Good Food, Good Life

Management Report 2005

Wellness in action
The transformational opportunity

Billion Swiss Franc Brands

Beverages

NESCAFÉ

Nestlé MILO

Nestlé Nesquik

NESTEA

Water

Nestlé

Milk products

Nestlé

Nestlé Coffee-mate

Nestlé NIDO

Chocolate, confectionery and biscuits

Nestlé

Nestlé KitKat

PetCare

PURINA

Friskies

Pharma

Alcon

Nutrition

Nestlé

Nestlé

Ice cream

ICE CREAM Nestlé

Dreyer's

Edy's

Prepared dishes and cooking aids

Maggi

Buitoni

Stouffer's LEANCUISINE

Herta

HOT POCKETS

Stouffer's

Branded Active Benefits (BABs)

Prebio[1]

In Nutrition, Nestlé has sales in excess of CHF 1 billion in both the Infant Nutrition and Baby Food categories.

Branded Active Benefits (BABs, see page 22) are added to products to address a specific need state. The sales of products incorporating *Prebio*[1] exceed CHF 1 billion.

2005: excellent growth; acceleration of the Group's transformation

Excellent growth and another year of delivery of the Nestlé Model

> Sales increased 7.5% to CHF 91.1 bn
> The Group's organic growth reached 6.2%, above target of 5-6%
> EBITA rose from CHF 10.8 bn to CHF 11.7 bn; margin increased from 12.7% to 12.9%
> Net profit rose 20.7% to CHF 8.0 bn; underlying EPS rose 12.9%

Strong cash flow facilitates increased returns to shareholders

> Strong operating cash flow, exceeding CHF 10 bn and free cash flow, exceeding CHF 6.5 bn
> Completion of first share buy-back programme, with value of CHF 1 bn
> Launch of second share buy-back programme, with value of CHF 3 bn
> Proposed dividend of CHF 9.– per share, an increase of 12.5%

Major strategic brands drive Food & Beverage (F&B) to triple market's growth rate

> F&B achieved 6% organic growth: Americas and Zone AOA the engines
> *Nescafé, Dreyer's, Purina, Nestea, Nespresso* among strong performers
> Alcon continued to deliver double-digit growth and margin improvement

Accelerating transformation delivers tangible benefits

> Creation of stand-alone Nestlé Nutrition organisation – 100% focused on driving our opportunities in pure nutrition
> Corporate Wellness Unit driving Health and Wellness initiatives throughout F&B
> About a third of F&B sales now operating on GLOBE systems
> Efficiency programmes delivered targeted savings of CHF 1.2 bn

Organic growth target of 5% to 6% and further margin improvement expected for 2006

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The brands in italics are registered trademarks of the Nestlé Group

Letter to our Shareholders

Fellow shareholders,

We have long had a vision of Nestlé as not just the world's largest Food and Beverage company, but also as the world's leader in Health, Nutrition and Wellness. This vision is compelling because it brings together the best interests both of our consumers and of our shareholders. Consumers want to live healthier, more productive and longer lives. Shareholders want to see increasing returns, which I believe are deliverable from these faster growing and more profitable categories.

As the world's largest Food and Beverage company, with leading brands and a global presence, Nestlé is well placed to bring this vision to life. We have made further major strides in 2005. Nestlé Nutrition is now managed as a stand-alone business entity from the 1st of January, and the Corporate Wellness Unit is operational and driving Group-wide initiatives in the area of health and wellness. The Nutritional Compass has been introduced across a wide range of products, whilst our increased focus on Research & Development has resulted in the roll-out of more Branded Active Benefits (BABs) across our Nutrition, Dairy, Beverage, Cereal and Confectionery categories, and sales of products with BABs increasing about 20% during the year. Another important step in building our Nutrition, Health and Wellness future was the creation of our EUR 500 million Growth Fund to invest in early stage ventures. It is the perfect complement to our existing Life Ventures fund, which is successfully investing in start-ups in this area. We expect these funds to be a powerful accelerator for the implementation of innovative ideas.

"The Nestlé transformation" was extensively discussed in last year's Letter and was also at the heart of my speech at the Annual General Meeting of shareholders (AGM). The move to a Health, Nutrition and Wellness company is an important aspect of that transformation, the strategic aspect, if you like. The other aspect is more operational, with the continuous evolution to a structure which will enable us to leverage our size as a competitive advantage and to do this whilst remaining close to our consumers.

I see the Nestlé of the future as a fleet of agile, fast-moving businesses, with leading brands in value-added categories. The businesses will be fast-moving because they will be focused on their consumers, innovation, and communication, and they will be a "fleet" because they will be linked, regardless of where they are in the world, by shared consumer insights, R&D and smart leveraging of our scale. This will enhance our ability

Peter Brabeck-Letmathe
Chairman of the Board
and Chief Executive Officer

to create better and bigger innovations, launched more quickly and more broadly around the world, and offering an improved value equation.

An agile fleet needs fuel. The fuel for our businesses will come from an ever more efficient operating platform. We have made concrete steps here too in 2005, with the creation of shared service centres, as part of our FitNes programme, outsourcing of certain activities, improvements in our supply chain, and a continued focus on driving efficiency through Operation EXCELLENCE 2007. But, improving efficiency isn't just about reducing cost; it also means sharing the best of what we've got, and this is one of the key objectives of our GLOBE programme. The GLOBE roll-out continues on track, with about a third of our food and beverage business now operating with GLOBE's processes, data and systems.

2005 was a year characterized by high raw material prices, currency volatility, health scares, natural disasters and a challenging retail environment on a scale not recently experienced. Internally we also had to manage issues in China, Russia and Italy, which served as a reminder to all our people that quality is a non-negotiable aspect of our business. I am pleased therefore that against that background our people have once again delivered on the Nestlé Model of strong organic growth combined with another year of consistent improvement in EBITA margin.

Performance is at the centre of our thinking, and it was this that led us to finding a creative solution for our European Chilled dairy business. We have always believed that Chilled dairy has a role to play in a Health, Nutrition and Wellness company, but we also understood that we needed to find a solution that would make it as good a business for our shareholders as it is for our consumers. The venture with Lactalis, one of the biggest European dairy companies, is that solution: it should significantly strengthen our business and brands in the marketplace, whilst enhancing its financial attractiveness.

There have been some changes on our Board and in our senior management. Rainer E. Gut, Chairman of the Board of Directors, retired at the 2005 AGM, following twenty-five years on the Board and five years as Chairman. This was a period of enormous development for Nestlé, demonstrated by the fact that the Group's sales in 1981 were CHF 27.7 billion, less than one third of today's level. During that time, the Group benefited from Mr. Gut's enormous international business experience, as well as from his strong convictions, sense of perspective, integrity and dynamism. He personified the values and culture of the Group and was a valued partner for me in my years as Chief Executive. Nobuyuki Idei is retiring at the 2006 AGM. I would like to thank him for his contribution, and in particular for his insightful contribution about the potential of technology in our industry.

Wolfgang H. Reichenberger has stepped down from his position as Chief Financial Officer of Nestlé S.A. and has left the Group to run the new Growth Fund. During Wolfgang's five year tenure as CFO, the culmination of a successful twenty-seven year career at Nestlé, he made a significant contribution to the Group, not least in strengthening its performance culture. Wolfgang's departure necessitated one of several changes to the Group Executive Board during 2005. His successor is Paul Polman, who enjoyed a successful twenty-six year career in the fast moving consumer goods industry before joining Nestlé. Also leaving the Company last year was Ed Marra. Ed Marra had an twenty-three year career at Nestlé, mainly in North America, and during his time at Vevey he launched a series of initiatives in the area of strategic demand generation, and brought an increased dynamism to our innovation process and pipeline. Lars Olofsson, previously running Zone Europe, has taken over responsibility for the Strategic Business Units & Marketing from Ed Marra. Luis Cantarell has taken responsibility for Zone Europe, whilst Richard Laube, who joined Nestlé in April 2005 following as successful career in the fast moving consumer good and pharmaceutical industries, has taken over responsibility for Nestlé Nutrition from Luis.

