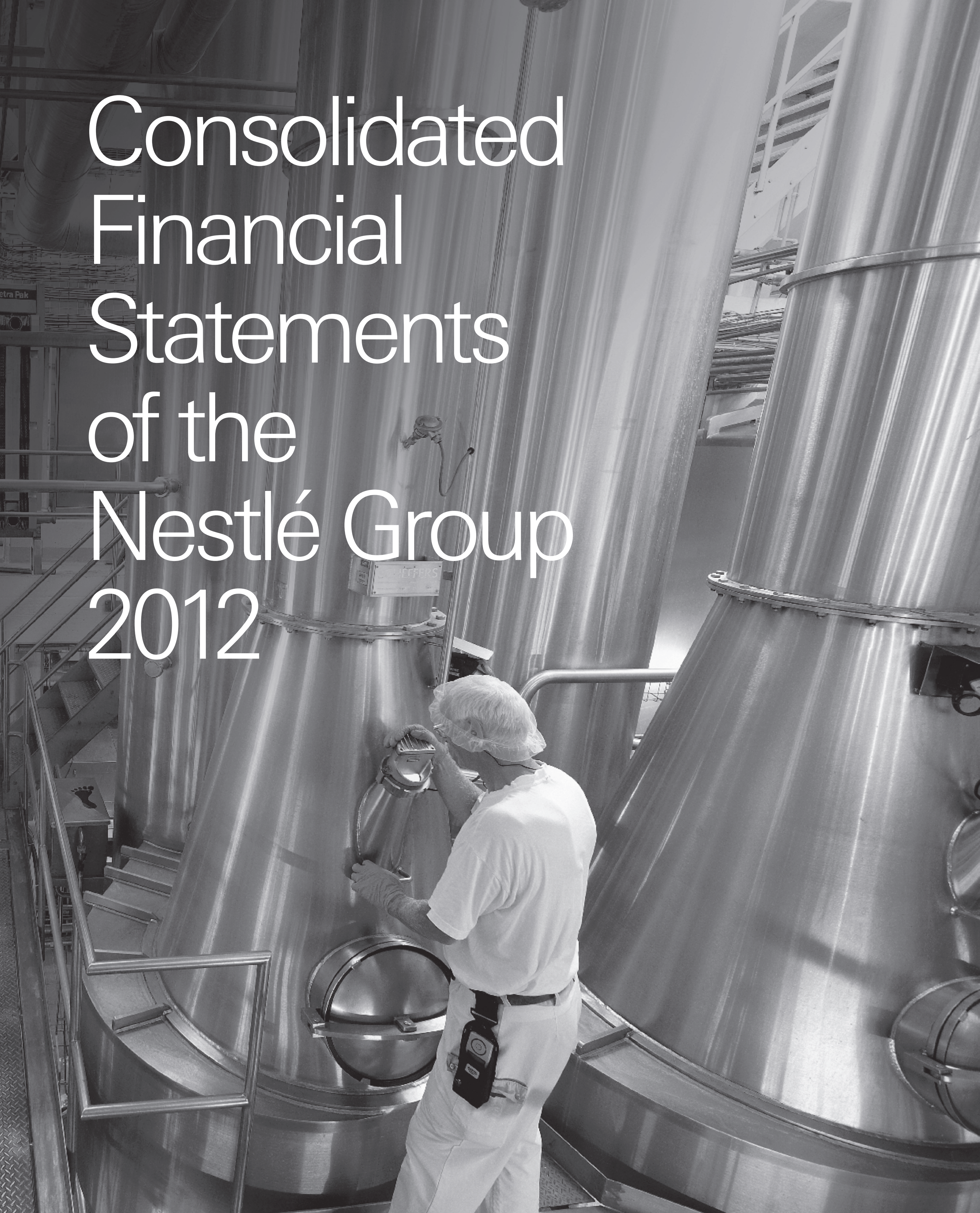
Consolidated Financial Statements of the Nestlé Group 2012



Principal exchange rates

CHF per		2012	2011	2012	2011
		Year ending rates		Weighted average annual rates	
1 US Dollar	USD	0.915	0.940	0.938	0.887
1 Euro	EUR	1.207	1.217	1.205	1.233
100 Brazilian Reais	BRL	44.775	50.124	47.964	52.935
100 Chinese Yuan Renminbi	CNY	14.686	14.926	14.870	13.796
100 Mexican Pesos	MXN	7.045	6.712	7.136	7.122
1 Pound Sterling	GBP	1.479	1.450	1.487	1.421
1 Canadian Dollar	CAD	0.920	0.921	0.940	0.890
1 Australian Dollar	AUD	0.950	0.954	0.971	0.913
100 Philippine Pesos	PHP	2.227	2.144	2.221	2.048
100 Japanese Yen	JPY	1.063	1.212	1.169	1.121

Consolidated income statement for the year ended 31 December 2012

In millions of CHF	Notes	2012	2011
Sales	3	**92 186**	83 642
Other revenue		138	128
Cost of goods sold		(48 398)	(44 127)
Distribution expenses		(8 167)	(7 602)
Marketing and administration expenses		(19 688)	(17 395)
Research and development costs		(1 544)	(1 423)
Other trading income	4	141	51
Other trading expenses	4	(656)	(736)
Trading operating profit	3	**14 012**	12 538
Other operating income	4	146	112
Other operating expenses	4	(226)	(179)
Operating profit		**13 932**	12 471
Financial income	13	110	115
Financial expense	13	(591)	(536)
Profit before taxes and associates		**13 451**	12 050
Taxes	14	(3 451)	(3 112)
Share of results of associates	15	1 060	866
Profit for the year		**11 060**	9 804
of which attributable to non-controlling interests		449	317
of which attributable to shareholders of the parent (Net profit)		10 611	9 487
As percentages of sales			
Trading operating profit		15.2%	15.0%
Profit for the year attributable to shareholders of the parent (Net profit)		11.5%	11.3%
Earnings per share (in CHF)			
Basic earnings per share	16	3.33	2.97
Diluted earnings per share	16	3.32	2.96

Consolidated statement of comprehensive income for the year ended 31 December 2012

In millions of CHF	Notes	2012	2011
Profit for the year recognised in the income statement		**11 060**	**9 804**
Currency retranslations		(1 052)	(1 166)
Fair value adjustments on available-for-sale financial instruments			
– Unrealised results		309	(199)
– Recognition of realised results in the income statement		16	7
Fair value adjustments on cash flow hedges			
– Recognised in hedging reserve		(110)	(423)
– Removed from hedging reserve		272	(42)
Actuarial gains/(losses) on defined benefit schemes	10	(2 063)	(2 503)
Share of other comprehensive income of associates	15	497	456
Taxes	14	501	859
Other comprehensive income for the year	18	**(1 630)**	**(3 011)**
Total comprehensive income for the year		**9 430**	**6 793**
of which attributable to non-controlling interests		393	284
of which attributable to shareholders of the parent		9 037	6 509

Consolidated balance sheet as at 31 December 2012

before appropriations

In millions of CHF	Notes	2012	2011
Assets			
Current assets			
Cash and cash equivalents	13/17	5 840	4 938
Short-term investments	13	3 585	3 050
Inventories	5	9 125	9 255
Trade and other receivables	6/13	13 404	13 340
Prepayments and accrued income		844	900
Derivative assets	13	586	731
Current income tax assets		1 028	1 094
Assets held for sale	2	793	16
Total current assets		**35 205**	**33 324**
Non-current assets			
Property, plant and equipment	7	26 903	23 971
Goodwill	8	32 615	29 008
Intangible assets	9	13 643	9 356
Investments in associates	15	9 846	8 629
Financial assets	13	5 003	7 161
Employee benefits assets	10	84	127
Current income tax assets		27	39
Deferred tax assets	14	2 903	2 476
Total non-current assets		**91 024**	**80 767**
Total assets		**126 229**	**114 091**

In millions of CHF	Notes	2012	2011
Liabilities and equity			
Current liabilities			
Financial debt	13	18 568	16 100
Trade and other payables	13	14 455	13 584
Accruals and deferred income		3 229	2 909
Provisions	12	441	576
Derivative liabilities	13	428	646
Current income tax liabilities		1 631	1 417
Liabilities directly associated with assets held for sale		1	—
Total current liabilities		**38 753**	**35 232**
Non-current liabilities			
Financial debt	13	9 009	6 207
Employee benefits liabilities	10	8 554	7 105
Provisions	12	2 842	3 094
Deferred tax liabilities	14	2 276	2 060
Other payables	13	2 191	2 119
Total non-current liabilities		**24 872**	**20 585**
Total liabilities		**63 625**	**55 817**
Equity	18		
Share capital		322	330
Treasury shares		(2 078)	(6 722)
Translation reserve		(17 923)	(16 927)
Retained earnings and other reserves		80 626	80 116
Total equity attributable to shareholders of the parent		**60 947**	**56 797**
Non-controlling interests		1 657	1 477
Total equity		**62 604**	**58 274**
Total liabilities and equity		**126 229**	**114 091**

Consolidated cash flow statement for the year ended 31 December 2012

In millions of CHF	Notes	2012	2011 [a]
Operating activities			
Operating profit	17	13 932	12 471
Non-cash items of income and expense	17	3 316	3 335
Cash flow before changes in operating assets and liabilities		**17 248**	**15 806**
Decrease/(increase) in working capital	17	1 988	(1 983)
Variation of other operating assets and liabilities	17	(375)	(760)
Cash generated from operations		**18 861**	**13 063**
Net cash flows from treasury activities	17	(334)	(745)
Taxes paid		(3 201)	(2 555)
Dividends from associates	15	446	417
Operating cash flow		**15 772**	**10 180**
Investing activities			
Capital expenditure	7	(5 368)	(4 779)
Expenditure on intangible assets	9	(343)	(247)
Sale of property, plant and equipment		130	111
Acquisition of businesses	2	(10 918)	(3 742)
Disposal of businesses	2	144	7
Investments (net of disinvestments) in associates	15	(86)	(60)
Outflows from non-current financial investments		(192)	(1 802)
Inflows from non-current financial investments		1 561	—
Inflows/(outflows) from short-term financial investments		711	6 452
Other investing cash flows		(226)	(448)
Cash flow from investing activities		**(14 587)**	**(4 508)**
Financing activities			
Dividend paid to shareholders of the parent	18	(6 213)	(5 939)
Dividends paid to non-controlling interests		(204)	(226)
Acquisition (net of disposal) of non-controlling interests		(165)	(40)
Purchase of treasury shares		(532)	(5 480)
Sale of treasury shares		1 199	527
Inflows from bonds and other non-current financial debt		5 226	688
Outflows from bonds and other non-current financial debt		(1 680)	(1 844)
Inflows/(outflows) from current financial debt		2 312	3 504
Cash flow from financing activities		**(57)**	**(8 810)**
Currency retranslations		(226)	19
Increase/(decrease) in cash and cash equivalents		**902**	**(3 119)**
Cash and cash equivalents at beginning of year		4 938	8 057
Cash and cash equivalents at end of year		**5 840**	**4 938**

(a) 2011 comparatives have been restated following the changes in the cash flow statement described in Note 1 – Accounting policies.

Consolidated statement of changes in equity for the year ended 31 December 2012

In millions of CHF

	Share capital	Treasury shares	Translation reserve	Retained earnings and other reserves	**Total equity attributable to shareholders of the parent**	Non-controlling interests	**Total equity**
Equity as at 31 December 2010	347	(11 108)	(15 794)	88 422	61 867	731	62 598
Profit for the year				9 487	9 487	317	9 804
Other comprehensive income for the year			(1 133)	(1 845)	(2 978)	(33)	(3 011)
Total comprehensive income for the year			(1 133)	7 642	6 509	284	6 793
Dividend paid to shareholders of the parent				(5 939)	(5 939)		(5 939)
Dividends paid to non-controlling interests						(226)	(226)
Movement of treasury shares [(a)]		(4 615)		(355)	(4 970)		(4 970)
Equity compensation plans		175		5	180		180
Changes in non-controlling interests [(b)]				(996)	(996)	688	(308)
Reduction in share capital	(17)	8 826		(8 809)	—		—
Total transactions with owners	(17)	4 386		(16 094)	(11 725)	462	(11 263)
Other movements [(c)]				146	146		146
Equity as at 31 December 2011	330	(6 722)	(16 927)	80 116	56 797	1 477	58 274
Profit for the year				10 611	**10 611**	449	**11 060**
Other comprehensive income for the year			(996)	(578)	**(1 574)**	(56)	**(1 630)**
Total comprehensive income for the year			(996)	10 033	**9 037**	393	**9 430**
Dividend paid to shareholders of the parent				(6 213)	**(6 213)**		**(6 213)**
Dividends paid to non-controlling interests						(204)	**(204)**
Movement of treasury shares [(a)]		501		599	**1 100**		**1 100**
Equity compensation plans		212		(39)	**173**		**173**
Changes in non-controlling interests				(94)	**(94)**	(9)	**(103)**
Reduction in share capital	(8)	3 931		(3 923)	**—**		**—**
Total transactions with owners	(8)	4 644		(9 670)	**(5 034)**	(213)	**(5 247)**
Other movements [(c)]				147	**147**		**147**
Equity as at 31 December 2012	**322**	**(2 078)**	**(17 923)**	**80 626**	**60 947**	**1 657**	**62 604**

(a) Movements reported under retained earnings and other reserves mainly relate to written put options on own shares.
(b) Movements reported under retained earnings and other reserves include a put option for the acquisition of non-controlling interests.
(c) Relates mainly to the adjustment for hyperinflation in Venezuela, considered as a hyperinflationary economy.

1. Accounting policies

Accounting convention and accounting standards

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

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

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Those areas affect mainly provisions (see Note 12), goodwill impairment tests (see Note 8), employee benefits (see Note 10), allowance for doubtful receivables (see Note 6), share-based payments (see Note 11) and taxes (see Note 14).

Scope of consolidation

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

Consolidated companies

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

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

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

Associates

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

Venture funds

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

Foreign currencies

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

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

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

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

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

When there is a change of control in a foreign entity, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on disposal.

Segment reporting

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

The CODM considers the business from both a geographic and product perspective, through three geographic Zones and several Globally Managed Businesses (GMB). Zones and GMB that meet the quantitative threshold of 10% of sales, trading operating profit or assets, are presented on a stand-alone basis as reportable segments. Other business activities and operating segments, including GMB that do not meet the threshold, like Nestlé Professional, Nespresso, Nestlé Health Science and the Joint Ventures in the Food and Beverages and Pharmaceutical activities are combined and presented in Other. Therefore, the Group's reportable operating segments are:

– Zone Europe;
– Zone Americas;
– Zone Asia, Oceania and Africa;
– Nestlé Waters;
– Nestlé Nutrition;
– Other.

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

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

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

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

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

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

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

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

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

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

Valuation methods, presentation and definitions

Revenue

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

Other revenue is primarily license fees from third parties which have been earned during the period.

Expenses

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

Other trading income/(expenses)

These comprise mainly restructuring costs, impairment of all assets except goodwill, litigations and onerous contracts, result on disposal of property, plant and equipment, and specific other income and expenses that fall within the control of operating segments.

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

Other operating income/(expenses)

These comprise impairment of goodwill, results on disposals of businesses, acquisition-related costs and other income and expenses that fall beyond the control of operating segments and relate to events such as natural disasters and expropriation of assets.

Net financing cost

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

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

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

Taxes

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

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

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

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

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

Financial instruments

Classes of financial instruments

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

Financial assets

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

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

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

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

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This category includes the following classes of financial assets: loans; trade and other receivables and cash at bank and in hand.

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

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

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

Held-for-trading assets

The Group does not apply the fair value option. Held-for-trading assets are marketable securities and derivative financial instruments.

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

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities. Currently the Group does not have any investments in this category.

Available-for-sale assets

Available-for-sale assets are those non-derivative financial assets that are either designated as such upon initial recognition or are not classified in any of the other financial assets categories. This category includes the following classes of financial assets: bonds, equities, commercial paper and bills, time deposits and other investments. They are included in non-current financial assets unless an investment matures or management intends to dispose of it within 12 months of the end of the reporting period. In that case it would be accounted for as short-term investments, or cash and cash equivalents, as appropriate.

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

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

Financial liabilities at amortised cost

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

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

Financial liabilities at amortised cost are further classified as current and non-current depending whether these will fall due within 12 months after the balance sheet date or beyond.

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

Derivative financial instruments

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

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

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

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

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

Hedge accounting

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

Fair value hedges

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

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

Cash flow hedges

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

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

Net investment hedges

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

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

Undesignated derivatives

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

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

Fair value

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

i) The fair value of financial instruments quoted in active markets is based on their quoted closing price at the balance sheet date. Examples include commodity derivative assets and liabilities and other financial assets such as investments in equity and debt securities.

ii) The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques using observable market data. Such valuation techniques include discounted cash flows, standard valuation models based on market parameters, dealer quotes for similar instruments and use of comparable arm’s length transactions. For example, the fair value of forward exchange contracts, currency swaps and interest rate swaps is determined by discounting estimated future cash flows using a risk-free interest rate.

iii) The fair value of financial instruments that are measured on the basis of entity specific valuations using inputs that are not based on observable market data (unobservable inputs). When the fair value of unquoted instruments cannot be measured with sufficient reliability, the Group carries such instruments at cost less impairment, if applicable.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand and other short-term highly liquid investments with maturities of three months or less from the initial recognition.

Short-term investments

Short-term investments include investments from the available-for-sale category if their maturity is more than three months from the initial recognition and if they are due within a period of 12 months or less; or there is no maturity but the assets are expected to be realised within 12 months after the reporting period.

Inventories

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

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

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

Prepayments and accrued income

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

Property, plant and equipment

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

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

Land is not depreciated.

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

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

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

Leased assets

Leasing agreements which transfer to the Group substantially all the rewards and risks of ownership of an asset are treated as finance leases. All other leases are classified as operating leases.

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

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

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

Business combinations and related goodwill

Business combinations are accounted for using the acquisition method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The consideration transferred is measured at fair value and includes the fair value of any contingent consideration. Subsequent changes in contingent consideration, when not classified as equity, are recognised in profit or loss. The acquisition-related costs are charged to the income statement in the period in which they are incurred. Where not all of the equity of a subsidiary is acquired the non-controlling interests are recognised at the non-controlling interest's share of the acquiree's net identifiable assets. Upon obtaining control in a business combination achieved in stages, the Group remeasures its previously held equity interest at fair value and recognises a gain or a loss to the income statement.

Goodwill is recorded when the sum of the fair value of consideration transferred plus the fair value of any existing Nestlé ownership interest in the acquiree and any non-controlling interest exceeds the fair value of the acquiree's net assets. If the fair value of the acquiree's net assets exceeds this amount a gain is recognised immediately in profit or loss. Goodwill is not amortised but tested for impairment at least annually and upon the occurrence of an indication of impairment. The impairment testing process is described in the appropriate section of these policies.

Acquisitions and disposals of non-controlling interests

The Group treats transactions with non-controlling interests that do not result in loss of control as transactions with equity holders in their capacity as equity holders. For purchases of shares from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. The same principle is applied to disposals of shares to non-controlling interests.

Intangible assets

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

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

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

Research and development

Internal research costs are charged to the income statement in the year in which they are incurred. Development costs are only recognised as assets on the balance sheet if all the recognition criteria set by IAS 38 – Intangible Assets are met before the products are launched on the market. Development costs are therefore charged to the income statement in the year in which they are incurred due to uncertainties inherent in the development of new products because the expected future economic benefits cannot be reliably determined. As long as the products have not reached the market place, there is no reliable evidence that positive future cash flows would be obtained.

Payments made to third parties in order to in-license or acquire intellectual property rights, compounds and products are capitalised as they are separately identifiable and are expected to generate future benefits.

Other development costs (essentially management information system software) are capitalised provided that there is an identifiable asset that will be useful in generating future benefits in terms of savings, economies of scale, etc.

Impairment of goodwill and indefinite life intangible assets

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

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

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

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

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

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

Assets held for sale and discontinued operations

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

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

Provisions

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

Contingent assets and liabilities

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

Post-employment benefits

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

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

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

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

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

Equity compensation plans

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

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

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

Accruals and deferred income

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

Dividend

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

Events occurring after the balance sheet date

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

Changes in presentation – Consolidated cash flow statement

The Group has enhanced the presentation of its cash flow statement.

In line with the income statement, the Group now presents cash generated from its operations separately from its treasury activities and taxes paid. In addition, dividends received from associates have been reclassified from investing activities to operating activities.

The start of the cash flow statement is now operating profit, with a reconciliation of the profit for the period to the operating profit given in the notes. Due to the above changes, variations of assets and liabilities and non-cash items relating to treasury activities, tax and share of results of associates are removed from the following line items: non-cash items of income and expense, decrease/(increase) in working capital and/or variation of other operating assets and liabilities.

In addition, the inflows/(outflows) from short-term financial investments are reclassified from financing activities to investing activities. Dividends paid to non-controlling interests and acquisitions (net of disposals) of non-controlling interests are now presented as two separate line items. Finally, cash flows relating to bonds and cash flows from other non-current financial debt are now presented together due to the cash flows relating to other non-current financial debt being not significant in comparison to the cash flows relating to bonds.

2011 comparatives have been restated for all of these changes.

Changes in accounting policies

The accounting policies are the same as those applied in the Consolidated Financial Statements for the year ended 31 December 2011. The amended standards and the new or revised interpretations that are effective for the 2012 reporting year are either not applicable to the Group, or do not have a material impact on the Consolidated Financial Statements.

Changes in IFRS that may affect the Group after 31 December 2012

The following new standards and amendments to existing standards have been published and are mandatory for the accounting period beginning on 1 January 2013, unless otherwise stated. The Group has not early adopted them.

IFRS 9 – Financial Instruments

The standard addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard will affect the Group's accounting for its available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Such gains and losses are never reclassified to the income statement at a later date. There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, and the Group does not have any such liabilities. This standard is effective for the accounting period beginning on 1 January 2015.

IFRS 10 – Consolidated Financial Statements

This standard introduces a new single control model as the basis for consolidation applicable to all investees. It also introduces a changed definition of control. It is not expected to have a material impact on the Consolidated Financial Statements.

