Nestlé acquired control, further financial investments subject to regulatory review.</i>				
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
TIVAU Tiefkühlvertrieb GmbH	Nürnberg	100%	EUR	500 000.00
WCO Kinderkost GmbH Conow	Conow	100%	EUR	26 000.00
<b>Austria</b>				
Nestlé Österreich GmbH	Wien	100%	EUR	3 000 000.00
Nespresso Österreich GmbH & Co. OHG	Wien	100%	EUR	35 000.00
Alcon Ophthalmika GmbH*	Wien	75.13%	EUR	36 336.42
Schöller Lebensmittel GmbH	Wien	100%	EUR	7 231 000.00
<b>Belgium</b>				
Nestlé Belgilux S.A.	Bruxelles	100%	EUR	8 924 200.00
Nestlé Waters Benelux S.A.	Etalle	100%	EUR	19 924 000.00
Nespresso Belgilux NV	Bruxelles	100%	EUR	550 000.00

Companies	City	% capital shareholdings	Currency	Capital
S.A. Alcon-Couvreur N.V.*	Puurs	75.13%	EUR	4 491 830.00
Nestlé Purina PetCare Belgilux SPRL	Bruxelles	100%	EUR	2 961 854.76
Nestlé Catering Services N.V.	Bruxelles	100%	EUR	10 535 500.00
Davigel Belgilux S.A.	Bruxelles	100%	EUR	1 487 361.15
Nestlé European Information Technology Operations (ITOC) Center S.A.	Bruxelles	100%	EUR	62 000.00
<b>Bulgaria</b>				
Nestlé Bulgaria A.D.	Sofia	99.97%	BGN	8 786 941.00
<b>Croatia</b>				
Nestlé Adriatic doo	Zagreb	100%	HRK	14 685 500.00
<b>Denmark</b>				
Nestlé Danmark A/S	Copenhagen	100%	DKK	42 000 000.00
Alcon Danmark A/S*	Rodovre	75.13%	DKK	500 000.00
Food Specialities A/S	Esbjerg	100%	DKK	13 095 000.00
<b>Spain</b>				
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.	Esplugues de Llobregat (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)	75.13%	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
<b>Finland</b>				
Suomen Nestlé Oy	Helsinki	100%	EUR	3 363 758.53
Kotijäätelö Oy	Helsinki	100%	EUR	500 000.00
Alcon Finland Oy*	Vantaa	75.13%	EUR	84 095.00
<b>France</b>				
Nestlé France S.A.S.	Noisiel	100%	EUR	129 130 560.00
Nestlé Grand Froid S.A.	Noisiel	100%	EUR	6 674 000.00
Nestlé Clinical Nutrition France S.A.S.	Noisiel	100%	EUR	57 943 072.00
Nestlé Produits Laitiers Frais S.A.	Noisiel	99.97%	EUR	3 196 200.00
Herta S.A.S.	Noisiel	100%	EUR	12 908 610.00
Davigel S.A.S.	Dieppe	100%	EUR	7 681 250.00
Nestlé Waters France S.A.S.	Issy-les-Moulineaux	100%	EUR	42 824 105.00
S.A. des Eaux Minérales de Ribeaupillé	Ribeaupillé	100%	EUR	846 595.13

Companies	City	% capital shareholdings	Currency	Capital
<b>Eau Minérale Naturelle de Plancoët</b>				
«Source Sassay» S.A.S.	Plancoët	100%	EUR	430 028.00
Nespresso France S.A.S.	Paris	100%	EUR	1 360 000.00
Laboratoires Alcon S.A.*	Rueil-Malmaison	75.13%	EUR	12 579 102.00
Nestlé Purina PetCare France S.A.S.	Rueil-Malmaison	100%	EUR	21 091 872.00
Nestlé HomeCare S.A.S.	Noisiel	100%	EUR	2 080 600.00
<b>Société Industrielle de Transformation de</b>				
Produits Agricoles «SITPA» S.A.S.	Dijon	100%	EUR	9 718 000.00
Schöller Glaces et Desserts S.A.S.	Vitry-sur-Seine	100%	EUR	1 232 598.00
Nestlé Waters Powwow France S.A.S.	Rungis	100%	EUR	8 864 000.00
Mistral Constructeur S.A.S.	Ris Orangis	100%	EUR	724 133.00
Houdebine S.A.S.	Pontivy	50%	EUR	726 000.00
<b>Greece</b>				
Nestlé Hellas S.A.	Maroussi	100%	EUR	18 437 936.00
Alcon Laboratories Hellas Commercial and Industrial S.A.*	Maroussi	75.13%	EUR	757 171.30
<b>Hungary</b>				
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	75.13%	HUF	75 000 000.00
Nestlé Ice Cream Hungária Kft.	Törökbálint	100%	HUF	3 762 470 000.00
Family Frost Kft.	Budaörs	100%	HUF	220 000 000.00
<b>Italy</b>				
Nestlé Italiana S.p.A.	Milano	100%	EUR	25 582 492.00
Sanpellegrino S.p.A.	Milano	100%	EUR	58 742 145.00
Alcon Italia S.p.A.*	Milano	75.13%	EUR	1 300 000.00
Nestlé Purina PetCare Italia S.p.A.	Milano	100%	EUR	10 000 000.00
Nespresso Italiana S.p.A.	Milano	100%	EUR	250 000.00
Faslog S.p.A.	Milano	100%	EUR	154 935.00
Acqua Cluadia S.r.l.	Milano	100%	EUR	7 910 000.00
Koiné S.p.A.	Madone (Bergamo)	51%	EUR	258 230.00
<b>Lithuania</b>				
UAB «Nestlé Baltics»	Vilnius	100%	LTL	110 000.00
<b>Malta</b>				
Nestlé Malta Ltd	Valletta	100%	MTL	50 000.00
<b>Norway</b>				
A/S Nestlé Norge	Sandvika	100%	NOK	81 250 000.00
Alcon Norge AS*	Sandvika	75.13%	NOK	100 000.00
Hjem-IS A/S	Oslo	100%	NOK	2 250 000.00



