2010 Financial Statements

Nestlé

Good Food, Good Life

Consolidated Financial Statements of the Nestlé Group

144th Financial Statements of Nestlé S.A.

Consolidated Financial Statements of the Nestlé Group

43 **Principal exchange rates**

44 **Consolidated income statement for the year ended 31 December 2010**

45 **Consolidated statement of comprehensive income for the year ended 31 December 2010**

46 **Consolidated balance sheet as at 31 December 2010**

48 **Consolidated cash flow statement for the year ended 31 December 2010**

49 **Consolidated statement of changes in equity for the year ended 31 December 2010**

50 **Notes**

50 1. Accounting policies
62 2. Acquisitions, disposals and discontinued operations
66 3. Analyses by segment
70 4. Net other income/(expenses)
71 5. Inventories
71 6. Trade and other receivables
72 7. Property, plant and equipment
74 8. Goodwill
78 9. Intangible assets
80 10. Employee benefits
85 11. Equity compensation plans
88 12. Provisions and contingencies
90 13. Net financing cost and financial instruments
102 14. Taxes
104 15. Associates
105 16. Earnings per share
105 17. Cash flow statement
107 18. Equity
109 19. Lease commitments
110 20. Transactions with related parties
111 21. Joint ventures
111 22. Guarantees
112 23. Group risk management
113 24. Events after the balance sheet date
113 25. Group companies

114 **Report of the Statutory Auditor on the Consolidated Financial Statements**

116 **Financial information – 5 year review**

118 **Companies of the Nestlé Group**

Principal exchange rates

CHF per		2010	2009	2010	2009
		Year ending rates		Weighted average annual rates	
1 US Dollar	USD	0.938	1.031	1.045	1.083
1 Euro	EUR	1.253	1.486	1.380	1.510
1 Pound Sterling	GBP	1.454	1.663	1.606	1.692
100 Brazilian Reais	BRL	56.291	59.220	59.141	54.981
100 Japanese Yen	JPY	1.153	1.119	1.188	1.158
100 Mexican Pesos	MXN	7.568	7.877	8.241	8.029
1 Canadian Dollar	CAD	0.938	0.982	1.012	0.956
1 Australian Dollar	AUD	0.955	0.928	0.957	0.857
100 Philippine Pesos	PHP	2.146	2.231	2.313	2.281
100 Chinese Yuan Renminbi	CNY	14.227	15.101	15.362	15.861

Consolidated income statement for the year ended 31 December 2010

In millions of CHF	Notes	2010 Continuing operations	2010 Discontinued operations (a)	2010 Total	2009 Continuing operations	2009 Discontinued operations (a)	2009 Total
Sales	3	**104 613**	**5 109**	**109 722**	**100 579**	**7 039**	**107 618**
Cost of goods sold		(44 775)	(1 074)	(45 849)	(43 467)	(1 741)	(45 208)
Distribution expenses		(8 385)	(125)	(8 510)	(8 237)	(183)	(8 420)
Marketing and administration expenses		(36 012)	(1 276)	(37 288)	(34 296)	(1 974)	(36 270)
Research and development costs		(1 403)	(478)	(1 881)	(1 357)	(664)	(2 021)
EBIT Earnings Before Interest, Taxes, restructuring and impairments	3	**14 038**	**2 156**	**16 194**	**13 222**	**2 477**	**15 699**
Other income	4	206	24 535	24 741	466	43	509
Other expenses	4	(2 101)	(14)	(2 115)	(1 196)	(42)	(1 238)
Profit before interest and taxes		**12 143**	**26 677**	**38 820**	**12 492**	**2 478**	**14 970**
Financial income	13	72	22	94	123	56	179
Financial expense	13	(834)	(13)	(847)	(777)	(17)	(794)
Profit before taxes and associates		**11 381**	**26 686**	**38 067**	**11 838**	**2 517**	**14 355**
Taxes	14	(3 343)	(350)	(3 693)	(3 087)	(275)	(3 362)
Share of results of associates	15	1 010	–	1 010	800	–	800
Profit for the year		**9 048**	**26 336**	**35 384**	**9 551**	**2 242**	**11 793**
of which attributable to non-controlling interests		271	880	1 151	291	1 074	1 365
of which attributable to shareholders of the parent (Net profit)		8 777	25 456	34 233	9 260	1 168	10 428
As percentages of sales							
EBIT Earnings Before Interest, Taxes, restructuring and impairments		13.4%	42.2%	14.8%	13.1%	35.2%	14.6%
Profit for the year attributable to shareholders of the parent (Net profit)				31.2%			9.7%
Earnings per share (in CHF)							
Basic earnings per share	16	2.60	7.56	10.16	2.59	0.33	2.92
Fully diluted earnings per share	16	2.60	7.52	10.12	2.58	0.33	2.91

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

Consolidated statement of comprehensive income for the year ended 31 December 2010

In millions of CHF	2010	2009
Profit for the year recognised in the income statement	**35 384**	**11 793**
Currency retranslations	(4 801)	(217)
Fair value adjustments on available-for-sale financial instruments		
– Unrealised results	227	182
– Recognition of realised results in the income statement	(10)	(15)
Fair value adjustments on cash flow hedges		
– Recognised in hedging reserve	704	196
– Removed from hedging reserve	(752)	269
Actuarial gains/(losses) on defined benefit schemes	(153)	(1 672)
Share of other comprehensive income of associates	(89)	333
Taxes	268	90
Other comprehensive income for the year	**(4 606)**	**(834)**
Total comprehensive income for the year	**30 778**	**10 959**
of which attributable to non-controlling interests	941	1 247
of which attributable to shareholders of the parent	29 837	9 712

Consolidated balance sheet as at 31 December 2010

before appropriations

In millions of CHF	Notes	2010	2009
Assets			
Current assets			
Cash and cash equivalents	13/17	8 057	2 734
Short-term investments	13	8 189	2 585
Inventories	5	7 925	7 734
Trade and other receivables	6/13	12 083	12 309
Prepayments and accrued income		748	589
Derivative assets	13	1 011	1 671
Current income tax assets		956	1 045
Assets held for sale [a]		28	11 203
Total current assets		**38 997**	**39 870**
Non-current assets			
Property, plant and equipment	7	21 438	21 599
Goodwill	8	27 031	27 502
Intangible assets	9	7 728	6 658
Investments in associates	15	7 914	8 693
Financial assets	13	6 366	3 949
Employee benefits assets	10	166	230
Current income tax assets		90	213
Deferred tax assets	14	1 911	2 202
Total non-current assets		**72 644**	**71 046**
Total assets		**111 641**	**110 916**

(a) Mainly Alcon in 2009.

In millions of CHF	Notes	2010	2009
Liabilities and equity			
Current liabilities			
Financial debt	13	12 617	14 438
Trade and other payables	13	12 592	13 033
Accruals and deferred income		2 798	2 779
Provisions	12	601	643
Derivative liabilities	13	456	1 127
Current income tax liabilities		1 079	1 173
Liabilities directly associated with assets held for sale [(a)]		3	2 890
Total current liabilities		**30 146**	**36 083**
Non-current liabilities			
Financial debt	13	7 483	8 966
Employee benefits liabilities	10	5 280	6 249
Provisions	12	3 510	3 222
Deferred tax liabilities	14	1 371	1 404
Other payables	13	1 253	1 361
Total non-current liabilities		**18 897**	**21 202**
Total liabilities		**49 043**	**57 285**
Equity	18		
Share capital		347	365
Treasury shares		(11 108)	(8 011)
Translation reserve		(15 794)	(11 175)
Retained earnings and other reserves		88 422	67 736
Total equity attributable to shareholders of the parent		**61 867**	**48 915**
Non-controlling interests		731	4 716
Total equity		**62 598**	**53 631**
Total liabilities and equity		**111 641**	**110 916**

(a) Mainly Alcon in 2009.

Consolidated cash flow statement for the year ended 31 December 2010

In millions of CHF	Notes	2010	2009
Operating activities			
Profit for the year		35 384	11 793
Non-cash items of income and expense	17	(20 948)	3 478
Decrease/(increase) in working capital	17	(632)	2 442
Variation of other operating assets and liabilities	17	(196)	221
Operating cash flow (a)		**13 608**	**17 934**
Investing activities			
Capital expenditure	7	(4 576)	(4 641)
Expenditure on intangible assets	9	(408)	(400)
Sale of property, plant and equipment	7	113	111
Acquisition of businesses	2	(5 582)	(796)
Disposal of businesses	2	27 715	242
Cash flows with associates		254	195
Other investing cash flows		(2 967)	(110)
Cash flow from investing activities (a)		**14 549**	**(5 399)**
Financing activities			
Dividend paid to shareholders of the parent	18	(5 443)	(5 047)
Purchase of treasury shares	17	(12 135)	(7 013)
Sale of treasury shares		278	292
Cash flows with non-controlling interests		(791)	(720)
Bonds issued		1 219	3 957
Bonds repaid		(832)	(1 744)
Inflows from other non-current financial liabilities		130	294
Outflows from other non-current financial liabilities		(225)	(175)
Inflows/(outflows) from current financial liabilities		(2 174)	(446)
Inflows/(outflows) from short-term investments		(5 835)	(1 759)
Cash flow from financing activities (a)		**(25 808)**	**(12 361)**
Currency retranslations		(117)	(184)
Increase/(decrease) in cash and cash equivalents		**2 232**	**(10)**
Cash and cash equivalents at beginning of year		5 825	5 835
Cash and cash equivalents at end of year	17	**8 057**	**5 825**

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

Consolidated statement of changes in equity for the year ended 31 December 2010

In millions of CHF	Share capital	Treasury shares	Translation reserve	Retained earnings and other reserves	Total equity attributable to shareholders of the parent	Non-controlling interests	Total equity
Equity as at 31 December 2008	383	(9 652)	(11 103)	71 146	50 774	4 142	54 916
Total comprehensive income			(72)	9 784	9 712	1 247	10 959
Dividend paid to shareholders of the parent				(5 047)	(5 047)		(5 047)
Dividends paid to non-controlling interests					–	(732)	(732)
Movement of treasury shares (net)		(6 891)		162	(6 729)		(6 729)
Changes in non-controlling interests					–	21	21
Equity compensation plans		142		63	205	38	243
Reduction in share capital	(18)	8 390		(8 372)	–		–
Equity as at 31 December 2009	365	(8 011)	(11 175)	67 736	48 915	4 716	53 631
Total comprehensive income			(4 619)	34 456	29 837	941	30 778
Dividend paid to shareholders of the parent				(5 443)	(5 443)		(5 443)
Dividends paid to non-controlling interests					–	(729)	(729)
Movement of treasury shares (net)		(11 859)		77	(11 782)		(11 782)
Changes in non-controlling interests				(146)	(146)	(4 216)	(4 362)
Equity compensation plans		179		2	181	19	200
Adjustment for hyperinflation [(a)]				305	305		305
Reduction in share capital	(18)	8 583		(8 565)	–		–
Equity as at 31 December 2010	347	(11 108)	(15 794)	88 422	61 867	731	62 598

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

1. Accounting policies

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

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

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Those areas affect mainly provisions, goodwill impairment tests, employee benefits, allowance for doubtful receivables, share-based payments and taxes, and key assumptions are detailed in the related notes.

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

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

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

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

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

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

Foreign currencies
The functional currency of the Group’s entities is the currency of their primary economic environment.

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

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

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

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

Segment reporting

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

The Group is focused in two areas of activity, Food and Beverages, and Pharmaceuticals. The Group's Food and Beverages business is managed through three geographic Zones and several Globally Managed Businesses (GMB). Zones and GMB, that meet the quantitative threshold of 10% of sales, EBIT or assets, are presented on a standalone basis as reportable segments. Other GMB that do not meet the threshold, like Nestlé Professional, Nespresso, and the food and beverages Joint Ventures, are aggregated and presented in Other Food and Beverages. The Group's pharmaceutical activities are also managed, and presented, separately. Therefore, the Group's reportable operating segments are:

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

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

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

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

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

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

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

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

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

- corporate expenses and related assets/liabilities;
- research and development costs and related assets/ liabilities; and
- some goodwill and intangible assets.

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

Valuation methods, presentation and definitions

Revenue

Revenue represents amounts received and receivable from third parties for goods supplied to the customers and for services rendered. Revenue from the sales of goods is recognised in the income statement at the moment when the significant risks and rewards of ownership of the goods have been transferred to the buyer, which is mainly upon shipment. It is measured at the list price applicable to a given distribution channel after deduction of returns, sales taxes, pricing allowances and similar trade discounts. Payments made to the customers for commercial services received are expensed.

Expenses

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

Net other income/(expenses)

These comprise all exit costs including but not limited to profit and loss on disposal of property, plant and equipment, profit and loss on disposal of businesses, onerous contracts, restructuring costs, impairment of property, plant and equipment, intangibles and goodwill.

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

Net financing cost

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

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

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

Taxes

The Group is subject to taxes in different countries all over the world. Taxes and fiscal risks recognised in the Consolidated Financial Statements reflect Group Management's best estimate of the outcome based on the facts known at the balance sheet date in each individual country. These facts may include but are not limited to change in tax laws and interpretation thereof in the various jurisdictions where the Group operates. They may have an impact on the income tax as well as the resulting assets and liabilities. Any differences between tax estimates and final tax assessments are charged to the income statement in the period in which they are incurred, unless anticipated.

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

Deferred taxation is the tax attributable to the temporary differences that arise when taxation authorities recognise and measure assets and liabilities with rules that differ from the principles of the Consolidated Financial Statements. It also arises on temporary differences stemming from tax losses carried forward.

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

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

Financial instruments

Classes of financial instruments

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

Financial assets

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

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

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

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

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This category includes the following classes of financial assets: loans; trade and other receivables and cash and cash equivalents (cash balances, deposits at sight and other short-term highly liquid investments with original maturities of three months or less).

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

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

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

Held-for-trading assets

The Group does not apply the fair value option. Held-for-trading assets are marketable securities, derivative financial instruments and other fixed income portfolios that are managed with the aim of delivering performance over agreed benchmarks and are therefore classified as trading.

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

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities. The Group uses this category when it has an intention and ability to hold them until maturity and when the re-sale of such investments is prohibited.

Subsequent to initial recognition, held-to-maturity investments are recognised at amortised cost less impairment losses. They are further classified as current and non-current depending whether they will mature within twelve months after the balance sheet date or beyond.

Available-for-sale assets

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

- short-term investments, if their maturity is more than three months at inception and if they are due within a period of 12 months or less; or there is no maturity but the assets are expected to be realised within 12 months after the reporting period; and
- non-current financial assets.

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

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

Financial liabilities at amortised cost

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

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

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

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

Derivative financial instruments

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

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

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

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

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

Hedge accounting

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

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

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

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

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

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

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

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

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

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

i) The fair value of financial instruments quoted in active markets is based on their quoted closing price at the balance sheet date. Examples include commodity derivative assets and liabilities and other financial assets such as investments in equity and debt securities.
ii) The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques using observable market data. Such valuation techniques include discounted cash flows, standard valuation models based on market parameters, dealer quotes for similar instruments and use of comparable arm's length transactions. For example, the fair value of forward exchange contracts, currency swaps and interest rate swaps is determined by discounting estimated future cash flows using a risk-free interest rate.
iii) The fair value of a small number of instruments are determined on the basis of entity specific valuations using inputs that are not based on observable market data (unobservable inputs). When the fair value of unquoted instruments cannot be measured with sufficient reliability, the Group carries such instruments at cost less impairment, if applicable.

Inventories
Raw materials and purchased finished goods are valued at purchase cost. Work in progress and manufactured finished goods are valued at production cost. Production cost includes direct production costs and an appropriate

proportion of production overheads and factory depreciation.

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

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

Prepayments and accrued income

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

Property, plant and equipment

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

Buildings	20–40 years
Machinery and equipment	10–25 years
Tools, furniture, information technology and sundry equipment	3–10 years
Vehicles	3–8 years

Land is not depreciated.

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

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

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

Leased assets

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

Rentals payable under operating leases are expensed.

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

Business combinations and related goodwill

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

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

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

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

Intangible assets

This heading includes intangible assets that are internally generated or acquired either separately or in a business combination when they are identifiable and can be reliably measured. Intangible assets are considered to be identifiable if they arise from contractual or other rights, or if they are separable (i.e. they can be disposed of either individually or together with other assets). Intangible assets comprise indefinite life intangible assets and finite life intangible assets. Internally generated intangible assets are capitalised, provided they generate future economic benefits and their costs are clearly identifiable. Borrowing costs incurred during the development of internally generated intangible assets are capitalised if the assets are significant and if their development requires a substantial period to complete (typically more than one year).

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

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

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

Research and development

Research 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 expected future economic benefits cannot be reliably determined. As long as the products have not reached the market place, there is no reliable evidence that positive future cash flows would be obtained. Other development costs (essentially management information system software) are capitalised provided that there is an identifiable asset that will be useful in generating future benefits in terms of savings, economies of scale, etc.

Impairment of goodwill and indefinite life intangible assets

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

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

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

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

Consideration is given at each balance sheet date to determine whether there is any indication of impairment of the carrying amounts of the Group's property, plant and equipment and finite life intangible assets. Indication could be unfavourable development of a business under competitive pressures or severe economic slowdown in a given market as well as reorganisation of the operations to leverage their scale. If any indication exists, an asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, based on the time value of money and the risks specific to the country where the assets are located. The risks specific to the asset are included in the determination of the cash flows.

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

Assets held for sale and discontinued operations

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

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

Provisions

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

Contingent assets and liabilities

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

Post-employment benefits

The liabilities of the Group arising from defined benefit obligations, and the related current service cost, are determined using the projected unit credit method. Actuarial advice is provided both by external consultants and by actuaries employed by the Group. The actuarial assumptions used to calculate the defined benefit obligations vary according to the economic conditions of the country in which the plan is located. Such plans are either externally funded (in the form of independently administered funds) or unfunded.

For the funded defined benefit plans, the deficit or excess of the fair value of plan assets over the present value of the defined benefit obligation is recognised as a liability or an asset in the balance sheet, taking into account any unrecognised past service cost. However, an excess of assets is recognised only to the extent that it represents a future economic benefit which is available in the form of refunds from the plan or reductions in future contributions to the plan. When these criteria are not met, it is not recognised but is disclosed in the notes. Impacts of minimum funding requirements in relation to past service are considered when determining pension obligations.

Actuarial gains and losses arise mainly from changes in actuarial assumptions and differences between actuarial assumptions and what has actually occurred. They are recognised in the period in which they occur in other comprehensive income.

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

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

Equity compensation plans

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

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

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

Accruals and deferred income

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

Dividend

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

Events occurring after the balance sheet date

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

Changes in accounting policies

The Group has applied the following revised International Financial Reporting Standard (IFRS) and International Accounting Standard (IAS) as from 1 January 2010 onwards. These changes have been applied in accordance with the specific transitional provisions of each standard, and none of them had a material impact on the Group's financial statements.

IFRS 3 Revised 2008 – Business combinations

The revised standard has resulted in the following changes, applicable to transactions occuring after 1 January 2010:

- acquisition-related costs are expensed as incurred;
- for a business combination in which the Group achieves control without buying all of the equity of the acquiree, the non-controlling interests are measured either at fair value or at the non-controlling interests' proportionate share of the acquiree's net identifiable assets;
- upon obtaining control in a business combination achieved in stages, the Group remeasures its previously held equity interest at fair value and recognises a gain or a loss to the income statement; and
- contingent consideration of an acquisition is measured at fair value. Changes are accounted for outside goodwill, in the income statement.

IAS 27 Revised 2008 – Consolidated and separate financial statements
Changes of non-controlling interests of an acquiree that do not result in a change of control are accounted for as transactions with equity holders.

Improvements and other amendments of IFRS/IAS
Improvements or other amendments effective in 2010 (for example, the amendment to IAS 18 – Revenue recognition on determining whether an entity is acting as a principal or as an agent) have been incorporated in the Group accounting policies and do not have a material effect on the Consolidated Financial Statements.

Changes in presentation

Notes to the Consolidated Financial Statements have been re-ordered. In particular, all information related to net financing cost and financial instruments has been grouped in a single note and the content has been enhanced to provide more information on financial risks.

2009 comparatives have been restated to reflect reclassification of cash and cash equivalents within the category loans and receivables, and to exclude taxes from the disclosures on financial instruments. Moreover the information on expenses by nature is now disclosed in the notes related to the appropriate topic (e.g., salaries and welfare expenses are disclosed in the employee benefits note).

Changes in IFRS that may affect the Group after 31 December 2010

The Group is currently assessing the potential impacts of new standards, amendments to standards and interpretations that are effective for annual periods beginning after 1 January 2011, and which the Group has not early adopted. None of these are expected to have a material effect on the Group's financial statements, except for IFRS 9 – Financial Instruments, which becomes mandatory for the Group's 2013 financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard in anticipation.

Changes in presentation that will affect the Group after 31 December 2010

Certain allowances and discounts, granted to trade chains, customers, retailers and consumers for trade and consumer promotions, selling, distribution, advertising and other services, rendered to the Group are currently treated as expenses under marketing and administration expenses as well as distribution expenses on grounds that they are incurred to generate revenue. The Group will treat these allowances and discounts as from 2011 as a deduction of revenue in conformity with the practice generally admitted by consumer goods companies. Based on 2010 figures, the reclassification from distribution expenses as well as marketing and administration expenses to sales amounts to CHF 16 707 million.

