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Consolidated income statement for the year ended 31st December 1998

In millions of Swiss francs	Notes	1998	1997
Sales to customers	1	71 747	69 998
Cost of goods sold		(35 963)	(35 816)
Distribution expenses		(4 887)	(4 713)
Marketing and administration expenses		(22 465)	(21 142)
Research and development costs		(807)	(770)
Restructuring costs		(224)	(360)
Amortisation of intangible assets		(301)	(140)
Trading profit	1	7 100	7 057
Net financing costs	2	(1 168)	(1 056)
Net non-trading items	3	189	(63)
Profit before taxation	4	6 121	5 938
Taxation	5	(2 002)	(1 842)
Net profit of consolidated companies		4 119	4 096
Share of profit attributable to minority interests		(128)	(170)
Share of results of associated companies	6	300	256
Net profit for the year		4 291	4 182
As percentages of sales			
Trading profit		9.9%	10.1%
Net profit for the year		6.0%	6.0%
Earnings per share (in Swiss francs)			
Basic earnings per share	7	109.2	106.3
Fully diluted earnings per share	7	108.1	104.4



Consolidated balance sheet as at 31st December 1998

before appropriations

In millions of Swiss francs	Notes	1998	1997
Assets			
Current assets			
Liquid assets	8		
– Cash and cash equivalents		4 984	3 412
– Other liquid assets		<u>2 979</u>	<u>4 690</u>
		7 963	8 102
Trade and other receivables	9	10 991	9 852
Inventories	10	6 948	6 968
Prepayments and accrued income		<u>777</u>	<u>749</u>
Total current assets		<u>26 679</u>	<u>25 671</u>
Fixed assets			
Tangible fixed assets	11		
– Gross value		40 321	39 169
– Accumulated depreciation		<u>(21 895)</u>	<u>(20 984)</u>
		18 426	18 185
Financial assets			
– Investments in associated companies	12	1 525	1 404
– Deferred tax assets	19	2 040	1 836
– Other financial assets	13	<u>1 697</u>	<u>1 930</u>
		5 262	5 170
Intangible assets	14	<u>6 074</u>	<u>2 555</u>
Total fixed assets		<u>29 762</u>	<u>25 910</u>
Total assets		<u>56 441</u>	<u>51 581</u>



In millions of Swiss francs	Notes	1998	1997
Liabilities and equity			
Current liabilities			
Trade and other payables	15	8 511	8 179
Financial liabilities	16	10 545	9 713
Tax payable		826	841
Accrued liabilities and deferred income		<u>2 709</u>	<u>2 252</u>
Total current liabilities		<u>22 591</u>	<u>20 985</u>
Medium and long term liabilities			
Financial liabilities	17	4 047	3 193
Employee benefit liabilities	18	2 121	2 011
Deferred tax liabilities	19	1 395	1 131
Tax payable		97	63
Provisions		<u>2 594</u>	<u>2 775</u>
Total medium and long term liabilities		<u>10 254</u>	<u>9 173</u>
Total liabilities		<u>32 845</u>	<u>30 158</u>
Minority interests		<u>572</u>	<u>817</u>
Equity			
Share capital	20	404	404
Share premium and reserves			
– Share premium		5 926	5 926
– Reserve for treasury shares		588	282
– Translation reserve		226	417
– Retained earnings		<u>16 468</u>	<u>13 859</u>
		<u>23 208</u>	<u>20 484</u>
		<u>23 612</u>	<u>20 888</u>
Less:			
Treasury shares	21	<u>588</u>	<u>282</u>
Total equity before appropriations		<u>23 024</u>	<u>20 606</u>
Total liabilities and equity		<u>56 441</u>	<u>51 581</u>



Consolidated cash flow statement for the year ended 31st December 1998

In millions of Swiss francs	Notes	1998	1997
Operating activities			
Net profit of consolidated companies		4 119	4 096
Depreciation of tangible fixed assets	11	2 609	2 677
Amortisation of intangible assets	14	301	140
Increase/(decrease) in provisions and deferred taxes		(41)	84
Decrease/(increase) in working capital	22	(506)	328
Other movements		(110)	76
Operating cash flow ^(a)		6 372	7 401
Investing activities			
Expenditure on tangible fixed assets		(3 061)	(3 261)
Sale of tangible fixed assets		487	289
Acquisitions	23	(4 031)	(903)
Disposals	24	236	332
Income from associated companies		75	68
Other movements		117	(168)
Cash flow from investing activities		(6 177)	(3 643)
Financing activities			
Dividend for the previous year		(1 376)	(1 180)
Purchase of treasury shares (net)		(306)	(14)
Movements with minority interests		(167)	(107)
Bonds issued		1 009	738
Bonds repaid		(1 238)	(1 404)
Increase/(decrease) in other medium/ long term financial liabilities		230	(22)
Increase/(decrease) in short term financial liabilities		1 659	501
Decrease/(increase) in marketable securities		1 258	(677)
Decrease/(increase) in short term investments		418	(918)
Cash flow from financing activities		1 487	(3 083)
Translation differences on flows		(23)	(14)
Increase/(decrease) in cash and cash equivalents		1 659	661
Cash and cash equivalents at beginning of year		3 412	2 786
Effects of exchange rate changes on opening balance		(87)	(35)
Cash and cash equivalents retranslated at beginning of year		3 325	2 751
Cash and cash equivalents at end of year	8	4 984	3 412

^(a) Taxes paid amount to Fr. 1932 million (1997: Fr. 1893 million). Interest received/paid does not differ materially from interest shown under note 2 "Net financing costs".



Consolidated statement of changes in equity

In millions of Swiss francs	Share premium	Reserve for treasury shares	Translation reserve	Retained earnings	Total reserves	Share capital	Less: Treasury shares	Total equity
Equity as published as at 31st December 1996	5 926	268	245	15 363	21 802	404	(268)	21 938
Adjustment for the return to historical cost of tangible fixed assets			131	(4 568)	(4 437)			(4 437)
Adjustment for the introduction of IAS 12 rev deferred taxes				76	76			76
Equity restated as at 31st December 1996	<u>5 926</u>	<u>268</u>	<u>376</u>	<u>10 871</u>	<u>17 441</u>	<u>404</u>	<u>(268)</u>	<u>17 577</u>
Currency retranslation			41		41			41
Net profit				4 182	4 182			4 182
Movement of treasury shares (net)		14		(14)	—		(14)	(14)
Dividend for the previous year				(1 180)	(1 180)			(1 180)
Equity as at 31st December 1997	<u>5 926</u>	<u>282</u>	<u>417</u>	<u>13 859</u>	<u>20 484</u>	<u>404</u>	<u>(282)</u>	<u>20 606</u>
Currency retranslation			(191)		(191)			(191)
Net profit				4 291	4 291			4 291
Movement of treasury shares (net)		306		(306)	—		(306)	(306)
Dividend for the previous year				(1 376)	(1 376)			(1 376)
Equity as at 31st December 1998	<u>5 926</u>	<u>588</u>	<u>226</u>	<u>16 468</u>	<u>23 208</u>	<u>404</u>	<u>(588)</u>	<u>23 024</u>



Accounting policies

Accounting convention and accounting standards

The Group accounts comply with International Accounting Standards (IAS) issued by the International Accounting Standards Committee (IASC) and with the Standing Interpretations issued by the Standing Interpretation Committee of the IASC (SIC).

The accounts have been prepared under the historical cost convention and on an accrual basis. All significant consolidated companies have a 31st December accounting year end. All disclosures required by the 4th and 7th European Union company law directives are provided.

Scope of consolidation

The Group accounts comprise those of Nestlé S.A. and of its affiliated companies, including joint ventures, and associated companies (the Group). Details of Nestlé Group companies are given on page 90.

Consolidated companies

Companies in which the Group has a participation, usually a majority, and where it is responsible for the management, are fully consolidated. This applies irrespective of the percentage of the participation in the share capital. Minority interests in equity, as well as in the net results, are shown separately in the Group accounts.

Proportional consolidation is applied for companies owned, controlled and managed jointly with partners. The individual assets, liabilities, income and expenditure are consolidated in proportion to the Nestlé participation in the equity (usually 50%).

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

Associated companies

Companies where the Group has a participation of 20% or more but does not exercise management control are accounted for by the equity method. The net assets and results are recognised on the basis of the associates' own accounting policies, which may differ from those of the Group.

Foreign currencies

In individual companies, 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 hedge instrument. Assets and liabilities in foreign currencies are translated at year end rates. Any resulting exchange differences are taken to the income statement.

On consolidation, assets and liabilities of Group companies denominated in foreign currencies are translated into Swiss francs at year end rates. Income and expense items are translated into Swiss francs at the annual average rates of exchange or, where known or determinable, at the rate on the date of the transaction for significant items.

Differences arising from the retranslation of opening net assets of Group companies, together with differences arising from the restatement of the net results for the year of Group companies from average or actual rates to year end rates, are taken to reserves.

The balance sheet and net results of Group companies operating in hyper inflationary 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.

Hedging

Derivatives are used to manage operational exposures to foreign exchange, interest rate and commodity price risks. They are entered into with high credit quality financial institutions, consistent with specific approval, limit and monitoring procedures. The instruments used to hedge foreign currency flows and positions mainly include forward foreign exchange contracts, options, currency futures and currency swaps. Foreign exchange gains and losses on hedging instruments are matched with foreign exchange gains and losses on the underlying asset or liability. When an anticipated future transaction has been hedged and the underlying position has not been recognised in the financial statements any change in the fair value of the hedging instrument is not recognised in the income statement for the period.

Where derivatives are held for the long-term and are used to manage interest rate risks, they are accounted for on the cost basis (where the underlying asset or liability is accounted for on the cost basis) and payments and receipts relating to the instruments are recognised under net financing costs as they accrue. In other cases the instruments are carried at fair value and changes in the market value are taken to income.



Commodity instruments are used to ensure the Group's access to raw materials at an appropriate price. Outright purchase transactions are recorded at the contracted rates. Changes in the fair value of open commodity instruments are not recognised until the actual purchase transactions are recognised in the financial statements.

Segmental information

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

The primary segment format – by management responsibilities and geographic area – represents the Group's management structure. The principal activity of the Group is the food business, which is managed along three geographic zones. The other activities, mainly pharmaceutical products and water, are managed on a global basis. The secondary segment format representing products is divided into five categories (segments).

Segment results represent the contribution of the different segments to central overheads, research and development costs and the profit of the Group. Unallocated items comprise mainly corporate expenses, research and development costs, amortisation of intangible assets and, for the product segments, restructuring and other costs. Specific corporate and research and development expenses are allocated to the corresponding segments.

Segment assets comprise tangible fixed assets, trade and other debtors, inventories and prepayments and accrued income. Unallocated items represent mainly corporate and research and development assets, including intangible assets. Liabilities comprise trade and other creditors, accrued liabilities and deferred income. Eliminations represent inter-company balances between the different segments.