That our businesses continued to perform well during these transitions, demonstrates the strength in-depth within our management team. We have always felt that our "grow your own" approach to management, combined with selective external appointments, has served us well. It is an approach that we will continue to follow to ensure that the values, culture and principles that have created the Nestlé of today will continue to be the pillars of our growth in the future.

Nestlé's values and principles are not something intangible, but are summarised in The Nestlé Corporate Business Principles and The Nestlé Management and Leadership Principles. The Business Principles are circulated amongst our staff and suppliers. It is a code of behaviour by which we live, whether we are at the most junior level in the smallest market, or whether we are on the Nestlé S.A. Board of Directors and responsible to our shareholders for the Corporate Governance of the organisation.

Corporate Governance was certainly high on the agenda in 2005. The objective of Corporate Governance is that it should provide an appropriate level of protection for shareholders, combined with, but not at the expense of, the right environment to enable management to deliver sustainable profitable growth for the benefit of those shareholders. Nestlé has certainly achieved this, whether one looks at our shorter or longer record of total shareholder return. And it has done it by having a consistent strategy and focusing pragmatically on long-term value creation, whilst ignoring short-term pressures and longer-term trends that offer no potential for improved returns. The decision made by the Board to create the double-mandate, which led to the contested AGM, was taken in that spirit: pragmatically, to ensure that Nestlé's transformation had the greatest likelihood of being completed rapidly and successfully, and without risking the ongoing financial performance of the Group.

The AGM is a uniquely important day for Nestlé as it is the single biggest opportunity for us to hear from our shareholders. In formulating the agenda for the 2006 AGM, we have taken account of the feedback we received earlier in the year, whether from smaller private shareholders or larger institutional investors, whether Swiss or international. We believe that our response to this feedback, outlined in the invitation to the AGM, is in your and the Company's best interests. It will facilitate gradual change in the Articles of Association, with shareholder participation and approval, and will enable Nestlé to modernize its Articles to ensure that they are as appropriate to its global business leadership as are its Business Principles.

There are three new proposals for the Board of Directors this year. Jean-René Fourtou, who is Chairman of the Supervisory Board of Vivendi and a leading figure in the French business world, Steven Hoch, who is the founder of Highmount Capital, a US based investment firm, and Naina Lal Kidwai, who is Deputy Chief Executive Officer of HSBC in India. These appointments will bring a broad cross-section of expertise to Nestlé's Board, which is already rich in talent and experience.

As I have explained, 2005 was a challenging year for our industry. It was also a year in which much has been achieved: progress towards becoming the leader in Health, Nutrition and Wellness, towards launching that fleet of agile businesses, with an efficient manufacturing base and supply chain, the achievement of a level of organic growth that puts us at the forefront of our industry, the launch of our first and second share buy-backs, and a total shareholder return of over 35%.

That is certainly a hard act to follow in 2006, but we have fantastic brands, strong market positions, a flowing pipeline of innovations and our strongest ever management team. Building on our momentum, we continue to see opportunities to improve the performance of our Food and Beverage business and are committed to the Nestlé Model of strong organic growth, between 5% and 6%, and a consistent improvement in EBITA margin. We have already embarked on our second share buy-back, with a target of CHF 3 billion, and remain committed to delivering long term shareholder value. I believe, therefore, that the future for Nestlé and its shareholders remains rich with opportunity.

This letter has been focused on our Food and Beverage business, which is at the heart of our transformation, and offers the potential for further performance improvement. I would like briefly to recognise the strong performances of our investments in the areas of vision, skin and beauty, notably the strong business and share price performance of Alcon during 2005.

Finally, I would like to thank the Nestlé people around the world for their contribution in 2005, not just to realising our transformation and delivering our results, but also for their selfless and instinctive actions and support in their communities, whether following the tsunami, the floods in Louisiana or the earthquake in Pakistan. I mentioned the Nestlé culture. No matter where I go in the world, I immediately recognise that same culture, those shared values and that commitment to Nestlé, and to the local communities all around the world where we are based. The more I have seen this, the more I have come to realise that this is one of our great strengths. My thanks to everyone for their contribution in 2005.

Peter Brabeck-Letmathe
Chairman of the Board
and Chief Executive Officer

Board of Directors of Nestlé S.A.

at 31 December 2005

Helmut O. Maucher
Honorary Chairman

Board of Directors of Nestlé S.A.

	Term expires[1]
Peter Brabeck-Letmathe [2]	
Chairman and Chief Executive Officer	2007
Andreas Koopmann [2, 4]	
1st Vice Chairman	
> CEO, Bobst Group SA	2008
Rolf Hänggi [2, 3, 5]	
2nd Vice Chairman	
> Vice Chairman, Roche Holding Ltd	2008
Edward George (Lord George) [2, 4, 5]	
> Former Governor of the Bank of England	2007
Kaspar Villiger [2, 3, 5]	
> Former Swiss government minister	2009
Jean-Pierre Meyers [3]	
> Vice Chairman, L'Oréal	2006
Peter Böckli [4]	
> Attorney-at-law	2008
Nobuyuki Idei	
> Chief Corporate Advisor, Sony Corporation	2006
André Kudelski [3]	
> Chairman and CEO, Kudelski Group	2006
Daniel Borel	
> Co-founder and Chairman, Logitech International S.A.	2009
Carolina Müller-Möhl	
> Chairperson, Müller-Möhl Group	2009
Günter Blobel	
> Professor, The Rockefeller University	2009

Secretary to the Board
Bernard Daniel
Secretary General

Independent auditors
KPMG Klynveld Peat Marwick Goerdeler SA
London and Zurich 2008

1 On the date of the General Meeting of Shareholders
2 Chairman's and Corporate Governance Committee
3 Audit Committee
4 Remuneration Committee
5 Finance Committee













Board of Directors

Peter Brabeck-Letmathe
Edward George
Peter Böckli
Daniel Borel
Andreas Koopmann
Kaspar Villiger
Nobuyuki Idei
Carolina Müller-Möhl
Rolf Hänggi
Jean-Pierre Meyers
André Kudelski
Günter Blobel

Secretary to the Board

Bernard Daniel

For further information on the Board of Directors please refer to the Corporate Governance Report 2005, enclosed

Executive Board of Nestlé S.A.

at 31 December 2005

Peter Brabeck-Letmathe
Chairman and Chief Executive Officer

Executive Vice Presidents

Francisco Castañer
Pharmaceutical and Cosmetic Products, Liaison with L'Oréal, Human Resources, Corporate Affairs
Wolfgang H. Reichenberger
Finance, Control, Legal, Tax, Purchasing, Export
Lars Olofsson [1]
Strategic Business Units and Marketing
Werner Bauer
Technical, Production, Environment, Research and Development
Frits van Dijk
Asia, Oceania, Africa, Middle East
Ed Marra [1]
Strategic Business Units and Marketing
Paul Bulcke
United States of America, Canada, Latin America, Caribbean
Carlo Donati
Nestlé Waters
Luis Cantarell
Europe

Deputy Executive Vice Presidents

Chris Johnson
GLOBE Program, Information Systems, Strategic Supply Chain, eNestlé, Group Information Security
Richard T. Laube
Nestlé Nutrition

[1] Ed Marra retired on 31 December 2005 and was succeeded by Lars Olofsson on 15 November 2005

Executive Board (from left to right):
Luis Cantarell
Frits van Dijk
Wolfgang H. Reichenberger
Paul Bulcke
Francisco Castañer
Peter Brabeck-Letmathe
Werner Bauer
Lars Olofsson
Chris Johnson
Ed Marra
Carlo Donati
Richard T. Laube

For further information on the Executive Board, please refer to the Corporate Governance Report 2005, enclosed

Updating the Articles of Association

At the General Meeting 2005, we made the commitment that we would consider the feedback that we had received from our shareholders as we review our governance and Articles of Association. During the summer 2005, a large number of our shareholders responded to our opinion survey about our Articles of Association and gave us valuable input. While the survey showed that there are different views amongst our shareholders, there was a broad consensus in favour of a modernisation of the Articles of Association. We are in agreement with this view.