Companies	City	% capital shareholdings	Currency	Capital
<b>Netherlands</b>				
Nestlé Nederland B.V.	Amsterdam	100%	EUR	68 067 032.41
Alcon Nederland B.V.*	Gorinchem	75.13%	EUR	18 151.20
Nestlé Purina PetCare Nederland B.V.	Amsterdam	100%	EUR	18 152.00
Nespresso Nederland B.V.	Amsterdam	100%	EUR	680 670.00
Maître Paul B.V.	Tilburg	100%	EUR	4 991 582.38
Nestlé Waters Direct Netherlands B.V.	Zoetermee	100%	EUR	1 606 430.00
<b>Poland</b>				
Nestlé Polska S.A.	Warszawa	100%	PLN	50 000 000.00
Nestlé Waters Polska S.A.	Warszawa	100%	PLN	40 100 000.00
Alcon Polska Sp. z o.o.*	Warszawa	75.13%	PLN	750 000.00
Nestlé Ice Cream Polska Sp z o.o.	Warszawa	100%	PLN	34 995 500.00
Family Frost Polska Sp. z o.o.	Tychy	100%	PLN	8 203 815.75
<b>Portugal</b>				
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	75.13%	EUR	4 500 000.00
Family Frost – Gelados e Congelados Ltda.	Lisboa	100%	EUR	254 000.00
Pro lacto-Lactínicos de Sao Miguel S.A.	Ponta Delgada	100%	EUR	700 000.00
Nestlé Waters Direct Portugal – Comércio e Distribuicao de Produtos Alimentares S.A.	S. João da Talha	100%	EUR	1 000 000.00
<b>Republic of Ireland</b>				
Nestlé (Ireland) Ltd	Tallaght-Dublin	100%	EUR	3 530 600.00
<b>Czech Republic</b>				
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
<b>Romania</b>				
Nestlé Romania SRL	Bucharest	100%	RON	30 783 700.00
<b>United Kingdom</b>				
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*	Hemel Hempstead	75.13%	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	Croydon	100%	GBP	640.00
Nespresso UK Ltd	Croydon	100%	GBP	275 000.00

Companies	City	% capital shareholdings	Currency	Capital
<b>Russia</b>				
OJSC Confectionery Union Rossiya	Samara	100%	RUB	49 350 000.00
Nestlé Zhukovsky LLC	Zhukovsky	100%	RUB	184 379 441.00
Nestlé Food LLC	Moscow	100%	RUB	1 538 507 372.00
OJSC Confectionery Factory Kamskaya	Perm	87.35%	RUB	92 488.00
«Khladoprodukt» LLC	Timashevsk	100%	RUB	38 675.00
OJSC Confectionery Firm «Altai»	Barnaul	98.20%	RUB	167 000.00
Nestlé Vologda Baby Food LLC	Vologda	100%	RUB	17 499 000.00
Schöller Eiscrem GmbH	Moscow	100%	RUB	750 217.00
Alcon Farmaceutika LLC*	Moscow	75.13%	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	3 009 500.00
<b>Serbia</b>				
Nestlé Adriatic Foods doo	Belgrade	100%	CSD	52 022 596.00
<b>Slovakia</b>				
Nestlé Slovensko s.r.o.	Bratislava	100%	SKK	400 000 000.00
<b>Sweden</b>				
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	75.13%	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
Svenska Glasskiosken AB	Kristiansstad	100%	SEK	3 000 000.00
<b>Switzerland</b>				
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	75.13%	CHF	100 000.00
Nestradé – 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
Sofinol S.A.	Manno	80%	CHF	3 000 000.00
<b>Turkey</b>				
Nestlé Türkiye Gıda Sanayi A.S.	Istanbul	99.94%	TRY	34 831 152.71
Alcon Laboratuvarları Tic. A.S.*	Istanbul	75.13%	TRY	17 724 114.60
Nestlé Waters Gıda Ve Mesrubat Sanayi Ticaret A.S.	Istanbul	95%	TRY	8 000 000.00
<b>Ukraine</b>				
JSC Lviv Confectionery Firm «Svitoch»	Lviv	96.90%	UAH	88 111 060.00
LLC Nestlé Ukraine	Kyiv	100%	UAH	799 965.00
OJSC Volynholding	Torchyn	100%	UAH	100 000.00

Companies	City	% capital shareholdings	Currency	Capital
<b>Africa</b>				
<b>South Africa</b>				
Nestlé (South Africa) (Pty) Ltd	Randburg	100%	ZAR	51 200 000.00
Nestlé Purina (South Africa) (Pty) Ltd	Randburg	100%	ZAR	1 000.00
Alcon Laboratories (South Africa) Pty Ltd*	Randburg	75.13%	ZAR	201 820.00
Nestlé Waters (South Africa) (Pty) Ltd	Randburg	100%	ZAR	1 000.00
<b>Cameroon</b>				
Nestlé Cameroun	Douala	99.80%	XAF	1 300 000 000.00
<b>Côte d'Ivoire</b>				
• Nestlé Côte d'Ivoire	Abidjan	86.30%	XOF	5 517 600 000.00
<i>Listed on the Abidjan Stock Exchange, market capitalisation XOF 56 942 million, quotation code (ISIN) CI0009240728</i>				
Nestlé Sahel	Abidjan	100%	XOF	4 217 000 000.00
<b>Egypt</b>				
Nestlé Egypt S.A.E.	Cairo	100%	EGP	73 000 000.00
Société des eaux minérales Vittor S.A.E.	Cairo	99.16%	EGP	36 500 000.00
<b>Gabon</b>				
Nestlé Gabon	Libreville	90%	XAF	344 000 000.00
<b>Ghana</b>				
Nestlé Ghana Ltd	Tema-Accra	70%	GHC	1 000 000 000.00
<b>Guinea</b>				
Nestlé Guinée S.A.	Conakry	99%	GNF	3 424 000 000.00
<b>Kenya</b>				
Nestlé Foods Kenya Ltd	Nairobi	100%	KES	37 145 000.00
<b>Mauritius</b>				
Nestlé's Products (Mauritius) Ltd	Port Louis	100%	BSD	71 500.00
Nestlé South East Africa Trading Ltd	Port Louis	100%	USD	100.00
<b>Morocco</b>				
Nestlé Maroc S.A.	El Jadida	94.50%	MAD	156 933 000.00
<b>Mozambique</b>				
Nestlé Mozambique Limitada	Maputo	100%	MZM	4 000 000.00
<b>Niger</b>				
Nestlé Niger	Niamey	75%	XOF	10 000 000.00
<b>Nigeria</b>				
• Nestlé Nigeria PLC	Ilupeju-Lagos	62.32%	NGN	264 093 750.00
<i>Listed on the Lagos stock exchange, market capitalisation NGN 98 818 million, quotation code (ISIN) NG00000NSTL3</i>				