IFRS 11 – Joint Arrangements

This standard establishes principles for the financial reporting by parties to a joint arrangement. The standard will affect the Group's accounting for companies over which the Group exercises joint control with partners. The current proportionate consolidation method will in most cases be replaced by the equity method. This change will affect almost all Financial Statement line items resulting in decreasing revenues and expenses, assets and liabilities. Nevertheless, profit for the year and equity will remain unchanged.

If these changes had been adopted by the Group in 2012, sales would have been lower by around CHF 2.5 billion and operating profit lower by around CHF 260 million.

IFRS 12 – Disclosure of Interests in Other Entities

This standard combines, enhances and replaces disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Group will modify its disclosures accordingly.

IFRS 13 – Fair Value Measurement

This standard applies when other IFRS require or permit fair value measurements. It defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. It is not expected to have a material impact on the Consolidated Financial Statements.

IAS 19 Revised 2011 – Employee Benefits

The amendments that have the most significant impact are:

– the replacement of the expected return on plan assets and interest costs on the defined benefit obligation with a single net interest component. This net interest component will be calculated by applying the discount rate to the net defined benefit liability (or asset) and recognised with the net financing cost; and
– the immediate recognition of all past service costs.

These changes will affect the profit for the year and the earnings per share by increasing employee benefit costs of the Group. They will also impact the amounts presented in other comprehensive income, and the net employee benefits liabilities/(assets) on the balance sheet.

If these changes had been adopted by the Group in 2012, operating profit would have been lower by around CHF 280 million, net financial expense would have been higher by around CHF 240 million, and profit for the year would have been around CHF 380 million lower than published. Other changes, including the impact on net assets, are not material for the Group.

Improvements and other amendments to IFRS/IAS

A number of standards have been modified on miscellaneous points. Such changes include IAS 1 – Presentation of Financial Statements, which requires entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be recycled to the income statement in the future. None of these amendments are expected to have a material effect on the Group's Financial Statements.

2. Acquisitions and disposals of businesses

2.1 Modification of the scope of consolidation

The scope of consolidation has been affected by acquisitions and disposals made in 2012.

Main acquisitions

Full consolidation

Wyeth Nutrition, infant nutrition products, 100% (end of November).

Disposals

There were no major disposals in 2012.

2.2 Acquisitions of businesses

The major classes of assets acquired and liabilities assumed at the acquisition date are:

In millions of CHF	2012			2011			
	Wyeth Nutrition	Other acquisitions	**Total**	Hsu Fu Chi	Yinlu Foods Group	Other acquisitions	**Total**
Property, plant and equipment	908	142	**1 050**	396	427	200	**1 023**
Intangible assets [(a)]	4 589	(36)	**4 553**	479	694	724	**1 897**
Inventories and other assets [(b)]	1 059	49	**1 108**	670	254	373	**1 297**
Assets held for sale (see Note 2.3)	787	—	**787**	—	—	—	**—**
Financial debt	(6)	(2)	**(8)**	(81)	(185)	(16)	**(282)**
Employee benefits, deferred taxes and provisions	(100)	—	**(100)**	(175)	(171)	(114)	**(460)**
Other liabilities	(350)	(101)	**(451)**	(326)	(250)	(229)	**(805)**
Fair value of identifiable net assets	6 887	52	6 939	963	769	938	2 670

(a) Mainly brands and intellectual property rights.
(b) Including for Wyeth Nutrition the fair value of trade receivables of CHF 375 million with a gross contractual amount of CHF 395 million and estimated cash flows of CHF 20 million not expected to be collected.

Since the valuation of the assets and liabilities of recently acquired businesses is still in process, the values are determined provisionally. Particularly with regards to the Wyeth Nutrition acquisition, acquired property, plant and equipment, identifiable intangible assets and assets held for sale are the main items for which fair value is provisional, pending the final valuation of those assets.

The goodwill arising on acquisitions and the cash outflow are:

In millions of CHF	2012			2011			
	Wyeth Nutrition	Other acquisitions	**Total**	Hsu Fu Chi	Yinlu Foods Group	Other acquisitions	**Total**
Fair value of consideration transferred	**11 078**	**45**	**11 123**	1 489	1 150	1 423	4 062
Non-controlling interests [(a)]	—	33	**33**	385	308	11	704
Fair value of pre-existing interests [(b)]	—	—	**—**	—	—	48	48
Fair value of identifiable net assets	(6 887)	(52)	**(6 939)**	(963)	(769)	(938)	(2 670)
Goodwill	**4 191**	**26**	**4 217**	911	689	544	2 144

(a) Non-controlling interests have been measured based on their proportionate interest in the recognised amounts of net assets of the entities acquired.
(b) In 2011, the remeasurement to fair value of pre-existing interests in one of the business acquisitions resulted in a gain of CHF 34 million and has been recognised under other operating income in the income statement (Note 4.2).

In millions of CHF	2012			2011			
	Wyeth Nutrition	Other acquisitions	**Total**	Hsu Fu Chi	Yinlu Foods Group	Other acquisitions	**Total**
Fair value of consideration transferred	**11 078**	**45**	**11 123**	1 489	1 150	1 423	4 062
Cash and cash equivalents acquired	(232)	(19)	**(251)**	(132)	(34)	(134)	(300)
Consideration payable	—	—	**—**	—	(25)	(16)	(41)
Payment of consideration payable on prior years acquisitions	—	46	**46**	—	—	21	21
Cash outflow on acquisitions	**10 846**	**72**	**10 918**	1 357	1 091	1 294	3 742

The consideration transferred consists of payments made in cash with some consideration remaining payable. Cash outflow for Wyeth Nutrition includes the results on hedging a part of the consideration payable. Fair value of consideration transferred for Wyeth Nutrition included a CHF 1272 million liability to the former shareholder that was immediately settled in cash.

2012 Acquisitions
Wyeth Nutrition

On 30 November 2012, the Group acquired from Pfizer Inc. 100% of its Infant Nutrition business, the Wyeth Nutrition business. Wyeth Nutrition is a dynamic, high-quality infant nutrition business that complements Nestlé's existing portfolio with strong brands in key segments and geographies. 85% of Wyeth Nutrition's sales are in emerging markets.

The goodwill arising on this acquisition includes elements that cannot be recognised as intangible assets such as synergies, pioneering research and development, complementary portfolio and strong presence in high-growth markets to enhance Nestlé's position in global infant nutrition. The goodwill arising from this acquisition is not expected to be deductible for tax purposes. Taking into account the businesses on which Nestlé acquired control, the Group's total sales and profit for the year 2012 would have amounted respectively to approximately CHF 93.9 billion and CHF 11.3 billion if the acquisition had been effective 1 January 2012. These amounts have been determined based on the assumption that the fair value adjustments at the acquisition date, determined provisionally, would have been the same at 1 January 2012.

2011 Acquisitions
In November 2011, the Group acquired a 60% share in the Yinlu Foods Group (Yinlu), a significant marketer for ready-to-drink peanut milk and ready-to-eat canned rice porridge in China and in December 2011, a 60% share in Hsu Fu Chi, a leading manufacturer and distributor of confectionery products in China. Both acquisitions complement Nestlé's existing product portfolio in China, which includes culinary products, coffee, confectionery, bottled water, milk powder and products for the foodservice industry.

Other main 2011 acquisitions were Q-Med by Galderma and Prometheus.

Acquisition-related costs
Acquisition-related costs, which mostly relate to the acquisition of Wyeth Nutrition, have been recognised under Other operating expenses in the income statement (Note 4.2) for an amount of CHF 82 million in 2012 (2011: CHF 34 million).

2.3 Assets held for sale

Assets held for sale represent participations in Wyeth Nutrition businesses which the Group does not control. Management expects the sale of such participations to be completed before the end of 2013. At 31 December 2012 these participations are recorded on the balance sheet at management's best estimate of their fair value, for an amount of CHF 774 million.

3. Analyses by segment

3.1 Operating segments

Revenue and results

In millions of CHF						2012
	Sales (a)	Trading operating profit	Net other trading income/(expenses) *	of which impairment of assets other than goodwill	of which restructuring costs	Impairment of goodwill
Zone Europe	15 385	2 417	(88)	(40)	(40)	—
Zone Americas	28 927	5 380	(248)	(13)	15	—
Zone Asia, Oceania and Africa	18 912	3 587	(10)	9	(19)	—
Nestlé Waters	7 174	636	(41)	(20)	(15)	(1)
Nestlé Nutrition	7 858	1 511	(31)	(3)	(6)	(12)
Other (b)	13 930	2 393	(80)	(6)	(30)	(1)
Unallocated items (c)		(1 912)	(17)	(2)	—	—
Total	**92 186**	**14 012**	**(515)**	**(75)**	**(95)**	**(14)**

* included in Trading operating profit

In millions of CHF						2011
	Sales (a)	Trading operating profit	Net other trading income/(expenses) *	of which impairment of assets other than goodwill	of which restructuring costs	Impairment of goodwill
Zone Europe	15 243	2 372	(169)	(66)	(43)	—
Zone Americas	26 756	4 922	(273)	(18)	(21)	—
Zone Asia, Oceania and Africa	15 291	2 892	(74)	(31)	(12)	(9)
Nestlé Waters	6 520	520	(19)	(8)	(1)	(5)
Nestlé Nutrition	7 233	1 443	(36)	(18)	(9)	—
Other (b)	12 599	2 119	(78)	(9)	(14)	(2)
Unallocated items (c)		(1 730)	(36)	—	—	—
Total	**83 642**	**12 538**	**(685)**	**(150)**	**(100)**	**(16)**

* included in Trading operating profit

(a) Inter-segment sales are not significant.
(b) Mainly Nespresso, Nestlé Professional, Nestlé Health Science, Food and Beverages Joint Ventures and Pharma Joint Ventures managed on a worldwide basis.
(c) Refer to the Segment reporting section of Note 1 – Accounting policies for the definition of unallocated items.

Refer to Note 3.3 for the reconciliation from trading operating profit to profit before taxes and associates.

Assets and other information

In millions of CHF					2012
	Segment assets	of which goodwill and intangible assets	Capital additions	of which capital expenditure	Depreciation and amortisation of segment assets
Zone Europe	11 804	2 251	1 038	1 019	(534)
Zone Americas	22 652	9 555	1 162	1 088	(878)
Zone Asia, Oceania and Africa	14 353	4 465	1 692	1 556	(537)
Nestlé Waters	6 369	1 654	424	407	(491)
Nestlé Nutrition	24 118	15 123	10 276	426	(174)
Other [(a)]	11 157	4 392	705	638	(491)
Unallocated items [(b)]	11 209	8 818	234	234	(45)
Inter-segment eliminations	(2 146)				
Total segments	**99 516**	**46 258**	**15 531**	**5 368**	**(3 150)**
Non-segment assets	26 713				
Total	**126 229**				

In millions of CHF					2011
	Segment assets	of which goodwill and intangible assets	Capital additions	of which capital expenditure	Depreciation and amortisation of segment assets
Zone Europe	11 561	2 304	971	871	(574)
Zone Americas	23 081	9 831	1 267	1 102	(783)
Zone Asia, Oceania and Africa	13 806	4 561	4 819	1 142	(441)
Nestlé Waters	6 602	1 720	594	407	(474)
Nestlé Nutrition	12 848	6 486	590	477	(198)
Other [(a)]	10 936	4 438	1 595	537	(338)
Unallocated items [(b)]	11 117	9 024	254	243	(117)
Inter-segment eliminations	(2 140)				
Total segments	**87 811**	**38 364**	**10 090**	**4 779**	**(2 925)**
Non-segment assets	26 280				
Total	**114 091**				

(a) Mainly Nespresso, Nestlé Professional, Nestlé Health Science, Food and Beverages Joint Ventures and Pharma Joint Ventures managed on a worldwide basis.
(b) Refer to the Segment reporting section of Note 1 – Accounting policies for the definition of unallocated items.

3.2 Products

Revenue and results

In millions of CHF						2012
	Sales	Trading operating profit	Net other trading income/(expenses) *	of which impairment of assets other than goodwill	of which restructuring costs	Impairment of goodwill
Powdered and Liquid Beverages	20 038	4 502	(101)	(8)	(35)	—
Water	7 178	636	(41)	(20)	(16)	(1)
Milk products and Ice cream	18 564	2 799	(148)	(12)	(15)	—
Nutrition and HealthCare	10 726	1 958	(50)	(3)	(10)	(11)
Prepared dishes and cooking aids	14 432	2 041	(62)	(13)	(15)	(1)
Confectionery	10 438	1 782	(92)	(15)	(16)	—
PetCare	10 810	2 206	(4)	(2)	12	—
Unallocated items [(a)]		(1 912)	(17)	(2)	—	(1)
Total	**92 186**	**14 012**	**(515)**	**(75)**	**(95)**	**(14)**

* included in Trading operating profit

In millions of CHF						2011
	Sales	Trading operating profit	Net other trading income/(expenses) *	of which impairment of assets other than goodwill	of which restructuring costs	Impairment of goodwill
Powdered and Liquid Beverages	18 204	4 129	(151)	(35)	(40)	(2)
Water	6 526	520	(19)	(8)	(1)	(5)
Milk products and Ice cream	16 406	2 251	(211)	(37)	(25)	(5)
Nutrition and HealthCare	9 744	1 820	(55)	(20)	(16)	—
Prepared dishes and cooking aids	13 933	2 016	(69)	(18)	(9)	—
Confectionery	9 065	1 524	(136)	(30)	(11)	(4)
PetCare	9 764	2 008	(8)	(2)	2	—
Unallocated items [(a)]		(1 730)	(36)	—	—	—
Total	**83 642**	**12 538**	**(685)**	**(150)**	**(100)**	**(16)**

* included in Trading operating profit

(a) Refer to the Segment reporting section of Note 1 – Accounting policies for the definition of unallocated items.

Refer to Note 3.3 for the reconciliation from trading operating profit to profit before taxes and associates.

Assets and liabilities

In millions of CHF	Assets	of which goodwill and intangible assets	Liabilities 2012
Powdered and Liquid Beverages	10 704	403	4 335
Water	6 654	1 693	1 848
Milk products and Ice cream	15 998	5 544	3 864
Nutrition and HealthCare	20 644	12 135	3 450
Prepared dishes and cooking aids	13 523	6 463	2 750
Confectionery	8 352	2 104	2 345
PetCare	14 001	9 252	1 656
Unallocated items [(a)] and intra-group eliminations	719	2 151	(3 099)
Total	**90 595**	**39 745**	**17 149**

In millions of CHF	Assets	of which goodwill and intangible assets	Liabilities 2011
Powdered and Liquid Beverages	9 770	393	3 872
Water	6 640	1 678	1 747
Milk products and Ice cream	13 496	4 397	3 456
Nutrition and HealthCare	16 837	9 762	2 959
Prepared dishes and cooking aids	12 922	6 308	2 703
Confectionery	6 482	1 023	2 034
PetCare	13 569	9 141	1 514
Unallocated items [(a)] and intra-group eliminations	911	2 184	(2 614)
Total	**80 627**	**34 886**	**15 671**

(a) Refer to the Segment reporting section of Note 1 – Accounting policies for the definition of unallocated items.

3.3 Reconciliation from trading operating profit to profit before taxes and associates

In millions of CHF	2012	2011
Trading operating profit	14 012	12 538
Impairment of goodwill	(14)	(16)
Net other operating income/(expenses) excluding impairment of goodwill	(66)	(51)
Operating profit	**13 932**	**12 471**
Net financing cost	(481)	(421)
Profit before taxes and associates	**13 451**	**12 050**

3.4 Customers

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

3.5 Geography (top ten countries and Switzerland)

In millions of CHF		2012		2011
	Sales	Non-current assets (a)	Sales (b)	Non-current assets (a)
USA	23 712	16 483	21 539	17 115
France	5 691	1 781	5 634	1 722
Brazil	5 348	1 211	5 375	1 242
Greater China Region	5 158	5 112	2 500	4 298
Germany	3 270	1 430	3 338	1 356
Mexico	3 246	686	2 961	596
United Kingdom	2 935	1 058	2 675	877
Italy	2 219	875	2 273	895
Canada	2 182	644	2 078	452
Australia	2 151	985	2 106	1 080
Switzerland (c)	1 518	2 925	1 503	2 636
Rest of the world and unallocated items	34 756	39 971	31 660	30 066
Total	**92 186**	**73 161**	**83 642**	**62 335**

(a) Relate to property, plant and equipment, intangible assets and goodwill.
(b) While the total 2011 comparative sales are unchanged, the split by country has been restated based on an improved methodology to identify more precisely customer country location.
(c) Country of domicile of Nestlé S.A.

The analysis of sales by geographic area is stated by customer location.

4. Net other trading and operating income/(expenses)

4.1 Net other trading income/(expenses)

In millions of CHF	Notes	2012	2011
Profit on disposal of property, plant and equipment		53	18
Miscellaneous trading income		88	33
Other trading income		**141**	**51**
Loss on disposal of property, plant and equipment		(20)	(15)
Restructuring costs		(95)	(100)
Impairment of assets other than goodwill	7/9	(75)	(150)
Litigations and onerous contracts [a]		(378)	(341)
Miscellaneous trading expenses		(88)	(130)
Other trading expenses		**(656)**	**(736)**
Total net other trading income/(expenses)		**(515)**	**(685)**

(a) It relates mainly to numerous separate legal cases (for example labour, civil and tax litigations) as well as several separate onerous contracts, predominantly in Latin America.

4.2 Net other operating income/(expenses)

In millions of CHF	Notes	2012	2011
Profit on disposal of businesses		105	4
Miscellaneous operating income [a]		41	108
Other operating income		**146**	**112**
Loss on disposal of businesses		(3)	(7)
Impairment of goodwill	8	(14)	(16)
Miscellaneous operating expenses [a]		(209)	(156)
Other operating expenses		**(226)**	**(179)**
Total net other operating income/(expenses)		**(80)**	**(67)**

(a) 2012 includes the result of the assets held for sale related to the Wyeth acquisition (see Note 2.3).

5. Inventories

In millions of CHF	2012	2011
Raw materials, work in progress and sundry supplies	3 885	3 904
Finished goods	5 430	5 488
Allowance for write-down at net realisable value	(190)	(137)
	9 125	**9 255**

Inventories amounting to CHF 238 million (2011: CHF 227 million) are pledged as security for financial liabilities.

6. Trade and other receivables

6.1 By type

In millions of CHF	2012	2011
Trade receivables	9 915	9 541
Other receivables	3 489	3 799
	13 404	**13 340**

The five major customers represent 10% (2011: 9%) of trade and other receivables, none of them individually exceeding 5% (2011: 5%).

6.2 Past due and impaired receivables

In millions of CHF	2012	2011
Not past due	10 925	11 326
Past due 1–30 days	1 356	1 119
Past due 31–60 days	445	353
Past due 61–90 days	168	100
Past due 91–120 days	95	90
Past due more than 120 days	798	724
Allowance for doubtful receivables	(383)	(372)
	13 404	**13 340**

6.3 Allowance for doubtful receivables

In millions of CHF	2012	2011
At 1 January	372	409
Currency retranslations	(5)	(15)
Allowance made during the year	91	59
Amounts used and reversal of unused amounts	(75)	(81)
At 31 December	**383**	**372**

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

7. Property, plant and equipment

In millions of CHF

	Land and buildings	Machinery and equipment	Tools, furniture and other equipment	Vehicles	Total
Gross value					
At 1 January 2011	12 805	24 775	7 385	869	45 834
Currency retranslations	(104)	(719)	(187)	(21)	(1 031)
Capital expenditure [(a)]	1 022	2 643	950	164	4 779
Disposals	(140)	(624)	(507)	(65)	(1 336)
Reclassified as held for sale	—	5	1	—	6
Modification of the scope of consolidation	526	392	86	14	1 018
At 31 December 2011	14 109	26 472	7 728	961	49 270
Currency retranslations	(156)	(622)	(34)	(29)	(841)
Capital expenditure [(a)]	1 419	2 863	957	129	5 368
Disposals	(169)	(548)	(610)	(95)	(1 422)
Reclassified as held for sale	(17)	(14)	(1)	—	(32)
Modification of the scope of consolidation	484	342	(29)	(4)	793
At 31 December 2012	15 670	28 493	8 011	962	53 136
Accumulated depreciation and impairments					
At 1 January 2011	(4 851)	(13 914)	(5 148)	(483)	(24 396)
Currency retranslations	76	286	125	14	501
Depreciation	(341)	(1 263)	(728)	(90)	(2 422)
Impairments	(51)	(81)	(17)	(1)	(150)
Disposals	99	525	490	56	1 170
Reclassified as held for sale	—	(5)	(1)	—	(6)
Modification of the scope of consolidation	—	3	1	—	4
At 31 December 2011	(5 068)	(14 449)	(5 278)	(504)	(25 299)
Currency retranslations	70	259	66	11	406
Depreciation	(393)	(1 434)	(782)	(102)	(2 711)
Impairments	4	(58)	(21)	—	(75)
Disposals	120	490	552	79	1 241
Reclassified as held for sale	12	11	1	—	24
Modification of the scope of consolidation	26	105	44	6	181
At 31 December 2012	(5 229)	(15 076)	(5 418)	(510)	(26 233)
Net at 31 December 2011	9 041	12 023	2 450	457	23 971
Net at 31 December 2012	10 441	13 417	2 593	452	26 903

(a) Including borrowing costs.

At 31 December 2012, property, plant and equipment include CHF 1332 million of assets under construction (2011: CHF 1267 million). Net property, plant and equipment held under finance leases amount to CHF 154 million (2011: CHF 194 million). Net property, plant and equipment of CHF 294 million are pledged as security for financial liabilities (2011: CHF 323 million). Fire risks, reasonably estimated, are insured in accordance with domestic requirements.

Impairment

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

Commitments for expenditure

At 31 December 2012, the Group was committed to expenditure amounting to CHF 650 million (2011: CHF 734 million).