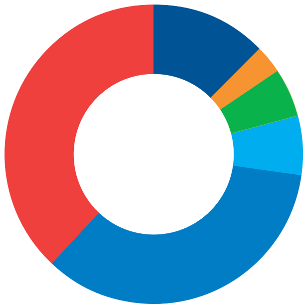
When our Articles of Association were revised in 1989, Swiss law provided little protection or transparency in the case of hostile takeovers, nor did it prescribe the disclosure of substantial shareholdings. This has changed in the meantime. The Swiss Stock Exchange Act now obliges a shareholder to disclose when his holdings exceed 5, 10, or 20% of the voting rights, and to make a public offer for the entire company when his shareholdings exceed 33.33%.

Certain changes to the Articles of Association can only be made with an attendance quorum of two thirds of the total share capital of the Company. In addition, a supermajority of three quarters of the shares represented at the relevant shareholders' meeting is required. Other decisions require the presence of one half of the share capital. In 1989, when the relevant provisions were introduced, the Nestlé shareholder base was predominantly Swiss, and Annual General Meetings were attended by a large number of shareholders. Today, even if all shareholders with voting rights were to attend a shareholders' meeting, it would factually not be possible to achieve such an attendance quorum because shareholders accounting for more than one third of the outstanding share capital have chosen not to be recorded in the share register and are therefore not able to attend or vote at the meeting.

The Board of Directors believes that modernizing Nestlé's Articles of Association will be in the shareholders' best interests. Your Board will therefore propose a resolution to shareholders at the 2006 Annual General Meeting which, if passed, will enable shareholders to vote on specific proposals at future Annual General Meetings to update the Articles of Association with a view towards the creation of long term value for all our shareholders.

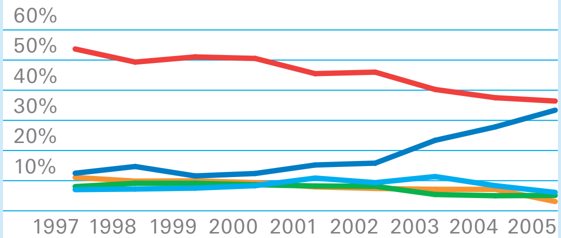
The Board is aware, and the shareholder survey has demonstrated, that although a majority of our shareholders are in favour of modernizing the Articles of Association, there are differing opinions among two

Shareholders by geography*



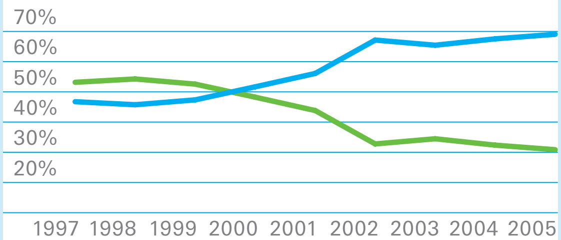
- 36% Switzerland
- 33% USA
- 6% United Kingdom
- 5% Germany
- 3% France
- 17% Others

Distributions of Share Capital by geography*



- Switzerland
- USA
- United Kingdom
- Germany
- France

Share Capital by Investor Type*



- Institutions
- Private Shareholders

* Percentage devised from total number of registered shares. Registered shares represent 64% of the total share capital. Statistics are rounded, as at 31.12.2005

distinct groups of our shareholders on specific issues. While voting limitations found support among some private shareholders, a majority of the shares, including a strong majority of the institutional shareholders, rejected them in line with the principle of one-share one-vote. The rule requiring that two thirds of the share capital be present or represented to make certain changes, which makes amendments to these provisions factually impossible, was rejected by a clear majority of the shares, including a three quarter majority of the institutions. There was also solid support for a reduction of the terms of office of the directors. Feelings were less strong with regard to the terms of office for the external auditors, although a term of three years was clearly favoured over the one-year solution.

The Board, therefore, is proposing to the shareholders a course of gradual change and will propose to the 2006 Annual General Meeting a Resolution enabling it to propose further enhancements to the Articles in the future. It believes that this approach addresses the feedback it has received over the past year and lays the foundation for the gradual adoption by shareholders of a set of Articles of Association that will be in the best interest of all shareholders.

Our principles of doing business

> Inherent in the Nestlé business model is a long-term commitment and substantial investment in the countries where we operate. In the first edition of the Nestlé Management and Leadership Principles in 1997, we stated, "Investments have to be good for the country as well as good for the Company". This has been our belief since the inception of the Company, because to create long-term value for our shareholders, it is essential to create long-term value for the societies where we operate. We believe that this philosophy has been an important factor in creating the long-term business growth which has made Nestlé the world's largest food and beverage company.

> For Nestlé, Corporate Social Responsibility is not an add-on, imposed from outside, but is built into our Nestlé Corporate Business Principles and business strategy. This is explained in depth through the companion document to this 2005 Management Report, entitled The Nestlé Concept of Corporate Social Responsibility, as Implemented in Latin America.

> The United Nations Global Compact's ten Principles on human rights, labour, the environment and corruption, are specifically incorporated in the Nestlé Corporate Business Principles, and are fundamental to guiding our business actions.

The UN Global Compact ten Principles (summarized)

	Human Rights
1.	Support and respect protection of internationally proclaimed human rights
2.	Non-complicit in human rights abuses
	Labour
3.	Uphold freedom of association and collective bargaining
4.	Eliminate forced and compulsory labour
5.	Effective abolition of child labour
6.	Elimination of discrimination
	Environment
7.	Support a precautionary approach
8.	Undertake environmental initiatives
9.	Encourage environmentally friendly technologies
	Anti-corruption
10.	Work against all forms of corruption, including extortion and bribery

The Nestlé Corporate Business Principles

Governments*
Human Rights*
Labour*
Environment*
Consumers
Consumer communication
Infant Food Marketing
Suppliers
Agricultural Raw Materials
Corporate Governance
*Including UN Global Compact 10 Principles

Nestlé Corporate Business Principles

The Nestlé Corporate Business Principles, incorporating our Corporate Governance Principles and Consumer Communication Principles, are the fundamental principles which all Nestlé associates are expected to follow and implement within the specific political, social and cultural context of each country. They include sections, among others, on Infant Health and Nutrition, Human Rights, Child Labour, Corruption and the Protection of the Environment.

The Principles are built on key beliefs that include:

> Nestlé's business objective is to manufacture and market its products in a way that creates value that can be sustained over the long term for shareholders, employees, consumers, business partners and the national economies in which Nestlé operates.

> Nestlé does not favour short-term profit at the expense of successful long-term business development.

> Nestlé recognizes that its consumers have a sincere and legitimate interest in the behaviour, beliefs and actions of the company behind the brands in which they place their trust.

> Nestlé operates in many countries and in many cultures throughout the world. This rich diversity is an invaluable source for our leadership.

