



2003 Financial statements

Consolidated accounts of the Nestlé Group

137th Annual report of Nestlé S.A.

Consolidated accounts of the Nestlé Group

5	Consolidated income statement for the year ended 31st December 2003
6	Consolidated balance sheet as at 31st December 2003
8	Consolidated cash flow statement for the year ended 31st December 2003
10	Consolidated statement of changes in equity
12	Annex
12	Accounting policies
13	Financial risk management and commodity price risk management
13	Valuation methods and definitions
17	Changes in accounting policies and modification of the scope of consolidation
18	Notes
44	Principal exchange rates
45	Report of the Group auditors
46	Financial information – five year review
48	Companies of the Nestlé Group

137th Annual report of Nestlé S.A.

66	Income statement for the year 2003
67	Balance sheet as at 31st December 2003
68	Annex to the annual accounts of Nestlé S.A.
68	Accounting policies
70	Notes to the annual accounts
78	Proposed appropriation of profit
79	Report of the statutory auditors
80	Agenda for the 137th Ordinary General Meeting of Nestlé S.A.
81	Important dates
82	Shareholder information

Consolidated income statement for the year ended 31st December 2003

In millions of CHF	Notes	2003	2002
Sales to customers	1	87'979	89'160
Cost of goods sold		(37'583)	(38'521)
Distribution expenses		(7'104)	(7'112)
Marketing and administration expenses		(31'081)	(31'379)
Research and development costs		(1'205)	(1'208)
EBITA (a)	1	11'006	10'940
Net other income (expenses)	2	(534)	1'686
Amortisation and impairment of goodwill		(1'571)	(2'277)
Profit before interest and taxes		8'901	10'349
Net financing cost	3	(594)	(665)
Profit before taxes	4	8'307	9'684
Taxes	5	(2'307)	(2'295)
Net profit of consolidated companies		6'000	7'389
Share of profit attributable to minority interests		(380)	(329)
Share of results of associates	6	593	504
Net profit		6'213	7'564
As percentages of sales			
EBITA (a)		12.5%	12.3%
Net profit		7.1%	8.5%
Earnings per share			
(in CHF)			
Basic earnings per share	7	16.05	19.51
Fully diluted earnings per share	7	15.92	19.30

(a) Earnings Before Interest, Taxes and Amortisation of goodwill.

Consolidated balance sheet as at 31st December 2003

before appropriations

In millions of CHF	Notes	2003	2002
Assets			
Current assets			
Liquid assets	8		
Cash and cash equivalents		7'074	6'338
Other liquid assets		8'054	7'953
		15'128	14'291
Trade and other receivables	9	12'851	12'666
Inventories	10	6'995	6'794
Derivative assets	11	669	959
Prepayments and accrued income		590	632
Total current assets		36'233	35'342
Non-current assets			
Property, plant and equipment	12		
Gross value		41'778	40'797
Accumulated depreciation		(24'339)	(23'772)
		17'439	17'025
Investments in associates	13	2'707	2'561
Deferred tax assets	23	1'398	1'519
Financial assets	14	2'394	2'862
Employee benefit assets	21	1'070	1'083
Goodwill	15	26'745	25'718
Intangible assets	16	1'575	1'242
Total non-current assets		53'328	52'010
Total assets		89'561	87'352

In millions of CHF	Notes	2003	2002
Liabilities, minority interests and equity			
Current liabilities			
Trade and other payables	17	9'852	9'932
Financial liabilities	18	15'419	18'702
Tax payable		549	825
Derivative liabilities	19	846	384
Accruals and deferred income		3'699	3'894
Total current liabilities		30'365	33'737
Non-current liabilities			
Financial liabilities	20	14'064	10'548
Employee benefit liabilities	21	3'363	3'147
Deferred tax liabilities	23	576	492
Tax payable		4	15
Other payables		305	400
Provisions	24	3'061	3'381
Total non-current liabilities		21'373	17'983
Total liabilities		51'738	51'720
Minority interests		943	813
Equity			
Share capital	25	404	404
Share premium and reserves			
Share premium		5'926	5'926
Reserve for treasury shares		2'458	2'830
Translation reserve		(5'630)	(4'070)
Retained earnings		36'093	32'307
		38'847	36'993
		39'251	37'397
<i>Less:</i>			
Treasury shares	26	(2'371)	(2'578)
Total equity		36'880	34'819
Total liabilities, minority interests and equity		89'561	87'352

Consolidated cash flow statement for the year ended 31st December 2003

In millions of CHF	Notes	2003	2002
Operating activities			
(a) The figure for 2002 includes the gain of CHF 3.9 billion on the partial IPO of Alcon, Inc. See note 2.			
Net profit of consolidated companies (a)		6'000	7'389
Depreciation of property, plant and equipment	12	2'408	2'542
Impairment of property, plant and equipment	12	148	1'316
Amortisation of goodwill	15	1'571	1'438
Impairment of goodwill	15	—	839
Depreciation of intangible assets	16	255	189
Impairment of intangible assets	16	74	41
Increase/(decrease) in provisions and deferred taxes		312	343
Decrease/(increase) in working capital	27	(688)	787
Other movements (b)		45	(4'636)
(b) For 2002, mainly reversal of the gain on the partial IPO of Alcon, Inc. and of the profit on the disposal of FIS. The cash proceeds are included in cash inflow on "Disposals".			
Operating cash flow (c)		10'125	10'248
Investing activities			
(c) Taxes paid amount to CHF 2267 million (2002: CHF 2824 million). Net interest paid amounts to CHF 532 million (2002: CHF 661 million).			
Capital expenditure	12	(3'337)	(3'577)
Expenditure on intangible assets	16	(682)	(690)
Sale of property, plant and equipment		244	338
Acquisitions (d)	28	(1'950)	(5'395)
Disposals (b)	29	725	4'684
Income from associates		208	154
Other movements (e)		64	(268)
(d) Excludes the CHF 3 billion payable for the Dreyer's acquisition recorded under non-current financial liabilities			
(e) Tax payments related to investing activities amounted to CHF 660 million in 2002.			
Cash flow from investing activities		(4'728)	(4'754)

In millions of CHF	Notes	2003	2002
Financing activities			
Dividend for the previous year		(2'705)	(2'484)
Purchase of treasury shares		(318)	(605)
Sale of treasury shares and options		660	395
Movements with minority interests		(197)	(195)
Bonds issued		2'305	3'926
Bonds repaid		(693)	(1'639)
Increase/(decrease) in other medium/ long term financial liabilities		(134)	(47)
Increase/(decrease) in short term financial liabilities		(2'930)	(3'805)
Decrease/(increase) in marketable securities and other liquid assets		(736)	1'309
Decrease/(increase) in short term investments		734	(1'251)
Other movements (a)		—	(364)
Cash flow from financing activities		(4'014)	(4'760)
Translation differences on flows		(457)	(1'648)
Increase/(decrease) in cash and cash equivalents		926	(914)
Cash and cash equivalents at beginning of year		6'338	7'617
Effects of exchange rate changes on opening balance		(190)	(365)
Cash and cash equivalents retranslated at beginning of year		6'148	7'252
Cash and cash equivalents at end of year	8	7'074	6'338

(a) Tax payments related to financing activities amounted to CHF 406 million in 2002.

Consolidated statement of changes in equity

In millions of CHF	Share premium	Reserve for treasury shares	Translation reserve	Retained earnings	Total reserves	Share capital	Less: Treasury shares	Total equity
Equity as at 31st December 2001	5'926	2'588	12	27'517	36'043	404	(2'794)	33'653 (a)
Gains and losses								
Net profit				7'564	7'564			7'564
Currency retranslation			(4'082)		(4'082)			(4'082)
Taxes on equity items				(9)	(9)			(9)
Fair value adjustments of available-for-sale financial instruments								
- Unrealised results				(43)	(43)			(43)
- Recognition of realised results in the income statement				185	185			185
Fair value adjustments of cash flow hedges and of hedges of net investments in foreign entities								
- Unrealised results				260	260			260
- Recognition of realised results in the income statement				(14)	(14)			(14)
Total gains and losses			(4'082)	7'943	3'861			3'861
Distributions to and transactions with shareholders								
Dividend for the previous year				(2'484)	(2'484)			(2'484)
Movement of treasury shares (net)		242		(242)	—		(242)	(242)
Result on options and treasury shares held for trading purposes				(427)	(427)		458	31
Total distributions to and transactions with shareholders		242		(3'153)	(2'911)		216	(2'695)
Equity as at 31st December 2002	5'926	2'830	(4'070)	32'307	36'993	404	(2'578)	34'819

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

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

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

(c) Includes the negative Hedging Reserve of CHF 32 million

Annex

Accounting policies

Accounting convention and accounting standards

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

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

Scope of consolidation

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

Consolidated companies

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

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

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

Associates

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

Foreign currencies

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

On consolidation, assets and liabilities of Group companies denominated in foreign currencies are translated into Swiss francs at year-end rates. Income and expense items are translated into Swiss francs at the annual 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 companies, together with differences arising from the restatement of the net results for the year of Group companies, from average or actual rates to year-end rates, are taken to equity.

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

Segmental information

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

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

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

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

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

Financial risk management and commodity price risk management

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

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

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

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

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

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

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

Valuation methods and definitions

Sales to customers

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

Net financing cost

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

Taxes

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

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

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

Current financial assets

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

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

Liquid assets classified as available-for-sale are stated at fair value with all unrealised gains and losses recognised in equity until the disposal of the investment and, at such time, gains and losses previously carried to equity are recognised in the income statement.

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

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

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

Inventories

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

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

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

Derivative financial instruments and hedging

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

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

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

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

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

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

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

Trading derivatives comprise two categories. The first one includes derivatives that are acquired in connection with the risk management policies of the Group but for which hedge accounting is not applied because they are either not designated or not effective as hedging instruments. For example hedge accounting is not applied to foreign exchange derivatives that manage the currency exposure of some recognised financial assets or liabilities. The second category relates to derivatives that are acquired with the aim of delivering performance over agreed benchmarks of trading portfolios.

Prepayments and accrued income

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

Property, plant and equipment

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

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

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

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

Leased assets

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

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

Non-current financial assets

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

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

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

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

Goodwill

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

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

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

Goodwill is usually recorded in the currencies of the related main cash generating units.

Intangible assets

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

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

Research and development

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

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

Impairment of assets

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

Current and non-current liabilities

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

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

Provisions

These comprise liabilities of uncertain timing or amount that arise from restructuring, environmental, litigation and other risks.

Provisions are recognised when there exists a legal or constructive obligation stemming from a past event and when the future cash outflows can be reliably estimated. Obligations arising from restructuring plans are recognised when detailed formal plans have been established and when there is a valid expectation that such plans will be carried out.

Employee benefits

Post-employment benefits

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

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

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

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

For defined benefit plans the actuarial cost charged to the income statement consists of current service cost, interest cost, expected return on plan assets and past service cost as well as actuarial gains or losses to the extent that they are recognised. The past service cost for the enhancement of pension benefits is accounted for when such benefits vest or become a constructive obligation.

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

Pensions and retirement benefits

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

Post retirement health care and other employee benefits

Group companies, principally in the USA and Canada, maintain health care benefit plans, which cover eligible retired employees.

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

Equity compensation plans

Members of the Group's Management

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

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

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

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

Board of Directors

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

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

Accruals and deferred income

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

Dividends

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

Contingent assets and liabilities

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

Events occurring after the balance sheet date

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

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

Other non-adjusting events are disclosed in the notes.

Changes in accounting policies and modification of the scope of consolidation

Changes in accounting policies

There have been no changes in accounting policy during the year.

Consequences from the European Union's IFRS endorsement

The Group has complied with IFRS/IAS since 1989. As a Swiss company, the Group is not affected by the European Union decision requiring EU-listed companies to present their accounts in accordance with IFRS as from 2005 onwards. However, as regards to future IFRS, the Group will comply with new standards, such as on share based payments and on business combinations, as well as with revised IASs such as the revisions of IAS 1 on presentation of financial statements, IAS 16 on property plant and equipment, IAS 32 and 39 on financial instruments, IAS 36 on impairment, IAS 38 on intangible assets, etc. Currently, only the new and/or revised standards covering the repeal of goodwill amortisation and of indefinite life intangibles, as well as the treatment of employee stock options are likely, once implemented, to have an impact on the Group's reported results.

Modification of the scope of consolidation

The scope of consolidation has been affected by the acquisitions and disposals made in 2003. The principal businesses are detailed below.

Fully consolidated

Newly included:

Dreyer's, USA, Ice Cream, 100% (June)
Powwow, Europe, Water Home and Office Delivery, 100% (June)
Mövenpick, Switzerland, Ice Cream, 100% (March)

Proportionally consolidated

Joint Venture:

Dairy Partners Americas, Latin America, transfer of some Milk products businesses to a Joint Venture (50%) with Fonterra (January)

Change in management structure

Eismann, a frozen food distributor, has been reclassified from Zone Europe to Other activities because it is under a new management following the December 2003 announcement that this business, or at least a majority stake, has been put up for sale.

Notes

1. Segmental information

By management responsibility and geographic area

In millions of CHF	2003	2002	2003	2002
	Sales		EBITA	
Zone Europe (a)	28'574	28'068	3'561	3'442
Zone Americas	27'655	29'293	4'150	4'189
Zone Asia, Oceania and Africa	14'432	14'880	2'508	2'564
Nestlé Waters	8'066	7'720	782	696
Other activities (a) (b)	9'252	9'199	1'537	1'517
	87'979	89'160	12'538	12'408
Unallocated items (c)			(1'532)	(1'468)
EBITA			11'006	10'940

(a) Eismann, a frozen food distributor, has been reclassified from Zone Europe to Other activities because it is under a new management following the December 2003 announcement that this business, or at least a majority stake, has been put up for sale. 2002 comparative figures have been restated.

(b) Mainly Pharmaceutical products, Joint Ventures and "Trinks" (Germany).

(c) Mainly corporate expenses as well as research and development costs.

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

In millions of CHF	2003	2002	2003	2002
	Assets		Liabilities	
Zone Europe (a)	12'154	11'541	5'503	5'171
Zone Americas	9'643	9'567	3'205	3'500
Zone Asia, Oceania and Africa	6'071	6'139	1'829	2'271
Nestlé Waters	5'116	4'751	2'137	1'863
Other activities (a) (b)	3'730	3'585	1'539	1'497
	36'714	35'583	14'213	14'302
Unallocated items (d)	30'507	29'335	364	365
Eliminations	(1'026)	(841)	(1'026)	(841)
	66'195	64'077	13'551	13'826

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

In millions of CHF	2003	2002	2003	2002
	Capital expenditure		Depreciation of property, plant and equipment	
Zone Europe (a)	925	868	642	738
Zone Americas	739	904	674	732
Zone Asia, Oceania and Africa	541	584	364	398
Nestlé Waters	647	769	391	374
Other activities (a) (b)	375	322	215	196
	3'227	3'447	2'286	2'438
Unallocated items (e)	110	130	122	104
	3'337	3'577	2'408	2'542

(e) Corporate and research and development property, plant and equipment.

