Nestlé

Management Report 1997

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Letter to the shareholders

Ladies and Gentlemen,

1997 was a very good year for Nestlé. Our sales have grown by 15.7% to 69 998 million francs, our trading margin has reached 9.8% and net profit has reached 4005 million francs, an increase of 17.8%. For the first time, we broke through the four billion barrier and our profit margin now stands at 5.7%. Without the currency effect, which was positive for the second year in a row, our sales would have grown 7.6%. Real internal growth which showed a clear acceleration in the course of the year reached 3.2%, as compared with 2.7% in the previous year.

These results were realized in spite of the effects of the South-East Asia crisis. As the Group's sales in this region of the world only account for about five percent of total sales, the effect of the crisis remains limited.

The good performance is due to a policy of accelerated innovation, both in the product and in the communication areas, as well as to the extension of the Group's activities in several countries. This policy has strengthened the company's position in several markets and has made economies of scale possible. At the same time, a careful purchasing policy for raw materials, the rapid adaptation of selling prices in the coffee sector and the reduction of production costs as a result of a better use of existing manufacturing capacities have also contributed to this evolution.

We look to the future with confidence because our efforts aimed at widening our geographic presence and at improving our position in several strategic sectors (such as ice cream, mineral water, petcare) are bearing fruit. These moves will be continued and strengthened in the years ahead. We have also pursued our acquisition and divestment policy with a clear view to reinforcing our already strong strategic positions.

Nestlé's development over the past years has also had a beneficial effect on the value of your shares as well as on the amounts paid out in dividends. This evolution reflects a policy to which we are committed over a long-term perspective.

Our organization is continually adapted to the requirements of a world that grows more global and more transparent by the day, as well as to the differing conditions that we find in individual markets. We have therefore pursued the creation of regional structures and constituted new strategic business units (Nutrition; Ice Cream). In order to further improve the degree of information, you will find in this Management Report an enhanced sectoral reporting.

In the middle of the year, we have also ensured a very smooth transition of the function of Chief Executive Officer.

For the present year, we are looking forward to renewed progress both in sales and in profits.

In your name also, we would like to thank our management and our staff for their contribution to the results obtained in 1997.

Vevey, March 26, 1998

Helmut O. Maucher
Chairman of the Board

Peter Brabeck-Letmathe
Chief Executive Officer

Directors and Officers

Board of Directors of Nestlé S.A.

		Term expires[1]
○ Helmut O. Maucher	Chairman	2000
○ Rainer E. Gut	Vice-Chairman	2001
○ Fritz Gerber	Vice-Chairman	2001
○ Peter Brabeck-Letmathe	Chief Executive Officer	2002
○ Vreni Spoerry		2002
Paul A. Volcker		1998
Stephan Schmidheiny		1998
Jean-Pierre Meyers		2001
Robert Studer		2002
Peter Böckli		1998
David de Pury		1998
Arthur Dunkel		1999
Georges Blum		1998
Reto F. Domeniconi		2001

Secretary to the Board

Bernard Daniel — Secretary general

Auditors of the annual financial statements of Nestlé S.A. and of the Group accounts

KPMG Klynveld Peat Marwick Goerdeler SA — 1999
London and Zurich

1 On the date of the General Meeting of the Shareholders
○ Members of the Committee to the Board

From left to right:
Francisco Castañer
Robert Raeber
Philippe Véron
Michael W.O. Garrett
Peter Brabeck-Letmathe
Rupert Gasser
Mario A. Corti
Carlos E. Represas

Group Management	as of 31st December 1997
Peter Brabeck-Letmathe*	Chief Executive Officer
Direct responsibilities:	Nutrition Strategic Business Division

General Managers

Francisco Castañer**	Pharmaceutical and Cosmetic Products, Liaison with L'Oréal, Human Resources, Corporate Affairs
Mario A. Corti	Finance, Control, Legal, Taxes, Information Systems & Logistics, Export, Purchasing
Michael W. O. Garrett	Asia, Oceania, Africa
Rupert Gasser	Technical, Production, Environment, Research & Development
Robert Raeber	Europe
Carlos E. Represas	Americas
Philippe Véron	Strategic Business Units, Mineral Water, Marketing

* Helmut O. Maucher, Chairman of the Board and Chief Executive Officer until 5.6.1997.
** José Daniel until 5.6.1997.

Key figures (consolidated)

In millions of Swiss francs (except for per share data)		**1997**	1996
Sales		**69 998**	60 490
Trading profit		**6 880**	5 862
as % of sales		**9.8%**	9.7%
Net profit		**4 005**	3 401
as % of sales		**5.7%**	5.6%
as % of average shareholders' funds		**17.3%**	17.0%
Expenditure on tangible fixed assets		**3 261**	3 054
Shareholders' funds [a]		**24 410**	21 938
Market capitalisation, end December		**86 124**	56 518
Per share			
Net profit	Fr.	**101.8**	86.4
Shareholders' funds [a]	Fr.	**621**	557
Dividend	Fr.	**35.0** [b]	30.0

Principal key figures in US$ [c]

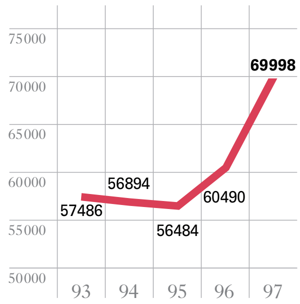
In millions of US$ (except for per share data)			
Sales		**48 274**	45 481
Net profit		**2 762**	2 557
Shareholders' funds [a]		**16 834**	16 495
Market capitalisation, end December		**59 396**	42 495
Per share			
Net profit	US$	**70.2**	65.0
Shareholders' funds [a]	US$	**428**	419

Personnel	Number at year end	**225 808**	221 144
Factories	Number at year end	**495**	489

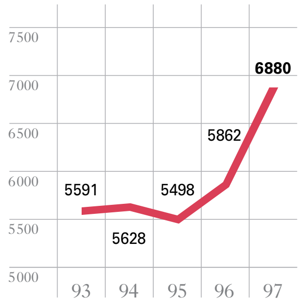
[a] Before proposed appropriation of profit of Nestlé S.A.
[b] As proposed by the Board of Directors of Nestlé S.A.
[c] Figures translated at the year end rate.

The business policies which the Nestlé Group applies in its home country and abroad are largely in line with the OECD guidelines for multinational enterprises. In this management report the guidelines concerning the disclosure of information have been observed wherever possible.

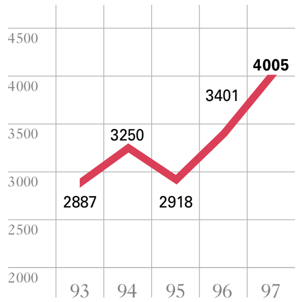
Sales



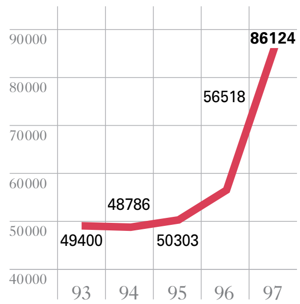
Trading profit



Net profit

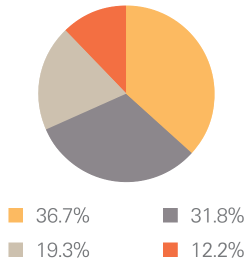


Market capitalisation



Key figures by management responsibilities and geographic area

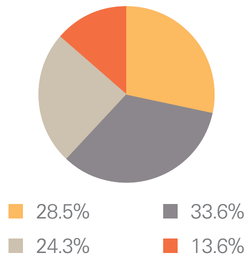
Sales



Sales

In millions of Swiss francs	**1997**	1996	1995
Food			
Europe	**25 706**	23 897	22 430
Americas	**22 262**	18 046	17 232
Africa, Asia and Oceania	**13 493**	11 458	10 288
Other activities	**8 537**	7 089	6 534
	69 998	60 490	56 484

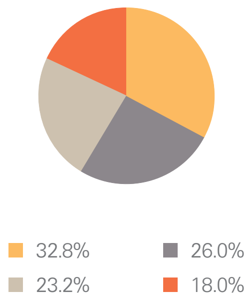
Result



Result

In millions of Swiss francs	**1997**	1996	1995
Food			
Europe	**2 290**	2 041	2 022
Americas	**2 701**	2 453	2 247
Africa, Asia and Oceania	**1 955**	1 661	1 512
Other activities	**1 087**	752	627
	8 033	6 907	6 408
Unallocated items [a]	**(1 153)**	(1 045)	(910)
Trading profit	**6 880**	5 862	5 498

Capital expenditure



Capital expenditure

In millions of Swiss francs	**1997**	1996	1995
Food			
Europe	**1 041**	1 046	1 071
Americas	**823**	795	724
Africa, Asia and Oceania	**736**	650	592
Other activities	**572**	484	598
	3 172	2 975	2 985
Unallocated items [b]	**89**	79	71
	3 261	3 054	3 056

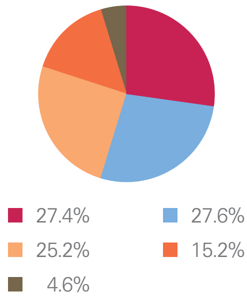
[a] Mainly corporate expenses, research and development costs as well as amortisation of intangible assets.
[b] Corporate and research and development fixed assets.

Key figures by product group

Sales

In millions of Swiss francs	**1997**	1996	1995
Beverages	**19 142**	16 348	16 215
Milk products, nutrition and ice cream	**19 334**	16 697	15 239
Prepared dishes and cooking aids (and miscellaneous activities)	**17 660**	15 960	14 655
Chocolate and confectionery	**10 663**	9 034	8 217
Pharmaceuticals	**3 199**	2 451	2 158
	69 998	60 490	56 484

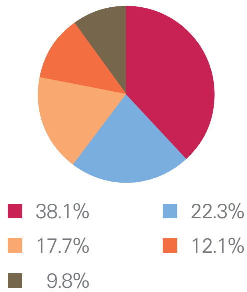
Sales



Result

In millions of Swiss francs	**1997**	1996	1995
Beverages	**3 200**	2 712	2 492
Milk products, nutrition and ice cream	**1 878**	1 632	1 628
Prepared dishes and cooking aids (and miscellaneous activities)	**1 483**	1 297	1 120
Chocolate and confectionery	**1 016**	975	931
Pharmaceuticals	**825**	573	455
	8 402	7 189	6 626
Unallocated items [(a)]	**(1 522)**	(1 327)	(1 128)
Trading profit	**6 880**	5 862	5 498

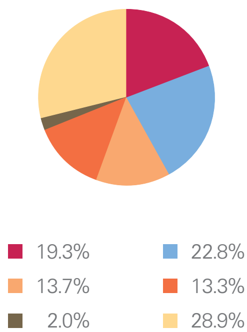
Result



Capital expenditure

In millions of Swiss francs	**1997**	1996	1995
Beverages	**629**	586	618
Milk products, nutrition and ice cream	**745**	732	667
Prepared dishes and cooking aids (and miscellaneous activities)	**445**	450	446
Chocolate and confectionery	**435**	433	378
Pharmaceuticals	**66**	84	147
	2 320	2 285	2 256
Administration, distribution, research and development	**941**	769	800
	3 261	3 054	3 056

Capital expenditure



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

Business review

General comments

In 1997, both sales and net profit increased at a highly satisfactory rate. Favourable foreign exchange rates had a pronounced effect on results, but should not be regarded as a fundamental element in the Group's performance. The key factors were the acceleration of real internal growth in the course of the year and an improvement in profitability. Net profit exceeded the Fr. 4 billion mark for the first time, increasing by 17.8%.

Acceleration of real internal growth and improvement in profitability

Following the publication by the International Accounting Standards Committee of a revised standard with regard to segmental information, Nestlé has already modified the criteria used to analyse its results, even though the new standard will not take effect officially until 1st July 1998. From now on, segmental information is based on two distinct formats. The primary segment format – by management responsibilities and geographic area – represents the Group's management structure. The secondary segment format representing products is divided into five categories.

A balanced, dynamic portfolio

The policy that Nestlé has pursued over the past fifteen years has enabled it to achieve a more balanced structure for its business which is less sensitive to external factors. The Group has strengthened its presence in several product categories, entered new fields of activity and extended its geographic reach. Twenty years ago, coffee accounted for about half the Group's profits; today, this proportion has shrunk to less than 30%. Dependence on the prices of specific raw materials has diminished, and purchasing is gaining increased advantage from the Group's global dimension. Thus, Nestlé was able to increase its trading margin in 1997, despite the steep rise in the price of green coffee during the first half of the year.

These developments are in line with a strategic focus on food and beverages. Since 1982, Nestlé has divested activities worth nearly Fr. 8 billion in order to concentrate on its core businesses. Disposals have also included certain food products which did not correspond with the Group's emphasis on high value added segments.

Although further disinvestments may take place in the future, Nestlé intends to remain in all its major product categories, in each of which it is strongly established worldwide. Future growth in these categories, as well as

A more balanced business and lower sensitivity to external factors

the maintenance or improvement of market share, is the responsibility of the eight Strategic Business Units (SBU) which manage the Group's food portfolio. In particular, these units are responsible for innovation in their respective categories; they work in close collaboration with the research centres to develop new products and renovate existing ranges. This collaboration maximises the efficiency and profitability of significant research efforts by linking them to consumer needs. The SBUs also monitor the profitability of each product category. Categories that are not performing satisfactorily are clearly identified, and plans for improvement are implemented with the active participation of the various markets in which the products in question are sold.

Key category developments

Two of the eight SBUs were created during 1997. There is now a unit devoted to ice cream, reflecting the growing importance of this sector for the Group: its 1997 sales exceeded Fr. 3 billion. Nestlé's share of the global ice cream market is close to 9%, whereas five years ago it was less than 1%. This product category is showing real growth of over 5%, with noticeably higher rates in the emerging countries of Asia, Africa and Latin America. Nestlé's acquisitions policy over the last five years has resulted in a substantial presence in the ice cream industry in each of these regions. After this period of vigorous expansion, priority is now being given to consolidating the positions acquired and to enhancing their profitability.

Priority to consolidating positions in ice cream worldwide

The new Nutrition Strategic Business Division, which reports directly to the Chief Executive Officer, is engaged in three main areas: infant nutrition, performance nutrition and clinical nutrition. It is based on a heritage that goes back to the origins of the Group – Henri Nestlé created the first infant formula in 1867 – and on major research and development efforts in the field of nutrition, aimed at developing new segments with strong potential. The goal of clinical nutrition is to develop foods designed specifically for elderly or sick people in order to prevent or remedy states of malnutrition. Performance nutrition covers any product that can have a positive effect on the physical or mental performance of the person who consumes it. There is a growing demand for products of this kind.