2. Acquisitions, disposals and discontinued operations

2.1 Modification of the scope of consolidation

The scope of consolidation has been affected by acquisitions and disposals made in 2010. The principal businesses are detailed below:

Fully consolidated

Newly included

Kraft Foods' frozen pizza business, USA and Canada, Prepared dishes and cooking aids, 100% (March).
Waggin' Train dog snacks business, USA, PetCare, 100% (September).
Mahler Group, Guatemala, Prepared dishes and cooking aids, Milk products and Ice cream, 92% (August).
Technocom, Ukraine, Prepared dishes and cooking aids, 100% (February).
Vitaflo, United Kingdom, Nutrition, 100% (August).

Disposal

Alcon, USA, Pharmaceutical products, 52% (August).

2.2 Acquisitions of businesses

In millions of CHF			2010	2009
	Kraft Foods' Pizza	Other acquisitions		
Property, plant and equipment	297	45	342	54
Intangible assets (a)	1 859	275	2 134	385
Inventories and other assets	115	177	292	150
Assets held for sale (b)	–	845	845	–
Non-controlling interests	–	(6)	(6)	–
Purchase of non-controlling interests in existing participations	–	–	–	3
Financial debt	(14)	(4)	(18)	(5)
Employee benefits, deferred taxes and provisions	(18)	(17)	(35)	(90)
Other liabilities	(4)	(70)	(74)	(48)
Liabilities directly associated with assets held for sale (b)	–	(177)	(177)	–
Fair value of net assets acquired	**2 235**	**1 068**	**3 303**	449
Goodwill	1 734	703	2 437	407
Fair value of consideration transferred	**3 969**	**1 771**	**5 740**	856
Cash and cash equivalents acquired	–	(41)	(41)	(5)
Consideration payable	–	(135)	(135)	(214)
Payment of consideration payable on prior years acquisitions	–	18	18	159
Cash outflow on acquisitions	**3 969**	**1 613**	**5 582**	796

(a) Mainly Brands and intellectual property rights.
(b) Alcon's acquisitions.

Kraft Foods' frozen pizza acquisition

On 1 March 2010, the Group acquired the Kraft Foods' frozen pizza business in the USA and Canada. This acquisition will enhance Nestlé's frozen food activities in North America, where the Group has already established a leadership in prepared dishes and hand-held product categories. The cost of acquisition has been paid in cash. The goodwill arising on this acquisition includes elements that cannot be recognised as intangible assets such as synergies, complementary market share and competitive position. The goodwill is amortisable for tax purposes.

Sales and profit for the year 2010 of Kraft Foods' frozen pizza business included in the Consolidated Financial Statements amount respectively to CHF 1413 million and CHF 100 million. The Group's total sales and profit for the year 2010 would have respectively amounted to CHF 110 070 million and CHF 35 421 million if the acquisition had been effective 1 January 2010.

Other acquisitions
There were other cash outflows in 2010 related to several individually non significant acquisitions. Cash outflows of the comparative period also included several individually non significant acquisitions. The Group's sales and profit for the year are not significantly impacted by them.

The acquisition costs for these other acquisitions consist of payments made in cash with some consideration remaining payable.

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

Acquisition-related costs
2010 acquisition-related costs have been recognised under other expenses in the income statement (Note 4) for an amount of CHF 23 million.

2.3 Disposals of businesses

In millions of CHF	2010 (a)	2009
Property, plant and equipment	4	71
Goodwill and intangible assets	1	64
Other assets	8	52
Non-controlling interests	(4 352)	12
Financial debt	–	–
Employee benefits, deferred taxes and provisions	–	(7)
Other liabilities	(31)	(55)
Alcon net assets held for sale disposed of	8 936	–
Net assets and non-controlling interests disposed of	**4 566**	**137**
Cumulative other comprehensive income items, net, reclassified to income statement	899	–
Profit/(loss) on current year disposals	24 472	105
Total disposal consideration	**29 937**	**242**
Cash and cash equivalents disposed of	(2 242)	(2)
Consideration receivable	(2)	(27)
Receipt of consideration receivable on prior years disposals	22	29
Cash inflow on disposals	**27 715**	**242**

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

2.4 Discontinued operations – Alcon

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

The cash inflow on Alcon disposal is as follows:

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

The consideration received includes the disposal price as per the selling agreement and interests due from the date of the exercise of the call to the regulatory approval, as well as the results on hedges of the cash proceeds.

In accordance with IFRS 5, Alcon's related assets and liabilities were classified as a disposal group in Assets held for sale and Liabilities directly associated with assets held for sale as at 31 December 2009 and until the disposal date. Consequently, the depreciation and amortisation of non-current assets have been stopped as from 1 January 2010. The impact on EBIT for 2010 amounts to CHF 184 million.

Additionally, Alcon operations are presented separately in the income statement as discontinued operations.

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

In millions of CHF	2010 (a)	2009
Cash, cash equivalents and short-term investments	2 950	3 585
Inventories	664	645
Trade and other receivables	1 474	1 447
Property, plant and equipment	1 435	1 300
Goodwill and intangible assets	4 188	3 256
Other assets	1 127	959
Assets held for sale	**11 838**	**11 192**
Financial debt	(395)	(676)
Trade and other payables	(530)	(580)
Employee benefits and provisions	(763)	(686)
Other liabilities	(1 214)	(948)
Liabilities directly associated with assets held for sale	**(2 902)**	**(2 890)**
Net assets held for sale from discontinued operations	**8 936**	**8 302**

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

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

In millions of CHF	2010 (a)	2009
Currency retranslations, net of taxes	(902)	(858)
Fair value adjustments on available-for-sale financial instruments, net of taxes	3	16
Actuarial gains/(losses) on defined benefit schemes, net of taxes	(82)	(66)
Cumulative income or expense recognised in other comprehensive income	**(981)**	**(908)**

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

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

In millions of CHF	2010	2009
Cash flow from discontinued operations		
Operating cash flow	1 884	2 623
Cash flow from investing activities	(1 035)	(532)
Cash flow from financing activities	(1 650)	(1 384)

3. Analyses by segment

3.1 Operating segments

In millions of CHF	Zone Europe	Zone Americas	Zone Asia, Oceania and Africa	Nestlé Waters
2009				
Revenues and results				
Sales (d)	22 528	32 168	15 891	9 061
EBIT Earnings Before Interest, Taxes, restructuring and impairments	2 802	5 402	2 658	632
Impairment of assets	(82)	(24)	(10)	(84)
Restructuring costs	(98)	(55)	(31)	24
Net other income/(expenses) excluding restructuring and impairments				
Net financing cost				
Profit before taxes and associates				
Assets				
Segment assets	12 237	18 576	8 546	7 669
Non-segment assets				
Total assets				
of which goodwill and intangible assets	2 891	6 924	1 980	2 041
Other information				
Capital additions	797	1 211	982	578
of which capital expenditure	759	1 092	761	493
Depreciation and amortisation of segment assets	735	809	435	573
2010				
Revenues and results				
Sales (d)	21 580	34 301	17 409	9 095
EBIT Earnings Before Interest, Taxes, restructuring and impairments	2 723	5 651	2 941	669
Impairment of assets	(90)	(21)	(39)	(235)
Restructuring costs	(245)	(72)	(14)	(83)
Net other income/(expenses) excluding restructuring and impairments				
Net financing cost				
Profit before taxes and associates				
Assets				
Segment assets	10 935	22 312	8 765	6 596
Non-segment assets				
Total assets				
of which goodwill and intangible assets	2 453	9 862	1 862	1 665
Other information				
Capital additions	1 075	5 678	877	529
of which capital expenditure	906	1 127	840	413
Depreciation and amortisation of segment assets	679	931	468	561

(a) Mainly Nespresso, Nestlé Professional and Food and Beverages Joint Ventures managed on a worldwide basis.
(b) Refer to the Segment reporting section of the Accounting policies for the definition of unallocated items.

3. Analyses by segment (continued)

Nestlé Nutrition	Other Food and Beverages (a)	Unallocated items (b)	Inter-segment eliminations	**Total Food and Beverages**	Pharma	**Total continuing operations**	Pharma discontinued operations (c)	**Total**
9 963	10 187			**99 798**	781	**100 579**	7 039	**107 618**
1 733	1 603	(1 747)		**13 083**	139	**13 222**	2 477	**15 699**
(4)	(3)	–		**(207)**	–	**(207)**	(20)	**(227)**
(30)	(10)	–		**(200)**	–	**(200)**	(22)	**(222)**
						(323)	43	**(280)**
						(654)	39	**(615)**
						11 838	2 517	**14 355**
15 730	4 981	11 544	(2 026)	**77 257**	732	**77 989**	6 784	**84 773**
								26 143
								110 916
9 665	474	9 761		**33 736**	424	**34 160**	3 256	**37 416**
746	600	269		**5 183**	90	**5 273**	614	**5 887**
579	362	230		**4 276**	17	**4 293**	348	**4 641**
220	218	96		**3 086**	47	**3 133**	236	**3 369**
10 366	10 971			**103 722**	891	**104 613**	5 109	**109 722**
1 873	1 799	(1 783)		**13 873**	165	**14 038**	2 156	**16 194**
(143)	(3)	–		**(531)**	–	**(531)**	–	**(531)**
(35)	(14)	(6)		**(469)**	–	**(469)**	–	**(469)**
						(895)	24 521	**23 626**
						(762)	9	**(753)**
						11 381	26 686	**38 067**
15 314	4 887	10 924	(1 757)	**77 976**	692	**78 668**	–	**78 668**
								32 973
								111 641
9 029	442	9 061		**34 374**	385	**34 759**	–	**34 759**
753	369	232		**9 513**	33	**9 546**	1 168	**10 714**
505	361	211		**4 363**	21	**4 384**	192	**4 576**
160	232	105		**3 136**	46	**3 182**	–	**3 182**

(c) Detailed information related to Alcon discontinued operations is disclosed in Note 2. In 2009, goodwill and intangible assets are included in Assets held for sale in the Balance Sheet.
(d) The analysis of sales by geographic area is stated by customer location. Inter-segment sales are not significant.

3.2 Products

2009

In millions of CHF	Powdered and Liquid Beverages	Water	Milk products and Ice cream	Nutrition
Revenues and results				
Sales	19 271	9 066	19 557	9 965
EBIT Earnings Before Interest, Taxes, restructuring and impairments	4 185	633	2 345	1 734
Impairment of assets	(6)	(87)	(52)	(5)
Restructuring costs	(43)	23	(72)	(30)
Net other income/(expenses) excluding restructuring and impairments				
Net financing cost				
Profit before taxes and associates				
Assets	8 891	8 252	13 258	15 711
of which goodwill and intangible assets	490	2 236	4 613	9 790
Liabilities	3 446	1 940	3 344	2 785

2010

In millions of CHF	Powdered and Liquid Beverages	Water	Milk products and Ice cream	Nutrition
Revenues and results				
Sales	20 612	9 101	20 360	10 368
EBIT Earnings Before Interest, Taxes, restructuring and impairments	4 329	670	2 623	1 874
Impairment of assets	(9)	(235)	(26)	(143)
Restructuring costs	(44)	(83)	(67)	(35)
Net other income/(expenses) excluding restructuring and impairments				
Net financing cost				
Profit before taxes and associates				
Assets	9 219	7 477	13 333	15 946
of which goodwill and intangible assets	432	1 959	4 579	9 630
Liabilities	3 693	1 894	3 466	2 775

(a) Refer to the Segment reporting section of the Accounting policies for the definition of unallocated items.
(b) Detailed information related to Alcon discontinued operations is disclosed in Note 2. In 2009 and 2010, goodwill and intangible assets are included in Assets held for sale in the Balance Sheet, before being disposed of.

3.3 Customers

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

3. Analyses by segment (continued)

Prepared dishes and cooking aids	Confectionery	PetCare	Unallocated items (a) and intra-group eliminations	**Total Food and Beverages**	Pharmaceutical products	**Total continuing operations**	Pharma discontinued operations (b)	**Total**
17 205	11 796	12 938		**99 798**	781	**100 579**	7 039	**107 618**
2 226	1 599	2 108	(1 747)	**13 083**	139	**13 222**	2 477	**15 699**
(10)	(23)	(24)	–	**(207)**	–	**(207)**	(20)	**(227)**
(35)	(33)	(10)	–	**(200)**	–	**(200)**	(22)	**(222)**
						(323)	43	**(280)**
						(654)	39	**(615)**
						11 838	2 517	**14 355**
10 127	6 073	14 933	818	**78 063**	704	**78 767**	6 733	**85 500**
3 683	888	10 280	2 417	**34 397**	398	**34 795**	3 264	**38 059**
2 867	2 210	1 604	(2 554)	**15 642**	157	**15 799**	1 073	**16 872**
18 093	12 097	13 091		**103 722**	891	**104 613**	5 109	**109 722**
2 229	1 667	2 264	(1 783)	**13 873**	165	**14 038**	2 156	**16 194**
(81)	(35)	(2)	–	**(531)**	–	**(531)**	–	**(531)**
(178)	(42)	(14)	(6)	**(469)**	–	**(469)**	–	**(469)**
						(895)	24 521	**23 626**
						(762)	9	**(753)**
						11 381	26 686	**38 067**
12 995	6 112	14 510	974	**80 566**	723	**81 289**	4 370	**85 659**
6 285	850	9 956	2 389	**36 080**	408	**36 488**	2 131	**38 619**
2 901	2 181	1 509	(2 388)	**16 031**	164	**16 195**	701	**16 896**

3.4 Geography (top ten countries and Switzerland)

In millions of CHF	2010		2009	
	Sales	Non-current assets (a)	Sales	Non-current assets (a)
USA	30 963	16 661	30 698	14 732
France	7 639	1 727	8 055	2 070
Brazil	6 920	1 228	5 787	1 239
Germany	5 282	1 406	5 805	1 574
United Kingdom	3 682	900	3 730	836
Italy	3 558	960	3 886	1 231
Mexico	3 406	612	3 121	616
Canada	2 860	438	2 448	442
Greater China Region	2 790	578	2 514	515
Australia	2 686	1 030	2 402	1 040
Switzerland (b)	2 143	2 480	2 046	2 185
Rest of the world and unallocated items	37 793	28 177	37 126	29 279
Total	**109 722**	**56 197**	**107 618**	**55 759**

(a) Relate to property, plant and equipment, intangible assets and goodwill.
(b) Country of domicile of Nestlé S.A.

4. Net other income/(expenses)

In millions of CHF	Notes	2010	2009
Profit on disposal of property, plant and equipment		41	26
Profit on disposal of businesses	2	10	109
Other		155	331
Other income		**206**	**466**
Loss on disposal of property, plant and equipment		(9)	(57)
Loss on disposal of businesses	2	(13)	(28)
Restructuring costs		(469)	(200)
Impairment of property, plant and equipment	7	(186)	(170)
Impairment of goodwill	8	(337)	(37)
Impairment of intangible assets	9	(8)	–
Litigations (a) and onerous contracts		(629)	(411)
Other		(450)	(293)
Other expenses		**(2 101)**	**(1 196)**
Net other income/(expenses) of continuing operations		**(1 895)**	(730)
Net other income/(expenses) of discontinued operations (b)		24 521	1
Total net other income/(expenses)		**22 626**	(729)

(a) It relates mainly to numerous separate legal cases predominantly in Latin America (for example labour, civil and tax litigations).
(b) Detailed information related to Alcon discontinued operations is disclosed in Note 2.

5. Inventories

In millions of CHF	2010	2009
Raw materials, work in progress and sundry supplies	3 243	3 175
Finished goods	4 812	4 741
Allowance for write-down at net realisable value	(130)	(182)
	7 925	**7 734**

Inventories amounting to CHF 169 million (2009: CHF 156 million) are pledged as security for financial liabilities.

6. Trade and other receivables
6.1 By type

In millions of CHF	2010	2009
Trade receivables	8 899	9 425
Other receivables	3 184	2 884
	12 083	**12 309**

The five major customers represent 9% (2009: 9%) of trade and other receivables, none of them exceeding 4% (2009: 4%).

6.2 Past due and impaired receivables

In millions of CHF	2010	2009
Not past due	10 522	10 554
Past due 1–30 days	742	916
Past due 31–60 days	273	341
Past due 61–90 days	121	130
Past due 91–120 days	107	134
Past due more than 120 days	727	685
Allowance for doubtful receivables	(409)	(451)
	12 083	**12 309**

6.3 Allowance for doubtful receivables

In millions of CHF	2010	2009
At 1 January	451	444
Currency retranslations	(52)	4
Allowance made during the year	94	139
Amounts used and reversal of unused amounts	(84)	(93)
Reclassified as held for sale	–	(43)
At 31 December	**409**	**451**

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

7. Property, plant and equipment

In millions of CHF					2009
	Land and buildings	Machinery and equipment	Tools, furniture and other equipment	Vehicles	Total
Gross value					
At 1 January	13 105	24 711	7 510	865	**46 191**
Currency retranslations	120	408	139	(5)	**662**
Capital expenditure (a)	914	2 519	1 094	114	**4 641**
Disposals	(167)	(914)	(457)	(71)	**(1 609)**
Reclassified as held for sale	(977)	(1 047)	(555)	(23)	**(2 602)**
Modification of the scope of consolidation	(64)	(115)	(14)	(4)	**(197)**
At 31 December	**12 931**	**25 562**	**7 717**	**876**	**47 086**
Accumulated depreciation and impairments					
At 1 January	(5 012)	(14 321)	(5 288)	(473)	**(25 094)**
Currency retranslations	(52)	(268)	(103)	2	**(421)**
Depreciation	(376)	(1 372)	(859)	(106)	**(2 713)**
Impairments	(38)	(127)	(5)	–	**(170)**
Disposals	114	791	457	71	**1 433**
Reclassified as held for sale	309	592	388	9	**1 298**
Modification of the scope of consolidation	41	109	26	4	**180**
At 31 December	**(5 014)**	**(14 596)**	**(5 384)**	**(493)**	**(25 487)**
Net at 31 December	**7 917**	**10 966**	**2 333**	**383**	**21 599**

(a) Including borrowing costs.

At 31 December 2009, property, plant and equipment include CHF 775 million of assets under construction. Net property, plant and equipment held under finance leases amount to CHF 262 million. Net property, plant and equipment of CHF 101 million are pledged as security for financial liabilities. Fire risks, reasonably estimated, are insured in accordance with domestic requirements.

In millions of CHF					2010
	Land and buildings	Machinery and equipment	Tools, furniture and other equipment	Vehicles	Total
Gross value					
At 1 January	12 931	25 562	7 717	876	**47 086**
Currency retranslations	(961)	(2 722)	(670)	(95)	**(4 448)**
Capital expenditure (a)	872	2 468	893	151	**4 384**
Disposals	(137)	(688)	(541)	(65)	**(1 431)**
Reclassified as held for sale	(48)	(31)	(5)	–	**(84)**
Modification of the scope of consolidation	148	186	(9)	2	**327**
At 31 December	**12 805**	**24 775**	**7 385**	**869**	**45 834**
Accumulated depreciation and impairments					
At 1 January	(5 014)	(14 596)	(5 384)	(493)	**(25 487)**
Currency retranslations	434	1 461	512	52	**2 459**
Depreciation	(370)	(1 319)	(765)	(98)	**(2 552)**
Impairments	(38)	(131)	(17)	–	**(186)**
Disposals	107	641	492	56	**1 296**
Reclassified as held for sale	30	29	4	–	**63**
Modification of the scope of consolidation	–	1	10	–	**11**
At 31 December	**(4 851)**	**(13 914)**	**(5 148)**	**(483)**	**(24 396)**
Net at 31 December	**7 954**	**10 861**	**2 237**	**386**	**21 438**

(a) Including borrowing costs.

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

Impairment

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

Commitments for expenditure

At 31 December 2010, the Group was committed to expenditure amounting to CHF 624 million (2009: CHF 605 million).

8. Goodwill

In millions of CHF	Notes	2010	2009
Gross value			
At 1 January		29 282	32 746
Currency retranslations		(2 716)	(464)
Goodwill from acquisitions	2	2 437	407
Disposals		–	(362)
Reclassified as held for sale	2	–	(3 045)
At 31 December		**29 003**	**29 282**
Accumulated impairments			
At 1 January		(1 780)	(2 109)
Currency retranslations		145	(21)
Impairments		(337)	(57)
Disposals		–	309
Reclassified as held for sale	2	–	98
At 31 December		**(1 972)**	**(1 780)**
Net at 31 December		**27 031**	**27 502**

8.1 Impairment charge during the period

8.1.1 Performance Nutrition

Goodwill related to the acquisition of PowerBar in 2000 has been allocated for the impairment test to the Cash Generating Unit (CGU) Sports Nutrition Worldwide. As at 31 December 2010, the carrying amount of all goodwill items allocated to this CGU amounts to CHF 273 million before impairment (2009: CHF 301 million).
An annual impairment test was conducted in the second half of the year. Competitive environment and economic conditions in the USA led to lower than anticipated sales demand, resulting in downward revision of projected cash flows since the last impairment test and the recoverable amount of the CGU is lower than its carrying amount. An impairment of goodwill amounting to CHF 105 million has been recognised (2009: nil). There was no impairment of the carrying amounts of other assets of the CGU. The goodwill is included in the Nestlé Nutrition reportable segment disclosed in Note 3.1. The recoverable amount of the CGU has been determined based upon a value-in-use calculation. A deflated pre-tax weighted average discount rate of 6.8% (2009: 6.9%) was used in this calculation.