In millions of CHF	2003	2002	2003	2002
	Impairment of assets		Restructuring costs	
Zone Europe (a)	42	1'460	253	719
Zone Americas	43	228	98	302
Zone Asia, Oceania and Africa	81	355	56	27
Nestlé Waters	55	151	182	33
Other activities (a) (b)	1	2	9	24
	222	2'196	598	1'105
Unallocated items (c)			5	25
			603	1'130

By product group

In millions of CHF	2003	2002	2003	2002
	Sales		EBITA	
Beverages	23'520	23'325	4'038	4'075
Milk products, nutrition and ice cream	23'283	23'376	2'796	2'756
Prepared dishes and cooking aids	16'068	15'834	1'884	1'712
Petcare	9'816	10'719	1'444	1'418
Chocolate, confectionery and biscuits	10'240	10'774	1'047	1'180
Pharmaceutical products	5'052	5'132	1'329	1'267
	87'979	89'160	12'538	12'408
Unallocated items (a)			(1'532)	(1'468)
EBITA			11'006	10'940

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

In millions of CHF	2003	2002
	Assets	
Beverages	11'237	11'283
Milk products, nutrition and ice cream	10'303	10'972
Prepared dishes and cooking aids	5'787	6'291
Petcare	3'481	3'790
Chocolate, confectionery and biscuits	5'208	5'403
Pharmaceutical products	2'708	2'847
	38'724	40'586

In millions of CHF	2003	2002
	Capital expenditure	
Beverages	936	1'004
Milk products, nutrition and ice cream	421	495
Prepared dishes and cooking aids	251	304
Petcare	254	284
Chocolate, confectionery and biscuits	208	285
Pharmaceutical products	86	101
	2'156	2'473
Administration, distribution, research and development	1'181	1'104
	3'337	3'577

In millions of CHF	2003	2002	2003	2002
	Impairment of assets		Restructuring costs	
Beverages	121	350	248	117
Milk products, nutrition and ice cream	63	612	128	388
Prepared dishes and cooking aids	14	275	60	104
Petcare	19	740	26	313
Chocolate, confectionery and biscuits	5	209	133	134
Pharmaceutical products	—	—	4	1
	222	2'186	599	1'057
Administration, distribution, research and development	—	10	4	73
	222	2'196	603	1'130

2. Net other income (expenses)

In millions of CHF	2003	2002
Other expenses		
Loss on disposal of property, plant and equipment	(6)	(9)
Loss on disposal of activities	(71)	(145)
Restructuring costs	(603)	(1'130)
Impairment of property, plant and equipment	(148)	(1'316)
Other	(343)	(694)
	(1'171)	(3'294)
Other income		
Profit on disposal of property, plant and equipment	54	44
Profit on disposal of activities	277	4'690
Other	306	246
	637	4'980
Net other income (expenses)	(534)	1'686

Other expenses

Restructuring costs and impairments result mainly from the Group's industrial reorganisation. Restructuring costs in 2003 arise mainly from the optimisation of industrial manufacturing capacities relating to milk products and water businesses in Europe.

Other income

2002 included the gain on the partial IPO of Alcon, Inc. and the profit on the disposal of FIS.

3. Net financing cost

In millions of CHF	2003	2002
Interest income	608	745
Interest expense	(1'202)	(1'410)
	(594)	(665)

Interest income includes CHF 88 million (2002: CHF 44 million) of gains arising on marketable security portfolios classified as trading, and CHF 112 million (2002: CHF 89 million) of gains arising on derivatives acquired within the Group's risk management policies but for which hedge accounting is not applied.

4. Expenses by nature

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

In millions of CHF	2003	2002
Depreciation of property, plant and equipment	2'408	2'542
Salaries and welfare expenses	13'580	13'976
Operating lease charges	593	528
Exchange differences	(13)	(141)

5. Taxes

In millions of CHF	2003	2002
Components of tax expense		
Current tax	1'888	3'122
Deferred tax	408	(1'248)
Transfers (from)/to unrecognised tax assets	5	56
Changes in deferred tax rates	9	1
Prior years' tax	(305)	57
Taxes on equity items	7	(9)
Other tax (a)	295	316
	2'307	2'295
Deferred tax by types		
Property, plant and equipment	265	(213)
Goodwill and intangible assets	100	(386)
Employee benefits liabilities	86	(17)
Inventories, receivables, payables and provisions	(42)	(109)
Unused tax losses and tax credits	(30)	(55)
Other	29	(468)
	408	(1'248)
Reconciliation of tax expense		
Tax at the theoretical domestic rates applicable to profits of taxable entities in the countries concerned	2'247	1'624
Tax effect of non-deductible amortisation and impairment of goodwill	466	696
Tax effect of non-deductible or non-taxable items	(410)	(429)
Transfers (from)/to unrecognised tax assets	5	56
Difference in tax rates	9	(25)
Other tax (a)	(10)	373
	2'307	2'295

(a) Includes withholding tax levied on transfer of income.

6. Share of results of associates

In millions of CHF	2003	2002
Share of profit before taxes	847	737
Less share of taxes	(254)	(233)
Share of profit after taxes	593	504

7. Earnings per share

	2003	2002
Basic earnings per share in CHF		
Net profit per income statement (in millions of CHF)	6'213	7'564
Weighted average number of shares outstanding	387'018'429	387'641'752
Fully diluted earnings per share in CHF		
Theoretical net profit assuming the exercise of all outstanding options and sale of all treasury shares (in millions of CHF)	6'424	7'786
Number of shares	403'520'000	403'520'000

8. Liquid assets

In millions of CHF	2003	2002
Cash and cash equivalents		
Cash at bank and in hand	2'276	2'171
Cash equivalents	4'798	4'167
	7'074	6'338
Other liquid assets		
Current investments	645	1'341
Marketable securities	7'409	6'612
	8'054	7'953
Liquid assets	15'128	14'291

Marketable securities include mainly money market and fixed income instruments.

Liquid assets are mainly denominated in the following currencies:

In millions of CHF	2003	2002
USD	3'843	4'157
EUR	2'422	2'740
CHF	6'559	5'260
GBP	1'371	827
Other	933	1'307
	15'128	14'291

Interest rates are as follows:

	2003	2002
on USD	1.8%	2.5%
on EUR	2.2%	3.8%
on CHF	0.6%	1.8%
on GBP	4.1%	4.0%

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

Liquid assets are classified as follows:

In millions of CHF	2003	2002
Available-for-sale	11'637	13'501
Trading	3'491	790
	15'128	14'291

9. Trade and other receivables

In millions of CHF	2003	2002
Trade receivables	10'179	9'827
Other receivables	2'672	2'839
	12'851	12'666
After deduction of allowances for doubtful receivables of	513	476

10. Inventories

In millions of CHF	2003	2002
Raw materials, work in progress and sundry supplies	2'657	2'564
Finished goods	4'501	4'414
Provisions	(163)	(184)
	6'995	6'794

Inventories amounting to CHF 88 million (2002: CHF 148 million) are pledged as security for financial liabilities.

11. Derivative assets

In millions of CHF	2003		2002	
	Fair values	Contractual or notional amounts	Fair values	Contractual or notional amounts
Fair value hedges				
Currency forwards, futures and swaps	2	114	15	731
Interest rate swaps	91	2'225	79	1'742
Interest rate and currency swaps	286	1'295	234	1'508
Cash flow hedges				
Currency forwards, futures and swaps	78	1'069	52	827
Currency options	9	133	1	6
Interest rate swaps	23	2'293	21	1'142
Interest rate and currency swaps	0	312	24	560
Interest forwards and futures	0	281	1	14
Interest options	—	—	1	37
Commodity futures	27	386	95	565
Commodity options	4	45	7	45
Hedges of net investments in foreign entities				
	93	1'474	354	3'000
Trading				
Currency derivatives	3	443	34	1'064
Interest derivatives	42	2'416	32	837
Commodity derivatives	11	62	9	139
	669	12'548	959	12'217

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

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

In millions of CHF	Currencies purchased forward:						2003	2002
	USD	BRL	EUR	JPY	CHF	Other		
Currencies sold forward:								
USD	—	—	18	—	21	44	83	290
BRL	22	—	—	30	—	—	52	73
EUR	7	—	—	9	—	2	18	14
JPY	1	—	7	—	9	—	17	19
CHF	3	—	—	—	—	—	3	5
Other	—	—	4	—	1	7	12	54
2003	33	—	29	39	31	53	185	
2002	224	—	39	8	156	28		455

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

In millions of CHF	2003	2002
EUR	175	70
JPY	169	128
USD	49	160
GBP	1	82
Other	90	64
	484	504

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

In millions of CHF	2003	2002
Within one year	101	147
In the second year	12	55
In the third to the fifth year inclusive	28	—
	141	202

Other derivative assets have the following maturities:

In millions of CHF	2003	2002
Within one year	232	251
In the second year	95	173
In the third to the fifth year inclusive	198	328
After the fifth year	3	5
	528	757

12. Property, plant and equipment

In millions of CHF					2003	2002
	Land and buildings	Machinery and equipment	Tools, furniture and other equipment	Vehicles	Total	Total
Gross value						
At 1st January	11'534	22'320	6'177	766	40'797	45'093
Currency retranslation and inflation adjustment	(167)	(253)	(47)	(24)	(491)	(5'560)
Expenditure	695	1'824	709	109	3'337	3'577
Disposals	(184)	(1'137)	(597)	(92)	(2'010)	(2'411)
Modification of the scope of consolidation	12	62	54	17	145	98
At 31st December	11'890	22'816	6'296	776	41'778	40'797
Accumulated depreciation						
At 1st January	(4'520)	(14'462)	(4'333)	(457)	(23'772)	(25'195)
Currency retranslation and inflation adjustment	1	15	40	15	71	3'053
Depreciation	(351)	(1'232)	(726)	(99)	(2'408)	(2'542)
Impairment	(87)	(48)	(12)	(1)	(148)	(1'316)
Disposals	78	1'023	588	67	1'756	2'040
Modification of the scope of consolidation	69	110	(13)	(4)	162	188
At 31st December	(4'810)	(14'594)	(4'456)	(479)	(24'339)	(23'772)
Net at 31st December	7'080	8'222	1'840	297	17'439	17'025

At 31st December 2003, property, plant and equipment include CHF 409 million (2002: CHF 452 million) of assets under construction. Net property, plant and equipment held under finance leases at 31st December 2003 amount to CHF 276 million (2002: CHF 305 million). Net property, plant and equipment of CHF 112 million (2002: CHF 85 million) are pledged as security for financial liabilities.

The fire risks, reasonably estimated, are insured in accordance with domestic requirements.

13. Investments in associates

This item primarily includes the Group's indirect (26.4%) participation in the equity of L'Oréal, Paris for CHF 2684 million (2002: CHF 2237 million). Its market value at 31st December 2003 amounts to CHF 18 088 million (2002: CHF 18 845 million).

14. Non-current financial assets

In millions of CHF	2003	2002
Available-for-sale	2'121	2'604
Held-to-maturity	273	258
	2'394	2'862

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

In millions of CHF	2003	2002
USD	1'059	1'694
EUR	331	140
CHF	829	884
Other	175	144
	2'394	2'862

Non-current financial assets have the following maturities:

In millions of CHF	2003	2002
In the second year	217	190
In the third to the fifth year inclusive	255	102
After the fifth year	1'262	1'838
Equity instruments	660	732
	2'394	2'862

15. Goodwill

In millions of CHF	2003	2002
Gross value		
At 1st January	30'053	27'633
Currency retranslation	(2'268)	(3'903)
Goodwill from acquisitions	4'726	6'330
Disposals	(160)	—
Other	94	(7)
At 31st December	32'445	30'053
Accumulated amortisation		
At 1st January	(4'335)	(2'380)
Currency retranslation	154	319
Amortisation	(1'571)	(1'438)
Impairment (a)	—	(839)
Disposals	48	—
Other	4	3
At 31st December	(5'700)	(4'335)
Net at 31st December	26'745	25'718

(a) For 2002, mainly petcare in Europe and ice cream/frozen food businesses in Europe and Far East

16. Intangible assets

In millions of CHF	2003			2002	
	Intellectual property rights	Operating rights and others	Manage- ment information systems	Total	Total
Gross value					
At 1st January	400	548	1'100	2'048	1'555
Currency retranslation	—	(31)	(24)	(55)	(171)
Expenditure	7	24	651	682	690
Disposals	(4)	(12)	(30)	(46)	(55)
Modification of the scope of consolidation	2	9	(3)	8	28
Other	—	—	3	3	1
At 31st December	405	538	1'697	2'640	2'048
Accumulated depreciation					
At 1st January	(116)	(299)	(391)	(806)	(657)
Currency retranslation	(1)	18	9	26	78
Depreciation	(27)	(42)	(186)	(255)	(189)
Disposals	5	8	29	42	8
Impairment	(2)	(64)	(8)	(74)	(41)
Modification of the scope of consolidation	—	—	3	3	(5)
Other	—	—	(1)	(1)	—
At 31st December	(141)	(379)	(545)	(1'065)	(806)
Net at 31st December	264	159	1'152	1'575	1'242

17. Trade and other payables

In millions of CHF	2003	2002
Trade payables	6'710	6'191
Other payables	3'142	3'741
	9'852	9'932

18. Current financial liabilities

In millions of CHF	2003	2002
Commercial Paper	10'515	13'859
Line of credit facilities	1'829	1'178
Other current financial liabilities	1'697	2'744
	14'041	17'781
Current portion of medium and long-term financial liabilities	1'378	921
	15'419	18'702

The above financial liabilities are denominated in the following currencies:

In millions of CHF	2003	2002
USD	9'626	12'565
EUR	2'138	2'293
GBP	1'120	667
Other	2'535	3'177
	15'419	18'702

Interest rates are as follows:

