
2010 Financial Statements

Consolidated
Financial
Statements of
the Nestlé Group

144th Financial
Statements of
Nestlé S.A.





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Statements of
the Nestlé Group

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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

2009

| | | Continuing operations | Discontinued operations ^(a) | Total | Continuing operations | Discontinued operations ^(a) | 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 | | | |
| Share capital | 18 | 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

1. Accounting policies (continued)

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 occurring 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.

2. Acquisitions, disposals and discontinued operations (continued)

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. Acquisitions, disposals and discontinued operations (continued)

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.

2. Acquisitions, disposals and discontinued operations (continued)

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

2009

In millions of CHF

| | Zone Europe | Zone Americas | Zone Asia, Oceania and Africa | Nestlé Waters |
|--|----------------|------------------|-------------------------------------|------------------|
| 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. Analyses by segment (continued)

3.2 Products

| | Powdered and Liquid Beverages | Water | Milk products and ice cream | Nutrition |
|---|-------------------------------------|-------|-----------------------------------|-----------|
| In millions of CHF | | | | |
| 2009 | | | | |
| 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 | | | | |
| 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. Analyses by segment (continued)

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.

7. Property, plant and equipment (continued)

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. Goodwill (continued)

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 |

8. Goodwill (continued)

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).

9. Intangible assets (continued)

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 |
| Present value of funded obligations | 21 320 | 74 | 21 394 | 22 006 | 19 139 | 23 098 |
| Fair value of plan assets | (19 805) | (47) | (19 852) | (19 545) | (17 228) | (24 849) |
| Excess of liabilities/(assets) over funded obligations | 1 515 | 27 | 1 542 | 2 461 | 1 911 | (351) |
| Present value of unfunded obligations | 616 | 1 883 | 2 499 | 2 334 | 2 337 | 2 693 |
| Unrecognised past service cost of non-vested benefits | (12) | 21 | 9 | (18) | 7 | 5 |
| Unrecognised assets and minimum funding requirements | 35 | – | 35 | 62 | 91 | 1 171 |
| Defined benefits net liabilities/(assets) | 2 154 | 1 931 | 4 085 | 4 839 | 4 346 | 3 661 |
| Liabilities from defined contribution plans and non-current deferred compensation | | | 943 | 1 081 | 960 | 1 369 |
| Liabilities from cash-settled share-based transactions ^(a) | | | 86 | 99 | 98 | 165 |
| Net liabilities | | | 5 114 | 6 019 | 5 404 | 5 072 |
| Reflected in the balance sheet as follows: | | | | | | |
| Employee benefits assets | | | (166) | (230) | (60) | (1 513) |
| Employee benefits liabilities | | | 5 280 | 6 249 | 5 464 | 5 165 |
| Net liabilities | | | 5 114 | 6 019 | 5 404 | 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. Employee benefits (continued)

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. Employee benefits (continued)

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. Employee benefits (continued)

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) | |
|----------------|----------------------------|--|------|--|------|
| | | 2010 | 2009 | 2010 | 2009 |
| At 31 December | | | | | |
| 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).

11. Equity compensation plans (continued)

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 weighted average remaining contractual life of 1 year, 4.1 million at prices ranging from CHF 40.– to CHF 50.– with a weighted average remaining contractual life of 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 | 04/04/2017 | 31/01/2016 |

11. Equity compensation plans (continued)

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 | 2009 | 2010 | 2009 |
|-------------------------------------|---------------------------------|---------------------------------|---------------|---------------|
| | Weighted average exercise price | Weighted average exercise price | Number of SAR | 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 discontinued 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. Net financing cost and financial instruments (continued)

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. Net financing cost and financial instruments (continued)

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 |

13. Net financing cost and financial instruments (continued)

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. Net financing cost and financial instruments (continued)

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.

13. Net financing cost and financial instruments (continued)

Credit rating of financial assets

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

| In millions of CHF | 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.

13. Net financing cost and financial instruments (continued)

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.

13. Net financing cost and financial instruments (continued)

Maturity of financial instruments

In millions of CHF

2010

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

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

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

13. Net financing cost and financial instruments (continued)

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.

In millions of CHF

2009

| Functional currencies | 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) |

In millions of CHF

2010

| Functional currencies | 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 |

13. Net financing cost and financial instruments (continued)

Interest rate risk

Interest risk management

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

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

| In millions of CHF | 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. Taxes (continued)

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

In millions of CHF

| | Property, plant and equipment | Goodwill and intangible assets | Employee benefits | Inventories, receivables, payables and provisions | Unused tax losses and unused tax credits | Other | Total |
|--|-------------------------------------|---|----------------------|---|---|--------------|------------|
| At 1 January 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

Reflected in the balance sheet as follows:

| | 2010 | 2009 |
|--------------------------|------------|------------|
| 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:

| | 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. Cash flow statement (continued)

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. Equity (continued)

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. Equity (continued)

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.