8. Goodwill

In millions of CHF	Notes	2012	2011
Gross value			
At 1 January		30 951	29 003
Currency retranslations		(589)	(196)
Goodwill from acquisitions	2	4 217	2 144
Disposals		(263)	—
At 31 December		**34 316**	**30 951**
Accumulated impairments			
At 1 January		(1 943)	(1 972)
Currency retranslations		(7)	45
Impairments		(14)	(16)
Disposals		263	—
At 31 December		**(1 701)**	**(1 943)**
Net at 31 December		**32 615**	**29 008**

Goodwill impairment reviews have been conducted for more than 200 goodwill items allocated to some 50 Cash Generating Units (CGU).

Detailed results of the impairment tests are presented below for the four largest goodwill items, representing more than 50% of the net book value at 31 December 2012. For the purpose of the tests, they have been allocated to the following CGU: Wyeth Nutrition (WN), PetCare by geographical zone, Infant Nutrition excluding WN (IN), Frozen Pizza and Ice Cream USA. For each of the CGU, the recoverable amount is higher than its carrying amount. The recoverable amount has been determined based upon a value-in-use calculation. Deflated cash flow projections covering the next 50 years, discounted at a deflated pre-tax weighted average rate, were used in this calculation. The cash flows for the first five years were based upon financial plans approved by Group Management; years six to ten were based upon Group Management's best expectations, which are consistent with the Group's approved strategy for this period. WN cash flows were based on the latest available business plan. Cash flows were assumed to be flat for years eleven to 50, although Group Management expects continuing growth for WN, PetCare and IN. A 1% increase per year has been assumed for years eleven to 50 for Frozen Pizza and Ice Cream USA. Cash flows have been adjusted to reflect the specific business risks.

8.1 Wyeth Nutrition

Goodwill related to the 2012 acquisition of Wyeth Nutrition has been allocated for impairment testing purposes to the CGU Wyeth Nutrition. As of 31 December 2012, the carrying amounts, expressed in various currencies, represent an equivalent of CHF 4115 million for the goodwill. Intangible assets with indefinite useful life related to this CGU amount to CHF 4494 million.

In this calculation, projected growths in sales and trading operating profit margin [(a)] were based on the latest available business plan, and are in line with the valuation model used for the acquisition completed on 30 November 2012.

8.2 PetCare

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

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

In millions of CHF	2012			2011		
	Total	of which Zone Europe	of which Zone Americas	**Total**	of which Zone Europe	of which Zone Americas
Goodwill	8 781	1 753	6 957	8 982	1 762	7 148
Intangible assets with indefinite useful life	192	—	154	197	—	158
	8 973	1 753	7 111	9 179	1 762	7 306

Assumptions

The main assumptions for the two most important CGU, PetCare Zone Europe and PetCare Zone Americas, were the following:

	Zone Europe	Zone Americas
Deflated pre-tax weighted average discount rate	6.5%	7.5%
Annual sales growth over the first ten-year period	between 3.0 and 5.9%	between 4.0 and 4.5%
Trading operating profit margin [(a)] evolution over the first ten-year period	steady improvement in a range of 10–30 basis points per year	improvement in a range of 0–20 basis points per year

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

Sensitivity analyses

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

(a) Before net other trading income/(expenses).

8.3 Infant Nutrition excluding Wyeth Nutrition

Goodwill related to the 2007 acquisition of Gerber has been allocated for impairment testing purposes to the CGU of the Infant Nutrition businesses excluding WN on a worldwide basis. As at 31 December 2012, the carrying amounts, expressed in various currencies, represent an equivalent of CHF 3516 million (2011: CHF 3580 million) for the goodwill. Intangible assets with indefinite useful life related to this CGU amount to CHF 1217 million (2011: CHF 1250 million).

Assumptions

A deflated pre-tax weighted average discount rate of 7.7% was used in this calculation.
Main assumptions, based on past experiences and current initiatives, were the following:
– sales: annual growth between 3.1 and 6.1% for North America over the first ten-year period and between 5.6 and 6.9% for the rest of the world over the first six-year period and flat thereafter;
– trading operating profit margin [(a)] evolution: improving over the ten-year period, in a range of 10 to 50 basis points per year.

Sensitivity analyses

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

8.4 Frozen Pizza and Ice Cream USA

Goodwill related to the Group's Ice cream businesses in the USA (Nestlé Ice Cream Company and Dreyer's) and related to the 2010 acquisition of the Kraft Food's frozen pizza business in the USA has been allocated to the CGU Frozen Pizza and Ice Cream USA. As at 31 December 2012, the carrying amounts, expressed in USD, represent an equivalent of CHF 4159 million (2011: CHF 4274 million) for the goodwill. Intangible assets with indefinite useful life related to this CGU amount to CHF 1638 million (2011: CHF 1683 million).

Assumptions

A deflated pre-tax weighted average discount rate of 7.0% was used in this calculation.
Main assumptions, based on past experiences and current initiatives, were the following:
– sales: annual growth between 4.6 and 5.2% over the first ten-year period;
– trading operating profit margin [(a)] evolution: steadily improving over the first four-year period, in a range of 120 to 160 basis points per year and then from a range of 40 to 50 basis points per year from year five to ten.

Sensitivity analyses

The key sensitivity for the impairment test is the growth in sales and trading operating profit margin [(a)]. Limiting annual growth to only 4.5% until 2021 and 0% thereafter would not result in the carrying amount exceeding the recoverable amount. Reaching 90% of the expectations in terms of trading operating profit margin [(a)] evolution, with cash flows remaining flat after year 10, would not result in the carrying amount exceeding the recoverable amount. An increase of 100 basis points in the discount rate assumption would not change the conclusions of the impairment test.

(a) Before net other trading income/(expenses).

9. Intangible assets

In millions of CHF	Brands and intellectual property rights	Operating rights and others	Management information systems	Total	of which internally generated
Gross value					
At 1 January 2011	6 231	1 050	3 787	**11 068**	3 486
of which indefinite useful life	5 689	—	—	**5 689**	—
Currency retranslations	23	(14)	(87)	**(78)**	(85)
Expenditure	13	113	121	**247**	97
Disposals	—	(104)	(2)	**(106)**	(2)
Modification of the scope of consolidation	1 846	51	(2)	**1 895**	(2)
At 31 December 2011	8 113	1 096	3 817	13 026	3 494
of which indefinite useful life	7 272	—	—	**7 272**	—
Currency retranslations	(123)	(25)	(62)	**(210)**	(55)
Expenditure	64	146	133	**343**	106
Disposals	(37)	(38)	(6)	**(81)**	—
Modification of the scope of consolidation	4 446	93	(2)	**4 537**	(2)
At 31 December 2012	12 463	1 272	3 880	17 615	3 543
of which indefinite useful life [(a)]	11 682	23	—	**11 705**	—
Accumulated amortisation and impairments					
At 1 January 2011	(283)	(321)	(2 736)	**(3 340)**	(2 510)
Currency retranslations	1	(1)	65	**65**	63
Amortisation	(44)	(67)	(392)	**(503)**	(371)
Disposals	—	104	2	**106**	2
Modification of the scope of consolidation	—	—	2	**2**	2
At 31 December 2011	(326)	(285)	(3 059)	(3 670)	(2 814)
Currency retranslations	3	5	48	**56**	43
Amortisation	(48)	(94)	(297)	**(439)**	(273)
Disposals	37	37	5	**79**	—
Modification of the scope of consolidation	—	—	2	**2**	2
At 31 December 2012	(334)	(337)	(3 301)	(3 972)	(3 042)
Net at 31 December 2011	7 787	811	758	9 356	680
Net at 31 December 2012	12 129	935	579	13 643	501

(a) Yearly impairment tests are performed in connection with goodwill impairment tests (refer to Note 8). Depending on the items tested, the CGU is equivalent to the CGU for goodwill impairment test or is at a lower level.

Internally generated intangible assets consist mainly of management information systems.

Commitments for expenditure

At 31 December 2012, the Group was committed to expenditure amounting to CHF 52 million (2011: CHF 35 million).

10. Employee benefits

Salaries and welfare expenses

The Group's total salaries and welfare expenses amount to CHF 14 915 million (2011: CHF 13 643 million). They are allocated to the appropriate headings of expenses by function.

Pensions and retirement benefits

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

Post-employment medical benefits and other employee benefits

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

10.1 Reconciliation of assets and liabilities recognised on the balance sheet

In millions of CHF			2012	2011	2010	2009	2008
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	**Total**	**Total**	**Total**	**Total**	**Total**
Present value of funded obligations	25 173	77	**25 250**	22 802	21 394	22 006	19 139
Fair value of plan assets	(20 667)	(50)	**(20 717)**	(19 568)	(19 852)	(19 545)	(17 228)
Excess of liabilities/(assets) over funded obligations	4 506	27	**4 533**	3 234	1 542	2 461	1 911
Present value of unfunded obligations	735	2 064	**2 799**	2 657	2 499	2 334	2 337
Unrecognised past service cost of non-vested benefits	(12)	16	**4**	9	9	(18)	7
Unrecognised assets and minimum funding requirements	30	—	**30**	81	35	62	91
Defined benefits net liabilities/(assets)	**5 259**	**2 107**	**7 366**	5 981	4 085	4 839	4 346
Liabilities from defined contribution plans and non-current deferred compensation			**1 037**	937	943	1 081	960
Liabilities from cash-settled share-based transactions [(a)]			**67**	60	86	99	98
Net liabilities			**8 470**	6 978	5 114	6 019	5 404
Reflected in the balance sheet as follows:							
Employee benefits assets			**(84)**	(127)	(166)	(230)	(60)
Employee benefits liabilities			**8 554**	7 105	5 280	6 249	5 464
Net liabilities			**8 470**	6 978	5 114	6 019	5 404

(a) The intrinsic value of liabilities from cash-settled share-based transactions that are vested amounts to CHF 25 million (2011: CHF 31 million; 2010: CHF 42 million; 2009: CHF 29 million; 2008: CHF 34 million).

10.2 Movement in fair value of defined benefit plan assets

In millions of CHF	2012			2011		
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	**Total**	Defined benefit retirement plans	Post-employment medical benefits and other benefits	**Total**
At 1 January	(19 526)	(42)	**(19 568)**	(19 805)	(47)	**(19 852)**
Currency retranslations	183	(2)	**181**	217	2	**219**
Expected return on plan assets	(1 324)	(2)	**(1 326)**	(1 328)	(2)	**(1 330)**
Employees' contributions	(124)	—	**(124)**	(117)	—	**(117)**
Employer contributions	(676)	(11)	**(687)**	(524)	(4)	**(528)**
Actuarial (gains)/losses	(338)	(1)	**(339)**	1 025	1	**1 026**
Benefits paid on funded defined benefit schemes	1 137	8	**1 145**	1 005	7	**1 012**
Modification of the scope of consolidation	(197)	—	**(197)**	—	—	—
Transfer (from)/to defined contribution plans	198	—	**198**	1	1	**2**
At 31 December	**(20 667)**	**(50)**	**(20 717)**	(19 526)	(42)	(19 568)

The plan assets of funded defined benefit schemes include property occupied by affiliated companies with a fair value of CHF 9 million (2011: CHF 13 million) and assets loaned to affiliated companies with a fair value of CHF 58 million (2011: CHF 34 million). Furthermore, funded defined benefit schemes are invested in Nestlé S.A. (or related shares) to the extent of CHF 46 million (2011: CHF 37 million). The Group's investment management principles allow such investment only when the position in Nestlé S.A. (or related shares) is passive, i.e. in line with the weighting in the underlying benchmark.

The actual return on plan assets of funded defined benefit schemes is positive in 2012 by CHF 1665 million (2011: positive by CHF 304 million). The Group expects to contribute CHF 715 million to its funded defined benefit schemes in 2013.

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

At 31 December	2012	2011
Equities	36%	36%
Bonds	31%	32%
Real estate	8%	7%
Alternative investments	21%	21%
Cash/Deposits	4%	4%

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

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

10.3 Movement in the present value of defined benefit obligations

In millions of CHF	2012			2011		
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	**Total**	Defined benefit retirement plans	Post-employment medical benefits and other benefits	**Total**
At 1 January	23 383	2 076	**25 459**	21 936	1 957	**23 893**
of which funded defined benefit schemes	22 733	69	**22 802**	21 320	74	**21 394**
of which unfunded defined benefit schemes	650	2 007	**2 657**	616	1 883	**2 499**
Currency retranslations	(252)	(90)	**(342)**	(231)	(65)	**(296)**
Current service cost	743	56	**799**	632	73	**705**
Interest cost	959	118	**1 077**	972	114	**1 086**
Early retirements, curtailments and settlements	(19)	(37)	**(56)**	(11)	(2)	**(13)**
Past service cost of vested benefits	(50)	(3)	**(53)**	(103)	(110)	**(213)**
Past service cost of non-vested benefits	—	(1)	**(1)**	1	(3)	**(2)**
Actuarial (gains)/losses	2 245	206	**2 451**	1 200	230	**1 430**
Benefits paid on funded defined benefit schemes	(1 137)	(8)	**(1 145)**	(1 005)	(7)	**(1 012)**
Benefits paid on unfunded defined benefit schemes	(42)	(142)	**(184)**	(35)	(115)	**(150)**
Modification of the scope of consolidation	266	(3)	**263**	30	1	**31**
Transfer from/(to) defined contribution plans	(188)	(31)	**(219)**	(3)	3	—
At 31 December	**25 908**	**2 141**	**28 049**	23 383	2 076	25 459
of which funded defined benefit schemes	25 173	77	**25 250**	22 733	69	**22 802**
of which unfunded defined benefit schemes	735	2 064	**2 799**	650	2 007	**2 657**

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

In millions of CHF			2012	2011	2010	2009	2008
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	**Total**	**Total**	**Total**	**Total**	**Total**
Experience adjustments on plan assets	338	1	**339**	(1 026)	610	744	(5 719)
Experience adjustments on plan liabilities	(44)	59	**15**	(253)	71	(303)	95
Change of assumptions on plan liabilities	(2 201)	(265)	**(2 466)**	(1 177)	(811)	(2 146)	1 471
Transfer from/(to) unrecognised assets and other	49	—	**49**	(47)	23	33	1 014
Actuarial gains/(losses) on defined benefit schemes	**(1 858)**	**(205)**	**(2 063)**	(2 503)	(107)	(1 672)	(3 139)

At 31 December 2012, the net cumulative actuarial losses on defined benefit schemes recognised in equity amount to CHF 9763 million (2011: CHF 7859 million).

10.5 Expenses recognised in the income statement

In millions of CHF			2012			2011
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	**Total**	Defined benefit retirement plans	Post-employment medical benefits and other benefits	**Total**
Current service cost	743	56	**799**	632	73	**705**
Employee contributions	(124)	—	**(124)**	(117)	—	**(117)**
Interest cost	959	118	**1 077**	972	114	**1 086**
Expected return on plan assets	(1 324)	(2)	**(1 326)**	(1 328)	(2)	**(1 330)**
Early retirements, curtailments and settlements	(19)	(37)	**(56)**	(11)	(2)	**(13)**
Past service cost of vested benefits	(50)	(3)	**(53)**	(103)	(110)	**(213)**
Past service cost of non-vested benefits	—	(4)	**(4)**	1	(1)	**—**
Total defined benefit expenses	**185**	**128**	**313**	**46**	**72**	**118**
Total defined contribution expenses			**305**			**240**
Total			**618**			**358**

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

10.6 Principal financial actuarial assumptions

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

At 31 December	2012	2011
Discount rates		
Europe	3.1%	3.5%
Americas	4.9%	5.7%
Asia, Oceania and Africa	4.5%	4.7%
Expected long-term rates of return on plan assets		
Europe	5.6%	6.0%
Americas	7.7%	8.8%
Asia, Oceania and Africa	6.8%	7.1%
Expected rates of salary increases		
Europe	2.8%	2.9%
Americas	2.9%	3.0%
Asia, Oceania and Africa	4.2%	3.6%
Expected rates of pension adjustments		
Europe	1.8%	1.8%
Americas	1.0%	0.9%
Asia, Oceania and Africa	1.8%	1.7%
Medical cost trend rates		
Americas	7.0%	7.0%

10.7 Mortality tables and life expectancies for the major schemes

Country	Mortality table	Life expectancy at age 65 for a male member currently aged 65 (in years)		Life expectancy at age 65 for a female member currently aged 65 (in years)	
At 31 December		2012	2011	2012	2011
Switzerland	LPP 2010	19.0	19.0	21.5	21.5
United Kingdom	S1NA 2008, CMI 2009	21.5	20.8	22.3	21.7
United States	RP–2000	19.2	19.1	21.0	21.0
Germany	Heubeck Richttafeln 1998	21.3	21.3	22.8	22.8
Netherlands	AG Prognosetafel 2012–2062	21.4	21.3	23.8	23.9

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

10.8 Sensitivity analysis on medical cost trend rates

A one percentage point increase in assumed medical cost trend rates would increase the defined benefit obligations by CHF 184 million and increase the aggregate of current service cost and interest cost by CHF 18 million.

A one percentage point decrease in assumed medical cost trend rates would decrease the defined benefit obligations by CHF 144 million and decrease the aggregate of current service cost and interest cost by CHF 12 million.

11. Equity compensation plans

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

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

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

In millions of CHF	2012	2011
Equity-settled share-based payment costs	157	158
Cash-settled share-based payment costs	43	21
Total share-based payment costs	**200**	**179**

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

In millions of CHF	2012	2011
RSUP	182	166
MSOP	9	9
PSUP	7	8
SAR	2	(4)
Total share-based payment costs	**200**	**179**

11.1 Restricted Stock Unit Plan (RSUP)

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

Number of RSU in millions of units	2012	2011
Outstanding at 1 January	10.6	10.7
Granted	3.7	3.5
Settled	(4.2)	(3.4)
Forfeited	(0.1)	(0.2)
Outstanding at 31 December	**10.0**	**10.6**
of which vested at 31 December	0.4	0.5
of which cash-settled at 31 December	1.6	1.4

The fair value of equity-settled RSU is determined on the basis of the market price of Nestlé S.A. shares at grant date, discounted at a risk-free interest rate and adjusted for the dividends that participants are not entitled to receive during the restricted period of three years. The weighted average fair value of the equity-settled RSU granted in 2012 is CHF 49.65 (2011: CHF 48.75).

For cash-settled outstanding RSU, the liability is re-measured at each reporting date based on subsequent changes in the market price of Nestlé S.A. shares. The average fair value of the cash-settled RSU outstanding at 31 December 2012 is CHF 57.72 (2011: CHF 52.23).

11.2 Management Stock Option Plan (MSOP)

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

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

	2012	2011	2012	2011
	Weighted average exercise price	Weighted average exercise price	Number of options	Number of options
Outstanding at 1 January	46.25	42.16	7.9	8.3
Granted	55.57	52.58	1.8	1.4
Exercised	39.89	32.85	(1.5)	(1.8)
Forfeited	55.57	—	(0.1)	—
Outstanding at 31 December	**49.43**	**46.25**	**8.1**	**7.9**
of which exercisable at 31 December	43.14	43.38	3.3	2.7

At 31 December 2012, the exercise prices of the outstanding options range from CHF 37.95 to CHF 55.57 and their weighted average remaining contractual life is 4 years. Those options can be divided as follows: 3.4 million options are exercisable at prices ranging from CHF 37.95 to CHF 50.– with a weighted average remaining contractual life of 2.3 years and 4.7 million at prices ranging from CHF 50.– to CHF 55.57 with a remaining contractual life of 5.2 years.

The fair value of the options granted in 2012 is CHF 4.54 (2011: CHF 5.54) and was estimated using a Black and Scholes model. The inputs to the model at grant date were as follows:

	2012	2011
Market price of Nestlé S.A. shares (in CHF)	55.30	52.60
Exercise price (in CHF)	55.57	52.58
Expected volatility	17.90%	18.42%
Expected dividend yield	3.53%	3.52%
Risk-free interest rate	0.36%	1.59%
Grant date	01/03/2012	03/03/2011
Expiry date	28/02/2019	02/03/2018

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

In 2012, the weighted average market price of Nestlé S.A. shares at the date of exercise was CHF 58.15 (2011: CHF 52.86).

11.3 Performance Share Unit Plan (PSUP)

Under the Performance Share Unit Plan (PSUP), members of the Executive Board are also awarded units (PSU) which entitle participants to receive freely disposable Nestlé S.A. shares (accounted for as equity-settled share-based payment transactions) at the end of a three-year restriction period. Upon vesting, the number of shares delivered ranges from 0% to 200% of the initial grant and is determined by the degree by which the performance measure of the PSUP has been met. The performance measure is the relative Total Shareholder Return of the Nestlé S.A. share compared to the STOXX Europe 600 Food & Beverage Index. For the grant of PSU in 2012, a second performance measure was introduced, the growth of the underlying earnings per share in constant currencies. Thus, from 2012 onwards, each of the two measures will have equal weighting in determining the vesting level of the initial PSU award.

Number of PSU in millions of units	2012	2011
Outstanding at 1 January	0.3	0.3
Granted	0.1	0.1
Settled	(0.1)	(0.1)
Forfeited	—	—
Outstanding at 31 December	**0.3**	**0.3**

The fair value of the PSU granted in 2012 is CHF 54.62 (2011: CHF 53.63) and was estimated at the grant date using a Monte Carlo simulation approach. The inputs incorporated into the valuation model comprise the market price of Nestlé S.A. shares at grant date, a risk-free interest rate and the expected dividends that participants are not entitled to receive during the restricted period of three years.

11.4 Share Appreciation Rights (SAR)

Key members of Management of some US affiliates were awarded Share Appreciation Rights (SAR). Those plans gave the right, upon exercise, to the payment in cash of the difference between the market price of a Nestlé S.A. share and the exercise price (accounted for as cash-settled share-based payment transactions). All the remaining rights outstanding at 31 December 2011 were exercised at the beginning of 2012.

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

	2012	2011	2012	2011
	Weighted average exercise price	Weighted average exercise price	Number of SAR	Number of SAR
Outstanding at 1 January	29.69	29.70	0.1	0.6
Granted	—	—	—	—
Exercised	29.69	28.39	(0.1)	(0.5)
Forfeited	—	—	—	—
Outstanding at 31 December	**—**	**29.69**	**—**	**0.1**
of which exercisable at 31 December	—	29.69	—	0.1

In 2012, the weighted average market price of Nestlé S.A. shares at the date of exercise was CHF 53.68 (2011: CHF 51.70).