8.1.2 Nestlé Waters Home and Office Delivery business in Europe

Goodwill related to the acquisition of Powwow in 2003 has been allocated for the impairment test to the CGU Nestlé Waters Home and Office Delivery business in Europe. As at 31 December 2010, the carrying amount of all goodwill items allocated to this CGU amounts to CHF 272 million before impairment (2009: CHF 296 million).
An annual impairment test was conducted in the second half of the year. Due to the increasingly difficult economic situation in Western and Eastern Europe since the last impairment test, the recoverable amount of the CGU is lower than its carrying amount. Consequently, and in addition to the impairments already recorded in 2007 and 2008, an impairment of goodwill amounting to CHF 200 million has been recognised (2009: nil). There was no impairment of the carrying amounts of other assets of the CGU. The goodwill is included in the Nestlé Waters reportable segment disclosed in Note 3.1. The recoverable amount of the CGU has been determined based upon a value-in-use calculation. A deflated pre-tax weighted average discount rate of 6.9% (2009: 6.1%) was used in this calculation.

The impairment losses described above have been included in the heading Other expenses of the income statement.

8.2 Yearly impairment tests

Goodwill impairment reviews have been conducted for more than 200 goodwill items allocated to some 50 Cash Generating Units (CGU).
Detailed results of the impairment tests are presented below for the three largest goodwill items, representing more than 50% of the net book value at 31 December 2010. For the purpose of the tests, they have been allocated to the following CGU: PetCare by geographical zone, Infant Nutrition, Frozen Pizza and Ice Cream USA.

8.2.1 PetCare

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

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

In millions of CHF	2010			2009		
	Total	of which Zone Europe	of which Zone Americas	Total	of which Zone Europe	of which Zone Americas
Goodwill	**9 006**	1 802	7 131	9 714	2 058	7 585
Intangible assets with indefinite useful life	**197**	–	158	29	–	–
	9 203	**1 802**	**7 289**	9 743	2 058	7 585

Assumptions

For each CGU, the recoverable amount of the CGU is higher than its carrying amount. The recoverable amount has been determined based upon a value-in-use calculation. Deflated cash flow projections covering the next 50 years, discounted at a deflated pre-tax weighted average rate, were used in this calculation. The cash flows for the first five years were based upon financial plans approved by Group Management; years six to ten were based upon Group Management's best expectations, which are consistent with the Group's approved strategy for this period. Cash flows were assumed to be flat for years eleven to 50, although Group Management expects continuing growth. Cash flows have been adjusted to reflect the specific business risks.

For the two main CGU, PetCare Zone Europe and PetCare Zone Americas, the main assumptions, based on past experiences and current initiatives, were the following:

	Zone Europe	Zone Americas
Deflated pre-tax weighted average discount rate	6.9%	7.5%
Annual sales growth over the first ten-year period	between 3.0 and 8.0%	between 4.0 and 6.8%
EBIT margin evolution over the first ten-year period	steady improvement in a range of 10–50 basis points per year	stable margin

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

Sensitivity analyses

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

8.2.2 Infant Nutrition

Goodwill and intangible assets with indefinite useful life related to the 2007 acquisition of Gerber have been allocated for the impairment test to the CGU of the Infant Nutrition businesses on a worldwide basis. As at 31 December 2010, the carrying amounts, expressed in various currencies, represent an equivalent of CHF 3557 million (2009: CHF 3883 million) for the goodwill and CHF 1248 million (2009: CHF 1372 million) for the intangible assets with indefinite useful life.

Assumptions

The recoverable amount of the CGU is higher than its carrying amount. The recoverable amount has been determined based upon a value-in-use calculation. Deflated cash flow projections covering the next 50 years, discounted at a deflated pre-tax weighted average rate of 7.6%, were used in this calculation. The cash flows for the first five years were based upon financial plans approved by Group Management; years six to ten were based upon Group Management's best expectations, which are consistent with the Group's approved strategy for this period. Cash flows were assumed to be flat after, although Group Management expects continuing growth. Cash flows have been adjusted to reflect the specific business risks.
Main assumptions were the following:
- sales: annual growth between 2.5 and 5.2% for North America over the first ten-year period, and between 4.2 and 4.5% for the rest of the world over the first six-year period and flat thereafter;
- EBIT margin evolution: steadily improving margin over the first ten-year period, in a range of 0–60 basis points per year.

Sensitivity analyses

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

8.2.3 Frozen Pizza and Ice Cream USA

Goodwill and intangible assets with indefinite useful life related to the Group's Ice cream businesses in the USA (Nestlé Ice Cream Company and Dreyer's) were previously allocated for the impairment test to the CGU Ice Cream USA. Following the acquisition in March 2010 of the Kraft Food's frozen pizza business in the USA and the synergies in the selling and distribution networks, goodwill and intangible assets of the US Ice cream businesses and US Pizza businesses have been aggregated and allocated to the CGU Frozen Pizza and Ice Cream USA. As at 31 December 2010, the carrying amounts, expressed in USD, represent an equivalent of CHF 4263 million (2009: CHF 3023 million for Ice Cream USA alone) for the goodwill items and CHF 1679 million (2009: CHF 74 million for Ice Cream USA alone) for the intangible assets with indefinite useful life.

Assumptions

The recoverable amount of the CGU is higher than its carrying amount. The recoverable amount has been determined based upon a value-in-use calculation. Deflated cash flow projections covering the next 50 years, discounted at a deflated pre-tax weighted average rate of 7.2%, were used in this calculation. The cash flows for the first five years were based upon financial plans approved by Group Management; years six to ten were based upon Group Management's best expectations, which are consistent with the Group's approved strategy for this period. Cash flows were assumed to be flat for years eleven to 50, although Group Management expects continuing growth. Cash flows have been adjusted to reflect the specific business risks.

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

– sales: annual growth between 3.1 and 4.8% over the first ten-year period;
– EBIT margin evolution: steadily improving margin over the period, in a range of 60–210 basis points per year, which is consistent with enhanced cost management and efficiency.

Sensitivity analyses

The key sensitivity for the impairment test is the growth in sales and EBIT margin. Assuming no sales growth and no EBIT improvement after the first five-year period would not result in the carrying amount exceeding the recoverable amount. An increase of 100 basis points in the discount rate assumption would not change the conclusions of the impairment test.

9. Intangible assets

In millions of CHF					2009
	Brands and intellectual property rights	Operating rights and others	Management information systems	Total	of which internally generated
Gross value					
At 1 January	4 495	1 359	3 867	**9 721**	3 431
of which indefinite useful life	3 948	–	–	**3 948**	–
Currency retranslations	(27)	(23)	73	**23**	77
Expenditure	26	130	244	**400**	200
Disposals	(9)	(4)	(23)	**(36)**	(2)
Reclassified as held for sale	(110)	(528)	(114)	**(752)**	–
Modification of the scope of consolidation	287	25	(13)	**299**	(10)
At 31 December	**4 662**	**959**	**4 034**	**9 655**	**3 696**
of which indefinite useful life (a)	4 100	–	–	**4 100**	–
Accumulated amortisation and impairments					
At 1 January	(248)	(636)	(1 970)	**(2 854)**	(1 643)
Currency retranslations	3	17	(45)	**(25)**	(51)
Amortisation	(32)	(100)	(524)	**(656)**	(500)
Disposals	5	4	11	**20**	–
Reclassified as held for sale	16	355	72	**443**	–
Modification of the scope of consolidation	–	72	3	**75**	4
At 31 December	**(256)**	**(288)**	**(2 453)**	**(2 997)**	**(2 190)**
Net at 31 December	**4 406**	**671**	**1 581**	**6 658**	**1 506**

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

In millions of CHF					2010
	Brands and intellectual property rights	Operating rights and others	Management information systems	Total	of which internally generated
Gross value					
At 1 January	4 662	959	4 034	**9 655**	3 696
of which indefinite useful life	4 100	–	–	**4 100**	–
Currency retranslations	(494)	(97)	(341)	**(932)**	(300)
Expenditure	6	124	119	**249**	94
Disposals	–	(14)	(20)	**(34)**	–
Modification of the scope of consolidation	2 057	78	(5)	**2 130**	(4)
At 31 December	**6 231**	**1 050**	**3 787**	**11 068**	**3 486**
of which indefinite useful life (a)	5 689	–	–	**5 689**	–
Accumulated amortisation and impairments					
At 1 January	(256)	(288)	(2 453)	**(2 997)**	(2 190)
Currency retranslations	11	35	216	**262**	183
Amortisation	(30)	(79)	(521)	**(630)**	(506)
Impairments	(8)	–	–	**(8)**	–
Disposals	–	11	19	**30**	–
Modification of the scope of consolidation	–	–	3	**3**	3
At 31 December	**(283)**	**(321)**	**(2 736)**	**(3 340)**	**(2 510)**
Net at 31 December	**5 948**	**729**	**1 051**	**7 728**	**976**

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

Internally generated intangible assets consist mainly of management information systems.

Commitments for expenditure

At 31 December 2010, the Group was committed to expenditure amounting to CHF 36 million (2009: CHF 61 million).

10. Employee benefits

Salaries and welfare expenses

The Group's total salaries and welfare expenses amount to CHF 15 996 million (2009: CHF 16 333 million). They are allocated to the appropriate headings of expenses by function.

Pensions and retirement benefits

The majority of Group employees are eligible for retirement benefits under defined benefit schemes based on pensionable remuneration and length of service.

Post-employment medical benefits and other employee benefits

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

10.1 Reconciliation of assets and liabilities recognised in the balance sheet

In millions of CHF			2010	2009	2008	2007	2006
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Total	Total	Total	Total
Present value of funded obligations	21 320	74	**21 394**	22 006	19 139	23 098	23 468
Fair value of plan assets	(19 805)	(47)	**(19 852)**	(19 545)	(17 228)	(24 849)	(23 819)
Excess of liabilities/(assets) over funded obligations	1 515	27	**1 542**	2 461	1 911	(1 751)	(351)
Present value of unfunded obligations	616	1 883	**2 499**	2 334	2 337	2 693	2 627
Unrecognised past service cost of non-vested benefits	(12)	21	**9**	(18)	7	5	(5)
Unrecognised assets and minimum funding requirements	35	–	**35**	62	91	1 171	1 390
Defined benefits net liabilities/(assets)	**2 154**	**1 931**	**4 085**	4 839	4 346	2 118	3 661
Liabilities from defined contribution plans and non-current deferred compensation			**943**	1 081	960	1 369	1 294
Liabilities from cash-settled share-based transactions (a)			**86**	99	98	165	117
Net liabilities			**5 114**	6 019	5 404	3 652	5 072
Reflected in the balance sheet as follows:							
Employee benefits assets			**(166)**	(230)	(60)	(1 513)	(343)
Employee benefits liabilities			**5 280**	6 249	5 464	5 165	5 415
Net liabilities			**5 114**	6 019	5 404	3 652	5 072

(a) The intrinsic value of liabilities from cash-settled share-based transactions that are vested amounts to CHF 42 million (2009: CHF 29 million; 2008: CHF 34 million; 2007: CHF 72 million; 2006: CHF 39 million).

10.2 Movement in fair value of defined benefit plan assets

In millions of CHF			2010			2009
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total
At 1 January	(19 443)	(102)	**(19 545)**	(17 009)	(219)	**(17 228)**
Currency retranslations	1 521	14	**1 535**	(514)	8	**(506)**
Expected return on plan assets	(1 348)	(3)	**(1 351)**	(1 147)	(16)	**(1 163)**
Employees' contributions	(120)	–	**(120)**	(120)	–	**(120)**
Employer contributions	(819)	(6)	**(825)**	(1 019)	(57)	**(1 076)**
Actuarial (gains)/losses	(609)	(1)	**(610)**	(718)	(26)	**(744)**
Benefits paid on funded defined benefit schemes	1 080	8	**1 088**	1 101	25	**1 126**
Reclassified as held for sale	109	–	**109**	114	182	**296**
Transfer (from)/to defined contribution plans	(176)	43	**(133)**	(131)	1	**(130)**
At 31 December	**(19 805)**	**(47)**	**(19 852)**	**(19 443)**	**(102)**	**(19 545)**

The plan assets include property occupied by affiliated companies with a fair value of CHF 13 million (2009: CHF 16 million) and assets loaned to affiliated companies with a fair value of CHF 24 million (2009: CHF 48 million). The actual return on plan assets is positive in 2010 by CHF 1961 million (2009: positive by CHF 1907 million). The Group expects to contribute CHF 679 million to its funded defined benefit schemes in 2011.

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

At 31 December	2010	2009
Equities	39%	41%
Bonds	32%	30%
Real estate	6%	6%
Alternative investments	20%	19%
Cash/Deposits	3%	4%

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

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

10.3 Movement in the present value of defined benefit obligations

In millions of CHF			2010			2009
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total
At 1 January	22 471	1 869	**24 340**	19 674	1 802	**21 476**
of which funded defined benefit schemes	21 863	143	**22 006**	18 723	416	**19 139**
of which unfunded defined benefit schemes	608	1 726	**2 334**	951	1 386	**2 337**
Currency retranslations	(1 672)	(186)	**(1 858)**	537	21	**558**
Current service cost	640	74	**714**	609	84	**693**
Interest cost	1 097	116	**1 213**	1 092	125	**1 217**
Early retirements, curtailments and settlements	(66)	(7)	**(73)**	(32)	(46)	**(78)**
Past service cost of vested benefits	4	(2)	**2**	34	1	**35**
Past service cost of non-vested benefits	(1)	(24)	**(25)**	17	4	**21**
Actuarial (gains)/losses	543	197	**740**	2 131	318	**2 449**
Benefits paid on funded defined benefit schemes	(1 080)	(8)	**(1 088)**	(1 101)	(25)	**(1 126)**
Benefits paid on unfunded defined benefit schemes	(46)	(131)	**(177)**	(66)	(127)	**(193)**
Reclassified as held for sale	(152)	–	**(152)**	(554)	(285)	**(839)**
Modification of the scope of consolidation	–	16	**16**	–	–	**–**
Transfer from/(to) defined contribution plans	198	43	**241**	130	(3)	**127**
At 31 December	**21 936**	**1 957**	**23 893**	**22 471**	**1 869**	**24 340**
of which funded defined benefit schemes	21 320	74	**21 394**	21 863	143	**22 006**
of which unfunded defined benefit schemes	616	1 883	**2 499**	608	1 726	**2 334**

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

In millions of CHF			2010	2009	2008	2007	2006
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Total	Total	Total	Total
Experience adjustments on plan assets	609	1	**610**	744	(5 719)	421	1 027
Experience adjustments on plan liabilities	78	(7)	**71**	(303)	95	(297)	21
Change of assumptions on plan liabilities	(621)	(190)	**(811)**	(2 146)	1 471	955	(65)
Transfer from/(to) unrecognised assets and other	23	–	**23**	33	1 014	(806)	(521)
Actuarial gains/(losses) on defined benefit schemes	**89**	**(196)**	**(107)**	**(1 672)**	**(3 139)**	**273**	**462**

At 31 December 2010, the net cumulative actuarial losses on defined benefit schemes recognised in equity amount to CHF 5419 million (2009: CHF 6019 million).

10.5 Expenses recognised in the income statement

In millions of CHF	2010			2009		
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total
Current service cost	640	74	**714**	584	70	**654**
Employee contributions	(120)	–	**(120)**	(120)	–	**(120)**
Interest cost	1 097	116	**1 213**	1 062	108	**1 170**
Expected return on plan assets	(1 348)	(3)	**(1 351)**	(1 143)	(5)	**(1 148)**
Early retirements, curtailments and settlements	(66)	(7)	**(73)**	(32)	(46)	**(78)**
Past service cost of vested benefits	4	(2)	**2**	34	1	**35**
Past service cost of non-vested benefits	2	2	**4**	(2)	3	**1**
Total defined benefit expenses	**209**	**180**	**389**	**383**	**131**	**514**
Total defined contribution expenses			**259**			**251**
Expenses from discontinued operations			**117**			**176**
Total			**765**			**941**

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

10.6 Principal financial actuarial assumptions

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

At 31 December	2010	2009
Discount rates		
Europe	4.0%	4.3%
Americas	6.3%	6.3%
Asia, Oceania and Africa	5.2%	5.4%
Expected long-term rates of return on plan assets		
Europe	6.3%	6.4%
Americas	8.8%	8.4%
Asia, Oceania and Africa	7.4%	7.1%
Expected rates of salary increases		
Europe	3.1%	3.3%
Americas	3.0%	2.9%
Asia, Oceania and Africa	3.7%	3.7%
Expected rates of pension adjustments		
Europe	1.9%	2.0%
Americas	0.9%	0.9%
Asia, Oceania and Africa	2.0%	2.0%
Medical cost trend rates		
Americas	7.1%	7.0%

10.7 Mortality tables and life expectancies for the major schemes

Country	Mortality table	Life expectancy at age 65 for a male member currently aged 65 (in years)		Life expectancy at age 65 for a female member currently aged 65 (in years)	
At 31 December		2010	2009	2010	2009
Switzerland	LPP 2010	18.9	18.2	21.4	21.6
United Kingdom	S1NA 2008, CMI 2009	20.8	20.8	21.6	23.1
United States	RP–2000	19.0	18.9	20.9	20.9
Germany	Heubeck Richttafeln 1998	21.3	21.3	22.8	22.8
Netherlands	AG Prognosetafel 2010–2060	21.6	18.9	23.5	21.0

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

10.8 Sensitivity analysis on medical cost trend rates

A one percentage point increase in assumed medical cost trend rates would increase the defined benefit obligations by CHF 129 million and increase the aggregate of current service cost and interest cost by CHF 14 million.
A one percentage point decrease in assumed medical cost trend rates would decrease the defined benefit obligations by CHF 101 million and decrease the aggregate of current service cost and interest cost by CHF 12 million.

11. Equity compensation plans

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

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

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

In millions of CHF	2010	2009
Equity-settled share-based payment costs	158	156
Cash-settled share-based payment costs	46	56
Total share-based payment costs from continuing operations	**204**	**212**
Total share-based payment costs from discontinued operations	39	80
Total share-based payment costs	**243**	**292**

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

In millions of CHF	2010	2009
RSUP	180	197
MSOP	9	8
PSUP	5	2
SAR	10	5
Total share-based payment costs from continuing operations	**204**	**212**

11.1 Restricted Stock Unit Plan (RSUP)

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

Number of RSU in millions of units	2010	2009 (a)
Outstanding at 1 January	11.1	10.7
Granted	3.5	4.5
Settled	(3.8)	(3.9)
Forfeited	(0.1)	(0.2)
Outstanding at 31 December	**10.7**	**11.1**
of which vested at 31 December	0.5	0.4
of which cash-settled at 31 December	1.4	1.6

(a) 2009 comparatives have been restated so as to include the separate RSUP sponsored by some US affiliates as from 2006 (cash-settled plans).

The fair value of equity-settled RSU is determined on the basis of the market price of Nestlé S.A. shares at grant date, discounted at a risk-free interest rate and adjusted for the dividends that participants are not entitled to receive during the restricted period of three years. The weighted average fair value of the equity-settled RSU granted in 2010 is CHF 50.74 (2009: CHF 37.93).

For cash-settled outstanding RSU, the liability is re-measured at each reporting date based on subsequent changes in the market price of Nestlé S.A. shares. The weighted average fair value of the cash-settled RSU outstanding at 31 December 2010 is CHF 53.43 (2009: CHF 49.18).

11.2 Management Stock Option Plan (MSOP)

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

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

	2010	2009	2010	2009
	Weighted average exercise price	Weighted average exercise price	Number of options	Number of options
Outstanding at 1 January	35.37	33.53	15.4	22.3
Granted	53.29	40.53	1.6	2.2
Exercised	32.12	32.07	(8.7)	(9.1)
Forfeited	–	–	–	–
Outstanding at 31 December	**42.16**	**35.37**	**8.3**	**15.4**
of which exercisable at 31 December	37.10	32.58	3.7	11.3

At 31 December 2010, the exercise prices of the outstanding options range from CHF 28.94 to CHF 53.29 and their weighted average remaining contractual life is 3.6 years. Those options can be divided as follows: 2.6 million options are exercisable at prices ranging from CHF 28.94 to CHF 40.– with a weigthed average remaining contractual life of 1 year, 4.1 million at prices ranging from CHF 40.– to CHF 50.– with a weigthed average remaining contractual life of 4.4 years and 1.6 million at CHF 53.29 with a remaining contractual life of 6.2 years.

The fair value of the options granted in 2010 is CHF 6.70 (2009: CHF 4.85) and was estimated using a Black and Scholes model. The inputs to the model at grant date were as follows:

	2010	2009
Market price of Nestlé S.A. shares (in CHF)	53.85	40.18
Exercise price (in CHF)	53.29	40.53
Expected volatility	19.05%	19.22%
Expected dividend yield	2.97%	3.04%
Risk-free interest rate	1.54%	1.72%
Grant date	05/03/2010	01/02/2009
Expiry date	04/03/2017	31/01/2016

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

In 2010, the weighted average market price of Nestlé S.A. shares at the date of exercise was CHF 53.43 (2009: CHF 43.04).

11.3 Performance Share Unit Plan (PSUP)

Members of the Executive Board are also awarded Performance Share Unit Plan (PSUP) that provides units (PSU) which entitle participants to receive freely disposable Nestlé S.A. shares (accounted for as equity-settled share-based payment transactions) at the end of a three-year restriction period. Upon vesting, the number of shares delivered ranges from 50% to 200% of the initial grant and is determined by the degree by which the performance measure of the PSUP has been met. The performance measure is the relative Total Shareholder Return of the Nestlé S.A. share compared to the STOXX 600 Food & Beverage Index.