Infant nutrition, performance nutrition and clinical nutrition – three key sectors of strategic development

Mineral and spring waters, a sector in which Nestlé is leader, are managed by the subsidiary Perrier Vittel S.A., which had an excellent year in 1997. Sales recovered in Europe, while in the United States they again registered real growth of over 10%. Nestlé is continuing to expand vigorously in Latin America, Asia and Eastern Europe. 1997 saw the beginning of operations at new springs in China and Romania. The Group owns several world-famous names in this sector, but relies also on local brands.

An excellent year for mineral and source waters, particularly in the United States

Nestlé has made a clear choice in favour of products with growth potential above the food industry average. This strategy is accompanied by a strengthening of its presence in the emerging markets, which continue to offer good prospects in the medium and long term, in spite of temporary difficulties. At the same time, the segmentation of distribution channels has created new opportunities which correspond to changes in the habits of consumers, who want products to be available everywhere, at any time. Nestlé is in a good position to satisfy this trend in demand, thanks to a varied product range that is well adapted to changing needs.

Opening of markets

The liberalisation of trade between the various countries of the world is at once a challenge and an opportunity. The example of the European Community has been followed by similar developments in the Americas and Asia. The opening of markets is necessitating adjustments in production and distribution structures everywhere. These adjustments correspond to one of the Group's primary objectives: to achieve better capacity utilisation on a global scale. The steps taken on a regional or continental level in no way infringe upon the principle of operational decentralisation, which continues to be fundamental for a group of Nestlé's size. Even if the boundaries between countries become less rigid, the tastes of consumers, the structure of distribution and the competitive and legal structures will continue to differ widely. Only local management of the business is able to take into account the specific characteristics of each market and to respond swiftly to new trends and changes.

Adjustment of production and distribution structures, improved capacity utilisation on a global scale

Sales reach Fr. 70 billion

Nestlé's sales rose to Fr. 70 billion in 1997, up 15.7% over the previous year. Real internal growth reached 3.2%, with a marked acceleration in the second half of the year. In food, growth was particularly strong in the Middle East, Eastern Europe and many of the Asian markets; in other activities, growth was strong worldwide.

External growth (the contribution of acquisitions net of disinvestments) amounted to 0.7%. Acquisitions contributed 1.7% to sales growth while disinvestments, the pace of which accelerated, led to a 1% reduction.

The net monetary effect, which primarily reflects variations in exchange rates and increased selling prices, was 11.8%. All the major billing currencies, particularly the US dollar and the pound sterling, gained in value against the Swiss franc. Exchange rate variations thus contributed 8.1% to the sales increase. However, this favourable effect was countered by a sharp decline in South-East Asian currencies during the final quarter. The balance of the net monetary effect, consisting essentially of selling prices, increased by 3.7%, underlining the Group's ability to adapt its prices to higher raw material costs and to inflation.

Food

In Western Europe, despite a good performance in certain segments such as pet foods, sales volumes remained stable, reflecting continuing uncertainty in the consumer environment in several countries. For Eastern Europe, a real internal growth rate of some 12% was achieved.

Growth in North America was close to the Group average, thanks in particular to good results in the nutrition sector. Sales developed very favourably in several countries of Latin America, especially Mexico and Argentina. In Brazil, however, austerity measures had a negative impact on consumption.

The Group recorded above-average growth rates in the emerging countries of Asia, despite the financial crisis in the second half of the year. In Japan and Australia, sales volumes remained stable, as a result of difficult economic conditions which, in these two countries, resulted in reduced commercial activity and a weakening of consumption. There was an outstanding sales gain in the Middle East, where Nestlé has recently enlarged its presence.

Other activities

Sales of mineral water posted a further strong gain in the United States, and there was a pronounced recovery in Europe. The growth rate for pharmaceutical products was also well above the Group average, in the United States and in other markets.

1997 Sales [a]
in principal markets
In millions of Swiss francs

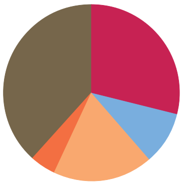
Market	Differences 1997/1996 in francs	in local currency	Sales
USA	+22.1%	+ 4.4%	14 454
France	+ 3.3%	+ 0.4%	6 863
Germany	+ 4.4%	+ 2.3%	6 689
Brazil	+10.5%	+ 0.7%	4 419
United Kingdom	+23%	+ 0.3%	3 893
Italy	+ 7.9%	+ 1.5%	3 375
Japan	+ 5.9%	+ 1.5%	2 999
Spain	+ 6.3%	+ 4.6%	2 245
Mexico	+44.1%	+28.4%	2 006
Australia	+12.1%	+ 0.4%	1 651
Philippines	+16.0%	+ 9.9%	1 572
Canada	+48.6%	+29.3%	1 525
Switzerland	+ 0.9%	+ 0.9%	1 049
Other markets	+22.6%	[b]	17 258

[a] Sales by markets include food and other activities.
[b] Not comparable.

Trading profit

Breakdown of trading expenses by category

In percent



	1997	1996
Raw materials	**26.2**	26.5
Packaging	**8.8**	9.4
Salaries and welfare expenses	**16.6**	16.4
Depreciation	**4.1**	4.1
Other trading expenses	**34.5**	33.9
Total trading expenses	**90.2**	90.3
Trading profit	**9.8**	9.7

Trading profit rose from Fr. 5862 million in 1996 to Fr. 6880 million in 1997. The trading margin increased to 9.8% of sales (9.7% in 1996).

The improvement in margin mainly reflects a reduction in the cost of goods sold. The Group was able to limit the impact of higher green coffee and cocoa prices through good management of its raw material purchasing and through timely increases in selling prices in the coffee sector. In addition, as a result of ongoing improvements in industrial performance, factory fixed costs decreased and distribution costs were stabilised.

These positive factors more than outweighed an increase in marketing and administration expenses. The latter rose owing to the integration of acquisitions and to the start-up of new operations in certain markets. Marketing costs were stable as a percentage of sales. Restructuring costs were up due to further rationalisation measures in the United States and Europe, particularly in Italy.

Strong gain in Europe

The advance in the trading margin in Europe reflects, on the one hand, improved profitability in Western Europe as a result of successful cost-reduction programmes. On the other hand, operations in Eastern Europe are now firmly established and showed an improvement in their margin, which is now close to the Western Europe level.

The margin in the **Americas** declined due to the restructuring of activities in the United States, which was related in part to the disinvestment of segments with low value added. In Latin America, despite the economic problems in Brazil, the margin rose slightly, thanks largely to a significant improvement in Mexico.

The margin was stable in the **other regions of the world** despite the depressed state of the Japanese market. In Africa and the Middle East, the upward trend continues.

Among the **other activities**, waters benefited from good sales growth and a reduction in packaging costs. Pharmaceutical products reached a record level of profitability, with Alcon's results reflecting further gains in productivity.

Improvement in trading margin reflecting a reduction in the cost of goods sold

Net profit

Group **net profit** rose by 17.8% in 1997 to reach Fr. 4005 million. The net margin increased from 5.6% to 5.7%. This progression mainly reflects the improvement in trading profit.

Expressed as a percentage of sales, **net financing costs** were stable. The increase to Fr. 1056 million from Fr. 915 million in 1996 is explained by the appreciation against the Swiss franc of the currencies in which the Group has borrowings.

Net non-trading expenses increased compared with 1996, despite a tax credit in the United States resulting from a change in the method of establishing the tax liability. Moreover, the 1996 figure included positive exchange rate differences.

The **tax charge** as a percentage of profit before taxation increased slightly, but remained below the levels of the years prior to 1996.

The **share of profit attributable to outside interests** declined, owing to lower results – partly following the depreciation of local currencies – and to an increase in the Group's participations in certain companies.

Earnings per share

Earnings per share rose by 17.8% to Fr. 101.8. The increase was the same as that of the Group's global profit, the number of shares in circulation being virtually unchanged.

Capital expenditure

In 1997, capital expenditure in absolute terms reached Fr. 3261 million, compared with Fr. 3054 million in 1996. The increase is due entirely to variations in foreign exchange rates; as a percentage of sales, capital expenditure dropped to 4.7% from 5.0% in 1996, reflecting the efforts made to improve capacity utilisation.

Expressed in Swiss francs, capital spending was stable in Europe; in local currencies, it declined. Spending increased slightly in the Americas, also because of exchange rates. It rose significantly in the other regions of the world, where the Group is pursuing its rapid expansion in the emerging markets.

The increase in capital expenditure for the other activities reflects the strong growth in water, with new bottling plants in the emerging countries, and in breakfast cereals.

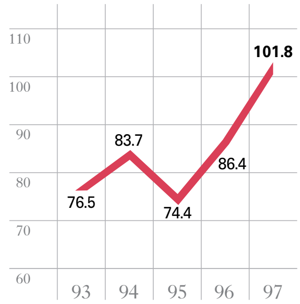
495 factories in 77 countries

The total number of Nestlé factories worldwide increased by six in 1997, as acquisitions and the start-up of new facilities more than offset shutdowns and disposals. The eight factories opened in 1997 are all located in emerging countries.

The total of 495 factories includes 51 water bottling plants and 16 factories for pharmaceutical or dermatological products.

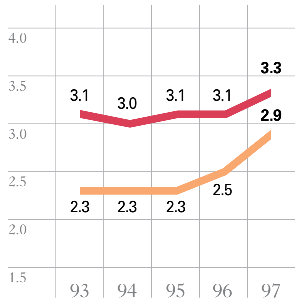
Net profit per share

In Swiss francs



Capital expenditure

In billions of Swiss francs



Capital expenditure

Depreciation of fixed assets

Group policy continues to emphasise internal growth and the strengthening of its presence in strategic sectors. In 1997, spending on acquisitions and participations again declined, dropping to Fr. 938 million from Fr. 1194 million in 1996. Proceeds from disinvestments totalled Fr. 372 million, so that net expenditure amounted to Fr. 566 million, compared with Fr. 1098 million in the previous year.

Acquisitions in strategic sectors, but emphasis on internal growth

Significant expansion in the ice cream sector took place during 1997. Nestlé entered the Canadian market where, through the acquisition of the ice cream activities of Ault and Dairy World, it has a 40% market share. New opportunities also arose in the emerging markets. In Asia, the Group increased its participation in Nestlé Dairy Farm in China and Hong Kong from 51% to 100% and acquired Shanghai Fuller Foods. In Latin America, the acquisition of D'Onofrio in Peru has brought strong positions not only in ice cream, but also in chocolate and confectionery.

The increase of Nestlé's participation in the San Pellegrino mineral water group from 50% to 100% was announced in November 1997. As this transaction was not finalised until February 1998, it had no effect on net expenditure in 1997 or on Group results.

Regarding disinvestments, in the United States the *Contadina* brand and the activities relating to canned tomato products have been sold. In Germany, Nestlé divested the *Sarotti* chocolate brand as well as *Tartex* and *Ritter* dietary products and *Dany* sandwiches. In Italy, Pecorino cheeses sold under the *Locatelli* brand have also been divested.

More detailed information about new acquisitions, participations and disinvestments can be found in the sections on the various product groups on pages 18 to 41.

Operating cash flow

Operating cash flow again showed a strong rise (+31%). This rate of increase is significantly higher than that of net profit. It reflects on the one hand the increase in profit before depreciation and provisions, and on the other hand a reduction in working capital.

Debt

The Group's net financial debt (short, medium and long term financial debt, net of liquid assets) fell from Fr. 6.8 billion at the end of 1996 to Fr. 4.8 billion. The significant reduction is a result of the strong cash flow generated particularly during the last months of the year. This more than offset the appreciation of foreign currencies in which the Group has borrowings.

The ratio of net debt to equity (including outside interests) was 19%. It was 29.6% in 1996 and 33.4% in December 1995.

Significant reduction in the Group's net financial debt

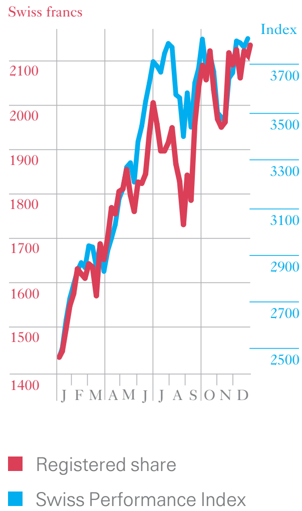
In a very buoyant stock market environment, the price of the Nestlé registered share increased by 52% in 1997. Its performance against the SPI index improved from September, thanks in part to the announcement of the first half results.

During the last quarter of the year, the uncertainties caused by the economic and monetary crisis in Asia put temporary pressure on a large number of Swiss companies. However, the Nestlé share resumed an upward trend in December, as investors responded favourably to the good geographic spread of the Group's activities and to the diversity of its product portfolio.

In December, the SPI index reflected the announcement of the merger between Union Bank of Switzerland and Swiss Bank Corporation. This announcement produced a sharp rise in bank stocks which represent a substantial part of the index, thereby affecting the relative performance of Nestlé.

Evolution of the Nestlé registered share in 1997

(compared with the Swiss stock market index)



52% increase in the price of the registered share in 1997

Environment

Nestlé is committed to safeguarding the environment and has long since undertaken to implement in its fields of activity practices which respect the environment. In 1997, in line with its policy in this area and within the framework of the Nestlé Environmental Management System, Nestlé continued efforts at all its sites around the world.

Protection of the environment accompanied by cost savings

The environmental audit previously conducted at the Group's factories was extended to logistical sites, transport activities and administrative headquarters. The audit revealed an improvement in environmental performance, stemming from a reduction in the consumption of energy, water and packaging materials. It also showed that permanent measures taken to rationalise the use of means of transportation have a positive effect on the environment.

A policy of measures which favour the environment also benefits the Group. Thus, between 1991 and 1997, Nestlé reduced usage of packaging materials by 127 500 tons across the world, representing a cost saving of some Fr. 210 million, without affecting the high quality of products.

Human Resources

The number of people employed by the Group rose from 221 144 at the end of 1996 to 225 808 at 31st December 1997, a modest increase of 2.1%. This reflects increases in personnel in regions where sales are growing rapidly, as well as the effect of acquisitions made during the year. These increases were only partially offset by reductions in personnel following various disinvestments and the restructuring which proved necessary.

Development of Human Resources
The ongoing recruitment of new employees with high potential is essential to guarantee the Group's longterm success. Special attention is therefore devoted to quality requirements throughout the process of candidate selection and development. This enables Nestlé to maintain its traditional policy, favouring promotions from within the Group and the development of longterm careers.

To give a better idea of selection criteria and career opportunities, a brochure entitled "Career Opportunities at Nestlé" was published in 1997.

Training, motivation and involvement of all employees

In order to implement the policy of internal promotion, special and constant attention is devoted to the identification and tracking of employees with development potential. The development programme for future executives includes international experience, so that they can confront the growing challenges presented by the economic environment now and in the years ahead, as it becomes increasingly globalised. Additional efforts were made in this direction in 1997.