Human Rights

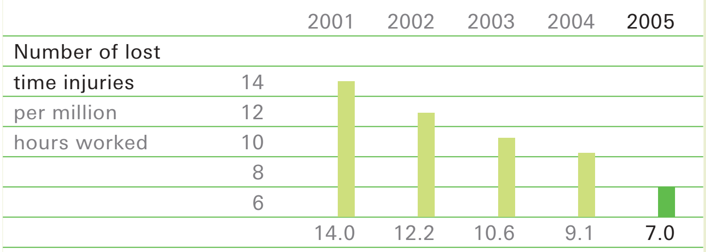
We are committed to respecting human rights in our business activities, and to avoid being complicit in human rights violations. In addition, through our business activities, we help to influence the human rights environment. For instance, in 2005 Nestlé Nigeria became the sponsor of a new national television series, aimed at creating greater religious and social tolerance and respect for human rights (see page 18).

Labour Rights

Our people

Nestlé upholds freedom of association and the effective recognition of the right to collective bargaining, the elimination of all forms of forced and compulsory labour and the effective abolition of child labour and the elimination of discrimination in respect of employment occupation (UN Global Compact principles 3, 4, 5 and 6). Our people form the backbone of the Company, and our success is a reflection of the professionalism, conduct and attitudes of our management and employees.
The Nestlé culture is founded on a strong work ethic, combining integrity and trust, dignity and mutual respect – and a pragmatic rather than dogmatic approach.

India, our Samalkha factory received the National Safety Award "for outstanding performance in industrial safety".



Health and safety at work

As expressed in the Nestlé Policy on Health and Safety at Work, we place the highest priority on protecting our people at work, and fostering their health and wellness. We integrate the health and safety of our employees and the prevention of work-related injuries and illnesses into all aspects of our business.

Our key safety performance indicator, the number of injuries with lost time, continues to show a positive trend. In the last five years, we have reduced this number by 50%.

Several units in the Nestlé Group achieved exceptional performance in workplace safety. An example is the Nestlé Samalkha factory in India which won the Indian National Safety Award in 2005, in recognition of their very low accident rate. The employees in Samalkha completed more than three million hours without any reportable accident.

Child Labour

Nestlé does not tolerate child labour in our factories, and our industrial suppliers are expected to follow the Nestlé Corporate Business Principles, or risk losing our business.

Nestlé is a founding member of the International Cocoa Initiative, a long-term effort with unions, anti-slavery organisations, and other members of the cocoa supply chain, aimed at eliminating the worst forms of child labour. The ICI, headquartered in Geneva, is active on the ground in West Africa, in cooperation with the ILO International Programme to Eliminate Child Labour, and other organisations with similar objectives.

Environment

Environmental stewardship

Nestlé supports a precautionary approach to environmental challenges and undertakes initiatives to promote greater environmental responsibility, whilst encouraging the development and diffusion of environmentally friendly technologies (UN Global Compact principles 7, 8 and 9). We have continued to achieve significant performance improvements in terms of reductions in energy and water consumption, wastewater generation and air emissions. Full information is available on our website and in the booklet Nestlé and Water.

Environmental performance

Nestlé's environmental performance indicators confirm the continuous improvement in our manufacturing activities. The results again show a decoupling between

Nestlé environmental progress

		2001	2002	2003	2004	2005	Variation 2001-2005
Water consumption	m^3	7.63	6.20	5.78	5.27	4.37	–42.7%
Energy consumption	gigajoules (GJ)	3.44	3.08	2.83	2.73	2.42	–29.7%
Waste water generation	m^3	5.87	4.89	4.36	4.26	3.38	–42.4%
Greenhouse gases	kg CO_2	178	155	142	133	118	–33.5%
Air acidification potential	kg SO_X equiv.	1.09	0.84	0.70	0.65	0.51	–53.5%
Ozone depleting substances	g R-11 equiv.	1.07	0.33	0.30	0.29	0.28	–73.7%
By-products/waste generation	kg	69.5	58.3	52.9	57.4	52.7	–24.2%
By-products/waste recovery	%	72.3	78.1	79.7	77.0	77.2	

Consolidated environmental performance indicators (EPI's) per tonne of product

the growth of our production volume, which amounted to 39%, and our consumption of natural resources during the 2001-2005 period. For the first time, the indicators have been validated by an independent verification company, Intertek.

Details of our environmental achievements throughout the supply chain, including latest performance indicators, are available at www.environment.nestle.com.

Air emissions

As part of the Nestlé Environmental Management System (NEMS), which is aligned with ISO 14001, in 2005 we systematically reviewed our factories' efforts to minimise air emissions. The review confirmed the implementation of measures such as using cleaner fuel with a lower sulphur content, moving to gas, and ensuring that boiler operations are optimised. In addition, the review demonstrated Nestlé's investment of an average of CHF 40 million annually to reduce air emissions.

Transport

Reducing the environmental impact of transport is of high importance to Nestlé. Nestlé initiated a pilot with Schenker, one of the leading international integrated logistics companies, to determine the environmental impact per unit of product delivered in one of their European land transport networks. The results of this study showed that transport generated on average some 15 kg of CO_2 emissions per tonne of product delivered. This represents about 10% of CO_2 generated during the manufacturing process and is equivalent to emissions released by a standard passenger car travelling for 100 kilometres. Actions have been defined to reduce the transport-related environmental impact by giving further consideration to types of vehicle used, distances driven, fuel type used, loading degrees, etc.

Sustainable consumption

Nestlé's initiatives apply equally to sustainable consumption and to improving the environmental performance of our products along their entire life cycle. We continued to pursue our packaging source reduction programme. Without compromising product quality, packaging material savings from 1991 to 2005 amounted to 284 000 tonnes and CHF 520 million on a worldwide basis. Nestlé was the first company in Europe to introduce a new biodegradable alternative to plastic for manufactured food products. Made from renewable resources, it dissolves when it comes into contact with water, and disintegrates within three months in a compost heap.

Philippines, coffee programme
Started in 1962, the number of farmers benefiting from our expertise is around 2000 to 2500 per year.

Pakistan
Helping milk farmers
For over 70 years, in 40 countries, we have helped hundreds of thousands of milk farmers to achieve higher production quality and increased incomes. Pakistan is the fifth largest milk producer in the world. In the Punjab region in 1988 an average of 120 tonnes of milk a day was produced by 26 000 farmers. By 2004 135 000 farmers were producing 829 tonnes a day. Nestlé has created 1000 village dairies and installed 972 milk tanks equipped with cooling devices. You can read more in Nestlé in Pakistan 1988-2004. The Development of a Milk District and in the Harvard Business School Case Study, Nestlé's Milk District Model: Economic Development for a Value-added Food Chain and Improved Nutrition. "These are not a CSR fad – they are something Nestlé has been doing for ages." Prof. Ray Goldberg of Harvard Business School. Similar initiatives have existed in North China since 1989, which included building some 220 kilometers of roads to facilitate transporting 1000 tonnes of fresh milk per day.

<u>Agricultural Raw Materials</u>
During 2005 we continued to ensure the quality and safety of agricultural materials that we use for our food products. Our actions vary according to agricultural production and sourcing methods – either directly from farmers or through trade channels. Activities include the promotion of sustainable growing and production methods at farming level with the objective of creating value for all partners in the supply chain – and that includes our consumers.

Related to sustainable sourcing, we provided further technical assistance to farmers supplying milk to our factories. This assistance was given by our 800 agricultural field experts and benefited more than 300 000 milk farmers in Chile, China, Colombia, Indonesia, India, Mexico and Pakistan.

Many projects are helping coffee farmers with sustainable production, for example in China, Indonesia, Mexico, the Philippines and Thailand. The main focus of these projects is on farming practices that are environmentally sound, socially acceptable and economically viable.

We continued to support the SAI Platform, the Sustainable Agriculture Initiative of the Food Industry, of which Nestlé is a founding member. Our support

Morocco
Zakoura Foundation
Funding schools in rural areas.