Number of PSU in millions of units	2010	2009
Outstanding at 1 January	0.2	–
Granted	0.1	0.2
Settled	–	–
Forfeited	–	–
Outstanding at 31 December	**0.3**	**0.2**

The fair value of the PSU granted in 2010 is CHF 55.81 (2009: CHF 41.72) and was estimated at the grant date using a Monte Carlo simulation approach. The inputs incorporated into the valuation model comprise the market price of Nestlé S.A. shares at grant date, a risk-free interest rate and the expected dividends that participants are not entitled to receive during the restricted period of three years.

11.4 Share Appreciation Rights (SAR)

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

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

	2010 Weighted average exercise price	2009 Weighted average exercise price	2010 Number of SAR	2009 Number of SAR
Outstanding at 1 January	29.27	28.75	1.9	3.0
Granted	–	–	–	–
Exercised	29.99	29.10	(1.3)	(1.1)
Forfeited	–	–	–	–
Outstanding at 31 December	**29.70**	**29.27**	**0.6**	**1.9**
of which exercisable at 31 December	29.70	29.27	0.6	1.9

At 31 December 2010, the exercise prices of the outstanding options range from CHF 28.94 to CHF 33.53 and their weighted average remaining contractual life is 11 months. In 2010, the weighted average market price of Nestlé S.A. shares at the date of exercise was CHF 52.88 (2009: CHF 42.19).

12. Provisions and contingencies

12.1 Provisions

In millions of CHF

	Restructuring	Environmental	Litigation	Other	Total
At 1 January 2009	858	31	2 484	290	**3 663**
Currency retranslations	5	(1)	17	19	**40**
Provisions made during the year [(a)]	168	4	507	227	**906**
Amounts used	(243)	(4)	(37)	(113)	**(397)**
Unused amounts reversed	(49)	–	(196)	(26)	**(271)**
Reclassified as held for sale	(9)	–	(101)	–	**(110)**
Modification of the scope of consolidation	–	–	20	14	**34**
At 31 December 2009	**730**	**30**	**2 694**	**411**	**3 865**
of which expected to be settled within 12 months					**643**
Currency retranslations	(115)	1	(183)	(35)	**(332)**
Provisions made during the year [(a)]	433	6	633	280	**1 352**
Amounts used	(224)	(3)	(242)	(126)	**(595)**
Unused amounts reversed	(26)	(5)	(131)	(25)	**(187)**
Modification of the scope of consolidation	–	–	2	6	**8**
At 31 December 2010	**798**	**29**	**2 773**	**511**	**4 111**
of which expected to be settled within 12 months					**601**

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

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

Litigation
Litigation provisions have been set up to cover tax, legal and administrative proceedings that arise in the ordinary course of the business. These provisions cover numerous separate cases whose detailed disclosure could be detrimental to the Group interests. The Group does not believe that any of these litigation proceedings will have a material adverse impact on its financial position. The timing of outflows is uncertain as it depends upon the outcome of the proceedings. In that instance, these provisions are not discounted because their present value would not represent meaningful information. Group Management does not believe it is possible to make assumptions on the evolution of the cases beyond the balance sheet date.

Other
Other provisions are mainly constituted by onerous contracts and various damage claims having occurred during the year but not covered by insurance companies. Onerous contracts result from unfavourable leases, breach of contracts or supply agreements above market prices in which the unavoidable costs of meeting the obligations under the contracts exceed the economic benefits expected to be received or for which no benefits are expected to be received.

12.2 Contingencies

The Group is exposed to contingent liabilities amounting to a maximum potential payment of CHF 1121 million (2009: CHF 1175 million) representing potential litigations of CHF 1110 million (2009: CHF 1138 million) and other items of CHF 11 million (2009: CHF 37 million). Potential litigations relate mainly to labour, civil and tax litigations in Latin America.

Contingent assets for litigation claims in favour of the Group amount to a maximum potential recoverable of CHF 247 million (2009: CHF 234 million).

13. Net financing cost and financial instruments

13.1. Net financing cost

In millions of CHF	2010	2009
Interest income	58	83
Gains on investments at fair value to income statement	14	40
Financial income	**72**	**123**
Interest expense	(828)	(745)
Unwind of the discount on provisions	(6)	(32)
Financial expense	**(834)**	**(777)**
Net financing cost of continuing operations	**(762)**	**(654)**
Net financing cost of discountinued operations	9	39
Total net financing cost	**(753)**	**(615)**

13.2. Financial assets and liabilities

13.2a By class and by category

	2010				2009			
Classes	Loans, Receivables and Liabilities at amortised cost [a]	Held for trading	Available for sale	Total categories	Loans, Receivables and Liabilities at amortised cost [a]	Held for trading	Available for sale	Total categories
Cash at bank and in hand	2 460			**2 460**	1 496			**1 496**
Commercial paper and bills			11 259	**11 259**			2 277	**2 277**
Time deposits			1 958	**1 958**			872	**872**
Trading portfolios		542		**542**		502		**502**
Other financial assets – current			27	**27**			172	**172**
Liquid assets [b]	2 460	542	13 244	**16 246**	1 496	502	3 321	**5 319**
Trade and other receivables	12 083			**12 083**	12 309			**12 309**
Bonds			3 522	**3 522**			1 148	**1 148**
Equity instruments			1 138	**1 138**			802	**802**
Other financial assets – non-current	289		1 417	**1 706**	366		1 633	**1 999**
Financial assets – non-current	289		6 077	**6 366**	366		3 583	**3 949**
Derivative assets [c]		1 011		**1 011**		1 671		**1 671**
Total financial assets	**14 832**	**1 553**	**19 321**	**35 706**	**14 171**	**2 173**	**6 904**	**23 248**
Trade and other payables	(13 845)			**(13 845)**	(14 394)			**(14 394)**
Financial debt	(20 100)			**(20 100)**	(23 404)			**(23 404)**
Derivative liabilities [c]		(456)		**(456)**		(1 127)		**(1 127)**
Total financial liabilities	**(33 945)**	**(456)**	**–**	**(34 401)**	**(37 798)**	**(1 127)**	**–**	**(38 925)**
Net financial position	**(19 113)**	**1 097**	**19 321**	**1 305**	**(23 627)**	**1 046**	**6 904**	**(15 677)**
of which at fair value		1 097	19 321	**20 418**		1 046	6 904	**7 950**

(a) Carrying amount of these instruments is a reasonable approximation of their fair value. For bonds included in financial debt, see section 13.2c.
(b) Liquid assets are composed of cash and cash equivalents (CHF 8057 million) and short-term investments (CHF 8189 million).
(c) Include derivatives that are undesignated and under hedge accounting.

13.2b Fair value hierarchy of financial instruments

In millions of CHF	2010	2009
Trading portfolios	445	502
Derivative assets	102	120
Bonds	1 940	15
Equity instruments	1 102	802
Other financial assets	342	338
Derivative liabilities	(70)	(25)
Prices quoted in active markets (Level 1)	**3 861**	**1 752**
Commercial paper and bills	11 259	2 277
Time deposits	1 958	872
Derivative assets	909	1 551
Bonds	1 557	1 117
Other financial assets	694	760
Derivative liabilities	(386)	(1 102)
Valuation techniques based on observable market data (Level 2)	**15 991**	**5 475**
Other financial assets	566	723
Valuation techniques based on unobservable input (Level 3)	**566**	**723**
Total financial instruments at fair value	**20 418**	**7 950**

There have been no significant transfers between the different hierarchy levels in 2010.

13.2c Bonds

In millions of CHF						2010	2009
Issuer	Face value in millions	Coupon	Effective interest rate	Year of issue/ maturity	Comments	Carrying amount	
Nestlé Holdings, Inc., USA	AUD 300	6.00%	6.36%	2006–2010		–	277
	CHF 625	2.75%	2.69%	2007–2010		–	626
	HUF 10000	6.88%	7.20%	2007–2010		–	54
	NOK 1500	4.75%	5.16%	2007–2010		–	267
	NZD 100	8.25%	8.53%	2008–2010		–	75
	USD 500	4.75%	4.90%	2007–2011	(a)	470	533
	AUD 600	7.25%	7.63%	2008–2011	(b)	576	560
	CHF 300	2.25%	2.30%	2008–2011	(c)	301	299
	NOK 1000	5.00%	5.55%	2008–2011	(c)	161	178
	USD 750	4.00%	3.87%	2008–2011	(a)	711	799
	CHF 675	3.00%	2.86%	2007–2012	(d)	699	701
	AUD 350	6.00%	6.24%	2009–2013	(c)	334	321
	CHF 450	2.50%	2.57%	2006–2013	(a)	472	468
	USD 275	2.00%	2.26%	2009–2013	(e)	259	282
	USD 550	2.13%	2.13%	2010–2014		516	–
	CHF 250	2.63%	2.66%	2007–2018	(a)	264	259
Nestlé Purina PetCare Company, USA	USD 48	7.75%	6.25%	1995–2015		47	53
	USD 63	9.30%	6.46%	1991–2021		72	80
	USD 79	8.63%	6.46%	1992–2022		87	96
	USD 44	8.13%	6.47%	1993–2023		47	52
	USD 51	7.88%	6.45%	1995–2025		54	60
Nestlé Finance International Ltd, Luxembourg	CHF 1075	1.25%	1.40%	2009–2012	(f)	1 078	1 077
	CHF 1200	2.00%	2.04%	2009–2013	(g)	1 199	1 198
	CHF 425	2.00%	2.03%	2009–2014	(g)	425	424
	CHF 275	2.13%	2.13%	2009–2014	(g)	275	275
	AUD 450	5.75%	5.81%	2010–2014	(a)	431	–
	NOK 1250	2.50%	2.73%	2010–2014	(a)	200	–
	CHF 350	2.13%	2.20%	2009–2015	(g)	349	349
Other bonds						7	9
Total						**9 034**	**9 372**
of which due within one year						2 218	1 300
of which due after one year						6 816	8 072

The fair value of bonds amounts to CHF 9358 million (2009: CHF 9720 million). This value includes accrued interest of CHF 153 million (2009: CHF 188 million).
Most of the bonds are hedged by currency and/or interest derivatives. The fair value of these derivatives is shown under derivative assets for CHF 832 million (2009: CHF 603 million) and under derivative liabilities for CHF 11 million (2009: CHF 28 million).

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

(b) This bond is composed of:
- AUD 300 million issued in 2008 subject to an interest rate and currency swap that creates a liability at fixed rates in the currency of the issuer; and
- AUD 300 million issued in 2008 subject to an interest rate and currency swap that creates a liability at floating rates in the currency of the issuer.

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

(d) This bond is composed of:
- CHF 200 million issued in 2007 subject to an interest rate and currency swap that creates a liability at floating rates in the currency of the issuer;
- CHF 150 million issued in 2008 subject to an interest rate and currency swap that creates a liability at fixed rates in the currency of the issuer; and
- CHF 325 million issued in 2008 subject to an interest rate and currency swap that creates a liability at floating rates in the currency of the issuer.

(e) This bond is composed of:
- USD 150 million issued in 2009; and
- USD 125 million issued in 2009 subject to an interest rate swap that creates a liability at floating rates in the currency of the issuer.

(f) This bond is composed of:
- CHF 525 million issued in 2009 subject to interest rate and currency swaps that create a liability at floating rates in the currency of the issuer; and
- CHF 550 million issued in 2009 subject to currency swaps that hedge the CHF face value exposure.

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

13.2d Derivative assets and liabilities
By type

In millions of CHF			2010			2009
	Contractual or notional amounts	Fair value assets	Fair value liabilities	Contractual or notional amounts	Fair value assets	Fair value liabilities
Fair value hedges						
Currency forwards, futures and swaps	9 144	198	194	11 348	182	60
Interest rate forwards, futures and swaps	1 814	60	–	1 942	100	–
Interest rate and currency swaps	3 642	598	15	4 042	448	28
Cash flow hedges						
Currency forwards, futures, swaps and options	3 756	44	68	3 417	42	27
Interest rate forwards, futures and swaps	2 100	6	109	3 057	9	128
Commodity futures and options	910	82	26	1 758	119	24
Hedges of net investments in foreign operations						
(currency forwards, futures and swaps)	–	–	–	2 515	–	41
Undesignated derivatives						
Currency forwards, futures, swaps and options	888	17	7	1 806	28	24
Interest rate and currency swaps	378	5	5	1 984	742	744
Interest rate forwards, futures, swaps and options	626	–	31	1 001	–	50
Commodity futures and options	8	1	1	30	1	1
	23 266	**1 011**	**456**	**32 900**	**1 671**	**1 127**

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 undesignated derivatives.

Impact on the income statement of fair value hedges

In millions of CHF	2010	2009
on hedged items	(1 005)	(537)
on hedging instruments	1 004	511

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

13.3 Financial risks

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

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

13.3a Credit risk

Credit risk management

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

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

Trade receivables are subject to credit limits, control and approval procedures in all the affiliated companies. Due to its large geographic base and number of customers, the Group is not exposed to material concentrations of credit risk on its trade receivables (refer to Note 6). Nevertheless global commercial counterparties are constantly monitored following the same methodology used for financial counterparties.

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

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

In millions of CHF	2010	2009
Investment grade A– and above [(a)]	20 846	9 523
Investment grade BBB+, BBB and BBB–	1 728	632
Non-investment grade (BB+ and below)	80	188
Not rated	680	230
	23 334	**10 573**

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

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

13.3b Liquidity risk
Liquidity risk management
Liquidity risk arises when a company encounters difficulties to meet commitments associated with liabilities and other payment obligations. Such risk may result from inadequate market depth or disruption or refinancing problems. The Group's objective is to manage this risk by limiting exposures in instruments that may be affected by liquidity problems and by maintaining sufficient back-up facilities. The Group does not expect any refinancing issues and has successfully completed the renewal and amendment of its EUR 5.0 billion five-year revolving credit facility this year. The facility currently serves primarily as a backstop to its global commercial paper programme. In total, the Group's revolving credit facilities amount to EUR 7.0 billion.

Maturity of financial instruments

In millions of CHF						2009
	In the first year	In the second year	In the third to the fifth year	After the fifth year	Contractual amount	Carrying amount
Cash at bank and in hand	1 496				1 496	1 496
Commercial paper and bills	2 277				2 277	2 277
Time deposits	872				872	872
Trade and other receivables	12 309				12 309	12 309
Trading portfolios	502				502	502
Other financial assets	172	156	196	2 670	3 194	3 194
	17 628	156	196	2 670	20 650	20 650
Financial investments without contractual maturities						927
Financial assets	**17 628**	**156**	**196**	**2 670**	**20 650**	**21 577**
Trade and other payables	**(13 033)**	**(264)**	**(2)**	**(1 095)**	**(14 394)**	**(14 394)**
Commercial paper (a)	(10 249)	–	–	–	(10 249)	(10 245)
Bonds (a)	(1 611)	(2 714)	(5 098)	(1 120)	(10 543)	(9 372)
Other financial debt	(3 235)	(630)	(223)	(297)	(4 385)	(3 787)
Total financial debt	**(15 095)**	**(3 344)**	**(5 321)**	**(1 417)**	**(25 177)**	**(23 404)**
Financial liabilities	**(28 128)**	**(3 608)**	**(5 323)**	**(2 512)**	**(39 571)**	**(37 798)**
Non-currency derivative assets	118	101	1	9	229	229
Non-currency derivative liabilities	(78)	(23)	(65)	(37)	(203)	(203)
Gross amount receivable from currency derivatives	22 143	1 076	1 616	314	25 149	25 112
Gross amount payable from currency derivatives	(21 909)	(1 032)	(1 444)	(249)	(24 634)	(24 594)
Net derivatives	**274**	**122**	**108**	**37**	**541**	**544**
Net financial position	**(10 226)**	**(3 330)**	**(5 019)**	**195**	**(18 380)**	**(15 677)**
of which derivatives under cash flow hedges (b)	63	1	(58)	(15)	(9)	(9)

(a) Commercial paper (liabilities) of CHF 8972 million and bonds of CHF 804 million have maturities of less than three months.
(b) The periods when the cash flow hedges affect the income statement do not differ significantly from the maturities disclosed above.

Maturity of financial instruments

In millions of CHF						2010
	In the first year	In the second year	In the third to the fifth year	After the fifth year	Contractual amount	Carrying amount
Cash at bank and in hand	2 460				2 460	2 460
Commercial paper and bills	11 259				11 259	11 259
Time deposits	1 958				1 958	1 958
Trade and other receivables	12 083				12 083	12 083
Trading portfolios	542				542	542
Other financial assets	27	1 227	1 099	2 617	4 970	4 970
	28 329	1 227	1 099	2 617	33 272	33 272
Financial investments without contractual maturities						1 423
Financial assets	**28 329**	**1 227**	**1 099**	**2 617**	**33 272**	**34 695**
Trade and other payables	**(12 592)**	**(273)**	**(39)**	**(992)**	**(13 896)**	**(13 845)**
Commercial paper (a)	(7 520)	–	–	–	(7 520)	(7 516)
Bonds (a)	(2 413)	(1 938)	(4 770)	(646)	(9 767)	(9 034)
Other financial debt	(3 292)	(283)	(256)	(265)	(4 096)	(3 550)
Total financial debt	**(13 225)**	**(2 221)**	**(5 026)**	**(911)**	**(21 383)**	**(20 100)**
Financial liabilities	**(25 817)**	**(2 494)**	**(5 065)**	**(1 903)**	**(35 279)**	**(33 945)**
Non-currency derivative assets	118	(1)	1	30	148	149
Non-currency derivative liabilities	(89)	(45)	(37)	25	(146)	(167)
Gross amount receivable from currency derivatives	15 765	1 182	1 528	270	18 745	18 596
Gross amount payable from currency derivatives	(15 671)	(988)	(1 254)	(290)	(18 203)	(18 023)
Net derivatives	**123**	**148**	**238**	**35**	**544**	**555**
Net financial position	**2 635**	**(1 119)**	**(3 728)**	**749**	**(1 463)**	**1 305**
of which derivatives under cash flow hedges (b)	(33)	(47)	(24)	55	(49)	(71)

(a) Commercial paper (liabilities) of CHF 6393 million and bonds of CHF 1305 million have maturities of less than three months.
(b) The periods when the cash flow hedges affect the income statement do not differ significantly from the maturities disclosed above.

13.3c Market risk

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

Foreign currency risk

Foreign currency risk management

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

Exchange differences recorded in the income statement represented a loss of CHF 380 million in 2010 (2009: loss of CHF 89 million). They are allocated to the appropriate headings of expenses by function.

Financial instruments by currency

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

Functional currencies

In millions of CHF							2009
					Currency of financial instruments		
	CHF	USD	EUR	GBP	CAD	Other	Total
CHF		318	175	107	–	(36)	564
USD	(2)		(10)	–	26	40	54
EUR	(9)	13		(18)	(1)	(59)	(74)
GBP	(10)	(9)	(37)		–	11	(45)
Other exposed	(18)	(178)	(74)	(28)	–	(200)	(498)
Total exposed	**(39)**	**144**	**54**	**61**	**25**	**(244)**	**1**
Not exposed	1 067	(4 382)	(11 001)	34	(456)	(940)	(15 678)
Total	**1 028**	**(4 238)**	**(10 947)**	**95**	**(431)**	**(1 184)**	**(15 677)**

Functional currencies

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

Interest rate risk

Interest risk management

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

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

In millions of CHF	2010	2009
Financial debt at fixed rates	2 712	3 992
Financial debt at variable rates	4 771	4 974
	7 483	**8 966**

Price risk

Commodity price risk

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

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

Equity price risk

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

13.3d Settlement risk

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

13.3e Value at Risk (VaR)

Description of the method

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

Objective of the method

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

VaR figures

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

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

In millions of CHF	2010	2009
Foreign currency	10	6
Interest rate	17	24
Security price	204	200
Foreign currency, interest rate and security price combined	207	208

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

In millions of CHF	2010	2009
Commodity price	8	15

13.3f Capital risk management

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

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

The operating cash flow-to-net financial debt ratio highlights the ability of a business to repay its debts. As at 31 December 2010, the ratio was 353.2% (2009: 99.2%). The Group's subsidiaries have complied with local statutory capital requirements as appropriate.

14. Taxes

14.1 Taxes recognised in the income statement

In millions of CHF	2010	2009
Components of taxes		
Current taxes [a]	2 917	2 772
Deferred taxes	181	236
Taxes reclassified to other comprehensive income	248	87
Taxes reclassified to equity	(3)	(8)
Taxes from continuing operations	**3 343**	**3 087**
Taxes from discontinued operations	350	275
Total taxes	**3 693**	**3 362**

Reconciliation of taxes		
Expected tax expense at weighted average applicable tax rate	2 882	2 789
Tax effect of non-deductible or non-taxable items	(10)	(168)
Prior years' taxes	(129)	(17)
Transfers to unrecognised deferred tax assets	53	58
Transfers from unrecognised deferred tax assets	(20)	(44)
Changes in tax rates	9	(1)
Withholding taxes levied on transfers of income	353	340
Other, incl. taxes on capital	205	130
Taxes from continuing operations	**3 343**	**3 087**

(a) Current taxes related to prior years represent a tax expense of CHF 25 million (2009: tax income of CHF 45 million).