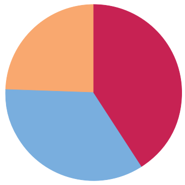
Training plays an essential role in the development of human resources, all the more so as the acceleration of scientific and technological progress demands a constant upgrading of knowledge in every sector of the Company. The Rive-Reine International Training and Conference Centre, near Vevey, organised a total of 82 seminars and welcomed 1 899 participants, a substantial increase over the 71 seminars and 1 705 participants of 1996. This progress was made possible by the new accommodation at the Rive-Reine Centre added the previous year. Mention should also be made of the seminars offered by the training centres, both residential and non-residential, of the operating companies throughout the world, in order to respond to the local requirements of their headquarters, factories or commercial and logistical organisations.

"The Basic Nestlé Management and Leadership Principles"

"The Basic Nestlé Management and Leadership Principles" were published in the spring of 1997. Since then, they have been circulated widely within the Group, reaching every level of the organisation. To ensure that they are generally known and understood, the dissemination of the Principles will be continued in 1998 with the aid of discussions, seminars and courses.

This document summarises the basic principles governing management, leadership and executive commitment, in order to involve the personnel more deeply in the active life of the Group's business. It also outlines the culture of the Company, enabling people to obtain a clearer understanding of "the Nestlé spirit".

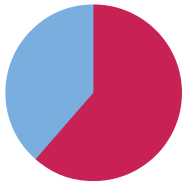
Geographic distribution



	1997	1996
Europe*	40.9%	44.7%
Americas	34.9%	33.4%
Africa, Asia and Oceania	24.2%	21.9%

* 6366 employees in Switzerland in 1997.

Distribution by activity



	1997	1996
Factories	138 836	135 371
Administration and selling	86 972	85 773
	225 808	221 144

Product group development

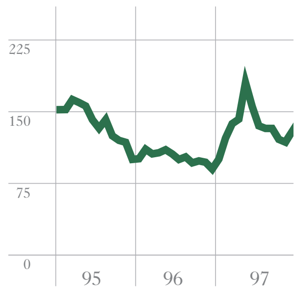
Beverages

Nestlé invented soluble coffee in Switzerland in 1938, and sales of *Nescafé* have been growing steadily ever since. With over 3000 cups drunk every second, *Nescafé* is far and away the world's most popular brand of coffee. Ready-to-drink coffees are sold under the same brand. The Group is also the worldwide leader in mineral and spring waters. Its presence is strongest in Europe, with such brands as *Vittel*, *Contrex*, *Perrier*, *Vera*, *Fürst Bismarck* and most recently *San Pellegrino*, and in the United States, with *Arrowhead*, *Poland Spring*, *Zephyrhills* and *Ozarka*. Nestlé also leads the world market in chocolate- and malt-based drinks, for which the best-known brands are *Nesquik/Nestlé Quik*, *Milo* and *Nescau*. The Group's other activities include roasted coffees, such as *Hills Bros.* and *MJB* in the United States and *Dallmayr Prodomo* in Germany; fruit juices, where its most important brand is *Libby's* in the United States; and tea-based drinks, particularly soluble and ready-to-drink *Nestea*.

Millions of Swiss francs		**1997**	1996	1995
	Sales	**19 142**	16 348	16 215
	Trading profit	**3 200**	2 712	2 492
	Capital expenditure	**629**	586	618

Green coffee prices

Average monthly prices expressed in US¢ per lb



Green coffee

The consequences of an intentionally shortened supply chain by roasters, which triggered permanent industry demand, and a tightening green coffee situation in many producing countries combined to produce a firm market with steadily rising prices from early January.

As downward revisions to the 1997 Brazilian crop potential attracted additional industry and fund buying, arabica coffee prices as reflected by the New York market climbed to reach 20 year highs in late May. Thereafter the negative impact of high retail prices on consumption, profit-taking by funds and a southern hemisphere winter which passed without incident resulted

The terms in italics on pages 18 to 41 of this report are registered trademarks of the Nestlé Group.

The new jar for top-of-the-range *Nescafé*. The design is protected by law in more than 100 countries.

New *Nescafé Mocha* in Canada.

***Nescafé* in a "refill" bag has become very popular in Central America.**

in values declining. For much of the second half of the year, the market remained nervous and prices fluctuated widely.

The availability of robustas was adequate as a result of large crops in the Ivory Coast and Vietnam. After a short-lived price spike in late May, the market remained relatively stable for the rest of the year.

Sales

In spite of the higher selling prices resulting from the soaring cost of green coffee during the first six months of 1997, sales of *Nescafé* held up well throughout the year. *Nescafé* is maintaining and reinforcing its leading position in the soluble coffee market through the launch of new varieties and its ongoing geographic expansion.

The introduction of a new jar for top-of-the-range *Nescafé* in around ten countries is strengthening its quality image. Its unique shape is protected worldwide in order to prevent counterfeiting.

Four new *Nescafé* specialities, with a mellow and creamy quality, were launched in Canada; they are sold in a novel, patented packaging.

Eastern Europe continues to be a major growth area for *Nescafé*. It already accounts for more than 10% of worldwide sales volume. In Asia, products combining *Nescafé* with non-dairy creamer and sugar, like *Nescafé 1+2*, are continuing to post high growth rates.

Sales of roasted coffee were flat in Europe and declined in the United States, due to a general decrease in consumption and to the price increases which took place in 1997.

Nespresso – top-of-the-range espresso coffee in capsules – registered good growth in sales and reinforced its leader position in the competitive market for espresso coffee in portions. In the upmarket Office Coffee Service segment, *Caffèpresso* – a system for preparing coffee in portions specially designed for offices – continued its European development with good results.

***Nespresso*, the best thing since the invention of the espresso.**

Ready-to-drink *Nescafé* has been launched in Spain.

Within the framework of the agreement with Coca-Cola, sales of *Nestea* **ready-to-drink teas** are making rapid progress, particularly in the United States, where *Nestea* holds second place. Sales of *Nescafé* **ready-to-drink coffees** are continuing to expand in Japan. They have also been launched in Thailand, Spain and Austria, as well as in test markets in the United States and Canada.

Chocolate- and malt-based drinks showed further vigorous growth. *Nescau* and *Nesquik/Nestlé Quik* performed well both in the Americas and in Europe, particularly in ready-to-drink format. *Milo* enhanced its position in Asia, where the brand was already very strong, and in Latin America.

Libby's **fruit juices and nectars** sold well in the United States, Canada and Mexico.

Water

Sales of **mineral** and **spring waters** continued to advance at a rapid pace.

In Europe, the growth rate was particularly high in Germany (Blaue Quellen/Trinks). A new plan for restructuring the Vergèze industrial site was announced in France, in order to enhance the profitability of the *Perrier* brand. The Group has further strengthened its position in the United States, where consumption of water in PET bottles is still increasing rapidly. Growth was also very strong in the emerging markets, including Vietnam, Thailand, the Philippines and Brazil.

In view of the steady growth in consumption of bottled water, the positions now held globally and the acquisition of the San Pellegrino group, further progress should be achieved in 1998.

A delicious source of energy with a malt flavour, very popular with young people.

***Nesquik*, the world leader in chocolate-based drinks for children, is also available in a ready-to-drink format.**

***La Vie* in China and *Sohat* in Lebanon illustrate the Group's policy of geographic expansion.**

Profit
Trading profit rose by 18%. The trading margin improved slightly despite the increase in the cost of green coffee. This improvement reflects among other things a reduction in packaging costs in the water sector.

Capital expenditure
Capital expenditure rose to Fr. 629 million from Fr. 586 million the previous year. In Europe, seven new filling lines started up for the new jar containing top-of-the-range *Nescafé*. Production capacity for soluble coffee was increased at Cagayan de Oro in the Philippines. For liquid coffee, a PET packaging line was put into service at Shimada in Japan, and new production lines were opened in Thailand and Malaysia. Two new manufacturing lines for *Milo* started operation in Vietnam (Dong Nai) and in Indonesia (Kejayan). In water, new bottling plants were opened in Romania, China and the Philippines.

Acquisitions and participations
In mineral water, Nestlé's interest in the San Pellegrino group has been raised to 99.98%. The participations were increased in Long An in Vietnam (from 33% to 43%), and in Manantiales in Mexico (from 50% to 100%).

With the acquisition of *San Pellegrino,* Perrier Vittel S.A. reinforces its position in the Italian market and becomes the leader there.

Milk products, nutrition and ice cream

As the world's oldest manufacturer of foods for infants and young children, Nestlé offers a complete range comprising start-up and follow-up formulas, growing-up milks, cereals and baby foods (dehydrated and in jars), as well as infant dietetic specialities. Nestlé is also the world leader in shelf stable milks and is continuing to build up its range of chilled dairy products. Cereal Partners Worldwide, the joint venture with General Mills for breakfast cereals outside North America, is now active in many countries. The Group is continuing to strengthen its global presence in ice cream. The field of health and nutrition is becoming an important growth sector for the food industry. As Nestlé has a unique position in this area, in 1997 the Group created a Nutrition Strategic Business Division, which combines its activities in infant nutrition, clinical nutrition and performance nutrition.

		1997	1996	1995
Millions of Swiss francs	Sales	**19 334**	16 697	15 239
	Trading profit	**1 878**	1 632	1 628
	Capital expenditure	**745**	732	667

Milk

For the second consecutive year, world milk production increased in 1997. The growth in some Asian and Latin American countries, as well as Oceania and the United States, more than compensated for the decline in Russia and the Ukraine.

Confirmation of record seasonal production in New Zealand and Australia and a more aggressive export policy by the United States ensured that international milk product prices remained weak during much of the year. However, international prices improved during the last quarter, led by strong Russian demand for butter and continuing good offtake of milk powders in south-east Asia, where the effect of local currency devaluations had yet to be reflected at the retail level.

Following its success in Brazil and Mexico, the fermented drink *Chamyto* was launched in Hong Kong in November 1997.

Nidal AR, **a new dietary food for regurgitation in small babies.**

The second year of the Uruguay Round (GATT) was completed without any major problem for European Union (EU) milk powder and butter exports.

Sales

Nestlé is continuing to enlarge its business in refrigerated dairy products. This expansion is taking place not only at the geographic level – launch of the fermented drink *Chamyto* in Hong Kong – but also through the addition of new product lines, such as the extension of the innovative *LC*^{1} concept to "fromages frais" and beverages.

Infant nutrition continued to progress, particularly in Eastern Europe, Asia and the Middle East. A hypoallergenic milk with improved flavour and higher nutritional value was introduced in most of these countries, while the first follow-up milks with bifidus were launched in three Asian countries at the end of the year. In Europe, a dietary product designed for cases of moderate regurgitation in young babies has recently been introduced.

Clinical nutrition sales grew rapidly in North America and Western Europe. A new range of oral supplements was launched under the *Clinutren* brand. It combines high nutritional value, including large quantities of macro- and micronutrients to remedy or prevent malnutrition, with outstanding organoleptic qualities – variety, taste, texture – to make the products more enjoyable for the consumer. This new concept has met with an excellent reception.

In clinical nutrition, ***Clinutren*** **is a new range of nutritional supplements.**

Mousse au Chocolat: Nestlé's dual expertise in ultra-fresh products and in chocolate.

***LC*^{1}, a major success from Nestlé research.**

A milk-based drink with fruit, enjoyed by young people in Thailand.

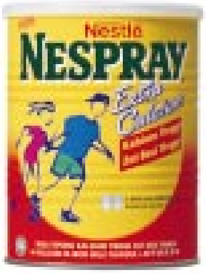
In **performance nutrition**, sales of *Nestlé Sweet Success* have recorded excellent results in the United States.

Shelf stable milks continued to make good progress. The main product, powdered milk, posted strong growth rates thanks to further renovation initiatives, with particular emphasis on calcium content. Two different formulas, one for young people and one for adults, have been successfully launched in Malaysia and Argentina, and they are being rapidly extended to other countries.

The other categories — sweetened and unsweetened condensed milk and shelf stable dessert creams – also developed satisfactorily. Innovation stimulated sales: a range of five delicious flavoured custards was launched in Brazil, while in Russia *Smetana* cream is designed to suit local culinary practices.

Fresh & Fruity is a milk-based beverage with fruit, acidified by fermentation. It has been extremely popular with young people in Thailand since its launch there last April.

In Europe, sales of **ice cream** showed a solid improvement, thanks to more favourable weather conditions than in 1996, and to the success of new *La Cremeria* products in Italy and of children's ice cream featuring Disney characters in the Netherlands. The international development of strategic brands continued with the introduction of *Drumstick Suprême* in the United States and of *Non Stop* in Asia. In Latin America, the Group began to import products in new markets, including Bolivia, Uruguay and Guatemala.



Milk powder enriched with calcium for adolescents in Malaysia.

Five delicious flavoured custards add to the range of desserts in Brazil.

***Smetana*, a cream for traditional Russian cuisine.**

A new version of *Drumstick* cones is spurring sales in the United States.

In the Netherlands, ice creams for children combining innovation and the fantasy of Disney.

Non Stop, endless eating pleasure for young people in the Philippines.

Breakfast cereals showed strong growth as a result of expansion in existing markets, the launch of new products in Europe and Latin America such as *Apple Minis*, *Honey Nut Shredded Wheat* and *Zucosos*, and the extension of activities in Eastern Europe to Hungary, the Czech Republic, Slovakia and Russia.

Profit

Trading profit increased by 15% in 1997. The very slight reduction in trading margin was caused by the expansion of ice cream activities in Asia and by the entry into new markets for ice cream. On the other hand, the trading margin for ice cream in the developed markets improved.

Capital expenditure

Capital expenditure was little changed in 1997. A new factory for refrigerated dairy products was inaugurated at Bavi in Vietnam. In ice cream, new factories were opened in Brazil, China and Malaysia. Production capacity for breakfast cereals was increased in several existing factories, and a new plant was built at Caçapava in Brazil.

Acquisitions and participations

In the course of 1997, Nestlé continued to strengthen its position in the global ice cream market through the acquisition of the ice cream activities of Ault and Dairy World in Canada, and of D'Onofrio in Peru. In Asia, the Group increased its participation in Nestlé Dairy Farm in China and Hong Kong from 51% to 100% and purchased Shanghai Fuller Foods, a producer of ice cream and milk. Ice cream companies were also acquired in Jamaica and the Dominican Republic.

In Italy, the year's greatest success in the important 1 litre pack sector.

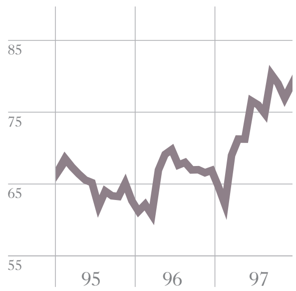
Sugar-frosted corn flakes.