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

Valuation methods and definitions

Sales to customers

Sales to customers represent the sales of products and services rendered to third parties, net of sales rebates and sales taxes.

Research and development costs

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

Net financing costs

This item includes the interest expense on borrowings from third parties as well as the interest income earned on funds invested outside the Group. Exchange differences and the results of foreign exchange and interest hedge operations linked to external loans, intra-Group short term loans and deposits in foreign currencies are also included under this heading.

For hyper-inflationary economies, only the real net financing costs appear under this heading. The inflationary portion relating to the financing of the net working capital, which represents a trading expense, is included under "Marketing and administration expenses". The balance of the inflationary portion, relating to the financing of fixed assets, is treated as an exchange difference and shown under "Net non-trading items" since it is offset by a devaluation in the exchange rate of the domestic currency.

Taxation

This includes current taxes on profit and other taxes such as taxes on capital. Also included are actual or potential withholding taxes on current and expected transfers of income from Group companies and tax adjustments relating to prior years.

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

Deferred taxes are calculated under the liability method at the rates of tax expected to prevail when the temporary differences reverse. Any changes of the tax rates are recognised to the income statement. Deferred tax liabilities are recognised on all taxable temporary differences with the exception of 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.



Liquid assets

Liquid assets include cash at banks and in hand, cash equivalents, marketable securities and other liquid funds and short term investments. Cash equivalents consist of bank deposits and fixed term investments whose maturities are three months or less from the date of acquisition. Short term investments consist of bank deposits and fixed term investments whose maturities are higher than three months from the date of acquisition.

Marketable securities, which are held to maturity, are valued at the lower of cost or market value, while those held for trading purposes are carried at market value. Any resulting gains or losses are recognised in the income statement.

Inventories

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

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

A provision is established when the net realisable value of any inventory item is lower than the values 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 received until after the balance sheet date.

Accrued liabilities and deferred income

Accrued liabilities 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.

Tangible fixed assets

Tangible fixed assets are shown in the balance sheet at their historical costs. Depreciation is provided on the straight line method so as to amortise the initial cost over the estimated useful lives, which are as follows:

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

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

Depreciation of tangible fixed assets is allocated to the appropriate expense headings in the income statement.

Leased assets

Assets acquired under long term finance leases are capitalised and depreciated in accordance with the Group's policy on tangible fixed assets. The associated obligations are included in financial liabilities.

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

Other financial assets

Long term receivables included under this heading are discounted to their net present value at the date of inception. Net recoveries are included under "Non-trading income".

Other investments primarily comprise unquoted participations of minor importance in various companies where the Nestlé Group does not exercise management control as well as some securities. They are carried at cost less provisions for any permanent impairment in value.



Intangible assets

As from 1st January 1995, the excess of the cost of an acquisition over the fair value of the net tangible assets is capitalised. Previously these amounts had been written off through reserves. This value comprises intangible assets acquired, in particular trademarks and industrial property rights, as well as business goodwill. The different components are not separately identified and valued.

Gains on the disposal of intangible assets acquired prior to 1st January 1995 are taken to reserves to the extent of amounts previously written off. Any excess is taken to the income statement. The gain or loss on disposals of intangible assets acquired after that date is also taken to the income statement.

Intangible assets are amortised on a straight line basis over their anticipated useful life but not exceeding 20 years. However, the Group considers that the useful life of intangible assets will in many cases exceed this period.

The unamortised balance is reviewed annually. Where the balance exceeds the value of expected future benefits, the difference is charged to the income statement.

Intangible assets are usually recorded in the currency of the acquiring entity.

Current liabilities

These include current or renewable liabilities due within a maximum period of one year. Tax payable also includes the withholding tax on expected transfers from Group companies.

Provisions

This item includes provisions for restructuring and contingencies which may arise and which have been prudently provided.

Employee benefits

Pensions and retirement benefits

The majority of Group employees are eligible for retirement benefits under defined benefit and defined contribution plans provided through separate funds, insurance plans or unfunded arrangements.

For defined benefit plans the amount charged to the income statement consists of current service cost which includes the normal cost of financing benefits in respect of future years of service and net interest on the net assets or obligations. If the case arises, variations from the current service cost are spread over the expected working lives of employees or recognised immediately in the case of retirees. Contributions to defined contribution pension schemes are charged to the income statement as incurred.

Liabilities arising under defined benefit schemes are either externally funded, with the assets of the scheme held separately from those of the Group in independently administered funds, or are unfunded but with provisions maintained in the Group balance sheet. Any difference between the charge to the income statement in respect of funded schemes and the contributions payable to each scheme is recorded in the balance sheet as a prepayment or a liability.

Post retirement health care and other employee benefits

Group companies, principally in the United States and Canada, maintain health care and life assurance benefit plans which cover eligible retired employees. Based on actuarial assumptions these obligations are charged to the income statement so as to spread the estimated cost over the expected working lives of the employees. An interest charge on accumulated liabilities is also made.

The obligations for other employee benefits are recognised on the basis of local legislation. They consist mainly of end of service indemnities, which do not have the character of pensions.



Dividends

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

Changes in accounting policies and modification of the scope of consolidation

Changes in accounting policies

The Group has abandoned the practice of using the net replacement values of tangible fixed assets and has returned to historical cost accounting. The effect of the change is disclosed on the statement of changes in equity. The comparative figures have been restated in the balance sheet and the income statement.

The Group has implemented the following International Accounting Standards in 1998:

– IAS 1 (revised 1997) "Presentation of financial statements" has been applied. The format of the balance sheet, the income statement and of the notes has been adapted to comply with this standard. A statement of changes in equity is now included. Comparative figures have been restated.

– IAS 12 (revised 1996) "Income taxes". This standard requires basically the recognition of deferred taxes on all temporary differences. The Group was previously recognising deferred taxes in accordance with the allowed alternative treatment of the previous IAS 12, that is only to the extent that deferred taxes would crystallise in the near future. The effect of the change is disclosed on the statement of changes in equity. Comparative figures have been restated in the balance sheet. The impact on the income statement is not material.

– IAS 33 "Earnings per share". The Group complies with the measurement requirements of this standard and discloses earnings per share on the face of the income statement while the bases for the calculation are shown in the notes.

Modification of the scope of consolidation

The scope of consolidation has been affected by the acquisitions and disposals made in 1998. The principal businesses are detailed below.

Fully consolidated

Newly included:

Spillers Petfoods, 100% (May)

Borden Brands International activities, mainly Klim and Cremora brands, 100% (February)

Increase in participation:

San Pellegrino, Italy, from 50% to 100% (January)

Nestlé Philippines Inc., Philippines, from 55% to 100% (July)

Disposal:

Libby's canned meats & fish, USA (January)



Notes

1. Segmental information

By management responsibilities and geographic area

In millions of Swiss francs	Sales		Results	
	1998	1997	1998	1997
Food				
Europe	26 798	25 706	2 452	2 348
Americas	22 563	22 262	2 963	2 716
Africa, Asia and Oceania	12 429	13 493	1 618	2 039
Other activities	9 957	8 537	1 343	1 091
	<u>71 747</u>	<u>69 998</u>	<u>8 376</u>	<u>8 194</u>
Unallocated items ^(a)			(1 276)	(1 137)
Trading profit			<u>7 100</u>	<u>7 057</u>

^(a) Mainly corporate expenses, research and development costs as well as amortisation of intangible assets.

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

In millions of Swiss francs	Assets		Liabilities	
	1998	1997	1998	1997
Food				
Europe	14 354	13 080	5 083	4 704
Americas	9 971	10 618	2 748	2 753
Africa, Asia and Oceania	6 526	6 809	1 588	1 663
Other activities	6 124	4 934	2 350	1 979
	<u>36 975</u>	<u>35 441</u>	<u>11 769</u>	<u>11 099</u>
Unallocated items ^(b)	6 828	3 619	38	83
Eliminations	(587)	(751)	(587)	(751)
	<u>43 216</u>	<u>38 309</u>	<u>11 220</u>	<u>10 431</u>

^(b) Corporate and research and development assets/liabilities, including intangible assets.

In millions of Swiss francs	Capital expenditure		Depreciation of tangible fixed assets	
	1998	1997	1998	1997
Food				
Europe	1 026	1 041	997	1 023
Americas	827	823	728	756
Africa, Asia and Oceania	457	736	378	414
Other activities	629	572	434	413
	<u>2 939</u>	<u>3 172</u>	<u>2 537</u>	<u>2 606</u>
Unallocated items ^(c)	122	89	72	71
	<u>3 061</u>	<u>3 261</u>	<u>2 609</u>	<u>2 677</u>

^(c) Corporate and research and development tangible fixed assets.



By major product group

In millions of Swiss francs	Sales		Results	
	1998	1997	1998	1997
Beverages	19 879	19 142	3 253	3 243
Milk products, nutrition and ice cream	19 175	19 334	1 837	1 932
Prepared dishes and cooking aids (and miscellaneous activities)	18 765	17 660	1 617	1 525
Chocolate and confectionery	10 485	10 663	976	1 054
Pharmaceutical products	3 443	3 199	915	825
	<u>71 747</u>	<u>69 998</u>	<u>8 598</u>	<u>8 579</u>
Unallocated items ^(a)			<u>(1 498)</u>	<u>(1 522)</u>
Trading profit			<u>7 100</u>	<u>7 057</u>

^(a) Mainly corporate expenses, research and development costs, amortisation of intangible assets as well as restructuring costs.

In millions of Swiss francs	Assets	
	1998	1997
Beverages	9 685	9 529
Milk products, nutrition and ice cream	10 759	11 109
Prepared dishes and cooking aids (and miscellaneous activities)	9 316	8 624
Chocolate and confectionery	6 343	6 423
Pharmaceutical products	1 095	910
	<u>37 198</u>	<u>36 595</u>

In millions of Swiss francs	Capital expenditure	
	1998	1997
Beverages	593	629
Milk products, nutrition and ice cream	576	745
Prepared dishes and cooking aids (and miscellaneous activities)	442	445
Chocolate and confectionery	388	435
Pharmaceutical products	81	66
	<u>2 080</u>	<u>2 320</u>
Administration, distribution, research and development	981	941
	<u>3 061</u>	<u>3 261</u>



2. Net financing costs

In millions of Swiss francs	1998	1997
Interest income	498	428
Interest expense	(1 666)	(1 484)
	<u>(1 168)</u>	<u>(1 056)</u>

Interest income includes Fr. 109 million (1997: Fr. 87 million) of gains arising on securities held for trading purposes.