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

14.2 Taxes recognised in other comprehensive income

In millions of CHF	2010	2009
Tax effects relating to		
Currency retranslations	195	(131)
Fair value adjustments on available-for-sale financial instruments	(11)	(43)
Fair value adjustments on cash flow hedges	21	(178)
Actuarial gains/(losses) on defined benefit schemes	63	442
	268	**90**

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

In millions of CHF

	Property, plant and equipment	Goodwill and intangible assets	Employee benefits	Inventories, receivables, payables and provisions	Unused tax losses and unused tax credits	Other	Total
At 1 January 2009	(911)	(858)	1 907	880	324	159	**1 501**
Currency retranslations	23	10	(5)	15	(5)	2	**40**
Deferred tax (expense)/income	(217)	(238)	452	6	8	(240)	**(229)**
Reclassified as held for sale	35	4	(388)	(80)	(20)	(65)	**(514)**
Modification of the scope of consolidation	2	(7)	(1)	1	–	5	–
At 31 December 2009	**(1 068)**	**(1 089)**	**1 965**	**822**	**307**	**(139)**	**798**
Currency retranslations	116	87	(149)	(88)	(28)	(18)	**(80)**
Deferred tax (expense)/income	(134)	(157)	(98)	101	39	68	**(181)**
Modification of the scope of consolidation	(7)	(7)	8	2	–	7	**3**
At 31 December 2010	**(1 093)**	**(1 166)**	**1 726**	**837**	**318**	**(82)**	**540**

In millions of CHF	2010	2009
Reflected in the balance sheet as follows:		
Deferred tax assets	1 911	2 202
Deferred tax liabilities	(1 371)	(1 404)
Net assets	**540**	798

14.4 Unrecognised deferred taxes

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

In millions of CHF	2010	2009
Within one year	56	48
Between one and five years	276	298
More than five years	1 648	1 279
	1 980	1 625

At 31 December 2010, the unrecognised deferred tax assets amount to CHF 544 million (2009: CHF 478 million). In addition, the Group has not recognised deferred tax liabilities in respect of unremitted earnings that are considered indefinitely reinvested in foreign subsidiaries. At 31 December 2010, these earnings amount to CHF 13.3 billion (2009: CHF 20.8 billion). They could be subject to withholding and other taxes on remittance.

15. Associates

In millions of CHF	2010	2009
At 1 January	8 693	7 796
Currency retranslations	(1 446)	(56)
Investments	106	197
Share of results	1 010	800
Dividends received	(360)	(392)
Share of other comprehensive income	(89)	333
Modification of the scope of consolidation	–	15
At 31 December	**7 914**	**8 693**
of which L'Oréal	6 954	7 737

15.1 L'Oréal

The Group holds 178 381 021 shares in L'Oréal, representing a 30.3% participation in its equity after consideration of its own shares (2009: 178 381 021 shares representing a 30.5% participation). At 31 December 2010, the market value of the shares held amounts to CHF 18 569 million (2009: CHF 20 673 million).

15.2 Key financial data of the main associates

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

In millions of CHF	2010	2009
Total current assets	9 375	9 582
Total non-current assets	22 222	26 729
Total assets	**31 597**	**36 311**
Total current liabilities	8 842	8 838
Total non-current liabilities	3 334	6 518
Total liabilities	**12 176**	**15 356**
Total equity	**19 421**	**20 955**
Total sales	**28 554**	**28 071**
Total results	**3 165**	**2 675**

16. Earnings per share

	2010	2009
Basic earnings per share (in CHF)	10.16	2.92
Net profit (in millions of CHF)	34 233	10 428
Weighted average number of shares outstanding (in millions of units)	3 371	3 572
Fully diluted earnings per share (in CHF)	10.12	2.91
Net profit, net of effects of dilutive potential ordinary shares (in millions of CHF)	34 233	10 428
Weighted average number of shares outstanding, net of effects of dilutive potential ordinary shares (in millions of units)	3 382	3 584
Reconciliation of weighted average number of shares outstanding (in millions of units)		
Weighted average number of shares outstanding used to calculate basic earnings per share	3 371	3 572
Adjustment for share-based payment schemes, where dilutive	11	12
Weighted average number of shares outstanding used to calculate diluted earnings per share	3 382	3 584

17. Cash flow statement

17.1 Non-cash items of income and expense

In millions of CHF	2010	2009
Share of results of associates	(1 010)	(800)
Depreciation of property, plant and equipment	2 552	2 713
Impairment of property, plant and equipment	186	170
Impairment of goodwill	337	57
Amortisation of intangible assets	630	656
Impairment of intangible assets	8	–
Net result on disposal of businesses	(24 472)	(105)
Net result on disposal of assets	(29)	(71)
Non-cash items in financial assets and liabilities	157	315
Deferred taxes	236	229
Taxes in other comprehensive income and equity	266	82
Equity compensation plans	187	232
Other	4	–
	(20 948)	**3 478**

17.2 Decrease/(increase) in working capital

In millions of CHF	2010	2009
Inventories	(899)	1 099
Trade receivables	(463)	(83)
Trade payables	718	444
Other current assets	(1 015)	(487)
Other current liabilities	1 027	1 469
	(632)	**2 442**

17.3 Variation of other operating assets and liabilities

In millions of CHF	2010	2009
Variation of employee benefits assets and liabilities	(543)	(607)
Variation of provisions	566	238
Other	(219)	590
	(196)	**221**

17.4 Purchase of treasury shares

In 2010, out of the CHF 12.1 billion of purchase of treasury shares, the Group invested CHF 10.1 billion on its Share Buy-Back Programme (2009: CHF 7.0 billion).

17.5 Cash and cash equivalents at end of year

In millions of CHF	2010	2009
Cash at bank and in hand	2 460	1 496
Time deposits [(a)]	1 209	842
Commercial paper [(a)]	4 388	396
	8 057	**2 734**
Cash and cash equivalents classified as held for sale	–	3 091
	8 057	**5 825**

(a) With original maturity of less than three months.

17.6 Interest, taxes and dividends

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

In millions of CHF	2010	2009
Interest paid	(510)	(566)
Interest received	59	97
Taxes paid	(2 958)	(2 758)
Dividends paid	(6 172)	(5 779)
Dividends received	380	400

18. Equity

18.1 Share capital issued
The ordinary share capital of Nestlé S.A. authorised, issued and fully paid is composed of 3 465 000 000 registered shares with a nominal value of CHF 0.10 each (2009: 3 650 000 000 registered shares). Each share confers the right to one vote. No shareholder may be registered with the right to vote for shares which it holds, directly or indirectly, in excess of 5% of the share capital. Shareholders have the right to receive dividends.

The share capital changed twice in the last two financial years as a consequence of the Share Buy-Back Programmes. The cancellation of shares was approved at the Annual General Meetings of 23 April 2009 and 15 April 2010. In 2009, the share capital was reduced by 180 000 000 shares from CHF 383 million to CHF 365 million. In 2010, the share capital was further reduced by 185 000 000 shares from CHF 365 million to CHF 347 million.

18.2 Conditional share capital
The conditional capital of Nestlé S.A. amounts to CHF 10 million as in the preceding year. It confers the right to increase the ordinary share capital, through the exercise of conversion or option rights in connection with debentures and other financial market instruments, by a maximum of CHF 10 million by the issue of a maximum of 100 000 000 registered shares with a nominal value of CHF 0.10 each. Thus the Board of Directors has at its disposal a flexible instrument enabling it, if necessary, to finance the activities of the Company through convertible debentures.

18.3 Treasury shares

Number of shares in millions of units	Notes	2010	2009
Purpose of holding			
Trading		40	10
Share Buy-Back Programme		149	142
Long-Term Incentive Plans	11	19	26
		208	**178**

At 31 December 2010, the treasury shares held by the Group represent 6% of the share capital (2009: 4.9%). Their market value amounts to CHF 11 393 million (2009: CHF 8936 million).

18.4 Number of shares outstanding

Number of shares in millions of units	Shares issued	Treasury shares	Outstanding shares
At 1 January 2009	3 830	(214)	**3 616**
Purchase of treasury shares		(156)	**(156)**
Treasury shares delivered in respect of options exercised		9	**9**
Treasury shares delivered in respect of equity compensation plans		3	**3**
Treasury shares cancelled	(180)	180	–
At 31 December 2009	**3 650**	**(178)**	**3 472**
Purchase of treasury shares		(227)	**(227)**
Treasury shares delivered in respect of options exercised		9	**9**
Treasury shares delivered in respect of equity compensation plans		3	**3**
Treasury shares cancelled	(185)	185	–
At 31 December 2010	**3 465**	**(208)**	**3 257**

18.5 Translation reserve

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

18.6 Retained earnings and other reserves

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

The fair value reserve includes the gains and losses on remeasuring available-for-sale financial instruments. At 31 December 2010, the reserve is positive of CHF 450 million (2009: positive of CHF 241 million).

The hedging reserve consists of the effective portion of the gains and losses on hedging instruments related to hedged transactions that have not yet occurred. At 31 December 2010, the reserve is positive of CHF 30 million (2009: positive of CHF 82 million).

18.7 Non-controlling interests

The non-controlling interests comprise the portion of equity of subsidiaries that are not owned, directly or indirectly, by Nestlé S.A. In 2009, a significant portion of non-controlling interests relates to Alcon.

18.8 Dividend
The dividend related to 2009 was paid on 22 April 2010 in conformity with the decision taken at the Annual General Meeting on 15 April 2010. Shareholders approved the proposed dividend of CHF 1.60 per share, resulting in a total dividend of CHF 5443 million.

Dividend payable is not accounted for until it has been ratified at the Annual General Meeting. At the meeting on 14 April 2011, a dividend of CHF 1.85 per share will be proposed, resulting in a total dividend of CHF 6128 million. For further details, refer to the Financial Statements of Nestlé S.A.

The Financial Statements for the year ended 31 December 2010 do not reflect this proposed distribution, which will be treated as an appropriation of profit in the year ending 31 December 2011.

19. Lease commitments

19.1 Operating leases

In millions of CHF	2010	2009
	Minimum lease payments	
	Future value	
Within one year	600	583
In the second year	467	460
In the third to the fifth year inclusive	939	834
After the fifth year	569	575
	2 575	2 452

Lease commitments refer mainly to buildings, industrial equipment, vehicles and IT equipment. Operating lease charge for the year 2010 amounts to CHF 701 million (2009: CHF 627 million).

19.2 Finance leases

In millions of CHF		2010		2009
	Minimum lease payments			
	Present value	Future value	Present value	Future value
Within one year	68	74	71	75
In the second year	57	68	58	68
In the third to the fifth year inclusive	106	155	120	169
After the fifth year	69	145	80	182
	300	**442**	329	494

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

20. Transactions with related parties

20.1 Compensation of the Board of Directors and the Executive Board

Board of Directors

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

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

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

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

The Chairman is entitled to a fixed compensation, a variable compensation linked to specific objectives, independently set by the Board, and Long-Term Incentives in the form of stock options.

Executive Board

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

In millions of CHF	2010	2009
Board of Directors (a)		
Chairman's compensation	9	9
Other Board members		
Remuneration – cash	3	2
Shares	2	2
Executive Board (a)		
Remuneration – cash	16	14
Bonus – cash	10	8
Bonus – shares	9	8
Equity compensation plans (b)	14	11
Pension	4	2

(a) Refer to Note 25 of the Financial Statements of Nestlé S.A. for the detailed disclosures, regarding the remunerations of the Board of Directors and the Executive Board, that are required by Swiss law.
(b) Equity compensation plans are equity-settled share-based payment transactions whose cost is recognised over the vesting period as required by IFRS 2.

20.2 Intra-Group transactions and transactions with associated companies

Intra-Group transactions are eliminated on consolidation:

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

20.3 Other transactions

Nestlé Capital Management Ltd, one of the Group’s subsidiaries, is an asset manager authorised and regulated by the Financial Services Authority, in the United Kingdom. It is engaged to manage some of the assets of the Group’s pension funds. In this function, it executes trading and investment transactions on behalf of these pension funds directly or for the Robusta Funds. The fees received in 2010 for those activities amounted to CHF 14.6 million (2009: CHF 12.6 million). The assets under direct management represented an amount of CHF 9.6 billion at 31 December 2010 (2009: CHF 8.3 billion).

In addition, Robusta Asset Management Ltd (RAML), another Group’s subsidiary, is in charge of selecting and monitoring investment managers for the Robusta Funds pension investment vehicles. No fees are charged by RAML for this activity. The assets under supervision of RAML, including assets under direct management of Nestlé Capital Management Ltd (CHF 4.9 billion), amounted to CHF 9.3 billion at 31 December 2010 (2009: CHF 9.4 billion).

Furthermore, throughout 2010, no director had a personal interest in any transaction of significance for the business of the Group.

21. Joint ventures

In millions of CHF	2010	2009
Share of assets and liabilities consolidated in the balance sheet		
Total current assets	775	805
Total non-current assets	1 134	1 178
Total current liabilities	1 270	1 309
Total non-current liabilities	208	195
Share of income and expenses consolidated in the income statement		
Total sales	2 892	2 775
Total expenses	(2 596)	(2 491)

22. Guarantees

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

23. Group risk management

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

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

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

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

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

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

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

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

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

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

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

24. Events after the balance sheet date

On 13 December 2010, Galderma Pharma S.A., a company held at 50% by Nestlé, announced that one of its fully owned subsidiaries will make a public offer for Q-Med AB shares, listed in the Mid Cap segment of the NASDAQ OMX Nordic (Stockholm). The period of the public offer was initially from 4 January 2011 to 7 February 2011 and has been extended until 24 February 2011. The cost of the acquisition would amount to approximately CHF 1 billion, of which about CHF 500 million would be Nestlé's share. Q-Med is a medical device Group. Its current products portfolio is composed of, amongst others, Restylane, a wrinkle smoother, and of Macrolane, used for soft tissue augmentation, to create volume and smooth out defects on the body. In 2010, Q-Med realised sales of SEK 1.5 billion and an operating income of SEK 287 million.

At 16 February 2011, date of approval of the Financial Statements by the Board of Directors, the Group had no other subsequent events that warrant a modification of the value of the assets and liabilities or an additional disclosure.

25. Group companies

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

Report of the Statutory Auditor on the Consolidated Financial Statements

to the General Meeting of Nestlé S.A.

As statutory auditor, we have audited the consolidated financial statements (income statement, statement of comprehensive income, balance sheet, cash flow statement, statement of changes in equity and notes on pages 44 to 113) of the Nestlé Group for the year ended 31 December 2010.

Board of Directors' responsibility

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

Auditor's responsibility

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

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

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2010 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on other legal requirements

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

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

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

KPMG S.A.

Mark Baillache
Licensed Audit Expert
Auditor in charge

Stéphane Gard
Licensed Audit Expert

Geneva, 16 February 2011

Financial information – 5 year review

In millions of CHF (except for per share data and personnel)	2010		2009
Results			
Sales	109 722		107 618
EBIT Earnings Before Interest, Taxes, restructuring and impairments	16 194		15 699
as % of sales	*14.8%*		*14.6%*
Taxes	3 693		3 362
Profit for the year attributable to shareholders of the parent (Net profit)	34 233	(d)	10 428
as % of sales	*31.2%*	(d)	*9.7%*
Total amount of dividend	6 128	(e)	5 443
Depreciation of property, plant and equipment	2 552		2 713
Balance sheet and Cash flow statement			
Current assets	38 997		39 870
of which liquid assets	16 246		5 319
Non-current assets	72 644		71 046
Total assets	111 641		110 916
Current liabilities	30 146		36 083
Non-current liabilities	18 897		21 202
Equity attributable to shareholders of the parent	61 867		48 915
Non-controlling interests	731		4 716
Net financial debt	3 854		18 085
Operating cash flow	13 608		17 934
as % of net financial debt	*353.2%*	(d)	*99.2%*
Free cash flow (a)	7 761		12 369
Capital expenditure	4 576		4 641
as % of sales	*4.2%*		*4.3%*
Data per share (b)			
Weighted average number of shares outstanding (in millions of units)	3 371		3 572
Total basic earnings per share	10.16	(d)	2.92
Equity attributable to shareholders of the parent	18.35		13.69
Dividend	1.85	(e)	1.60
Pay-out ratio based on Total basic earnings per share	18.2%	(e)	54.8%
Stock prices (high)	56.90		51.25
Stock prices (low)	48.18		35.04
Yield (c)	3.3/3.8	(e)	3.1/4.6
Market capitalisation	**178 316**		**174 294**
Number of personnel (in thousands)	**281**		**278**

(a) Operating cash flow less capital expenditure, disposal of tangible assets, purchase and disposal of intangible assets, movements with associates as well as with non-controlling interests.
(b) 2006 and 2007 have been restated following 1-for-10 share split effective on 30 June 2008.
(c) Calculated on the basis of the dividend for the year concerned, which is paid in the following year, and on high/low stock prices.

2008		2007		2006	
					Results
109 908		107 552		98 458	Sales
15 676		15 024		13 302	EBIT Earnings Before Interest, Taxes, restructuring and impairments
14.3%		*14.0%*		*13.5%*	*as % of sales*
3 787		3 416		3 293	Taxes
18 039	(f)	10 649		9 197	Profit for the year attributable to shareholders of the parent (Net profit)
16.4%	*(f)*	*9.9%*		*9.3%*	*as % of sales*
5 047		4 573		4 004	Total amount of dividend
2 625		2 620		2 581	Depreciation of property, plant and equipment
					Balance sheet and Cash flow statement
33 048		35 770		35 305	Current assets
7 131		9 496		11 475	of which liquid assets
73 167		79 591	(g)	66 500	Non-current assets
106 215		115 361	(g)	101 805	Total assets
33 640		43 326		32 479	Current liabilities
17 659		17 259	(g)	16 478	Non-current liabilities
50 774		52 627	(g)	50 991	Equity attributable to shareholders of the parent
4 142		2 149		1 857	Non-controlling interests
14 596		21 174		10 971	Net financial debt
10 763		13 439		11 676	Operating cash flow
73.7%		*63.5%*		*106.4%*	*as % of net financial debt*
5 033		8 231		7 018	Free cash flow (a)
4 869		4 971		4 200	Capital expenditure
4.4%		*4.6%*		*4.3%*	*as % of sales*
					Data per share (b)
3 705		3 829		3 848	Weighted average number of shares outstanding (in millions of units)
4.87	(f)	2.78		2.39	Total basic earnings per share
13.71		13.75	(g)	13.25	Equity attributable to shareholders of the parent
1.40		1.22		1.04	Dividend
28.8%		43.9%		43.5%	Pay-out ratio based on Total basic earnings per share
52.95		55.35		44.83	Stock prices (high)
38.02		42.65		35.50	Stock prices (low)
2.6/3.7		2.2/2.9		2.3/2.9	Yield (c)
150 409		**195 661**		**166 152**	**Market capitalisation**
283		**276**		**265**	**Number of personnel** (in thousands)

(d) Impacted by the disposal of 52% of Alcon outstanding capital.
(e) As proposed by the Board of Directors of Nestlé S.A.
(f) Impacted by the profit on disposal of 24.8% of Alcon outstanding capital.
(g) 2007 comparatives have been restated following first application of IFRIC 14.

Companies of the Nestlé Group

Operating and financial companies

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

[(a)] In the context of the SIX Swiss Exchange Directive on Information relating to Corporate Governance, the disclosure criteria are as follows:
– operating companies are disclosed if their sales exceed CHF 10 million or equivalent;
– financial companies are disclosed if either their equity exceed CHF 10 million or equivalent and/or the total balance sheet is higher than CHF 50 million or equivalent.

Countries within the continents are listed according to the alphabetical order of the country names. Percentage of capital shareholding corresponds to voting powers unless stated otherwise.

All companies listed below are fully consolidated unless stated otherwise.