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

Mark Baillache
Licensed Audit Expert
Auditor in charge

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

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 |
| <i>as % of sales</i> | 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 |
| <i>as % of sales</i> | 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 |
| <i>as % of net financial debt</i> | 353.2% ^(d) | 99.2% |
| Free cash flow ^(a) | 7 761 | 12 369 |
| Capital expenditure | 4 576 | 4 641 |
| <i>as % of sales</i> | 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% ^(ff) | 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 |
| △ L'Oréal S.A.° | 2) Paris | 30.3% | EUR | 119 794 482 |
| <i>Listed on the Paris stock exchange, market capitalisation EUR 49.9 billion, quotation code (ISIN) FR0000120321</i> | | | | |
| 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 Ribeaupillé | Ribeaupillé | 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 | Ø Issy-les-Moulineaux | 100% | EUR | 1 490 098 |
| Société Immobilière de Noisiel | Ø 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 ^o | 1) Düsseldorf | 50% | EUR | 800 000 |
| Herta GmbH | Herten | 100% | EUR | 51 129 |
| Innéov Deutschland GmbH ^o | 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 | Ø Frankfurt am Main | 100% | EUR | 60 000 000 |
| Nestlé Versorgungskasse GmbH | Ø 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 Ásványvíz 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 |
| Luxembourg | | | | |
| 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-Lactinios de São Miguel S.A. | Ponta Delgada | 100% | EUR | 700 000 |
| Republic of Ireland | | | | |
| Nestlé (Ireland) Ltd | Dublin | 100% | EUR | 3 530 600 |
| Republic of Serbia | | | | |
| 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 |

Operating and financial companies (continued)

| Companies | City | % capital shareholdings | Currency | Capital |
|--|-----------------------------------|----------------------------|----------|------------|
| Sweden | | | | |
| Galderma Nordic AB ^o | 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⁾ \diamond 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. | \diamond Romanel-sur-Lausanne | 100% | CHF | 300 000 |
| Entreprises Maggi S.A. | \diamond Cham | 100% | CHF | 100 000 |
| Galderma Pharma S.A. ^o | ¹⁾ \diamond Lausanne | 50% | CHF | 48 900 000 |
| Galderma S.A. ^o | ¹⁾ Cham | 50% | CHF | 100 000 |
| Intercona Re A.G. | \diamond Châtel-St-Denis | 100% | CHF | 35 000 000 |
| Life Ventures S.A. | \diamond La Tour-de-Peilz | 100% | CHF | 30 000 000 |
| Nestlé Business Services S.A. | \diamond Bussigny-près-Lausanne | 100% | CHF | 100 000 |
| Nestlé Finance S.A. | \diamond 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 |
| Nestlé Waters S.A. | La Tour-de-Peilz | 100% | CHF | 6 500 000 |
| NTC-Latin America S.A. | \diamond Cham | 100% | CHF | 500 000 |
| Nutrition-Wellness Venture AG | \diamond Vevey | 100% | CHF | 100 000 |
| Rive-Reine S.A. | \diamond La Tour-de-Peilz | 100% | CHF | 2 000 000 |
| S.I. En Bergère Vevey S.A. | \diamond 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 Gıda Ticaret Limited Şirketi | ¹⁾ İstanbul | 50% | TRY | 20 000 |
| Erikli Dagitim Ve Pazarlama A.Ş. | Bursa | 70% | TRY | 3 849 975 |
| Erikli Su Ve Mesrubat Sanayi Ticaret A.Ş. | Bursa | 70% | TRY | 12 700 000 |
| Nestlé Türkiye Gıda Sanayi A.Ş. | İstanbul | 99.9% | TRY | 35 000 000 |
| Nestlé Waters Gıda Ve Mesrubat Sanayi Ticaret A.Ş. | 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 ^o | ¹⁾ Watford | 50% | GBP | 1 500 000 |
| Nespresso UK Ltd | Croydon | 100% | GBP | 275 000 |
| Nestec York Ltd | York | 100% | GBP | 500 000 |
| Nestlé Holdings (UK) PLC | Ø 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 | Ø 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 |

Operating and financial companies (continued)

| 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 | | | | |
| △ Nestlé Côte d'Ivoire | Abidjan | 86.3% | XOF | 5 517 600 000 |
| <i>Listed on the Abidjan stock exchange, market capitalisation XOF 61.6 billion, quotation code (ISIN) CI0000000029</i> | | | | |
| 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 |
| <i>Listed on the Lagos stock exchange, market capitalisation NGN 243.4 billion, quotation code (ISIN) NG00000NSTL3</i> | | | | |
| 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 |