	2003	2002
on USD	1.2%	1.8%
on EUR	2.5%	3.3%
on GBP	4.1%	4.0%

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

19. Derivative liabilities

In millions of CHF	2003		2002	
	Fair values	Contractual or notional amounts	Fair values	Contractual or notional amounts
Fair value hedges				
Currency forwards, futures and swaps	49	810	15	523
Currency options	—	—	0	48
Interest rate swaps	12	538	4	36
Interest rate and currency swaps	440	2'159	87	1'599
Cash flow hedges				
Currency forwards, futures and swaps	28	808	22	695
Currency options	5	121	—	—
Interest rate swaps	105	2'373	140	1'992
Interest forwards and futures	—	—	0	176
Interest options	1	78	2	174
Commodity futures	73	698	15	181
Commodity options	1	2	2	81
Hedges of net investments in foreign entities				
	41	606	47	322
Trading				
Currency derivatives	47	1'990	25	933
Interest derivatives	27	2'660	17	1'698
Commodity derivatives	17	306	8	157
	846	13'149	384	8'615

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

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

In millions of CHF	Currencies purchased forward:						2003	2002
	USD	CHF	JPY	EUR	BRL	Other		
Currencies sold forward:								
USD	—	—	—	—	—	45	45	40
CHF	32	—	—	—	—	4	36	15
JPY	25	2	—	—	—	—	27	2
EUR	24	—	—	—	—	1	25	23
BRL	1	—	6	—	—	—	7	10
Other	23	1	—	—	—	5	29	18
2003	105	3	6	—	—	55	169	
2002	41	—	37	2	—	28		108

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

In millions of CHF	2003	2002
EUR	312	81
USD	225	143
GBP	65	16
Other	75	36
	677	276

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

In millions of CHF	2003	2002
Within one year	112	35
In the second year	3	7
In the third to the fifth year inclusive	55	66
After the fifth year	43	73
	213	181

Other derivative liabilities have the following maturities:

In millions of CHF	2003	2002
Within one year	247	104
In the second year	3	7
In the third to the fifth year inclusive	372	87
After the fifth year	11	5
	633	203

20. Non-current financial liabilities

In millions of CHF	2003	2002
Loans from financial institutions and other	1'285	1'338
Liabilities in respect of unexercised options (a)	3'026	—
Bonds	10'859	9'835
Obligations under finance leases	272	296
	15'442	11'469
Current portion	(1'378)	(921)
	14'064	10'548

(a) Relate to the Dreyer's acquisition

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

In millions of CHF	2003	2002
In the second year	3'335	1'474
In the third to the fifth year inclusive	8'916	7'302
After the fifth year	1'813	1'772
	14'064	10'548

The above financial liabilities are denominated in the following currencies:

In millions of CHF	2003	2002
USD	9'764	7'576
EUR	2'997	2'388
Other	1'303	584
	14'064	10'548

Interest rates on loans from financial institutions are as follows:

	2003	2002
on EUR	2.4%	3.3%

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

The fair value of non-current financial liabilities amounts to CHF 14 427 million (2002: CHF 10 741 million).

The interest rate structure is as follows:

In millions of CHF	2003	2002
Financial liabilities at fixed rates	13'673	9'725
Financial liabilities at variable rates	391	823
	14'064	10'548

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

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

In millions of CHF				2003	2002
Face value in millions	Interest rates		Year of issue/ maturity		
	Nominal	Effective			
	Bond Issues of Nestlé Holdings, Inc., USA				
USD 250	7.38%	7.38%	1995-2005	310	347
USD 250	5.63%	5.64%	1998-2003		
				—	356
USD 300	3.00%	7.48%	2000-2005		
				351	378

In millions of CHF					2003	2002
Face value in millions	Interest rates		Year of issue/ maturity			
	Nominal	Effective				
USD 699	0.00%	6.15%	2001-2008	<p>Turbo Zero Equity-Link issue with warrants on Nestlé S.A. shares. The debt component (issue of the notes) was recognised under bonds for USD 451 million at inception, while the equity component (premium on warrants issued) was recognised under equity for USD 123 million.</p> <p>The investors have the option to put the notes to Nestlé Holdings, Inc. and the warrants to Nestlé S.A. at their accreted value in June 2003 and in June 2006.</p> <p>Exercise conditions of the warrants: 70'000 warrants to purchase Nestlé S.A. shares. Each warrant gives the right to purchase 31.9065 shares. The holders of warrants may exercise their warrants to purchase shares of Nestlé S.A. either:</p> <p>1) during the note exercise period running from July 2001 to June 2008 by tendering a note and a warrant in exchange for shares on the basis that one note is required to exercise each warrant; or</p> <p>2) on the cash exercise date (11 June 2008), by tendering warrants together with the exercise price in cash.</p> <p>The effective initial exercise price per share is USD 261.119 (or CHF 455, based on a fixed exchange rate of CHF 1.7425 for each USD), growing by 2.625% per annum, prior to any anti-dilution adjustment.</p> <p>In June 2003, 100 units (at USD 10,000 each) of this issue were put for cash by a holder on the put date at the prescribed price as per the terms and conditions of the issue.</p>	662	699
USD 950	3.50%	3.76%	2001-2005	The initial USD 650 million bond issue in 2001 was increased by USD 300 million in 2002.	1'170	1'307
USD 300	5.13%	5.19%	2001-2007		371	415
USD 500	4.75%	4.98%	2002-2007		616	689
USD 400	4.50%	4.64%	2002-2006	Partially subject to an interest rate swap that creates a liability at floating rates.	501	563
NOK 2000	5.25%	4.70%	2003-2007	Subject to an interest rate and currency swap that creates a USD liability at floating rates.	393	—

In millions of CHF				2003	2002	
Face value in millions	Interest rates		Year of issue/ maturity			
	Nominal	Effective				
USD 250	3.00%	3.00%	2003-2009	Step-up fixed rate callable medium term note. Currently a related swap synthetically creates a liability at floating rates. However the note issuer sold an option to the swap counterparty giving it the right to terminate the swap early, annually starting on 31 March 2005. Further, the note's coupon rate increases on March 31, as follows: 2003: 3%, 2005: 3.25%, 2007: 3.75%, 2008: 4%. The current swap takes into consideration this rate step-up, and, if not terminated by the swap issuer prior to its maturity in 2009, would continuously synthetically create a liability at floating rates.	309	—
Bond Issues of Nestlé Purina Petcare Company, USA (Face values are shown after partial repayments)						
USD 83	9.25%	9.50%	1989-2009		120	137
USD 48	7.75%	7.84%	1995-2015		66	75
USD 63	9.30%	9.42%	1991-2021		102	115
USD 79	8.63%	8.72%	1992-2022		121	136
USD 44	8.13%	8.27%	1993-2023		65	73
USD 51	7.88%	8.05%	1995-2025		74	83
Bond Issues of Nestlé Finance-France S.A., France						
ZAR 100	12.50%	13.07%	2000-2005	Subject to an interest rate swap that creates a liability at floating rates. The proceeds have been re-lent to a South African affiliated company.	19	16
ZAR 100	11.00%	11.52%	2001-2006	Subject to an interest rate swap that creates a liability at floating rates. The proceeds have been re-lent to a South African affiliated company.	20	16
EUR 400	4.75%	4.87%	2002-2007	Subject to an interest rate swap that creates a liability at floating rates.	657	619
USD 250	4.24%	4.24%	2002-2006	Uridashi issue sold to retail investors in Japan. Subject to an interest rate and currency swap that creates a EUR liability at floating rates.	322	366
USD 500	3.00%	3.08%	2002-2006	Subject to an interest rate and currency swap that creates a EUR liability at floating rates.	630	707
EUR 150	3.38%	3.38%	2002-2007	Uridashi issue sold to retail investors in Japan. Subject to an interest rate swap that creates a liability at floating rates.	236	215

In millions of CHF			2003	2002		
Face value in millions	Interest rates		Year of issue/ maturity			
	Nominal	Effective				
EUR 175	2.56%	2.56%	2003-2006	Uridashi issue sold to retail investors in Japan. Subject to an interest rate swap that creates a liability at floating rates.	272	—
EUR 500	3.50%	3.55%	2003-2008	Subject to an interest rate swap that creates a liability at floating rates.	786	—
EUR 100	2.50%	3.23%	2003-2007	Subject to an interest rate swap that creates a liability at floating rates.	154	—
USD 100	2.25%	3.04%	2003-2007	Subject to an interest rate and currency swap that creates a EUR liability at floating rates.	119	—
Bond Issues of Nestlé Holdings (U.K.) PLC, United Kingdom						
USD 250	5.00%	5.07%	1998-2003	Was subject to an interest rate and currency swap that created a GBP liability at floating rates.	—	360
EUR 300	4.75%	4.75%	2001-2005	Subject to an interest rate and currency swap that creates a GBP liability at floating rates.	493	465
USD 300	5.25%	5.35%	2001-2006	Subject to an interest rate and currency swap that creates a GBP liability at floating rates.	405	464
Bond Issues of Nestlé Australia Ltd., Australia						
AUD 400	4.75%	4.94%	2002-2005	The initial AUD 300 million bond issue in 2002 was increased by AUD 100 million in 2003. The entire issue is subject to an interest rate swap that creates a liability at floating rates.	366	237
USD 54	7.40%	7.40%	2002-2012	Callable range accrual note, non-callable during the first year. Subject to an interest rate and currency swap that creates an AUD liability at floating rates.	66	76
Bond Issue of Nestlé Capital Canada Ltd., Canada						
USD 200	5.50%	5.47%	1999-2004	Subject to an interest rate and currency swap that creates a CAD liability at floating rates.	252	293
Bond Issue of Nestlé Japan Ltd., Japan						
EUR 350	5.25%	5.31%	2000-2004	Subject to an interest rate and currency swap that creates a JPY liability at floating rates.	558	535

In millions of CHF				2003	2002
Face value in millions	Interest rates		Year of issue/ maturity		
	Nominal	Effective			
	Bond Issue of Nestlé (Thai) Ltd, Thailand				
THB 5000	2.16%	2.16%	2003-2008	156	—
Other bonds				117	93
Total				10'859	9'835
Due within one year				(810)	(740)
Due after one year				10'049	9'095

Bonds subject to fair value hedges are carried at fair value for CHF 5874 million (2002: CHF 5288 million) and the related derivatives are shown under derivative assets for CHF 374 million (2002: CHF 296 million) and under derivative liabilities for CHF 394 million (2002: CHF 87 million).

21. Employee benefits

Reconciliation of assets and liabilities recognised in the balance sheet

In millions of CHF		2003		2002
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Total
Present value of funded obligations	18'998	229	19'227	19'093
Fair value of plan assets	(17'144)	(116)	(17'260)	(15'674)
Excess of liabilities/(assets) of funded obligations	1'854	113	1'967	3'419
Present value of unfunded obligations	1'031	1'309	2'340	1'696
Unrecognised past service cost of non-vested benefits	(2)	(8)	(10)	(10)
Net unrecognised actuarial gains/(losses)	(3'129)	(215)	(3'344)	(3'831)
Unrecognised assets	349	—	349	28
Defined benefits net liabilities	103	1'199	1'302	1'302
Liabilities from defined contribution plans and non-current deferred compensation			991	762
Net liabilities			2'293	2'064
Reflected in the balance sheet as follows:				
Employee benefits assets			(1'070)	(1'083)
Employee benefits liabilities			3'363	3'147
Net liabilities			2'293	2'064

The plan assets include property occupied by affiliated companies with a fair value of CHF 14 million (2002: CHF 16 million).

The decrease of the excess of liabilities is mainly due to the effective return on assets, as well as to the reorganisation of the US pension plan structure resulting in the conversion of certain funded plans into unfunded plans.

Expenses recognised in the income statement

In millions of CHF			2003	2002
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Total
Current service cost	604	58	662	659
Employees' contributions	(101)	—	(101)	(101)
Interest cost	984	90	1'074	1'126
Expected return on plan assets	(1'118)	(9)	(1'127)	(1'384)
Net actuarial gains/(losses) recognised in year	118	6	124	23
Early retirements, curtailments, settlements	11	(2)	9	(12)
Past service cost	34	16	50	33
Transfer (from)/to unrecognised assets	153	—	153	296
Total defined benefit expenses	685	159	844	640
Total defined contribution expenses			298	309

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

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

Actual gain/(loss) on plan assets	1'910	(2'363)
--	--------------	----------------

Movement of defined benefit net liabilities recognised in the balance sheet

In millions of CHF			2003	2002
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Total
At 1st January	93	1'209	1'302	1'545
Currency retranslation	77	(106)	(29)	(194)
Expense recognised in the income statement	685	159	844	640
Contributions	(640)	(59)	(699)	(604)
Benefits paid	(97)	(22)	(119)	(138)
Modification of the scope of consolidation	—	2	2	53
Transfer from/(to) defined contribution plans	(15)	16	1	—
At 31st December	103	1'199	1'302	1'302

Principal actuarial assumptions

At 31st December	2003	2002
Discount rates		
Europe	3.5 - 5.5 %	3.5 - 5.6 %
Americas	6 - 8.2 %	6.8 - 8.7 %
Asia, Oceania and Africa	2 - 8.5 %	2 - 11 %
Expected long term rates of return on plan assets		
Europe	6 - 7.5 %	5 - 7.5 %
Americas	6 - 9.2 %	6 - 9.7 %
Asia, Oceania and Africa	4.5 - 9.5 %	4.5 - 11 %
Expected rates of salary increases		
Europe	2.5 - 3.8 %	2.5 - 3.5 %
Americas	3 - 7.1 %	3.5 - 9 %
Asia, Oceania and Africa	0.5 - 5.5 %	0.5 - 8 %
Expected rates of pension adjustments		
Europe	1 - 3.5 %	1.5 - 3.5 %
Americas	0.5 - 7.1 %	1 - 7.6 %
Asia, Oceania and Africa	2 - 3.8 %	0.5 - 6 %
Medical cost trend rates		
Americas	5 - 10 %	5 - 10 %
Average remaining working life of employees (in years)		
Europe	8 - 21	13 - 22
Americas	11 - 25	9 - 25
Asia, Oceania and Africa	15 - 20	15 - 20

The methodology to disclose actuarial assumptions has been enhanced to include major pension plans only in order to obtain a more meaningful range. 2002 comparative figures have been restated.

22. Equity compensation plans and remuneration

Equity compensation plans

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

Movement of options

In millions of CHF	2003		2002	
	Number of options	Value of shares	Number of options	Value of shares
Outstanding at 1st January	3'545'247	1'198	2'191'466	687
of which vested	748'315		427'260	
New rights	1'562'619	436	1'479'952	544
Rights exercised (a)	(81'853)	(20)	(91'535)	(22)
Rights cancelled	(23'789)	(8)	(34'636)	(11)
Outstanding at 31st December	5'002'224	1'606	3'545'247	1'198
of which vested				
at 31st December	665'302		748'315	
additional options vesting on 1st March 2004	1'306'743		—	

(a) Average exercise price: CHF 238.58 (2002: CHF 241.65).