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

∆ Companies listed on the stock exchange
◊ Sub-holding, financial and property companies

Companies		City	% capital shareholdings	Currency	Capital
Europe					
Austria					
C.P.A. Cereal Partners Handelsgesellschaft M.B.H. & Co. OHG	1)	Wien	50%	EUR	145 346
Nespresso Österreich GmbH & Co. OHG		Wien	100%	EUR	35 000
Nestlé Austria Holding GmbH	◊	Wien	100%	EUR	7 270 000
Nestlé Österreich GmbH		Wien	100%	EUR	3 000 000
Schöller Lebensmittel GmbH		Wien	100%	EUR	7 231 000
Belgium					
Centre de Coordination Nestlé S.A.	◊	Bruxelles	100%	EUR	3 298 971 818
Davigel Belgilux S.A.		Bruxelles	100%	EUR	1 487 361
Les Chocolats de l'Iris	2)	Haren	29.1%	EUR	14 451 957
Nespresso Belgique S.A.		Bruxelles	100%	EUR	550 000
Nestlé Belgilux S.A.		Bruxelles	100%	EUR	8 924 200
Nestlé Catering Services N.V.		Bruxelles	100%	EUR	14 035 500
Nestlé Waters Benelux S.A.		Etalle	100%	EUR	19 924 000
Bosnia and Herzegovina					
Nestlé Adriatic B&H d.o.o.		Sarajevo	100%	BAM	2 000

Operating and financial companies (continued)

Companies		City	% capital shareholdings	Currency	Capital
Bulgaria					
Nestlé Bulgaria A.D.		Sofia	100%	BGN	8 786 941
Nestlé Ice Cream Bulgaria A.D.		Sofia	89.1%	BGN	3 586 114
Croatia					
Nestlé Adriatic doo		Zagreb	100%	HRK	14 685 500
Czech Republic					
Cereal Partners Czech Republic	1)	Praha	50%	CZK	23 100 000
Nestlé Cesko s.r.o.		Praha	100%	CZK	1 154 000 000
Denmark					
Hjem-IS A/S		Kolding	100%	DKK	15 000 000
Nestlé Danmark A/S		Copenhagen	100%	DKK	42 000 000
Finland					
Kotijäätelö Oy		Helsinki	100%	EUR	85 000
Suomen Nestlé Oy		Helsinki	100%	EUR	10 000 000
France					
Cereal Partners France SNC	1)	Noisiel	50%	EUR	3 000 000
Davigel S.A.S.		Dieppe	100%	EUR	7 681 250
Eau Minérale Naturelle de Plancoët «Source Sassay» S.A.S.		Plancoët	100%	EUR	430 028
Galderma International S.A.S.°	1)	Courbevoie	50%	EUR	931 905
Herta S.A.S.		Noisiel	100%	EUR	12 908 610
Houdebine S.A.S.		Pontivy	50%	EUR	726 000
Jenny Craig France		La Baule-Escoublac	100%	EUR	5 000 000
Δ L'Oréal S.A.°	2)	Paris	30.3%	EUR	119 794 482
Listed on the Paris stock exchange, market capitalisation EUR 49.9 billion, quotation code (ISIN) FR0000120321					
Laboratoires Galderma S.A.S.°	1)	Alby-sur-Chéran	50%	EUR	14 015 000
Laboratoires Innéov SNC°	1)	Asnières	50%	EUR	650 000
Lactalis Nestlé Produits Frais S.A.S.	2)	Laval	40%	EUR	69 208 832
Nespresso France S.A.S.		Paris	100%	EUR	1 360 000
Nestlé Clinical Nutrition France S.A.S.		Noisiel	100%	EUR	57 943 072
Nestlé Entreprises S.A.S.	◊	Noisiel	100%	EUR	739 559 392
Nestlé France S.A.S.		Noisiel	100%	EUR	130 925 520
Nestlé Grand Froid S.A.		Noisiel	100%	EUR	3 120 000
Nestlé HomeCare S.A.S.		Noisiel	100%	EUR	5 550 979
Nestlé Purina PetCare France S.A.S.		Rueil-Malmaison	100%	EUR	21 091 872
Nestlé Waters Direct France S.A.S.		Rungis	100%	EUR	8 864 000
Nestlé Waters France S.A.S.	◊	Issy-les-Moulineaux	100%	EUR	44 856 149
Nestlé Waters Marketing & Distribution		Issy-les-Moulineaux	100%	EUR	26 740 940
Nestlé Waters S.A.S.	◊	Issy-les-Moulineaux	100%	EUR	154 893 080
Nestlé Waters Supply Centre		Issy-les-Moulineaux	100%	EUR	2 577 000

Operating and financial companies (continued)

Companies		City	% capital shareholdings	Currency	Capital
France (continued)					
Nestlé Waters Supply Est		Issy-les-Moulineaux	100%	EUR	17 539 660
Nestlé Waters Supply Sud		Issy-les-Moulineaux	100%	EUR	8 130 105
S.A. des Eaux Minérales de Ribeauvillé		Ribeauvillé	100%	EUR	846 595
Schöller Glaces et Desserts S.A.S.		Vitry-sur-Seine	100%	EUR	104 400
Société de Bouchages Emballages Conditionnement Moderne	2)	Lavardac	50%	EUR	10 200 000
Société des Produits Alimentaires de Caudry		Noisiel	100%	EUR	1 440 000
Société Française des Eaux Régionales	◊	Issy-les-Moulineaux	100%	EUR	1 490 098
Société Immobilière de Noisiel	◊	Noisiel	100%	EUR	22 753 550
Société Industrielle de Transformation de Produits Agricoles «SITPA» S.A.S.		Dijon	100%	EUR	9 718 000
Germany					
Alois Dallmayr Kaffee OHG	2)	München	25%	EUR	10 250 000
C.P.D. Cereal Partners Deutschland GmbH & Co. OHG	1)	Frankfurt am Main	50%	EUR	511 292
Distributa Gesellschaft für Lebensmittel-Logistik mbH		Wildau	94%	EUR	515 000
Erlenbacher Backwaren GmbH		Gross-Gerau	100%	EUR	2 582 024
Galderma Laboratorium GmbH°	1)	Düsseldorf	50%	EUR	800 000
Herta GmbH		Herten	100%	EUR	51 129
Innéov Deutschland GmbH°	1)	Bruchsal	50%	EUR	25 000
Nespresso Deutschland GmbH		Düsseldorf	100%	EUR	25 000
Nestlé Deutschland AG		Frankfurt am Main	100%	EUR	214 266 628
Nestlé Purina PetCare Deutschland GmbH		Euskirchen	100%	EUR	30 000
Nestlé Schöller Produktions GmbH		Nürnberg	100%	EUR	30 000
Nestlé Unternehmungen Deutschland GmbH	◊	Frankfurt am Main	100%	EUR	60 000 000
Nestlé Versorgungskasse GmbH	◊	Frankfurt am Main	100%	EUR	60 000
Nestlé Waters Deutschland AG		Mainz	100%	EUR	10 566 000
Nestlé Waters Direct Deutschland GmbH		Neuss	100%	EUR	31 000
PowerBar Europe GmbH		München	100%	EUR	25 000
Trinks GmbH	2)	Goslar	25%	EUR	2 360 000
Trinks Süd GmbH	2)	München	25%	EUR	260 000
Wagner Tiefkühlprodukte GmbH		Nonnweiler	74%	EUR	511 292
WCO Kinderkost GmbH Conow		Conow	100%	EUR	26 000
Greece					
C.P. Hellas E.E.I.G.	1)	Maroussi	50%	EUR	146 735
Makan Food Trade S.A.		Koropi	100%	EUR	1 246 400
Nestlé Hellas Ice Cream S.A.		Tavros-Attica	100%	EUR	12 655 458
Nestlé Hellas S.A.		Maroussi	100%	EUR	18 656 726
Nestlé Waters Direct Hellas Ydata S.A.		Nea Chalkidona-Attika	100%	EUR	2 435 709
Hungary					
Cereal Partners Hungária Kft.	1)	Budapest	50%	HUF	22 000 000
Kékkúti Ásvànyvíz Rt.		Budapest	100%	HUF	238 326 000
Nestlé Hungária Kft.		Budapest	100%	HUF	6 000 000 000

Operating and financial companies (continued)

Companies		City	% capital shareholdings	Currency	Capital
Italy					
Belté Italiana S.p.A.		Milano	99.6%	EUR	1 911 400
Fastlog S.p.A.		Milano	99.6%	EUR	154 935
Galderma Italia S.p.A.°	1)	Milano	50%	EUR	112 000
Koiné S.p.A.		Madone (Bergamo)	50.9%	EUR	258 230
Nespresso Italiana S.p.A.		Milano	100%	EUR	250 000
Nestlé Italiana S.p.A.		Milano	100%	EUR	25 582 492
Nestlé Vera s.r.l.		Santo Stefano Quisquina (Agrigento)	99.6%	EUR	5 000 000
Sanpellegrino S.p.A.		Milano	99.6%	EUR	58 742 145
Kazakhstan					
Nestlé Food Kazakhstan LLP		Almaty	100%	KZT	91 900
Lithuania					
UAB "Nestlé Baltics"		Vilnius	100%	LTL	110 000
Luxemburg					
Balkan Ice Cream Holding S.A.	◊	Luxembourg	100%	EUR	52 425 000
Compagnie Financière du Haut-Rhin	◊	Luxembourg	100%	EUR	105 200 000
Nespresso Luxembourg Sàrl		Luxembourg	100%	EUR	12 525
Nestlé Finance International	◊	Luxembourg	100%	EUR	440 000
NTC-Europe S.A.	◊	Luxembourg	100%	EUR	3 565 000
Macedonia					
Nestlé Adriatik Makedonija d.o.o.e.l.		Skopje-Karpos	100%	MKD	31 065 780
Malta					
Nestlé Malta Ltd		Lija	100%	EUR	116 469
Netherlands					
East Springs International N.V.	◊	Amsterdam	100%	EUR	25 370 000
Nespresso Nederland B.V.		Amsterdam	100%	EUR	680 670
Nestlé Nederland B.V.		Amsterdam	100%	EUR	11 346 000
Nestlé Waters Direct Netherlands B.V.		Zoetermeer	100%	EUR	1 606 430
Norway					
A/S Nestlé Norge		Oslo	100%	NOK	81 250 000
Poland					
Alima-Gerber S.A.		Warszawa	100%	PLN	17 000 000
Cereal Partners Poland Torun-Pacific Sp. Z o.o.	1)	Torun	50%	PLN	14 572 838
Galderma Polska Sp. Z o.o.°	1)	Warszawa	50%	PLN	50 000
Nestlé Polska S.A.		Warszawa	100%	PLN	50 000 000
Nestlé Waters Polska S.A.		Warszawa	100%	PLN	46 100 000

Operating and financial companies (continued)

Companies		City	% capital shareholdings	Currency	Capital
Portugal					
Cereal Associados Portugal A.E.I.E.	1)	Oeiras	50%	EUR	99 760
Nestlé Portugal S.A.		Linda-a-Velha	100%	EUR	30 000 000
Nestlé Waters direct Portugal, comércio e distribuição de produtos alimentares, S.A.		Loures	100%	EUR	1 000 000
Prolacto-Lacticinios de São Miguel S.A.		Ponta Delgada	100%	EUR	700 000
Republic of Ireland					
Nestlé (Ireland) Ltd		Dublin	100%	EUR	3 530 600
Republic of Serbia					
Nestlé Adriatic Foods d.o.o.		Beograd	100%	EUR	8 644 950
Nestlé Ice Cream Srbija d.o.o. Stara Pazova		Stara Pazova	100%	EUR	35 992 988
Romania					
Nestlé Romania S.R.L.		Bucharest	100%	RON	77 906 800
Russia					
Cereal Partners Russia LLC	1)	Moscow	50%	RUB	20 420 000
Nestlé Food LLC		Moscow	100%	RUB	568 507 372
Nestlé Kuban LLC		Timashevsk	100%	RUB	48 675
Nestlé Rossiya LLC		Moscow	100%	RUB	668 380 775
Nestlé Watercoolers Service LLC		Moscow	100%	RUB	20 372 926
OJSC "Confectionery Union Rossiya"		Samara	100%	RUB	49 350 000
LLC Confectionery Firm "Altai"		Barnaul	100%	RUB	167 000
Schöller Eiscrem GmbH		Moscow	100%	RUB	750 217
Slovak Republic					
Cereal Partners Slovak Republic s.r.o	1)	Prievidza	50%	EUR	165 970
Nestlé Slovensko s.r.o.		Prievidza	100%	EUR	13 277 568
Spain					
Aquarel Iberica S.A.		Barcelona	100%	EUR	300 505
Cereal Partners España A.E.I.E.	1)	Esplugues de Llobregat (Barcelona)	50%	EUR	120 202
Davigel España S.A.		Sant Just Desvern (Barcelona)	100%	EUR	984 000
Helados y Postres S.A.		Vitoria	100%	EUR	140 563 200
Innéov España S.A.°	1)	Madrid	50%	EUR	120 000
Laboratorios Galderma S.A.°	1)	Madrid	50%	EUR	432 480
Nestlé España S.A.		Esplugues de Llobregat (Barcelona)	100%	EUR	100 000 000
Nestlé Healthcare Nutrition, S.A.		Esplugues de Llobregat (Barcelona)	100%	EUR	300 000
Nestlé Purina PetCare España S.A.		Castellbisbal (Barcelona)	100%	EUR	12 000 000
Nestlé Waters España S.A.		Barcelona	100%	EUR	14 700 000
Productos del Café S.A.		Reus (Tarragona)	100%	EUR	6 600 000

Companies		City	% capital shareholdings	Currency	Capital
Sweden					
Galderma Nordic AB°	1)	Bromma	50%	SEK	31 502 698
Hemglass AB		Stockholm	100%	SEK	14 000 000
Jede AB		Mariestad	100%	SEK	7 000 000
Kaffeknappen AB		Stockholm	100%	SEK	100 000
Nestlé Sverige AB		Helsingborg	100%	SEK	20 000 000
Switzerland					
Beverage Partners Worldwide (Europe) AG	1)	Zürich	50%	CHF	2 000 000
Beverage Partners Worldwide S.A.	1) ◊	Zürich	50%	CHF	14 000 000
CPW Operations Sàrl	1)	Prilly	50%	CHF	20 000
Eckes-Granini (Suisse) S.A.	1)	Henniez	49%	CHF	2 000 000
Emaro S.A.	◊	Romanel-sur-Lausanne	100%	CHF	300 000
Entreprises Maggi S.A.	◊	Cham	100%	CHF	100 000
Galderma Pharma S.A.°	1) ◊	Lausanne	50%	CHF	48 900 000
Galderma S.A.°	1)	Cham	50%	CHF	100 000
Intercona Re A.G.	◊	Châtel-St-Denis	100%	CHF	35 000 000
Life Ventures S.A.	◊	La Tour-de-Peilz	100%	CHF	30 000 000
Nestlé Business Services S.A.	◊	Bussigny-près-Lausanne	100%	CHF	100 000
Nestlé Finance S.A.	◊	Cham	100%	CHF	30 000 000
Nestlé International Travel Retail S.A.		Vevey	100%	CHF	3 514 000
Nestlé Nespresso S.A.		Paudex	100%	CHF	2 000 000
Nestlé Suisse S.A.		Vevey	100%	CHF	250 000
Nestlé Super Premium S.A.		Lausanne	100%	CHF	1 000 000
Nestlé Waters (Suisse) S.A.		Henniez	100%	CHF	5 000 000
Nestrade S.A.		La Tour-de-Peilz	100%	CHF	6 500 000
NTC-Latin America S.A.	◊	Cham	100%	CHF	500 000
Nutrition-Wellness Venture AG	◊	Vevey	100%	CHF	100 000
Rive-Reine S.A.	◊	La Tour-de-Peilz	100%	CHF	2 000 000
S.I. En Bergère Vevey S.A.	◊	Vevey	100%	CHF	19 500 000
Société des Produits Nestlé S.A.		Vevey	100%	CHF	54 750 000
Sofinol S.A.		Manno	100%	CHF	3 000 000
Turkey					
Cereal Partners Gida Ticaret Limited Sirketi	1)	Istanbul	50%	TRY	20 000
Erikli Dagitim Ve Pazarlama A.S.		Bursa	70%	TRY	3 849 975
Erikli Su Ve Mesrubat Sanayi Ticaret A.S.		Bursa	70%	TRY	12 700 000
Nestlé Turkiye Gida Sanayi A.S.		Istanbul	99.9%	TRY	35 000 000
Nestlé Waters Gida Ve Mesrubat Sanayi Ticaret A.S.		Bursa	65%	TRY	8 000 000

Operating and financial companies (continued)

Companies		City	% capital shareholdings	Currency	Capital
Ukraine					
CJSC "Lviv Confectionery Firm Svitoch"		Lviv	97%	UAH	88 111 060
LLC Nestlé Ukraine		Kyiv	100%	USD	150 000
LLC Technocom		Kharkiv	100%	UAH	119 658 066
OJSC Volynholding		Torchyn	90.5%	UAH	100 000
United Kingdom					
Cereal Partners UK	1)	Welwyn Garden	50%	GBP	0
Galderma (UK) Ltd°	1)	Watford	50%	GBP	1 500 000
Nespresso UK Ltd		Croydon	100%	GBP	275 000
Nestec York Ltd		York	100%	GBP	500 000
Nestlé Holdings (UK) PLC	◊	Croydon	100%	GBP	77 940 000
Nestlé Purina PetCare (UK) Ltd		New Malden	100%	GBP	44 000 000
Nestlé UK Ltd		Croydon	100%	GBP	129 972 342
Nestlé Waters GB Ltd		Rickmansworth	100%	GBP	14 000 000
Nestlé Waters (UK) Holdings Ltd	◊	Croydon	100%	GBP	6 500 002
Nestlé Waters UK Ltd		Croydon	100%	GBP	640
Raw Products Ltd		Croydon	100%	GBP	200 000
Schöller Ice-Cream Ltd		Guildford	100%	GBP	1 584 626
Vitaflo (International) Ltd		Liverpool	100%	GBP	625 379

Companies	City	% capital shareholdings	Currency	Capital
Africa				
Algeria				
Nestlé Waters Algérie	Blida	100%	DZD	1 622 551 965
Angola				
Nestlé Angola Lda	Luanda	100%	AOA	24 000 000
Burkina Faso				
Nestlé Burkina Faso	Ouagadougou	100%	XOF	50 000 000
Cameroon				
Nestlé Cameroun	Douala	100%	XAF	650 000 000
Côte d'Ivoire				
Δ Nestlé Côte d'Ivoire	Abidjan	86.3%	XOF	5 517 600 000
Listed on the Abidjan stock exchange, market capitalisation XOF 61.6 billion, quotation code (ISIN) CI0000000029				
Egypt				
Nestlé Egypt S.A.E.	Cairo	100%	EGP	80 722 000
Nestlé Waters Distribution Company	Cairo	64%	EGP	15 200 000
Nestlé Waters Egypt S.A.E.	Cairo	63.7%	EGP	81 500 000
Gabon				
Nestlé Gabon	Libreville	90%	XAF	344 000 000
Ghana				
Nestlé Central and West Africa Ltd	Accra	100%	USD	50 000
Nestlé Ghana Ltd	Accra	76%	GHS	100 000
Guinea				
Nestlé Guinée S.A.	Conakry	99%	GNF	3 424 000 000
Kenya				
Nestlé Equatorial African Region (EPZ) Ltd	Nairobi	100%	KES	24 000 000
Nestlé Kenya Ltd	Nairobi	100%	KES	67 145 000
Mali				
Nestlé Mali S.A.U.	Bamako	100%	XOF	10 000 000
Mauritius				
Nestlé SEA Trading Ltd	Port Louis	100%	USD	2
Nestlé's Products (Mauritius) Ltd	Port Louis	100%	BSD	71 500

Operating and financial companies (continued)

Companies		City	% capital shareholdings	Currency	Capital
Morocco					
Nestlé Maghreb S.A.		Casablanca	100%	MAD	300 000
Nestlé Maroc S.A.		El Jadida	94.5%	MAD	156 933 000
Mozambique					
Nestlé Mozambique Limitada		Maputo	100%	MZM	4 000
Niger					
Nestlé Niger		Niamey	80%	XOF	50 000 000
Nigeria					
Δ Nestlé Nigeria PLC		Ilupeju-Lagos	62.3%	NGN	330 273 438
Listed on the Lagos stock exchange, market capitalisation NGN 243.4 billion, quotation code (ISIN) NG00000NSTL3					
Senegal					
Nestlé Sénégal		Dakar	100%	XOF	1 620 000 000
South Africa					
Cereal Partners South Africa	1)	Randburg	50%	ZAR	2 031 000
Galderma Laboratories South Africa (Pty) Ltd°	1)	Bryanston	50%	ZAR	375 000
Nestlé (South Africa) (Pty) Ltd		Randburg	100%	ZAR	53 400 000
Togo					
Nestlé Togo S.A.U.		Lome	100%	XOF	50 000 000
Tunisia					
Nestlé Tunisie Distribution S.A.		Tunis	99.9%	TND	100 000
Nestlé Tunisie S.A.		Tunis	99.5%	TND	8 438 280
Zimbabwe					
Nestlé Zimbabwe (Pvt) Ltd		Harare	100%	ZWD	7 000 000

Companies		City	% capital shareholdings	Currency	Capital
Americas					
Argentina					
Dairy Partners Americas Argentina S.A.	1)	Buenos Aires	50%	ARS	98 808
Dairy Partners Americas Manufacturing Argentina S.A.	1)	Buenos Aires	50%	ARS	272 500
Eco de Los Andes S.A.		Buenos Aires	50.9%	ARS	45 400 285
Nestlé Argentina S.A.		Buenos Aires	100%	ARS	10 809 000
Nestlé Waters Argentina S.A.		Buenos Aires	100%	ARS	6 420 838
Barbados					
Lacven Corporation	1) ◊	Barbados	50%	USD	65 159 192
Bermuda					
Centram Holdings Ltd	◊	Hamilton	100%	USD	12 000
DPA Manufacturing Holding Ltda	1) ◊	Hamilton	50%	USD	23 639 630
Bolivia					
Nestlé Bolivia S.A.		Santa Cruz de la Sierra	100%	BOB	191 900
Brazil					
ASB-Bebidas e Alimentos Ltda		São Paulo	100%	BRL	1 000
Chocolates Garoto S.A.		Vila Velha-ES	100%	BRL	161 450 000
CPW Brasil Ltda	1)	Cacapava/São Paulo	50%	BRL	7 885 520
Dairy Partners Americas Brasil Ltda	1)	São Paulo	50%	BRL	27 606 368
Dairy Partners Americas Manufacturing Brasil Ltda	1)	São Paulo	50%	BRL	39 468 974
Dairy Partners Americas Nordeste – Produtos Alimentícios Ltda	1)	Feira de Santana	50%	BRL	100 000
Galderma Brasil Ltda°	1)	São Paulo	50%	BRL	19 741 602
Innéov Brasil Nutricosmeticos Ltda°	1)	Duque de Caxias	50%	BRL	20 000
Nestlé Brasil Ltda		São Paulo	100%	BRL	450 092 396
Nestlé Nordeste Alimentos e Bebidas Ltda		Feira de Santana	100%	BRL	12 713 641
Nestlé Sul Alimentos e Bebidas Ltda		Carazinho	100%	BRL	100 000
Nestlé Waters Brasil – Bebidas e Alimentos Ltda		São Paulo	100%	BRL	87 248 341
Canada					
Galderma Canada Inc.°	1)	Thornhill (Ontario)	50%	CAD	100
Galderma Production Canada Inc.°	1)	Baie D'Urfé (Québec)	50%	CAD	100
Jenny Craig Weight Loss Centres (Canada) Company		Halifax (Nova Scotia)	100%	CAD	10 000
Nestlé Canada Inc.		Toronto (Ontario)	100%	CAD	47 165 540
Nestlé Capital Canada Ltd	◊	Toronto (Ontario)	100%	CAD	1 010
Nestlé Globe Inc.		Toronto (Ontario)	100%	CAD	106 000 100
Vitality Foodservice Canada Inc.		Surrey (British Columbia)	100%	CAD	5 999 999