Operating and financial companies (continued)

| Companies | City | % capital shareholdings | Currency | Capital |
|---|------------------------------------|----------------------------|----------|-------------|
| Americas | | | | |
| Argentina | | | | |
| Dairy Partners Americas Argentina S.A. | ¹⁾ Buenos Aires | 50% | ARS | 98 808 |
| Dairy Partners Americas Manufacturing Argentina S.A. | ¹⁾ Buenos Aires | 50% | ARS | 272 500 |
| Eco de Los Andes S.A. | Buenos Aires | 50.9% | ARS | 92 524 285 |
| Nestlé Argentina S.A. | Buenos Aires | 100% | ARS | 10 809 000 |
| Nestlé Waters Argentina S.A. | Buenos Aires | 100% | ARS | 6 420 838 |
| Barbados | | | | |
| Lacven Corporation | ¹⁾ \diamond Barbados | 50% | USD | 65 159 192 |
| Bermuda | | | | |
| Centram Holdings Ltd | \diamond Hamilton | 100% | USD | 12 000 |
| DPA Manufacturing Holding Ltda | ¹⁾ \diamond 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 ^o | ¹⁾ São Paulo | 50% | BRL | 19 741 602 |
| Innéov Brasil Nutricosméticos Ltda ^o | 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. ^o | ¹⁾ Thornhill (Ontario) | 50% | CAD | 100 |
| Galderma Production Canada Inc. ^o | 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 | \diamond 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 |
| Silisa 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 |

Operating and financial companies (continued)

| 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 |
| Nescalin, 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 Centroamericana 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. ^o | 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 Cadipró, S.A. | Caracas | 100% | VEF | 50 633 501 |
| Corporación Inlaca, C.A. | ¹⁾ Caracas | 50% | VEF | 6 584 590 |
| Laboratorios Galderma Venezuela, S.A. ^o | 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 ^o | 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 ^o | ¹⁾ Mumbai | 50% | INR | 24 156 000 |
| △ Nestlé India Ltd | New Delhi | 62.8% | INR | 964 157 160 |
| <i>Listed on the Mumbai stock exchange, market capitalisation INR 365.9 billion, quotation code (ISIN) INE239A01016</i> | | | | |
| Indonesia | | | | |
| P. T. Beverage Partners Worldwide Indonesia | ¹⁾ Jakarta | 50% | IDR | 2 210 500 |
| P. T. Cereal Partners Indonesia | ¹⁾ Jakarta | 50% | IDR | 956 500 000 |
| 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 |
| <i>Listed on the Tel-Aviv stock exchange, market capitalisation ILS 6.9 billion, quotation code (ISIN) IL0003040149</i> | | | | |
| 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 |
| <i>Listed on the Kuala Lumpur stock exchange, market capitalisation MYR 10.2 billion, quotation code (ISIN) MYL470700005</i> | | | | |
| 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 |
| <i>Listed on the Karachi and the Lahore stock exchanges, market capitalisation PKR 107.7 billion, quotation code (ISIN) PK0025101012</i> | | | | |
| Palestinian Territories | | | | |
| Nestlé Trading Private Limited Company | Bethlehem | 97.5% | JOD | 200 000 |

Operating and financial companies (continued)

| Companies | City | % capital shareholdings | Currency | Capital |
|---|---------------------------|----------------------------|----------|----------------|
| Philippines | | | | |
| Beverage Partners Worldwide (Philippines) Inc. | ¹⁾ Makati City | 50% | PHP | 10 224 600 |
| CPW Philippines, Inc. | ¹⁾ Makati City | 50% | PHP | 7 500 000 |
| Nestlé 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 | | | | |
| △ Nestlé Lanka PLC | Colombo | 90.8% | LKR | 537 254 630 |
| <i>Listed on the Colombo stock exchange, market capitalisation LKR 35.6 billion, quotation code (ISIN) LK0128N00005</i> | | | | |
| 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 |

Operating and financial companies (continued)

| Companies | City | % capital shareholdings | Currency | Capital |
|---|------------------------------|----------------------------|----------|-------------|
| Oceania | | | | |
| Australia | | | | |
| Cereal Partners Australia Pty Ltd | ¹⁾ Rhodes | 50% | AUD | 107 800 000 |
| Galderma Australia Pty Ltd ^o | 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
Research & Development Centres
Product Technology Centres

TA
R&D
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 |

Technical assistance, research and development companies (continued)

| 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 ^o | 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 |

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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

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-dividend 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 S.A.

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

Mark Baillache
Licensed Audit Expert
Auditor in Charge

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

Stéphane Gard
Licensed Audit Expert

Geneva, 16 February 2011

Notes