Companies	City	% capital shareholdings	Currency	Capital
<b>Senegal</b>				
Nestlé Sénégal	Dakar	100%	XOF	1 620 000 000.00
<b>Tunisia</b>				
Nestlé Tunisie	Tunis	59.20%	TND	8 438 280.00
<b>Zimbabwe</b>				
Nestlé Zimbabwe (Pvt) Ltd	Harare	100%	ZWD	7 000 000.00
<b>Americas</b>				
<b>Argentina</b>				
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	75.13%	ARS	7 176 282.00
<b>Bolivia</b>				
Nestlé Bolivia S.A.	La Paz	100%	BOB	190 000.00
<b>Brazil</b>				
Nestlé Brasil Ltda.	São Paulo	100%	BRL	468 208 970.00
Nestlé Waters Brasil – Bebidas e Alimentos Ltda.	Rio de Janeiro	100%	BRL	87 248 341.00
Alcon Laboratorios do Brasil Ltda.*	São Paulo	75.13%	BRL	7 729 167.00
Chocolates Garoto S.A.	Vila Velha-ES	100%	BRL	161 450 000.00
Ralston Purina do Brasil Ltda.	Ribeirão Preto	77%	BRL	79 473 771.00
<b>Canada</b>				
Nestlé Canada, Inc.	Toronto (Ontario)	100%	CAD	29 478 000.00
Alcon Canada, Inc.*	Mississauga (Ontario)	75.13%	CAD	5 002 500.00
<b>Chile</b>				
Nestlé Chile S.A.	Santiago de Chile	99.50%	CLP	11 832 926 051.00
Alcon Laboratorios Chile Ltda.*	Santiago de Chile	75.13%	CLP	9 750 000.00
<b>Colombia</b>				
Nestlé de Colombia S.A.	Bogotá	100%	COP	1 291 305 400.00
Laboratorios Alcon de Colombia S.A.*	Bogotá	75.13%	COP	20 872 000.00
Nestlé Purina PetCare de Colombia S.A.	Bogotá	100%	COP	17 030 000 000.00
Comestibles La Rosa S.A.	Bogotá	100%	COP	126 397 400.00
Distribuciones Lunes S.A.	Bogotá	100%	COP	6 000 000.00
<b>Costa Rica</b>				
Compañía Nestlé Costa Rica S.A.	Barreal de Heredia	100%	CRC	1 694 000 000.00
<b>Cuba</b>				
Los Portales S.A.	La Habana	50.02%	USD	24 110 000.00
Coralac S.A.	La Habana	60%	USD	6 350 000.00

Companies	City	% capital shareholdings	Currency	Capital
<b>Salvador</b>				
Nestlé El Salvador S.A. de C.V.	San Salvador	100%	SVC	39 000 000.00
Lacteos Finos de Centroamérica, S.A.	San Salvador	100%	SVC	22 573 000.00
<b>Ecuador</b>				
Nestlé Ecuador S.A.	Quito	100%	USD	188 497.00
Industrial Surindu S.A.	Quito	100%	USD	3 900 994.00
<b>United States</b>				
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.	Wilmington (Delaware)	100%	USD	1 000.00
Alcon Laboratories, Inc.*	Fort Worth (Texas)	75.13%	USD	1 000.00
Falcon Pharmaceuticals, Ltd.	Fort Worth (Texas)	75.13%	USD	0.00
Alcon (Puerto Rico), Inc.*	San Juan (Puerto Rico)	75.13%	USD	100.00
• Dreyer's Grand Ice Cream Holdings, Inc.	Oakland (California)	100%	USD	963 946.47
<i>On 17 January 2006, shares in Dreyer's Grand Ice Cream Holdings, Inc. ceased trading on the NASDAQ. See Note 36.</i>				
<b>Guatemala</b>				
Nestlé Guatemala S.A.	Mixco/Guatemala	100%	GTQ	23 460 600.00
<b>Honduras</b>				
Nestlé Hondureña S.A.	Tegucigalpa (Branch)	100%	USD	200 000.00
<b>Jamaica</b>				
Nestlé Jamaica Ltd	Kingston	100%	JMD	49 200 000.00
<b>Mexico</b>				
Nestlé México S.A. de C.V.	México, D. F.	100%	MXN	606 532 730.00
Alcon Laboratorios S.A. de C.V.*	México, D. F.	75.13%	MXN	5 915 300.00
Nescalín, S.A. de C.V.	México, D. F.	100%	MXN	445 826 740.00
Ralston Purina México S.A. de C.V.	México, D. F.	100%	MXN	9 257 111.80
Manantiales La Asunción, S.A. de C.V.	México, D. F.	100%	MXN	115 646 364.00
Nestlé Distribución, S.A. de C.V.	México, D. F.	100%	MXN	130 050 000.00
Nestlé Servicios, S.A. de C.V.	México, D. F.	100%	MXN	40 050 000.00
Marcas Nestlé, S.A. de C.V.	México, D. F.	100%	MXN	450 050 000.00
<b>Nicaragua</b>				
Productos Nestlé (Nicaragua) S.A.	Managua (Branch)	100%	USD	150 000.00
Compañía Centroamericana de Productos Lácteos, S.A.	Matagalpa	92%	USD	600 525.00