Operating and financial companies (continued)

Companies		City	% capital shareholdings	Currency	Capital
Chile					
Aguas CCU – Nestlé Chile S.A.	2)	Santiago de Chile	49.7%	CLP	49 799 375 321
Cereales CPW Chile Ltda.	1)	Santiago de Chile	50%	CLP	3 026 156 114
Comercializadora de Productos Nestlé S.A. (CPN)		Santiago de Chile	99.2%	CLP	1 000 000
Gerber Chile S.A.		Santiago de Chile	100%	CLP	4 009 604 142
Nestlé Chile S.A.		Santiago de Chile	99.5%	CLP	11 832 926 000
Colombia					
Comestibles La Rosa S.A.		Bogotá	100%	COP	126 397 400
Dairy Partners Americas Manufacturing Colombia Ltda.	1)	Bogotá	50%	COP	200 000 000
Nestlé de Colombia S.A.		Bogotá	100%	COP	1 291 305 400
Nestlé Purina PetCare de Colombia S.A.		Bogotá	100%	COP	17 030 000 000
Costa Rica					
Compañía Nestlé Costa Rica S.A.		Barreal de Heredia	100%	CRC	18 000 000
Gerber Ingredients, S.A.		San José	100%	CRC	10 000
Cuba					
Coralac S.A.		La Habana	60%	USD	6 350 000
Los Portales S.A.		La Habana	50%	USD	24 110 000
Dominican Republic					
Nestlé Dominicana S.A.		Santo Domingo	97.2%	DOP	48 500 000
Silsa Dominicana S.A.		Santo Domingo	97.2%	DOP	10 000
Ecuador					
Ecuajugos S.A.	1)	Quito	50%	USD	232 000
Industrial Surindu S.A.		Quito	100%	USD	3 000 000
Nestlé Ecuador S.A.		Quito	100%	USD	1 776 760
El Salvador					
Nestlé El Salvador S.A. de C.V.		San Salvador	100%	SVC	39 000 000
Guatemala					
Malher S.A.		Guatemala	92%	GTQ	100 000 000
Nestlé Guatemala S.A.		Mixco	100%	GTQ	23 460 600
Honduras					
Nestlé Hondureña S.A.		Tegucigalpa	100%	PAB	200 000
Jamaica					
Nestlé Jamaica Ltd		Kingston	100%	JMD	49 200 000

Companies		City	% capital shareholdings	Currency	Capital
Mexico					
Cereal Partners México, S.A. de C.V.	1)	México, D.F.	50%	MXN	500 000
CPW México, S. de R.L. de C.V.	1)	México, D.F.	50%	MXN	43 138 000
Galderma México, S.A. de C.V.°	1)	México, D.F.	50%	MXN	2 385 000
Manantiales La Asunción, S.A.P.I. de C.V.		México, D.F.	40%	MXN	1 205 990 000
Marcas Nestlé, S.A. de C.V.		México, D.F.	100%	MXN	500 050 000
Nescalín, S.A. de C.V.	◊	México, D.F.	100%	MXN	445 826 740
Nespresso México, S.A. de C.V.		México, D.F.	100%	MXN	10 050 000
Nestlé México, S.A. de C.V.		México, D.F.	100%	MXN	607 532 730
Nestlé Servicios Corporativos, S.A. de C.V.		México, D.F.	100%	MXN	170 100 000
Nestlé Servicios Industriales, S.A. de C.V.		México, D.F.	100%	MXN	1 050 000
Productos Gerber, S.A. de C.V.		México, D.F.	100%	MXN	5 252 440
Ralston Purina México, S.A. de C.V.		México, D.F.	100%	MXN	9 257 112
Waters Partners Services México, S.A.P.I. de C.V.		México, D.F.	40%	MXN	620 000
Nicaragua					
Compañía Centroaméricana de Productos Lácteos, S.A.		Matagalpa	92.6%	NIO	10 294 900
Nestlé Nicaragua, S.A.		Managua	100%	USD	150 000
Panama					
Food Products (Holdings), S.A.	◊	Panamá City	100%	PAB	286 000
Garma Enterprises, S.A.		Panamá City	92%	PAB	0
Lacteos de Centroamérica, S.A.		Panamá City	100%	USD	1 500 000
Nestlé Panamá, S.A.		Panamá City	100%	PAB	17 500 000
Unilac, Inc.	◊	Panamá City	100%	USD	750 000
Paraguay					
Nestlé Paraguay S.A.		Asunción	100%	PYG	100 000 000
Peru					
Nestlé Marcas Perú, S.A.C.		Lima	100%	PEN	1 000
Nestlé Perú, S.A.		Lima	97.9%	PEN	120 676 240
Puerto Rico					
Nestlé Puerto Rico, Inc.		Cataño	100%	USD	500 000
Payco Foods Corporation		Bayamon	100%	USD	5 000 000
SWIRL Corporation		Guaynabo	100%	USD	17 999 445
Trinidad and Tobago					
Nestlé Caribbean, Inc.		Valsayn	100%	USD	100 000
Nestlé Trinidad and Tobago Ltd		Valsayn	100%	TTD	35 540 000
CPW Trinidad & Tobago Limited	1)	Valsayn	50%	USD	50 000

Operating and financial companies (continued)

Companies		City	% capital shareholdings	Currency	Capital
United States					
Beverage Partners Worldwide (North America)	1)	Wilmington (Delaware)	50%	USD	0
Checkerboard Holding Company, Inc.	◊	Wilmington (Delaware)	100%	USD	1 001
Dreyer's Grand Ice Cream Holdings, Inc.		Oakland (California)	100%	USD	10
Dreyer's Grand Ice Cream, Inc.		Oakland (California)	100%	USD	1
Galderma Laboratories, Inc.°	1)	Fort Worth (Texas)	50%	USD	981
Gerber Finance Company	◊	Wilmington (Delaware)	100%	USD	1
Gerber Life Insurance Company		New York	100%	USD	148 500 000
Gerber Products Company		Fremont (Michigan)	100%	USD	1 000
Jenny Craig Holdings, Inc.	◊	Wilmington (Delaware)	100%	USD	0
Jenny Craig Operations, Inc.		Los Angeles (California)	100%	USD	0
Jenny Craig Weight Loss Centres, Inc.	◊	Wilmington (Delaware)	100%	USD	2
Jenny Craig, Inc.	◊	Wilmington (Delaware)	100%	USD	0
Nespresso USA, Inc.		Wilmington (Delaware)	100%	USD	1 000
Nestlé Capital Corporation	◊	Glendale (California)	100%	USD	1 000 000
Nestlé Healthcare Nutrition, Inc.	◊	Wilmington (Delaware)	100%	USD	50 000
Nestlé Holdings, Inc.	◊	Norwalk (Connecticut)	100%	USD	100 000
Nestlé Insurance Holdings, Inc.	◊	Wilmington (Delaware)	100%	USD	10
Nestlé Prepared Foods Company		Solon (Ohio)	100%	USD	476 760
Nestlé Purina PetCare Company		St. Louis (Missouri)	100%	USD	1 000
Nestlé Transportation Company	◊	Glendale (California)	100%	USD	100
Nestlé USA, Inc.		Glendale (California)	100%	USD	1 000
Nestlé Waters North America Holdings, Inc.	◊	Stamford (Connecticut)	100%	USD	0
Nestlé Waters North America, Inc.		Stamford (Connecticut)	100%	USD	0
The Häagen-Dazs Shoppe Company, Inc.	◊	Minneapolis (Minnesota)	100%	USD	0
The Stouffer Corporation	◊	Solon (Ohio)	100%	USD	0
TSC Holdings, Inc.	◊	Glendale (California)	100%	USD	100 000
Vitality Foodservice Holding Corporation	◊	Dover (Delaware)	100%	USD	58 865
Vitality Foodservice, Inc.		Dover (Delaware)	100%	USD	1 240
Waggin' Train Llc		Greenville (South Carolina)	100%	USD	0
Uruguay					
Nestlé del Uruguay S.A.		Montevideo	100%	UYU	200 000
Venezuela					
Nestlé Cadipro, S.A.		Caracas	100%	VEF	50 633 501
Corporación Inlaca, C.A.	1)	Caracas	50%	VEF	6 584 590
Laboratorios Galderma Venezuela, S.A.°	1)	Caracas	50%	VEF	5 000
Nestlé Venezuela, S.A.		Caracas	100%	VEF	516 590
Novartis Nutrition de Venezuela, S.A.		Caracas	100%	VEF	1 125 024

Operating and financial companies (continued)

	Companies		City	% capital shareholdings	Currency	Capital
Asia						
Bahrain						
	Nestlé Bahrain Trading WLL		Manama	49%	BHD	200 000
Bangladesh						
	Nestlé Bangladesh Ltd		Dhaka	100%	BDT	100 000 000
Greater China Region						
	Beverage Partners Worldwide (Pacific) Limited	[1]	Hong Kong	50%	HKD	1 000 000
	Galderma Hong Kong Limited°	[1]	Hong Kong	50%	HKD	10 000
	Guangzhou Refrigerated Foods Limited		Guangzhou	95.5%	CNY	390 000 000
	Nestlé (China) Limited		Beijing	100%	CNY	250 000 000
	Nestlé Dongguan Limited		Dongguan	100%	CNY	472 000 000
	Nestlé Hong Kong Limited		Hong Kong	100%	HKD	250 000 000
	Nestlé Hulunbeir Limited		Erguna	100%	CNY	55 000 000
	Nestlé Purina PetCare Tianjin Limited		Tianjin	100%	CNY	40 000 000
	Nestlé Qingdao Limited		Qingdao	100%	CNY	640 000 000
	Nestlé Shanghai Limited		Shanghai	95%	CNY	200 000 000
	Nestlé Shuangcheng Limited		Shuangcheng	97%	CNY	435 000 000
	Nestlé Sources Shanghai Limited		Shanghai	100%	CNY	211 000 000
	Nestlé Taiwan Limited		Taipei	100%	TWD	100 000 000
	Nestlé Tianjin Limited		Tianjin	100%	CNY	785 000 000
	Shanghai Fuller Foods Co. Limited		Shanghai	100%	CNY	384 000 000
	Shanghai Nestlé Product Services Limited		Shanghai	97%	CNY	83 000 000
	Shanghai Totole First Food Limited		Shanghai	80%	CNY	72 000 000
	Shanghai Totole Food Limited		Shanghai	80%	USD	7 800 000
	Sichuan Haoji Food Co. Limited		Chengdu	80%	CNY	80 000 000
	Yunnan Dashan Drinks Co. Limited		Kunming	70%	CNY	35 000 000
India						
	Galderma India Private Ltd°	[1]	Mumbai	50%	INR	24 156 000
Δ	Nestlé India Ltd		New Delhi	62.8%	INR	964 157 160
	Listed on the Mumbai stock exchange, market capitalisation INR 365.9 billion, quotation code (ISIN) INE239A01016					
Indonesia						
	P.T. Beverage Partners Worldwide Indonesia	[1]	Jakarta	50%	IDR	2 210 500
	P.T. Cereal Partners Indonesia	[1]	Jakarta	50%	IDR	956 500 000
	P.T. Nestlé Indofood Citarasa Indonesia	[1]	Jakarta	50%	IDR	50 000 000 000
	P.T. Nestlé Indonesia		Jakarta	90.2%	IDR	152 753 440 000
Iran						
	Anahita Polour Industrial Mineral Water Company		Tehran	85.3%	IRR	35 300 000
	Nestlé Iran Private Joint Stock Company		Tehran	89.7%	IRR	358 538 000 000

Operating and financial companies (continued)

Companies		City	% capital shareholdings	Currency	Capital
Israel					
Nespresso Israel Ltd		Tel-Aviv	100%	ILS	1 000
Δ OSEM Investments Ltd		Shoham	53.8%	ILS	110 644 444
Listed on the Tel-Aviv stock exchange, market capitalisation ILS 6.9 billion, quotation code (ISIN) IL0003040149					
Japan					
Galderma K.K.°	1)	Tokyo	50%	JPY	10 000 000
Nestlé Japan Ltd		Ibaraki	100%	JPY	20 000 000 000
Nestlé Manufacturing Ltd		Kobe	100%	JPY	10 000 000
Nestlé Nespresso K.K.		Kobe	100%	JPY	10 000 000
Jordan					
Ghadeer Mineral Water Co. Ltd		Amman	75%	JOD	1 785 000
Nestlé Jordan Trading Co. Ltd		Amman	87%	JOD	410 000
Kuwait					
Nestlé Kuwait General Trading Co. W.L.L.		Safat	49%	KWD	300 000
Lebanon					
Société des Eaux Minérales Libanaises S.A.L.		Hazmieh	100%	LBP	1 610 000 000
Société pour l'Exportation des Produits Nestlé S.A.		Beyrouth	100%	CHF	1 750 000
SOHAT Distribution S.A.L.		Hazmieh	100%	LBP	160 000 000
Malaysia					
Cereal Partners (Malaysia) Sdn. Bhd.	1)	Petaling Jaya	50%	MYR	1 025 000
Nestlé Asean (Malaysia) Sdn. Bhd.		Petaling Jaya	72.6%	MYR	42 000 000
Δ Nestlé (Malaysia) Bhd.		Petaling Jaya	72.6%	MYR	234 500 000
Listed on the Kuala Lumpur stock exchange, market capitalisation MYR 10.2 billion, quotation code (ISIN) MYL4707OO005					
Nestlé Manufacturing (Malaysia) Sdn. Bhd.		Petaling Jaya	72.6%	MYR	132 500 000
Nestlé Products Sdn. Bhd.		Petaling Jaya	72.6%	MYR	25 000 000
Purina PetCare (Malaysia) Sdn. Bhd.		Petaling Jaya	100%	MYR	1 100 000
Oman					
Nestlé Oman Trading LLC		Muscat	49%	OMR	300 000
Pakistan					
Δ Nestlé Pakistan Ltd		Lahore	59%	PKR	453 495 840
Listed on the Karachi and the Lahore stock exchanges, market capitalisation PKR 107.7 billion, quotation code (ISIN) PK0025101012					
Palestinian Territories					
Nestlé Trading Private Limited Company		Bethlehem	97.5%	JOD	200 000

Companies		City	% capital shareholdings	Currency	Capital
Philippines					
Beverage Partners Worldwide (Philippines) Inc.	1)	Makati City	50%	PHP	10 224 600
CPW Philippines, Inc.	1)	Makati City	50%	PHP	7 500 000
Nestlé Philippines, Inc.		Makati City	100%	PHP	2 300 927 400
Penpro, Inc.		Makati City	88.5%	PHP	630 000 000
Qatar					
Al Manhal Water Factory Co. Ltd WLL (Qatar)		Doha	51%	QAR	5 500 000
Nestlé Qatar Trading LLC		Doha	49%	QAR	1 680 000
Republic of Korea					
Galderma Korea Ltd°	1)	Seoul	50%	KRW	500 000 000
Nestlé Korea Ltd		Seoul	100%	KRW	21 141 560 000
Pulmuone Waters Co. Ltd		Seoul	51%	KRW	6 778 760 000
Saudi Arabia					
Al Anhar Water Factory Co. Ltd		Jeddah	64%	SAR	7 500 000
Al Manhal Water Factory Co. Ltd		Riyadh	64%	SAR	7 000 000
Nestlé Water Factory Co. Ltd		Riyadh	64%	SAR	15 000 000
Saudi Food Industries Co. Ltd		Jeddah	51%	SAR	51 000 000
SHAS Company for Water Services Ltd		Riyadh	92.5%	SAR	13 500 000
Springs Water Factory Co. Ltd		Dammam	64%	SAR	5 000 000
Singapore					
Galderma Singapore Private Ltd°	1)	Singapore	50%	SGD	1 387 000
Nestlé Singapore (Pte) Ltd		Singapore	100%	SGD	1 000 000
Nestlé TC Asia Pacific Pte Ltd		Singapore	100%	JPY	10 000 000 000
Sri Lanka					
Δ Nestlé Lanka PLC		Colombo	90.8%	LKR	537 254 630
Listed on the Colombo stock exchange, market capitalisation LKR 35.6 billion, quotation code (ISIN) LK0128N00005					
Syria					
Nestlé Syria Ltd		Damascus	100%	SYP	800 000 000
Thailand					
Nestlé (Thai) Ltd		Bangkok	100%	THB	880 000 000
Perrier Vittel (Thailand) Ltd		Bangkok	100%	THB	235 000 000
Quality Coffee Products Ltd		Bangkok	50%	THB	400 000 000

Operating and financial companies (continued)

Companies		City	% capital shareholdings	Currency	Capital
United Arab Emirates					
CP Middle East FZCO	1)	Dubai	50%	AED	600 000
Nestlé Dubai LLC		Dubai	49%	AED	2 000 000
Nestlé Dubai Manufacturing LLC		Dubai	49%	AED	300 000
Nestlé Middle East FZE		Dubai	100%	AED	3 000 000
Nestlé Treasury Centre-Middle East & Africa Ltd	◊	Dubai	100%	USD	6 650 500 000
Nestlé Waters Factory H&O LLC		Dubai	48%	AED	22 300 000
Nestlé Waters Middle East Investments FZCO		Dubai	100%	AED	600 000
Uzbekistan					
Nestlé Uzbekistan MChJ		Namangan	95.6%	USD	31 650 000
Vietnam					
La Vie Limited Liability Company		Long An	65%	USD	2 663 400
Nestlé Vietnam Ltd		Dongnai	100%	USD	54 598 000

Companies		City	% capital shareholdings	Currency	Capital
Oceania					
Australia					
Cereal Partners Australia Pty Ltd	1)	Rhodes	50%	AUD	107 800 000
Galderma Australia Pty Ltd°	1)	Frenchs Forest	50%	AUD	2 500 300
Nestlé Australia Ltd		Rhodes	100%	AUD	274 000 000
Supercoat Holdings Australia Ltd		North Ryde	100%	AUD	55 814 174
Supercoat PetCare Pty Ltd		North Ryde	100%	AUD	2
Fiji					
Nestlé (Fiji) Ltd		Ba	100%	FJD	3 000 000
French Polynesia					
Nestlé Polynésie S.A.		Papeete	100%	XPF	5 000 000
New Caledonia					
Nestlé Nouvelle-Calédonie S.A.		Nouméa	100%	XPF	250 000 000
New Zealand					
CPW New Zealand	1)	Auckland	50%	NZD	0
Nestlé New Zealand Limited		Auckland	100%	NZD	300 000
Papua New Guinea					
Nestlé (PNG) Ltd		Lae	100%	PGK	11 850 000

Technical assistance, research and development companies

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

Companies and units		City	
Switzerland			
Nestec S.A.		Vevey	TA

Technical, scientific, commercial and business assistance company whose units, specialised in all areas of the business, supply permanent know-how and assistance to operating companies in the Group within the framework of licence and equivalent contracts. It is also responsible for all scientific research and technological development, which it undertakes itself or through affiliated companies.

The companies and units involved are:

Australia			
CPW R&D Centre	1)	Rutherglen	R&D
Chile			
Nestlé R&D Centre		Santiago de Chile	R&D
Côte d'Ivoire			
Nestlé R&D Centre		Abidjan	R&D
France			
Galderma R&D Centre°	1)	Biot	R&D
Nestlé Product Technology Centre		Beauvais	PTC
Nestlé Product Technology Centre		Lisieux	PTC
Nestlé Product Technology Centre		Vittel	PTC
Nestlé R&D Centre		Aubigny	R&D
Nestlé R&D Centre		Tours	R&D
Germany			
Nestlé Product Technology Centre		Singen	PTC
Greater China Region			
Nestlé R&D Centre		Beijing	R&D
Nestlé R&D Centre		Shanghai	R&D
Israel			
Nestlé R&D Centre		Sderot	R&D
Italy			
Nestlé R&D Centre		Sansepolcro	R&D

Companies and units		City	
Mexico			
Nestlé R&D Centre		Queretaro	R&D
Singapore			
Nestlé R&D Centre		Singapore	R&D
Switzerland			
CPW R&D Centre	1)	Orbe	R&D
Nestlé Product Technology Centre		Konolfingen	PTC
Nestlé Product Technology Centre		Orbe	PTC
Nestlé Research Centre		Lausanne	R&D
Nestlé R&D Centre		Broc	R&D
Nestlé R&D Centre		Orbe	R&D
United Kingdom			
Nestlé Product Technology Centre		York	PTC
United States			
Galderma R&D Centre°	1)	Cranbury (New Jersey)	R&D
Nestlé Product Technology Centre		Marysville (Ohio)	PTC
Nestlé Product Technology Centre		St. Louis (Missouri)	PTC
Nestlé R&D Centre		Bakersfield (California)	R&D
Nestlé R&D Centre		Fremont (Michigan)	R&D
Nestlé R&D Centre		Minneapolis (Minnesota)	R&D
Nestlé R&D Centre		Solon (Ohio)	R&D
Nestlé R&D Centre		St. Joseph (Missouri)	R&D

144th Financial Statements of Nestlé S.A.