3. Net non-trading items

In millions of Swiss francs	1998	1997
Non-trading expenses		
Loss on disposal of fixed assets	(4)	(20)
Loss on disposal of activities	(2)	(29)
Provisions for risks	(77)	(207)
Other	(331)	(266)
	<u>(414)</u>	<u>(522)</u>
Non-trading income		
Profit on disposal of fixed assets	91	32
Profit on disposal of activities	158	22
Release of provisions for risks	160	54
Other	194	351
	<u>603</u>	<u>459</u>
	<u>189</u>	<u>(63)</u>

4. Profit before taxation

Profit is stated after charging the following items:

In millions of Swiss francs	1998	1997
Depreciation of tangible fixed assets	2 609	2 677
Salaries and welfare expenses	11 589	11 597
Defined benefit pensions	403	359
Defined contribution pensions	110	108
Remuneration of the executive management and of the Directors	16	18
Auditors' remuneration	27	25
Rental charges	487	478
Exchange differences	(18)	5



5. Taxation

In millions of Swiss francs 1998 1997

^(a) After deduction of previously unrecognised tax credits on capital losses of Fr. 72 million.

^(b) Not available.

^(c) Includes withholding tax levied on transfer of income.

Components of tax expense

Current tax	1 595 ^(a)	1 566
Deferred tax	49	(192)
Changes in deferred tax rates	(6)	^(b)
Prior years' tax	(1)	5
Others ^(c)	365	463
	<u>2 002</u>	<u>1 842</u>

Deferred tax by types

Tangible fixed assets	(12)	^(b)
Intangible assets	34	
Employee benefits	(62)	
Inventories, receivables, payables and provisions	87	
Unused tax losses and tax credits	(11)	
Other	13	
	<u>49</u>	<u>(192)</u>

Reconciliation of tax expense

Tax at the theoretical domestic rates applicable to profits of taxable entities in the countries concerned	1 664	^(b)
Tax effect on non-deductible amortisation of intangible assets	96	
Tax effect on non-allowable items	7	
Benefits obtained on compensation of current year capital gains with prior year's capital losses for which no tax credits were recognised	(72)	
Difference of tax rates	(57)	
Other tax ^(c)	364	
	<u>2 002</u>	<u>1 842</u>

6. Share of results of associated companies

In millions of Swiss francs 1998 1997

Share of profit before taxation	499	430
Less share of taxation	(199)	(174)
Share of profit after taxation	<u>300</u>	<u>256</u>

7. Earnings per share

1998 1997

Basic earnings in Swiss francs per share	109.2	106.3
Net profit per income statement (in millions of Swiss francs)	4 291	4 182
Weighted average number of shares outstanding	39 293 665	39 331 126



	1998	1997
Fully diluted earnings in Swiss francs per share	108.1	104.4
Theoretical net profit assuming the exercise of all outstanding options and sale of all treasury shares (in millions of Swiss francs)	4 362	4 211
Number of shares	40 352 000	40 352 000

8. Liquid assets

In millions of Swiss francs	1998	1997
Cash and cash equivalents		
Cash at bank and in hand	1 913	1 067
Cash equivalents	3 071	2 345
	4 984	3 412
Other liquid assets		
Short term investments	1 784	2 215
Marketable securities and other	1 195	2 475
	2 979	4 690
	7 963	8 102

Liquid assets are mainly denominated in Swiss francs (65%), in Pound sterling (13%), in US dollars (8%) and in European Monetary Union currencies (7%). Marketable securities held for trading purposes amount to Fr. 90 million (1997: Fr. 352 million). The fair value of other liquid assets is not materially different from their carrying amounts. Rates of annual interest on interest bearing instruments range from 1.5% on Swiss francs to 6% on Pound sterling.

9. Trade and other receivables

In millions of Swiss francs	1998	1997
Trade receivables	8 857	8 011
Other receivables	2 134	1 841
	10 991	9 852
Amounts included above which are due after more than one year	117	85

10. Inventories

In millions of Swiss francs	1998	1997
Raw materials, work in progress and sundry supplies	2 792	2 980
Manufactured goods	4 319	4 132
Provisions	(163)	(144)
	6 948	6 968

Inventories amounting to Fr. 165 million (1997: Fr. 119 million) are pledged as security for financial liabilities.



11. Tangible fixed assets

In millions of Swiss francs	Land and buildings	Machinery and equipment	Tools, furniture and other equipment	Vehicles	Total 1998	Total 1997
Gross value:						
At 1st January	11 235	21 964	5 066	904	39 169	37 478
Currency retranslation and inflation adjustment	(312)	(819)	(201)	(49)	(1 381)	(89)
Expenditure	476	1 766	675	144	3 061	3 261
Disposals	(348)	(829)	(347)	(160)	(1 684)	(1 317)
Modification of the scope of consolidation	410	887	99	20	1 416	(148)
Other	(182)	(85)	12	(5)	(260)	(16)
At 31st December	<u>11 279</u>	<u>22 884</u>	<u>5 304</u>	<u>854</u>	<u>40 321</u>	<u>39 169</u>
Accumulated depreciation:						
At 1st January	(3 760)	(13 241)	(3 406)	(577)	(20 984)	(19 761)
Currency retranslation and inflation adjustment	267	688	128	34	1 117	234
Depreciation	(341)	(1 584)	(564)	(120)	(2 609)	(2 677)
Disposals	123	658	319	123	1 223	999
Modification of the scope of consolidation	(112)	(457)	(79)	(13)	(661)	198
Other	(18)	6	25	6	19	23
At 31st December	<u>(3 841)</u>	<u>(13 930)</u>	<u>(3 577)</u>	<u>(547)</u>	<u>(21 895)</u>	<u>(20 984)</u>
Net at 31st December	<u>7 438</u>	<u>8 954</u>	<u>1 727</u>	<u>307</u>	<u>18 426</u>	<u>18 185</u>

At 31st December 1998, net tangible fixed assets include Fr. 400 million (1997: Fr. 482 million) of assets under construction. Net tangible fixed assets held under finance leases at 31st December 1998 amount to Fr. 115 million (1997: Fr. 150 million). Net tangible fixed assets of Fr. 379 million (1997: Fr. 368 million) are pledged as security for financial creditors.

The fire risks have been reasonably estimated and consequently insured, depending on the local specific rules.

12. Investments in associated companies

This item includes substantially our share of the equity of the indirect participation in L'Oréal, Paris for Fr. 1367 million (1997: Fr. 1206 million). Its market value at 31st December 1998 amounts to Fr. 17 609 million (1997: Fr. 10 224 million).

13. Other financial assets

In millions of Swiss francs	1998	1997
Medium and long term receivables	1 552	1 759
Other investments	145	171
	<u>1 697</u>	<u>1 930</u>



14. Intangible assets

In millions of Swiss francs	1998	1997
Gross value:		
At 1st January	2 831	2 150
Currency retranslation	(116)	(76)
On acquisitions	3 848	651
Other	75	106
At 31st December	<u>6 638</u>	<u>2 831</u>
Amortisation:		
At 1st January	(276)	(133)
Currency retranslation	16	6
Amortisation	(301)	(140)
Other	(3)	(9)
At 31st December	<u>(564)</u>	<u>(276)</u>
Net at 31st December	<u>6 074</u>	<u>2 555</u>

15. Trade and other payables

In millions of Swiss francs	1998	1997
Trade payables	5 121	4 746
Other payables	<u>3 390</u>	<u>3 433</u>
	<u>8 511</u>	<u>8 179</u>

16. Current financial liabilities

In millions of Swiss francs	1998	1997
Commercial Paper	2 145	2 377
Line of credit facilities	2 089	1 046
Other short term financial liabilities	<u>5 736</u>	<u>4 913</u>
	<u>9 970</u>	<u>8 336</u>
Current portion of medium and long term financial liabilities	575	1 377
	<u>10 545</u>	<u>9 713</u>

Short term financial liabilities are mainly denominated in European Monetary Union currencies (25%), in Pound sterling (22%) and in US dollars (15%). Rates of annual interest range from 3.25% on French francs to 28.5% on Mexican pesos.



17. Medium and long term financial liabilities

In millions of Swiss francs	1998	1997
Loans from financial institutions	1 029	548
Bonds	3 529	3 950
Obligations under finance leases	64	72
	<u>4 622</u>	<u>4 570</u>
Current portion of medium and long term financial liabilities	<u>(575)</u>	<u>(1 377)</u>
	<u>4 047</u>	<u>3 193</u>

Loans from financial institutions are mainly denominated in European Monetary Union currencies (32%) and in US dollars (23%). Annual interest rates range from 3.25% on German marks to 29% on Brazilian reais. The majority of the loans are at fixed rates. Currencies and interest rates on bonds are disclosed below.

The above medium and long term financial creditors are repayable as follows:

In millions of Swiss francs	1998	1997
in the second year	1 211	588
in the third to fifth year inclusive	2 462	2 069
after the fifth year	374	536
	<u>4 047</u>	<u>3 193</u>

Bonds in issue which are carried at face value, adjusted for any related currency hedge, are as follows:

In millions of Swiss francs	1998	1997			
Face value and currency	Interest rate	Year of issue/ maturity			
Bond Issues of Nestlé Holdings, Inc., USA					
USD 200 mio	6%	1991-1998	Warrants attached, expired.	—	290
USD 200 mio	5 ⁷ / ₈ %	1991-1998	Warrants attached, expired.	—	290
USD 250 mio	3 ⁵ / ₈ %	1992-1999	Warrants attached, expired.	345	363
CHF 300 mio	6 ³ / ₄ %	1992-2002	Subject to interest rate and currency swaps that create a US dollar liability at variable rates.	315	331
CAD 300 mio	6 ¹ / ₄ %	1993-1998	Subject to interest rate and currency swaps that create a US dollar liability at variable rates.	—	329
USD 250 mio	7 ³ / ₈ %	1995-2005		345	363
DEM 500 mio	5 ¹ / ₈ %	1996-2001	Subject to interest rate and currency swaps that create a US dollar liability at variable rates.	457	480



In millions of Swiss francs			1998	1997	
Face value and currency	Interest rate	Year of issue/maturity			
USD 300 mio	3%	1997-2002	Convertible into Nestlé S.A. shares, but subject to an equity and interest rate swap that hedges the issuer against its equity exposure and creates a straight US dollar liability at variable rate.	414	435
USD 250 mio	5 ⁵ / ₈ %	1998-2003	Subject to an interest rate swap that creates a liability at variable rate.	345	—
Bond Issue of Nestlé Entreprises S.A., France					
FRF 1500 mio	6 ¹ / ₂ %	1993-1998		—	364
Bond Issue of Nestlé Finance-France S.A., France					
ZAR 200 mio	14 ³ / ₄ %	1997-2000	ZAR (rand) 100 mio are subject to an interest rate and currency swap that creates a FRF liability at variable rate. ZAR 100 mio are subject to an interest rate swap that creates a liability at variable rate.	63	62
Bond Issues of Nestlé (UK) Ltd., United Kingdom					
GBP 100 mio	6 ³ / ₄ %	1997-2000	Subject to an interest rate swap that creates a liability at variable rate.	229	241
USD 250 mio	5%	1998-2003	Subject to an interest rate and currency swap that creates a Pound sterling liability at variable rate.	345	—
Bond Issues of Nestlé Australia Ltd., Australia					
CHF 300 mio	3%	1996-2000	Subject to interest rate and currency swaps that create an Australian dollar liability at variable rate.	285	321
USD 250 mio	1 ¹ / ₄ %	1998-2005	Convertible into Nestlé S.A. shares, but subject to an equity and interest rate and currency swap that hedges the issuer against its equity and currency exposures and creates a straight Australian dollar loan at variable rate.	320	—
Other bonds				66	81
Total				3 529	3 950
Due within one year				(379)	(1 286)
Due after one year				3 150	2 664



The market value of the above bonds amounts to Fr. 3525 million as at 31st December 1998 (1997: Fr. 3896 million). This amount represents the quotation of the bonds of Fr. 3814 million less unrealised gains of Fr. 289 million on the hedge instruments (see note 28).