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

Expiry dates of options

		2003		2002	
Grant date	Expiring within	Number	Exercise price	Number	Exercise price
	One year	—	—	60'590	CHF 230.30
01.01.1999	Two years	246'642	CHF 260.90	—	—
01.01.2000	Three years	418'660	CHF 281.90	266'615	CHF 260.90
	Four years	—	—	421'110	CHF 281.90
01.03.2001	Five years	1'306'743	CHF 343.20	—	—
01.03.2002	Six years	1'467'560	CHF 367.35	1'316'980	CHF 343.20
01.02.2003	Seven years	1'528'832	CHF 278.55	1'479'952	CHF 367.35
01.10.2003	Seven years	33'787	CHF 308.55	—	—
	Total	5'002'224		3'545'247	

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

Remuneration of the Board of Directors and of the Executive Board

		2003		2002	
		Number	CHF millions	Number	CHF millions
Non-Executive Board of Directors					
	Remuneration		4		4
	Shares	6'848	2	5'096	2
Executive Board (a)					
	Remuneration		11		11
	Bonus		7		7
	Shares	15'107	4	10'956	4
	Options	126'200		112'217	
Total			28		28

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

Board of Directors

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

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

Executive Board

The total annual remuneration of the members of the Executive Board comprises a salary, a bonus (based on the individual's performance and the achievement of the Group's objectives) and share options.

50% of the bonus of the members of the Executive Board is paid through the granting of Nestlé S.A. shares at the average price of the last 10 trading days of January of the year of allocation. These shares are subject to a 3-year blocking period.

Alcon Incentive plan

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

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

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

23. Deferred taxes

In millions of CHF	2003	2002
Tax assets by types of temporary differences		
Property, plant and equipment	269	200
Intangible assets	65	109
Employee benefits	1'216	844
Inventories, receivables, payables and provisions	930	1'013
Unused tax losses and unused tax credits	139	110
Other	491	533
	3'110	2'809
Tax liabilities by types of temporary differences		
Property, plant and equipment	1'113	790
Intangible assets	438	533
Employee benefits	376	90
Inventories, receivables, payables and provisions	14	96
Other	347	273
	2'288	1'782
Net assets	822	1'027
Reflected in the balance sheet as follows:		
Deferred tax assets	1'398	1'519
Deferred tax liabilities	(576)	(492)
Net assets	822	1'027
Temporary differences for which no deferred tax is recognised:		
on investments in affiliated companies (taxable temporary difference)	10'882	10'000
on unused tax losses, tax credits and other items	1'442	1'548

Unused tax losses expire mainly after 5 years.

24. Provisions

In millions of CHF	2003				2002	
	Restructuring	Environment	Litigation	Other	Total	Total
At 1st January	1'068	55	2'081	177	3'381	2'495
Currency retranslation	(36)	(5)	(91)	9	(123)	(325)
Provisions made in the period	496	3	417	57	973	1'477
Modification of the scope of consolidation	108	—	(40)	—	68	431
Amounts used	(596)	(10)	(194)	(61)	(861)	(520)
Unused amounts reversed	(105)	(4)	(246)	(22)	(377)	(177)
At 31st December	935	39	1'927	160	3'061	3'381

Restructuring provisions arise from a number of projects across the Group. These include plans to optimise industrial manufacturing capacities such as the project Target 2004+ on industrial efficiency, of certain ice cream and water operations, and plans to restructure distribution, logistics and sales force operations mainly in Europe and North America. The project FitNes aimed at reducing administrative costs also results in administrative restructuring programmes mainly in Europe and in the Americas. Restructuring provisions are expected to result in future cash outflows when implementing the plans usually over the following two years and are consequently not discounted. Reversal of restructuring provisions stem mainly from the fact that voluntary restructuring programmes implemented in Europe in 2002 have attracted less participants than expected.

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

25. Share capital of Nestlé S.A.

	2003	2002
Number of registered shares of nominal value CHF 1.- each	403'520'000	403'520'000
In millions of CHF	404	404

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

26. Treasury shares

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

Number of shares	2003	2002
Purpose of holding		
Freely available shares	3'493'743	5'055'688
Management option rights	5'002'224	3'545'247
Warrants on SWANS and Turbo bond issues of Nestlé Holdings Inc., USA	3'524'490	3'527'680
Trading	3'551'694	4'470'644
Total at 31st December	15'572'151	16'599'259

In millions of CHF	2003	2002
--------------------	-------------	------

Book value at 31st December	2'371	2'578
Market value at 31st December	4'812	4'864

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

27. Decrease/(increase) in working capital

Disregarding exchange differences and effect of acquisitions and disposals.

In millions of CHF	2003	2002
Inventories	(234)	28
Trade receivables	(351)	(21)
Trade payables	49	41
Other payables	(122)	151
Net accruals and deferrals	(23)	1
Other	(7)	587
	(688)	787

28. Acquisitions

In millions of CHF	2003	2002
Fair value of net assets acquired		
Property, plant and equipment	395	527
Financial assets	(18)	57
Intangible assets	11	27
Minority interests	18	(1)
Purchase of minority interests in existing participations	8	19
Net working capital	100	391
Financial liabilities	(507)	(809)
Employee benefits, deferred taxes and provisions	(38)	(1'152)
Liquid assets	30	82
	(1)	(859)
Goodwill	4'726	6'330
Total acquisition cost	4'725	5'471
less:		
Cash and cash equivalents acquired	(30)	(70)
Consideration payable	(3'041)	(6)
Payment of consideration payable on prior years acquisition	296	—
Cash outflow on acquisitions	1'950	5'395

29. Disposals

In millions of CHF	2003	2002
Net assets disposed of		
Property, plant and equipment	88	241
Financial assets	—	115
Goodwill and intangible assets	112	4
Minority interests	(2)	226
Net working capital	37	174
Financial liabilities	(9)	(131)
Employee benefits, deferred tax and provisions	18	59
Liquid assets	(2)	15
	242	703
Recovery on disposal of goodwill charged to equity prior to 1st January 1995	19	—
Profit/(loss) on current year disposals	210	4'659
Profit/(loss) on prior years disposals	(4)	(114)
Total disposal consideration	467	5'248
less:		
Cash and cash equivalents disposed of	2	(15)
Consideration receivable	(183)	(549)
Receipt of consideration receivable on prior years disposal	439	—
Cash inflow on disposals	725	4'684

30. Dividends

Dividends payable are not accounted for until they have been ratified at the Annual General Meeting. At the meeting on 22nd April 2004, the following dividend in respect of 2003 will be proposed:

Dividend per share	CHF	7.20
resulting in a total dividend of (a)	CHF	2 858 371 762.-

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

The accounts for the year ended 31st December 2003 do not reflect this proposed distribution, which will be treated as an appropriation of profit in the year ending 31st December 2004.

31. Guarantees

In the normal course of business, the Group has granted guarantees to third parties, totalling CHF 331 million (2002: CHF 341 million) on 31st December 2003.

32. Commitments for expenditure on property, plant and equipment

At 31st December 2003, the Group was committed to expenditure amounting to CHF 139 million (2002: CHF 158 million).

33. Lease commitments

The following charges arise from these commitments:

Operating leases

In millions of CHF	2003	2002
	Minimum lease payments	
	Future value	
Within one year	458	450
In the second year	378	382
In the third to the fifth year inclusive	705	753
After the fifth year	893	1'395
	2'434	2'980

Finance leases

In millions of CHF	2003		2002	
	Present value	Minimum lease payments Future value	Present value	Future value
Within one year	48	64	52	64
In the second year	42	53	43	52
In the third to the fifth year inclusive	76	106	63	86
After the fifth year	106	137	138	191
	272	360	296	393

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

34. Contingent assets and liabilities

The Group is exposed to contingent liabilities amounting to about CHF 470 million (2002: CHF 440 million) representing various potential litigation.

Contingent assets for litigation claims in favour of the Group amount to about CHF 170 million (2002: CHF 160 million).

35. Events after the balance sheet date

Garoto

The Administrative Council of Economic Defence of Brazil (CADE) issued a ruling in February 2004 requesting Nestlé to sell the assets it acquired from Chocolates Garoto S.A. in 2002. CADE said the combined operations of Nestlé and Garoto were a threat to fair competition.

Nestlé is considering various options to resolve this matter with CADE; the final outcome is expected in 2004.

L'Oréal

On 3rd February 2004 Nestlé and the Bettencourt family who own respectively 49% and 51% of Gesparal Holding Company, which in turn owns 53.8% of L'Oréal, reached an agreement proposing a merger of Gesparal into L'Oréal. This merger will be proposed at the next annual shareholders' meeting of L'Oréal on 29th April 2004. After the merger, Nestlé will own 26.4% of L'Oréal. They have also agreed not to modify their respective shareholdings for an agreed period and to grant mutual pre-emption rights on their respective shareholdings for a ten-year period.

Other subsequent events

At 25th February 2004, date of approval of the accounts by the Board of Directors, the Group had no subsequent adjusting events that warrant a modification of the value of the assets and liabilities.

36. Transactions with related parties

The Group has not entered into any material transaction with related parties. Furthermore, throughout 2003, no director had a personal interest in any transaction of significance for the business of the Group.

37. Nestlé Group Companies

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

Principal exchange rates

CHF per		2003	2002	2003	2002
		Year end rates		Average annual rates	
1 US Dollar	USD	1.24	1.39	1.344	1.549
1 Euro	EUR	1.56	1.46	1.522	1.467
1 Pound Sterling	GBP	2.20	2.23	2.200	2.331
100 Brazilian Reais	BRL	42.60	39.30	43.680	54.200
100 Japanese Yen	JPY	1.16	1.17	1.165	1.240
100 Mexican Pesos	MXN	11.00	13.30	12.480	16.160
1 Canadian Dollar	CAD	0.96	0.88	0.967	0.985
1 Australian Dollar	AUD	0.93	0.79	0.880	0.845
100 Philippine Pesos	PHP	2.23	2.62	2.484	3.012

Report of the Group auditors

to the General Meeting of Nestlé S.A.

As Group auditors we have audited the Consolidated accounts (balance sheet, income statement, cash flow statement, statement of changes in equity and annex) of the Nestlé Group for the year ended 31st December 2003.

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

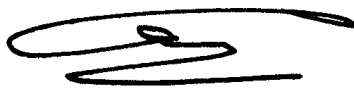
Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, and with International Standards on Auditing (ISA), which require that an audit be planned and performed to obtain reasonable assurance about whether the Consolidated accounts are free from material misstatement.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

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

 Klynveld Peat Marwick Goerdeler SA



Scott Cormack
Auditor in charge



Stéphane Gard

London and Zurich, 25th February 2004

Financial information – five year review

In millions of CHF (except for per share data and personnel)	2003	2002	2001	
Results				
Consolidated sales	87 979	89 160	84 698	—
EBITA	11 006	10 940	9 987	—
as % of sales	12.5%	12.3%	11.8%	—
Taxes	2 307	2 295	2 429	—
Consolidated net profit	6 213	7 564	6 681	—
as % of sales	7.1%	8.5%	7.9%	—
as % of average equity	17.3%	22.1%	21.0%	—
Total amount of dividend	2 858 ^(a)	2 705	2 484	—
Depreciation of property, plant and equipment	2 408	2 542	2 581	—
as % of sales	2.7%	2.9%	3.0%	—
Amortisation of goodwill	1 571	1 438	494	—
Balance sheet				
Current assets	36 233	35 342	39 045	—
<i>of which liquid assets</i>	15 128	14 291	16 042	—
Non-current assets	53 328	52 010	54 741	—
Total assets	89 561	87 352	93 786	—
Current liabilities	30 365	33 737	41 492	—
Non-current liabilities and minority interests	22 316	18 796	18 641	—
Equity	36 880	34 819	33 653	—
Capital expenditure	3 337	3 577	3 611	—
as % of sales	3.8%	4.0%	4.3%	—
Data per share				
Weighted average number of shares outstanding	387 018 429	387 641 752	387 369 846	—
Consolidated net profit ^(b)	16.05	19.51	17.25	—
Equity ^(b)	95.29	89.82	86.88	—
Dividend ^(b)	7.20 ^(d)	7.00	6.40	—
Pay-out ratio	44.8% ^(d)	35.9%	37.1%	—
Stock exchange prices (high/low) ^(b)	314.5/233.3	397.0/271.0	386.5/289.0	—
Yield ^(c)	2.3/3.1 ^(d)	1.8/2.6	1.7/2.2	—
Number of personnel (in thousands)				
	253	254	230	^(e)

(a) As proposed by the Board of Directors of Nestlé S.A.. This amount includes dividends payable in respect of shares with right to dividend at the balance sheet date (CHF 2793 million) as well as those potentially payable on the shares covering options and shares held for trading purposes (CHF 65 million).

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

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

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

(e) Excludes Ralston Purina.

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

	2000 (f)	1999 (g)
—	81 422	74 660
—	9 911	8 700
—	12.2%	11.7%
—	2 761	2 314
—	5 763	4 724
—	7.1%	6.3%
—	21.2%	20.0%
—	2 127	1 657
—	2 737	2 597
—	3.4%	3.5%
—	414	384
<hr/>		
—	30 747	27 169
—	10 131	6 670
—	34 777	31 770
—	65 524	58 939
—	23 174	22 182
—	12 446	12 304
—	29 904	24 453
—	3 305	2 806
—	4.1%	3.8%
<hr/>		
—	386 527 830	386 772 130
—	14.91	12.21
—	77.40	63.20
—	5.50	4.30
—	36.9%	35.2%
—	389.3/254.0	310.7/250.8
—	1.4/2.2	1.4/1.7
<hr/>		
—	225	231
<hr/>		

(g) Figures prior to 2000 have not been restated following the first application of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

Companies of the Nestlé Group

Operating companies

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

° Companies listed on the stock exchange.

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

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

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

% capital shareholding corresponds to voting powers unless stated otherwise.