12. Provisions and contingencies

12.1 Provisions

In millions of CHF	Restructuring	Environmental	Litigation	Other	**Total**
At 1 January 2011	798	29	2 773	511	**4 111**
Currency retranslations	(33)	—	(39)	(16)	**(88)**
Provisions made during the year [(a)]	115	5	194	162	**476**
Amounts used	(187)	(5)	(85)	(146)	**(423)**
Unused amounts reversed	(61)	(2)	(327)	(34)	**(424)**
Modification of the scope of consolidation	—	—	18	—	**18**
At 31 December 2011	**632**	**27**	**2 534**	**477**	**3 670**
of which expected to be settled within 12 months					**576**
Currency retranslations	2	(1)	(56)	(17)	**(72)**
Provisions made during the year [(a)]	92	1	387	142	**622**
Amounts used	(189)	(6)	(199)	(117)	**(511)**
Unused amounts reversed	(59)	(2)	(323)	(42)	**(426)**
At 31 December 2012	**478**	**19**	**2 343**	**443**	**3 283**
of which expected to be settled within 12 months					**441**

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

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

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

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

12.2 Contingencies

The Group is exposed to contingent liabilities amounting to a maximum potential payment of CHF 1879 million (2011: CHF 1363 million) representing potential litigations of CHF 1870 million (2011: CHF 1344 million) and other items of CHF 9 million (2011: CHF 19 million). Potential litigations relate mainly to labour, civil and tax litigations in Latin America.

Contingent assets for litigation claims in favour of the Group amount to a maximum potential recoverable of CHF 190 million (2011: CHF 281 million).

13. Net financing cost and financial instruments

13.1 Net financing cost

In millions of CHF	2012	2011
Interest income	75	87
Gains on instruments at fair value to income statement	35	28
Financial income	**110**	**115**
Interest expense	(568)	(527)
Unwind of the discount on provisions	(23)	(9)
Financial expense	**(591)**	**(536)**
Total net financing cost	**(481)**	**(421)**

13.2 Financial assets and liabilities

13.2a By class and by category

	2012				2011			
Classes	Loans, Receivables and Liabilities at amortised cost [a]	Held for trading	Available for sale	**Total categories**	Loans, Receivables and Liabilities at amortised cost [a]	Held for trading	Available for sale	**Total categories**
Cash at bank and in hand	3 618			**3 618**	3 591			**3 591**
Commercial paper and bills			462	**462**			474	**474**
Time deposits			2 258	**2 258**			2 085	**2 085**
Trading portfolios		568		**568**		553		**553**
Bonds			1 012	**1 012**			1 274	**1 274**
Equity instruments			944	**944**			—	**—**
Other financial assets – current			563	**563**			11	**11**
Liquid assets [b]	3 618	568	5 239	**9 425**	3 591	553	3 844	**7 988**
Trade and other receivables	13 404			**13 404**	13 340			**13 340**
Bonds			2 186	**2 186**			3 026	**3 026**
Equity instruments			1 091	**1 091**			1 737	**1 737**
Other financial assets – non-current	435		1 291	**1 726**	438		1 960	**2 398**
Financial assets – non-current	435		4 568	**5 003**	438		6 723	**7 161**
Derivative assets [c]		586		**586**		731		**731**
Total financial assets	**17 457**	**1 154**	**9 807**	**28 418**	**17 369**	**1 284**	**10 567**	**29 220**
Trade and other payables	(16 646)			**(16 646)**	(15 703)			**(15 703)**
Financial debt	(27 577)			**(27 577)**	(22 307)			**(22 307)**
Derivative liabilities [c]		(428)		**(428)**		(646)		**(646)**
Total financial liabilities	**(44 223)**	**(428)**	**—**	**(44 651)**	**(38 010)**	**(646)**	**—**	**(38 656)**
Net financial position	**(26 766)**	**726**	**9 807**	**(16 233)**	**(20 641)**	**638**	**10 567**	**(9 436)**
of which at fair value		726	9 807	**10 533**		638	10 567	**11 205**

(a) Carrying amount of these instruments is a reasonable approximation of their fair value. For bonds included in financial debt, see section 13.2c.
(b) Liquid assets are composed of cash and cash equivalents (CHF 5840 million) and short-term investments (CHF 3585 million).
(c) Include derivatives that are undesignated and under hedge accounting.

13.2b Fair value hierarchy of financial instruments

In millions of CHF	2012	2011
Trading portfolios	568	551
Derivative assets	13	18
Bonds	1 150	2 366
Equity instruments	1 620	1 433
Other financial assets	369	405
Derivative liabilities	(93)	(244)
Prices quoted in active markets (Level 1)	**3 627**	**4 529**
Commercial paper and bills	462	474
Time deposits	2 258	2 085
Derivative assets	573	713
Bonds	2 010	1 908
Other financial assets	1 286	1 313
Derivative liabilities	(335)	(402)
Valuation techniques based on observable market data (Level 2)	**6 254**	**6 091**
Other financial assets	652	585
Valuation techniques based on unobservable input (Level 3)	**652**	**585**
Total financial instruments at fair value	**10 533**	**11 205**

There have been no significant transfers between the different hierarchy levels in 2012.

13.2c Bonds

In millions of CHF						2012	2011
Issuer	Face value in millions	Coupon	Effective interest rate	Year of issue/ maturity	Comments	Carrying amount	
Nestlé Holdings, Inc., USA	CHF 675	3.00%	2.86%	2007–2012			687
	AUD 350	6.00%	6.24%	2009–2013	(a)	332	333
	CHF 450	2.50%	2.57%	2006–2013	(b)	458	468
	USD 275	2.00%	2.26%	2009–2013	(c)	252	259
	USD 550	2.13%	2.13%	2010–2014		503	517
	AUD 275	5.50%	5.69%	2011–2016	(b)	276	270
	USD 200	2.00%	2.06%	2011–2016		183	188
	NOK 1000	3.38%	3.59%	2011–2016	(b)	167	156
	AUD 200	4.00%	4.11%	2012–2017	(a)	189	
	NOK 1000	2.25%	2.31%	2012–2017	(a)	163	
	NOK 3000	2.50%	2.66%	2012–2017	(a)	488	
	USD 900	1.38%	1.46%	2012–2017		820	
	CHF 250	2.63%	2.66%	2007–2018	(b)	278	276
	USD 500	1.25%	1.32%	2012–2018		456	
Nestlé Purina PetCare Company, USA	USD 48	7.75%	6.25%	1995–2015		45	47
	USD 63	9.30%	6.46%	1991–2021		68	71
	USD 79	8.63%	6.46%	1992–2022		83	86
	USD 44	8.13%	6.47%	1993–2023		45	47
	USD 51	7.88%	6.45%	1995–2025		52	54
Nestlé Finance International Ltd, Luxembourg	CHF 1075	1.25%	1.40%	2009–2012			1 076
	CHF 1200	2.00%	2.04%	2009–2013	(d)	1 200	1 199
	CHF 425	2.00%	2.03%	2009–2014		425	425
	CHF 275	2.13%	2.13%	2009–2014	(d)	275	275
	AUD 450	5.75%	5.81%	2010–2014	(b)	445	444
	NOK 1250	2.50%	2.73%	2010–2014	(b)	205	192
	CHF 350	2.13%	2.20%	2009–2015	(d)	349	349
	EUR 500	0.75%	0.83%	2012–2016		600	
	AUD 125	4.63%	4.86%	2012–2017	(a)	118	
	EUR 500	1.50%	1.61%	2012–2019		602	
	EUR 850	1.75%	1.89%	2012–2022		1 013	
	GBP 400	2.25%	2.34%	2012–2023	(e)	590	
Other bonds						57	90
Total						**10 737**	**7 509**
of which due within one year						2 263	1 788
of which due after one year						8 474	5 721

The fair value of bonds amounts to CHF 11 039 million (2011: CHF 7866 million). This value includes accrued interest of CHF 105 million (2011: CHF 88 million).

Most of the bonds are hedged by currency and/or interest derivatives. The fair value of these derivatives is shown under derivative assets for CHF 483 million (2011: CHF 544 million) and under derivative liabilities for CHF 3 million (2011: CHF 7 million).

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

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

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

(d) Subject to currency swaps that hedge the CHF face value and coupon exposure.

(e) Subject to an interest rate swap.

13.2d Derivative assets and liabilities
By type

In millions of CHF	2012			2011		
	Contractual or notional amounts	Fair value assets	Fair value liabilities	Contractual or notional amounts	Fair value assets	Fair value liabilities
Fair value hedges						
Currency forwards, futures and swaps	5 138	5	40	7 730	108	3
Interest rate forwards, futures and swaps	706	2	1	901	12	3
Interest rate and currency swaps	3 234	490	—	3 257	502	26
Cash flow hedges						
Currency forwards, futures, swaps and options	5 197	63	34	4 920	87	95
Interest rate forwards, futures and swaps	2 461	—	242	2 730	—	250
Commodity futures and options	1 574	13	90	1 935	17	237
Undesignated derivatives						
Currency forwards, futures, swaps and options	1 471	13	4	1 256	4	8
Interest rate forwards, futures, swaps and options	96	—	14	187	—	17
Commodity futures and options	8	—	3	8	1	7
	19 885	**586**	**428**	**22 924**	**731**	**646**

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 hedge accounting and are therefore classified as undesignated derivatives.

Impact on the income statement of fair value hedges

In millions of CHF	2012	2011
on hedged items	(346)	(82)
on hedging instruments	334	74

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

13.3 Financial risks

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

Financial risk management is an integral part of the way the Group is managed. The Board of Directors determines the financial control principles as well as the principles of financial planning. The Chief Executive Officer organises, manages and monitors all financial asset and liability matters. The Asset and Liability Management Committee (ALMC), under the supervision of the Chief Financial Officer, is the governing body for the establishment and subsequent execution of the Nestlé Group's Financial Asset and Liability Management Policy. It ensures implementation of strategies and achievement of objectives of the Group's financial asset and liabilities management, which are executed by the Centre Treasury, the Regional Treasury Centres and, in specific local circumstances, by the affiliated companies. The activities of the Centre Treasury and of the Regional Treasury Centres are supervised by an independent Middle Office, which verifies the compliance of the strategies proposed and/or operations executed within the approved guidelines and limits set by the ALMC. Approved Treasury Management Guidelines define and classify risks as well as determine, by category of transaction, specific approval, limit and monitoring procedures. In accordance with the aforementioned policies, the Group only enters into derivative transactions relating to assets, liabilities or anticipated future transactions.

13.3a Credit risk

Credit risk management

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

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

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

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

Credit rating of financial assets

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

In millions of CHF	2012	2011
Investment grade A– and above	9 404	11 356
Investment grade BBB+, BBB and BBB–	2 582	1 881
Non-investment grade (BB+ and below)	497	171
Not rated [a]	2 096	2 034
	14 579	**15 442**

(a) Mainly equity securities and other investments for which no credit rating is available.

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

13.3b Liquidity risk

Liquidity risk management

Liquidity risk arises when a company encounters difficulties to meet commitments associated with liabilities and other payment obligations. Such risk may result from inadequate market depth or disruption or refinancing problems. The Group's objective is to manage this risk by limiting exposures in instruments that may be affected by liquidity problems and by maintaining sufficient back-up facilities. The Group does not expect any refinancing issues and has successfully completed a EUR 5.0 billion one year revolving credit facility replacing an older facility of EUR 4.5 billion. The facility currently serves primarily as a backstop to its commercial paper programmes. In total, the Group's revolving credit facilities amount to EUR 10.0 billion. In addition, in July 2012, the Group entered into a bridge credit facility of 1 year amounting to the equivalent of USD 8.5 billion, as a consequence of the Wyeth Nutrition acquisition. As of 31 December 2012, the bridge had been reduced to the equivalent of USD 7.0 billion.

Contractual maturities of financial liabilities and derivatives

In millions of CHF

		In the first year	In the second year	In the third to the fifth year	After the fifth year	Contractual amount	Carrying amount
2012	**Financial assets**						**27 832**
	Trade and other payables	**(14 455)**	**(1 099)**	**(73)**	**(1 155)**	**(16 782)**	**(16 646)**
	Commercial paper [(a)]	(13 503)				(13 503)	(13 490)
	Bonds [(a)]	(2 505)	(2 051)	(3 823)	(3 441)	(11 820)	(10 737)
	Other financial debt	(2 918)	(172)	(372)	(116)	(3 578)	(3 350)
	Total financial debt	**(18 926)**	**(2 223)**	**(4 195)**	**(3 557)**	**(28 901)**	**(27 577)**
	Financial liabilities	**(33 381)**	**(3 322)**	**(4 268)**	**(4 712)**	**(45 683)**	**(44 223)**
	Non-currency derivative assets	15	—	—	—	15	15
	Non-currency derivative liabilities	(161)	(37)	(92)	(69)	(359)	(350)
	Gross amount receivable from currency derivatives	12 689	909	1 535	257	15 390	15 174
	Gross amount payable from currency derivatives	(12 431)	(777)	(1 374)	(186)	(14 768)	(14 681)
	Net derivatives	**112**	**95**	**69**	**2**	**278**	**158**
	Net financial position						**(16 233)**
	of which derivatives under cash flow hedges [(b)]	(124)	(43)	(92)	(36)	(295)	(290)
2011	**Financial assets**						28 489
	Trade and other payables	(13 584)	(48)	(1 095)	(1 123)	(15 850)	(15 703)
	Commercial paper [(a)]	(10 540)				(10 540)	(10 535)
	Bonds [(a)]	(1 985)	(2 419)	(3 119)	(626)	(8 149)	(7 509)
	Other financial debt	(3 931)	(195)	(170)	(228)	(4 524)	(4 263)
	Total financial debt	(16 456)	(2 614)	(3 289)	(854)	(23 213)	(22 307)
	Financial liabilities	(30 040)	(2 662)	(4 384)	(1 977)	(39 063)	(38 010)
	Non-currency derivative assets	29	2	—	—	31	30
	Non-currency derivative liabilities	(326)	(72)	(91)	(36)	(525)	(514)
	Gross amount receivable from currency derivatives	14 869	960	1 152	263	17 244	17 058
	Gross amount payable from currency derivatives	(14 644)	(758)	(1 004)	(196)	(16 602)	(16 489)
	Net derivatives	(72)	132	57	31	148	85
	Net financial position						(9 436)
	of which derivatives under cash flow hedges [(b)]	(307)	(69)	(77)	(36)	(489)	(478)

(a) Commercial paper of CHF 7711 million (2011: CHF 7576 million) and bonds of CHF 290 million (2011: CHF 54 million) have maturities of less than three months.
(b) The periods when the cash flow hedges affect the income statement do not differ significantly from the maturities disclosed above.

13.3c Market risk

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

Foreign currency risk

Foreign currency risk management

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

Exchange differences recorded in the income statement represented a loss of CHF 84 million in 2012 (2011: loss of CHF 113 million). They are allocated to the appropriate headings of expenses by function.

Financial instruments by currency

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

In millions of CHF							2012
				Currency of financial instruments			
Functional currencies	CHF	USD	EUR	GBP	CAD	Other	**Total**
CHF		235	262	181	43	94	**815**
USD	(8)		(64)	(1)	(39)	633	**521**
EUR	(27)	37		(272)	(3)	30	**(235)**
GBP	(9)	8	3		—	—	**2**
Other exposed	(117)	(566)	(364)	(28)	—	(54)	**(1 129)**
Total exposed	**(161)**	**(286)**	**(163)**	**(120)**	**1**	**703**	**(26)**
Not exposed	(91)	(7 831)	(4 854)	(1 409)	(367)	(1 655)	**(16 207)**
Total	**(252)**	**(8 117)**	**(5 017)**	**(1 529)**	**(366)**	**(952)**	**(16 233)**

In millions of CHF							2011
				Currency of financial instruments			
Functional currencies	CHF	USD	EUR	GBP	CAD	Other	**Total**
CHF		378	104	(78)	131	101	**636**
USD	2		(28)	(5)	(50)	575	**494**
EUR	(50)	24		(1)	(5)	7	**(25)**
GBP	(12)	5	21		—	—	**14**
Other exposed	(140)	(828)	(217)	(34)	(3)	(51)	**(1 273)**
Total exposed	**(200)**	**(421)**	**(120)**	**(118)**	**73**	**632**	**(154)**
Not exposed	1 447	(2 082)	(5 196)	(455)	(371)	(2 625)	**(9 282)**
Total	**1 247**	**(2 503)**	**(5 316)**	**(573)**	**(298)**	**(1 993)**	**(9 436)**

Interest rate risk

Interest risk management

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

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

In millions of CHF	2012	2011
Financial debt at variable rates	2 001	2 042
Financial debt at fixed rates	7 008	4 165
	9 009	**6 207**

Price risk

Commodity price risk

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

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

Equity price risk

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

13.3d Settlement risk

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

13.3e Value at Risk (VaR)

Description of the method

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

Objective of the method

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

VaR figures

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

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

In millions of CHF	2012	2011
Foreign currency	2	3
Interest rate	1	4
Security price	237	144
Foreign currency, interest rate and security price combined	233	122

The estimated potential one-day loss from the Group's commodity price risk sensitive instruments, as calculated using the above described historic VaR model, is not significant.

13.3f Capital risk management

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

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

The operating cash flow-to-net financial debt ratio highlights the ability of a business to repay its debts. As at 31 December 2012, the ratio was 86.9% (2011: 71.1% [a]). The Group's subsidiaries have complied with local statutory capital requirements as appropriate.

(a) 2011 comparative has been restated following the changes in the cash flow statement described in Note 1 – Accounting policies.

14. Taxes

14.1 Taxes recognised in the income statement

In millions of CHF	2012	2011
Components of taxes		
Current taxes [(a)]	3 179	2 554
Deferred taxes	(229)	(301)
Taxes reclassified to other comprehensive income	501	859
Total taxes	**3 451**	**3 112**

Reconciliation of taxes		
Expected tax expense at weighted average applicable tax rate	3 413	3 054
Tax effect of non-deductible or non-taxable items	(206)	(202)
Prior years' taxes	(368)	(215)
Transfers to unrecognised deferred tax assets	49	83
Transfers from unrecognised deferred tax assets	(13)	(123)
Changes in tax rates	(1)	23
Withholding taxes levied on transfers of income	374	313
Other	203	179
Total taxes	**3 451**	**3 112**

(a) Current taxes related to prior years represent a tax income of CHF 32 million (2011: tax expense of CHF 35 million).

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

14.2 Taxes recognised in other comprehensive income

In millions of CHF	2012	2011
Tax effects relating to		
Currency retranslations	41	64
Fair value adjustments on available-for-sale financial instruments	(24)	(29)
Fair value adjustments on cash flow hedges	(49)	159
Actuarial gains/(losses) on defined benefit schemes	533	665
	501	**859**

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

In millions of CHF	Property, plant and equipment	Goodwill and intangible assets	Employee benefits	Inventories, receivables, payables and provisions	Unused tax losses and unused tax credits	Other	**Total**
At 1 January 2011	(1 093)	(1 166)	1 726	837	318	(82)	**540**
Currency retranslations	5	(12)	(24)	(24)	(15)	4	**(66)**
Deferred tax (expense)/income	(223)	(46)	408	10	62	90	**301**
Modification of the scope of consolidation	(36)	(360)	10	14	1	12	**(359)**
At 31 December 2011	**(1 347)**	**(1 584)**	**2 120**	**837**	**366**	**24**	**416**
Currency retranslations	37	27	(65)	(28)	(28)	2	**(55)**
Deferred tax (expense)/income	(154)	(91)	386	64	57	(33)	**229**
Modification of the scope of consolidation	(11)	(3)	(2)	17	—	36	**37**
At 31 December 2012	**(1 475)**	**(1 651)**	**2 439**	**890**	**395**	**29**	**627**

In millions of CHF	2012	2011
Reflected in the balance sheet as follows:		
Deferred tax assets	2 903	2 476
Deferred tax liabilities	(2 276)	(2 060)
Net assets	**627**	**416**

14.4 Unrecognised deferred taxes

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

In millions of CHF	2012	2011
Within one year	43	20
Between one and five years	317	314
More than five years	1 909	1 479
	2 269	**1 813**

At 31 December 2012, the unrecognised deferred tax assets amount to CHF 537 million (2011: CHF 464 million). In addition, the Group has not recognised deferred tax liabilities in respect of unremitted earnings that are considered indefinitely reinvested in foreign subsidiaries. At 31 December 2012, these earnings amount to CHF 15.6 billion (2011: CHF 12.9 billion). They could be subject to withholding and other taxes on remittance.

15. Associates

In millions of CHF	2012	2011
At 1 January	8 629	7 914
Currency retranslations	(60)	(240)
Investments	86	60
Share of results	1 060	866
Dividends received	(446)	(417)
Share of other comprehensive income	497	456
Other	80	(10)
At 31 December	**9 846**	**8 629**
of which L'Oréal	8 785	7 708

15.1 L'Oréal

The Group holds 178 381 021 shares in L'Oréal, representing a 29.8% participation in its equity after consideration of its own shares (2011: 178 381 021 shares representing a 30.0% participation). At 31 December 2012, the market value of the shares held amounts to CHF 22 588 million (2011: CHF 17 514 million).