18. Employee benefits

In millions of Swiss francs	1998	1997
Pensions and retirement benefits	948	889
Post retirement health care and other employee benefits	1 173	1 122
	<u>2 121</u>	<u>2 011</u>
At the beginning of the year the assets and liabilities of defined benefit plans were as follows:		
Actuarial present values of retirement benefits:		
Funded plans	12 008	10 905
Unfunded plans	927	721
Fair value of amount set aside for retirement benefits:		
Plan assets of funded plans	12 897	11 401
Provisions for pensions and retirement benefits	889	911

Actuarial assumptions used for the main benefit plans:

Interest rate less rate of salary increase	1% to 5%
Interest rate less rate of pension increase	3% to 8%

Actuarial valuations of the individual pension arrangements of the Group are performed at not more than three-yearly intervals. The actuaries use either the projected unit credit or attained age method of valuation in accordance with local practice and statutory requirements. Contributions to funded schemes are determined for each plan separately based on actuarial advice in accordance with local practice and legislation. Any surpluses or deficits are absorbed by prospective modification of contributions over a period of years.

19. Deferred taxes

In millions of Swiss francs	1998	1997
Tax assets by types of temporary differences		
Tangible fixed assets	31	(a)
Intangible assets	237	
Employee benefits	505	
Inventories, receivables, payables and provisions	637	
Unused tax losses and unused tax credits	394	
Other	334	
	<u>2 138</u>	

(a) Not available.



In millions of Swiss francs	1998	1997
Tax liabilities by types of temporary differences		
Tangible fixed assets	1 002	(a) (a) Not available.
Intangible assets	7	
Employee benefits	9	
Inventories, receivables, payables and provisions	111	
Other	364	
	<u>1 493</u>	
Total net	<u>645</u>	<u>705</u>
Reflected in the balance sheet as follows:		
Deferred tax assets	2 040	1 836
Deferred tax liabilities	1 395	1 131
Total net as above	<u>645</u>	<u>705</u>
Temporary differences for which no deferred tax is recognised:		
– On investments in affiliated companies (taxable temporary difference)	2 649	
– On unused tax losses and tax credits and other	483	

20. Share capital of Nestlé S.A.

	1998	1997
Number of registered shares of nominal value Fr. 10 each	40 352 000	40 352 000
In millions of Swiss francs	404	404

Additional information is given in the annex to the Annual report of Nestlé S.A., note 18 on page 103.

The share capital includes the nominal value of treasury shares (see note 21).

21. Treasury shares

This item includes the book value of treasury shares (of Nestlé S.A.) held by:

- an affiliated company: 928 940 freely available shares;
- Nestlé S.A.: 71 210 shares in order to allow the exercise of option rights by members of the Group's management;
- an affiliated company: 111 855 shares held for trading purposes.

The movement of these shares is described in the annex to the Annual report of Nestlé S.A., note 20 on page 104.



22. Decrease/(increase) in working capital

In millions of Swiss francs	1998	1997
Inventories	(67)	(331)
Trade receivables	(725)	(273)
Trade payables	100	331
Other payables	(50)	359
Net accruals and deferrals	367	84
Other	(131)	158
	<u>(506)</u>	<u>328</u>

23. Acquisitions

In millions of Swiss francs	1998	1997
Fair value of net assets acquired:		
Tangible fixed assets	800	235
Financial assets	(45)	7
Provisions	(219)	(29)
Deferred tax assets	213	—
Minority interests	(23)	(8)
Purchase of minority interests in existing participations	144	98
Net working capital	211	64
Financial liabilities	(731)	(115)
Liquid assets	85	35
	<u>435</u>	<u>287</u>
Intangible assets	3 848	651
Total acquisition cost	4 283	938
less:		
Cash and cash equivalents acquired	(85)	(35)
Consideration payable	(167)	—
Cash outflow on acquisitions	<u>4 031</u>	<u>903</u>

24. Disposals

In millions of Swiss francs	1998	1997
Net assets disposed of:		
Tangible fixed assets	45	185
Net working capital	35	193
Liquid assets	—	1
	<u>80</u>	<u>379</u>
Profit/(loss) on disposals	156	(7)
Total sale consideration	236	372
less:		
Cash and cash equivalents disposed of	—	(1)
Consideration receivable	—	(39)
Cash inflow on disposals	<u>236</u>	<u>332</u>



25. Dividends

Dividends payable are not accounted for until they have been ratified at the Annual General Meeting. At the meeting on 3rd June 1999, the following dividend in respect of 1998 will be proposed:

Dividend per share	Fr.	38.–
resulting in a total dividend of ^(a)	Fr.	1 497 612 566.–

^(a) Number of shares with right to dividend: see Annual report of Nestlé S.A. page 105.

The accounts for the year ended 31st December 1998 do not reflect this proposed distribution, which will be treated as an appropriation of profit in the year ending 31st December 1999.

26. Foreign exchange hedge instruments

Forward foreign currency sales

In millions of Swiss francs	Recognised transactions		Anticipated future transactions	
	1998	1997	1998	1997
Contractual values	4 688 ^(b)	5 746	472	283
Fair values	4 744	5 770	500	293
Unrealised gains	34	32	—	—
Unrealised losses	90	56	28	10

^(b) Contractual values include premiums for purchased options of Fr. 18 mio and for written options of Fr. 8 mio. The notional amounts of these instruments are respectively Fr. 1936 mio and Fr. 1857 mio.

The hedge instruments consist essentially of forward foreign exchange contracts and of options. Recognised transactions relate to balance sheet positions resulting from liquid assets in foreign currencies and, to a lesser extent, from export receivables, while anticipated future transactions refer to expected export sales.

Due to the nature of the Group's operations, most of the transactions have maturities of less than one year. They are denominated mainly in US dollars and in European Monetary Union currencies.

Forward foreign currency purchases

In millions of Swiss francs	Recognised transactions		Anticipated future transactions	
	1998	1997	1998	1997
Contractual values	1 988 ^(c)	2 348	582	383
Fair values	2 011	2 387	582	384
Unrealised gains	50	46	9	9
Unrealised losses	27	7	9	8

^(c) Contractual values include premiums for purchased options of Fr. 11 mio and for written options of Fr. 10 mio. The notional amounts of these instruments are respectively Fr. 1219 mio and Fr. 632 mio.

The hedge instruments consist mainly of forward foreign exchange contracts and of options. Recognised transactions are related to balance sheet positions such as suppliers and financial liabilities while anticipated future transactions refer to commitments for commodity and machinery imports.

Due to the nature of the Group's operations, most of the transactions have maturities of less than one year. They are denominated mainly in US dollars and in European Monetary Union currencies.



27. Commodity hedge instruments

In millions of Swiss francs	1998	1997
Contractual values	478	452
Fair values	402	474
Unrealised gains	2	27
Unrealised losses	78	5

Commodity instruments consist essentially of futures and options on terminal markets related to the supply of coffee and cocoa used for the manufacture of finished goods.

28. Interest rate instruments

Interest exposures on liquid assets are hedged by using instruments which have the effect of altering the average maturities and the interest rates on the underlying positions. The notional amounts of these instruments and the unrealised gains and losses on revaluation at market rates are given below:

In millions of Swiss francs	1998			1997		
	Notional amounts	Unrealised gains	Unrealised losses	Notional amounts	Unrealised gains	Unrealised losses
Interest rate swaps	4 458	42	29	1 759	9	5
Interest rate and currency swaps	55	—	—	298	3	4
Interest rate futures	545	—	—	4 659	1	2

These instruments have maturity dates of three months to five years. The instruments are mainly denominated in Swiss francs and in European Monetary Union currencies with annual interest rates ranging from 2.15% on Swiss francs to 4.5% on German marks.

For the financial liabilities the following interest instruments are used. The majority of interest rate swaps as well as interest rate and currency swaps modify the maturities and the interest rates of long term bonds thus creating obligations in the reporting currency of the issuer (see note 17), while other interest rate and currency swaps, forward rate agreements, interest rate futures and options hedge interest rate exposures of the affiliated companies. The notional amounts of these instruments and the unrealised gains and losses on revaluation at market rates are given below:

In millions of Swiss francs	1998			1997		
	Notional amounts	Unrealised gains	Unrealised losses	Notional amounts	Unrealised gains	Unrealised losses
Interest rate swaps ^(a)	2 215	243	1	1 697	61	12
Interest rate and currency swaps	2 591	97	23	1 195	4	39
Forward rate agreements	1 433	—	9	649	—	2
Interest rate futures	43	9	—	207	8	—
Options purchased	437	—	—	193	—	—
Options written	586	—	—	145	—	—

^(a) Include equity swaps.



These instruments have maturity dates of three months to seven years. They are denominated mainly in US dollars, Australian dollars, European Monetary Union currencies and Pound sterling. Their annual interest rates range from 3% on French francs to 6.5% on Pound sterling.

29. Guarantees

In the normal course of business, the Group has given guarantees totalling Fr. 372 million to third parties (1997: Fr. 483 million).

30. Commitments for expenditure on tangible fixed assets

At 31st December 1998, the Group was committed to expenditure amounting to Fr. 219 million (1997: Fr. 224 million).

31. Commitments under irrevocable operating leases

The following charges arise from these commitments:

In millions of Swiss francs	1998	1997
within one year	242	231
in the second year	203	193
in the third to fifth year inclusive	420	421
after the fifth year	1 112	988
	1 977	1 833

32. Contingent liabilities

The Group has provided for all significant contingent liabilities which are probable of assertion and success.

33. Post balance sheet events

No material events.

34. Transactions with related parties

The Group has not entered into any material transaction with related parties.

35. Nestlé Group Companies

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



Principal exchange rates

Swiss francs per		Year end rates		Average annual rates	
		1998	1997	1998	1997
1 US Dollar	USD	1.38	1.45	1.44	1.45
100 French Francs	FRF	24.50	24.30	24.60	24.90
100 Deutsche Marks	DEM	82.30	81.20	82.40	83.80
1 Pound Sterling	GBP	2.29	2.41	2.39	2.38
100 Italian Lira	ITL	0.083	0.083	0.084	0.085
100 Brazilian Reais	BRL	114.—	130.—	125.—	135.—
100 Spanish Pesetas	ESP	0.968	0.96	0.972	0.991
100 Japanese Yen	JPY	1.21	1.12	1.11	1.19
100 Mexican Pesos	MXN	13.90	18.—	15.70	18.30
1 Canadian Dollar	CAD	0.89	1.01	0.97	1.05
1 Australian Dollar	AUD	0.847	0.951	0.91	1.08



Report of the Group auditors

to the General Meeting of Nestlé S.A.