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

Companies	City	% capital shareholdings	Currency	Capital
Europe				
Germany				
Nestlé Deutschland AG	Frankfurt am Main	100%	EUR	214'266'628.49
Blaue Quellen Mineral- und Heilbrunnen AG	Rhens am Rhein	100%	EUR	10'565'335.43
Trinks GmbH	Goslar	96.99%	EUR	2'351'942.65
San Pellegrino Deutschland GmbH	Mainz	100%	EUR	715'808.63
Nespresso Deutschland GmbH	Düsseldorf	100%	EUR	51'000.00
PowerBar Europe GmbH	München	100%	EUR	25'000.00
Alcon Pharma GmbH*	Freiburg/Breisgau	74.63%	EUR	511'291.90
Geti Wilba Wild- und Geflügelverarbeitung GmbH & Co. KG	Bremervörde	100%	EUR	6'135'502.57
Heimfrost Schumacher GmbH & Co. KG	Delmenhorst	100%	EUR	1'534'000.00
Nähr-Engel GmbH	Frankfurt am Main	100%	EUR	6'391'148.51
Erlenbacher Backwaren GmbH	Gross-Gerau	100%	EUR	2'582'024.00
Eismann Tiefkühl-Heimservice GmbH & Co. KG	Mettmann	100%	EUR	1'000'000.00
Family Frost International Tiefkühlheimdienst GmbH	Mettmann	100%	EUR	4'116'000.00
Nestlé Schöller GmbH & Co. KG	Nürnberg	100%	EUR	60'000'000.00
Nestlé Schöller Produktions-GmbH	Nürnberg	100%	EUR	30'000.00
Gut Adlersreuth Wildspezialitäten GmbH & Co. KG	Oberreute	100%	EUR	511'291.88
Distributa Gesellschaft für Lebensmittel-Logistik mbH	Wildau	70%	EUR	511'291.88
Family Frost Tiefkühlheimdienst GmbH	Wildau	100%	EUR	2'056'000.00
Austria				
Nestlé Österreich GmbH	Wien	100%	EUR	7'270'000.00
Nespresso Österreich GmbH & Co OHG	Wien	100%	EUR	35'000.00
Alcon Ophthalmika GmbH*	Wien	74.63%	EUR	36'336.42
Schöller Lebensmittel GmbH	Wien	100%	EUR	7'231'000.00
Eismann Tiefkühl-Service GmbH	Mattersburg	100%	EUR	365'000.00

Companies	City	% capital shareholdings	Currency	Capital
Belgium				
Nestlé Belgilux S.A.	Bruxelles	100%	EUR	8'924'200.00
Nestlé Waters Benelux S.A.	Etalle	100%	EUR	19'914'000.00
S.A. Nespresso Belgilux N.V.	Bruxelles	100%	EUR	550'000.00
S.A. Alcon-Couvreur N.V.*	Puurs	74.63%	EUR	4'491'830.00
Nestlé Purina PetCare Belgilux N.V.	Bruxelles	100%	EUR	2'974'722.00
Nestlé Catering Services S.A.	Bruxelles	100%	EUR	10'535'500.00
N.V. Schöller S.A.	Beerse	100%	EUR	521'000.00
Eismann N.V.	Geel	100%	EUR	5'453'657.55
Bulgaria				
Nestlé Sofia A.D.	Sofia	99.98%	BGN	8'785'000.00
Denmark				
Nestlé Danmark A/S	Copenhagen	100%	DKK	41'000'000.00
Alcon Danmark A/S*	Rodovre	74.63%	DKK	500'000.00
Food Specialities A/S	Esbjerg	100%	DKK	13'095'000.00
Spain				
Nestlé España S.A.	Esplugues de Llobregat (Barcelona)	100%	EUR	100'000'000.00
Productos del Café S.A.	Reus	100%	EUR	6'611'000.00
Davigel España S.A.	Palma de Mallorca	100%	EUR	984'000.00
La Cocinera Alimentación S.A.	Barcelona	100%	EUR	150'000.00
Aquarel Iberica S.A.	Barcelona	100%	EUR	300'506.05
Nestlé Waters España S.A.	Barcelona	100%	EUR	8'400'000.00
Alcon Cusi S.A.*	El Masnou (Barcelona)	74.63%	EUR	11'599'783.00
Helados Miko S.A.	Vitoria	100%	EUR	140'563'200.00
Compañía Avidesa S.A.	Alzira	100%	EUR	48'000'000.00
Nestlé PetCare España S.A.	Castellbisbal (Barcelona)	100%	EUR	12'000'000.00
Eismann S.A.	Barcelona	100%	EUR	60'000.00
Family Frost S.L.	Sevilla	100%	EUR	420'708.47
Finland				
Suomen Nestlé Oy	Helsinki	100%	EUR	3'363'758.53
Nestlé Purina PetCare Finland Oy	Vantaa	100%	EUR	84'093.96
Kotijätelö Oy	Helsinki	100%	EUR	500'000.00
France				
Nestlé France SAS	Noisiel	100%	EUR	129'130'560.00
Nestlé Grand Froid S.A.	Noisiel	100%	EUR	42'412'000.00
Nestlé Clinical Nutrition France	Noisiel	100%	EUR	57'943'072.00
Nestlé Produits Laitiers Frais S.A.	Noisiel	99.97%	EUR	3'196'200.00
Herta S.A.	Noisiel	100%	EUR	12'908'610.00
Davigel S.A.	Dieppe	100%	EUR	7'681'250.00
Nestlé Waters France	Paris	100%	EUR	42'824'105.00
S.A. des Eaux Minérales de Ribeaupillé	Ribeaupillé	100%	EUR	846'595.13
Aquarel France	Issy-les-Moulineaux	100%	EUR	308'709.26

Companies	City	% capital shareholdings	Currency	Capital
Eau Minérale Naturelle de Plancoët "Source Sassay"	Plancoët	100%	EUR	430'028.19
Aqua Cool	Mosang sur Orge	100%	EUR	3'455'487.00
Nespresso France S.A.	Paris	100%	EUR	1'360'000.00
Laboratoires Alcon S.A.*	Rueil-Malmaison	74.63%	EUR	12'579'100.00
Nestlé Purina PetCare France	Rueil-Malmaison	100%	EUR	21'091'872.00
Nestlé HomeCare	Noisiel	100%	EUR	2'080'600.00
Société Industrielle de transformation de produits agricoles "SITPA" S.A.	Villers-les-Pots	100%	EUR	9'718'000.00
Schöller Glaces et Desserts SAS	Vitry-sur-Seine	100%	EUR	1'232'598.00
Eismann S.A.	Maromme Rouen	100%	EUR	2'200'000.00
Greece				
Nestlé Hellas S.A.	Maroussi	100%	EUR	18'437'936.00
Alcon Laboratories Hellas Commercial and Industrial S.A.*	Maroussi	74.63%	EUR	382'166.35
Hungary				
Nestlé Hungária Kft.	Budapest	100%	HUF	6'000'000'000.00
Kékkúti Ásványvíz Rt.	Budapest	100%	HUF	238'326'000.00
Alcon Hungary Pharmaceuticals Trading LLC*	Budapest	74.63%	HUF	75'000'000.00
Nestlé-Schöller Kft.	Budapest	100%	HUF	3'762'470'000.00
Family Frost Kft.	Budaörs	100%	HUF	220'114'625.00
Italy				
Nestlé Italiana S.p.A.	Milano	100%	EUR	25'582'492.00
San Pellegrino S.p.A.	Milano	100%	EUR	58'742'145.00
Alcon Italia S.p.A.*	Milano	74.63%	EUR	1'300'000.00
Nestlé Purina PetCare Italia S.p.A.	Milano	100%	EUR	10'000'000.00
Nespresso Italy S.p.A.	Milano	100%	EUR	250'000.00
Eismann srl	Sona	100%	EUR	2'194'900.00
Kazakhstan				
Kosmis LLC	Kostanay	100%	RUB	57'639'000.00
Lithuania				
UAB "Nestlé Baltics"	Vilnius	100%	LTL	110'000.00
Norway				
A/S Nestlé Norge	Sandvika	100%	NOK	81'250'000.00
Alcon Norge AS*	Sandvika	74.63%	NOK	100'000.00
Hjem-IS A/S	Oslo	100%	NOK	2'250'000.00

Companies	City	% capital shareholdings	Currency	Capital
Netherlands				
Nestlé Nederland B.V.	Amsterdam	100%	EUR	68'067'032.41
Alcon Nederland B.V.*	Gorinchem	74.63%	EUR	18'151.21
Nestlé Purina PetCare Nederland B.V.	Amsterdam	100%	EUR	18'152.00
Nespresso Nederland B.V.	Amsterdam	100%	EUR	681'000.00
Eismann B.V.	Duiven	100%	EUR	3'312'595.58
Maitre Paul B.V.	Tilburg	100%	EUR	4'991'582.38
Aqua System B.V.	The Hague	100%	EUR	18'152.20
Poland				
Nestlé Polska S.A.	Warszawa	100%	PLN	301'314'000.00
ESI Polska Sp. z o.o.	Warszawa	100%	PLN	4'000.00
Alcon Polska Sp. z o.o.*	Warszawa	74.63%	PLN	750'000.00
Schöller Artykuly Sp. z o.o.	Warszawa	100%	PLN	34'995'500.00
Family Frost Polen Sp. z o.o.	Tychy	100%	PLN	8'205'934.30
Portugal				
Nestlé Portugal S.A.	Linda-a-Velha	100%	EUR	30'000'000.00
Longa Vida-Indústrias Lácteas S.A.	Matosinhos	100%	EUR	16'250'000.00
Sociedade das Aguas de Pisões-Moura S.A.	Lisboa	100%	EUR	3'500'000.00
Alcon Portugal-Produtos e Equipamentos Oftalmologicos, Ltda.*	Paço d'Arcos	74.63%	EUR	4'500'000.00
Family Frost - Gelados e Congelados Ltda.	Lisboa	100%	EUR	254'000.00
Republic of Ireland				
Nestlé (Ireland) Ltd	Tallaght-Dublin	100%	EUR	3'530'600.00
Nestlé Purina PetCare (Ireland) Ltd	Dublin	100%	EUR	2.54
Czech Republic				
Nestlé Cesko s.r.o.	Praha	100%	CZK	1'354'000'000.00
Schöller Zmrzlina a Mrazene Vyrobyky spol. s.r.o.	Praha	100%	CZK	35'229'000.00
Family Frost spol. s.r.o.	Praha	100%	CZK	16'991'995.96
Romania				
Nestlé Romania SRL	Bucharest	100%	ROL	68'704'000'000.00
United Kingdom				
Nestlé UK Ltd	Croydon	100%	GBP	120'374'341.50
Nestlé Waters UK Ltd	Rickmansworth	100%	GBP	14'000'000.00
Buxton Mineral Water Company Ltd	Rickmansworth	100%	GBP	14'000'000.00
Nestlé Watercoolers UK Ltd	Rickmansworth	100%	GBP	3'000'000.00
Alcon Laboratories (UK) Ltd*	Herts	74.63%	GBP	3'100'000.00
Nestlé Purina PetCare (UK) Ltd	New Malden	100%	GBP	244'000'000.00
Schöller Ice-Cream Ltd	Surrey	100%	GBP	1'584'626.00
Nestlé Waters Powwow Ltd	Croydon	100%	GBP	640'000.00

Companies	City	% capital shareholdings	Currency	Capital
Russia				
JSC Confectionery Union Rossiya	Samara	100%	RUB	90'244'000.00
Nestlé Zhukovsky Ice Cream LLC	Zhukovsky	100%	RUB	364'884'000.00
Nestlé Food LLC	Moscow	100%	RUB	1'655'572'000.00
OJSC "Kamskaya"	Perm	87.35%	RUB	88'997'000.00
OOO Poseidon Trading	Moscow	100%	RUB	9'000.00
OOO Clean Springs	Moscow	100%	RUB	113'400.00
OOO "Best Water"	Moscow	100%	RUB	9'000.00
JSC "Khladoprodukt"	Timashevsk	94.89%	RUB	175'858'000.00
JSC Confectionery Firm "Altai"	Barnaul	95.70%	RUB	113'281'000.00
OAO Zhukovsky Khladokombinat	Zhukovsky	89.41%	RUB	30'981'000.00
OJSC Vologda Baby Food Factory	Vologda	100%	RUB	17'499'000.00
Schöller Eiscrem GmbH	Moscow	100%	RUB	788'000.00
OOO Clear Water Service	Moscow	100%	RUB	0.00
Slovakia				
Nestlé Slovensko s.r.o.	Prievidza	100%	SKK	400'000'000.00
Schöller Potraviný, spol. s.r.o.	Bratislava	100%	SKK	200'000.00
Sweden				
Nestlé Sverige AB	Helsingborg	100%	SEK	20'000'000.00
Zoégas Kaffee AB	Helsingborg	100%	SEK	20'000'000.00
Jede AB	Mariestad	100%	SEK	7'000'000.00
Alcon Sverige AB*	Bromma	74.63%	SEK	100'000.00
Nestlé Purina PetCare Sverige AB	Malmö	100%	SEK	1'000'000.00
Hemglass AB	Strängnäs	100%	SEK	14'000'000.00
Switzerland				
Société des Produits Nestlé S.A.	Vevey	100%	CHF	54'750'000.00
Nestlé Suisse S.A.	Vevey	100%	CHF	250'000.00
Nestlé Waters (Suisse) S.A.	Gland	100%	CHF	1'200'000.00
Alcon Pharmaceuticals Ltd*	Hünenberg	74.63%	CHF	100'000.00
Nestrade - Nestlé World Trade Corporation	La Tour-de-Peilz	100%	CHF	6'500'000.00
Nestlé Nespresso S.A.	Paudex	100%	CHF	2'000'000.00
Nestlé International Travel Retail S.A.	Châtel-St-Denis	100%	CHF	3'514'000.00
Eismann-Tiefkühlservice AG	Dällikon	100%	CHF	1'499'595.20
Turkey				
Nestlé Türkiye Gıda Sanayi A.S.	Istanbul	100%	TRL	123'374'185'000'000.00
Alcon Laboratuvarlari Tic. A.S.*	Istanbul	74.63%	TRL	17'724'114'600'000.00
Sansu Gıda Ve Mesrubat Sanayi Ticaret A.S.	Gaziantep	95%	TRL	8'000'000'000'000.00
Ukraine				
JSC Lviv Confectionery Firm "Svitoch"	Lviv	96.46%	UAK	84'990'000.00
LLC Nestlé Ukraine	Kiev	100%	UAK	792'000.00
OJSC Volynholding	Torchyn	100%	UAK	100'000.00