Companies	City	% capital shareholdings	Currency	Capital
<b>Panama</b>				
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
<b>Paraguay</b>				
Nestlé Paraguay S.A.	Asunción	100%	PYG	100 000 000.00
<b>Peru</b>				
Nestlé Perú S.A.	Lima	97.89%	PEN	88 535 000.00
<b>Puerto Rico</b>				
Nestlé Puerto Rico, Inc.	Catano	100%	USD	4 600 000.00
Payco Foods Corporation	Bayamon	100%	USD	9 260 000.00
<b>Dominican Republic</b>				
Nestlé Dominicana S.A.	Santo Domingo	97.60%	DOP	48 500 000.00
<b>Trinidad and Tobago</b>				
Nestlé Trinidad and Tobago Ltd	Valsayn	100%	TTD	35 540 000.00
Nestlé Caribbean, Inc.	Valsayn	100%	USD	100 000.00
<b>Uruguay</b>				
Nestlé del Uruguay S.A.	Montevideo	100%	UYU	200 000.00
<b>Venezuela</b>				
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	75.13%	VEB	2 366 000.00
<b>Asia</b>				
<b>Saudi Arabia</b>				
Saudi Food Industries Co. Ltd	Jeddah	51%	SAR	51 000 000.00
Al Manhal Water Factory Co. Ltd	Riyadh	64%	SAR	7 000 000.00
Springs Water Factory Co. Ltd	Dammam	75%	SAR	5 000 000.00
<b>Bangladesh</b>				
Nestlé Bangladesh Ltd	Dhaka	100%	BDT	1 100 000 000.00
<b>Cambodia</b>				
Nestlé Dairy (Cambodia) Ltd	Phnom Penh	80%	USD	5 000 000.00
<b>United Arab Emirates</b>				
Nestlé Middle East FZE	Dubai	100%	AED	3 000 000.00
<b>India</b>				
• Nestlé India Ltd	New Delhi	61.85%	INR	964 157 160.00
<i>Listed on the Mumbai and Delhi stock exchange, market capitalisation INR 90.3 billion, quotation code (ISIN) INE239A01016</i>				
Alcon Laboratories (India) Private Limited*	Bangalore	75.13%	INR	29 953 380.00

Companies	City	% capital shareholdings	Currency	Capital
<b>Indonesia</b>				
P.T. Nestlé Indonesia	Jakarta	90.24%	IDR	60 000 000 000.00
<b>Israel</b>				
• OSEM Investments Ltd	Petach-Tikva	53.77%	ILS	96 644 444.00
<i>Listed on the Tel-Aviv stock exchange, market capitalisation USD 818 million, quotation code (ISIN) IL0003040149</i>				
<b>Japan</b>				
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 Japan Administration Ltd	Kobe	100%	JPY	10 000 000.00
Alcon Japan Ltd*	Tokyo	75.13%	JPY	27 500 000.00
Nestlé Japan Manufacturing Ltd	Kobe	100%	JPY	10 000 000.00
Nestlé Vending K.K.	Osaka	100%	JPY	70 000 000.00
<b>Jordan</b>				
Nestlé Jordan Trading Co. Ltd	Amman	87%	JOD	410 000.00
<b>Kuwait</b>				
Nestlé Kuwait General Trading Co. W.L.L.	Safat/Kuwait	49%	KWD	300 000.00
<b>Lebanon</b>				
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
<b>Malaysia</b>				
• Nestlé (Malaysia) Bhd.	Petaling Jaya	72.46%	MYR	234 500 000.00
<i>Listed on the KLSE, market capitalisation MYR 5.7 billion, quotation code (ISIN) MYL470700005</i>				
Nestlé Foods (Malaysia) Sdn. Bhd.	Petaling Jaya	72.46%	MYR	100 000 000.00
Nestlé Products Sdn. Bhd.	Petaling Jaya	72.46%	MYR	25 000 000.00
Nestlé Asean (Malaysia) Sdn. Bhd.	Petaling Jaya	72.46%	MYR	42 000 000.00
Nestlé Manufacturing (Malaysia) Sdn. Bhd.	Petaling Jaya	72.46%	MYR	32 500 000.00
Purina PetCare (Malaysia) Sdn. Bhd.	Petaling Jaya	100%	MYR	1 100 000.00
Alcon Laboratories (Malaysia) Sdn. Bhd.*	Petaling Jaya	75.13%	MYR	190 000.00
<b>Oman</b>				
Nestlé Oman Trading LLC	Muscat	49%	OMR	300 000.00
<b>Pakistan</b>				
• Nestlé Pakistan Ltd	Lahore	59%	PKR	452 731 000.00
<i>Listed on the Karachi and Lahore stock exchange, market capitalisation PKR 34 860 million, quotation code NESTLE</i>				

Companies	City	% capital shareholdings	Currency	Capital
<b>Philippines</b>				
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
<b>Republic of Korea</b>				
Nestlé Korea Ltd	Seoul	100%	KRW	17 033 060 000.00
Alcon Korea Ltd*	Seoul	75.13%	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
<b>Greater China Region</b>				
Nestlé (China) Limited	Beijing	100%	CNY	250 000 000.00
Nestlé Shuangcheng Limited	Shuangcheng	97.01%	CNY	435 000 000.00
Nestlé Dongguan Limited	Dongguan	100%	CNY	472 000 000.00
Nestlé Tianjin Limited	Tianjin	100%	CNY	785 000 000.00
Nestlé Qingdao Limited	Qingdao	100%	CNY	640 000 000.00
Nestlé Shanghai Limited	Shanghai	95%	CNY	200 000 000.00
Nestlé Dairy Farm Guangzhou Limited	Guangzhou	95.04%	CNY	268 000 000.00
Guangzhou Refrigerated Foods Limited	Guangzhou	96.44%	CNY	122 000 000.00
Shanghai Fuller Foods Co. Limited	Shanghai	100%	CNY	384 000 000.00
Shanghai Nestlé Product Services Limited	Shanghai	97%	CNY	83 000 000.00
Shanghai Totole Flavouring Food Co. Limited	Shanghai	80%	USD	7 800 000.00
Nestlé Sources Shanghai Limited	Shanghai	100%	CNY	211 000 000.00
Nestlé Sources Tianjin Limited	Tianjin	93.58%	CNY	159 000 000.00
Nestlé Hong Kong Limited	Hong Kong	100%	HKD	250 000 000.00
Sichuan Haoji Food Co. Limited	Chengdu (Head Office)	60%	CNY	80 000 000.00
Alcon Medical Device (Shanghai) Co. Limited*	Shanghai	75.13%	USD	200 000.00
Alcon Hong Kong Limited*	Hong Kong	75.13%	HKD	77 000.00
Nestlé Taiwan Limited	Taipei	100%	TWD	300 000 000.00
Alcon Pharmaceuticals Limited*	Taipei (Branch)	75.13%	CHF	100 000.00
Nestlé Hulunbeir Limited	Erguna	100%	CNY	55 000 000.00
Nestlé Purina PetCare Shanghai Limited	Shanghai	100%	CNY	2 000 000.00
<b>Qatar</b>				
Nestlé Qatar Trading LLC	Doha	49%	QAR	1 680 000.00
<b>Kingdom of Bahrain</b>				
Nestlé Bahrain Trading WLL	Manama, Bahrain	49%	BHD	200 000.00
<b>Singapore</b>				
Nestlé Singapore (Pte) Ltd	Singapore	100%	SGD	1 000 000.00