France
Addressing obesity in children
The EPODE programme in France "Ensemble, prévenons l'obésité des enfants" (Together let's prevent childhood obesity) incorporates nutritional education into the school curriculum. Its aim is to improve the dietary behaviour of children and their families, and prevent the increase in obesity. EPODE involves 300 schools, 2000 teachers, 48 000 children and 450 000 inhabitants.

covers the coffee, cereal, milk, fruit and vegetable sectors. Further information is available at: www.saiplatform.org

Working with others

Outside of Nestlé business activities, Nestlé participates in a wide range of programs aimed at improving the health and social conditions of people around the world. The recently published report, Nestlé, the Community, and the UN Millennium Development Goals, outlines Nestlé's efforts to support the UN goals aimed at poverty reduction – through over 150 projects in 66 countries. They include initiatives such as the many research programmes of the Nestlé Foundation for the Study of Problems of Nutrition in the World; the Zakoura Foundation that funds schools in rural areas of Morocco; and the Good Nutrition Programme in Russia covering 1200 schools in 14 regions, involving 600 000 children.

Given the importance of nutrition for increasing chances of survival for people with HIV/AIDS, particularly in Africa, Nestlé and the Red Cross have produced new materials on nutrition and HIV/AIDS which are being used throughout the continent. We have also renewed our partnership with the Red Cross and Red Crescent Societies (IFRC) regarding the development of software and training to determine and evaluate the nutritional composition of

Sri Lanka
Building schools and fishing anchorages – Following the tsunami

We funded the building of 15 fully-equipped pre-schools and 11 fishing anchorages along the devastated coastlines of Sri Lanka. The first two schools were handed over to the local educational authorities in September 2005. All are now fully operational.

Nigeria
Promoting tolerance and reconciliation

The NGO, Common Ground Productions, and Nestlé Nigeria joined forces to produce two ground-breaking TV series for a mass Nigerian audience in order to promote positive role models and peaceful resolution of conflict. One is a reality TV series and the second is a drama series. The first tells the story of 20 young Nigerians from various ethnic, religious, geographic and socio-economic backgrounds who participate in an intensive 4-week acting and conflict resolution training programme. "We chose to work with Nestlé because other companies just pay lip service, but Nestlé are really engaged and involved in the community." John Marks, President of Common Ground Productions

food programmes during emergency relief. It is now much easier for IFRC field workers to prepare emergency food packs, check that the nutrients meet specific needs, and order and track food supplies.

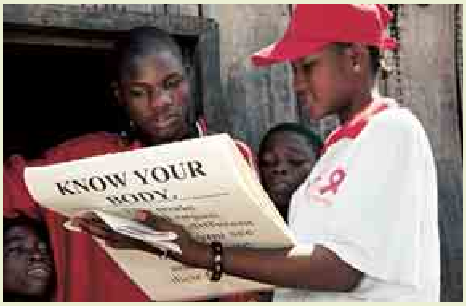
Emergency relief: Nestlé immediately responded to the December 2004 tsunami, with our employees directly engaged in delivering needed food and water, using our own Nestlé trucks and logistical capabilities. We continue to support reconstruction efforts through financial donations and employee involvement.

After Hurricane Katrina, Nestlé USA and Nestlé Waters USA made substantial financial and product donations including nutritional products, millions of bottles of water, prepared meals and eye medications.

In Pakistan, also, we organised distribution of food products, following the earthquake there, and are funding rehabilitation work in the affected areas, including construction of a model village.

Nestlé has become a member of the Business Alliance of the Global Alliance on Improved Nutrition (GAIN). GAIN was established at the UN General Assembly Special Session on Children in May 2002 as a collaborative initiative for business, civil society, and governmental

Africa
Our commitment
focuses on issues such as HIV/AIDS, poverty and the UN Millennium Goals.



Ethiopia
The United Nations and clean drinking water for refugees
Nestlé's technical and monetary support is providing water to 210 000 people on a sustainable long term basis. The Nestlé Waters team includes a hydro-geologist and a water resources manager who are working with United Nations High Commissioner for Refugees and the Ethiopian water authority to design a water supply system, maintain a 22 km pipeline and pumping station, restore wells and test the water.

organisations to address and improve micronutrient deficiencies worldwide. Nestlé is working with GAIN to fortify readily available, inexpensive foods with essential micronutrients.

In many countries, obesity has become a serious health issue. Representing the Confederation of the Food and Drink Industries of the EU (CIAA), Nestlé has been playing a leading role in the European Commission's Platform for Diet, Physical Activity and Health, established to fight obesity on a European-wide level.

Recognition

We improved our performance in the Dow Jones Sustainability World Index and the DJSI STOXX index, with our score rising from 71% to 80%.

The Nestlé Commitment to Africa, published with the 2004 Management Report, and focused on issues such as HIV/AIDS, poverty, the United Nations Millennium Development Goals and the importance of sustainable business practices, was awarded the Best Business Report 2005 at the Africa Investor Awards.

Our transformational opportunity

To accelerate the evolution of Nestlé from a respected, trustworthy Food and Beverage Company to a respected, trustworthy Food, Nutrition, Health and Wellness Company demands that we continuously reshape our businesses so that we are able to effectively defend and build our core businesses, strengthen our emerging businesses and create flourishing growth in the field of Nutrition, Health and Wellness. The transformation goes beyond products and brands and extends to the way the Group is structured. Nestlé is changing from a decentralised multinational company to a global and, ultimately, a global multifocal company.

Our new structure comprises:

> A decentralised "generating demand" front-line, that is focused, fast and flexible in our markets – with the consumer and customer at the centre of all their activities.

> A regionally or globally run "ensuring supply" back-line, including factories, back offices and shared service centres, that is slim, cost-efficient and service-driven.

> Strategic, Consumer Insight and R&D-driven Innovation and Renovation led by the Strategic Business Units (SBUs) and R&D.

Wellness Champions Network

We have a Wellness Champion in each Zone, SBU and market, as well as at our Communication Partners. This network is able to quickly introduce tools such as 60/40+ and the Nutritional Compass, but it is also a think-tank and conduit for a two-way flow of ideas. This is important for us especially as diets are local, and nutrition, health and wellness needs vary widely across the globe.

Nestlé Nutritional Compass

The first worldwide nutrition labeling initiative from any food company. Launched in 2005, it is already on packs accounting for about 50% of our global sales. It provides consumers with easy-to-understand, relevant "Good to know" information on nutritional content, "Good to remember" nutritional tips and habits, and a "Good to talk" panel that gives contact information for our Consumer Services teams.

Branded Active Benefits (BABs)

The primary objective of BABs is to increase the nutrient content and health benefits of existing Nestlé products. The benefits added to existing products are in the areas of digestive health, improvement of immune and skin defenses, weight management, physical and mental performance, healthy physical growth, "mental" development, and those related to healthy ageing.

At Nestlé, different success criteria drive different structures. For example, Water and Nutrition are suited to a global structure, whilst Culinary and Chocolate need to be local. Therefore, rather than having one uniform business, we have an agile fleet of differentiated and focused businesses, each independently strong and flexible, following its own rules towards success. Our "clusters" are then the forum for deploying innovation rapidly around the world.

We recognise that food and beverages are playing an increasingly important role in people's lives – both in terms of personal health and nutrition and in terms of sociability and enjoyment. What people eat and drink affects the way they live their life and the pleasure they get from it. Increasingly, our consumers are benefiting from Nestlé products that go beyond taste and convenience. We are providing them with much more, integrating added benefits of nutrition, health and wellness. Nutrition has always been one of the foundations of our business, and we have a strong base on which to build. In this context, two of the most visible elements of our transformation are the creation of the Corporate Wellness Unit and Nestlé Nutrition.