Companies	City	% capital shareholdings	Currency	Capital
Africa				
South Africa				
Nestlé (South Africa) (Pty) Ltd	Randburg	100%	ZAR	51'200'000.00
Nestlé Purina PetCare	Randburg	100%	ZAR	1'000.00
Alcon Laboratories (South Africa) Pty Ltd*	Randburg	74.63%	ZAR	201'820.00
Cameroon				
Nestlé Cameroun	Douala	99.80%	XAF	1'300'000'000.00
Côte d'Ivoire				
◦ Nestlé Côte d'Ivoire <i>Listed on the Abidjan Stock Exchange, market capitalisation FCFA 80'005'200'000, quotation code (ISIN) CI0009240728</i>	Abidjan	86.50%	XOF	5'517'600'000.00
Egypt				
Nestlé Egypt S.A.E.	Cairo	100%	EGP	73'000'000.00
Dolce Company for Food Industries S.A.E.	Cairo	100%	EGP	73'254'000.00
Société des eaux minérales Vittor S.A.E.	Cairo	99.16%	EGP	36'500'000.00
Gabon				
Nestlé Gabon	Libreville	90%	XAF	344'000'000.00
Ghana				
Nestlé Ghana Ltd	Tema-Accra	51%	GHC	1'000'000'000.00
Guinea				
Nestlé Guinée S.A.	Conakry	99%	GNF	3'424'000'000.00
Kenya				
Nestlé Foods Kenya Ltd	Nairobi	100%	KES	37'145'000.00
Mauritius				
Nestlé's Products (Mauritius) Ltd	Port Louis	100%	BSD	71'500.00
Nestlé South East Africa Trading Ltd	Port Louis	100%	USD	100.00
Morocco				
Nestlé Maroc S.A.	El Jadida	94.50%	MAD	156'933'000.00
Mozambique				
Alimoc-Alimentos de Mocambique Limitada	Maputo	100%	MZM	4'000'000.00
Nigeria				
◦ Nestlé Nigeria PLC <i>Listed on the Lagos stock exchange, market capitalisation NGN 66'054'687'500, quotation code (ISIN) NG00000NSTL3</i>	Ilupeju-Lagos	62.32%	NGN	264'093'750.00

Companies	City	% capital shareholdings	Currency	Capital
Senegal				
Nestlé Sénégal	Dakar	100%	XOF	1'620'000'000.00
Tunisia				
Nestlé Tunisie	Tunis	59.20%	TND	8'438'280.00
Zimbabwe				
Nestlé Zimbabwe (Pvt) Ltd	Harare	100%	ZWD	7'000'000.00
Americas				
Argentina				
Nestlé Argentina S.A.	Buenos Aires	100%	ARS	572'000.00
Eco de Los Andes S.A.	Buenos Aires	50.87%	ARS	33'949'000.00
Alcon Laboratorios Argentina S.A. *	Buenos Aires	74.63%	ARS	7'176'282.00
Bolivia				
Nestlé Bolivia S.r.l.	La Paz	100%	BOB	190'000.00
Brazil				
Nestlé Brasil Ltda.	São Paulo	100%	BRL	470'601'498.00
Industrias Alimenticias Itacolomy S/A	Montes Claros	100%	BRL	231'596'888.00
Companhia Produtora de Alimentos Nestlé Waters do Brasil - Bebidas e Alimentos Ltda.	Itabuna	100%	BRL	150'371'857.00
Alcon Laboratorios do Brasil Ltda. *	Rio de Janeiro	100%	BRL	87'248'341.00
Chocolates Garoto S.A.	São Paulo	74.63%	BRL	7'729'167.00
Ralston Purina do Brasil Ltda.	Vila Velha-ES	100%	BRL	160'620'000.00
	São Paulo	100%	BRL	79'530'000.00
Canada				
Nestlé Canada, Inc.	North York (Ontario)	100%	CAD	45'530'000.00
Midwest Food Products, Inc.	North York (Ontario)	50%	CAD	50'000.00
Alcon Canada, Inc. *	Mississauga (Ontario)	74.63%	CAD	3'471'735.00
Chile				
Nestlé Chile S.A.	Santiago de Chile	99.50%	CLP	11'832'926'051.00
Alcon Laboratorios Chile Ltda. *	Santiago de Chile	74.63%	CLP	9'750'000.00
Colombia				
Nestlé de Colombia S.A.	Bogotá	100%	COP	1'291'305'400.00
Laboratorios Alcon de Colombia S.A. *	Bogotá	74.63%	COP	20'872'000.00
Nestlé Purina PetCare de Colombia S.A.	Bogotá	100%	COP	17'030'000.00
Costa Rica				
Compañía Nestlé Costa Rica S.A.	Barreal de Heredia	100%	CRC	1'694'000'000.00

Companies	City	% capital shareholdings	Currency	Capital
Cuba				
Los Portales S.A.	Guane	50.02%	USD	24'110'000.00
El Salvador				
Nestlé El Salvador S.A.	San Salvador	100%	SVC	39'000'000.00
Lacteos Finos de Salvador S.A.	San Salvador	100%	SVC	22'573'000.00
Ecuador				
Nestlé Ecuador S.A.	Quito	100%	USD	188'497.00
Industrial Surindu S.A.	Quito	100%	USD	3'900'994.00
Ecuajugos S.A.	Quito	100%	USD	122'000.00
United States				
Nestlé USA, Inc.	Glendale (California)	100%	USD	1'000.00
Nestlé Prepared Foods Company	Solon (Ohio)	100%	USD	476'760.00
Nestlé Purina PetCare Company	St. Louis (Missouri)	100%	USD	1'000.00
Nestlé Waters North America, Inc.	Wilmington (Delaware)	100%	USD	10'000'000.00
Nestlé Ice Cream Company Holdings, Inc.	Wilmington (Delaware)	100%	USD	1'000.00
Nespresso USA, Inc.	New York	100%	USD	7'010'000.00
Nestlé Puerto Rico, Inc.	San Juan (Puerto Rico)	100%	USD	500'000.00
Alcon Laboratories, Inc.*	Fort Worth (Texas)	74.63%	USD	1'000.00
Falcon Pharmaceuticals, Ltd.	Fort Worth (Texas)	74.63%	USD	0.00
Alcon (Puerto Rico), Inc.*	San Juan (Puerto Rico)	74.63%	USD	100.00
° Dreyer's Grand Ice Cream Holdings, Inc. <i>Listed on the NASDAQ, market capitalisation USD 2'255,4 mio, quotation code "DRYR"</i>	Wilmington (Delaware)	67%	USD	963'946.47
Guatemala				
Nestlé Guatemala S.A.	Mixco/Guatemala	100%	GTQ	23'460'600.00
NZMP Guatemala S.A.	Guatemala City	100%	GTQ	1'958'800.00
Honduras				
Nestlé Hondureña S.A.	Tegucigalpa (Branch)	100%	USD	200'000.00
Jamaica				
Nestlé Jamaica Ltd	Kingston	100%	JMD	49'200'000.00
Mexico				
Nestlé México S.A. de C.V.	México, D.F.	100%	MXN	1'056'377'220.00
Alcon Laboratorios S.A. de C.V.*	México, D.F.	74.63%	MXN	5'915'300.00
Nescalín, S.A. de C.V.	México, D.F.	100%	MXN	445'826'740.00
Ralston Purina Mexico S.A. de C.V.	México, D.F.	100%	MXN	1'000.00
Nicaragua				
Productos Nestlé (Nicaragua) S.A.	Managua (Branch)	100%	USD	150'000.00

Companies	City	% capital sharholdings	Currency	Capital
Panama				
Nestlé Panamá S.A.	Panamá City	100%	USD	17'500'000.00
Nestlé Caribbean, Inc.	Panamá City	100%	USD	100'000.00
NZMP Central America S.A.	Panamá City	100%	USD	1'100'000.00
Paraguay				
Nestlé Paraguay S.A.	Asunción	100%	PYG	100'000'000.00
Peru				
Nestlé Perú S.A.	Lima	97.38%	PEN	133'797'212.00
Puerto Rico				
Nestlé Puerto Rico, Inc.	Catano	100%	USD	500'000.00
Dominican Republic				
Nestlé Dominicana S.A.	Santo Domingo	97%	DOP	48'500'000.00
Trinidad and Tobago				
Nestlé Trinidad and Tobago Ltd	Valsayn	100%	TTD	35'540'000.00
Uruguay				
Nestlé del Uruguay S.A.	Montevideo	100%	UYP	32'000.00
Venezuela				
Nestlé Venezuela S.A.	Caracas	100%	VEB	516'590'000.00
Cadipro Milk Products, C.A.	Caracas	100%	VEB	9'505'123'000.00
Asia				
Saudi Arabia				
Saudi Food Industries Co. Ltd	Jeddah	51%	SAR	51'000'000.00
Al Manhal Water Factory Co. Ltd	Riyadh	60%	SAR	7'000'000.00
Springs Water Factory Co. Ltd	Dammam	75%	SAR	5'000'000.00
Bangladesh				
Nestlé Bangladesh Ltd	Dhaka	100%	BDT	1'100'000'000.00
Cambodia				
Nestlé Dairy (Cambodia) Ltd	Phnom Penh	80%	USD	5'000'000.00
United Arab Emirates				
Nestlé Middle East FZE	Dubai	100%	AED	3'000'000.00
India				
◦ Nestlé India Ltd <i>Listed on the Mumbai and Dehli stock exchange, market capitalisation INR 66.5 bio, quotation code (ISIN) INE239A01016</i>	New Delhi	61.85%	INR	964'157'160.00

Companies	City	% capital sharholdings	Currency	Capital
Indonesia				
P.T. Nestlé Indonesia	Jakarta	90.24%	IDR	60'000'000'000.00
Israel				
◦ OSEM Investments Ltd <i>Listed on the Tel-Aviv stock exchange, market capitalisation USD 1'027'798'985, quotation code (ISIN) IL0003040149</i>	Petach-Tikva	50.10%	ILS	96'644'000.00
Japan				
Nestlé Japan Ltd	Kobe	100%	JPY	10'000'000.00
Nestlé Japan Holding Ltd	Ibaragi	100%	JPY	20'000'000'000.00
Nestlé International Foods K.K.	Kobe	100%	JPY	10'000'000.00
Nestlé Confectionery K.K.	Kobe	100%	JPY	10'000'000.00
Nestlé Purina PetCare Ltd.	Kobe	100%	JPY	20'000'000.00
Nestlé Beverage K.K.	Kobe	100%	JPY	20'000'000.00
Nestlé Snow K.K.	Tokyo	50%	JPY	20'000'000.00
Nestlé Japan Administration Ltd	Kobe	100%	JPY	10'000'000.00
Alcon Japan Ltd*	Tokyo	74.63%	JPY	27'500'000.00
Nestlé Japan Manufacturing Ltd	Kobe	100%	JPY	10'000'000.00
Venet Tohoku K.K.	Sendai	100%	JPY	80'000'000.00
Venet Tokyo K.K.	Tokyo	100%	JPY	95'000'000.00
Venet Chubu K.K.	Nagoya	100%	JPY	10'000'000.00
Venet Kinki K.K.	Tokyo	100%	JPY	70'000'000.00
Venet Chugoku K.K.	Hiroshima	100%	JPY	95'000'000.00
Venet Shikoku K.K.	Tokyo	100%	JPY	12'000'000.00
Venet Kyusyu K.K.	Fukuoka	100%	JPY	50'000'000.00
Tokyo Skol K.K.	Chiba	100%	JPY	20'000'000.00
Jordan				
Nestlé Jordan Trading Co. Ltd	Amman	49%	JDD	410'000.00
Kuwait				
Nestlé Kuwait General Trading Co. W.L.L.	Safat/Kuwait	49%	KWD	300'000.00
Lebanon				
Société pour l'Exportation des Produits Nestlé S.A.	Beyrouth	100%	CHF	1'750'000.00
SOHAT Distribution S.A.L.	Hazmieh	100%	LBP	160'000'000.00
Malaysia				
◦ Nestlé (Malaysia) Bhd. <i>Listed on the KLSE, market capitalisation MYR 5,1 bio, quotation code (ISIN) MYL470700005</i>	Petaling Jaya	66.97%	MYR	234'500'000.00
Nestlé Foods (Malaysia) Sdn. Bhd.	Petaling Jaya	66.97%	MYR	100'000'000.00
Nestlé Products Sdn. Bhd.	Petaling Jaya	66.97%	MYR	25'000'000.00
Nestlé Asean (Malaysia) Sdn. Bhd.	Petaling Jaya	66.97%	MYR	42'000'000.00
Nestlé Manufacturing (Malaysia) Sdn. Bhd.	Petaling Jaya	66.97%	MYR	32'500'000.00

Companies	City	% capital shareholdings	Currency	Capital
Oman				
Nestlé Oman Trading LLC	Muscat	49%	OMR	300'000.00
Pakistan				
◦ Nestlé Milkpak Ltd <i>Listed on the Karachi and Lahore stock exchange, market capitalisation PKR 17'023 mio</i>	Lahore	59%	PKR	452'731'000.00
Philippines				
Nestlé Philippines, Inc.	Makati City	100%	PHP	2'300'927'200.00
Goya, Inc.	Metro Manila	99.80%	PHP	358'234'812.00
Nestlé Waters Philipines, Inc.	Makati City	100%	PHP	420'000'000.00
Republic of Korea				
Nestlé Korea Ltd	Seoul	100%	KRW	17'033'060'000.00
Alcon Korea Ltd*	Seoul	74.63%	KRW	200'000'000.00
Ralston Purina Korea Inc.	Seoul	100%	KRW	1'169'000'000.00
People's Republic of China				
Nestlé (China) Ltd	Beijing	100%	CNY	250'000'000.00
Nestlé Shuangcheng Ltd	Shuangcheng	97%	CNY	435'000'000.00
Nestlé Dongguan Ltd	Dongguan	100%	CNY	472'000'000.00
Nestlé Tianjin Ltd	Tianjin	100%	CNY	785'000'000.00
Nestlé Qingdao Ltd	Qingdao	100%	CNY	640'000'000.00
Nestlé Shanghai Ltd	Shanghai	95%	CNY	200'000'000.00
Nestlé Dairy Farm Guangzhou Ltd	Guangzhou	95%	CNY	268'000'000.00
Guangzhou Refrigerated Foods Ltd	Guangzhou	96%	CNY	122'000'000.00
Shanghai Fuller Foods Co. Ltd	Shanghai	100%	CNY	384'000'000.00
Shanghai Nestlé Product Services Ltd	Shanghai	97%	CNY	83'000'000.00
Shanghai Totole Flavouring Food Co. Ltd	Shanghai	80%	USD	7'800'000.00
Nestlé Sources Shanghai Ltd	Shanghai	100%	CNY	158'000'000.00
Nestlé Sources Tianjin Ltd	Ji Xian	94%	CNY	159'000'000.00
Nestlé Hong Kong Ltd	Hong Kong	100%	HKD	250'000'000.00
Sichuan Haoji Food Co. Ltd	Chengdu	60%	CNY	80'000'000.00
Alcon (China) Ophthalmic Product Co. Ltd*	Beijing	74.63%	USD	1'357'455.00
Alcon Hong Kong Ltd*	Hong Kong	74.63%	HKD	77'000.00
Singapore				
Nestlé Singapore (Pte) Ltd	Singapore	100%	SGD	1'000'000.00
Sri Lanka				
◦ Nestlé Lanka Ltd <i>Listed on the Colombo stock exchange, market capitalisation LKR 4.1 bio, quotation code (ISIN) NEST</i>	Colombo	90.80%	LKR	537'254'630.00
International Dairy Products Ltd	Colombo	60%	LKR	30'000'000.00