As Group auditors we have audited the Group accounts (balance sheet, income statement, cash flow statement and annex) of the Nestlé Group on pages 61 to 86 for the year ended 31st December 1998.

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

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

In our opinion, the Group accounts give a true and fair view of the financial position, the net profit and cash flows and comply in all respects with International Accounting Standards (IAS), the Listing Rules of the Swiss Exchange and the law.

We recommend that the Group accounts submitted to you be approved.

 Klynveld Peat Marwick Goerdeler SA



S.R. Cormack
Chartered accountant



B.A. Mathers
Chartered accountant

Auditors in charge
London and Zurich, 25th March 1999

Financial information – ten year review

In millions of Swiss francs (except for per share data)

1998

1997

Results

Consolidated sales	71 747	69 998
Trading profit	7 100	7 057
as % of sales	9.9%	10.1%
Taxation	2 002	1 842
Consolidated net profit	4 291	4 182
as % of sales	6.0%	6.0%
as % of average equity	19.7%	21.9%
Total amount of dividend	1 498 ^(a)	1 376
Depreciation of tangible fixed assets	2 609	2 677
as % of sales	3.6%	3.8%
Amortisation of intangible assets	301	140

Balance sheet

Current assets	26 679	25 671
<i>of which liquid assets</i>	7 963	8 102
Fixed assets	29 762	25 910
Total assets	56 441	51 581
Current liabilities	22 591	20 985
Medium and long term liabilities and minority interests	10 826	9 990
Equity	23 024	20 606
Expenditure on tangible fixed assets	3 061	3 261
as % of sales	4.3%	4.7%

Data per share

Weighted average number of shares outstanding ^(b)	39 293 665	39 331 126
Consolidated net profit ^(c)	Fr. 109.2	106.3
Equity ^(c)	Fr. 586	524
Dividend ^(c)	Fr. 38.0 ^(e)	35.0
Pay-out ratio	% 34.8% ^(e)	32.9%
Stock exchange prices (high/low) ^(c)	Fr. 3498/2122	2192/1421
Yield ^(d)	% 1.1/1.8 ^(e)	1.6/2.5
Number of personnel	231 881	225 808

^(a) As proposed by the Board of Directors of Nestlé S.A. This amount includes dividends payable in respect of shares with right to dividend at the balance sheet date (Fr. 1491 million) as well as those potentially payable on the shares covering options and shares held for trading purposes (Fr. 7 million).

^(b) The figures prior to 1990 represent the number of shares with right to dividend.

^(c) Figures prior to 1993 adjusted in order to make comparable the data per share, following rights issues in June 1993 and in June 1989.

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

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



	1996 ^(f)	1995	1994 ^(g)	1993	1992	1991	1990	1989
.....	60 490	56 484	56 894	57 486	54 500	50 486	46 369	48 036
.....	6 053	5 658	5 628	5 591	5 384	4 783	4 484	4 660
.....	10.0%	10.0%	9.9%	9.7%	9.9%	9.5%	9.7%	9.7%
.....	1 552	1 561	1 647	1 669	1 745	1 605	1 404	1 538
.....	3 592	3 078	3 250	2 887	2 698	2 470	2 272	2 412
.....	5.9%	5.4%	5.7%	5.0%	5.0%	4.9%	4.9%	5.0%
.....	22.9%	23.3%	19.9%	19.5%	18.4%	17.2%	16.6%	19.1%
.....	1 180	1 043	1 040	972	870	793	736	735
.....	2 305	2 103	2 321	2 283	2 038	1 863	1 688	1 667
.....	3.8%	3.7%	4.1%	4.0%	3.7%	3.7%	3.6%	3.5%
.....	102	42	—	—	—	—	—	—
.....	23 070	20 927	21 420	20 982	20 670	19 195	18 460	17 985
.....	5 860	5 124	5 132	5 084	4 688	4 888	5 528	4 231
.....	23 605	19 189	23 807	24 178	23 803	19 795	17 116	17 421
.....	46 675	40 116	45 227	45 160	44 473	38 990	35 576	35 406
.....	19 859	17 410	17 297	18 166	20 019	14 889	14 381	13 981
.....	9 239	8 862	10 986	11 334	10 524	8 731	7 781	7 486
.....	17 577	13 844	16 944	15 660	13 930	15 370	13 414	13 939
.....	3 054	3 056	3 029	3 093	3 191	2 815	2 538	2 446
.....	5.0%	5.4%	5.3%	5.4%	5.9%	5.6%	5.5%	5.1%
.....	39 363 637	39 220 756	38 838 376	37 759 826	36 938 374	36 800 050	36 750 000	36 750 000
.....	91.3	78.5	83.7	76.5	72.2	66.4	61.1	64.9
.....	557	459	436	415	373	413	361	375
.....	30.0	26.5	26.5	25.0	23.2	21.3	19.8	19.8
.....	32.9%	33.8%	31.7%	32.7%	32.2%	32.0%	32.4%	30.5%
.....	1487/1250	1298/1090	1437/1063	1294/1015	1162/857	876/651	913/650	867/623
.....	2.0/2.4	2.0/2.4	1.8/2.5	1.9/2.5	2.0/2.7	2.4/3.3	2.2/3.0	2.3/3.2
.....	221 144	220 172	212 687	209 755	218 005	201 139	199 021	196 940

^(f) Figures prior to 1997 have not been restated following the first application of IAS 12 (revised 1996) "Income tax".

^(g) Figures prior to 1995 have not been restated to reflect the change from net replacement values of tangible fixed assets to historical cost accounting.



Companies of the Nestlé Group

Operating companies

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

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

1. Affiliated companies for which full consolidation treatment is applied (see page 66, "Scope of consolidation").

Europe

Germany Nestlé Deutschland AG *Frankfurt* 97.2% • Blaue Quellen Mineral- und Heilbrunnen AG *Rhens am Rhein* 90.6% • Trinks GmbH *Goslar* 90.6% • Alcon Pharma GmbH* *Freiburg/Breisgau* 100% • Alois Dallmayr Kaffee OHG *München* 48.6% • Heimbs & Sohn GmbH & Co. KG *Braunschweig* 48.6% • Azul Kaffee GmbH & Co. KG *Bremen* 48.6% • Nähr-Engel GmbH *Darmstadt* 97.22% • **Austria** Nestlé Österreich GmbH *Wien* 100% • **Belgium** Nestlé Belgilux S.A. *Bruxelles* 100% • Perrier Vittel Belgilux S.A. *Etalle* 100% • Alcon-Couvreur S.A.* *Puurs* 100% • S.A. Friskies Belgilux N.V. *Bruxelles* 100% • **Bulgaria** Nestlé Sofia A.D. *Sofia* 99.9% • **Denmark** Nestlé Danmark A/S *København* 100% • Premier Is A/S *Odense* 100% • Friskies Petcare A/S *København* 100% • **Spain** Nestlé España S.A. *Barcelona* 100% • Productos del Café S.A. *Reus* 100% • Davigel España S.A. *Palma de Mallorca* 100% • EYCAM Perrier S.A. *Barcelona* 100% • Alcon-Cusi S.A.* *Barcelona* 100% • Helados y Congelados S.A. *Araya* 100% • Compañía del Frio Alimentario S.A. *Araya* 100% • Compañía Avidesa S.A. *Alzira* 100% • Alimentos Congelados S.A. *Marcilla* 100% • Friskies España S.A. *Esplugues de Llobregat* 100% • **Finland** Suomen Nestlé Oy *Helsinki* 100% • Friskies Finland Oy *Helsinki* 100% • **France** Nestlé France S.A. *Noisiel* 100% • France Glaces-Findus S.A. *Noisiel* 100% • Nestlé Produits Laitiers Frais *Noisiel* 99.9% • Herta S.A. *Noisiel* 100% • Davigel S.A. *Martin-Eglise* 100% • Perrier Vittel France *Paris* 100% • S.A. des Eaux Minérales de Ribeaupville *Ribeaupville* 98.3% • Société Conditionnement et Industrie S.A. *Bernay* 77.9% • Eau Minérale Naturelle de Plancoët «Source Sassay» S.A. *Plancoët* 100% • Nestlé Coffee Specialties France S.A. *Levallois-Perret* 100% • Nestlé Clinical Nutrition S.A. *Sèvres* 100% • Laboratoires Alcon S.A.* *Rueil-Malmaison* 100% • Friskies France, *Rueil-Malmaison* 100% • **Greece** Nestlé Hellas S.A. *Maroussi* 100% • Alcon Laboratories Hellas E.P.E.* *Alimos Attikis* 100% • **Italy** Nestlé Italiana S.p.A. *Milano* 99.9% • San Pellegrino S.p.A. *Milano* 100% • Acqua

Vera S.p.A. *Padova* 100% • Alcon Italia S.p.A.* *Milano* 100% • Friskies Italia S.p.A. *Castiglione delle Stiviere* 100% • **Hungary** Nestlé Hungaria Kft *Budapest* 100% • **Norway** A/S Nestlé Norge *Asker-Oslo* 100% • Drammen Is A/S *Oslo* 100% • **Netherlands** Nestlé Nederland B.V. *Amsterdam* 100% • Alcon Nederland B.V.* *Gorinchem* 100% • Spillers Petfoods Benelux B.V. *Amsterdam* 100% • **Poland** Goplana S.A. *Poznan* 81.97% • Nestlé Polska Sp. zo.o. *Warsaw* 100% • Naleczowianka Spolka zo.o. *Naleczov* 33.3% • Winiary S.A. *Kalisz* 94.76% • **Portugal** Nestlé Portugal S.A. *Linda-a-Velha* 100% • Longa Vida S.A. *Matosinho* 100% • Sociedade das Aguas de Pisoos Moura S.A. *Lisboa* 100% • **Republic of Ireland** Nestlé (Ireland) Ltd *Tallaght-Dublin* 100% • Friskies Petcare (Ireland) Ltd *Dublin* 100% • **Czech Republic** Nestlé Food S.r.o. *Praha* 100% • **United Kingdom** Nestlé UK Ltd *Croydon* 100% • Perrier Vittel UK Ltd *Rickmansworth* 100% • Buxton Mineral Water Company Ltd *Rickmansworth* 100% • Alcon Laboratories (UK) Ltd* *Herts* 100% • Friskies Petcare (UK) Ltd *New Malden* 100% • **Russia** JSC Confectionery Union Rossiya *Samara* 93.21% • Nestlé Zhukovsky Ice Cream LLC *Zhukovsky* 88.54% • Nestlé Food LLC *Moscow* 100% • OJSC Confectionery Firm Altai *Barnaul* 84.49% • OJSC Kamskaya *Perm* 84.71% • JSC Khladoproduct *Timashevsk* 82.02% • **Slovakia** Nestlé Food S.r.o. *Prievidza* 99.9% • **Sweden** Svenska Nestlé AB *Bjuv* 100% • Jede AB *Mariestad* 100% • Alcon Sverige AB* *Bromma* 100% • Friskies Sverige AB *Malmö* 100% • **Switzerland** Société des Produits Nestlé S.A. *Vevey* 100% • Nestlé Suisse S.A. *Vevey* 100% • Perrier Vittel Suisse S.A. *Mies* 100% • Alcon Pharmaceuticals Ltd* *Hünenberg* 100% • Nestlé World Trade Corporation *La Tour-de-Peilz* 100% • Food Ingredients Specialities S.A. *Villars-sur-Glâne* 100% • Nestlé Coffee Specialities S.A. *Pully* 100% • **Turkey** Nestlé Türkiye Gıda Sanayi A.S. *Istanbul* 100% • Mis Süt Sanayii A.S. *Istanbul* 60% • Alcon Laboratuvarları A.S.* *Istanbul* 100%.