Companies	City	% capital shareholdings	Currency	Capital
<b>Sri Lanka</b>				
• Nestlé Lanka Ltd	Colombo	90.82%	LKR	537 254 630.00
<i>Listed on the Colombo stock exchange, market capitalisation LKR 6 billion, quotation code (ISIN) LK0128N00005</i>				
International Dairy Products (Pvt) Ltd	Colombo	90.82%	LKR	30 000 000.00
Eastern Food Specialities (Pvt) Ltd	Colombo	90.82%	LKR	20 000 000.00
<b>Syria</b>				
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
<b>Thailand</b>				
Nestlé Products (Thailand), Inc.	Bangkok (Branch)	100%	USD	1 000 000.00
Quality Coffee Products Ltd	Bangkok	50%	THB	400 000 000.00
Nestlé Foods (Thailand) Ltd	Bangkok	100%	THB	700 000 000.00
Nestlé Trading (Thailand) Ltd	Bangkok	100%	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	75.13%	THB	2 100 000.00
<b>Vietnam</b>				
Nestlé Vietnam Ltd	Bien Hoa	100%	USD	38 598 000.00
La Vie Joint Venture Company	Long An	65%	USD	2 663 400.00
<b>Oceania</b>				
<b>Australia</b>				
Nestlé Australia Ltd	Sydney	100%	AUD	274 000 000.00
Petersville Australia Limited	Melbourne	100%	AUD	84 702 714.00
Alcon Laboratories (Australia) Pty Ltd*	Frenchs Forest	75.13%	AUD	2 550 000.00
<b>Fiji</b>				
Nestlé (Fiji) Ltd	Ba	100%	FJD	3 000 000.00
<b>New Zealand</b>				
Nestlé New Zealand Limited	Auckland	100%	NZD	300 000.00
<b>Papua-New Guinea</b>				
Nestlé (PNG) Pty Ltd	Lae	100%	PGK	11 850 000.00
<b>French Polynesia</b>				
Nestlé Polynésie S.A.	Papeete	100%	XPF	5 000 000.00
<b>New Caledonia</b>				
Nestlé Nouvelle-Calédonie S.A.	Noumea	100%	XPF	250 000 000.00

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

Companies	City	% capital shareholdings	Currency	Capital
<b>Europe</b>				
<b>Germany</b>				
C.P.D. Cereal Partners				
Deutschland GmbH & Co. OHG	Frankfurt am Main	50%	EUR	511 291.88
Galderma Laboratorium GmbH*	Düsseldorf	50%	EUR	800 000.00
<b>Austria</b>				
C.P.A. Cereal Partners Handelsgesellschaft				
M.B.H. & Co. OHG	Wien	50%	EUR	145 345.64
<b>Spain</b>				
Cereal Partners España S.A.				
	Esplugues de Llobregat (Barcelona)	50%	EUR	120 212.42
Laboratorios Galderma S.A. *	Madrid	50%	EUR	432 480.00
<b>France</b>				
Cereal Partners France				
	Noisiel	50%	EUR	3 000 000.00
Galderma International SAS*	Courbevoie	50%	EUR	879 000.00
<b>Greece</b>				
C.P. Hellas E.E.I.G.				
	Maroussi	50%	EUR	146 735.14
<b>Hungary</b>				
Cereal Partners Hungaria Kft.				
	Budapest	50%	HUF	22 000 000.00
<b>Italy</b>				
Galderma Italia S.p.A.*				
	Milano	50%	EUR	112 000.00
<b>Poland</b>				
Cereal Partners Poland Torun-Pacific Sp. z o.o.				
	Torun	50%	PLN	14 572 838.00
<b>Portugal</b>				
Cereal Associados Portugal A.E.I.E.				
	Oeiras	50%	EUR	99 759.58
<b>Czech Republic</b>				
Cereal Partners Czech Republic				
	Praha	50%	CZK	23 100 000.00
<b>Russia</b>				
Cereal Partners Trading, LLC				
	Moscow	50%	RUB	5 000 000.00
<b>Sweden</b>				
Galderma Nordic AB*				
	Bromma	50%	SEK	67 700 000.00

Companies	City	% capital shareholdings	Currency	Capital
<b>United Kingdom</b>				
Cereal Partners U.K.	Welwyn Garden	50%	GBP	0.00
Galderma (U.K.) Ltd*	Herts	50%	GBP	1 500 000.00
<b>Switzerland</b>				
Beverage Partners Worldwide (Europe) AG	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
<b>Turkey</b>				
Cereal Partners Gıda Ticaret Limited Sirketi	Istanbul	50%	TRY	20 000.00
<b>Americas</b>				
<b>Argentina</b>				
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
<b>Brazil</b>				
Galderma Brasil Limitada*	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
<b>Colombia</b>				
Dairy Partners Americas Manufacturing Colombia Ltda.	Bogotá	50%	COP	200 000 000.00
<b>Canada</b>				
Galderma Canada Inc.*	Thornhill (Ontario)	50%	CAD	100.00
<b>Chile</b>				
Cereales CPW Chile Ltda	Santiago de Chile	50%	CLP	3 026 156 114.00
<b>Ecuador</b>				
Dairy Partners Americas Del Ecuador S.A.	Quito	50%	USD	90 000.00
Latinova S.A.	Quito	50%	USD	10 000.00
Ecuajugos S.A.	Quito	50%	USD	122 000.00
<b>United States</b>				
Beverage Partners Worldwide (North America)	Wilmington (Delaware)	50%	USD	0.00
Galderma Laboratories, Inc.*	Fort Worth (Texas)	50%	USD	981.00