Companies	City	% capital shareholdings	Currency	Capital
Syria				
Nestlé Syria Ltd	Damas	100%	SYP	800'000'000.00
Société pour l'exportation des produits Nestlé S.A.	Damas	100%	CHF	1'750'000.00
Taiwan				
Nestlé Taiwan Ltd	Taipei	100%	TWD	300'000'000.00
Alcon Pharmaceuticals Ltd*	Taipei (Branch)	74.63%	CHF	100'000.00
Thailand				
Nestlé Products (Thailand), Inc.	Bangkok (Branch)	100%	USD	1'000'000.00
Quality Coffee Products Ltd	Bangkok	49%	THB	400'000'000.00
Nestlé Foods (Thailand) Ltd	Bangkok	100%	THB	700'000'000.00
Nestlé Trading (Thailand) Ltd	Bangkok	49%	THB	750'000.00
Nestlé Manufacturing (Thailand) Ltd	Bangkok	100%	THB	250'000'000.00
Nestlé (Thai) Ltd	Bangkok	100%	THB	880'000'000.00
Nestlé Dairy (Thailand) Ltd	Bangkok	100%	THB	46'000'000.00
Perrier Vittel (Thailand) Ltd	Bangkok	100%	THB	235'000'000.00
Alcon Laboratories (Thailand) Ltd*	Bangkok	74.63%	THB	2'100'000.00
Vietnam				
Nestlé Vietnam Ltd	Bien Hoa	100%	USD	38'598'000.00
La Vie Joint Venture Company	Long An	65%	USD	2'513'000.00
Oceania				
Australia				
Nestlé Australia Ltd	Sydney	100%	AUD	274'000'000.00
Petersville Australia Ltd	Melbourne	100%	AUD	84'702'714.00
Nestlé Echuca Pty Ltd	Melbourne	100%	AUD	270'000.00
Alcon Laboratories (Australia) Pty Ltd*	Frenchs Forest	74.63%	AUD	2'550'000.00
Fiji				
Nestlé (Fiji) Ltd	Ba	74%	FJD	3'000'000.00
New Zealand				
Nestlé New Zealand Ltd	Auckland	100%	NZD	2'668'000.00
Papua-New Guinea				
Nestlé (PNG) Ltd	Lae	100%	PGK	11'850'000.00
French Polynesia				
Nestlé Polynesia S.A.	Papeete	100%	XPF	5'000'000.00
New Caledonia				
Nestlé Nouvelle-Calédonie SAS	Noumea	100%	XPF	250'000.00

Companies	City	% capital shareholdings	Currency	Capital
2. Affiliated companies for which the method of proportionate consolidation is used (see "Scope of consolidation").				
Europe				
Germany				
C.P.D. Cereal Partners Deutschland GmbH & Co. OHG	Frankfurt am Main	50%	EUR	511'291.88
Galderma Laboratorium GmbH*	Freiburg/Breisgau	50%	EUR	800'000.00
Spain				
Cereal Partners España AEIE	Esplugues de Llobregat (Barcelona)	50%	EUR	120'202.42
Laboratorios Galderma S.A.*	Madrid	50%	EUR	432'480.00
France				
Cereal Partners France	Noisiel	50%	EUR	3'000'000.00
Galderma International SAS*	La Défense	50%	EUR	832'620.00
Greece				
C.P. Hellas E.E.I.G.	Maroussi	50%	GRD	50'000'000.00
Hungary				
Cereal Partners Hungaria Kft.	Budapest	50%	HUF	22'000'000.00
Italy				
Galderma Italia S.p.A.*	Milano	50%	EUR	112'000.00
Poland				
Cereal Partners Poland Torun-Pacific Sp. z o.o.	Torun	50%	PLN	12'316'960.00
Portugal				
Cereal Associados Portugal AEIE	Oeiras	50%	EUR	99'759.58
Sweden				
Galderma Nordic AB*	Bromma	50%	SEK	67'400'000.00
United Kingdom				
Cereal Partners UK	Herts	50%	GBP	0.00
Galderma (U.K.) Ltd*	Amersham	50%	GBP	1'500'000.00
Switzerland				
Beverage Partners Worldwide Europe S.A.	Urdorf	50%	CHF	2'000'000.00
Belté Schweiz AG	Urdorf	50%	CHF	3'100'000.00
CPW Operations Sàrl	Prilly	50%	CHF	20'000.00

Companies	City	% capital sharholdings	Currency	Capital
Americas				
Argentina				
Dairy Partners Americas Argentina S.A.	Buenos Aires	50%	ARS	12'000.00
Dairy Partners Americas Manufacturing Argentina S.A.	Buenos Aires	50%	ARS	12'000.00
Brazil				
Galderma Brasil Ltda*	São Paulo	50%	BRL	19'741'552.00
CPW Brasil Ltda	Cacapava/São Paulo	50%	BRL	37'885'520.00
Dairy Partners Americas Brazil Ltda.	São Paulo	50%	BRL	27'606'368.00
Dairy Partners Americas Manufacturing Brazil Ltda.	São Paulo	50%	BRL	39'468'974.00
Canada				
Galderma Canada Inc.*	Markham	50%	CAD	100.00
Chile				
Cereales CPW Chile Ltda	Santiago de Chile	50%	CLP	3'026'156'114.00
United States				
Beverage Partners Worldwide (North America)	Wilmington (Delaware)	50%	USD	0.00
Galderma Laboratories, Inc.*	Fort Worth (Texas)	50%	USD	981.00
Mexico				
CPW México S. de R.L. de C.V.	México, D.F.	50%	MXN	132'504'000.00
Galderma México S.A. de C.V.*	México, D.F.	50%	MXN	2'385'000.00
Puerto Rico				
Payco Foods Corporation	Bayamon	50%	PRD	890'000.00
Venezuela				
Corporación Inlaca, C.A.	Caracas	50%	VEB	6'584'590'000.00
Asia				
Malaysia				
Cereal Partners (Malaysia) Sdn. Bhd.	Selangor	50%	MYR	1'025'000.00
People's Republic of China				
Beverage Partners Worldwide (Pacific) Ltd	Hong Kong	50%	HKD	1'000'000.00
Republic of Korea				
Beverage Partners Worldwide Korea	Seoul	50%	KRW	50'000'000.00
Galderma Korea Ltd.	Seoul	50%	KRW	375'000'000.00
Thailand				
Beverage Partners Asia Ltd	Bangkok	33.70%	THB	20'000'000.00

Companies	City	% capital shareholdings	Currency	Capital
Oceania				
Australia				
Galderma Australia Pty Ltd.	Frenchs Forest	50%	AUD	2'700'100.00
Principal associated companies which operate in the food and water sectors, with the exception of those marked with an asterisk (*) which are engaged in the cosmetics and dermatology sectors. For which the equity method is used – see “Scope of consolidation”.				
Germany				
Alois Dallmayr Kaffee OHG	München	25%	EUR	5'112'918.81
France				
◦ L'Oréal S.A.* <i>Listed on the Paris stock exchange, market capitalisation EUR 44 bio, quotation code (ISIN) FR0000120321</i>	Paris	26.40%	EUR	135'212'432.00
Société de Bouchages Emballages Conditionnement Moderne	Lavardac	50%	EUR	10'200'000.00
Malaysia				
Premier Milk (Malaysia) Sdn. Bhd.	Kuala Lumpur	25%	MYR	24'000'000.00
Sub-holding, financial and property companies				
Germany				
Nestlé Unternehmungen Deutschland GmbH	Frankfurt am Main	100%	EUR	1'000'000.00
Schöller Holding GmbH & Co KG	Nürnberg	100%	EUR	166'169'861.39
Bahamas				
Nestlé's Holdings Ltd	Nassau	100%	BSD	10'003'000.00
Food Products (Holdings) Ltd	Nassau	100%	BSD	28'600.00
Belgium				
Centre de Coordination Nestlé S.A.	Bruxelles	100%	EUR	7'596'391'600.00
N.V. Alcon Cordination Center*	Puurs	74.63%	EUR	415'000'000.00
Canada				
Nestlé Capital Canada Ltd	North York (Ontario)	100%	CAD	1'010.00
Denmark				
Nestlé Danmark Holding A/S	Copenhagen	100%	DKK	203'015'000.00
Ecuador				
Neslandina S.A.	Quito	100%	USD	17'043'150.00

Companies	City	% capital sharholdings	Currency	Capital
United States				
Nestlé Holdings, Inc.	Wilmington (Delaware)	100%	USD	100'000.00
Nestlé Capital Corporation	Wilmington (Delaware)	100%	USD	1'000'000.00
Nestlé Waters North America Holdings, Inc.	Greenwich (Connecticut)	100%	USD	10'700'000.00
Alcon Capital Corporation*	Fort Worth (Texas)	74.63%	USD	1'000.00
Alcon Holdings, Inc.*	Fort Worth (Texas)	74.63%	CHF	24'020.00
Checkerboard Holding Company, Inc.	Wilmington (Delaware)	100%	USD	1'001.00
France				
Nestlé Entreprises SAS	Noisiel	100%	EUR	739'559'392.00
Nestlé Finance-France S.A.	Noisiel	100%	EUR	440'000.00
Nestlé Waters SAS	Paris	100%	EUR	154'893'080.00
Société Immobilière de Noisiel	Noisiel	100%	EUR	22'753'550.00
Société Financière Meunier	Noisiel	99.98%	EUR	53'964'945.00
Italie				
Nestlé Finanziara Italia SpA	Milano	100%	EUR	5'000'000.00
Panama				
Unilac, Inc.	Panamá City	100%	CHF	1'200'000.00
Philippines				
NTC-Asia Pacific, Inc.	Makati City	100%	PHP	50'000'000.00
United Kingdom				
Nestlé Holdings (U.K.) PLC	Croydon	100%	GBP	57'940'000.00
Nestlé Purina Holdings (U.K.) Ltd	Croydon	100%	GBP	100.00
Nestlé Purina Investment Ltd.	Croydon	100%	GBP	1.00
Nestlé Waters Powwow (U.K.) Holdings Ltd	Croydon	100%	GBP	6'500'001.00
Singapore				
Nestlé TC Asia Pacific (Pte) Ltd	Singapore	100%	SGD	1.00
Switzerland				
Entreprises Maggi S.A.	Cham	100%	CHF	60'000.00
Nestlé Finance S.A.	Cham	100%	CHF	30'000'000.00
Rive-Reine S.A.	La Tour-de-Peilz	100%	CHF	2'000'000.00
S.I. En Bergère Vevey S.A.	Vevey	100%	CHF	19'500'000.00
◦ Alcon Inc.*	Hünenberg	74.63%	CHF	61'862'054.60
<i>Listed on the New York stock exchange, market capitalisation USD 18'709 mio, quotation code (ISIN) CH0013826497</i>				
Galderma Pharma S.A.*	Lausanne	50%	CHF	48'900'000.00
Life Ventures S.A.	La Tour-de-Peilz	100%	CHF	30'000'000.00
NTC-Europe S.A.	Vevey	100%	CHF	100'000.00
NTC-Latin America S.A.	Cham	100%	CHF	500'000.00
Beverage Partners Worldwide S.A.	Urdorf	50%	CHF	14'000'000.00

Technical assistance, research and development companies

Companies	City	% capital shareholdings	Currency	Capital
Technical assistance				
Switzerland				
Nestec S.A.	Vevey			
<p>Technical, scientific, commercial and business assistance company whose units, specialised in all areas of the business, supply permanent know-how and assistance to operating companies in the Group within the framework of licence and equivalent contracts. It is also responsible for all scientific research and technological development, which it undertakes itself or has done on its behalf by its subsidiary companies. The companies and units involved are:</p>				
Research centres				
France				
Nestlé Research Centre Plant Science	Tours			
Switzerland				
Nestlé Research Center	Lausanne			
Product Technology Centres and Research & Development centres				
Germany				
Nestlé Product Technology Centre Lebensmittelforschung GmbH	Singen			
People's Republic of China				
Nestlé R&D Center Shanghai Ltd	Shanghai			
United States				
Nestlé Product Technology Center	New Milford (Connecticut)			
Nestlé R&D Center, Inc.	Marysville (Ohio)			
Nestlé R&D Center, Inc.	Solon (Ohio)			
Nestlé Purina Product Technology Center	St. Louis (Missouri)			
Alcon Research Ltd*	Fort Worth (Texas)			
Galderma R&D Inc.*	City of Dover (New Jersey)			
France				
Nestlé Product Technology Centre	Beauvais			
Nestlé Product Technology Centre	Lisieux			
Nestlé Purina PetCare R&D Centre Amiens	Aubigny			
Galderma R&D S.n.c.*	Sophia Antipolis			
Nestlé Waters MT	Paris			
United Kingdom				
Nestlé Product Technology Centre	York			
Israel				
Nestlé R&D Centre Sderot, Ltd.	Sderot			

Companies	City	% capital sharholdings	Currency	Capital
Singapore				
Nestlé R&D Center (Pte) Ltd	Singapore			
Switzerland				
Nestlé Product Technology Centre	Konolfingen			
Nestlé Product Technology Centre	Orbe			

Income statement for the year 2003

In millions of CHF	Notes	2003	2002
Income			
Income from Group companies	1	4'755	6'201
Interest income	2	121	233
Profit on disposal of fixed assets	3	867	3'982
Other income		25	25
Total Income		5'768	10'441
Expenses			
Investment write downs	4	1'506	2'293
Administration and other expenses	5	151	163
Interest expense	6	267	626
Provision	7	-	3'796
Total expenses before taxes		1'924	6'878
Profit before taxes		3'844	3'563
Taxes	8	228	235
Profit for the year	20	3'616	3'328

Balance sheet as at 31st December 2003

before appropriations

In millions of CHF	Notes	2003	2002
Assets			
Current assets			
Liquid assets	9	5'876	5'345
Receivables	10	745	938
Prepayments and accrued income		66	176
Total current assets		6'687	6'459
Fixed assets			
Financial assets	11	25'120	20'202
Intangible assets	14	-	1'030
Tangible fixed assets	15	-	-
Total fixed assets		25'120	21'232
Total assets		31'807	27'691
Liabilities and equity			
Liabilities			
Short term payables	16	3'762	67
Accruals and deferred income		132	106
Long term payables	17	231	234
Provisions	18	3'229	3'742
Total liabilities		7'354	4'149
Equity			
Share capital	19/20	404	404
Legal reserves	20	6'392	6'392
Special reserve	20	14'041	13'417
Retained earnings	20	3'616	3'329
Total equity		24'453	23'542
Total liabilities and equity		31'807	27'691

Annex to the annual accounts of Nestlé S.A.