Africa

South Africa Nestlé (South Africa) (Pty) Ltd *Randburg-Johannesburg* 100% • Friskies Petcare (Pty) Ltd *Pretoria* 60% • Alcon Laboratories Pty Ltd* *Randburg* 100% • **Cameroon** Nestlé Cameroun *Douala* 99.6% • **Ivory Coast** Nestlé Côte d'Ivoire *Abidjan* 80.9% • **Egypt** Nestlé Egypt S.A.E. *Cairo* 100% • Dolce S.A.E. *Cairo* 100% • Industrie du Froid S.A.E. *Kaliub-Cairo* 100% • Société des eaux minérales Vittor S.A.E. *Cairo* 90.2% • **Gabon** Nestlé Gabon *Libreville* 90% • **Ghana** Nestlé Ghana Ltd *Tema-Accra* 51% • **Guinea** Nestlé Guinée *Conakry* 99% • **Kenya** Nestlé Foods Kenya Ltd *Nairobi* 100% • **Mauritius** Nestlé's Products (Mauritius) Ltd *Port Louis* 100% • **Morocco** Nestlé Maroc S.A. *El Jadida* 93.4% • **Nigeria** Nestlé Foods Nigeria PLC *Ilupeju-Lagos* 57% • **Senegal** Nestlé Sénégal *Dakar* 100% • **Tunisia** Nestlé Tunisie *Tunis* 59.2% • **Zimbabwe** Nestlé Zimbabwe (Pvt) Ltd *Harare* 100%.



Americas

Argentina Nestlé Argentina S.A. *Buenos Aires* 100% • Alcon Laboratorios Argentina S.A.* *Buenos Aires* 100% • **Bolivia** Nestlé Bolivia S.r.l. *La Paz* 100% • **Brazil** Nestlé Brasil Ltda. *São Paulo* 100% • Industrias Alimenticias Itacolomy S/A *Montes Claros* 100% • Companhia Produtora de Alimentos *Itabuna* 100% • Tostines Industrial e Comercial Ltda. *São Paulo* 100% • Perrier Vittel de Brasil Ltda. *Rio de Janeiro* 100% • Alcon Laboratorios do Brasil S.A.* *São Paulo* 100% • **Canada** Nestlé Canada, Inc. *North York-Toronto (Ontario)* 100% • Midwest Food Products, Inc. *Toronto (Ontario)* 50% • Laura Secord, Inc. *Scarborough (Ontario)* 100% • The Perrier Group of Canada Ltd *Toronto (Ontario)* 100% • Alcon Canada, Inc.* *Mississauga (Ontario)* 100% • **Chile** Nestlé Chile S.A. *Santiago de Chile* 99.5% • Alcon Laboratorios Chile Limitada* *Santiago* 100% • **Colombia** Nestlé de Colombia S.A. *Bogotá* 100% • Cicolac Ltda. *Bogotá* 100% • Laboratorios Alcon de Colombia S.A.* *Santafé de Bogotá* 100% • **Costa Rica** Nestlé Costa Rica S.A. *San José* 100% • **Cuba** Los Portales S.A. *Guane* 49% • **El Salvador** Nestlé El Salvador S.A. *San Salvador* 100% • **Ecuador** Nestlé Ecuador S.A. *Quito* 74.7% • Neslandina S.A. *Quito* 74.7% • **United States** Nestlé USA, Inc. *Los Angeles (California)* 100% • Nestlé USA - Food Group, Inc. *Solon (Ohio)* 100% • Nestlé USA - Beverage Division, Inc. *Los Angeles (California)* 100% • Perrier Group of America *Greenwich (Connecticut)* 100% • Nestlé Puerto Rico, Inc. *San Juan (Puerto Rico)* 100% • Alcon Laboratories, Inc.* *Fort Worth (Texas)* 100% • Alcon (Puerto Rico), Inc.* *San Juan (Puerto Rico)* 100% • **Guatemala** Nestlé Guatemala S.A. *Guatemala* 100% • **Honduras** Nestlé Hondureña S.A. *Tegucigalpa* 100% • **Jamaica** Nestlé-JMP Jamaica Ltd *Kingston* 100% • Cremo Ltd *Kingston* 100% • **Mexico** Nestlé Mexico S.A. de C.V. *México* 100% • Alimentos Findus S.A. de C.V. *México* 100% • Industrias Alimenticias Club S.A. de C.V. *México* 100% • Manantiales La Asuncion, S.A. de C.V. *México* 100% • Alcon Laboratorios S.A. de C.V.* *México* 100% • **Nicaragua** Productos Nestlé (Nicaragua) S.A. *Managua* 100% • **Panama** Nestlé Panamá S.A. *Panamá City* 100% • Nestlé Caribbean, Inc. *Panamá City* 100% • **Paraguay** Nestlé Paraguay S.A. *Asunción* 100% • **Peru** Nestlé Perú S.A. *Lima* 93.1% • D'Onofrio S.A. *Lima* 80.6% • **Dominican Republic** Sociedad Dominicana de Conservas y Alimentos S.A. *Santo Domingo* 81.7% • Compañía Dominicana de Alimentos Lacteos S.A. *Santo Domingo* 100% • Helados Nestlé S.A. *Santo Domingo* 100% • **Trinidad and Tobago** Nestlé Trinidad and Tobago Ltd *Port of Spain* 100% • **Uruguay** Nestlé del Uruguay S.A. *Montevideo* 100% • **Venezuela** Nestlé Venezuela S.A. *Caracas* 100% • Chocolates Nestlé S.A. *Caracas* 100% • Caramelos Royal C.A. *Barquisimeto* 100%.

Asia

Saudi Arabia Saudi Food Industries Co. Ltd *Jeddah* 51% • **Bangladesh** Nestlé Bangladesh Ltd *Dhaka* 100% • **United Arab**

Emirates Nestlé Ice Cream L.L.C. *Dubai* 49% • **Hong Kong** Nestlé Hong Kong Ltd *Hong Kong* 100% • Nestlé Dairy Farm Hong Kong Ltd *Hong Kong* 100% • **India** Nestlé India Ltd *New Delhi* 51% • **Indonesia** P.T. Nestlé Indonesia *Jakarta* 57.6% • P.T. Nestlé Confectionery Indonesia *Jakarta* 100% • P.T. Nestlé Asean (Indonesia) *Jakarta* 60% • P.T. Supmi Sakti *Jakarta* 100% • P.T. Nestlé Beverages Indonesia *Jakarta* 70% • **Israel** OSEM Investments Ltd *Petach-Tikva* 47.1% • **Japan** Nestlé Japan Ltd *Kobe* 100% • Nestlé-Mackintosh K.K. *Tokyo* 66% • Perrier Japon K.K. *Tokyo* 100% • Alcon Japan Ltd* *Tokyo* 100% • **Jordan** Nestlé Jordan Trading Co. Ltd *Amman* 49% • **Kuwait** Nestlé Kuwait General Trading Co. W.L.L. *Kuwait* 49% • **Lebanon** Société pour l'Exportation des Produits Nestlé S.A. *Beirut* 100% • SOHAT Distribution SAL *Hazmieh* 49% • **Malaysia** Nestlé (Malaysia) Bhd. *Petaling Jaya* 55.7% • Nestlé Foods (Malaysia) Sdn. Bhd. *Petaling Jaya* 55.7% • Nestlé Products Sdn. Bhd. *Petaling Jaya* 55.7% • Malaysia Cocoa Manufacturing Sdn. Bhd. *Petaling Jaya* 49% • Nestlé Asean (Malaysia) Sdn. Bhd. *Petaling Jaya* 60% • Nestlé Cold Storage (Malaysia) Sdn. Bhd. *Petaling Jaya* 51% • **Pakistan** Milkpak Ltd *Lahore* 57.2% • **Philippines** Nestlé Philippines, Inc. *Cabuyao* 100% • **Republic of Korea** Nestlé Korea Ltd *Cheongju* 100% • **People's Republic of China** Nestlé Shuangcheng Ltd *Shuangcheng* 93% • Nestlé Dongguan Ltd *Dongguan* 100% • Maggi Dongguan Ltd *Dongguan* 100% • Nestlé Tianjin Ltd *Tianjin* 100% • Nestlé Qingdao Ltd *Qingdao* 100% • Nestlé Shanghai Ltd *Shanghai* 95% • Nestlé Dairy Farm Tianjin Ltd *Tianjin* 75% • Nestlé Dairy Farm Qingdao Ltd *Qingdao* 100% • Nestlé Dairy Farm Guangzhou Ltd *Guangzhou* 60% • Shanghai Fuller Foods Co. Ltd *Shanghai* 100% • **Singapore** Nestlé Singapore (Pte) Ltd *Singapore* 100% • Nestlé Asean Singapore (Pte) Ltd *Singapore* 100% • **Sri Lanka** Nestlé Lanka Ltd *Colombo* 90.8% • **Taiwan** Nestlé Taiwan Ltd *Taipei* 100% • Nestlé Distributors Ltd *Taipei* 100% • Alcon Pharmaceuticals Ltd* *Taipei* 100% • **Thailand** Nestlé Products (Thailand), Inc. *Bangkok* 100% • Nestlé Asean (Thailand) Ltd *Bangkok* 60% • Quality Coffee Products Ltd *Bangkok* 49% • Nestlé Foods (Thailand) Ltd *Bangkok* 100% • Nestlé Trading (Thailand) Ltd *Bangkok* 49% • Nestlé Manufacturing (Thailand) Ltd *Bangkok* 100% • Nestlé Ice Cream (Thailand) Ltd *Bangkok* 46.3% • **Vietnam** Nestlé Vietnam Ltd *Bien Hoa* 100% • Long An Mineral Water Joint Venture Company *Tan An* 65%.