15.2 Key financial data of the main associates

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

In millions of CHF	2012	2011
Total current assets	10 622	10 023
Total non-current assets	26 567	24 081
Total assets	**37 189**	**34 104**
Total current liabilities	8 329	9 263
Total non-current liabilities	2 756	2 621
Total liabilities	**11 085**	**11 884**
Total equity	**26 104**	**22 220**
Total sales	**28 494**	**26 469**
Total results	**3 480**	**2 969**

16. Earnings per share

	2012	2011
Basic earnings per share (in CHF)	3.33	2.97
Net profit (in millions of CHF)	10 611	9 487
Weighted average number of shares outstanding (in millions of units)	3 186	3 196
Diluted earnings per share (in CHF)	3.32	2.96
Net profit, net of effects of dilutive potential ordinary shares (in millions of CHF)	10 611	9 487
Weighted average number of shares outstanding, net of effects of dilutive potential ordinary shares (in millions of units)	3 195	3 205
Reconciliation of weighted average number of shares outstanding (in millions of units)		
Weighted average number of shares outstanding used to calculate basic earnings per share	3 186	3 196
Adjustment for share-based payment schemes, where dilutive	9	9
Weighted average number of shares outstanding used to calculate diluted earnings per share	3 195	3 205

17. Cash flow statement

17.1 Operating profit

In millions of CHF	2012	2011
Profit for the year	11 060	9 804
Share of results of associates	(1 060)	(866)
Taxes	3 451	3 112
Financial income	(110)	(115)
Financial expense	591	536
Operating profit	**13 932**	**12 471**

17.2 Non-cash items of income and expense

In millions of CHF	2012	2011 (a)
Depreciation of property, plant and equipment	2 711	2 422
Impairment of property, plant and equipment	75	150
Impairment of goodwill	14	16
Amortisation of intangible assets	439	503
Net result on disposal of businesses	(102)	3
Net result on disposal of assets	51	25
Non-cash items in financial assets and liabilities	(47)	27
Equity compensation plans	157	158
Other	18	31
Non-cash items of income and expense	**3 316**	**3 335**

(a) 2011 comparatives have been restated following the changes in the cash flow statement described in Note 1 – Accounting policies.

17.3 Decrease/(increase) in working capital

In millions of CHF	2012	2011 [(a)]
Inventories	268	(1 280)
Trade receivables	(219)	(628)
Trade payables	807	497
Other current assets	122	(733)
Other current liabilities	1 010	161
	1 988	**(1 983)**

(a) 2011 comparatives have been restated following the changes in the cash flow statement described in Note 1 – Accounting policies.

17.4 Variation of other operating assets and liabilities

In millions of CHF	2012	2011 [(a)]
Variation of employee benefits assets and liabilities	(460)	(602)
Variation of provisions	(50)	(177)
Other	135	19
	(375)	**(760)**

(a) 2011 comparatives have been restated following the changes in the cash flow statement described in Note 1 – Accounting policies.

17.5 Net cash flows from treasury activities

In millions of CHF	2012	2011
Interest paid	(570)	(491)
Interest and dividends received	116	49
Net cash flows from derivatives used to hedge foreign operations	133	(311)
Net cash flows from trading derivatives	(13)	8
	(334)	**(745)**

17.6 Reconciliation of free cash flow and net financial debt

In millions of CHF	2012	2011
Operating cash flow	15 772	10 180
Capital expenditure	(5 368)	(4 779)
Expenditure on intangible assets	(343)	(247)
Sale of property, plant and equipment	130	111
Investments (net of disinvestments) in associates	(86)	(60)
Other investing cash flows	(226)	(448)
Free cash flow	**9 879**	**4 757**
Acquisition of businesses	(10 918)	(3 742)
Financial liabilities and short-term investments acquired in business combinations	(8)	(76)
Disposal of businesses	144	7
Acquisition (net of disposal) of non-controlling interests	(165)	(40)
Dividend paid to shareholders of the parent	(6 213)	(5 939)
Purchase of treasury shares	(532)	(5 480)
Sale of treasury shares	1 199	527
Reclassification of financial investments from non-current financial assets to net financial debt	2 841	1 274
Outflows from non-current financial investments	(192)	(1 802)
Dividends paid to non-controlling interests	(204)	(226)
Cash inflows from hedging derivatives on net debt	250	394
Currency retranslations and exchange differences	44	(140)
Other movements	42	21
(Increase)/decrease of net financial debt	**(3 833)**	**(10 465)**
Net financial debt at beginning of year	(14 319)	(3 854)
Net financial debt at end of year	**(18 152)**	**(14 319)**

17.7 Cash and cash equivalents at end of year

In millions of CHF	2012	2011
Cash at bank and in hand	3 618	3 591
Time deposits [(a)]	1 807	1 334
Commercial paper [(a)]	415	13
	5 840	**4 938**

(a) With maturity of three months or less as from the initial recognition.

18. Equity

18.1 Share capital issued

The ordinary share capital of Nestlé S.A. authorised, issued and fully paid is composed of 3 224 800 000 registered shares with a nominal value of CHF 0.10 each (2011: 3 300 000 000 registered shares). Each share confers the right to one vote. No shareholder may be registered with the right to vote for shares which it holds, directly or indirectly, in excess of 5% of the share capital. Shareholders have the right to receive dividends.

The share capital changed twice in the last two financial years as a consequence of the Share Buy-Back Programmes. The cancellation of shares was approved at the Annual General Meetings of 14 April 2011 and 19 April 2012. In 2011, the share capital was reduced by 165 000 000 shares from CHF 347 million to CHF 330 million. In 2012, the share capital was further reduced by 75 200 000 shares from CHF 330 million to CHF 322 million.

18.2 Conditional share capital

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

18.3 Treasury shares

Number of shares in millions of units	Notes	2012	2011
Purpose of holding			
Trading		18	34
Share Buy-Back Programme		—	75
Long-Term Incentive Plans	11	18	19
		36	**128**

At 31 December 2012, the treasury shares held by the Group represent 1.1% of the share capital (2011: 3.9%). Their market value amounts to CHF 2160 million (2011: CHF 6913 million).

18.4 Number of shares outstanding

Number of shares in millions of units

	Shares issued	Treasury shares	Outstanding shares
At 1 January 2011	3 465	(208)	3 257
Purchase of treasury shares		(99)	(99)
Sale of treasury shares		9	9
Treasury shares delivered in respect of options exercised		2	2
Treasury shares delivered in respect of equity compensation plans		3	3
Treasury shares cancelled	(165)	165	—
At 31 December 2011	3 300	(128)	3 172
Purchase of treasury shares		(9)	**(9)**
Sale of treasury shares		20	**20**
Treasury shares delivered in respect of options exercised		2	**2**
Treasury shares delivered in respect of equity compensation plans		4	**4**
Treasury shares cancelled	(75)	75	**—**
At 31 December 2012	**3 225**	**(36)**	**3 189**

18.5 Translation reserve

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

18.6 Retained earnings and other reserves

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

The fair value reserve includes the gains and losses on remeasuring available-for-sale financial instruments. At 31 December 2012, the reserve is CHF 573 million positive (2011: CHF 254 million positive).

The hedging reserve consists of the effective portion of the gains and losses on hedging instruments related to hedged transactions that have not yet occurred. At 31 December 2012, the reserve is CHF 277 million negative (2011: CHF 447 million negative).

18.7 Non-controlling interests

The non-controlling interests comprise the portion of equity of subsidiaries that are not owned, directly or indirectly, by Nestlé S.A.

18.8 Other comprehensive income

In millions of CHF

		Translation reserve	Retained earnings and other reserves	Total attributable to shareholders of the parent	Non-controlling interests	**Total**
2012	Currency retranslations	(996)		**(996)**	(56)	**(1 052)**
	Fair value adjustments on available-for-sale financial instruments		325	**325**	—	**325**
	Fair value adjustments on cash flow hedges		162	**162**	—	**162**
	Actuarial gains/(losses) on defined benefit schemes		(2 063)	**(2 063)**	—	**(2 063)**
	Share of other comprehensive income of associates		497	**497**		**497**
	Taxes		501	**501**	—	**501**
	Other comprehensive income for the year	**(996)**	**(578)**	**(1 574)**	**(56)**	**(1 630)**
2011	Currency retranslations	(1 133)		(1 133)	(33)	(1 166)
	Fair value adjustments on available-for-sale financial instruments		(192)	(192)	—	(192)
	Fair value adjustments on cash flow hedges		(465)	(465)	—	(465)
	Actuarial gains/(losses) on defined benefit schemes		(2 503)	(2 503)	—	(2 503)
	Share of other comprehensive income of associates		456	456		456
	Taxes		859	859	—	859
	Other comprehensive income for the year	(1 133)	(1 845)	(2 978)	(33)	(3 011)

18.9 Dividend

The dividend related to 2011 was paid on 26 April 2012 in conformity with the decision taken at the Annual General Meeting on 19 April 2012. Shareholders approved the proposed dividend of CHF 1.95 per share, resulting in a total dividend of CHF 6213 million.

Dividend payable is not accounted for until it has been ratified at the Annual General Meeting. At the meeting on 11 April 2013, a dividend of CHF 2.05 per share will be proposed, resulting in a total dividend of CHF 6601 million. For further details, refer to the Financial Statements of Nestlé S.A.

The Financial Statements for the year ended 31 December 2012 do not reflect this proposed distribution, which will be treated as an appropriation of profit in the year ending 31 December 2013.

19. Lease commitments

19.1 Operating leases

In millions of CHF	2012	2011
	Minimum lease payments	
	Future value	
Within one year	634	595
In the second year	527	442
In the third to the fifth year	1 083	866
After the fifth year	667	516
	2 911	**2 419**

Lease commitments refer mainly to buildings, industrial equipment, vehicles and IT equipment. Operating lease charge for the year 2012 amounts to CHF 733 million (2011: CHF 657 million).

19.2 Finance leases

In millions of CHF	2012		2011	
	Minimum lease payments			
	Present value	Future value	Present value	Future value
Within one year	52	55	57	63
In the second year	39	45	50	61
In the third to the fifth year	90	126	90	136
After the fifth year	45	89	51	101
	226	**315**	**248**	**361**

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

20. Transactions with related parties

20.1 Compensation of the Board of Directors and the Executive Board

Board of Directors

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

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

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

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

The Chairman is entitled to a cash compensation, as well as Nestlé S.A. shares which are blocked for three years.

Executive Board

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

In millions of CHF	2012	2011
Board of Directors [(a)]		
Chairman's compensation	9	10
Other Board members		
Remuneration – cash	3	3
Shares	2	2
Executive Board [(a)]		
Remuneration – cash	16	15
Bonus – cash	6	8
Bonus – shares	10	7
Equity compensation plans [(b)]	14	15
Pension	7	5

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

20.2 Intra-Group transactions and transactions with associated companies

Intra-Group transactions are eliminated on consolidation:

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

20.3 Other transactions

Nestlé Capital Advisers SA (NCA), one of the Group's subsidiaries, is an unregulated investment and actuarial adviser, based in Switzerland. Further to actuarial advice, NCA renders investment consulting services to some of the Group's pension funds, either directly or indirectly via the Robusta mutual fund umbrella, but NCA never executes trading and investment transactions. The fees received by NCA in 2012 for those activities amounted to CHF 15 million (2011: CHF 25 million).

Nestlé Capital Management Ltd (NCM), a 100% subsidiary of NCA, is an asset manager authorised and regulated by the Financial Services Authority, in the United Kingdom. NCM manages some of the assets of the Group's pension funds. In this function, NCM executes trading and investment transactions on behalf of these pension funds directly or for the Robusta mutual funds pension investment vehicles. The fees received by NCM in 2012 for those activities amounted to CHF 14 million (2011: CHF 16 million). The assets under direct management represented an amount of CHF 11.8 billion at 31 December 2012 (2011: CHF 13.2 billion).

In addition, Robusta Asset Management Ltd (RAML), a 100% subsidiary of NCA, is in charge of selecting and monitoring investment managers for the Robusta mutual funds pension investment vehicles. RAML has delegated most its activities to third-parties, including NCA and hence no fee income is generated by RAML. Any remaining expenses are covered by means of fees deducted from its assets under management. The assets under supervision of RAML amounted to CHF 8.8 billion at 31 December 2012 (2011: CHF 8.6 billion). Of this amount CHF 5.3 billion (2011: CHF 5.4 billion) of assets are under direct management of NCM.

Furthermore, throughout 2012, no director had a personal interest in any transaction of significance for the business of the Group.

21. Joint ventures

In millions of CHF	2012	2011
Share of assets and liabilities consolidated in the balance sheet		
Total current assets	925	924
Total non-current assets	1 622	1 612
Total current liabilities	1 707	1 752
Total non-current liabilities	228	285
Share of income and expenses consolidated in the income statement		
Total sales	2 500	2 426
Total expenses	(2 237)	(2 154)

22. Guarantees

At 31 December 2012, the Group has given guarantees to third parties for an amount of CHF 537 million (2011: CHF 852 million). The most significant balance relates to the Nestlé UK pension fund.

23. Group risk management

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

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

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

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

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

Implementation of this Framework has allowed the Group to achieve the following objectives:
- identification and quantification of tangible (financial, operational, physical, human assets, etc.) and intangible (reputation, brand image, intellectual property, etc.) risks in a transparent manner;
- development of a common language for communicating and consolidating risk; and
- prioritisation and identification of where to focus management resources and activity.

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

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

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

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

24. Events after the balance sheet date

At 13 February 2013, date of approval for issue of the Financial Statements by the Board of Directors, the Group had no subsequent events that warrant a modification of the value of the assets and liabilities or an additional disclosure.

25. Group companies

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

Report of the Statutory Auditor on the Consolidated Financial Statements

to the General Meeting of Nestlé S.A.

As statutory auditor, we have audited the consolidated financial statements (income statement, statement of comprehensive income, balance sheet, cash flow statement, statement of changes in equity and notes on pages 46 to 112) of the Nestlé Group for the year ended 31 December 2012.

Board of Directors' responsibility

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

Auditor's responsibility

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

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

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2012 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on other legal requirements

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

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

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

KPMG

KPMG SA

Mark Baillache
Licensed Audit Expert
Auditor in charge

Fabien Lussu
Licensed Audit Expert

Geneva, 13 February 2013

Financial information – 5 year review

In millions of CHF (except for per share data and personnel)	2012		2011
Results			
Sales [a]	92 186		83 642
Trading operating profit [a]	14 012		12 538
as % of sales [a]	*15.2%*		*15.0%*
Sales			
EBIT *			
as % of sales			
Taxes	3 451		3 112
Profit for the year attributable to shareholders of the parent (Net profit)	10 611		9 487
as % of sales [a]	*11.5%*		*11.3%*
Total amount of dividend	6 601	(e)	6 213
Depreciation of property, plant and equipment	2 711		2 422
Balance sheet and Cash flow statement			
Current assets	35 205		33 324
of which liquid assets	9 425		7 988
Non-current assets	91 024		80 767
Total assets	126 229		114 091
Current liabilities	38 753		35 232
Non-current liabilities	24 872		20 585
Equity attributable to shareholders of the parent	60 947		56 797
Non-controlling interests	1 657		1 477
Net financial debt	18 152		14 319
Operating cash flow [b]	15 772		10 180
as % of net financial debt	*86.9%*		*71.1%*
Free cash flow [c]	9 879		4 757
Capital expenditure	5 368		4 779
as % of sales [a]	*5.8%*		*5.7%*
Data per share			
Weighted average number of shares outstanding (in millions of units)	3 186		3 196
Total basic earnings per share	3.33		2.97
Equity attributable to shareholders of the parent	19.13		17.77
Dividend	2.05	(e)	1.95
Pay-out ratio based on Total basic earnings per share	61.6%	(e)	65.7%
Stock prices (high)	62.30		55.45
Stock prices (low)	52.50		43.50
Yield [d]	3.3/3.9	(e)	3.5/4.5
Market capitalisation	**190 038**		**171 287**
Number of personnel (in thousands)	**339**		**328**

* Earnings Before Interest, Taxes, restructuring and impairments.

(a) 2010 restated following the changes of presentation made to the Income Statement as of 1 January 2011 (refer to Note 1 – Accounting Policies of the 2011 Consolidated Financial Statements).

(b) 2011 restated following the changes in the cash flow statement described in Note 1 – Accounting policies.

(c) Refer to Note 17.6 for definition. As from 2012, movements with non-controlling interests are no longer deducted. 2011 comparatives have been restated accordingly.

2010		2009	2008		
					Results
93 015					Sales [a]
14 832					Trading operating profit [a]
15.9%					*as % of sales* [a]
109 722		107 618	109 908		Sales
16 194		15 699	15 676		EBIT *
14.8%		*14.6%*	*14.3%*		*as % of sales*
3 693		3 362	3 787		Taxes
34 233	(f)	10 428	18 039	(g)	Profit for the year attributable to shareholders of the parent (Net profit)
36.8%	(f)	*9.7%*	*16.4%*	(g)	*as % of sales* [a]
5 939		5 443	5 047		Total amount of dividend
2 552		2 713	2 625		Depreciation of property, plant and equipment
					Balance sheet and Cash flow statement
38 997		39 870	33 048		Current assets
16 246		5 319	7 131		of which liquid assets
72 644		71 046	73 167		Non-current assets
111 641		110 916	106 215		Total assets
30 146		36 083	33 640		Current liabilities
18 897		21 202	17 659		Non-current liabilities
61 867		48 915	50 774		Equity attributable to shareholders of the parent
731		4 716	4 142		Non-controlling interests
3 854		18 085	14 596		Net financial debt
13 608		17 934	10 763		Operating cash flow [b]
353.2%	(f)	*99.2%*	*73.7%*		*as % of net financial debt*
7 761		12 369	5 033		Free cash flow [c]
4 576		4 641	4 869		Capital expenditure
4.9%		*4.3%*	*4.4%*		*as % of sales* [a]
					Data per share
3 371		3 572	3 705		Weighted average number of shares outstanding (in millions of units)
10.16	(f)	2.92	4.87	(g)	Total basic earnings per share
18.35		13.69	13.71		Equity attributable to shareholders of the parent
1.85		1.60	1.40		Dividend
18.2%		54.8%	28.8%		Pay-out ratio based on Total basic earnings per share
56.90		51.25	52.95		Stock prices (high)
48.18		35.04	38.02		Stock prices (low)
3.3/3.8		3.1/4.6	2.6/3.7		Yield [d]
178 316		**174 294**	**150 409**		**Market capitalisation**
281		**278**	**283**		**Number of personnel (in thousands)**

(d) Calculated on the basis of the dividend for the year concerned, which is paid in the following year, and on high/low stock prices.
(e) As proposed by the Board of Directors of Nestlé S.A.
(f) Impacted by the profit on disposal of 52% of Alcon outstanding capital.
(g) Impacted by the profit on disposal of 24.8% of Alcon outstanding capital.

Companies of the Nestlé Group

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

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

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

All companies listed below are fully consolidated unless stated otherwise.

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

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

Companies		City	% capital shareholdings	Currency	Capital
Europe					
Austria					
C.P.A. Cereal Partners Handelsgesellschaft M.B.H. & Co. OHG	1)	Wien	50%	EUR	145 346
Nespresso Österreich GmbH & Co. OHG		Wien	100%	EUR	35 000
Nestlé Austria Holding GmbH	◊	Wien	100%	EUR	7 270 000
Nestlé Österreich GmbH		Wien	100%	EUR	3 000 000
Schöller Lebensmittel GmbH		Wien	100%	EUR	7 231 000
Azerbaijan					
Nestlé Azerbaijan Llc		Baku	100%	USD	200 000
Belgium					
Centre de Coordination Nestlé S.A.	◊	Bruxelles	100%	EUR	3 298 971 818
Davigel Belgilux S.A.		Bruxelles	100%	EUR	1 487 361
Nespresso Belgique S.A.		Bruxelles	100%	EUR	550 000
Nestlé Belgilux S.A.		Bruxelles	100%	EUR	53 924 469
Nestlé Catering Services N.V.		Bruxelles	100%	EUR	14 035 500
Nestlé Waters Benelux S.A.		Etalle	100%	EUR	19 924 000
Bosnia and Herzegovina					
Nestlé Adriatic B&H d.o.o.		Sarajevo	100%	BAM	2 000
Bulgaria					
Nestlé Bulgaria A.D.		Sofia	100%	BGN	10 234 933
Croatia					
Nestlé Adriatic d.o.o.		Zagreb	100%	HRK	14 685 500
Czech Republic					
Cereal Partners Czech Republic	1)	Praha	50%	CZK	23 100 000
Nestlé Cesko s.r.o.		Praha	100%	CZK	1 154 000 000

	Companies		City	% capital shareholdings	Currency	Capital
Denmark						
	Glycom A/S	2)	Copenhagen	35%	DKK	149 000 000
	Nestlé Danmark A/S		Copenhagen	100%	DKK	44 000 000
	Oscar A/S		Rønnede	100%	DKK	12 000 000
Finland						
	Puljonki Oy		Juuka	100%	EUR	16 000
	Suomen Nestlé Oy		Helsinki	100%	EUR	10 000 000
France						
	Centres de Recherche et Développement Nestlé S.A.S.		Beauvais	100%	EUR	3 138 230
	Cereal Partners France SNC	1)	Noisiel	50%	EUR	3 000 000
	Davigel S.A.S.		Martin Eglise	100%	EUR	7 681 250
	Eau Minérale Naturelle de Plancoët «Source Sassay» S.A.S.		Plancoët	100%	EUR	430 028
	Galderma International S.A.S.°	1)	Courbevoie	50%	EUR	940 020
	Galderma Research and Development SNC°	1)	Biot	50%	EUR	70 518 259
	Herta S.A.S.		Noisiel	100%	EUR	12 908 610
	Houdebine S.A.S.		Noyal Pontivy	50%	EUR	726 000
Δ	L'Oréal S.A.°	2)	Paris	29.8%	EUR	121 762 165
	Listed on the Paris stock exchange, market capitalisation EUR 63.8 billion, quotation code (ISIN) FR0000120321					
	Laboratoires Galderma S.A.S.°	1)	Alby-sur-Chéran	50%	EUR	14 015 454
	Laboratoires Innéov SNC°	1)	Nanterre	50%	EUR	800 000
	Lactalis Nestlé Produits Frais S.A.S.	2)	Laval	40%	EUR	69 208 832
	Nespresso France S.A.S.		Paris	100%	EUR	1 360 000
	Nestlé Clinical Nutrition France S.A.S.		Noisiel	100%	EUR	57 943 072
	Nestlé Entreprises S.A.S.	◊	Noisiel	100%	EUR	739 559 392
	Nestlé France S.A.S.		Noisiel	100%	EUR	130 925 520
	Nestlé Grand Froid S.A.		Noisiel	100%	EUR	3 120 000
	Nestlé HomeCare S.A.S.		Noisiel	100%	EUR	5 550 979
	Nestlé Purina PetCare France S.A.S.		Rueil-Malmaison	100%	EUR	21 091 872
	Nestlé Waters S.A.S.	◊	Issy-les-Moulineaux	100%	EUR	154 893 080
	Nestlé Waters France S.A.S.	◊	Issy-les-Moulineaux	100%	EUR	44 856 149
	Nestlé Waters Management & Technology S.A.S.		Issy-les-Moulineaux	100%	EUR	38 113
	Nestlé Waters Marketing & Distribution S.A.S.		Issy-les-Moulineaux	100%	EUR	26 740 940
	Nestlé Waters Services S.A.S.		Issy-les-Moulineaux	100%	EUR	1 356 796
	Nestlé Waters Supply Centre S.A.S.		Issy-les-Moulineaux	100%	EUR	2 577 000
	Nestlé Waters Supply Est S.A.S.		Issy-les-Moulineaux	100%	EUR	17 539 660
	Nestlé Waters Supply Sud S.A.S.		Issy-les-Moulineaux	100%	EUR	8 130 105
	S.A. des Eaux Minérales de Ribeauvillé		Ribeauvillé	99.6%	EUR	846 595
	Société de Bouchages Emballages Conditionnement Moderne S.A.S.	2)	Lavardac	50%	EUR	10 200 000
	Société des Produits Alimentaires de Caudry S.A.S.		Noisiel	100%	EUR	1 440 000
	Société Française des Eaux Régionales S.A.S.	◊	Issy-les-Moulineaux	100%	EUR	1 490 098
	Société Immobilière de Noisiel S.A.	◊	Noisiel	100%	EUR	22 753 550
	Société Industrielle de Transformation de Produits Agricoles S.A.S.		Noisiel	100%	EUR	9 718 000