Companies	City	% capital shareholdings	Currency	Capital
<b>Mexico</b>				
CPW México S. de R.L. de C.V.	México, D. F.	50%	MXN	132 504 000.00
Cereal Partners México, S.A. de C.V.	México, D. F.	50%	MXN	500 000.00
Galderma México S.A. de C.V.*	México, D. F.	50%	MXN	2 385 000.00
<b>Venezuela</b>				
Corporación Inlaca, C.A.	Caracas	50%	VEB	6 584 590 000.00
<b>Asia</b>				
<b>Dubai</b>				
CP Middle East FZCO	Jebel Ali Free Zone Dubai	50%	AED	600 000.00
<b>Indonesia</b>				
P.T. Cereal Partners Indonesia	Jakarta	50%	IDR	956 500 000.00
P.T. AdeS Waters Indonesia	Jakarta	34%	IDR	149 720 000 000.00
P.T. Nestlé Indofood Citarasa Indonesia	Jakarta	50%	IDR	50 000 000 000.00
<b>Malaysia</b>				
Cereal Partners (Malaysia) Sdn. Bhd.	Petaling Jaya	50%	MYR	1 025 000.00
Beverage Partners Worldwide (Malaysia) Sdn. Bhd.	Petaling Jaya	50%	MYR	500 000.00
<b>Greater China Region</b>				
Beverage Partners Worldwide (Pacific) Limited	Hong Kong	50%	HKD	1 000 000.00
<b>Philippines</b>				
CPW Philippines, Inc.	Makati City	50%	PHP	7 500 000.00
<b>Republic of Korea</b>				
Beverage Partners Worldwide Korea Ltd.	Seoul	50%	KRW	50 000 000.00
Galderma Korea Ltd.*	Seoul	50%	KRW	500 000 000.00
<b>Thailand</b>				
Beverage Partners Worldwide (Thailand) Ltd.	Bangkok	49%	THB	20 000 000.00
<b>Oceania</b>				
<b>Australia</b>				
Galderma Australia Pty Ltd.*	Frenchs Forest	50%	AUD	2 700 100.00
CPW Australia	Rhodes	50%	AUD	0.00

Companies	City	% capital shareholdings	Currency	Capital
-----------	------	-------------------------	----------	---------

### 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	10 250 000.00
Trinks GmbH	Goslar	49%	EUR	2 360 000.00
Trinks Süd GmbH	München	49%	EUR	260 000.00

France				
• L'Oréal S.A.*	Paris	28.78%	EUR	131 753 932.00
<i>Listed on the Paris stock exchange, market capitalisation EUR 41 billion, quotation code (ISIN) FR0000120321</i>				

Société de Bouchages Emballages				
Conditionnement Moderne	Lavardac	50%	EUR	10 200 000.00

Argentina				
Union Sancor C.U.L./DPAA Union Transitoria de Empresas	Buenos Aires	25%	ARS	1 000 000.00

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

### 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
Nestlé Versorgungskasse GmbH	Frankfurt am Main	100%	EUR	60 000.00

Austria				
Nestlé Austria Holding GmbH	Wien	100%	EUR	7 270 000.00

Belgium				
Centre de Coordination Nestlé S.A.	Bruxelles	100%	EUR	7 596 391 600.00
N.V. Alcon Coordination Center*	Puurs	75.13%	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

Companies	City	% capital shareholdings	Currency	Capital
<b>France</b>				
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 Menier	Noisiel	99.98%	EUR	53 964 945.00
<b>Italy</b>				
Nestlé Finanziaria Italia SpA	Milano	100%	EUR	5 000 000.00
<b>Luxemburg</b>				
Nestlé Waters Powwow European Investments				
Sàrl	Luxemburg	100%	EUR	12 525.00
Compagnie Financière du Haut-Rhin	Luxemburg	100%	EUR	105 200 000.00
NTC-Europe S.A.	Luxemburg	100%	EUR	3 565 000.00
<b>Netherlands</b>				
East Springs International N.V.	Amsterdam	100%	EUR	25 370 000.00
<b>United Kingdom</b>				
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	Croydon	100%	GBP	6 500 001.00
<b>Switzerland</b>				
Entreprises Maggi S.A.	Cham	100%	CHF	100 000.00
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	75.13%	CHF	62 911 820.60
<i>Listed on the New York stock exchange, market capitalisation USD 39 760 million, 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-Latin America S.A.	Cham	100%	CHF	500 000.00
Beverage Partners Worldwide S.A.	Urdorf	50%	CHF	14 000 000.00
Nutrition-Wellness Venture AG	Zürich	100%	CHF	100 000.00
Nestlé Business Services S.A.	Bussigny-près-Lausanne	100%	CHF	100 000.00
<b>Americas</b>				
<b>Barbados</b>				
Lacven Corporation	Barbados	50%	USD	65 179 195.00
<b>Bermuda</b>				
Centram Holdings Ltd	Hamilton	100%	USD	12 000.00
DPA Manufacturing Holding Ltda		50%	USD	23 639 630.00

Companies	City	% capital shareholdings	Currency	Capital
<b>Canada</b>				
Nestlé Capital Canada Ltd	Toronto (Ontario)	100%	CAD	1 010.00
Nestlé Globe, Inc.	Toronto (Ontario)	100%	CAD	106 000 100.00
<b>Ecuador</b>				
Neslandina S.A.	Quito	100%	USD	17 043 150.00
<b>United States</b>				
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)	75.13%	USD	1 000.00
Alcon Holdings, Inc.*	Fort Worth (Texas)	75.13%	USD	12.10
The Stouffer Corporation	Solon (Ohio)	100%	USD	0.00
TSC Holdings, Inc.	Glendale (California)	100%	USD	100 000.00
<b>Mexico</b>				
Ralston Purina Holdings México, S.A. de C.V.	México, D. F.	100%	MXN	254 414 750.00
<b>Panama</b>				
Unilac, Inc.	Panamá City	100%	USD	750 000.00
Alcon Capital and Investment Panama, S.A.*	Panamá City	75.13%	USD	1 000.00
Food Products (Holdings) S.A.	Panamá City	100%	PAB	286 000.00
<b>Asia</b>				
<b>Singapore</b>				
Nestlé TC Asia Pacific (Pte) Ltd	Singapore	100%	SGD	2.00