Oceania

Australia Nestlé Australia Ltd *Sydney* 100% • Petersville Australia Ltd *Melbourne* 100% • Nestlé Echuca Pty Ltd *Melbourne* 100% • Alcon Laboratories (Australia) Pty Ltd* *Frenchs Forests (NSW)* 100% • **Fiji** Nestlé (Fiji) Ltd *Ba* 67% • **New Caledonia** Nestlé Nouvelle-Calédonie S.A. *Nouméa* 100% • **New Zealand** Nestlé New Zealand Ltd *Auckland* 100% • **Papua-New Guinea** Nestlé (PNG) Ltd *Lae* 100% • **French Polynesia** Nestlé Polynesia S.A. *Papeete* 100%.



2. Affiliated companies for which the method of proportionate consolidation is used (see page 66, "Scope of consolidation").

Europe

Germany C.P.D. Cereal Partners Deutschland GmbH & Co. OHG *Frankfurt* 50% • Galderma Laboratorium GmbH* *Freiburg/Breisgau* 50% • **Spain** Cereal Partners España AEIE *Esplugas de Llobregat* 50% • **France** Cereal Partners France SNC *Noisiel* 50% • Laboratoires Galderma S.A.* *Levallois-Perret* 50% • **Poland** Torun-Pacific Cereal Partners Poland Sp. zo.o. *Torun* 50% • **Portugal** Cereal Associados Portugal AEIE *Oeiras* 50% • **Czech Republic** Nestlé Cokoladovny a.s. *Praha* 49.2% • **United Kingdom** Cereal Partners UK *Welwyn Garden City* 50% • **Switzerland** CCNR Europe S.A. *Lausanne* 50%.

Africa

South Africa Dairymaid-Nestlé (Pty) Ltd *Johannesburg* 50%.

Americas

Argentina Galderma Argentina S.A.* *Buenos Aires* 50% • **Brazil** Galderma Brasil Ltda* *São Paulo* 50% • **Canada** Galderma Canada Inc.* *Markham* 50% • **Chile** Cereales CPW Chile Ltda *Santiago de Chile* 50% • **United States** Coca-Cola Nestlé Refreshments Company, USA *Atlanta (Georgia)* 50% • Galderma Laboratories, Inc.* *Fort Worth (Texas)* 50% • **Mexico** CPW México S.A. de C.V. *México* 50%.

Asia

Hong Kong Coca-Cola Nestlé Refreshments Pacific *Hong Kong* 50% • **Republic of Korea** Coca-Cola Nestlé Refreshments Korea *Seoul* 50% • **Thailand** Coca-Cola Nestlé Beverages Thailand Ltd *Bangkok* 50% .

Principal associated companies which operate in the food and water sectors, with the exception of those marked with an asterisk which are engaged in the cosmetics and dermatology sectors.

For which the equity method is used – see page 66, "Scope of consolidation".

Europe

Germany Mineralbrunnen Überkingen-Teinach AG *Bad Überkingen* 37.6% • **France** L'Oréal S.A.* *Paris* 26.3% • Houdebine S.A. *Noyal-Pontivy* 50% • S.B.E.C.M. Société de Bouchages Emballages Conditionnement Moderne S.à.r.l. *Lavardac* 50%.



Asia

Malaysia Premier Milk (Malaysia) Sdn. Bhd. *Kuala Lumpur* 25% • **People's Republic of China** Guangzhou Refrigerated Foods Ltd *Guangzhou* 50%.

Sub-holding, financial and property companies

Bahamas Nestlé's Holdings Ltd *Nassau* 100% • Food Products (Holdings) Ltd *Nassau* 100% • **United States** Nestlé Holdings, Inc. *Stamford (Connecticut)* 100% • Nestlé Capital Corporation *Stamford (Connecticut)* 100% • **France** Nestlé Entreprises S.A. *Noisiel* 100% • Nestlé Finance France S.A. *Noisiel* 100% • Perrier Vittel S.A. *Paris* 100% • Société Immobilière de Noisiel *Noisiel* 100% • **Panama** Unilac, Inc. *Panamá City* 100% • **Poland** Nestlé Polska Holding Sp. zo.o. *Warszawa* 100% • **Portugal** Nestlé Portugal SGPS, Lda. *Linda-a-Velha* 100% • **United Kingdom** Nestlé Holdings (U.K.) PLC *Croydon* 100% • Friskies Holding (UK) Ltd *Croydon* 100% • **Switzerland** Entreprises Maggi S.A. *Kemptthal* 100% • Nestlé Finance S.A. *Cham* 100% • Rive-Reine S.A. *La Tour-de-Peilz* 100% • S.I. En Bergère *Vevey* S.A. *Vevey* 100%.

Technical assistance, research and development companies

Nestec Ltd., Vevey (Switzerland)

Technical assistance company for Nestlé products whose units, specialised in all areas of the business, supply permanent support to companies in the Group within the framework of technical assistance contracts. It is also responsible for all scientific research and technological development, which it undertakes itself or has done on its behalf by affiliated companies. The units involved are:

Scientific research centre

Switzerland Nestlé Research Center *Lausanne*.

Technical development centres

Germany Nestlé R&D Center Lebensmittelforschung GmbH *Weiding* • **Ivory Coast** Centre R&D Nestlé *Abidjan* • **Ecuador** Nestlé R&D Center S.A. *Quito* • **Spain** Nestlé R&D Center S.A. *Badajoz* • **United States** Nestlé R&D Center, Inc. *Connecticut* • *Ohio* • Friskies R&D Center, Inc. *Missouri* • **France** Centre R&D Nestlé *Beauvais* • *Lisieux* • *Tours* • *Creully* • Centre R&D Friskies S.A. *Amiens* • **Italy** Ricerca & Gelati S.r.l. *Parma* • **Malaysia** Nestlé R&D Center Sdn. Bhd. *Petaling Jaya* • **United Kingdom** Nestlé R&D Center *York* • **Singapore** Nestlé R&D Center (Pte) Ltd *Singapore* • **Sweden** Nestlé R&D Center *Bjuv* A.B. *Bjuv* • **Switzerland** Nestlé R&D Center *Broc* • *Kemptthal* • *Konolfingen* • *Orbe*.

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Administration

The General Meeting held on 28th May 1998 re-elected Messrs. Stephan Schmidheiny, Peter Böckli and David de Pury for an additional term of five years, and Mr. Paul A. Volcker for a term of two years, pursuant to the provisions of the Board's regulations concerning the age limit. The Chairman expressed his gratitude to Mr. Georges Blum, whose term as director was expiring and who was not standing for re-election.

At its next meeting, the Board of Directors appointed Mr. Helmut O. Maucher as Chairman, Messrs. Rainer E. Gut and Fritz Gerber as Vice-Chairmen, Mr. Peter Brabeck-Letmathe as Chief Executive Officer and Mrs. Vreni Spoerry as a member of the Board Committee.

At the General Meeting on 3rd June 1999, Mr. Arthur Dunkel's term as director will expire. Mr. Dunkel is eligible for re-election and is standing for a new term of five years. Mr. Robert Studer, whose term will expire in 2002, has decided to resign at this General Meeting.

In addition, the Board of Directors is recommending that the General Meeting elect Lord Simpson of Dunkeld as a new director for a term of five years. Mr. George Simpson, a British citizen, is Chief Executive Officer of General Electric Company plc. He is a prominent businessman and a member of the European Round Table of Industrialists. Upon his election, the number of directors will be unchanged at 13.

Throughout 1998, no director had a personal interest in any transaction of significance for the business of the Group.

Income statement for the year 1998

In millions of Swiss francs	Notes	1998	1997
Income			
Income from Group companies	1	3 559	2 756
Interest income	2	497	240
Profit on disposal of fixed assets	3	332	56
Other income		52	23
Total income		4 440	3 075
Expenses			
Investment write downs	4	1 170	1 039
Administration and other expenses	5	122	121
Interest expense	6	27	19
Provision for uninsured risks		15	15
Total expenses before taxation		1 334	1 194
Profit before taxation			
		3 106	1 881
Taxation	7	284	286
Profit for the year	19	2 822	1 595

The appropriation of profit proposed by the Board is set out on page 105.



Balance sheet at 31st December 1998

before appropriations

In millions of Swiss francs	Notes	1998	1997
Assets			
Current assets			
Liquid assets	8	3 906	2 987
Debtors	9	2 508	1 608
Prepayments and accrued income		47	36
Total current assets		6 461	4 631
Fixed assets			
Financial assets	10	10 353	10 746
Intangible assets	13	—	—
Tangible fixed assets	14	—	—
Total fixed assets		10 353	10 746
Total assets		16 814	15 377
Liabilities and shareholders' funds			
Liabilities			
Short term creditors	15	431	165
Accrued liabilities and deferred income		3	23
Long term creditors	16	264	283
Provisions	17	670	906
Total liabilities		1 368	1 377
Shareholders' funds			
Share capital	18/19	404	404
Legal reserves	19	6 392	6 392
Special reserve	19	5 827	5 609
Retained earnings	19	2 823	1 595
Total shareholders' funds	19	15 446	14 000
Total liabilities and shareholders' funds		16 814	15 377



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 also prepared under the historical cost convention and on the accruals basis. There have been no changes in accounting policies during the year.

Foreign currency translation

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

Hedging

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

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

Income statement

Income due at the balance sheet date, but not currently transferable is recognised only upon receipt. Dividends paid out of pre-acquisition profits are not included under income from Group companies; instead they are credited against the carrying value of the participation, with any remaining balance credited to reserves.

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

Taxation

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.

Intangible assets

Trademarks and other industrial property rights are written off on acquisition or exceptionally over a longer period. In the Group accounts this item has a different treatment (see page 69).

Tangible fixed assets

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

Provisions

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

Pensions

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

For the defined benefit plan the amount charged to the income statement consists of current service cost which includes the normal cost of financing benefits in respect of future years of service. If the case arises, variations from the current service cost are spread over the expected working lives of employees or recognised immediately in the case of retirees.

Liabilities arising under the defined benefit scheme are externally funded, with the assets of the scheme held separately from the Company in independently administered funds.

Prepayments and accrued income

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

Accrued liabilities and deferred income

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



Notes to the annual accounts

1. Income from Group companies

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

2. Interest income

In millions of Swiss francs	1998	1997
Net result on loans to Group companies	413	185
Other	84	55
	<u>497</u>	<u>240</u>

The improvement is mainly due to realised exchange gains on loans reimbursed during the year, as well as positive results recorded on foreign exchange hedge instruments. Interest received in 1998, both on these loans and on deposits with financial institutions, have also increased.

3. Profit on disposal of fixed assets

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

4. Investment write downs

In millions of Swiss francs	1998	1997
Participations and loans	513	931
Trademarks and other industrial property rights	657	108
	<u>1 170</u>	<u>1 039</u>

The write downs of participations and loans in 1998 derive from a conservative policy of valuation, based on the political, economic and monetary situation of the countries where the participations are located, as well as on the profitability of the companies concerned. The write downs of trademarks and other industrial property rights in 1998 refer mainly to the trademarks acquired from Borden and Spillers as well as Stouffer's (acquired from a Group company).