Nestlé is the world's leading manufacturer of chocolate and confectionery. The *Nestlé* range of chocolate tablets, countlines, specialities and boxed chocolates includes international strategic brands like *Nestlé*, *Crunch*, *KitKat*, *Smarties*, *Lion*, *After Eight*, *Quality Street* and *Baci*, as well as brands that are specific to a geographic area or country, like *Butterfinger*, *Baby Ruth*, *Charge*, *Femina* or *Perugina*. Some of the Group's chocolate brands are also brands for chocolate-based drinks or ice cream. The principal sugar confectionery brands are *Polo* and *Frutips*. Biscuits (sweet and plain) are sold mainly in South America, where the Group owns several brands, including *São Luiz*, *McKay* and *La Rosa*.

Millions of Swiss francs		**1997**	1996	1995
	Sales	**10 663**	9 034	8 217
	Trading profit	**1 016**	975	931
	Capital expenditure	**435**	433	378

Cocoa prices

Average monthly prices expressed in US¢ per lb



Cocoa

Following a supply surplus generated the previous season as a result of exceptional West African production, in 1997 the market was confronted with a major imbalance between supply and demand and the consequent significant drawdown in world stocks. In addition, much of the year was dominated by forecasts of the probable adverse effect on production of the "El Niño" weather phenomenon. These factors supported the market and prices firmed. Although any serious crop shortfall in West Africa was eventually avoided with the arrival of rainfall in the cocoa-growing areas of the Ivory Coast and Ghana in late October, it nevertheless became obvious that production had suffered following a prolonged dry spell in Indonesia, Malaysia and Papua-New Guinea.

The situation has not improved in Brazil's main cocoa-producing state of Bahia, where almost all cocoa farms are now infected by witch's broom, a disease which reduces the tree's fruiting

***Cailler's* top-of-the-range selection.**

Smarties balls from Nestlé – A seasonal version of the Group's leading brand for children.

ability. The probability that Brazil will have to resort to importing beans permanently in order to satisfy domestic industry requirements is steadily increasing, as demand for chocolate products outstrips local cocoa bean availability.

Considerable price volatility was experienced in 1997 with the New York market in particular moving significantly higher. However, unconfirmed reports in late December that a major physical cocoa stockholder might be obliged to liquidate his position unsettled the market, and values eased.

Sales

Sales of chocolate and confectionery are continuing to grow vigorously in Asia, particularly in Japan, India and the ASEAN region, especially the Philippines and Malaysia. *KitKat* continues to make progress in Japan, as does sugar confectionery, with the launch of *Polo SuperMint*, which has a higher flavour strength. In India, a new range of milk-based local confectionery has been introduced.

KitKat has moved into additional Latin American countries, and *KitKat Stick* has expanded into Canada.

Sales growth in Russia, based on local product lines, has been particularly buoyant: sales were up 50% on the previous year. Recent introductions in the United Kingdom – *Mini-Eggs*, *Smarties Secrets* and *Giant Smarties* – have been a success. Other new products

Frutips – An irresistible fruit flavour tailored to individual cultures, now available for Halal markets.

Polo SuperMint – Now the "Sweet with the hole" tastes even fresher – and is sugar-free.

The *Nesquik* mini-bar – A tasty combination of chocolate, milk and wafer.

launched in Europe include *Maverick*, a chewy bar for young people in the United Kingdom, *Orange After Eight* in France, a new twist-wrapped *Perugina* sweet in Italy and, in France and the United Kingdom, peanut *Lion* containing peanut butter, a taste which is becoming increasingly popular in Europe.

Profit

Trading profit rose by 4%, but there was a decline in margin caused by several factors. The impact of the increase in the cocoa price was exacerbated by the fact that the price is quoted in pounds sterling, a currency which appreciated strongly in 1997. Costs also increased owing to a higher marketing spend in certain countries and to the integration of new acquisitions.

Capital expenditure

Capital expenditure was stable compared with 1996. No new factories were opened, but production capacity was increased at several plants: Samara in Russia, Marilia in Brazil, Samalka and Ponda in India, and St Louis in the United States.

Acquisitions and participations, disinvestment

Nestlé has expanded its activities in Latin America by purchasing 80.6% of D'Onofrio in Peru, a leader in the local market for chocolate and confectionery. The Group also acquired Philippines Cocoa Corp., and Engelhofer in Austria. In Germany, the Group sold the *Sarotti* brand to Stollwerk AG as of 1st January, 1998.

Peanut *Lion* – "Roar with pleasure".

Maverick – A new chewy snack.

ButterSkotch – Sugar confectionery in practical packaging formats.

Butterfinger – The bar with a peanut butter flavour, crisp and crunchy.

Prepared dishes and cooking aids (and miscellaneous activities)

The frozen prepared dishes produced by the Group are sold under three main brands: *Stouffer's* in the United States and *Findus* or *Maggi* in the rest of the world. A diversified range of soups, bouillons, sauces and culinary preparations, sold primarily under the *Maggi* label, is adapted in each country to local tastes, recipes and ingredients. *Maggi* instant Asian noodles are available in the Far East/Pacific region, as well as in Europe, Africa and Latin America. Nestlé is present in Italian cuisine with *Buitoni* pastas and sauces, either refrigerated or shelf stable. The *Buitoni* range also includes a wide choice of pizzas and frozen dishes. In Europe, a full line of delicatessen products and cold meats is sold under the *Herta* brand. The Group also manufactures *Thomy* sauces and condiments in several countries.

Miscellaneous activities include products for pets. Dog and cat foods, as well as pet accessories, are sold under the well-known *Friskies* and *Alpo* brands.

Millions of Swiss francs		1997	1996	1995
	Sales	**17 660**	15 960	14 655
	Trading profit	**1 483**	1 297	1 120
	Capital expenditure	**445**	450	446

***Ortega*, the specialist in Mexican cooking.**

Sales

Sales continued to develop at a satisfactory rate, thanks in particular to the strong performance of **traditional dehydrated products** – bouillons, soups and sauces. The outstanding growth rates in this category are due, on the one hand, to renovation of the product line and successful innovations in Western Europe and, on the other hand, to geographic expansion in Eastern Europe.

Sales of **Mexican foods** under the *Ortega* brand in the United States made good progress. On the occasion of the

An economical Oriental noodle soup based on Nestlé technology was successfully launched in Australia.

The successful *Pastaria* formula has been introduced in Israel under the *Osem* brand.

brand's 100th anniversary, celebrated in 1997, the packaging and marketing of existing *Ortega* products was updated and new products were launched.

Sales growth was recorded for every category in the *Buitoni* range and for most of the countries where it is sold. In Italy, sales of fresh products were stimulated by the introduction of innovative chilled **pastas**, such as multi-purpose pasta leaves and regional pastas. The trend towards higher pasta consumption, particularly in Germany, produced a substantial increase in sales of traditional *Buitoni* pasta.

This new introduction in Italy is enhancing *Buitoni's* local presence and innovative image.

Smacznego means "Bon appétit" in Polish – An innovative range of soups under the *Winiary* brand.

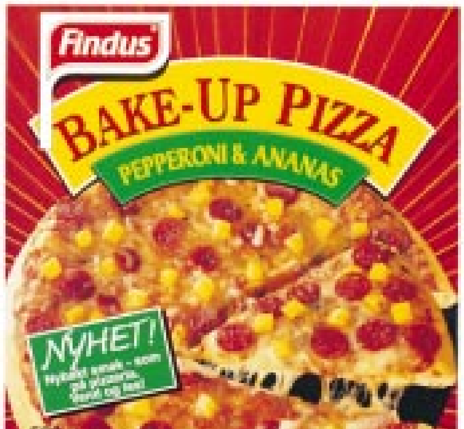
Dishes based on pasta with sauce were launched under the brand *Osem* in Israel and *Winiary* in Poland, in response to consumer demand for economical meals for one or two people that can be prepared quickly and easily.

1997 was a good year for **frozen products** in most segments. In Europe, the Group introduced an innovative *Findus* pizza with a self-raising crust resulting in an authentic pizzeria quality.

New launches under the *Maggi* and *Findus* brands include "au gratin" dishes divisible into portions in Germany and the "Papillote" in France, a local fish speciality that can be prepared in a microwave. In the United States, *Stouffer's Lean Cuisine* "American Favourites" offers American home-style cooking.

In the **pet food** sector, 1997 saw both the introduction of new products and vigorous geographic expansion. Friskies Europe showed very good growth, confirming its strong position in dry cat foods. Sales also increased sharply in Eastern Europe and in specialised channels. The *Mighty Dog* brand was launched in Italy and the United Kingdom.

By launching this product in Europe, *Findus* has strengthened its position in existing markets and gained entry to the Scandinavian market for frozen pizzas.



Fancy Feast, the flagship brand for upmarket wet cat food, consolidated its leadership in the United States. In top-of-the-range wet foods for small dogs, *Mighty Dog* benefited from a major innovation: “Prime Cuts and Paté” is the first two-layer food in this category, with two textures and two flavours combined in a single-portion can.

In Japan, where the competition was more intense than ever, the Group achieved particularly satisfying results in cat food, thanks to the good performance of *Friskies* and *Mon Petit*. Several new varieties were added to the *Wan Petit* range, which is the Japanese equivalent of *Mighty Dog*.

A complete range of dry and wet dog and cat food has been launched in Brazil, the largest market in Latin America.

Profit

Trading profit rose by 14%, signifying an increase in margin from 8.1% to 8.4%. This development was principally owing to an improvement in the refrigerated culinary products segment, which benefited among other things from the disposal of loss-making activities.

Capital expenditure

Capital expenditure decreased very slightly compared with 1996. It was focused on the emerging markets, with in particular the construction of a new culinary products factory at Bicholim in India.

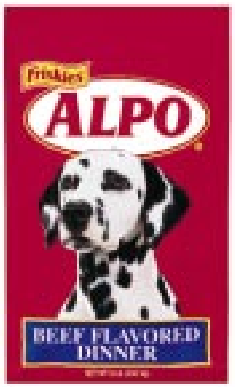
Acquisitions, disinvestment

In pet foods, Nestlé acquired the *Perrarina* brand in Venezuela, which has given the Group a more solid foothold in the region.

Pursuant to its policy of concentrating on sectors with high value added, the *Contadina* brand and the activities linked to its canned tomato products in the United States were sold.

Friskies **cat food is now available in Brazil, Colombia and Peru.**

The aluminium tray is one of four packaging types used for *Mighty Dog* in Italy and the United Kingdom.



Alpo **continues to do well in the United States.**

Foodservice

Although the sales of Nestlé's foodservice activities are divided among the four major categories of food products discussed on the previous pages, it is worth devoting a separate section to them, as they concern a special group of customers: professionals in the restaurant and hotel industries.

Sales of *Nestlé FoodServices* grew significantly, reflecting the strong performance of soluble coffees, *Milo* and *Nestea* beverages, *Maggi* culinary products and milk products. The concept offered by *Nestlé FoodServices* is increasingly successful with professionals: its aim is to satisfy customers' individual needs with the best brands, the best products and the best service.

For *Nestlé FoodServices*, geographic expansion has top priority. Since 1996, it has moved into several important new markets: the People's Republic of China, Russia, Poland and a number of countries in Latin America.

Restaurants and hotels

The wide range of products is being constantly renewed and adapted to take into account the diversity of clients and their specific requirements. Demand remains strong for dehydrated products sold under the *Maggi*, *Chef*, *Minor's* and *Trio* brands, and is increasing rapidly for frozen products and meals with high value added, sold under the *Stouffer's*, *Findus*, *Buitoni* and *Davigel* brands. The culinary services provided by *Nestlé FoodServices* help its customers to increase their productivity, while assuring them of a high level of quality. Customers can also benefit from the image of Nestlé's retail brands which reassures consumers, especially in less traditional consumption venues.

Nestlé products always within reach of the consumer

Nestlé has intensified its efforts to adapt to the changes in lifestyle and habits of consumers, especially in urban areas. A characteristic trend in such areas is increased consumption of food products and beverages outside the home – at work, or in public places and recreation centres. The transportation sector is also growing at a rapid pace; Nestlé supplies many products for airline meals and railway restaurants. Vending machines enable consumers to obtain Nestlé products such as *Nescafé* soluble coffee, *KitKat* chocolate bars, *Perrier* mineral water and *Motta* ice cream at any time of day in a wide variety of locations.

France – A crunchy chocolate mousse.

An innovation in the U.S. market: *Carnation Coffee-mate,* the first liquid creamer which can be kept at room temperature.

Vending machines are a way of reaching the consumer wherever he is.

Pharmaceutical products

In 1977, Nestlé diversified into pharmaceuticals by acquiring Alcon Laboratories, which has become the worldwide leader in ophthalmology. Alcon's activities are focused on three segments: ophthalmic drugs, such as *Betoptic*, *Patanol*, *Iopidine*, *Ciloxan* and *Tobradex*; solutions for cleaning contact lenses, including *Opti-Free*, *Opti-Clean*, *Opti-One* and *Supra Clens*; and instruments and equipment for eye surgery, as well as intraocular lenses and products used during operations, especially cataract surgery: *Legacy*, *AcrySof*, *Accurus*, *BSS*, *Viscoat* and *Provisc*.
In 1989, Nestlé and L'Oréal formed Galderma, a joint venture in dermatology. It specialises in treatments for skin conditions, primarily *Différine* for mild acne and *Metrogel/Rozex* for rosacea. To accompany these treatments, Galderma also offers the *Cetaphil* range of products, including cleansers and moisturisers.

Pharmaceutical products also include the infant cosmetics sold through pharmacies in several countries.

Millions of Swiss francs		**1997**	1996	1995
	Sales	**3 199**	2 451	2 158
	Trading profit	**825**	573	455
	Capital expenditure	**66**	84	147

Alcon

1997 was another outstanding year for Alcon. Sales hit a new high, approaching Fr. 3 billion. This reflects strong internal growth, sustained by the introduction of new products. Revenues thus increased by 30% compared with 1996, reflecting also a favourable trend in exchange rates.

Although soaring health care costs have put heavy pressure on the prices of goods and services in this sector, Alcon's position remains secure as it concentrates on the needs of eye care specialists, offering them a very extensive range of products. At the same time, Alcon has developed innovative new products and has globalised its activities.

Highlights of 1997 include the introduction in the United States of *Patanol*, a dual-action drug for eye allergies; the enthusiastic reception accorded to *Supra Clens*, a daily protein remover for soft and rigid gas permeable contact lenses; and the launch of *Accurus*, a new generation of equipment for vitreo-retinal surgery. *AcrySof* intraocular lenses continued to post spectacular growth rates worldwide.

Opti-Free Express **and** ***Supra Clens*****, an ideal combination for cleaning contact lenses.**

Patanol **is a new drug for eye allergies, with rapid action and prolonged effectiveness.**

Galderma

Galderma made excellent progress in 1997, with sales approaching Fr. 400 million, up 57% over the previous year. Adjusted for changes in exchange rates and structure, this represented a gain of 30%.