The Corporate Wellness Unit's mission is to drive the nutrition, health and wellness dimension across all Group companies. While the primary focus is on food and beverages, all categories will consistently deliver better tasting, better-for-you nutritional products and solutions. The Unit's objective is to accelerate this process by setting strategic direction and supporting each business with appropriate benchmarking tools and solutions. These include 60/40+ to ensure that our products perform better in taste and nutrition; The Nutritional Compass on packaging, which is the first global nutritional labelling system to empower consumers to make informed choices about their diet; and Branded Active Benefits (BABs) which use Nestle's scientific know-how to enhance products with health benefits. The Corporate Wellness Unit also co-ordinates horizontal, cross-business projects such as healthy ageing and the Nestlé response to obesity; and it manages our global Wellness Champion network to facilitate, inspire, motivate and drive wellness initiatives in all our markets and businesses.

The new Nestlé Nutrition organisation is structured to ensure a clear focus on three main areas: Infant Nutrition, HealthCare Nutrition, and Performance Nutrition – the areas within Nestlé where consumer preference for our products is driven by nutritional benefits even more than by taste and where R&D plays an increasingly important

Clusters

The cluster approach brings the markets to the forefront of the strategic process, especially with R&D and the strategic business units. The in-market Business Executive Managers (BEMs) collaborate with the SBU's to develop strategies, drive innovation and share learning. When it comes to the front-line, they are able to be very speedy, smooth implementers – accelerating roll-out of successful product launches. Through the clusters, we have permanent feed-back of how our strategies are working; they help to further inspire strategy; and we are able to bring new learning from the clusters to other markets, all contributing to accelerating growth and profitability.

GLOBE is at the core of our transformation

GLOBE has three objectives. The first two – to implement harmonised best practices and data standards – are its "heart". All markets are implementing best practices and changing the way that they manage their data to gain early benefits and prepare for implementation of GLOBE systems. The third objective – standardised systems to support and sustain the best practices and data standards – is also well advanced.

role. Nestlé Nutrition's ambition is to deliver above Group average sales growth and profitability, at a higher rate than these nutrition businesses achieved in the past.

The Group-wide re-allocation of certain business responsibilities to regional or global structures, incorporating shared services, will improve efficiency, reduce costs and give us greater focus. This transformation is being facilitated by the GLOBE (Global Business Excellence) programme, the benefits of which will become increasingly evident as we complete the global roll-out of GLOBE systems in the coming years.

Our efficiency programmes, Operation EXCELLENCE 2007 and Project FitNes, which together have a target of CHF 1.2 billion average annual savings between 2005 and 2007, are laying the foundations for our longer term competitiveness by creating an efficient support structure. It is a fundamental truth, however, that whilst scale and operational efficiency have a role to play, they alone cannot lead to long-term success. For sustainable growth and leadership, Nestlé must continue to anticipate, guide and respond to future consumer needs.

Nestlé's transformational opportunity is therefore to benefit from a twin-faceted drive to improve the group's financial performance: firstly through structural change and operational performance improvements and, secondly, through innovation and renovation with a nutritional reorientation of the group's existing products and an increasing focus on the higher value-added areas of health, nutrition and wellness.

GLOBE – enabling us to manage complexity with efficiency

By the end of 2005, about a third of our food and beverage businesses were operating with GLOBE's processes, data and systems. GLOBE is the key enabler of our efficiency programmes.

Our geographic opportunity

Zone Europe

- 2% organic growth, fuelled by growth in hard discounters
- Trading conditions remain challenging in France and Germany but both markets delivered positive organic growth
- PetCare achieves 5% organic growth as priority brands take share
- GB region has a strong year, with 3.6% organic growth, driven by Soluble coffee
- The smaller Eastern European countries grew well, but Russian growth held back by reorganisation of Chocolate business

Zone Americas

- 7.8% organic growth, with good performances in all key markets
- Nestlé USA, PetCare North America and Canada deliver above 6% organic growth – strong performances across the product categories
- Ice cream achieves near double digit organic growth, with both the *Dreyer's* and *Häagen Dazs* brands performing well
- Mexico delivers over 10% organic growth and Brazil over 5%

Zone Asia, Oceania and Africa

- 6.6% organic growth, strong performance in most emerging markets
- Japan continued to suffer deflation but achieved positive RIG, with good performances in Soluble coffee and Chocolate
- China slow due to product exchange in Dairy, but on improving trend
- South Asia, Africa and Middle East amongst the highlights

Nestlé Waters

- 8.6% organic growth, with good performance by *Nestlé* branded waters
- North America the growth engine with 16.5% organic growth
- Strong performances in a slow European market from *Nestlé Aquarel* and *S.Pellegrino*
- Other regions achieved organic growth of 19.8%

Americas
Coffee-mate achieved 21% organic growth and is the market leader in the USA.

Americas
Nestlé Pure Life had organic growth of about 50% in the USA, securing our leadership in the market.

Asia, Oceania and Africa
Kit Kat is now the single largest Chocolate brand in Japan.

Europe
European PetCare achieved share gains in most categories.

We sold 15 billion *Maggi* cubes/tablets in Africa in 2005

Nigeria and Cameroon
Maggi machop combines a high nutritional content with an affordable price.

Nestlé has three Zones (Europe, the Americas, and Asia, Oceania and Africa), as well as Nestlé Waters and Nestlé Nutrition, whose management works closely with the countries and the Strategic Business Units (SBUs) and whose primary role is that of enablers, acting as the voice of the Centre to the countries, and the voice of the countries to the Centre. They share our vision so that everyone around the world understands our direction – and how to get there with common tools, common strategies and common values – and they prioritise opportunities and allocate necessary resources. This ensures that our people know how to act, and have a very strong framework of values and a clear reference point for fast decision making: it enables entrepreneurism in the countries.

The Zones ensure the high quality of our talent pool – with the right people in the right places at the right time, empowered to make the right decisions.

"The markets are where the dynamism is. The role of Zone Management is to support them and enable them to be more efficient and more effective, and for the markets to implement with speed."

In all three Zones, we operate in a mix of emerging and industrialized markets.

Nestlé in emerging markets

Nestlé products are sold and consumed all over the world, but it is particularly in emerging markets that we have strong potential to grow our business.

In Latin America, Asia and Africa, markets have been opened and growth accelerated through trade agreements, improved economic prosperity and increasing disposable income. Eastern Europe has also seen improved economic conditions and increasing consumer spending.

Availability and affordability

Our strategy for emerging markets is built on the two pillars of availability and affordability. In Latin America, for example, availability does not just mean the organised retail channels so prevalent in Europe and North America. It is also about independent "neighbourhood stores" which are very significant and continuing to grow in some countries, serving people with limited purchasing power who prefer to shop daily near their homes. These neighbourhood shops give us the necessary street presence to build sales and brand share, especially with impulse lines such as confectionery and biscuits, and shelf stable products such as dairy and powdered beverages.

Colombia
Independent neighbourhood stores are a key contact point for Nestlé and its consumers.

Thailand – Mobile ice cream vendors are one example of a more creative way of ensuring availability of our products.

Serving the lower income sector does not mean accepting lower quality or profitability. We develop and design products that combine quality and relevant nutritional benefits with an affordable out-of-pocket price. We are also investing in a tailored distribution network to assure the availability of our products to this income group.

In Brazil we have taken DSD a step further by creating Direct Product Availability, using thermal packs to deliver a nutritious assortment of chilled dairy products direct to consumers' doors, even in areas that would normally be difficult to reach.

Initiatives to widen availability of our products are taking place across the world. In China we targeted 164 urban areas or conurbations in 1998 with populations above 1 000 000. Today we have penetrated a further 277 conurbations with populations between 500 000 and 1 000 000. Our target is to penetrate a total of 716 conurbations covering 540 million people through a million retail outlets. A similar programme is under way in India where Nestlé products are already sold in around two million outlets across the country.