---

Companies

City

---

## Technical assistance, research and development companies

### Switzerland

---

Nestec S.A.	Vevey
-------------	-------

---

Technical, scientific, commercial and business assistance company whose units, specialised in all areas of the business, supply permanent know-how and assistance to operating companies in the Group within the framework of licence and equivalent contracts. It is also responsible for all scientific research and technological development, which it undertakes itself or has done on its behalf by its subsidiary companies. The companies and units involved are:

### Research centres

#### France

---

Nestlé Research Centre Plant Science	Tours
--------------------------------------	-------

---

#### Switzerland

---

Nestlé Research Center	Lausanne
------------------------	----------

---

### Product Technology Centres and Research & Development centres

#### Germany

---

Nestlé Product Technology Centre Lebensmittelforschung GmbH	Singen
--	--------

---

#### Greater China Region

---

Nestlé R&D Center Shanghai Limited	Shanghai
------------------------------------	----------

---

#### United States

---

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.*	Cranbury (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.*	Biot
Nestlé Waters PTC, Vittel	Paris

---

#### United Kingdom

---

Nestlé Product Technology Centre	York
----------------------------------	------

---

#### Israel

---

Nestlé R&D Centre Sderot, Ltd.	Sderot
--------------------------------	--------

---

#### Singapore

---

Nestlé R&D Center (Pte) Ltd	Singapore
-----------------------------	-----------

---

#### Switzerland

---

Nestlé Product Technology Centre	Konolfingen
Nestlé Product Technology Centre	Orbe

---



# 139th Annual Report of Nestlé S.A.

88	<b>Income statement for the year ended 31 December 2005</b>
89	<b>Balance sheet as at 31 December 2005</b>
90	<b>Annex to the annual accounts of Nestlé S.A.</b>
90	Accounting policies
92	Notes to the annual accounts
99	<b>Proposed appropriation of profit</b>
100	<b>Report of the statutory auditors</b>

# Income statement for the year ended 31 December 2005

In millions of CHF	Notes	2005	2004
<b>Income</b>			
Income from Group companies	1	4 500	3 301
Financial income	2	743	175
Profit on disposal of fixed assets	3	22	41
Other income		24	24
<b>Total income</b>		<b>5 289</b>	<b>3 541</b>
<b>Expenses</b>			
Investment write downs	4	187	262
Administration and other expenses	5	126	134
Financial expense	6	112	92
<b>Total expenses before taxes</b>		<b>425</b>	<b>488</b>
<b>Profit before taxes</b>		<b>4 864</b>	<b>3 053</b>
Taxes	7	426	209
<b>Profit for the year</b>	19	<b>4 438</b>	<b>2 844</b>

# Balance sheet as at 31 December 2005

before appropriations

In millions of CHF	Notes	2005	2004
<b>Assets</b>			
<b>Current assets</b>			
Liquid assets	8	3 448	2 970
Receivables	9	1 097	627
Prepayments and accrued income		123	17
<b>Total current assets</b>		<b>4 668</b>	<b>3 614</b>
<b>Fixed assets</b>			
Financial assets	10	28 538	27 968
Intangible assets	13	-	-
Tangible fixed assets	14	-	-
<b>Total fixed assets</b>		<b>28 538</b>	<b>27 968</b>
<b>Total assets</b>		<b>33 206</b>	<b>31 582</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Short term payables	15	5 381	3 721
Accruals and deferred income		256	114
Long term payables	16	239	229
Provisions	17	1 509	3 021
<b>Total liabilities</b>		<b>7 385</b>	<b>7 085</b>
<b>Equity</b>			
Share capital	18/19	404	404
Legal reserves	19	6 392	6 392
Special reserve	19	14 587	14 856
Retained earnings	19	4 438	2 845
<b>Total equity</b>		<b>25 821</b>	<b>24 497</b>
<b>Total liabilities and equity</b>		<b>33 206</b>	<b>31 582</b>

# Annex to the annual accounts of Nestlé S.A.

## Accounting policies

### General

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

### Foreign currency translation

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

### Hedging

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

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

### Income statement

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

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

### Taxes

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

### Financial assets

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

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

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

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

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

#### Intangible assets

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

#### Tangible fixed assets

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

#### Provisions

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

#### Employee benefits

Employees are eligible for retirement benefits under a defined 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	2005	2004
Net result on loans to Group companies	595	59
Other	148	116
	743	175

The significant improvement in interest income results mainly from the strengthening of foreign currencies against the Swiss Franc and its impact on the net result on loans to Group Companies. Last year, the opposite situation led to substantial unrealised exchange losses.

## 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	2005	2004
Participations and loans	148	–
Trademarks and other industrial property rights	39	262
	187	262

## 5. Administration and other expenses

In millions of CHF	2005	2004
Salaries and welfare expenses	64	58
Other expenses	62	76
	126	134

## 6. Financial expense

In millions of CHF	2005	2004
Interest on loans from Group companies	93	91
Other	19	1
	<b>112</b>	<b>92</b>

## 7. Taxes

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

## 8. Liquid assets

In millions of CHF	2005	2004
Cash and cash equivalents	396	699
Short term investments	–	74
Marketable securities	3 052	2 197
	<b>3 448</b>	<b>2 970</b>

## 9. Receivables

In millions of CHF	2005	2004
Amounts owed by Group companies (current accounts)	797	538
Other receivables	300	89
	<b>1 097</b>	<b>627</b>

## 10. Financial assets

In millions of CHF	2005	2004
Participations in Group companies (see note 11)	14 734	16 107
Loans to Group companies (see note 12)	12 376	10 477
Own shares	1 414	1 085
Other investments	14	299
	<b>28 538</b>	<b>27 968</b>

Own shares of the Company are

- held in order to allow the exercise of option rights by members of the Group's Management (244 770 options were outstanding at the close of 2005, all of which may be exercised in the year 2006);
- repurchased for the buy-back programmes
  - first programme (completed) : 2 784 300 shares at a cost of CHF 1000 million;
  - second programme (current) : 875 000 shares at a cost of CHF 344 million.

## 11. Participations in Group companies

In millions of CHF	2005	2004
At 1 January	16 107	13 814
Net increase	1 082	2 495
Write downs	(2 455)	(202)
<b>At 31 December</b>	<b>14 734</b>	<b>16 107</b>

The net increase in participations represents in particular

- additional funding, through capital increases, of a number of Group companies mainly in Luxemburg and Great Britain;
- 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 Financial Statements of the Nestlé Group".