Différine gel for the treatment of moderate acne continued to arouse great interest among dermatologists. It made its début in a large number of countries, including England, Brazil, Colombia, Australia and the Philippines. Further launches will take place in 1998, and by the end of the year *Différine gel* will be marketed in almost 40 countries.

Registration procedures are under way for many new products, which should enable Galderma to sustain strong growth through the current year.

Profit

Trading profit rose by 44%. Although this increase partly reflected the evolution of exchange rates, there was also a sharp increase in margin. The improvement in profitability at Alcon is continuing, with a reduction in the cost of goods sold and in administrative costs.

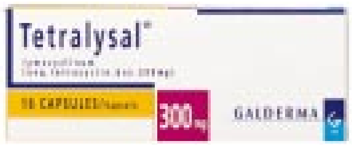
Capital expenditure

Capital expenditure declined from Fr. 84 million to Fr. 66 million. The new plant in Fort Worth (United States) received the approval of the Food and Drug Administration.

Acquisition

Galderma acquired the Basotherm company in Germany, which specialises in dermatological and ophthalmological products. The latter were taken over by Alcon. Basotherm is particularly well positioned in two segments, alopecia remedies and disinfectants, both of which complement the Galderma product lines.

***Ell-Cranell alpha*, a new medication for treating androgenetic alopecia.**



***Tetralysal*, an oral antibiotic for the treatment of acne.**

***Accurus*, an ultramodern technology for vitreo-retinal operations.**

In these companies, Nestlé holds a minority interest of at least 20%, without exercising management control. The companies are included in the financial statements by the equity method. Their results appear, in proportion to Nestlé's participation, in the Group's consolidated income statement under "Share of results of associated companies". The Group's share of their net assets is shown in the consolidated balance sheet within the caption "Financial assets".

Millions of Swiss francs		**1997**	1996	1995
	Nestlé's share in the sales of associated companies	**5 248**	4 523	3 948
	Nestlé's share in the results of associated companies	**256**	233	168

L'Oréal

L'Oréal, the world's top cosmetics company, is controlled by the Gesparal holding company, of which Nestlé owns 49% and the Bettencourt family 51%. It has continued its rapid expansion. L'Oréal's annual report and its new Internet site (www.loreal.finance.com) present detailed information about its activities and financial results. Consolidated sales rose by 15% in 1997, to 69.1 billion French francs. L'Oréal showed good net profit growth compared with 1996.

L'Oréal Kids, a shampoo specially designed for children, has been launched on the American market.

Since July 1997, Nihon L'Oréal has been co-ordinating and promoting all the group's cosmetic activities in Japan, where Jeanne Lanvin, a wholly owned subsidiary of L'Oréal, has now signed an agreement with Kanebo. Synthélabo, the pharmaceutical subsidiary, made further good progress in Japan. The stock market and monetary crises in other Asian countries have not had any significant effect on the group's business.

Elsewhere, growth is continuing; for example, through the purchase of Ombrelle, a major Canadian brand of sunscreen products, and through the establishment of subsidiaries in Romania and Slovenia.

Having taken complete control of its operations in Spain, L'Oréal now owns the entire capital stock of its European subsidiaries.

Lanvin L'Homme, the new men's cologne from Parfums Lanvin.

Futur-e de Plénitude, the first moisturiser with Nanosomes of pure vitamin E.

Group accounts

Consolidated income statement for the year 1997

In millions of Swiss francs	Notes	1997	1996
Sales to customers	1	69 998	60 490
Cost of goods sold		(35 981)	(31 495)
Distribution expenses		(4 713)	(4 037)
Marketing and administration expenses		(21 147)	(18 027)
Research and development costs		(777)	(710)
Restructuring costs		(360)	(257)
Amortisation of intangible assets		(140)	(102)
Trading profit	1	6 880	5 862
Net financing costs	2	(1 056)	(915)
Net non-trading items	3	(63)	(9)
Profit before taxation	4	5 761	4 938
Taxation	5	(1 842)	(1 552)
Net profit of consolidated companies		3 919	3 386
Share of profit attributable to outside interests		(170)	(218)
Share of results of associated companies	6	256	233
Net profit for the year	7	4 005	3 401
As percentages of sales			
Trading profit		9.8%	9.7%
Net profit for the year		5.7%	5.6%

Consolidated balance sheet at 31st December 1997

before appropriations

In millions of Swiss francs	Notes	1997	1996
ASSETS			
Current assets			
Liquid assets	8	**8 102**	5 860
Trade and other debtors	9	**9 852**	9 650
Inventories	10	**6 968**	6 843
Prepayments and accrued income		**749**	717
Total current assets		**25 671**	23 070
Fixed assets			
Tangible fixed assets	11	**22 168**	22 307
Financial assets	12	**4 284**	3 642
Intangible assets	13	**2 555**	2 017
Total fixed assets		**29 007**	27 966
Total assets		**54 678**	51 036
LIABILITIES AND SHAREHOLDERS' FUNDS			
Current liabilities			
Trade and other creditors	14	**8 179**	7 661
Financial creditors	15	**9 713**	9 248
Provisions for taxation		**841**	713
Accrued liabilities and deferred income		**2 252**	2 237
Total current liabilities		**20 985**	19 859
Medium and long term liabilities			
Financial creditors	16	**3 193**	3 443
Provisions	17	**5 169**	4 684
Total medium and long term liabilities		**8 362**	8 127
Total liabilities		**29 347**	27 986
Outside interests		**921**	1 112
Shareholders' funds			
Share capital	20	**404**	404
Share premium and reserves	21	**24 288**	21 802
		24 692	22 206
Less:			
Own shares	22	**282**	268
Total shareholders' funds before appropriations	23	**24 410**	21 938
Total liabilities and shareholders' funds		**54 678**	51 036

Consolidated cash flow statement for the year 1997

In millions of Swiss francs	Notes	1997	1997	1996	1996
OPERATING ACTIVITIES					
Net profit of consolidated companies		**3 919**		3 386	
Depreciation of tangible fixed assets	11	**2 854**		2 496	
Amortisation of intangible assets	13	**140**		102	
Increase/(decrease) in provisions and deferred taxes		**84**		(276)	
Decrease/(increase) in working capital	24	**328**		(83)	
Other movements		**76**		8	
Operating cash flow [a]			**7 401**		5 633
INVESTING ACTIVITIES					
Expenditure on tangible fixed assets		**(3 261)**		(3 054)	
Sale of tangible fixed assets		**289**		180	
Acquisitions	25	**(903)**		(1 122)	
Disposals	26	**332**		96	
Income from associated companies		**68**		69	
Other movements		**(168)**		12	
Cash flow from investing activities			**(3 643)**		(3 819)
FINANCING ACTIVITIES					
Dividend for the previous year		**(1 180)**		(1 043)	
Purchase of own shares (net)		**(9)**		(111)	
Movements with outside shareholders		**(107)**		(137)	
Bonds issued		**738**		786	
Bonds repaid		**(1404)**		(397)	
Increase/(decrease) in other medium/ long term financial creditors		**(22)**		(88)	
Increase/(decrease) in short term financial creditors		**501**		(399)	
Decrease/(increase) in marketable securities and other liquid assets		**(677)**		(183)	
Decrease/(increase) in short term investments		**(918)**		(332)	
Cash flow from financing activities			**(3 078)**		(1 904)
Translation differences			**(19)**		11
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			**661**		(79)
Cash and cash equivalents at beginning of year		**2 786**		2 698	
Effects of exchange rate changes		**(35)**		167	
Cash and cash equivalents retranslated at beginning of year			**2 751**		2 865
Cash and cash equivalents at end of year	8		**3 412**		2 786

[a] Taxes paid amount to Fr. 1893 million (1996: 1721 million). Interest received/paid does not differ materially from interest shown under note 2 "Net financing costs".

Accounting policies

Accounting convention and accounting standards

The Group accounts are prepared in accordance with International Accounting Standards (IAS) issued by the International Accounting Standards Committee (IASC).

The accounts have been prepared under the historical cost convention, modified by the inclusion of the revaluation of tangible fixed assets to net replacement value. The accounts are prepared on the accruals basis. All significant consolidated and associated 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 78.

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. Outside shareholders' interests in the shareholders' funds, 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

Those companies where the Group has a participation of 20% or more but does not exercise management control are dealt with according to the equity method. The Group's share of the net assets is included under "Financial assets" whilst its share of net results is included under "Share of results of associated companies". 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 forward contract. 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 translation 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

The Group uses derivatives to manage operational exposures to foreign exchange, interest rate and commodity price risks. 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 instrument 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 management structure, the secondary is products 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 worldwide 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 intercompany 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 payable on borrowings from third parties as well as the interest receivable 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 taxes on profit and other taxes such as taxes on capital. Also included are actual or potential withholding taxes on current and expected transfers from Group companies and tax adjustments relating to prior years.

Deferred taxation is the tax attributable to the timing differences arising from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. Deferred tax assets or liabilities are recognised to the extent that they are expected to crystallize in the foreseeable future.

Deferred taxes are calculated under the liability method at the rates of tax expected to prevail when the timing differences reverse.

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

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, together with prepayments of pension and retirement benefits.

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.

Leased assets

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

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

Tangible fixed assets

Tangible fixed assets are shown in the balance sheet at their net replacement values arrived at as follows:

– Land: market value on a prudent basis.
– Other tangible fixed assets: replacement new value (the amount which theoretically would have to be invested in order to replace an asset by a similar new asset duly installed and rendering the same service) less the accumulated depreciation calculated on this value. Replacement new value is computed on the basis of coefficients determined by official or professional bodies. These amounts are recalculated each year.

Depreciation is provided on the straight-line method so as to amortise the replacement new values of tangible fixed assets over their estimated useful lives, which are as follows:

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

Once tangible fixed assets have reached the end of their estimated useful lives, no net replacement value is attributed to them. 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.

Financial assets

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.

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".

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. The provisions for taxation also include the withholding tax on expected transfers from Group companies.

Provisions

This item includes provisions for pensions and restructuring costs, as well as contingencies which may arise and which have been prudently provided.

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 provision.

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 accounting policies are unchanged.

Segmental information is now presented in accordance with IAS 14 (revised) segment reporting. In note 16, the presentation of bonds in issue has been enhanced to better reflect the character of the Group's hedging policies.

Modification of the scope of consolidation

The scope of consolidation has been affected by the acquisitions and disposals made in 1997. The principal businesses are detailed below.

Fully consolidated

Newly included:
Ault Ice Cream Activity, Canada, 100% (January)
D'Onofrio S.A., Peru, 80,6% (April)
Dairy World Ice Cream Activity, Canada, 100% (May)
Basotherm, Germany, 100% (June)

Increase in participation:
Nestlé Dairy Farm, China and Hong Kong,
from 51% to 100% (September)

Disposal:
Contadina, USA (December)

1. Segmental information

By management responsibilities and geographic area

In millions of Swiss francs	Sales 1997	Sales 1996	Results 1997	Results 1996
Food				
Europe	**25 706**	23 897	**2 290**	2 041
Americas	**22 262**	18 046	**2 701**	2 453
Africa, Asia and Oceania	**13 493**	11 458	**1 955**	1 661
Other activities	**8 537**	7 089	**1 087**	752
	69 998	60 490	**8 033**	6 907
Unallocated items [(a)]			**(1 153)**	(1 045)
Trading profit			**6 880**	5 862

[(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 1997	Assets 1996	Liabilities 1997	Liabilities 1996
Food				
Europe	**15 362**	15 772	**4 704**	4 553
Americas	**11 115**	10 690	**2 753**	2 263
Africa, Asia and Oceania	**7 222**	7 250	**1 663**	1 714
Other activities	**5 466**	5 286	**1 979**	1 894
	39 165	38 998	**11 099**	10 424
Unallocated items [(b)]	**3 878**	3 179	**83**	117
Eliminations	**(751)**	(643)	**(751)**	(643)
	42 292	41 534	**10 431**	9 898

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

In millions of Swiss francs	Capital expenditure 1997	Capital expenditure 1996	Depreciation of tangible fixed assets 1997	Depreciation of tangible fixed assets 1996
Food				
Europe	**1 041**	1 047	**1 081**	1 027
Americas	**823**	795	**772**	659
Africa, Asia and Oceania	**736**	651	**498**	380
Other activities	**572**	484	**421**	347
	3 172	2 977	**2 772**	2 413
Unallocated items [(c)]	**89**	77	**82**	83
	3 261	3 054	**2 854**	2 496

[(c)] Corporate and research and development fixed assets.

By major product group

In millions of Swiss francs	Sales 1997	Sales 1996	Results 1997	Results 1996
Beverages	**19 142**	16 348	**3 200**	2 712
Milk products, nutrition and ice cream	**19 334**	16 697	**1 878**	1 632
Prepared dishes and cooking aids (and miscellaneous activities)	**17 660**	15 960	**1 483**	1 297
Chocolate and confectionery	**10 663**	9 034	**1 016**	975
Pharmaceutical products	**3 199**	2 451	**825**	573
	69 998	60 490	**8 402**	7 189
Unallocated items [a]			**(1 522)**	(1 327)
Trading profit			**6 880**	5 862

[a] Mainly corporate expenses, research and development costs, amortisation of intangible assets as well as restructuring costs.

In millions of Swiss francs	Assets 1997	Assets 1996
Beverages	**9 975**	9 430
Milk products, nutrition and ice cream	**12 015**	10 643
Prepared dishes and cooking aids (and miscellaneous activities)	**9 531**	8 467
Chocolate and confectionery	**6 857**	5 883
Pharmaceutical products	**904**	773
	39 282	35 196

In millions of Swiss francs	Capital expenditure 1997	Capital expenditure 1996
Beverages	**629**	586
Milk products, nutrition and ice cream	**745**	732
Prepared dishes and cooking aids (and miscellaneous activities)	**445**	450
Chocolate and confectionery	**435**	433
Pharmaceutical products	**66**	84
	2 320	2 285
Administration, distribution, research and development	**941**	769
	3 261	3 054

2. Net financing costs

In millions of Swiss francs	1997	1996
Interest income	428	307
Interest expense	(1 484)	(1 222)
	(1 056)	(915)

Interest income includes Fr. 87 million of gains arising on securities held for trading purposes.