For us, product availability extends beyond the large towns. In Madagascar we sold more than 12 million *Maggi* tablets in the first six months of operation using back-packer salesmen to distribute to small local communities. This approach has been successfully replicated in Pakistan and Mozambique, and will also be implemented in other countries in Africa and the Middle East.

Community programmes

Our relationship with local communities goes beyond ensuring the availability of our products. In China, our impressive growth over the last six years is benefiting thousands of farmers in remote areas as a result of our animal husbandry assistance and milk collection initiatives, as well as our assistance to coffee farmers in the Yunan Province.

In Brazil, the Nutrir food education programme focuses on malnutrition, a problem affecting about 8 million families. The programme trains hundreds of volunteers, including many from Nestlé, to go to local communities and focus on families with children between 5 and 14 years of age. Through games and play, Nestlé communicates health and hygiene concepts, so that the families develop healthy habits and attain better nutrition from locally available resources.

Brazil
Nestlé Ideal, which was formulated to provide added micro nutrients missing in daily diets.

China
Added value water with added benefits: aloe vera, hawthorn, blueberry, chrysanthemum, honey and natural active dietary fibre *(Prebio*[1]*)*.

Nutritious products

Product availability and affordability alone do not necessarily win consumer loyalty. Quality matters.

For example, families on lower incomes want to buy high quality, nutritious milk products for their children. This has been a particular challenge for us in the last two years as the cost of milk has soared, threatening to take our products out of affordable price ranges. One of our responses is *Nestlé Ideal* in Brazil, which was formulated to provide energy, proteins, calcium and added micro nutrients missing in daily diets, such as iron, and vitamins A, C and D. We also partly replaced the butterfat with vegetable oil. The new product, packed in a pouch, sells at an affordable price and is being rolled out across Latin America, where it has achieved 25% growth, as well as in Asia.

Nestlé Pure Life, Nestlé Waters' first multi-site water, was initially launched in Pakistan in 1998, and is now sold in 21 countries from North America, Asia and the Middle East to Africa and Latin America. *Nestlé Pure Life* is destined to become the world's leading brand of water.

In China, where consumers value the role of functional ingredients which have wellness benefits, *Nestlé Water Care* dietary fibre beverages help them to take care of their daily health and beauty needs. The combination of Chinese functional ingredients (aloe vera, hawthorn, blueberry, chrysanthemum and honey) and natural active dietary fibre *(Prebio*[1]*)* provides benefits of hydration, cleansing, vitality and relaxation.

In Latin America, Dairy Partners Americas (DPA), our joint venture with Fonterra, is securing a cost-competitive supply of fresh milk and milk ingredients, and making significant savings. The alliance now includes 8 joint ventures in 5 countries, covering 7 factories and sourcing over 2.7 billion litres of fresh milk.

Looking ahead

Growing GDPs and demographics across the emerging markets (for example, India has 545 million people under 25 years old) give us good opportunities for growth. This is evidenced by Zone Asia, Oceania and Africa, where we have a group of eight second tier markets that range from CHF 500 million to just over CHF 1 billion in sales, and are achieving rapid growth: South/East and Central/West Africa, Malaysia/Singapore, the Middle East, South Asia, Indonesia, Israel, and Indochina, as well as our PetCare

Nigeria

Nestlé Pure Life

"A wave of innovation based on a little drop of water."

Nestlé Pure Life was launched in Nigeria in July 2005 in standard PET 1.5 l and 50 cl bottles, and also in a uniquely innovative 33 cl format. Affordable and ideal for out-of-home, on-the-go consumption, this single-serve bottle is distributed on street corners by hawkers, at market stalls and kiosks, as well as in shops, fast food outlets and cafés. The new format's unequalled vertical compression strength means that a man weighing 80 kilos cannot puncture a full bottle even when he stands on it! Yet it uses less PET and is lighter and more economical to manufacture.

business. In Eastern Europe we expect to see an acceleration of growth following our reorganisation in Russia, the biggest market in the region.

In emerging markets across the world, our strategy for top-line growth and margin improvement is two-fold: we will continue to serve the needs of millions of consumers who each year increase their spending power and represent a growth market for our higher value added products; we will also provide high quality, nutritious but lower-priced products for those on lower incomes.

Nestlé in the industrialized world

The emerging markets are not our only opportunity for growth. We have continued to see strong growth in North America and Australia, as well as in specific categories and channels in Europe.

Our priority in the more industrialized markets has continued to be on building strong brands, on differentiation through innovation, focusing particularly but not exclusively on health and wellness, as well as on increasing our speed and excellence in execution.

Japan
Kit Kat is now the single largest chocolate brand in Japan.

India
Clean drinking water in schools
The availability of clean drinking water is a major concern for many communities. We finance and help to organise deep bore wells and sourcing of clean water in addition to the construction of storage tanks and installation of submersible water pumps at village schools near our factories. We regularly test the water for quality. We bear 90% of the cost of each facility, with the remaining 10% funded by the village and voluntary contributions. The projects are complemented with our school education programmes about water conservation, hygiene, health and wellness. So far, some 20 000 children have benefited from 60 wells within school compounds.

A key development to aid strategy implementation and the rapid introduction of innovations and other initiatives has been the creation of "clusters", which are led by the SBU's. A cluster is a category, brand or product-specific team drawn from a number of markets that share similar challenges, opportunities and issues. It's a new way of working that makes sure we are able to be close to our customers and consumers, and that we can quickly roll out our innovations internationally.

Innovation

Innovation has been at the heart of a good year for us in North America. We have responded to the continuing trend toward healthier eating with a number of successful launches. In Ice cream, we followed the innovative launch of *Dreyer's Slow Churned* with the launch of *Häagen Dazs Light.* Using proprietary technology, these products deliver the same, or even better taste than regular ice cream, but with half the fat and as much as a third fewer calories. Our consumer-led technological innovation has contributed to the total ice cream category in the USA growing by 3%, the light/low fat category by 27%, and our sales in the category by 60%.

USA
Spa Cuisine with whole grain was a successful addition to the *Stouffer's Lean Cuisine* range which has a share of 47% of the nutritional single-serve meal sector.

Japan
Just add a drop of milk.

In the frozen ready-meals area we launched *Lean Cuisine – Spa Cuisine* with 100% whole grains, and less than 300 calories per serving, to address the needs of consumers who find diets low on carbohydrates difficult to maintain. The success of *Stouffer's Lean Cuisine – Spa Cuisine* contributed to the *Stouffer's Lean Cuisine* brand share of 48% of the nutritional single-serve meal sector.

A further success in the USA was *Nesquik* in vending machines in schools, which address the nutritional needs of children. A 14 oz ready-to-drink product was specifically developed with 1% fat that delivers 40% of the daily value of calcium, 25% of vitamin D and 10% of vitamin A. At the end of the year, 4400 vending machines were in place, most of them in schools.

Also benefiting from more health-aware consumers was Nestlé Waters, where we have continued to see double-digit growth in the USA as consumers move from soft drinks to water. Although only a seven year old brand, *Nestlé Pure Life* has already achieved global sales of more than CHF 700 million. It is now brand leader in Canada and the third largest brand in the USA with growing distribution and sales in leading retail customers including Wal*Mart, Sam's Club and H.E.B. Its share of flavoured waters in Canada climbed from 50% to 70% in less than six months.

Nestlé Purina PetCare is another role model of how we work: total integration and intimate linking of superior consumer insight with R&D and execution. One example is *Purina Beneful,* launched in the USA, which was inspired by the combination of consumer insight, coupled with scientific know-how and nutrition benefits, and is now rolling out across Europe and Latin America. *Beneful* is contributing to our progress in the PetCare business in Western Europe, whether judged by organic growth, market share or profitability.