5. Administration and other expenses

In millions of Swiss francs	1998	1997
Salaries and welfare expenses	48	56
Other expenses	74	65
	<u>122</u>	<u>121</u>



6. Interest expense

In millions of Swiss francs	1998	1997
Interest on long term debenture	20	18
Other interest	7	1
	<u>27</u>	<u>19</u>

7. Taxation

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

8. Liquid assets

In millions of Swiss francs	1998	1997
Cash and cash equivalents	2 363	2 356
Short term investments	1 250	616
Marketable securities	293	15
	<u>3 906</u>	<u>2 987</u>

9. Debtors

In millions of Swiss francs	1998	1997
Amounts owed by Group companies		
Short-term treasury loans	2 246	1 316
Current accounts	231	249
Provision for amounts not currently transferable	—	—
	<u>2 477</u>	<u>1 565</u>
Other debtors (including withholding tax)	31	43
	<u>2 508</u>	<u>1 608</u>

Short-term treasury loans are advanced to Group companies with the intention of investing liquid funds at competitive rates, thus replacing external borrowings. The amount owed to the Company in respect of Swiss withholding tax was received after the year-end.

10. Financial assets

In millions of Swiss francs	1998	1997
Participations in Group companies (see note 11)	7 112	7 054
Finance loans to Group companies (see note 12)	3 112	3 566
Own shares	97	120
Other investments	32	6
	<u>10 353</u>	<u>10 746</u>

Own shares of the Company are held in order to allow the exercise of option rights by members of the Group's Management (71 210 options were outstanding at the close of 1998, of which 59 007 may be exercised as from 1st January 1999).



11. Participations in Group companies

In millions of Swiss francs	1998	1997
At 1st January	7 054	7 869
Increase	570	297
Write downs	(512)	(1 112)
At 31st December	<u>7 112</u>	<u>7 054</u>

The increase in participations represents in particular:

- additional funding, through capital increases, of a number of Group companies mainly in People's Republic of China and Eastern Europe;
- the purchase, on the stock exchange or from third parties, of shares of some of our affiliated companies, to increase the participations already held, mainly in Asia and Eastern Europe.

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 on pages 90 to 92 in the section "Consolidated accounts of the Nestlé Group".

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

12. Finance loans to Group companies

In millions of Swiss francs	1998	1997
At 1st January	3 566	3 497
New loans	308	228
Repayments and write downs	(678)	(247)
Realised exchange differences	46	19
Unrealised exchange differences	(130)	69
At 31st December	<u>3 112</u>	<u>3 566</u>

Finance loans are usually for the long term and finance investments in participations.

13. Intangible assets

All intangible assets have been fully written off.



14. Tangible fixed assets

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

The fire insurance value of buildings, furniture and office equipment amounted to Fr. 22 million at 31st December 1998 and 1997.

15. Short term creditors

In millions of Swiss francs	1998	1997
Amounts owed to Group companies	423	150
Other creditors	8	15
	<u>431</u>	<u>165</u>

16. Long term creditors

In millions of Swiss francs	1998	1997
Amounts owed to Group companies	264	283
Other creditors	—	—
	<u>264</u>	<u>283</u>

Amounts owed to Group companies include a long-term bond issued in 1989, whose carrying value decreased by Fr. 12 million to Fr. 241 million as a result of an unrealised exchange gain arising in 1998.

17. Provisions

In millions of Swiss francs	1998	1997
Provision for uninsured risks	460	445
Provision for exchange risks	44	317
Provision for Swiss and foreign taxes	140	113
Other provisions	26	31
	<u>670</u>	<u>906</u>

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



18. Share capital

1998

1997

Number of registered shares of nominal value Fr. 10 each	40 352 000	40 352 000
In millions of Swiss francs	404	404

According to article 6 of the Company's articles of association, no natural person or legal entity can be registered as a shareholder with voting rights for shares held directly or indirectly for more than 3% of the share capital. In addition, article 14 provides that, on exercising the voting rights, no shareholder, through shares owned or represented, may aggregate, directly or indirectly, more than 3% of the total share capital.

At 31st December 1998, the Share Register showed 161 652 registered shareholders. If unprocessed applications for registration and the indirect holders of shares under American depositary receipts are also taken into account, the total number of shareholders is well in excess of 200 000. The Company was not aware of any shareholder holding, directly or indirectly, 3% or more of the share capital.

Conditional increase in share capital

According to the articles of association, the share capital can be increased, by the exercise of conversion or option rights, by a maximum of Fr. 10 000 000 through the issue of a maximum of 1 000 000 registered shares with a nominal value of Fr. 10.– each, fully paid-up. 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 or option loans.

19. Movements in shareholders' funds

In millions of Swiss francs	Share capital	General reserve ^(a)	Reserve for own shares ^{(a) (b)}	Special reserve	Retained earnings	Total
At 1st January 1998	404	6 115	277	5 609	1 595	14 000
Appropriation of profit to special reserve				215	(215)	
Profit for the year					2 822	2 822
Dividend for 1997					(1 376)	(1 376)
Own shares acquired/sold		(311)	311			
Dividend on own shares acquired before payment date of dividend 1997				2	(2)	
Dividend on shares in respect of which the corresponding option rights were not exercised by the payment date of 1997 dividend				1	(1)	
At 31st December 1998	<u>404</u>	<u>5 804</u>	<u>588</u>	<u>5 827</u>	<u>2 823</u>	<u>15 446</u>

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

^(b) See note 20.



20. Reserve for own shares

At 31st December 1997, the reserve for own shares amounting to Fr. 276.6 million, represented the cost of 928 940 shares issued by Nestlé S.A. and acquired by a Group company, as well as 79 095 shares reserved to cover option rights in favour of members of the Group's Management and 14 351 shares held for trading purposes.

At 31st December 1998, the shareholding of the Group company was unchanged (928 940 shares at an acquisition cost of Fr. 156.7 million). These shares are available to be used in any way which, in the opinion of the Board of Directors, would be in the best interests of the Company and its shareholders. As long as these shares are held by the Group company, they will be recorded in the Share Register as being without voting rights and will not rank for dividends.

In 1998, the Company acquired, at a cost of Fr. 28.8 million, 12 203 shares reserved to cover option rights in favour of members of the Group's Management. 20 088 options have been exercised during the year. A total of 71 210 shares are held to cover outstanding option rights at the balance sheet date. The 14 351 shares held by the Company for trading purposes at 31st December 1997 have been sold. Furthermore, 111 855 shares held for trading purposes appear in the books of a Group company for Fr. 334.4 million at 31st December 1998. As long as the options are not exercised, or the shares sold, these shares are also recorded in the Share Register as being without voting rights and do not rank for dividends.

The total of 1 112 005 own shares held at 31st December 1998 represents 2.8% of Nestlé S.A. share capital.

21. Contingencies

At 31st December 1998 and 1997, the total of the guarantees for credit facilities granted to Group companies, together with the buy-back agreements relating to notes issued, amounted to Fr. 5864 million and Fr. 6022 million, respectively.

Proposed appropriation of profit

In Swiss francs	1998	1997
Retained earnings		
Balance brought forward	1 582 712	709 060
Profit for the year	<u>2 821 688 195</u>	<u>1 595 030 172</u>
	<u>2 823 270 907</u>	<u>1 595 739 232</u>
We propose the following appropriations:		
Allocation to the special reserve	1 325 000 000	215 000 000
Dividend for 1998, Fr. 38.— per share on 39 239 995 shares (1997: Fr. 35.— on 39 329 614 shares)	1 491 119 810	1 376 536 490
Dividend for 1998, Fr. 38.— per share on 59 007 shares reserved for the option rights which may be exercised as from 1st January 1999 and on 111 855 shares held for trading purposes ^(a) (1997: Fr. 35.— on 74 858 shares)	<u>6 492 756</u> <u>2 822 612 566</u>	<u>2 620 030</u> ^(b) <u>1 594 156 520</u>
Balance to be carried forward	<u>658 341</u>	<u>1 582 712</u>

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

^(b) Of the total of Fr. 2 620 030, Fr. 991 795 were actually paid as dividends, whilst the balance of Fr. 1 628 235 has been transferred to the special reserve.

If you accept this proposal, the gross dividend will amount to Fr. 38.— per share. After deduction of the federal withholding tax of 35%, a net amount of Fr. 24.70 per share will be payable as from Wednesday, 9th June 1999 by bank transfer to the shareholder's account or by cheque, in accordance with instructions received from the shareholder.

Cham and Vevey, 25th March 1999
The Board of Directors



Report of the statutory auditors

to the General Meeting of Nestlé S.A.

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and annex) of Nestlé S.A. on pages 95 to 104 for the year ended 31st December 1998.

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

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

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

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

 Klynveld Peat Marwick Goerdeler SA



S.R. Cormack
Chartered accountant



B.A. Mathers
Chartered accountant

Auditors in charge
London and Zurich, 25th March 1999

132nd Ordinary General Meeting of the Nestlé S.A.

Thursday 3rd June 1999
at 3.00 p.m. at the "Palais de Beaulieu", Lausanne

Agenda

- 1a Annual report 1998, annual financial statements of the Company and report of the auditors
- 1b 1998 Consolidated financial statements of the Group and report of the Group auditors
- 2 Release of the Board of Directors and of the Management
- 3 Decision on the appropriation of profits resulting from the balance sheet of the Company
- 4 Elections to the Board of Directors:
Arthur Dunkel (terms of office for 5 years)
George Simpson (terms of office for 5 years)
- 5 Election of the auditors (annual financial statements of Nestlé S.A. and the Group accounts):
KPMG Klynveld Peat Marwick Goerdeler SA, London/Zurich

Next Ordinary General Meeting:
Thursday 25th May 2000 at the "Palais de Beaulieu", Lausanne



Important dates:

9th June 1999	Payment of the dividend
September 1999	Publication of the half-yearly report January/June 1999
24th November 1999	Autumn meeting with the press (Vevey)
25th February 2000	Announcement of 1999 sales figures and results
15th March 2000	Press conference (Zurich)
25th May 2000	133rd Ordinary General Meeting, "Palais de Beaulieu", Lausanne

Stock exchange listings of registered shares of Nestlé S.A.

Switzerland:	Swiss Exchange
Abroad:	Amsterdam, Brussels, Frankfurt, London, Paris, Tokyo, Vienna

Registered Offices:	Nestlé S.A. Avenue Nestlé 55 CH-1800 Vevey (Switzerland) Telephone (021) 924 21 11	Nestlé S.A. (Share Transfer Office) Zugerstrasse 8 CH-6330 Cham (Switzerland) Telephone (041) 780 20 22
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For any additional information about the management report, please contact Nestlé S.A., Investor Relations, Avenue Nestlé 55, CH-1800 Vevey (Switzerland), telephone (021) 924 27 42, telefax (021) 924 28 13.
E-mail: investor.relations@nestle.com

As to information concerning the share register (registrations, transfers, address changes, dividends, etc.), please contact Nestlé S.A., Share Transfer Office, Zugerstrasse 8, CH-6330 Cham (Switzerland), telephone (041) 780 20 22, telefax (041) 780 20 58.

Nestlé URL: <http://www.nestle.com>