3. Net non-trading items

In millions of Swiss francs	1997	1996
Non-trading expenses		
Loss on disposal of fixed assets	(20)	(48)
Loss on disposal of activities	(29)	(18)
Provisions for risks	(207)	(92)
Other	(266)	(332)
	(522)	(490)
Non-trading income		
Profit on disposal of fixed assets	32	29
Profit on disposal of activities	22	18
Release of provisions for risks	54	40
Other	351	394
	459	481
	(63)	(9)

4. Profit before taxation

Profit is stated after charging the following items:

In millions of Swiss francs	1997	1996
Depreciation of tangible fixed assets	2 854	2 496
Salaries and welfare expenses	11 597	9 948
Defined contribution pensions	108	93
Defined benefit pensions	359	370
Remuneration of the executive management and of the Directors	18	19
Auditors' remuneration	25	22
Rental charges	478	456
Exchange differences	5	(168)

5. Taxation

In millions of Swiss francs	1997	1996
Taxes on profit and other taxes	(2 034)	(1 624)
Deferred taxes	192	72
	(1 842)	(1 552)
Total tax charge as a percentage of profit before tax	32%	31%

6. Share of results of associated companies

In millions of Swiss francs	1997	1996
Share of profit before taxation	430	393
Less share of taxation	(174)	(160)
Share of profit after taxation	256	233

7. Net profit per share

In Swiss francs	1997	1996
Registered share	101.8	86.4

Net profit per share is based on the weighted average number of shares outstanding during the year (see page 76).
The fully-diluted net profit per share assuming the exercise of all outstanding options represents Fr. 101.7 (1996: Fr. 86.4).

8. Liquid assets

In millions of Swiss francs	1997	1996
Cash at bank and in hand	1 067	1 065
Cash equivalents	2 345	1 721
Cash and cash equivalents per cash flow statement	3 412	2 786
Marketable securities and other liquid funds	2 475	1 782
Short term investments	2 215	1 292
	8 102	5 860

Liquid assets are mainly denominated in Swiss francs (72%) and US dollars (11%). Marketable securities held for trading purposes amount to Fr. 352 million. The fair value of other marketable securities (comprising short term promissory notes) and of other liquid funds is not materially different from their carrying amounts due to their short-term maturities. Rates of annual interest on interest bearing instruments range from $^1/_2$% to 15%.

9. Trade and other debtors

In millions of Swiss francs	1997	1996
Trade debtors	8 011	7 865
Other debtors	1 841	1 785
	9 852	9 650
Amounts included above which are due after more than one year	85	65

10. Inventories

In millions of Swiss francs	1997	1996
Raw materials, work in progress and sundry supplies	2 980	2 775
Manufactured goods	4 132	4 123
Provisions	(144)	(55)
	6 968	6 843

Inventories amounting to Fr. 119 million (1996: Fr. 111 million) are pledged as security for financial creditors.

11. Tangible fixed assets

In millions of Swiss francs	Land and buildings	Machinery and equipment	Tools, furniture and other equipment	Vehicles	Total 1997	Total 1996
Gross value:						
1st January	17 819	28 353	5 540	1 024	52 736	44 802
Currency retranslation and inflation adjustment	(229)	(263)	(36)	(12)	(540)	5 314
Expenditure	600	1 822	673	166	3 261	3 054
Disposals	(176)	(669)	(346)	(126)	(1 317)	(1 052)
On acquisition and disposal of Group companies	(30)	(149)	41	(10)	(148)	341
Revaluations	(358)	(112)	(60)	(3)	(533)	277
At 31st December	17 626	28 982	5 812	1 039	53 459	52 736

In millions of Swiss francs	Land and buildings	Machinery and equipment	Tools, furniture and other equipment	Vehicles	Total **1997**	Total 1996
Accumulated depreciation:						
1st January	(8 179)	(17 542)	(4 053)	(655)	**(30 429)**	(25 536)
Currency retranslation and inflation adjustment	192	272	46	15	**525**	(2 906)
Annual depreciation	(447)	(1 685)	(589)	(133)	**(2 854)**	(2 496)
Disposals	105	502	292	100	**999**	842
On acquisition and disposal of Group companies	41	146	–	11	**198**	(210)
Revaluations	154	52	63	1	**270**	(123)
At 31st December	**(8 134)**	**(18 255)**	**(4 241)**	**(661)**	**(31 291)**	(30 429)
Net at 31st December	**9 492**	**10 727**	**1 571**	**378**	**22 168**	22 307

At 31st December 1997 net tangible fixed assets include Fr. 482 million (1996: Fr. 533 million) of assets under construction. Net tangible fixed assets held under finance leases at 31st December 1997 amount to Fr. 150 million (1996: Fr. 130 million). Net tangible fixed assets of Fr. 427 million (1996: Fr. 414 million) are pledged as security for financial creditors.

The revaluation reserve included in the carrying value of net tangible fixed assets at net replacement value is as follows:

In millions of Swiss francs	Land and buildings	Machinery and equipment	Tools, furniture and other equipment	Vehicles	Total **1997**	Total 1996
Net replacement value	9 492	10 727	1 571	378	**22 168**	22 307
Net book value	7 474	8 724	1 659	328	**18 185**	17 717
Revaluation reserve	**2 018**	**2 003**	**(88)**	**50**	**3 983**	4 590
Share attributable to outside interests					**(104)**	(153)
Revaluation reserve attributable to shareholders					**3 879**	4 437
Cumulative translation difference					**310**	131
Revaluation surplus as per note 21					**4 189**	4 568

Fire insurance values are reflected in the net replacement value of tangible fixed assets. Net replacement values provide a fair representation of the value of tangible fixed assets.

12. Financial assets

In millions of Swiss francs	1997	1996
Participations in associated companies [(a)]	1 404	1229
Other investments	170	246
Medium and long term receivables	1 759	1 529
Deferred tax assets (note 19)	951	638
	4 284	3 642

(a) The indirect participation in L'Oréal, Paris, is included at a value of Swiss francs 1206 million (1996: 1020 million). The stock exchange market value at 31st December 1997 amounted to Swiss francs 10 224 million (1996: 8831 million).

13. Intangible assets

In millions of Swiss francs	1997	1996
Gross value:		
At 1st January	2 150	1 093
Currency retranslation	(76)	128
On acquisition	651	950
Other	106	(21)
At 31st December	2 831	2 150
Amortisation:		
At 1st January	(133)	(35)
Currency retranslation	6	(4)
Annual amortisation	(140)	(102)
Other	(9)	8
At 31st December	(276)	(133)
Net at 31st December	2 555	2 017

14. Trade and other creditors

In millions of Swiss francs	1997	1996
Trade creditors	4 746	4 521
Other creditors	3 433	3 140
	8 179	7 661

15. Short term financial creditors

In millions of Swiss francs	1997	1996
Commercial Paper	2 377	2 497
Line of credit facilities	1 046	1 372
Other short term financial creditors	4 913	4 006
	8 336	7 875
Current portion of medium and long term financial creditors	1 377	1 373
	9 713	9 248

Short term financial creditors are mainly denominated in major European currencies (36%) and in US dollars (24%). Rates of annual interest range from $3\frac{1}{4}$% to 40%.

16. Medium and long term financial creditors

In millions of Swiss francs	1997	1996
Loans from financial institutions	548	531
Bonds	3 950	4 197
Obligations under finance leases	72	88
	4 570	4 816
Current portion of medium and long term financial creditors	(1 377)	(1 373)
	3 193	3 443

Loans from financial institutions are mainly denominated in major European currencies (34%) and in US dollars (28%). Annual interest rates range from 5% to 35%. 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	1997	1996
in the second year	588	1 420
in the third to fifth year inclusive	2 069	1 146
after the fifth year	536	877
	3 193	3 443

Bonds in issue which are carried at face value, adjusted for any related currency and other hedges, are as follows.

Face value and currency	Interest rate	Year of issue/ maturity	In millions of Swiss francs	1997	1996
Bond Issues of Nestlé Holding, Inc., USA					
USD 100 mio	5%	1987-1997	Warrants attached, expired. Was subject to an interest rate swap against a variable US Dollar rate.	—	133
CHF 300 mio	2%	1987-1997	Warrants attached, expired. Was subject to various interest rate and currency swaps that created a US Dollar liability at variable rates.	—	300
USD 200 mio	6%	1991-1998	Warrants attached, expired.	290	266
USD 200 mio	$5^7/_8$%	1991-1998	Warrants attached, expired.	290	266
USD 200 mio	$6^1/_8$%	1992-1997		—	266
USD 250 mio	$3^5/_8$%	1992-1999	Warrants attached, expired.	363	333
CHF 300 mio	$6^3/_4$%	1992-2002	Subject to various interest rate and currency swaps that create a US Dollar liability at variable rates.	331	300

In millions of Swiss francs				**1997**	1996
Face value and currency	Interest rate	Year of issue/ maturity			
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**	293
USD 300 mio	6 1/2%	1994-1997	Was subject to an interest rate swap against a variable US Dollar rate.	**—**	399
USD 250 mio	7 3/8%	1995-2005		**363**	333
DEM 500 mio	5 1/8%	1996-2001	Subject to various interest rate and currency swaps that create a US Dollar liability at variable rates.	**480**	429
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 loan at a variable rate.	**435**	—
Bond Issue of Nestlé Entreprises S.A., France					
FRF 1500 mio	6 1/2%	1993-1998		**364**	381
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 a variable rate. ZAR 100 mio are swapped at a rand variable rate and relent to a South African affiliated company.	**62**	—
Bond Issues of Nestlé (UK) Ltd., United Kingdom					
GBP 75 mio	8 3/4%	1994-1997	Was subject to an interest rate swap against a variable Pound sterling rate.	**—**	167
GBP 100 mio	6 3/4%	1997-2000	Subject to an interest rate swap against a variable Pound sterling rate.	**241**	—

In millions of Swiss francs				1997	1996
Face value and currency	Interest rate	Year of issue/ maturity			
Bond Issue 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 a variable rate.	**321**	300
Other bonds				**81**	31
Total				**3 950**	4 197
Due within one year				**(1 286)**	(1 269)
Due after one year				**2 664**	2 928

The market value of the above bonds amounts to Fr. 3896 million at 31st December 1997 (1996: Fr. 4311 million), including the market value of hedge instruments.

17. Provisions

In millions of Swiss francs	1997	1996
Pensions and retirement benefits (note 18)	**889**	911
Post retirement health care and other employee benefits	**1 122**	1 096
Taxes payable	**63**	84
Deferred tax liabilities (note 19)	**320**	256
Other provisions (for contingencies and restructuring costs)	**2 775**	2 337
	5 169	4 684

18. Pensions and retirement benefits

In millions of Swiss francs	1997	1996
At the beginning of the year the assets and liabilities were as follows:		
Defined benefit plans:		
Actuarial present values of retirement benefits:		
Funded plans	**10 905**	9 505
Unfunded plans	**721**	751
Fair value of amount set aside for retirement benefits:		
Plan assets of funded plans	**11 401**	9 030
Provisions for pensions and retirement benefits	**911**	1 250

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	1997	1996
Provided deferred taxes:		
Tax assets on timing differences	934	633
Tax assets on losses available for future relief	17	5
	951	638
Tax liabilities on timing differences	320	256
Unprovided deferred taxes:		
Tax assets on timing differences	665	671
Tax assets on losses available for future relief	28	161
	693	832
Tax liabilities on timing differences	1 822	1 900

The deferred tax on the difference between the net replacement and the net book values of tangible fixed assets is included under unprovided tax liabilities. Withholding tax on profits retained in affiliated companies is not provided where such profits form part of the financing of the companies concerned and are not intended to be distributed.

20. Share capital of Nestlé S.A.

	1997	1996
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 91.
The share capital includes the nominal value of own shares (see note 22).

21. Share premium and reserves

In millions of Swiss francs	1997	1996
Reserves of Nestlé S.A.:		
General reserve [a]	**6 115**	6 124
Reserve for own shares [b]	**277**	268
Special reserve [c]	**5 609**	5 537
Earned surplus	**1 595**	1 252
	13 596	13 181
Other reserves:		
Revaluation surplus [d]	**4 189**	4 568
Other shareholders' funds [e]	**6 350**	3 808
Cumulative translation difference	**153**	245
	24 288	21 802

[a] The general reserve of Nestlé S.A. consists mainly of the legal reserve, the principal element of which is the share premium account. The legal reserve is distributable to the extent that it exceeds 50% of the nominal value of the share capital.
[b] This reserve relates to own shares as per note 22.
[c] The special reserve of Nestlé S.A. substantially consists of amounts appropriated from annual profits in accordance with resolutions passed at Annual General Meetings. The special reserve is substantially distributable at the discretion of shareholders.
[d] The revaluation surplus covers the difference between the net replacement and net book values of tangible fixed assets. This surplus is not distributable.
[e] Other shareholders' funds consist mainly of the reserves of Group companies (other than Nestlé S.A.) which are substantially distributable.

22. Own shares

This item includes the cost of own shares (of Nestlé S.A.) held by:

- an affiliated company: 928 940 freely available shares;
- Nestlé S.A.: 79 095 shares in order to allow the exercise of option rights by members of the Group's management;
- Nestlé S.A.: 14 351 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 92.

23. Movement of consolidated shareholders' funds

In millions of Swiss francs	1997	1996
Shareholders' funds at 1st January	**21 938**	17 989
Currency retranslation	**(98)**	1 476
Net profit	**4 005**	3 401
Purchase of own shares (net)	**(9)**	(111)
Revaluation of fixed assets	**(246)**	124
Dividend for previous year	**(1 180)**	(1 043)
Recovery of intangible assets on disposals charged to shareholders' funds prior to 1st January 1995	**—**	40
Other movements	**—**	62
Shareholders' funds at 31st December	**24 410**	21 938

24. Decrease/(increase) in working capital

In millions of Swiss francs	1997	1996
Inventories	(331)	74
Trade debtors	(273)	(46)
Trade creditors	331	(128)
Other creditors	359	(324)
Net accruals and deferrals	84	375
Other	158	(34)
	328	(83)

25. Acquisitions

In millions of Swiss francs	1997	1996
Fair value of net assets acquired:		
Tangible fixed assets	235	184
Financial assets	7	7
Provisions	(29)	(38)
Outside interests	(8)	(179)
Purchase of outside interests in existing participations	98	52
Net working capital	64	105
Financial creditors	(115)	(32)
Liquid assets	35	145
	287	244
Intangible assets	651	950
Total acquisition cost	938	1 194
less:		
Cash and cash equivalents acquired	(35)	(49)
Consideration payable	—	(23)
Cash outflow on acquisitions	903	1 122

26. Disposals

In millions of Swiss francs	1997	1996
Net assets disposed of:		
Tangible fixed assets	185	53
Net working capital	193	3
Liquid assets	1	—
	379	56
Intangible assets previously charged to shareholders' funds	—	40
Profit/(loss) on disposals	(7)	—
Total sale consideration	372	96
less:		
Cash and cash equivalents disposed of	(1)	—
Consideration receivable	(39)	—
Cash inflow on disposals	332	96

27. Dividends

Dividends payable are not accounted for until they have been ratified at the Annual General Meeting. At the meeting on 28th May 1998, the following dividend in respect of 1997 will be proposed:

Dividend per share	Fr.	35.–
resulting in a total dividend of [a]	Fr.	1 379 156 520.–

[a] Number of shares with right to dividend: see Annual report of Nestlé S.A. page 93.