141 **Income statement for the year ended 31 December 2010**

142 **Balance sheet as at 31 December 2010**

143 **Notes to the annual accounts**

143 1. Accounting policies
145 2. Income from Group companies
145 3. Financial income
145 4. Profit on disposal of fixed assets
145 5. Investment write downs
145 6. Administration and other expenses
146 7. Financial expense
146 8. Taxes
146 9. Liquid assets
146 10. Receivables
147 11. Financial assets
147 12. Participations in Group companies
147 13. Loans to Group companies
148 14. Own shares
148 15. Intangible assets
148 16. Tangible fixed assets
149 17. Short-term payables
149 18. Long-term payables
149 19. Provisions
150 20. Share capital
150 21. Changes in equity
151 22. Reserve for own shares
151 23. Contingencies
151 24. Risk assessment
152 25. Additional information

156 **Proposed appropriation of profit**

157 **Report of the statutory auditors**

Income statement for the year ended 31 December 2010

In millions of CHF	Notes	2010	2009
Income			
Income from Group companies	2	10 119	7 608
Financial income	3	–	545
Profit on disposal of fixed assets	4	29 923	75
Other income		104	117
Total income		**40 146**	**8 345**
Expenses			
Investment write downs	5	(1 511)	(1 434)
Administration and other expenses	6	(212)	(185)
Financial expense	7	(540)	(108)
Total expenses before taxes		**(2 263)**	**(1 727)**
Profit before taxes		**37 883**	**6 618**
Taxes	8	(389)	(376)
Profit for the year	21	**37 494**	**6 242**

Balance sheet as at 31 December 2010
before appropriations

In millions of CHF	Notes	2010	2009
Assets			
Current assets			
Liquid assets	9	9 189	490
Receivables	10	947	1 130
Prepayments and accrued income		9	45
Total current assets		**10 145**	**1 665**
Fixed assets			
Financial assets	11	51 532	34 558
Intangible assets	15	1 469	286
Tangible fixed assets	16	–	–
Total fixed assets		**53 001**	**34 844**
Total assets		**63 146**	**36 509**
Liabilities and equity			
Liabilities			
Short-term payables	17	8 300	4 724
Accruals and deferred income		67	168
Long-term payables	18	153	175
Provisions	19	751	1 035
Total liabilities		**9 271**	**6 102**
Equity			
Share capital	20/21	347	365
Legal reserves	21	12 777	9 804
Special reserve	21	2 859	13 232
Profit brought forward	21	398	764
Profit for the year	21	37 494	6 242
Total equity		**53 875**	**30 407**
Total liabilities and equity		**63 146**	**36 509**

Notes to the annual accounts

1. Accounting policies

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

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

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

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

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

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

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

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

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

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

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

Own shares held to cover option rights in favour of members of the Group's Management are carried at exercise price if lower than cost. Own shares held for trading purposes are carried at cost as are own shares earmarked to cover other Long-Term Incentive Plans. Own shares repurchased for the Share Buy-Back Programme are carried at cost. All gains and losses on own shares are recorded in the income statement.

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

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

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

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

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

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

2. Income from Group companies

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

3. Financial income

In millions of CHF	2010	2009
Net result on loans to Group companies	–	504
Other financial income	–	41
	–	**545**

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

4. Profit on disposal of fixed assets

This represents mainly the net gains realised on the sale of the remaining 52% of Alcon Inc. to Novartis CHF 29 903 million).

5. Investment write downs

In millions of CHF	2010	2009
Participations and loans	639	281
Trademarks and other industrial property rights	872	1 153
	1 511	**1 434**

The write down of trademarks and other industrial property rights in 2010 includes a fifth of the amount paid for the acquisition of Kraft Foods' frozen pizza (CHF 367 million), as well as the balance of the amount paid in 2008 in respect of Gerber North America's Intellectual Property Rights (CHF 286 million).
In 2009, trademarks linked to the acquisitions of Gerber and Novartis Medical Nutrition were amortised by one third of the amount paid in 2007 (CHF 690 million), as well as Gerber North America's Intellectual Property Rights acquired in 2008 (CHF 286 million).

6. Administration and other expenses

In millions of CHF	2010	2009
Salaries and welfare expenses	104	83
Other expenses	108	102
	212	**185**

7. Financial expense

In millions of CHF	2010	2009
Net result on loans from Group companies (see Note 3)	501	106
Other financial expenses (see Note 3)	39	2
	540	**108**

8. Taxes

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

9. Liquid assets

In millions of CHF	2010	2009
Cash and cash equivalents	5 346	435
Marketable securities	3 843	55
	9 189	**490**

Cash and cash equivalents include commercial papers of CHF 4364 million with maturities of less than three months. Marketable securities of CHF 3843 million consist of commercial papers with maturities from three to six months.

10. Receivables

In millions of CHF	2010	2009
Amounts owed by Group companies (current accounts)	763	919
Other receivables	184	211
	947	**1 130**

11. Financial assets

In millions of CHF	Notes	2010	2009
Participations in Group companies	12	28 865	15 441
Loans to Group companies	13	13 845	11 588
Own shares	14	8 764	7 401
Other investments		58	128
		51 532	**34 558**

12. Participations in Group companies

In millions of CHF	2010	2009
At 1 January	15 441	17 714
Net increase/(decrease)	14 010	(2 160)
Write downs	(586)	(113)
At 31 December	**28 865**	**15 441**

The net increase in 2010 in participations is mainly due to capital increases in affiliates as well as additional funding of a number of Group companies.
The carrying value of participations continues to represent a conservative valuation having regard to both the income received by the Company and the net assets of the Group companies concerned.
A list of the most important companies held, either directly by Nestlé S.A. or indirectly through other Group companies, with the percentage of the capital controlled, is given in the Consolidated Financial Statements of the Nestlé Group.

13. Loans to Group companies

In millions of CHF	2010	2009
At 1 January	11 588	12 894
New loans	5 340	771
Repayments and write downs	(1 515)	(2 444)
Realised exchange differences	(779)	(277)
Unrealised exchange differences	(789)	644
At 31 December	**13 845**	**11 588**

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

14. Own shares

In millions of CHF		2010		2009
	Number	Amount	Number	Amount
Share Buy-Back Programme	148 730 000	7 962	142 065 000	6 434
Management Stock Option Plan	8 257 590	338	15 354 550	533
Restricted Stock Unit Plan	9 510 199	412	9 931 422	389
Performance Share Unit Plan	301 530	13	178 300	7
Future Long-Term Incentive Plans	891 771	39	970 777	38
	167 691 090	**8 764**	**168 500 049**	**7 401**

The share capital of the Company changed twice in the last two financial years as a consequence of the cancellation of registered shares purchased as part of the various Share Buy-Back Programmes. In 2009, the share capital was reduced by 180 000 000 shares from CHF 383 million to CHF 365 million. In 2010, the share capital was further reduced by 185 000 000 shares from CHF 365 million to CHF 347 million. The purchase value of those cancelled shares amount to CHF 8583 million. During the year, 191 665 000 shares were purchased as part of the Share Buy-Back Programme for CHF 10 111 million.
The Company held 8 257 590 shares to cover management option rights and 10 703 500 shares to cover the other incentives plans. The Management Stock Option Plan is valued at strike price if lower than acquisition cost, while the shares held for the other plans are valued at acquisition cost. During the year 12 178 959 shares were delivered as part of the Nestlé Group remuneration plans for a total value of CHF 457 million.

15. Intangible assets

This amount represents the balance of the trademarks and other industrial property rights capitalised value linked with the acquisition of Kraft Foods' frozen pizza. A fifth of the initial value has been amortised during the period.
In 2009, this amount represented the balance of the trademarks and other industrial property rights capitalised value linked with the Gerber North America's Intellectual Property Rights acquired in 2008, amortised over a three year period (refer to Note 5).

16. Tangible fixed assets

These are principally the land and buildings at Cham and at La Tour-de-Peilz. Nestlé Suisse S.A., the principal operating company in the Swiss market, is the tenant of the building at La Tour-de-Peilz. The "En Bergère" head office building in Vevey is held by a property company, which is wholly owned by Nestlé S.A.
The fire insurance value of buildings, furniture and office equipment at 31 December 2010 amounted to CHF 24 million (2009: CHF 25 million).

17. Short-term payables

In millions of CHF	2010	2009
Amounts owed to Group companies	7 898	4 196
Other payables	402	528
	8 300	4 724

18. Long-term payables

Amounts owed to Group companies represent a long-term loan issued in 1989. The carrying value decreased by CHF 22 million to CHF 153 million as a result of an unrealised exchange difference at the end of 2010.

19. Provisions

In millions of CHF					2010	2009
	Uninsured risks	Exchange risks	Swiss & foreign taxes	Other	Total	Total
At 1 January	475	330	139	91	**1 035**	656
Provisions made in the period	–	–	103	52	**155**	496
Amounts used	–	(330)	(50)	(36)	**(416)**	(107)
Unused amounts reversed	–	–	(20)	(3)	**(23)**	(10)
At 31 December	**475**	**–**	**172**	**104**	**751**	1 035

20. Share capital

The share capital of the Company has been reduced by CHF 18 500 000 through the cancellation of 185 000 000 registered shares purchased as part of the Share Buy-Back Programme. As a result, the share capital of Nestlé S.A. is now structured as follows:

	2010	2009
Number of registered shares of nominal value CHF 0.10 each	3 465 000 000	3 650 000 000
In millions of CHF	347	365

According to article 5 of the Company's Articles of Association, no person or entity shall be registered with voting rights for more than 5% of the share capital as recorded in the commercial register. This limitation on registration also applies to persons who hold some or all of their shares through nominees pursuant to this article. In addition, article 11 provides that no person may exercise, directly or indirectly, voting rights, with respect to own shares or shares represented by proxy, in excess of 5% of the share capital as recorded in the commercial register.
At 31 December 2010, the share register showed 133 838 registered shareholders. If unprocessed applications for registration, the indirect holders of shares under American Depositary Receipts and the beneficial owners of shareholders registered as nominees are also taken into account, the total number of shareholders probably exceeds 250 000. The Company was not aware of any shareholder holding, directly or indirectly, 5% or more of the share capital. Group companies were holding together 6.0% of the Nestlé S.A. share capital as at 31 December 2010.

Conditional share capital

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

21. Changes in equity

In millions of CHF	Share capital	General reserve (a)	Reserve for own shares (a)(b)	Special reserve	Retained earnings	Total
At 1 January 2010	365	1 870	7 934	13 232	7 006	**30 407**
Cancellation of 185 000 000 shares (ex Share Buy-Back Programme)	(18)	18	(8 583)			**(8 583)**
Transfer to the special reserve				1 000	(1 000)	**–**
Profit for the year					37 494	**37 494**
Dividend for 2009					(5 443)	**(5 443)**
Movement of own shares			11 538	(11 538)		**–**
Dividend on own shares held on the payment date of 2009 dividend				165	(165)	**–**
At 31 December 2010	**347**	**1 888**	**10 889**	**2 859**	**37 892**	**53 875**

(a) The general reserve and the reserve for own shares constitute the legal reserves.
(b) Refer to Note 22.

22. Reserve for own shares

At 31 December 2009, the reserve for own shares amounting to CHF 7934 million represented the cost of 26 435 049 shares earmarked to cover the Nestlé Group remuneration plans and 9 501 554 shares held for trading purposes. Another 142 065 000 shares were held as part of the Share Buy-Back Programme.
During the year, an additional 191 665 000 shares have been acquired at a cost of CHF 10 111 million under the Share Buy-Back Programmes while 185 000 000 shares were cancelled. A total of 12 178 959 shares have been delivered to the beneficiaries of the Nestlé Group remuneration plans. In addition, 30 901 615 shares have been acquired at a cost of CHF 1650 million for trading purposes and 4 705 000 shares at a cost of CHF 251 million to cover Nestlé Group remuneration plans.
Another Group company holds 40 403 169 Nestlé S.A. shares. The total of own shares of 208 094 259 held by Group companies at 31 December 2010 represents 6.0% of the Nestlé S.A. share capital (178 001 603 own shares held at 31 December 2009, representing 4.9% of the Nestlé S.A. share capital).

23. Contingencies

At 31 December 2010, the total of the guarantees is mainly for credit facilities granted to Group companies and commercial paper programmes, together with the buy-back agreements relating to notes issued, amounted to CHF 17 877 million (2009: CHF 21 267 million).

24. Risk assessment

Nestlé Management considers that the risks for Nestlé S.A. are the same as the ones identified at Group level, as the holding is an ultimate aggregation of all the entities of the Group.
Therefore, we refer to the Nestlé Group Enterprise Risk Management Framework (ERM) described in the Note 23 of the Consolidated Financial Statements.

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

Annual remuneration of members of the Board of Directors

				2010
	Cash in CHF [a]	Number of shares	Discounted value of shares in CHF [b]	Total remuneration
Peter Brabeck-Letmathe, Chairman [c]		see details below		**8 326 344**
Paul Bulcke, Chief Executive Officer [c]				
Andreas Koopmann, 1st Vice Chairman	325 000	6 049	275 910	**600 910**
Rolf Hänggi, 2nd Vice Chairman	330 000	6 147	280 380	**610 380**
Jean-René Fourtou	275 000	5 074	231 438	**506 438**
Daniel Borel	205 000	3 708	169 131	**374 131**
Jean-Pierre Meyers	175 000	3 122	142 402	**317 402**
André Kudelski	205 000	3 708	169 131	**374 131**
Carolina Müller-Möhl	175 000	3 122	142 402	**317 402**
Steven G. Hoch	175 000	3 122	142 402	**317 402**
Naïna Lal Kidwai	205 000	3 708	169 131	**374 131**
Beat Hess	205 000	3 708	169 131	**374 131**
Titia de Lange	155 000	2 732	124 613	**279 613**
Jean-Pierre Roth	155 000	2 732	124 613	**279 613**
Total for 2010	**2 585 000**	**46 932**	**2 140 684**	**13 052 028**
Total for 2009	2 275 000	56 792	1 891 390	11 654 226

(a) The cash amount includes the expense allowance of CHF 15 000.
(b) Nestlé S.A. shares received as part of the Board membership and the Committee fees are valued at the closing price of the share on the SIX Swiss Exchange on the ex-divident date, discounted by 11% to account for the blocking restriction of two years.
(c) The Chairman and the Chief Executive Officer receive neither Board membership or Committee fees nor expense allowance.

Peter Brabeck-Letmathe, in his capacity as active Chairman, received a Fixed Compensation as well as a Variable Compensation linked to a specific set of objectives independently set by the Board, payable in Nestlé S.A. shares, which are blocked for three years. He also received Long-Term Incentives in the form of stock options. His total compensation was:

		2010		2009
	Number	Value in CHF	Number	Value in CHF
Fixed Compensation		1 600 000		1 600 000
Variable Compensation (discounted value of shares)	80 475	3 526 424	63 668	2 686 836
Long-Term Incentives (fair value at grant)	477 600	3 199 920	660 000	3 201 000
Total		**8 326 344**		7 487 836

Loans to members of the Board of Directors

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

Additional fees and remunerations of the Board of Directors

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

Compensations and loans for former members of the Board of Directors

There is no compensation conferred during 2010 on former members of the Board of Directors who gave up their function during the year preceding the year under review or earlier. Similarly, there are no loans outstanding to former members of the Board of Directors.

Shares and stock options ownership of the non-executive members of the Board of Directors and closely related parties as at 31 December 2010

	Number of shares held [a]	Number of options held [b]
Peter Brabeck-Letmathe, Chairman	1 850 652	3 093 600
Andreas Koopmann, 1st Vice Chairman	67 034	–
Rolf Hänggi, 2nd Vice Chairman	66 405	–
Jean-René Fourtou	22 773	–
Daniel Borel	199 796	–
Jean-Pierre Meyers	1 422 508	–
André Kudelski	46 396	–
Carolina Müller-Möhl	164 942	–
Steven G. Hoch	177 578	–
Naïna Lal Kidwai	12 576	–
Beat Hess	12 176	–
Titia de Lange	2 732	–
Jean-Pierre Roth	2 732	–
Total as at 31 December 2010	**4 048 300**	**3 093 600**
Total as at 31 December 2009	3 426 908	3 791 000

(a) Including blocked shares.
(b) The subscription ratio is one option for one Nestlé S.A. share.

Annual remuneration of members of the Executive Board

The total remuneration of members of the Executive Board amounts to CHF 48 809 452 for the year 2010 (CHF 43 123 564 for the year 2009). Remuneration principles are described in Appendix 1 of the Corporate Governance Report.
The valuation of equity compensation plans mentioned in this Note differs in some respect from compensation disclosures in Note 20.1 of the Consolidated Financial Statements of the Nestlé Group, which have been prepared in accordance with International Financial Reporting Standards (IFRS).
The Company also made contributions of CHF 3 689 774 toward future pension benefits of the Executive Board members in line with Nestlé's Pension Benefit Policy (CHF 1 114 968 in 2009).

Highest total compensation for a member of the Executive Board

In 2010, the highest total compensation for a member of the Executive Board was conferred to Paul Bulcke, CEO.

		2010		2009
	Number	Value in CHF	Number	Value in CHF
Annual Base Salary		2 000 000		2 000 000
Short-term Bonus (cash)		520 019		460 034
Short-term Bonus (discounted value of the share)	89 672	3 929 427	82 371	3 476 056
Stock Options (fair value at grant)	298 500	1 999 950	412 500	2 000 625
Performance Share Units (fair value at grant)	37 530	2 094 549	49 500	2 065 140
Other benefits		28 548		28 548
Total		**10 572 493**		**10 030 403**

The Company also made a contribution of CHF 1 031 504 towards future pension benefits in line with Nestlé's Pension Benefits Policy (CHF 822 696 in 2009).

Loans to members of the Executive Board

On 31 December 2010, there was an outstanding amount of CHF 57 264 for an advance granted to a member of the Executive Board (Doreswamy (Nandu) Nandkishore) in line with the Nestlé Corporate Expatriation policy.

Additional fees and remunerations of the Executive Board

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

Compensations and loans for former members of the Executive Board

A total of CHF 400 000 was conferred during 2010 to a former member of the Executive Board in consideration of ongoing services provided to the Company (CHF 54 155 was conferred during 2009 to a former member of the Executive Board).
On 31 December 2010, there were no loans outstanding to former members of the Executive Board.

Shares and stock options ownership of the members of the Executive Board and closely related parties as at 31 December 2010

	Number of shares held [a]	Number of options held [b]
Paul Bulcke	224 181	1 051 000
Werner Bauer	185 840	342 500
Frits van Dijk	300 160	355 750
Luis Cantarell	56 660	342 750
José Lopez	40 001	252 000
John J. Harris	4 759	194 200
James Singh	30 226	212 000
Laurent Freixe	24 816	155 100
Petraea Heynike	65 294	128 450
Marc Caira	18 400	168 750
Jean-Marc Duvoisin	25 540	55 000
Doreswamy (Nandu) Nandkishore [c]	38 750	–
David P. Frick	18 576	–
Total as at 31 December 2010	**1 033 203**	**3 257 500**
Total as at 31 December 2009	760 576	3 431 280

(a) Including shares subject to a three year blocking period.
(b) The subscription ratio is one option for one Nestlé S.A. share.
(c) As from 1 October 2010.

Proposed appropriation of profit

In CHF	2010	2009
Retained earnings		
Balance brought forward	398 264 298	763 965 469
Profit for the year	37 493 689 405	6 242 124 109
	37 891 953 703	**7 006 089 578**
We propose the following appropriations:		
Transfer to the special reserve	30 000 000 000	1 000 000 000
Dividend for 2010, CHF 1.85 per share on 3 312 569 900 shares [(a)] (2009: CHF 1.60 on 3 504 890 800 shares) [(b)]	6 128 254 315	5 607 825 280
	36 128 254 315	**6 607 825 280**
Balance to be carried forward	**1 763 699 388**	**398 264 298**

(a) Depending on the number of shares issued as of the dividend record date. Own shares held by the Nestlé Group are not entitled to dividend, consequently the dividend on those shares still held on 15 April 2011 will be transferred to the special reserve.
(b) The amount of CHF 165 159 470, representing the dividend on 103 224 669 own shares held at the date of the dividend payment, has been transferred to the special reserve.

Provided that the proposal of the Board of Directors is approved by the Annual General Meeting, the gross dividend will amount to CHF 1.85 per share, representing a net amount of CHF 1.2025 per share after payment of the Swiss withholding tax of 35%. The last trading day with entitlement to receive the dividend is 15 April 2011. The shares will be traded ex-dividend as of 18 April 2011. The net dividend will be payable as from 21 April 2011.

The Board of Directors

Cham and Vevey, 16 February 2011

Report of the Statutory auditor
to the General Meeting of Nestlé S.A.

As statutory auditor, we have audited the financial statements (income statement, balance sheet and notes to the annual accounts on pages 141 to 156) of Nestlé S.A. for the year ended 31 December 2010.

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

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

Opinion
In our opinion, the financial statements for the year ended 31 December 2010 comply with Swiss law and the Company's Articles of Incorporation.

Report on other legal requirements
We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.
In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.
We further confirm that the proposed appropriation of available earnings complies with Swiss law and the Company's Articles of Incorporation. We recommend that the financial statements submitted to you be approved.

KPMG

KPMG S.A.

Mark Baillache	Stéphane Gard
Licensed Audit Expert	*Licensed Audit Expert*
Auditor in Charge	

Geneva, 16 February 2011

Notes