Companies		City	% capital shareholdings	Currency	Capital
Germany					
Alois Dallmayr Kaffee OHG	2)	München	25%	EUR	10 250 000
C.P.D. Cereal Partners Deutschland GmbH & Co. OHG	1)	Frankfurt am Main	50%	EUR	511 292
Erlenbacher Backwaren GmbH		Darmstadt	100%	EUR	2 582 024
Galderma Laboratorium GmbH°	1)	Düsseldorf	50%	EUR	800 000
Innéov Deutschland GmbH°	1)	Karlsruhe	50%	EUR	25 000
Nestlé Deutschland AG		Frankfurt am Main	100%	EUR	214 266 628
Nestlé Product Technology Centre Lebensmittelforschung GmbH		Singen	100%	EUR	52 000
Nestlé Unternehmungen Deutschland GmbH	◊	Frankfurt am Main	100%	EUR	60 000 000
Nestlé Waters Deutschland GmbH		Mainz	100%	EUR	10 566 000
Trinks GmbH	2)	Goslar	25%	EUR	2 360 000
Trinks Süd GmbH	2)	München	25%	EUR	260 000
Wagner Tiefkühlprodukte GmbH		Saarbrücken	74%	EUR	511 292
Greece					
C.P.W. Hellas Breakfast Cereals S.A.	1)	Maroussi	50%	EUR	201 070
Nespresso Hellas S.A.		Maroussi	100%	EUR	500 000
Nestlé Hellas S.A.		Maroussi	100%	EUR	39 119 726
Hungary					
Cereal Partners Hungária Kft.	1)	Budapest	50%	HUF	22 000 000
Kékkúti Ásvànyvíz Zrt.		Budapest	100%	HUF	238 326 000
Nestlé Hungária Kft.		Budapest	100%	HUF	6 000 000 000
Italy					
Fastlog S.p.A.		Milano	100%	EUR	154 935
Galderma Italia S.p.A.°	1)	Milano	50%	EUR	612 000
Koiné S.p.A.		Madone (Bergamo)	51%	EUR	258 230
Nespresso Italiana S.p.A.		Milano	100%	EUR	250 000
Nestlé Italiana S.p.A.		Milano	100%	EUR	25 582 492
Sanpellegrino S.p.A.		Milano	100%	EUR	58 742 145
Kazakhstan					
Nestlé Food Kazakhstan LLP		Almaty	100%	KZT	91 900
Lithuania					
UAB “Nestlé Baltics”		Vilnius	100%	LTL	110 000
Luxemburg					
Compagnie Financière du Haut-Rhin S.A.	◊	Luxembourg	100%	EUR	105 200 000
Nespresso Luxembourg Sàrl		Luxembourg	100%	EUR	12 525
Nestlé Finance International Ltd	◊	Luxembourg	100%	EUR	440 000
NTC-Europe S.A.	◊	Luxembourg	100%	EUR	3 565 000
Macedonia					
Nestlé Adriatik Makedonija d.o.o.e.l.		Skopje-Karpos	100%	MKD	31 065 780

Companies		City	% capital shareholdings	Currency	Capital
Malta					
Nestlé Malta Ltd		Lija	100%	EUR	116 470
Netherlands					
East Springs International N.V.	◊	Amsterdam	100%	EUR	25 370 000
Nespresso Nederland B.V.		Amsterdam	100%	EUR	680 670
Nestlé Nederland B.V.		Amsterdam	100%	EUR	11 346 000
Norway					
A/S Nestlé Norge		Oslo	100%	NOK	81 250 000
Kaffeknappen Norge AS		Oslo	87.5%	NOK	100 000
Poland					
Cereal Partners Poland Torun-Pacific Sp. Z o.o.	1)	Torun	50%	PLN	14 572 838
Galderma Polska Z o.o.°	1)	Warszawa	50%	PLN	93 000
Nestlé Polska S.A.		Warszawa	100%	PLN	50 000 000
Nestlé Waters Polska S.A.		Warszawa	100%	PLN	46 100 000
Portugal					
Cereal Associados Portugal A.E.I.E.	1)	Oeiras	50%	EUR	99 760
Nestlé Portugal S.A.		Linda-a-Velha	100%	EUR	30 000 000
Nestlé Waters direct Portugal, comércio e distribuição de produtos alimentares, S.A.		Loures	100%	EUR	1 000 000
Prolacto-Lacticinios de São Miguel S.A.		Ponta Delgada	100%	EUR	700 000
Republic of Ireland					
Nestlé (Ireland) Ltd		Dublin	100%	EUR	41 964 100
Pfizer Nutritionals Ireland Limited		Cork	100%	USD	885 599 990
Republic of Serbia					
Centro-Spice d.o.o.		Surčin, Beograd	100%	RSD	1 544 668 791
Nestlé Adriatic Foods d.o.o., Beograd		Beograd	100%	RSD	2 274 763 322
Nestlé Ice Cream Srbija d.o.o.		Stara Pazova	100%	RSD	3 633 221 228
Romania					
Nestlé Romania S.R.L.		Bucharest	100%	RON	77 906 800
Russia					
Cereal Partners Rus, LLC	1)	Moscow	50%	RUB	20 420
LLC Nestlé Watercoolers Service		Moscow	100%	RUB	20 372 926
Nestlé Kuban LLC		Timashevsk	100%	RUB	48 675
Nestlé Rossiya LLC		Moscow	100%	RUB	717 730 776
ooo Galderma LLC°	1)	Moscow	50%	RUB	25 000 000
Slovak Republic					
Nestlé Slovensko s.r.o.		Prievidza	100%	EUR	13 277 568
Slovenia					
Nestlé Adriatic Trgovina d.o.o.		Ljubljana	100%	EUR	8 763

Companies		City	% capital shareholdings	Currency	Capital
Spain					
Aquarel Iberica S.A.		Barcelona	100%	EUR	300 505
Cereal Partners España A.E.I.E.	1)	Esplugues de Llobregat (Barcelona)	50%	EUR	120 202
Davigel España S.A.		Sant Just Desvern (Barcelona)	100%	EUR	984 000
Helados y Postres S.A.		Vitoria (Alava)	100%	EUR	140 563 200
Innéov España S.A.°	1)	Madrid	50%	EUR	120 000
Laboratorios Galderma, S.A.°	1)	Madrid	50%	EUR	432 480
Nestlé España S.A.		Esplugues de Llobregat (Barcelona)	100%	EUR	100 000 000
Nestlé Healthcare Nutrition, S.A.		Esplugues de Llobregat (Barcelona)	100%	EUR	300 000
Nestlé Purina PetCare España S.A.		Castellbisbal (Barcelona)	100%	EUR	12 000 000
Nestlé Waters España, S.A.		Barcelona	100%	EUR	14 700 000
Productos del Café S.A.		Reus (Tarragona)	100%	EUR	6 600 000
Sweden					
Galderma Holding AB°	1) ◊	Bromma	50%	SEK	50 000
Galderma Nordic AB°	1)	Bromma	50%	SEK	31 502 698
Jede AB		Mariestad	100%	SEK	7 000 000
Kaffeknappen AB	◊	Stockholm	100%	SEK	100 000
Kaffeknappen Sverige AB		Stockholm	100%	SEK	100 000
Nestlé Sverige AB		Helsingborg	100%	SEK	20 000 000
Q-Med AB°	1)	Uppsala	50%	SEK	24 845 500
Q-Med Holding Sweden AB°	1)	Uppsala	50%	SEK	100 000
Q-Med Production AB°	1)	Uppsala	50%	SEK	100 000
Switzerland					
Beverage Partners Worldwide (Europe) AG	1) ◊	Zürich	50%	CHF	14 000 000
CPW Operations Sàrl	1)	Prilly	50%	CHF	20 000
CPW S.A.	1)	Prilly	50%	CHF	10 000 000
Eckes-Granini (Suisse) S.A.	1)	Henniez	49%	CHF	2 000 000
Emaro S.A.	◊	Romanel-sur-Lausanne	100%	CHF	300 000
Entreprises Maggi S.A.	◊	Cham	100%	CHF	100 000
Galderma Pharma S.A.°	1) ◊	Lausanne	50%	CHF	48 900 000
Galderma S.A.°	1)	Cham	50%	CHF	178 100
Intercona Re AG	◊	Châtel-St-Denis	100%	CHF	35 000 000
Life Ventures S.A.	◊	La Tour-de-Peilz	100%	CHF	30 000 000
Nestec S.A.		Vevey	100%	CHF	5 000 000
Nestlé Finance S.A.	◊	Cham	100%	CHF	30 000 000
Nestlé Health Science S.A.		Lutry	100%	CHF	100 000
Nestlé Institute of Health Sciences S.A.		Ecublens	100%	CHF	100 000
Nestlé International Travel Retail S.A.		Vevey	100%	CHF	3 514 000
Nestlé Nespresso S.A.		Lausanne	100%	CHF	2 000 000
Nestlé Operational Services Worldwide S.A.		Bussigny-près-Lausanne	100%	CHF	100 000
Nestlé Waters (Suisse) S.A.		Henniez	100%	CHF	5 000 000
Nestrade S.A.		La Tour-de-Peilz	100%	CHF	6 500 000
Nutrition-Wellness Venture AG	◊	Vevey	100%	CHF	100 000
Rive-Reine S.A.	◊	La Tour-de-Peilz	100%	CHF	2 000 000
S.I. En Bergère Vevey S.A.	◊	Vevey	100%	CHF	19 500 000
Société des Produits Nestlé S.A.		Vevey	100%	CHF	54 750 000
Sofinol S.A.		Manno	100%	CHF	3 000 000

Companies		City	% capital shareholdings	Currency	Capital
Turkey					
Balaban Gıda Sanayi ve Ticaret A.Ş.		Sakarya	50.9%	TRY	21 424 364
Cereal Partners Gıda Ticaret Limited Şirketi	1)	Istanbul	50%	TRY	25 020 000
Erikli Dağıtım ve Pazarlama A.Ş.		Bursa	90%	TRY	3 849 975
Erikli Su ve Meşrubat Sanayi ve Ticaret A.Ş.		Bursa	90%	TRY	12 700 000
NDB Gıda Sanayi ve Ticaret A.Ş.	◊	Istanbul	50.9%	TRY	66 611 123
Nestlé Türkiye Gıda Sanayi A.Ş.		Istanbul	99.9%	TRY	35 000 000
Nestlé Waters Gıda ve Meşrubat Sanayi Ticaret A.Ş.		Bursa	85%	TRY	8 000 000
Ukraine					
LLC Nestlé Ukraine		Kyiv	100%	USD	150 000
LLC Technocom		Kharkiv	100%	UAH	119 658 066
PJSC "Lviv Confectionery Factory Svitoch"		Lviv	97%	UAH	88 111 060
PRJSC Volynholding		Torchyn	100%	UAH	100 000
United Kingdom					
Buxton Mineral Waters Ltd	◊	Rickmansworth	100%	GBP	14 000 000
Cereal Partners UK	1)	Welwyn Garden	50%	GBP	—
Galderma (UK) Ltd°	1)	Watford	50%	GBP	1 500 000
Nespresso UK Ltd		Gatwick	100%	GBP	275 000
Nestec York Ltd		Gatwick	100%	GBP	500 000
Nestlé Holdings (UK) PLC	◊	Gatwick	100%	GBP	77 940 000
Nestlé Purina PetCare (UK) Ltd		Gatwick	100%	GBP	44 000 000
Nestlé UK Ltd		Gatwick	100%	GBP	129 972 342
Nestlé Waters GB Ltd	◊	Rickmansworth	100%	GBP	14 000 000
Nestlé Waters UK Ltd		Gatwick	100%	GBP	640
Nestlé Waters (UK) Holdings Ltd	◊	Gatwick	100%	GBP	6 500 002
PNutri UK Ltd		Sandwich	100%	GBP	1
Vitaflo (International) Ltd		Liverpool	100%	GBP	625 379

Companies	City	% capital shareholdings	Currency	Capital
Africa				
Algeria				
Nestlé Algérie SpA	Alger	70%	DZD	7 000 000
Nestlé Waters Algérie SpA	Blida	100%	DZD	1 622 551 965
Angola				
Nestlé Angola Lda	Luanda	100%	AOA	24 000 000
Burkina Faso				
Nestlé Burkina S.A.	Ouagadougou	100%	XOF	50 000 000
Cameroon				
Nestlé Cameroun	Douala	100%	XAF	650 000 000
Côte d'Ivoire				
Δ Nestlé Côte d'Ivoire	Abidjan	86.5%	XOF	5 517 600 000
Listed on the Abidjan stock exchange, market capitalisation XOF 48.6 billion, quotation code (ISIN) CI0009240728				
Democratic Republic of the Congo				
Nestlé Congo s.p.r.l.	Kinshasa	100%	USD	33 200 000
Egypt				
Nestlé Egypt S.A.E.	Giza	100%	EGP	80 722 000
Nestlé Waters Distribution Company	Cairo	64%	EGP	15 200 000
Nestlé Waters Egypt S.A.E.	Cairo	63.7%	EGP	81 500 000
Gabon				
Nestlé Gabon	Libreville	90%	XAF	344 000 000
Ghana				
Nestlé Central and West Africa Ltd	Accra	100%	GHS	46 000
Nestlé Ghana Ltd	Accra	76%	GHS	20 100 000
Guinea				
Nestlé Guinée S.A.	Conakry	99%	GNF	3 424 000 000
Kenya				
Nestlé Equatorial African Region Limited	Nairobi	100%	KES	132 000 000
Nestlé Kenya Ltd	Nairobi	100%	KES	172 958 400
Mali				
Nestlé Mali S.A.U.	Bamako	100%	XOF	10 000 000
Mauritius				
Nestlé SEA Trading Ltd	Port Louis	100%	USD	2
Nestlé's Products (Mauritius) Ltd	Port Louis	100%	BSD	71 500

	Companies		City	% capital shareholdings	Currency	Capital
Morocco						
	Nestlé Maghreb S.A.		Casablanca	100%	MAD	300 000
	Nestlé Maroc S.A.		El Jadida	94.5%	MAD	156 933 000
Mozambique						
	Nestlé Mocambique Lda		Maputo	100%	MZN	4
Niger						
	Nestlé Niger		Niamey	99.6%	XOF	50 000 000
Nigeria						
Δ	Nestlé Nigeria Plc		Ilupeju	63.5%	NGN	396 328 125
	Listed on the Nigerian Stock Exchange (NSE), market capitalisation NGN 555.0 billion, quotation code (ISIN) NGNESTLE0006					
Senegal						
	Nestlé Sénégal		Dakar	100%	XOF	1 620 000 000
South Africa						
	Galderma Laboratories South Africa (Pty) Ltd°	1)	Randburg	50%	ZAR	375 000
	Nestlé (South Africa) (Pty) Ltd		Johannesburg	100%	ZAR	53 400 000
Togo						
	Nestlé Togo S.A.U.		Lome	100%	XOF	50 000 000
Tunisia						
	Nestlé Tunisie Distribution S.A.		Tunis	99.5%	TND	100 000
	Nestlé Tunisie S.A.		Tunis	99.5%	TND	8 438 280
Zambia						
	Nestlé Zambia Trading Ltd		Lusaka	100%	ZMK	2 317 500 000
Zimbabwe						
	Nestlé Zimbabwe (Private) Ltd		Harare	100%	USD	2 100 000

Companies		City	% capital shareholdings	Currency	Capital
Americas					
Argentina					
Cereales Partners LLC – Union Transitoria de Empresas	1)	Buenos Aires	50%	ARS	—
Dairy Partners Americas Argentina S.A.	1)	Buenos Aires	50%	ARS	98 808
Dairy Partners Americas Manufacturing Argentina S.A.	1)	Buenos Aires	50%	ARS	272 500
Eco de Los Andes S.A.		Buenos Aires	50.9%	ARS	92 524 285
Galderma Argentina S.A.°	1)	Buenos Aires	50%	ARS	9 900 000
Nestlé Argentina S.A.		Buenos Aires	100%	ARS	10 809 000
Nestlé Waters Argentina S.A.		Buenos Aires	100%	ARS	6 420 838
Barbados					
Lacven Corporation	1) ◊	Barbados	50%	USD	60 000 000
Bermuda					
Centram Holdings Ltd	◊	Hamilton	100%	USD	12 000
DPA Manufacturing Holdings Ltd	1) ◊	Hamilton	50%	USD	23 639 630
Bolivia					
Industrias Alimentícias Fagal S.r.l.		Santa Cruz	100%	BOB	133 100 000
Nestlé Bolivia S.A.		Santa Cruz	100%	BOB	191 900
Brazil					
Chocolates Garoto S.A.		Vila Velha	100%	BRL	161 450 000
CPW Brasil Ltda	1)	São Paulo	50%	BRL	7 885 520
Dairy Partners Americas Brasil Ltda	1)	São Paulo	50%	BRL	27 606 368
Dairy Partners Americas Manufacturing Brasil Ltda	1)	São Paulo	50%	BRL	39 468 974
Dairy Partners Americas Nordeste – Produtos Alimentícios Ltda	1)	Garanhuns	50%	BRL	100 000
Galderma Brasil Ltda°	1)	São Paulo	50%	BRL	19 741 602
Innéov Brasil Nutricosmeticos Ltda°	1)	Duque de Caxias	50%	BRL	20 000
Nestlé Brasil Ltda		São Paulo	100%	BRL	450 092 396
Nestlé Nordeste Alimentos e Bebidas Ltda		Feira de Santana	100%	BRL	12 713 641
Nestlé Sudeste Alimentos e Bebidas Ltda		São Paulo	100%	BRL	109 317 816
Nestlé Sul Alimentos e Bebidas Ltda		Carazinho	100%	BRL	73 049 736
Nestlé Waters Brasil – Bebidas e Alimentos Ltda		São Paulo	100%	BRL	87 248 341
Canada					
G. Production Canada Inc.°	1)	Baie D'Urfé (Québec)	50%	CAD	100
Galderma Canada Inc.°	1)	New Brunswick	50%	CAD	100
Jenny Craig Weight Loss Centres (Canada) Company		Halifax (Nova Scotia)	100%	CAD	10 000
Nestlé Canada Inc.		Toronto (Ontario)	100%	CAD	47 165 540
Nestlé Capital Canada Ltd	◊	Toronto (Ontario)	100%	CAD	1 010
Nestlé Globe Inc.		Toronto (Ontario)	100%	CAD	106 000 100
Cayman Islands					
Hsu Fu Chi International Limited		Grand Cayman	60%	SGD	7 950 000

Companies		City	% capital shareholdings	Currency	Capital
Chile					
Aguas CCU – Nestlé Chile S.A.	2)	Santiago de Chile	49.8%	CLP	49 799 375 321
Cereales CPW Chile Ltda	1)	Santiago de Chile	50%	CLP	3 026 156 114
Comercializadora de Productos Nestlé S.A.		Santiago de Chile	99.7%	CLP	1 000 000
Nestlé Chile S.A.		Santiago de Chile	99.7%	CLP	11 832 926 000
Colombia					
Comestibles La Rosa S.A.		Bogotá	100%	COP	126 397 400
Dairy Partners Americas Manufacturing Colombia Ltda	1)	Bogotá	50%	COP	200 000 000
Nestlé de Colombia S.A.		Bogotá	100%	COP	1 291 305 400
Nestlé Purina PetCare de Colombia S.A.		Bogotá	100%	COP	17 030 000 000
Costa Rica					
Compañía Nestlé Costa Rica S.A.		Barreal de Heredia	100%	CRC	18 000 000
Gerber Ingredients, S.A.		San José	100%	CRC	10 000
Cuba					
Coralac S.A.		La Habana	60%	USD	6 350 000
Los Portales S.A.		La Habana	50%	USD	24 110 000
Dominican Republic					
Nestlé Dominicana S.A.		Santo Domingo	97.4%	DOP	48 500 000
Silsa Dominicana S.A.		Santo Domingo	97.4%	USD	50 000
Ecuador					
Ecuajugos S.A.	1)	Quito	50%	USD	521 583
Industrial Surindu S.A.		Quito	100%	USD	3 000 000
Nestlé Ecuador S.A.		Quito	100%	USD	1 776 760
Nestlé Servicios S.A. SerNest		Quito	100%	USD	50 000
El Salvador					
Nestlé El Salvador, S.A. de C.V.		San Salvador	100%	USD	4 457 200
Guatemala					
Malher S.A.		Guatemala	94%	GTQ	100 000 000
Nestlé Guatemala S.A.		Mixco	100%	GTQ	23 460 600
Honduras					
Nestlé Hondureña S.A.		Tegucigalpa	100%	PAB	200 000
Jamaica					
Nestlé Jamaica Ltd		Kingston	100%	JMD	49 200 000