The accounts for the year ended 31st December 1997 do not reflect this resolution, which will be treated as an appropriation of profit in the year ending 31st December 1998.

28. Foreign exchange hedge instruments

Forward foreign currency sales

	Recognised transactions		Anticipated future transactions	
In millions of Swiss francs	**1997**	1996	**1997**	1996
Contractual values	**5 746**	4 865	**283**	348
Fair values	**5 770**	5 022	**293**	343
Unrealised gains	**32**	2	**—**	5
Unrealised losses	**56**	159	**10**	—

The hedge instruments consist essentially of forward foreign exchange contracts. Recognised transactions relate to balance sheet positions resulting from liquid assets in foreign currencies and to lesser extent from export debtors 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.

Forward foreign currency purchases

	Recognised transactions		Anticipated future transactions	
In millions of Swiss francs	**1997**	1996	**1997**	1996
Contractual values	**2 348**	1 376	**383**	276
Fair values	**2 387**	1 416	**384**	276
Unrealised gains	**46**	43	**9**	4
Unrealised losses	**7**	3	**8**	4

The hedge instruments consist mainly of forward foreign exchange contracts. Recognised transactions are related to balance sheet positions such as suppliers and financial creditors 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 major European currencies.

29. Commodity hedge instruments

In millions of Swiss francs	1997	1996
Contractual values	**452**	402
Fair values	**474**	375
Unrealised gains	**27**	1
Unrealised losses	**5**	28

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.

30. 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:

		1997			1996	
In millions of Swiss francs	Notional amounts	Unrealised gains	Unrealised losses	Notional amounts	Unrealised gains	Unrealised losses
Interest rate swaps	**1 759**	**9**	**5**	1 810	29	21
Interest rate and currency swaps	**298**	**3**	**4**	309	—	—
Interest rate futures	**4 659**	**1**	**2**	146	—	—

These instruments have maturity dates of one to five years and annual interest rate range between $1\frac{1}{2}$% and 9%. The instruments are mainly denominated in Swiss francs and in major European currencies.

For the financial creditors the following interest instruments are used. 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 16), while 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:

		1997			1996	
In millions of Swiss francs	Notional amounts	Unrealised gains	Unrealised losses	Notional amounts	Unrealised gains	Unrealised losses
Interest rate swaps [a]	**1 697**	**61**	**12**	1 695	26	5
Interest rate and currency swaps	**1 195**	**4**	**39**	1 707	13	49
Forward rate agreements	**649**	**—**	**2**	669	71	—
Interest rate futures	**207**	**8**	**—**	133	—	—
Options purchased	**193**	**—**	**—**	—	—	—
Options written	**145**	**—**	**—**	—	—	—

[a] Including equity swaps.

These instruments have maturity dates of one to six years and annual interest rates ranged from $3^3/_4\%$ to $5^1/_2\%$. They are denominated mainly in US Dollars, Australian Dollars and major European currencies.

31. Guarantees

In the normal course of business, the Group has given guarantees totalling Fr. 483 million to third parties (1996: Fr. 476 million).

32. Commitments for expenditure on tangible fixed assets

At 31st December 1997, the Group was committed to expenditure amounting Fr. 224 million (1996: Fr. 275 million).

33. Commitments under irrevocable operating leases

The following charges arise from these commitments:

In millions of Swiss francs	**1997**	1996
within one year	**231**	187
in the second year	**193**	151
in the third to fifth year inclusive	**421**	365
after the fifth year	**988**	832
	1 833	1 535

34. Contingent liabilities

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

35. Post balance sheet events

In November 1997 the Group signed an acquisition agreement to increase its participation in the mineral water group San Pellegrino to 100%. This transaction, after being approved by the European Commission, was finalised in February 1998 and has, therefore, no impact on the 1997 results.
In February 1998 the Group has signed an agreement with Dalgety PLC for the acquisition of the Spillers Petfood operation. The purchase is subject to regulatory approval.

36. Transactions with related parties

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

37. Nestlé Group Companies

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

Principal exchange rates

		Year end rates		Average annual rates	
Swiss francs per		**1997**	1996	**1997**	1996
1 US Dollar	USD	**1.45**	1.33	**1.45**	1.24
100 French Francs	FRF	**24.30**	25.40	**24.90**	24.20
100 Deutsche Mark	DEM	**81.20**	85.90	**83.80**	82.10
1 Pound Sterling	GBP	**2.41**	2.23	**2.38**	1.94
100 Italian Lira	ITL	**0.083**	0.087	**0.085**	0.08
100 Brazilian Reais	BRL	**130.–**	128.—	**135.–**	123.—
100 Spanish Pesetas	ESP	**0.96**	1.02	**0.991**	0.975
100 Japanese Yen	JPY	**1.12**	1.17	**1.19**	1.14
100 Mexican Pesos	MXN	**18.–**	17.—	**18.30**	16.30
1 Canadian Dollar	CAD	**1.01**	0.976	**1.05**	0.914
1 Australian Dollar	AUD	**0.951**	1.06	**1.08**	0.967

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 50 to 74 for the year ended 31st December 1997.

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.

KPMG Klynveld Peat Marwick Goerdeler SA

W. M. Tannett	S. R. Cormack	B. A. Mathers
Chartered accountant	Chartered accountant	Chartered accountant

Auditors in charge
London and Zurich, 26th March 1998

Boissons

Boissons

In millions of Swiss francs (except for per share data)		1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
Results											
Consolidated sales		**69 998**	60 490	56 484	56 894	57 486	54 500	50 486	46 369	48 036	39 502
Trading profit		**6 880**	5 862	5 498	5 628	5 591	5 384	4 783	4 484	4 660	4 270
as % of sales		**9.8%**	9.7%	9.7%	9.9%	9.7%	9.9%	9.5%	9.7%	9.7%	10,8%
Taxation		**1 842**	1 552	1 561	1 647	1 669	1 745	1 605	1 404	1 538	1 267
Consolidated net profit		**4 005**	3 401	2 918	3 250	2 887	2 698	2 470	2 272	2 412	2 058
as % of sales		**5.7%**	5.6%	5.2%	5.7%	5.0%	5.0%	4.9%	4.9%	5.0%	5.2%
as % of average shareholders' funds		**17.3%**	17.0%	16.7%	19.9%	19.5%	18.4%	17.2%	16.6%	19.1%	15.1%
Total amount of dividend		**1 379** (a)	1 180	1 043	1 040	972	870	793	736	735	612
Depreciation of tangible fixed assets		**2 854**	2 496	2 263	2 321	2 283	2 038	1 863	1 688	1 667	1 307
as % of sales		**4.1%**	4.1%	4.0%	4.1%	4.0%	3.7%	3.7%	3.6%	3.5%	3.3%
Amortisation of intangible assets		**140**	102	42	—	—	—	—	—	—	—
Balance sheet											
Current assets		**25 671**	23 070	20 927	21 420	20 982	20 670	19 195	18 460	17 985	17 117
of which liquid assets		***8 102***	*5 860*	*5 124*	*5 132*	*5 084*	*4 688*	*4 888*	*5 528*	*4 231*	*4 244*
Fixed assets		**29 007**	27 966	23 334	23 807	24 178	23 803	19 795	17 116	17 421	16 024
Total assets		**54 678**	51 036	44 261	45 227	45 160	44 473	38 990	35 576	35 406	33 141
Current liabilities		**21 223**	19 859	17 410	17 297	18 166	20 019	14 889	14 381	13 981	14 082
Medium and long term liabilities and outside interests		**9 042**	9 239	8 862	10 986	11 334	10 524	8 731	7 781	7 486	7 678
Shareholders' funds		**24 410**	21 938	17 989	16 944	15 660	13 930	15 370	13 414	13 939	11 381
Expenditure on tangible fixed assets		**3 261**	3 054	3 056	3 029	3 093	3 191	2 815	2 538	2 446	1 950
as % of sales		**4.7%**	5.0%	5.4%	5.3%	5.4%	5.9%	5.6%	5.5%	5.1%	4.9%
Data per share											
Weighted average number of shares in issue (b)		**39 331 126**	39 363 637	39 220 756	38 838 376	37 759 826	36 938 374	36 800 050	36 750 000	36 750 000	35 000 000
Consolidated net profit (c)	Fr.	**101.8**	86.4	74.4	83.7	76.5	72.2	66.4	61.1	64.9	57.3
Shareholders' funds (c)	Fr.	**621**	557	459	436	415	373	413	361	375	316
Dividend (c)	Fr.	**35.0** (e)	30.0	26.5	26.5	25.0	23.2	21.3	19.8	19.8	17.0
Pay-out ratio	%	**34.4%** (e)	34.7%	35.6%	31.7%	32.7%	32.2%	32.0%	32.4%	30.5%	29.8%
Stock exchange prices (high/low) (c)	Fr.	**2192/1421**	1487/1250	1298/1090	1437/1063	1294/1015	1162/857	876/651	913/650	867/623	658/380
Yield (d)	%	**1.6/2.5** (e)	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	2.6/4.5
Number of personnel		**225 808**	221 144	220 172	212 687	209 755	218 005	201 139	199 021	196 940	196 764

(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. 1377 million) as well as those potentially payable on the shares covering options (Fr. 2 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.

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 53, "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% • Vittel Mineralwasser GmbH *Frankfurt* 100% • **Austria** Österreichische Nestlé GmbH *Wien* 100% • **Belgium** Nestlé Belgilux S.A. *Bruxelles* 100% • Perrier Vittel Belgilux S.A. *Etalle* 100% • Alcon-Couvreur S.A.* *Puurs* 100% • **Bulgaria** Nestlé Sofia A.D. *Sofia* 99% • **Denmark** Nestlé Danmark A/S *København* 100% • Premier Is A/S *Odense* 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% • Compañia del Frio Alimentario S.A. *Araya* 100% • Compañia Avidesa S.A. *Alzira* 99.43% • Alimentos Congelados S.A. *Marcilla* 100% • **Finland** Suomen Nestlé Oy *Helsinki* 100% • **France** Nestlé France S.A. *Noisiel* 100% • France Glaces-Findus S.A. *Noisiel* 100% • Chambourcy S.A. *Noisiel* 99.9% • Herta S.A. *Noisiel* 100% • Davigel S.A. *Martin-Eglise* 99.9% • Perrier Vittel France S.A. *Paris* 100% • S.A. des Eaux Minérales de Ribeauvillé *Ribeauvillé* 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% • **Greece** Nestlé Dairy Industry S.A.I. *Maroussi* 85.4% • Loumidis S.A. *Peristeri* 100% • Alcon Laboratories Hellas E.P.E.* *Alimos Attikis* 100% • **Italy** Nestlé Italiana S.p.A. *Milano* 99.9% • SO.GE.AM. S.p.A. *Padova* 100% • SO.GE.PLAST S.p.A. *Padova* 100% • Alcon Italia S.p.A.* *Milano* 100% • **Hungary** Nestlé Hungaria Kft *Budapest* 100% • **Norway** A/S Nestlé Norge *Asker-Oslo* 100% • **Netherlands** Nestlé Nederland B.V. *Amsterdam* 100% • Alcon Nederland B.V.* *Gorinchem* 100% • **Poland** Goplana S.A. *Poznan* 76.97% • Nestlé Polska Sp. zo.o. *Warsaw* 100% • Naleczowianka Spolka zo.o. *Naleczov* 33.3% • Winiary S.A. *Kalisz* 83.28% • **Portugal** Nestlé Portugal S.A. *Linda-a-Velha* 100% • Longa Vida S.A. *Matosinho* 100% • Sociedade das Aguas de Pisoes Moura S.A. *Lisboa* 100% • **Republic of Ireland** Nestlé (Ireland) Ltd *Tallaght-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* *Watford* 100% • **Russia** C.U. Rossiya *Samara* 93.21% • Nestlé Zhukovsky Ice Cream LLC *Zhukovsky* 80.48% • Nestlé Food LLC *Moscou* 100% • **Slovakia** Nestlé Food S.r.o. *Prievidza* 99.9% • **Sweden** Svenska Nestlé AB *Bjuv* 100% • Jede AB *Mariestad* 100% • Zoégas Kaffe AB *Helsingborg* 100% • **Switzerland** Société des Produits Nestlé S.A. *Vevey* 100% • Nestlé Suisse S.A. *Vevey* 100% • Frisco-Findus AG *Rorschach* 99.8% • Perrier Vittel Suisse S.A. *Mies* 100% • Alcon Pharmaceuticals Ltd* *Cham* 100% • Nestlé World Trade Corporation *La Tour-de-Peilz* 100% • Food Ingredients Specialities S.A. *Villars-sur-Glâne* 100% • Nestlé Coffee Specialties S.A. *Pully* 100% • **Turkey** Nestlé Türkiye Gida Sanayi A.S. *Istanbul* 100%.

Africa

South Africa Nestlé (South Africa) (Pty) Ltd *Randburg-Johannesburg* 100% • Alcon Laboratories Pty Ltd* *Randburg* 100% • **Cameroon** Nestlé Cameroun *Douala* 99.6% • **Ivory Coast** Nestlé Côte d'Ivoire *Abidjan* 80.9% • **Egypt** Dolce S.A.E. *Cairo* 100% • Industrie du Froid S.A.E. *Kaliub-Cairo* 100% • Société des eaux minérales Vittor S.A.E. *Cairo* 88.5% • **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 Industrial e Comercial Ltda. *São Paulo* 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% • Laboratorios Alcon de Colombia S.A.* *Santafé de Bogotá* 100% • **Costa Rica** Nestlé Costa Rica S.A. *San José* 100% • **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 Division, Inc. *Solon (Ohio)* 100% • Nestlé USA - Beverage Division, Inc. *Los Angeles (California)* 100% • Food Ingredient Specialities, Inc. *Solon (Ohio)*

100% • Great Spring Waters of America, Inc. *Wilmington (Delaware)* 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** Compañía Nestlé 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% • **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* 75.7% • 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* 60% • **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* 97% • **Israel** OSEM Investments Ltd *Petach-Tikva* 39.7% • **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. *Beyrouth* 100% • **Malaysia** Nestlé (Malaysia) Bhd. *Petaling Jaya* 52.7% • Nestlé Foods (Malaysia) Sdn. Bhd. *Petaling Jaya* 51% • Nestlé Products Sdn. Bhd. *Petaling Jaya* 51% • 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* 56.2% • **Philippines** Nestlé Philippines, Inc. *Cabuyao* 55% • **Republic of Korea** Nestlé Korea Ltd *Cheongju* 100% • **People's Republic of China** Nestlé Shuangcheng Ltd *Shuangcheng* 90% • Nestlé Dongguan Ltd *Dongguan* 60% • Maggi Dongguan Ltd *Dongguan* 100% • Nestlé Tianjin Ltd *Tianjin* 100% • Nestlé Qingdao Ltd *Qingdao* 100% • Nestlé Shanghai Ltd *Shanghai* 90% • Nestlé Dairy Farm Tianjin Ltd *Tianjin* 75% • Nestlé Dairy Farm Qingdao Ltd *Qingdao* 100% • Nestlé Dairy Farm Guangzhou Ltd *Guangzhou* 60% • **Singapore** Nestlé Singapore (Pte) Ltd *Singapore* 100% • Nestlé Asean Singapore (Pte) Ltd *Singapore* 60% • **Sri Lanka** Nestlé Lanka Ltd *Colombo* 90.8% • **Taiwan** Nestlé Taiwan Ltd *Taipei* 100% • Nestlé Distributors Ltd *Taipei* 100% • Foremost Foods (Taiwan) 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* 42.7%.