## 12. Loans to Group companies

In millions of CHF	2005	2004
At 1 January	10 477	10 397
New loans	1 776	1 400
Repayments and write downs	(859)	(792)
Realised exchange differences	(17)	(5)
Unrealised exchange differences	999	(523)
At 31 December	12 376	10 477

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

## 13. Intangible assets

All intangible assets have been fully written off.

## 14. Tangible fixed assets

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

The fire insurance value of buildings, furniture and office equipment at 31 December 2005 and 2004 amounted to CHF 25 million and 22 million, respectively.

## 15. Short term payables

In millions of CHF	2005	2004
Amounts owed to Group companies	5 230	3 697
Other payables	151	24
	5 381	3 721

## 16. Long term payables

Amounts owed to Group companies represent a long-term loan issued in 1989. The carrying value increased by CHF 10 million to CHF 239 million as a result of an unrealised exchange difference arising in 2005.

## 17. Provisions

In millions of CHF						2005	2004
	Fiscal rollover "remploi"	Uninsured risks	Exchange risks	Swiss & foreign taxes	Other	Total	Total
At 1 January	2 455	475	–	57	34	3 021	3 229
Provisions made in the period			864	132	30	1 026	79
Amounts used	(2 455)			(48)	(25)	(2 528)	(273)
Unused amounts reversed				(8)	(2)	(10)	(14)
<b>At 31 December</b>	<b>–</b>	<b>475</b>	<b>864</b>	<b>133</b>	<b>37</b>	<b>1 509</b>	<b>3 021</b>

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 has been fully utilised during the year for the write down of participations acquired in 2005 and previous years.

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

## 18. Share capital

	2005	2004
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 2005, the Share Register showed 115 765 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.

## 19. Changes in equity

In millions of CHF

	Share capital	General reserve <sup>(a)</sup>	Reserve for own shares <sup>(a)(b)</sup>	Special reserve	Retained earnings	Total
At 1 January 2005	404	3 773	2 619	14 856	2 845	24 497
Transfer from the special reserve				(343)	343	-
Profit for the year					4 438	4 438
Dividend for 2004					(3 114)	(3 114)
Movement of own shares		3	(3)			-
Dividend on own shares held on the payment date of 2004 dividend				28	(28)	-
Dividend on own shares in respect of which the corresponding option rights were not exercised by the payment date of 2004 dividend				46	(46)	-
<b>At 31 December 2005</b>	<b>404</b>	<b>3 776</b>	<b>2 616</b>	<b>14 587</b>	<b>4 438</b>	<b>25 821</b>

<sup>(a)</sup> The general reserve and the reserve for own shares constitute the legal reserves.

<sup>(b)</sup> See Note 20

## 20. Reserve for own shares

At 31 December 2004, the reserve for own shares amounting to CHF 2619 million, represented the cost of 7 808 609 freely available shares acquired by a Group company (of which, 6 073 311 shares were reserved to cover options rights granted since 2001 in favour of members of the Group's Management), as well as 572 330 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 4 262 759 shares held for trading purposes.

During the year, a total of 4 309 660 shares have been acquired at a cost of CHF 1553 million (of which, 2 784 300 shares repurchased at a cost of CHF 1000 million for the first buy-back programme completed in October and 875 000 shares at a cost of CHF 344 million for the second programme initiated in November) and 3 903 454 shares have been sold for a total amount of CHF 1298 million (including 764 967 that represented shares for which options were exercised during the year). Moreover, 1 287 940 shares (CHF 360 million) have been delivered against warrants at the maturity of a bond issue of an affiliated company.

At 31 December 2005, 7 779 983 freely available shares were held by a Group company at an acquisition cost of CHF 26 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, the Restricted Stock Unit Plan and the Management Stock Option Plan 2001 onwards, under which a total of 5 626 061 options was outstanding at 31 December 2005). 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, 3 659 300 shares were repurchased for the buy-back programmes, 1 372 101 shares were held for trading purposes, 244 770 shares were reserved to cover Management option rights granted before 2001 and 2 230 300 shares were earmarked to cover warrants attached to a bond issue 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 15 286 454 own shares held at 31 December 2005 represents 3.8% of the Nestlé S.A. share capital (16 168 188 own shares were held at 31 December 2004, representing 4.0% of Nestlé S.A.'s share capital).

## 21. Contingencies

At 31 December 2005 and 2004, 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 13 703 million and CHF 12 275 million, respectively.

## Proposed appropriation of profit

In CHF	2005	2004
<b>Retained earnings</b>		
Balance brought forward	383 115	615 026
Profit for the year	4 437 571 693	2 844 070 921
	<b>4 437 954 808</b>	<b>2 844 685 947</b>
<b>We propose the following appropriations:</b>		
Transfer from the special reserve	-	(343 000 000)
Dividend for 2005, CHF 9.– per share on 388 233 546 shares (2004: CHF 8.– on 387 351 812 shares)	3 494 101 914	3 098 814 496
Dividend for 2005, CHF 9.– per share on 4 007 359 shares reserved for the option rights which may be exercised in the year 2006, on 2 230 300 shares to cover warrants and on 1 372 101 shares held for trading purposes <sup>(a)</sup> (2004: CHF 8.– on 11 061 042 shares)	68 487 840	88 488 336 <sup>(b)</sup>
	<b>3 562 589 754</b>	<b>2 844 302 832</b>
<b>Balance to be carried forward</b>	<b>875 365 054</b>	<b>383 115</b>

<sup>(a)</sup> 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.

<sup>(b)</sup> Of the total of CHF 88 488 336, CHF 14 934 720 were actually paid as dividends, whilst the balance of CHF 73 553 616 has been transferred to the special reserve.

If you accept this proposal, the gross dividend will amount to CHF 9.– per share. After deduction of the federal withholding tax of 35%, a net amount of CHF 5.85 per share will be payable as from Wednesday, 12 April 2006, by bank transfer to the shareholders account or by cheque, in accordance with instructions received from the shareholders.

*Cham and Vevey, 22 February 2006*  
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 2005.

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

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

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

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

 Klynveld Peat Marwick Goerdeler SA



Scott Cormack  
Auditor in charge



Stéphane Gard

London and Zurich, 22 February 2006