Companies		City	% capital shareholdings	Currency	Capital
Mexico					
CPW México, S. de R.L. de C.V.	1)	México, D.F.	50%	MXN	43 138 000
Galderma México, S.A. de C.V.°	1)	México, D.F.	50%	MXN	2 385 000
Manantiales La Asunción, S.A.P.I. de C.V.		México, D.F.	40%	MXN	1 205 827 492
Marcas Nestlé, S.A. de C.V.		México, D.F.	100%	MXN	500 050 000
Nescalín, S.A. de C.V.	◊	México, D.F.	100%	MXN	445 826 740
Nespresso México, S.A. de C.V.		México, D.F.	100%	MXN	10 050 000
Nestlé México, S.A. de C.V.		México, D.F.	100%	MXN	607 532 730
Nestlé Servicios Corporativos, S.A. de C.V.		México, D.F.	100%	MXN	170 100 000
Nestlé Servicios Industriales, S.A. de C.V.		México, D.F.	100%	MXN	1 050 000
Productos Gerber, S.A. de C.V.		México, D.F.	100%	MXN	5 252 440
Ralston Purina México, S.A. de C.V.		México, D.F.	100%	MXN	9 257 112
Waters Partners Services México, S.A.P.I. de C.V.		México, D.F.	40%	MXN	600 000
Nicaragua					
Compañía Centroaméricana de Productos Lácteos, S.A.		Managua	92.6%	NIO	10 294 900
Nestlé Nicaragua, S.A.		Managua	100%	USD	150 000
Panama					
Food Products (Holdings), S.A.	◊	Panamá City	100%	PAB	286 000
Garma Enterprises, S.A.	◊	Panamá City	94%	PAB	0
Lacteos de Centroamérica, S.A.		Panamá City	100%	USD	1 500 000
Nestlé Centroamérica, S.A.		Panamá City	100%	USD	1 000 000
Nestlé Panamá, S.A.		Panamá City	100%	PAB	17 500 000
Unilac, Inc.	◊	Panamá City	100%	USD	750 000
Paraguay					
Nestlé Paraguay S.A.		Asunción	100%	PYG	100 000 000
Peru					
Nestlé Marcas Perú, S.A.C.		Lima	100%	PEN	1 000
Nestlé Perú, S.A.		Lima	99.6%	PEN	120 683 387
Puerto Rico					
Nestlé Puerto Rico, Inc.		Cataño	100%	USD	500 000
Payco Foods Corporation		Bayamon	100%	USD	890 000
SWIRL Corporation		Guaynabo	100%	USD	1 000 000
Trinidad and Tobago					
Nestlé Caribbean, Inc.		Valsayn	100%	USD	100 000
Nestlé Trinidad and Tobago Ltd		Valsayn	100%	TTD	35 540 000

Companies		City	% capital shareholdings	Currency	Capital
United States					
Beverage Partners Worldwide (North America)	1)	Wilmington (Delaware)	50%	USD	—
Checkerboard Holding Company, Inc.	◊	Wilmington (Delaware)	100%	USD	1 001
Dreyer's Grand Ice Cream Holdings, Inc.	◊	Wilmington (Delaware)	100%	USD	10
Galderma Laboratories, Inc.°	1)	Fort Worth (Texas)	50%	USD	981
Galderma Research and Development, Inc.°	1)	Delaware	50%	USD	2 050 000
Gerber Finance Company	◊	Wilmington (Delaware)	100%	USD	1
Gerber Life Insurance Company		New York	100%	USD	148 500 000
Gerber Products Company		Fremont (Michigan)	100%	USD	1 000
Jenny Craig, Inc.	◊	Wilmington (Delaware)	100%	USD	0
Jenny Craig Holdings, Inc.	◊	Wilmington (Delaware)	100%	USD	0
Jenny Craig Operations, Inc.		Los Angeles (California)	100%	USD	0
Jenny Craig Weight Loss Centres, Inc.	◊	Wilmington (Delaware)	100%	USD	2
Nespresso USA, Inc.		Wilmington (Delaware)	100%	USD	1 000
Nestlé Capital Corporation	◊	Wilmington (Delaware)	100%	USD	1 000 000
Nestlé Dreyer's Ice Cream Company		Wilmington (Delaware)	100%	USD	1
Nestlé HealthCare Nutrition, Inc.		Wilmington (Delaware)	100%	USD	50 000
Nestlé Holdings, Inc.	◊	Wilmington (Delaware)	100%	USD	100 000
Nestle Insurance Holdings, Inc.		Wilmington (Delaware)	100%	USD	10
Nestlé Nutrition R&D Centers, Inc.		Wilmington (Delaware)	100%	USD	10 000
Nestlé Prepared Foods Company		Philadelphia (Pennsylvania)	100%	USD	476 760
Nestlé Purina PetCare Company		St. Louis (Missouri)	100%	USD	1 000
Nestlé Purina PetCare Global Resources, Inc.		Wilmington (Delaware)	100%	USD	1 000
Nestlé R&D Center, Inc.		Wilmington (Delaware)	100%	USD	10 000
Nestlé Transportation Company		Wilmington (Delaware)	100%	USD	100
Nestlé USA, Inc.		Wilmington (Delaware)	100%	USD	1 000
Nestlé Waters North America Holdings, Inc.	◊	Wilmington (Delaware)	100%	USD	10 000 000
Nestlé Waters North America, Inc.		Wilmington (Delaware)	100%	USD	10 700 000
NiMCo US, Inc.	◊	Wilmington (Delaware)	100%	USD	1
PN Nutri NewCo Inc.		Wilmington (Delaware)	100%	USD	1
Prometheus Laboratories Inc.		Los Angeles (California)	100%	USD	100
Sweet Leaf Tea Company		Austin (Texas)	100%	USD	10
The Stouffer Corporation	◊	Cleveland (Ohio)	100%	USD	0
Tradewinds Beverage Company		Cincinnati (Ohio)	100%	USD	0
TSC Holdings, Inc.	◊	Wilmington (Delaware)	100%	USD	100 000
Vitality Foodservice, Inc.		Dover (Delaware)	100%	USD	1 240
Waggin' Train LLC		Wilmington (Delaware)	100%	USD	—
Uruguay					
Nestlé del Uruguay S.A.		Montevideo	100%	UYU	9 495 189
Venezuela					
Corporación Inlaca, C.A.	1)	Caracas	50%	VEF	6 584 590
Laboratorios Galderma Venezuela, S.A.°	1)	Caracas	50%	VEF	5 000
Nestlé Cadipro, S.A.		Caracas	100%	VEF	50 633 501
Nestlé Venezuela, S.A.		Caracas	100%	VEF	516 590

	Companies		City	% capital shareholdings	Currency	Capital
Asia						
Bahrain						
	Nestlé Bahrain Trading WLL		Manama	49%	BHD	200 000
Bangladesh						
	Nestlé Bangladesh Ltd		Dhaka	100%	BDT	100 000 000
Greater China Region						
	Beverage Partners Worldwide (Pacific) Limited	1)	Hong Kong	50%	HKD	352 000 000
	CPW Hong Kong Limited	1)	Hong Kong	50%	HKD	402 773 606
	CPW Tianjin Limited	1)	Tianjin	50%	CNY	305 000 000
	Dongguan Andegu Plastic Packaging Material Limited		Dongguan	60%	HKD	10 000 000
	Dongguan Hsu Chi Food Co., Limited		Dongguan	60%	HKD	700 000 000
	Galderma Hong Kong Limited°	1)	Hong Kong	50%	HKD	10 000
	Guangzhou Refrigerated Foods Limited		Guangzhou	95.5%	CNY	390 000 000
	Henan Hsu Fu Chi Foods Co., Limited		Zhumadian	60%	CNY	210 000 000
	Hsu Fu Chi International Holdings Limited	◊	Hong Kong	60%	USD	100 000
	Hubei Yinlu Foods Co., Limited		Hanchuan	60%	CNY	353 000 000
	Nestlé (China) Limited		Beijing	100%	CNY	250 000 000
	Nestlé Dongguan Limited		Dongguan	100%	CNY	472 000 000
	Nestlé Hong Kong Limited		Hong Kong	100%	HKD	250 000 000
	Nestlé Hulunbeir Limited		Hulunbeir	100%	CNY	158 000 000
	Nestlé Nespresso Beijing Limited		Beijing	100%	CNY	7 000 000
	Nestlé Purina PetCare Tianjin Limited		Tianjin	100%	CNY	40 000 000
	Nestlé Qingdao Limited		Laixi	100%	CNY	930 000 000
	Nestlé R&D (China) Limited		Beijing	100%	CNY	40 000 000
	Nestlé Shanghai Limited		Shanghai	95%	CNY	200 000 000
	Nestlé Shuangcheng Limited		Shuangcheng	97%	CNY	435 000 000
	Nestlé Sources Shanghai Limited		Shanghai	100%	CNY	211 000 000
	Nestlé Sources Tianjin Limited		Tianjin	95%	CNY	204 000 000
	Nestlé Taiwan Limited		Taipei	100%	TWD	100 000 000
	Nestlé Tianjin Limited		Tianjin	100%	CNY	785 000 000
	Q-Med International Limited°	1)	Hong Kong	50%	HKD	10 000
	Q-Med International Trading (Shanghai) Limited°	1)	Shanghai	50%	USD	600 000
	Shandong Yinlu Foods Co. Limited		Jinan	60%	CNY	146 880 000
	Shanghai Nestlé Product Services Limited		Shanghai	97%	CNY	83 000 000
	Shanghai Totole First Food Limited		Shanghai	80%	CNY	72 000 000
	Shanghai Totole Food Limited		Shanghai	80%	USD	7 800 000
	Sichuan Haoji Food Co. Limited		Puge	80%	CNY	80 000 000
	Wyeth (Hong Kong) Holding Company Limited		Hong Kong	100%	HKD	100 010
	Wyeth (Shanghai) Trading Company Limited (China)		Shanghai	100%	USD	1 000 000
	Wyeth Nutritional (China) Co., Limited		Suzhou	100%	CNY	900 000 000
	Xiamen Yinlu Foods Group Co., Limited		Xiamen	60%	CNY	496 590 000
	Yunnan Dashan Drinks Co., Limited		Kunming	70%	CNY	35 000 000
India						
	Galderma India Private Ltd°	1)	Mumbai	50%	INR	24 156 000
Δ	Nestlé India Ltd		New Delhi	62.8%	INR	964 157 160
	Listed on the Mumbai stock exchange, market capitalisation INR 481.2 billion, quotation code (ISIN) INE239A01016					
	Nestlé R&D Centre India Private Ltd		New Delhi	100%	INR	2 101 380 000

	Companies		City	% capital shareholdings	Currency	Capital
Indonesia						
	P. T. Nestlé Indofood Citarasa Indonesia	1)	Jakarta	50%	IDR	200 000 000 000
	P. T. Nestlé Indonesia		Jakarta	90.2%	IDR	152 753 440 000
	P. T. Wyeth Indonesia		Jakarta	90%	IDR	1 800 000 000
Iran						
	Anahita Polour Industrial Mineral Water Company		Tehran	100%	IRR	35 300 000 000
	Nestlé Iran (Private Joint Stock Company)		Tehran	89.7%	IRR	358 538 000 000
Israel						
	Nespresso Israel Ltd		Tel-Aviv	100%	ILS	1 000
Δ	OSEM Investments Ltd		Shoham	58.8%	ILS	110 644 444
	Listed on the Tel-Aviv stock exchange, market capitalisation ILS 7.1 billion, quotation code (ISIN) IL0003040149					
Japan						
	Galderma K.K.°	1)	Tokyo	50%	JPY	10 000 000
	Nestlé Japan Ltd		Kobe	100%	JPY	20 000 000 000
	Nestlé Nespresso K.K.		Kobe	100%	JPY	10 000 000
Jordan						
	Ghadeer Mineral Water Co. WLL		Amman	75%	JOD	1 785 000
	Nestlé Jordan Trading Company Ltd		Amman	77.8%	JOD	410 000
Kuwait						
	Nestlé Kuwait General Trading Company WLL		Safat	49%	KWD	300 000
Lebanon						
	Société des Eaux Minérales Libanaises S.A.L.		Hazmieh	100%	LBP	1 610 000 000
	Société pour l'Exportation des Produits Nestlé S.A.		Baabda	100%	CHF	1 750 000
	SOHAT Distribution S.A.L.		Hazmieh	100%	LBP	160 000 000
Malaysia						
	Cereal Partners (Malaysia) Sdn. Bhd.	1)	Petaling Jaya	50%	MYR	1 025 000
Δ	Nestlé (Malaysia) Bhd.		Petaling Jaya	72.6%	MYR	234 500 000
	Listed on the Kuala Lumpur stock exchange, market capitalisation MYR 14.7 billion, quotation code (ISIN) MYL4707OO005					
	Nestlé Asean (Malaysia) Sdn. Bhd.		Petaling Jaya	72.6%	MYR	42 000 000
	Nestlé Manufacturing (Malaysia) Sdn. Bhd.		Petaling Jaya	72.6%	MYR	132 500 000
	Nestlé Products Sdn. Bhd.		Petaling Jaya	72.6%	MYR	25 000 000
	Purina PetCare (Malaysia) Sdn. Bhd.		Petaling Jaya	100%	MYR	1 100 000
	Wyeth (Malaysia) Sdn. Bhd.		Petaling Jaya	100%	MYR	61 969 505
Oman						
	Nestlé Oman Trading LLC		Muscat	49%	OMR	300 000
Pakistan						
Δ	Nestlé Pakistan Ltd		Lahore	59%	PKR	453 495 840
	Listed on the Karachi and the Lahore stock exchanges, market capitalisation PKR 214.7 billion, quotation code (ISIN) PK0025101012					

Companies		City	% capital shareholdings	Currency	Capital
Palestinian Territories					
Nestlé Trading Private Limited Company		Bethlehem	97.5%	JOD	200 000
Philippines					
CPW Philippines, Inc.	1)	Makati City	50%	PHP	7 500 000
Galderma Philippines, Inc.°	1)	Manila	50%	PHP	12 500 000
Nestlé Business Services AOA, Inc.		Bulacan	100%	PHP	70 000 000
Nestlé Philippines, Inc.		Cabuyao	100%	PHP	2 300 927 400
Penpro, Inc.		Makati City	88.5%	PHP	630 000 000
Wyeth Philippines, Inc.		Manila	100%	PHP	610 418 100
Qatar					
Al Manhal Water Factory Co. Ltd WLL		Doha	51%	QAR	5 500 000
Nestlé Qatar Trading LLC		Doha	49%	QAR	1 680 000
Republic of Korea					
Galderma Korea Ltd°	1)	Seoul	50%	KRW	500 000 000
Nestlé Korea Ltd		Seoul	100%	KRW	21 141 560 000
Pulmuone Waters Co., Ltd		Goesan-Gun, Chungbuk	51%	KRW	6 778 760 000
Saudi Arabia					
Al Anhar Water Factory Co. Ltd		Jeddah	64%	SAR	7 500 000
Al Manhal Water Factory Co. Ltd		Riyadh	64%	SAR	7 000 000
Nestlé Saudi Arabia LLC		Jeddah	75%	SAR	27 000 000
Nestlé Water Factory Co. Ltd		Riyadh	64%	SAR	15 000 000
Saudi Food Industries Co. Ltd	2)	Jeddah	51%	SAR	51 000 000
SHAS Company for Water Services Ltd		Riyadh	64%	SAR	13 500 000
Springs Water Factory Co. Ltd		Dammam	64%	SAR	5 000 000
Singapore					
Galderma Singapore Private Ltd°	1)	Singapore	50%	SGD	1 387 000
Nestlé R&D Center (Pte) Ltd		Singapore	100%	SGD	20 000 000
Nestlé Singapore (Pte) Ltd		Singapore	100%	SGD	1 000 000
Nestlé TC Asia Pacific Pte Ltd	◊	Singapore	100%	JPY	10 000 000 000
				SGD	2
Wyeth (Singapore) Pte Ltd		Singapore	100%	SGD	31 669 791
Wyeth Nutritionals (Singapore) Pte Ltd		Singapore	100%	SGD	398 694 318
Sri Lanka					
Δ Nestlé Lanka PLC		Colombo	90.8%	LKR	537 254 630
Listed on the Colombo stock exchange, market capitalisation LKR 85.6 billion, quotation code (ISIN) LK0128N00005					
Syria					
Nestlé Syria S.A.		Damascus	100%	SYP	800 000 000
Thailand					
Nestlé (Thai) Ltd		Bangkok	100%	THB	880 000 000
Perrier Vittel (Thailand) Ltd		Bangkok	100%	THB	235 000 000
Quality Coffee Products Ltd		Bangkok	50%	THB	500 000 000

Companies		City	% capital shareholdings	Currency	Capital
United Arab Emirates					
CP Middle East FZCO	1)	Dubai	50%	AED	600 000
Nestlé Dubai Manufacturing LLC		Dubai	49%	AED	300 000
Nestlé Middle East FZE		Dubai	100%	AED	3 000 000
Nestlé Treasury Centre-Middle East & Africa Ltd	◊	Dubai	100%	USD	2 997 343 684
Nestlé UAE LLC		Dubai	49%	AED	2 000 000
Nestlé Waters Factory H&O LLC		Dubai	48%	AED	22 300 000
Uzbekistan					
Nestlé Uzbekistan MChJ		Namangan	96.3%	USD	33 965 463
OJSC Namangansut (Nafosat)		Namangan	77.9%	USZ	46 227 969
Vietnam					
La Vie Limited Liability Company		Long An	65%	USD	2 663 400
Nestlé Vietnam Ltd		Dongnai	100%	USD	155 266 000

Companies		City	% capital shareholdings	Currency	Capital
Oceania					
Australia					
Cereal Partners Australia Pty Ltd	1)	Sydney	50%	AUD	107 800 000
Galderma Australia Pty Ltd°	1)	Sydney	50%	AUD	2 500 300
Jenny Craig Weight Loss Centres Pty Ltd	◊	Sydney	100%	AUD	210 562
Nestlé Australia Ltd		Sydney	100%	AUD	274 000 000
Fiji					
Nestlé (Fiji) Ltd		Lami	100%	FJD	3 000 000
French Polynesia					
Nestlé Polynésie S.A.S.		Papeete	100%	XPF	5 000 000
New Caledonia					
Nestlé Nouvelle-Calédonie S.A.S.		Nouméa	100%	XPF	250 000 000
New Zealand					
CPW New Zealand	1)	Auckland	50%	NZD	—
Jenny Craig Weight Loss Centres (NZ) Ltd	◊	Auckland	100%	NZD	10 000
Nestlé New Zealand Limited		Auckland	100%	NZD	300 000
Papua New Guinea					
Nestlé (PNG) Ltd		Lae	100%	PGK	11 850 000

Technical assistance, research and development units

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

		City of operations	
Switzerland			
Nestec S.A.		Vevey	TA

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

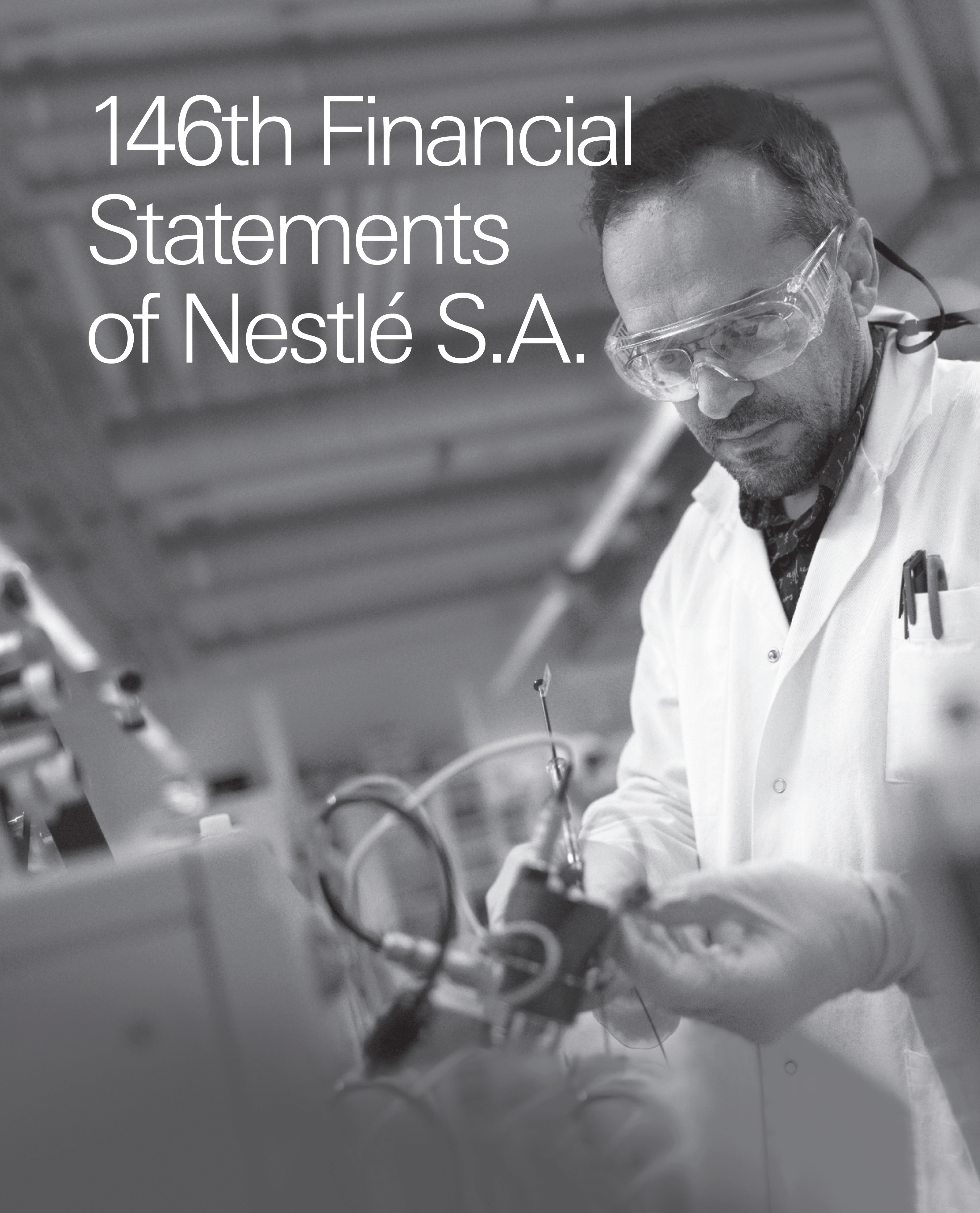
The units involved are:

Clinical Research Unit		Lausanne	R
CPW R&D Centre	1)	Orbe	R&D
Nestlé Institute of Health Sciences		Ecublens	R
Nestlé Product Technology Centre		Konolfingen	PTC
Nestlé Product Technology Centre		Orbe	PTC
Nestlé R&D Centre		Broc	R&D
Nestlé R&D Centre		Orbe	R&D
Nestlé Research Centre		Lausanne	R
Nestlé System Technology Centre		Orbe	PTC
Australia			
CPW R&D Centre	1)	Rutherglen	R&D
Chile			
Nestlé R&D Centre		Santiago de Chile	R&D
Côte dIvoire			
Nestlé R&D Centre		Abidjan	R&D
France			
Galderma R&D Centre°	1)	Biot	R&D
Nestlé Product Technology Centre		Beauvais	PTC
Nestlé Product Technology Centre		Lisieux	PTC
Nestlé Product Technology Centre		Vittel	PTC
Nestlé R&D Centre		Aubigny	R&D
Nestlé R&D Centre		Tours	R&D
Germany			
Nestlé Product Technology Centre		Singen	PTC

Technical assistance, research and development units (continued)

		City of operations	
Greater China Region			
Nestlé R&D Centre		Beijing	R&D
Nestlé R&D Centre		Shanghai	R&D
India			
Nestlé R&D Centre		Gurgaon	R&D
Israel			
Nestlé R&D Centre		Sderot	R&D
Italy			
Nestlé R&D Centre		Sansepolcro	R&D
Mexico			
Nestlé R&D Centre		Queretaro	R&D
Republic of Ireland			
Nestlé R&D Centre		Askeaton	R&D
Singapore			
Nestlé R&D Centre		Singapore	R&D
Sweden			
Galderma R&D Centre°	1)	Uppsala	R&D
United Kingdom			
Nestlé Product Technology Centre		York	PTC
United States			
Galderma R&D Centre°	1)	Cranbury (New Jersey)	R&D
Nestlé Product Technology Centre		Fremont (Michigan)	PTC
Nestlé Product Technology Centre		Marysville (Ohio)	PTC
Nestlé Product Technology Centre		St. Louis (Missouri)	PTC
Nestlé R&D Centre		Bakersfield (California)	R&D
Nestlé R&D Centre		Minneapolis (Minnesota)	R&D
Nestlé R&D Centre		San Diego (California)	R&D
Nestlé R&D Centre		Solon (Ohio)	R&D
Nestlé R&D Centre		St. Joseph (Missouri)	R&D
Nestlé R&D Centre		King of Prussia (Pennsylvania)	R&D

146th Financial Statements of Nestlé S.A.