Accounting policies

General

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

Foreign currency translation

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward contract. 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

Income due at the balance sheet date, but not currently transferable 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 and subsequently paid, rather than as an appropriation of profit in the year to which they relate.

Taxes

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

Financial assets

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

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

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

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

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

Intangible assets

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

Tangible fixed assets

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

Provisions

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

Employee benefits

Employees are eligible for retirement benefits under a defined benefit plan provided through separate funds.

Prepayments and accrued income

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

Accruals and deferred income

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

Notes to the annual accounts

1. Income from Group companies

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

2. Interest income

In millions of CHF	2003	2002
Net result on loans to Group companies	-	-
Other	121	233
	121	233

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

3. Profit on disposal of fixed assets

This represents mainly the net gains realised on the sale of participations to Group companies as part of reorganisation programmes, as well as on the sale of trademarks and other industrial property rights previously written down.

4. Investment write downs

In millions of CHF	2003	2002
Participations and loans	14	594
Trademarks and other industrial property rights	1'492	1'699
	1'506	2'293

The write down of trademarks and other industrial property rights in 2003 includes the balance of CHF 1 030 million in respect of Ralston Purina and Chef America that was capitalised at the end of 2002.

5. Administration and other expenses

In millions of CHF	2003	2002
Salaries and welfare expenses	60	57
Other expenses	91	106
	151	163

6. Interest expense

In millions of CHF	2003	2002
Net result on loans to Group companies (see note 2)	208	545
Interest on loans from Group companies	13	11
Other	46	70
	267	626

7. Provision

In 2002, a fiscal rollover ("remploi") provision was made to defer the gains on the sale of 25% of Alcon Inc and on the disposal of FIS S.A.

This provision can be used to write down the cost of any investments in the books of Nestlé S.A. (see note 18).

8. Taxes

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

9. Liquid assets

In millions of CHF	2003	2002
Cash and cash equivalents	2'381	1'982
Short term investments	130	61
Marketable securities	3'365	3'302
	5'876	5'345

10. Receivables

In millions of CHF	2003	2002
Amounts owed by Group companies (current accounts)	610	432
Other receivables (including withholding tax)	135	506
	745	938

The amount owed to the Company in respect of Swiss withholding tax was received after the year-end.

11. Financial assets

In millions of CHF	2003	2002
Participations in Group companies (see note 12)	13'814	10'616
Loans to Group companies (see note 13)	10'397	8'288
Own shares	627	987
Other investments	282	311
	25'120	20'202

Own shares of the Company are:

- held in order to allow the exercise of option rights by members of the Group's Management (665 302 options were outstanding at the close of 2003, all of which may be exercised in the year 2004);
- earmarked to cover warrants attached to a bond issue of an affiliated company (1 294 190 shares);
- acquired for trading purposes (155 606 shares).

12. Participations in Group companies

In millions of CHF	2003	2002
At 1st January	10'616	10'848
Net increase	3'647	105
Write downs	(449)	(337)
At 31st December	13'814	10'616

The net increase in participations represents in particular:

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

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

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

A Canadian affiliate has been granted options to purchase shares in certain Group companies situated outside Continental Europe.

13. Loans to Group companies

In millions of CHF	2003	2002
At 1st January	8'288	6'343
New loans	3'778	6'660
Repayments and write downs	(1'020)	(3'438)
Realised exchange differences	(128)	(83)
Unrealised exchange differences	(521)	(1'194)
At 31st December	10'397	8'288

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

14. Intangible assets

All intangible assets have been fully written off.

15. Tangible fixed assets

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

The fire insurance value of buildings, furniture and office equipment amounted to CHF 22 million at 31st December 2003 and 2002.

16. Short term payables

In millions of CHF	2003	2002
Amounts owed to Group companies	3'719	44
Other payables	43	23
	3'762	67

17. Long term payables

Amounts owed to Group companies represent a long-term bond issued in 1989. The carrying value decreased by CHF 3 million to CHF 231 million as a result of an unrealised exchange difference arising in 2003.

18. Provisions

In millions of CHF						2003	2002
	Fiscal rollover "remploi"	Uninsured risks	Exchange risks	Swiss & foreign taxes	Other	Total	Total
At 1st January	3'096	475	-	140	31	3'742	789
Provisions made in the period				54	27	81	3'862
Amounts used	(440)			(134)	(20)	(594)	(905)
Unused amounts reversed						0	(4)
At 31st December	2'656	475	-	60	38	3'229	3'742

The provision for fiscal rollover ("remploi") has been partially utilised during the year for the write down of participations acquired in 2003.

19. Share capital

	2003	2002
Number of registered shares of nominal value CHF 1 each	403'520'000	403'520'000
In millions of CHF	404	404

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

At 31st December 2003, the Share Register showed 194 535 registered shareholders. If unprocessed applications for registration and the indirect holders of shares under American Depositary Receipts are also taken into account, the total number of shareholders probably exceeds 250 000. The Company was not aware of any shareholder holding, directly or indirectly, 3% or more of the share capital.

Conditional increase in share capital

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

20. Changes in equity

In millions of CHF

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

(b) See note 21

	Share capital	General reserve	Reserve for own shares (a)	(a)(b)	Special reserve	Retained earnings	Total
At 1st January 2003	404	3'562	2'830		13'417	3'329	23'542
Appropriation of profit to special reserve					559	(559)	
Profit for the year						3'616	3'616
Dividend for 2002						(2'705)	(2'705)
Movement of own shares		372	(372)				
Dividend on own shares held on the payment date of 2002 dividend					35	(35)	
Dividend on own shares in respect of which the corresponding option rights were not exercised by the payment date of 2002 dividend					30	(30)	
At 31st December 2003	404	3'934	2'458		14'041	3'616	24'453

21. Reserve for own shares

At 31st December 2002, the reserve for own shares amounting to CHF 2 830 million, represented the cost of 7 852 620 freely available shares acquired by a Group company (of which, 2 796 932 shares were reserved to cover options rights granted since 2001 in favour of members of the Group's Management), as well as 748 315 shares reserved to cover option rights granted up to the year 2000, 3 527 680 shares earmarked to cover warrants attached to bond issues of an affiliated company and 4 470 644 shares held for trading purposes.

During the year, a total of 1 221 000 shares have been acquired at a cost of CHF 318 million and 2 248 108 shares have been sold for a total amount of CHF 654 million (including 81 853 that represented shares for which options were exercised during the year).

At 31st December 2003, 7 830 665 freely available shares were held by a Group company at an acquisition cost of CHF 30 million. The Board of Directors has decided that these shares will be earmarked for Nestlé Group companies' remuneration plans in Nestlé S.A. shares and options thereon (including the Share Plan of the Board of Directors, the Short Term Bonus-Share Plan of the Executive Board and the Management Stock Option Plan 2001 onwards, under which a total of 4 336 922 options was outstanding at 31st December 2003). As long as these shares are held by the Group company, they will be recorded in the Share Register as being without voting rights and will not rank for dividends. In addition to these, 3 551 694 shares were held for trading purposes, 665 302 shares were reserved to cover Management option rights granted before 2001 and 3 524 490 shares were earmarked to cover warrants attached to bond issues of an affiliated company. As long as the options and warrants are not exercised, or the shares sold, these shares are also recorded in the Share Register as being without voting rights and do not rank for dividends.

The total of 15 572 151 own shares held at 31st December 2003 represents 3.9% of Nestlé S.A.'s share capital.

22. Contingencies

At 31st December 2003 and 2002, the total of the guarantees for credit facilities granted to Group companies and Commercial Paper Programs, together with the buy-back agreements relating to notes issued, amounted to CHF 15 038 million and CHF 16 862 million, respectively.

Proposed appropriation of profit

In CHF	2003	2002
Retained earnings		
Balance brought forward	687'080	1'184'101
Profit for the year	3'615'299'708	3'328'174'639
	3'615'986'788	3'329'358'740
We propose the following appropriations:		
Allocation to the special reserve	757'000'000	559'000'000
Dividend for 2003, CHF 7.20 per share on 387 947 849 shares (2002: CHF 7.-- on 386 920 741 shares)	2'793'224'513	2'708'445'187
Dividend for 2003, CHF 7.20 per share on 1 972 045 shares reserved for the option rights which may be exercised in the year 2004, on 3 524 490 shares to cover warrants and on 3 551 694 shares held for trading purposes (a) (2002: CHF 7.-- on 8 746 639 shares)	65'147'249	61'226'473 (b)
	3'615'371'762	3'328'671'660
Balance to be carried forward	615'026	687'080

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

(b) Of the total of CHF 61 226 473, CHF 2 997 540 were actually paid as dividends, whilst the balance of CHF 58 228 933 has been transferred to the special reserve.

If you accept this proposal, the gross dividend will amount to CHF 7.20 per share. After deduction of the federal withholding tax of 35%, a net amount of CHF 4.68 per share will be payable as from Wednesday, 28th April 2004, by bank transfer to the shareholder's account or by cheque, in accordance with instructions received from the shareholder.

Cham and Vevey, 25th February 2004
The Board of Directors

Report of the statutory auditors

to the General Meeting of Nestlé S.A.

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and annex) of Nestlé S.A. for the year ended 31st December 2003.

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

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

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

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



Klynveld Peat Marwick Goerdeler SA

A handwritten signature in black ink, appearing to read 'S. R. Cormack'.

Scott Cormack
Auditor in charge

A handwritten signature in black ink, appearing to be a stylized 'S' followed by 'Gard'.

Stéphane Gard

London and Zurich, 25th February 2004

Agenda for the 137th Ordinary General Meeting of Nestlé S.A.

Thursday 22nd April 2004
at 3.00 p.m. at the "Palais de Beaulieu", Lausanne

- 1 Annual report; accounts of Nestlé S.A. and of the Nestlé Group;
report of the auditors
- 1a 2003 annual report and accounts of Nestlé S.A.;
report of the auditors
- 1b 2003 consolidated accounts of the Nestlé Group;
report of the Nestlé Group auditors

- 2 Release of the Board of Directors and of the Management

- 3 Decision on the appropriation of profits resulting from
the balance sheet of Nestlé S.A.

- 4 Elections to the Board of Directors
- 4a Sir Edward George
- 4b Mr. Kaspar Villiger
- 4c Mr. Rolf Hänggi
- 4d Mr. Daniel Borel
- 4e Mrs. Carolina Müller-Möhl

Elections to the Board of Directors

At the General Meeting of 22nd April 2004, the terms as directors of Mrs. Vreni Spoerry, Lord Simpson and Mr. Arthur Dunkel will expire. They do not stand for another term. The Board of Directors recommends that the General Meeting elect the following candidates as new directors:

Sir Edward George, British, born in 1938, former Governor of the Bank of England.

Mr. Kaspar Villiger, Swiss, born in 1941, former Federal Councillor and former President of the Swiss Confederation.

Mr. Rolf Hänggi, Swiss, born in 1943, Vice Chairman of the Board of Directors of Roche Holding Ltd, Basel, Switzerland.

Mr. Daniel Borel, Swiss, born in 1950, Co-founder and Chairman of the Board of Directors of Logitech International S.A., Apples, Switzerland.

Mrs. Carolina Müller-Möhl, Swiss, born in 1968, Chairman of the Board of Directors of the Müller-Möhl Group, Zurich, Switzerland.

All candidates correspond to the nomination criteria, which specifically include professional experience, international exposure and independence of judgement. These proposals reflect the aim to continue to assure that the Board of Directors of Nestlé S.A. benefits from all competences and experiences required for the Group.

Next Ordinary General Meeting:
Thursday 14th April 2005 at the "Palais de Beaulieu", Lausanne

Important dates 2004

21st April 2004	Announcement of first quarter 2004 sales figures
22nd April 2004	137th Ordinary General Meeting, "Palais de Beaulieu", Lausanne
28th April 2004	Payment of the dividend
18th August 2004	Publication of the half-yearly report January/June 2004
21st October 2004	Announcement of first nine months 2004 sales figures; Autumn press conference

Shareholder information

Stock exchange listings

At the 31st December 2003, Nestlé S.A. shares (ISIN code: CH0012056047) were listed on the following stock exchanges: SWX Swiss Exchange, London, Paris and Frankfurt (delisting on 3rd March 2004). American Depositary Receipts (ADRs) (ISIN code: US6410694060) representing Nestlé S.A. shares are offered in the USA by JPMorgan Chase Bank.

Registered Offices

Nestlé S.A.,
avenue Nestlé 55,
CH-1800 Vevey (Switzerland),
tel. +41(0)21924 21 11.
Nestlé S.A. (Share Transfer Office),
Zugerstrasse 8,
CH-6330 Cham (Switzerland),
tel. +41(0)41785 20 20.

Further information

For additional copies of this document, please go to www.nestle.com/Html/MediaCenter/order.asp. For additional information, contact Nestlé S.A., Investor Relations, avenue Nestlé 55, CH-1800 Vevey (Switzerland), tel. +41 (0)21 924 35 09, fax +41 (0)21 924 28 13. E-mail: ir@nestle.com or visit the investor relations web site www.ir.nestle.com

The Nestlé Management Report, the Financial statements and the Corporate Governance Report are available on-line as a PDF file at www.ir.nestle.com in English, French and German. The Financial statements are also available in HTML.

As to information concerning the share register (registrations, transfers, address changes, dividends, etc.), please contact Nestlé S.A., Share Transfer Office, Zugerstrasse 8, CH-6330 Cham (Switzerland), tel. +41 (0)41 785 20 20, fax +41 (0)41 785 20 24. E-mail: shareregister@nestle.com

The Company offers the possibility of depositing free of charge Nestlé S.A. shares traded on the SWX Swiss Exchange at its Share Transfer Office in Cham.

Nestlé URL: <http://www.nestle.com>