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 53, "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 *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** Cokoladovny a.s. *Praha* 42.1% • **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

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

Asia

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 53, “Scope of consolidation”).

Europe

Germany Mineralbrunnen Überkingen-Teinach AG *Bad Überkingen* 36.2% • **Spain** Diverses sociétés cosmétiques* (divers %) • **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% • **Italy** San Pellegrino S.p.a. *Milano* 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

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% • **Poland** Nestlé Polska Holding Sp. zo.o. *Warszawa* 100% • **United Kingdom** Nestlé Holdings (U.K.) PLC *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% • **Bahamas** Nestlé’s Holdings Ltd *Nassau* 100% • Food Products (Holdings) Ltd *Nassau* 100% • **United States** Nestlé Holding, Inc. *Stamford (Connecticut)* 100% • Nestlé Capital Corporation *Stamford (Connecticut)* 100% • **Panama** Unilac, Inc. *Panama City* 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 *Ludwigsburg* • *Weiding* • **Spain** Nestlé R&D Center S.A. *Badajoz* • **France** Nestlé R&D Centre *Beauvais* • *Lisieux* • *Tours* • *Creully* • Centre R&D Friskies S.A. *Amiens* • **Italy** Casa Buitoni S.r.l. *Sansepolcro* • **United Kingdom** Nestlé R&D Center *York* • **Sweden** Nestlé R&D Center A.B. *Bjuv* • **Switzerland** Nestlé R&D Center *Broc* • *Kemptthal* • *Konolfingen* • *Orbe* • **Ivory Coast** Centre R&D Nestlé *Abidjan* • **Ecuador** Nestlé R&D Center S.A. *Quito* • **United States** Nestlé R&D Center, Inc. *Connecticut* • *Ohio* • Friskies R&D Center, Inc. *Missouri* • **Malaysia** Nestlé R&D Center Sdn. Bhd. *Petaling Jaya* • **Singapore** Nestlé R&D Center (Pte) Ltd *Singapore*.

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Administration

At the General Meeting held on 5th June 1997, Mr. Helmut O. Maucher, Chairman of the Board and Chief Executive Officer, paid tribute to Vice-Chairman Fritz Leutwiler, who had passed away several days earlier. The Chairman then expressed his gratitude to Mrs. Lucia Santa Cruz Sutil, whose term of office as a director was expiring and who was not standing for re-election.

The Meeting then re-elected Mrs. Vreni Spoerry and Mr. Robert Studer for a five-year term. In accordance with the proposal of the Board of Directors, the Meeting elected Mr. Peter Brabeck-Letmathe as a new director. During the session following the 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 Committee to the Board.

The terms of office of Messrs. Paul A. Volcker, Stephan Schmidheiny, Peter Böckli, David de Pury and Georges Blum expire at the General Meeting to be held on 28th May 1998. Mr. G. Blum is not standing for re-election. On the other hand, the four other directors are eligible and are standing for re-election. In accordance with the Board's rules on retirement age, Mr. P.A. Volcker will stand for a two-year term. Messrs. S. Schmidheiny, P. Böckli and de D. Pury are standing for a five-year term.

On 1st January 1997, Mr. Robert Raeber, who was appointed General Manager by the Board of Directors, assumed responsibility for the European region. As of that date, Mr. Philippe Véron, General Manager heading the European region until 31st December 1996, successively assumed responsibility for all Strategic Business Units and the Marketing sector.

On 31st March 1997, Mr. Rupert Gasser, General Manager, was entrusted with responsibility for the Group's Research and Development, following the retirement of Mr. Brian Suter, who was General Manager of Nestec S.A. since 1st January 1987. Mr. José Daniel, General Manager since 1st January 1979 in charge of the Pharmaceuticals/Cosmetics business, Human Resources and the Centre Administration, retired on 5th June 1997. Mr. Francisco Castañer, who was appointed General Manager by the Board, took over Mr. J. Daniel's responsibilities as of 6th June 1997, as well as the Group's Public Affairs and Corporate Communication units.

During the year 1997, and also at 31st December 1997, no director had a personal interest in any transaction significant to the business of the Group.

Income statement for the year 1997

In millions of Swiss francs	Notes	1997	1996
Income			
Income from Group companies	1	**2 756**	2 032
Interest income	2	**240**	591
Profit on disposal of fixed assets	3	**56**	66
Other income		**23**	27
Total income		**3 075**	2 716
Expenses			
Investment write downs	4	**1 039**	1 152
Administration and other expenses	5	**121**	114
Interest expense	6	**19**	22
Provision for uninsured risks		**15**	15
Total expenses before taxation		**1 194**	1 303
Profit before taxation		**1 881**	1 413
Taxation	7	**286**	165
Profit for the year	19	**1 595**	1 248

The appropriation of profit proposed by the Board is set out on page 93.

Balance sheet at 31st December 1997

before appropriations

In millions of Swiss francs	Notes	1997	1996
ASSETS			
Current assets			
Liquid assets	8	**2 987**	1 613
Debtors	9	**1 608**	1 538
Prepayments and accrued income		**36**	31
Total current assets		**4 631**	3 182
Fixed assets			
Financial assets	10	**10 746**	11 518
Intangible assets	13	**—**	—
Tangible fixed assets	14	**—**	—
Total fixed assets		**10 746**	11 518
Total assets		**15 377**	14 700
LIABILITIES AND SHAREHOLDERS' FUNDS			
Liabilities			
Short term creditors	15	**165**	88
Accrued liabilities and deferred income		**23**	44
Long term creditors	16	**283**	262
Provisions	17	**906**	721
Total liabilities		**1 377**	1 115
Shareholders' funds			
Share capital	18/19	**404**	404
Legal reserves	19	**6 392**	6 392
Special reserve	19	**5 609**	5 537
Retained earnings	19	**1 595**	1 252
Total shareholders' funds	19	**14 000**	13 585
Total liabilities and shareholders' funds		**15 377**	14 700

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 56).

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.

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	1997	1996
Net result on loans to Group companies	185	557
Other	55	34
	240	591

In 1996, the net result on loans to Group companies was favourably influenced, by the amount of Fr. 371 million, from the reversal of unrealised exchange losses at the end of the previous year. On the other hand, interest received in 1997, both on these loans and on deposits with financial institutions, have increased.

3. Profit on disposal of fixed assets

This represents mainly the net gain of Fr. 56 million (1996: Fr. 66 million) recorded on the sale of some trademarks and other industrial property rights previously written down, as well as minor participations.

4. Investment write downs

In millions of Swiss francs	1997	1996
Participations and loans	931	1 056
Trademarks and other industrial property rights	108	96
	1 039	1 152

The write downs of participations and loans in 1997 derive from the 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.

5. Administration and other expenses

In millions of Swiss francs	1997	1996
Salaries and welfare expenses	56	65
Other expenses	65	49
	121	114

6. Interest expense

In millions of Swiss francs	**1997**	1996
Interest on long term debenture	**18**	20
Other interest	**1**	2
	19	22

7. Taxation

The increase of the tax charge as compared with 1996 results partly from withholding taxes on higher income from foreign sources. Adequate provisions have been established for Swiss taxes.

8. Liquid assets

In millions of Swiss francs	**1997**	1996
Cash	**31**	33
Marketable securities	**15**	—
Short term deposits with banks	**2 941**	1 580
	2 987	1 613

9. Debtors

In millions of Swiss francs	**1997**	1996
Amounts owed by Group companies		
Short-term treasury loans	**1 316**	1 262
Current accounts	**249**	230
Provision for amounts not currently transferable	**—**	—
	1 565	1 492
Other debtors (including withholding tax)	**43**	46
	1 608	1 538

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 withholding tax was received after the year-end.

10. Financial assets

In millions of Swiss francs	**1997**	1996
Participations in Group companies (see note 11)	**7 054**	7 869
Finance loans to Group companies (see note 12)	**3 566**	3 497
Own shares	**120**	111
Other investments	**6**	41
	10 746	11 518

Own shares of the Company are held in order to allow the exercise of option rights by members of the Group's Management (79 095 options were outstanding at the close of 1997, of which 60 507 may be exercised as from 1st January 1998); 14 351 shares are also held at the end of 1997 for trading purposes.

11. Participations in Group companies

In millions of Swiss francs	**1997**	1996
At 1st January	**7 869**	7 724
Increase	**297**	989
Write downs	**(1 112)**	(844)
At 31st December	**7 054**	7 869

The increase in participations represents in particular:

– additional funding, through capital increases, of a number of Group companies mainly in Vietnam, Poland, People's Republic of China and Russia;
– acquisition of participations in various companies, mainly in Jamaica (Cremo);
– 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;
– the purchase from affiliated companies of certain existing participations.

The carrying value of participations continues to represent a conservative valuation having regard to both the income received by the Company and the net assets of the Group companies concerned.
A list of the most important companies held, either directly by Nestlé S.A. or indirectly through other Group companies, with the percentage of the capital controlled, is given on pages 78 to 80 in the section "Group accounts".
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	**1997**	1996
At 1st January	**3 497**	3 655
New loans	**228**	235
Repayments and write downs	**(247)**	(953)
Realised exchange differences	**19**	19
Unrealised exchange differences	**69**	541
At 31st December	**3 566**	3 497

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 1997 and 1996.

15. Short term creditors

In millions of Swiss francs	**1997**	1996
Amounts owed to Group companies	**150**	59
Other creditors	**15**	29
	165	88

16. Long term creditors

In millions of Swiss francs	**1997**	1996
Amounts owed to Group companies	**283**	234
Other creditors	**—**	28
	283	262

Amounts owed to Group companies include a long-term bond issued in 1989, whose carrying value increased by Fr. 19 million to Fr. 253 million as a result of an unrealised exchange loss arising in 1997.

17. Provisions

In millions of Swiss francs	**1997**	1996
Provision for uninsured risks	**445**	430
Provision for exchange risks	**317**	197
Provision for Swiss and foreign taxes	**113**	64
Other provisions	**31**	30
	906	721

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

	1997	1996
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 1997, the Share Register showed 149 875 registered shareholders. If unprocessed applications for registration and the indirect holders of shares under American depositary receipts are also taken into account, the total number of shareholders probably exceeds 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 1997	404	6 124	268	5 537	1 252	**13 585**
Appropriation of profit to special reserve				70	(70)	
Profit for the year					1 595	**1 595**
Dividend for 1996					(1 180)	**(1 180)**
Own shares acquired/sold		(9)	9			
Dividend on own shares in respect of which the corresponding option rights were not exercised by the payment date of 1996 dividend				2	(2)	
At 31st December 1997	404	6 115	277	5 609	1 595	**14 000**

[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 1996, the reserve for own shares amounting to Fr. 267.9 million, represented the cost of 928 940 shares issued by Nestlé S.A. and acquired by a Group company, and 92 393 shares reserved to cover option rights in favour of members of the Group's Management.

At 31st December 1997, 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 1997, the Company acquired, at a cost of Fr. 5.7 million, 3 849 shares reserved to cover option rights in favour of members of the Group's Management. 17 147 options have been exercised during the year. A total of 79 095 shares are held to cover outstanding option rights at balance sheet date. The Company also holds 14 351 shares (at an acquisition cost of Fr. 25.6 million) for trading purposes. 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 1 022 386 own shares held at 31st December 1997 represents 2.5% of Nestlé S.A. share capital.

21. Contingencies

At 31st December 1997 and 1996, 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. 6022 million and Fr. 2976 million, respectively.

Proposed appropriation of profit

In Swiss francs	1997	1996
Retained earnings		
Balance brought forward	709 060	4 674 108
Profit for the year	1 595 030 172	1 247 622 632
	1 595 739 232	1 252 296 740
We propose the following appropriations:		
Allocation to the special reserve	215 000 000	70 000 000
Dividend for 1997, Fr. 35.– per share on 39 329 614 shares (1996: Fr. 30.– on 39 330 667 shares)	1 376 536 490	1 179 920 010
Dividend for 1997, Fr. 35.– per share on 60 507 shares reserved for the option rights which may be exercised as from 1st January 1998 and on 14 351 shares held for trading purposes [a] (1996: Fr. 30.– on 55 589 shares)	2 620 030	1 667 670 [b]
	1 594 156 520	1 251 587 680
Balance to be carried forward	1 582 712	709 060

[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. 1 667 670, Fr. 391 440 were actually paid as dividends, whilst the balance of Fr. 1 276 230 has been transferred to the special reserve.

If you accept this proposal, the gross dividend will amount to Fr. 35.– per share. After deduction of the federal withholding tax of 35%, a net amount of Fr. 22.75 will be payable as from Wednesday, 3rd June 1998 by bank transfer to the shareholder's account or by cheque, in accordance with the instructions received from the shareholder.

Cham and Vevey, 26th March 1998
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 83 to 92 for the year ended 31st December 1997.

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.

KPMG Klynveld Peat Marwick Goerdeler SA

W. M. Tannett	S. R. Cormack	B. A. Mathers
Chartered accountant	Chartered accountant	Chartered accountant

Auditors in charge
London and Zurich, 26th March 1998

131st Ordinary General Meeting of the Nestlé S.A.

Thursday 28th May 1998,
at 3.00 p.m. at the "Palais de Beaulieu", Lausanne

Agenda

1a Annual report, annual financial statements 1997 of the Company and report of the auditors

1b Consolidated financial statements 1997 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:
Paul A. Volcker (terms of office for 2 years)
Stephan Schmidheiny (terms of office for 5 years)
Peter Böckli (terms of office for 5 years)
David de Pury (terms of office for 5 years)

Next Ordinary General Meeting:
Thursday 3rd June 1999 at the "Palais de Beaulieu", Lausanne

Important dates:

3rd June 1998	Payment of the dividend
September 1998	Publication of the half-yearly report January/June 1998
25th November 1998	Autumn meeting with the press (Vevey)
January 1999	Announcement of 1998 sales figures
25th March 1999	Announcement of 1998 results
5th May 1999	Press conference (Zurich)
3rd June 1999	132nd Ordinary General Meeting, “Palais de Beaulieu”, Lausanne

Stock exchange listings

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

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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.

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