Income statement for the year ended 31 December 2012

In millions of CHF	Notes	2012	2011
Income			
Income from Group companies	2	7 699	6 460
Financial income	3	492	148
Profit on disposal of fixed assets	4	52	2
Other income		111	118
Total income		**8 354**	**6 728**
Expenses			
Investment write downs	5	(1 828)	(843)
Administration and other expenses	6	(337)	(242)
Financial expense	7	(71)	(65)
Total expenses before taxes		**(2 236)**	**(1 150)**
Profit before taxes		**6 118**	**5 578**
Taxes	8	(422)	(378)
Profit for the year	21	**5 696**	**5 200**

Balance sheet as at 31 December 2012

before appropriations

In millions of CHF	Notes	2012	2011
Assets			
Current assets			
Liquid assets	9	1 366	2 396
Receivables	10	2 522	1 242
Prepayments and accrued income		9	11
Total current assets		**3 897**	**3 649**
Non-current assets			
Financial assets	11	41 188	46 214
Intangible assets	15	1 994	1 102
Tangible fixed assets	16	—	—
Total non-current assets		**43 182**	**47 316**
Total assets		**47 079**	**50 965**
Liabilities and equity			
Liabilities			
Short-term payables	17	6 333	5 589
Accruals and deferred income		18	35
Long-term payables	18	155	153
Provisions	19	711	878
Total liabilities		**7 217**	**6 655**
Equity			
Share capital	20/21	322	330
Legal reserves	21	3 788	8 470
Special reserve	21	29 371	28 546
Profit brought forward	21	685	1 764
Profit for the year	21	5 696	5 200
Total equity		**39 862**	**44 310**
Total liabilities and equity		**47 079**	**50 965**

Notes to the annual accounts

1. Accounting policies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Income from Group companies

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

3. Financial income

In millions of CHF	2012	2011
Net result on loans to Group companies	433	90
Other financial income	59	58
	492	**148**

4. Profit on disposal of fixed assets

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

5. Investment write downs

In millions of CHF	2012	2011
Participations and loans	1 204	351
Trademarks and other industrial property rights	624	492
	1 828	**843**

The write down of trademarks and other industrial property rights in 2012 includes among others part of the amount paid for the acquisition of Wyeth Nutrition and Kraft Foods frozen pizza.

6. Administration and other expenses

In millions of CHF	2012	2011
Salaries and welfare expenses	101	105
Other expenses	236	137
	337	**242**

7. Financial expense

In millions of CHF	2012	2011
Net result on loans from Group companies	71	65
Other financial expenses	—	—
	71	**65**

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	2012	2011
Cash and cash equivalents	1 366	1 997
Marketable securities	—	399
	1 366	**2 396**

Cash and cash equivalents include deposits with maturities of less than three months. Marketable securities consist of commercial paper with maturities from three to six months.

10. Receivables

In millions of CHF	2012	2011
Amounts owed by Group companies (current accounts)	1 907	1 064
Other receivables	615	178
	2 522	**1 242**

11. Financial assets

In millions of CHF	Notes	2012	2011
Participations in Group companies	12	28 617	28 131
Loans to Group companies	13	11 574	13 233
Own shares	14	946	4 798
Other investments		51	52
		41 188	**46 214**

12. Participations in Group companies

In millions of CHF	2012	2011
At 1 January	28 131	28 865
Net increase/(decrease)	820	(491)
Write downs	(334)	(243)
At 31 December	**28 617**	**28 131**

The increase in participations is mainly due to the acquisition of Wyeth Nutrition. It was partially compensated by the capital decrease in two affiliates.
The carrying value of participations continues to represent a conservative valuation having regard to both the income received by the Company and the net assets of the Group companies concerned.
A list of the most important companies held, either directly by Nestlé S.A. or indirectly through other Group companies, with the percentage of the capital controlled, is given in the Consolidated Financial Statements of the Nestlé Group.

13. Loans to Group companies

In millions of CHF	2012	2011
At 1 January	13 233	13 845
New loans	4 691	5 438
Repayments and write downs	(6 169)	(6 112)
Realised exchange differences	(63)	(1 602)
Unrealised exchange differences	(118)	1 664
At 31 December	**11 574**	**13 233**

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

14. Own shares

In millions of CHF		2012		2011
	Number	Amount	Number	Amount
Share Buy-Back Programme	—	—	75 200 000	3 930
Management Stock Option Plan	8 054 705	389	7 862 930	353
Restricted Stock Unit Plan	8 659 704	475	9 449 256	439
Performance Share Unit Plan	332 120	18	363 170	17
Future Long-Term Incentive Plans	1 155 184	64	1 275 135	59
	18 201 713	**946**	**94 150 491**	**4 798**

The share capital of the Company changed twice in the last two financial years as a consequence of the cancellation of registered shares purchased as part of the various Share Buy-Back Programmes. In 2011, the share capital was reduced by 165 000 000 shares from CHF 347 million to CHF 330 million. In 2012, the share capital was further reduced by 75 200 000 shares from CHF 330 million to CHF 322 million. The purchase value of those cancelled shares amount to CHF 3931 million.
The Company held 8 054 705 shares to cover management option rights and 10 147 008 shares to cover the other incentives plans. The Management Stock Option Plan is valued at strike price if lower than acquisition cost, while the shares held for the other plans are valued at acquisition cost. During the year 5 509 037 shares were delivered as part of the Nestlé Group remuneration plans for a total value of CHF 273 million.

15. Intangible assets

This amount represents the balance of the trademarks and other industrial property rights capitalised in relation with the acquisition of Wyeth Nutrition and Kraft Foods' frozen pizza.
In 2011, this amount represented the balance of the trademarks and other industrial property rights capitalised in relation with the acquisition of Kraft Foods frozen pizza (refer to Note 5).

16. Tangible fixed assets

These are principally the land and buildings at Cham and at La Tour-de-Peilz. Nestlé Suisse S.A., the principal operating company in the Swiss market, is the tenant of the building at La Tour-de-Peilz. The "En Bergère" head office building in Vevey is held by a property company, which is wholly owned by Nestlé S.A.
The fire insurance value of buildings, furniture and office equipment at 31 December 2012 amounted to CHF 25 million (2011: CHF 24 million).

17. Short-term payables

In millions of CHF	2012	2011
Amounts owed to Group companies	6 218	5 478
Other payables	115	111
	6 333	5 589

18. Long-term payables

Amounts owed to Group companies represent a long-term loan issued in 1989.

19. Provisions

In millions of CHF					2012	2011
	Uninsured risks	Exchange risks	Swiss & foreign taxes	Other	**Total**	**Total**
At 1 January	475	172	124	107	**878**	751
Provisions made in the period	—	6	136	52	**194**	321
Amounts used	—	(172)	(137)	(38)	**(347)**	(193)
Unused amounts reversed	—	—	(1)	(13)	**(14)**	(1)
At 31 December	**475**	**6**	**122**	**108**	**711**	878

20. Share capital

The share capital of the Company has been reduced by CHF 7 520 000 through the cancellation of 75 200 000 registered shares purchased as part of the Share Buy-Back Programme. As a result, the share capital of Nestlé S.A. is now structured as follows:

	2012	2011
Number of registered shares of nominal value CHF 0.10 each	3 224 800 000	3 300 000 000
In millions of CHF	322	330

According to article 5 of the Company's Articles of Association, no person or entity shall be registered with voting rights for more than 5% of the share capital as recorded in the commercial register. This limitation on registration also applies to persons who hold some or all of their shares through nominees pursuant to this article. In addition, article 11 provides that no person may exercise, directly or indirectly, voting rights, with respect to own shares or shares represented by proxy, in excess of 5% of the share capital as recorded in the commercial register.
At 31 December 2012, the share register showed 143 983 registered shareholders. If unprocessed applications for registration, the indirect holders of shares under American Depositary Receipts and the beneficial owners of shareholders registered as nominees are also taken into account, the total number of shareholders probably exceeds 250 000. The Company was not aware of any shareholder holding, directly or indirectly, 5% or more of the share capital. Group companies were holding together 1.1% of the Nestlé S.A. share capital as at 31 December 2012.

Conditional share capital

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

21. Changes in equity

In millions of CHF	Share capital	General reserve (a)	Reserve for own shares (a)(b)	Special reserve	Retained earnings	**Total**
At 1 January 2012	330	1 905	6 565	28 546	6 964	**44 310**
Cancellation of 75 200 000 shares (ex Share Buy-Back Programme)	(8)	8	(3 931)			**(3 931)**
Transfer to the special reserve	—	—	—	—	—	**—**
Profit for the year	—	—	—	—	5 696	**5 696**
Dividend for 2011	—	—	—	—	(6 213)	**(6 213)**
Movement of own shares	—	—	(759)	759	—	—
Dividend on own shares held on the payment date of 2011 dividend	—	—	—	66	(66)	**—**
At 31 December 2012	**322**	**1 913**	**1 875**	**29 371**	**6 381**	**39 862**

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

22. Reserve for own shares

At 31 December 2011, the reserve for own shares amounting to CHF 6565 million represented the cost of 18 950 491 shares earmarked to cover the Nestlé Group remuneration plans and 33 869 588 shares held for trading purposes. Another 75 200 000 shares were held as part of the Share Buy-Back Programme.
During the year, 75 200 000 shares were cancelled. A total of 5 509 037 shares have been delivered to the beneficiaries of the Nestlé Group remuneration plans. In addition, 9 160 259 shares have been acquired at a cost of CHF 527 million to cover Nestlé Group remuneration plans and 20 231 143 shares have been sold for a total amount of CHF 1139 million. Another Group company holds 18 038 445 Nestlé S.A. shares. The total of own shares of 36 240 158 held by Group companies at 31 December 2012 represents 1.1% of the Nestlé S.A. share capital (128 020 079 own shares held at 31 December 2011, representing 3.9% of the Nestlé S.A. share capital).

23. Contingencies

At 31 December 2012, the total of the guarantees mainly for credit facilities granted to Group companies and commercial paper programmes, together with the buy-back agreements relating to notes issued, amounted to CHF 25 822 million (2011: CHF 19 610 million).

24. Risk assessment

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

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

Annual remuneration of members of the Board of Directors

				2012
	Cash in CHF [a]	Number of shares	Discounted value of shares in CHF [b]	**Total remuneration**
Peter Brabeck-Letmathe, Chairman [c]	1 600 000	115 316	5 373 726	**6 973 726**
Paul Bulcke, Chief Executive Officer [c]	—	—	—	**—**
Andreas Koopmann, 1st Vice Chairman	325 000	5 586	260 308	**585 308**
Rolf Hänggi, 2nd Vice Chairman	330 000	5 676	264 502	**594 502**
Beat Hess	255 000	4 325	201 545	**456 545**
Daniel Borel	205 000	3 424	159 558	**364 558**
Jean-Pierre Meyers	175 000	2 883	134 348	**309 348**
André Kudelski	205 000	3 424	159 558	**364 558**
Steven G. Hoch	175 000	2 883	134 348	**309 348**
Naïna Lal Kidwai	205 000	3 424	159 558	**364 558**
Titia de Lange	155 000	2 523	117 572	**272 572**
Jean-Pierre Roth	175 000	2 883	134 348	**309 348**
Ann M. Veneman	175 000	2 883	134 348	**309 348**
Henri de Castries	205 000	3 424	159 558	**364 558**
Total for 2012	**4 185 000**	**158 654**	**7 393 277**	**11 578 277**
Total for 2011	4 340 000	171 365	7 510 927	11 850 927

(a) The cash amount includes the expense allowance of CHF 15 000. The Chairman receives no expense allowance.
(b) Nestlé S.A. shares received as part of the Board membership and the Committee fees are valued at the closing price of the share on the SIX Swiss Exchange on the ex-dividend date, discounted by 16,038% to account for the blocking period of three years.
(c) The Chairman and the Chief Executive Officer receive neither Board membership or Committee fees nor expense allowance.

In 2012, Mr. Henri de Castries joined the Board as a new member. Mrs. Carolina Müller-Möhl and Mr. Jean-René Fourtou retired from the Board during 2012.
Peter Brabeck-Letmathe, in his capacity as active Chairman, received a cash compensation as well as Nestlé S.A. shares, which are blocked for three years. This in particular reflects certain responsibilities for the direction and control of the Group including the Nestlé Health Science Company and the direct leadership of Nestlé's interests in L'Oréal, Galderma and Laboratoires innéov. He also represents Nestlé at the European Round Table of Industrialists and at the Foundation Board of the World Economic Forum (WEF). All corresponding compensation is included in the disclosed amount. His total compensation was:

		2012		2011
	Number	Value in CHF	Number	Value in CHF
Cash Compensation		1 600 000		1 600 000
Blocked shares (discounted value)	115 316	5 373 726	122 606	5 373 821
Stock options (fair value at grant)	—	—	—	—
Total		**6 973 726**		6 973 821

Loans to members of the Board of Directors

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

Additional fees and remunerations of the Board of Directors

There are no additional fees or remunerations paid by Nestlé S.A. or one of its Group companies, directly or indirectly, to members of the governing body or closely related parties, except for CHF 35 000 paid to Mrs. T. de Lange who serves as a member of the Nestlé Nutritional Council (NNC) and CHF 24 690 paid to Mrs. A. Veneman who serves as a member of the CSV Advisory Board.

Compensations and loans for former members of the Board of Directors

There is no compensation conferred during 2012 on former members of the Board of Directors who gave up their function during the year preceding the year under review or earlier. Similarly, there are no loans outstanding to former members of the Board of Directors.

Shares and stock options ownership of the non-executive members of the Board of Directors and closely related parties as at 31 December 2012

	Number of shares held (a)	Number of options held (b)
Peter Brabeck-Letmathe, Chairman	2 556 377	2 167 600
Andreas Koopmann, 1st Vice Chairman	78 559	—
Rolf Hänggi, 2nd Vice Chairman	78 116	—
Beat Hess	20 141	—
Daniel Borel	228 850	—
Jean-Pierre Meyers	1 428 457	—
André Kudelski	53 460	—
Steven G. Hoch	235 527	—
Naïna Lal Kidwai	19 640	—
Titia de Lange	7 937	—
Jean-Pierre Roth	7 297	—
Ann M. Veneman	5 565	—
Henri de Castries	3 424	—
Total as at 31 December 2012	**4 723 350**	**2 167 600**
Total as at 31 December 2011	4 539 450	2 733 600

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

Annual remuneration of members of the Executive Board

The total remuneration of members of the Executive Board amounts to CHF 43 882 674 for the year 2012 (CHF 43 513 350 for the year 2011). Remuneration principles are described in Appendix 1 of the Corporate Governance Report.

The valuation of equity compensation plans mentioned in this Note differs in some respect from compensation disclosures in Note 20.1 of the Consolidated Financial Statements of the Nestlé Group, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

The Company also made contributions of CHF 5 429 717 toward future pension benefits of the Executive Board members in line with Nestlé's Pension Benefit Policy (CHF 3 883 588 in 2011).

Highest total compensation for a member of the Executive Board

In 2012, the highest total compensation for a member of the Executive Board was conferred to Paul Bulcke, CEO.

		2012		2011
	Number	Value in CHF	Number	Value in CHF
Annual Base Salary		2 375 000		2 000 000
Short-term Bonus (cash)		223 035		856 045
Short-term Bonus (discounted value of the share)	66 472	3 558 246	64 095	2 874 661
Stock Options (fair value at grant)	420 000	1 906 800	361 000	1 999 940
Performance Share Units (fair value at grant)	34 300	1 873 466	38 040	2 040 085
Other benefits		28 884		28 884
Total		**9 965 431**		**9 799 615**
% Fixed/Variable		24.1/75.9		20.7/79.3

The Company also made a contribution of CHF 1 962 676 towards future pension benefits in line with Nestlé's Pension Benefits Policy (CHF 949 676 in 2011), as a consequence of having ajusted his base salary and decreased his variable compensation.

Loans to members of the Executive Board

On 31 December 2012, there were no loans outstanding to any member of the Executive Board.

Additional fees and remunerations of the Executive Board

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

Compensations and loans for former members of the Executive Board

A total of CHF 50 000 was conferred during 2012 to a former member of the Executive Board in consideration of ongoing services provided to the Company (CHF 300 000 was conferred during 2011 to a former member of the Executive Board).

On 31 December 2012, there were no loans outstanding to former members of the Executive Board.

Shares and stock options ownership of the members of the Executive Board and closely related parties as at 31 December 2012

	Number of shares held [(a)]	Number of options held [(b)]
Paul Bulcke	434 498	1 737 000
Werner Bauer	231 527	319 800
Luis Cantarell	87 610	546 250
José Lopez	64 071	395 600
John J. Harris	25 749	384 400
Laurent Freixe	35 847	261 400
Chris Johnson	20 158	185 400
Patrice Bula	45 541	171 400
Doreswamy (Nandu) Nandkishore	63 674	170 200
Wan Ling Martello	—	121 100
Marc Caira	—	229 950
Jean-Marc Duvoisin	63 028	192 300
David P. Frick	34 453	—
Total as at 31 December 2012	**1 106 156**	**4 714 800**
Total as at 31 December 2011	872 473	3 513 750

(a) Including shares subject to a three-year blocking period.
(b) The ratio is one option for one Nestlé S.A. share.

Proposed appropriation of profit

In CHF	2012	2011
Retained earnings		
Balance brought forward	685 377 470	1 763 699 388
Profit for the year	5 695 711 140	5 200 333 068
	6 381 088 610	**6 964 032 456**
We propose the following appropriations:		
Transfer from the special reserve	(225 000 000)	—
Dividend for 2012, CHF 2.05 per share on 3 220 161 495 shares [(a)] (2011: CHF 1.95 on 3 219 823 070 shares) [(b)]	6 601 331 065	6 278 654 986
	6 376 331 065	**6 278 654 986**
Balance to be carried forward	**4 757 545**	**685 377 470**

(a) Depending on the number of shares issued as of the last trading day with entitlement to receive the dividend (12 April 2013). No dividend is paid on own shares held by the Nestlé Group. The respective amount will be attributed to the special reserve.
(b) The amount of CHF 65 429 436, representing the dividend on 33 553 557 own shares held at the date of the dividend payment, has been transferred to the special reserve.

Provided that the proposal of the Board of Directors is approved by the Annual General Meeting, the gross dividend will amount to CHF 2.05 per share, representing a net amount of CHF 1.3325 per share after payment of the Swiss withholding tax of 35%. The last trading day with entitlement to receive the dividend is 12 April 2013. The shares will be traded ex-dividend as of 15 April 2013. The net dividend will be payable as from 18 April 2013.

The Board of Directors

Cham and Vevey, 13 February 2013

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

As statutory auditor, we have audited the financial statements (income statement, balance sheet and notes to the annual accounts on pages 139 to 154) of Nestlé S.A. for the year ended 31 December 2012.

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

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

Opinion
In our opinion, the financial statements for the year ended 31 December 2012 comply with Swiss law and the Company's Articles of Incorporation.

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

KPMG SA

Mark Baillache
Licensed Audit Expert
Auditor in Charge

Fabien Lussu
Licensed Audit Expert

Geneva, 13 February 2013

Notes

Notes

Notes

Notes

Notes