Japan benefited from several new product launches including *Nescafé Excella Mild* and the introduction of coffee soft packs, and innovations in ready-to-drink canned coffee. The excellent performance in confectionery includes *Aero,* introduced in 2004, and still contributing accelerated growth. *Kit Kat* is now the single largest confectionery brand in Japan.

Combating price pressure

The challenge for food companies in North America and particularly in Europe continues to be the tough competitive environment, both in the food manufacturing industry and also in food retailing.

Peru
Consumer Insight/Direct Product Availability
In Lima, 62% of the inhabitants live in the outskirts of the city. Our teams spent three days living with them to understand their motivations, routines, purchasing habits, decision-making and everyday aspects of their life. We created our NUTRIMOVIL mobile advisory service, a small exhibition van that can go into the back streets. Our presence is welcomed in local markets and stalls, where we merchandise and sell our products. This approach has been a catalyst in improving our business in Peru.

We do not envisage any let-up in this situation, with continued pressure on prices. Brand leaders and strong "Number Two" brands can flourish in this environment, provided that they continue to innovate and differentiate themselves, and retain the enthusiasm and loyalty of their consumers. Third and fourth ranking brands will struggle.

Since we are the leader in most categories, or a strong challenger, we are well positioned for the tough climate we face. Evidence of this has been our success during the last two years in developing our presence in the hard discounter channel in continental Europe. Our branded sales to this channel grew about 20% in 2005, following 10% growth in 2004, and now represent 6% of Zone Europe's retail sales.

"In a tough environment, we have clear evidence of how a strong programme of innovation, combined with the right mix of distribution channels, can and does lead to share growth."

An example of innovative differentiation is the introduction of *Nescafé Half Caff* across the whole *Nescafé* range in the UK. With full taste and aroma, but half the caffeine, it is attracting new consumers

France

Tour de France sponsorship

Nestlé first sponsored the Tour de France cycle race in 2001 with the *Nestlé Aquarel* value brand in France. By allocating a high percentage of the communication budget to the sponsorship and linking packaging and promotional activities, the brand built rapid awareness and market share. Now other markets and brands are included in this sponsorship (eg: *PowerBar* and *Extrême*). The Tour de France generates TV viewing figures of 30 million a day in Europe, and 15 million spectators line the route. It's a perfect occasion for sampling and selling our products, and for providing nutritious energy to the participating athletes. *PowerBar* sponsored Lance Armstrong who won the race for the 7th time in 2005.

and helping existing consumers to maintain or indeed increase their *Nescafé* consumption. *Nescafé Half Caff* contributed to a 1% market share gain in the UK, our biggest coffee market.

A pan-European support plan built on the 2004 *Nescafé* re-launch, with new technology, improved product quality and flavour, and new pack and label designs, led to 5.8% organic growth, as well as market share gains in key European countries.

"Consumer focused innovation and renovation have enabled us to maintain our leading global soluble coffee market share of 56%."

The water market has experienced stiff competition from private label and lower priced products, especially in Europe. Against this background, and with the benefit of multiple sourcing to keep costs low, *Nestlé Aquarel* our first pan-European brand, is experiencing organic growth of over 50% across 14 countries.

The flavoured segment is likely to be a main driver of growth in mature markets, contributing higher margins for our Nestlé Waters business. In France, *Perrier Fluo,* launched in 2002, now represents 4% of Perrier volume.

USA
Eau-Claire factory dedicated to Nestlé Nutrition.

Mexico
Nestlé NAN HA launched in October 2004 and rolled out in more than 30 countries around the world in 2005. It has been clinically proven to reduce the risk of developing allergies.

Looking ahead

There continues to be considerable scope for growth in the industrialized world. This will be driven by consumers' desires for convenience allied with nutrition, exactly the type of products where we excel and where our innovation pipeline is most focused.

The changes we have made structurally, our more effective way of working, our focused innovation pipeline and ability to roll out innovations quickly and more extensively will continue to drive growth.

Nestlé Nutrition

Nestlé Nutrition focuses on core nutrition, and in this regard is closer to pharmaceuticals than mainstream Nestlé food and beverage products. Its product portfolio covers Infant Nutrition, HealthCare Nutrition and Performance Nutrition.

Nestlé Nutrition is truly global, operating in more than 100 countries with about 10 500 employees. 4000 of them are in factories dedicated to the company's products and 2600 are medical delegates responsible for providing relevant information on our products by building close relationships with medical professionals.

Nestlé Nutrition develops science-based nutrition products and services to enhance the quality of life for people with specific nutritional needs at every stage of life. Investments in 2005 included the acquisition of Protéika in France which offers products and services for people with weight management problems and related metabolic disorders.

We set up an exclusive partnership in the USA for Nestlé Nutrition to benefit from Medinstill's pioneering innovation in sterile filling and multiple-dose valve technology. Our new state-of-the-art infant formula plant in Brazil is under construction and is due to come on stream at the end of 2006.

Nestlé Nutrition is driven by R&D and the launch of innovative products which are scientifically based. Recent examples include new *Nestlé NAN* with *Protect Start* and *Protect Plus* which is the first nutrient system clinically proven to enhance the baby's immune defences. *Peptamen* with *Prebio* [1] has been clinically proven to increase the amount of beneficial bacteria in the colon, thus improving gut health. *Clinutren Repair* is a nutritional supplement for wound healing.

Australia

Nestlé Wellness Campaign

A series of wellness television commercials communicates how Nestlé helps families to lead and enjoy healthy, active lives, combining nutrition with an active lifestyle – summed up in "Nestlé: Good Food, Good Life". Twelve multi-brand commercials are running during an 18 month period, based on *Nestlé* brands but also on Nestlé's involvement with sport and community activities such as the Australian Institute of Sport Partnership (AIS), sponsorship of the Dieticians Association of Australia (DAA) and the Nestlé Nutrition website.

Overall, Nestlé Nutrition is a driving scientific force in the transformation of Nestlé to nutrition, health and wellness. The results of our R&D and clinical trials also have a direct benefit on other Nestlé Group food and beverage products.

Looking ahead

Looking to the future, Nestlé Nutrition's focus on products with clearly perceived and clinically proven advantages supports our determination to create the world's most successful nutrition company.

Our products and brands

Beverages

- *Nescafé* took share in key markets following 2004 relaunch
- *Milo* achieved strong growth in Zone AOA
- *Nesquik,* with added benefits, took share in key European markets, whilst *Nesquik,* in liquid form, benefited from move to "healthier" drinks in USA schools

Milk products, Nutrition and Ice cream

- Launches of affordable milk, with nutritional benefits, drove growth in Shelf Stable Dairy
- New launches in Infant nutrition, *Nestlé NAN HA,* achieved share gains
- Strong growth in HealthCare nutrition
- Nestlé becomes the global market leader in Ice cream

Prepared dishes and cooking aids

- Strong performance by *Maggi* in emerging markets
- *Stouffer's* and *Stouffer's Lean Cuisine* performed well in the USA
- *Hot Pockets* launch in Europe gained momentum

Chocolate, confectionery and biscuits

- Good performance in Japan, where *Kit Kat* is now the biggest single Chocolate brand
- Good year in Australia, Canada and Latin America

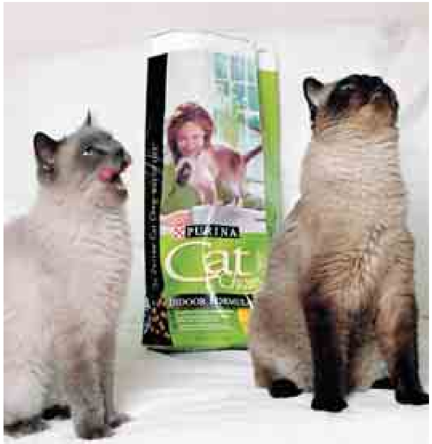
PetCare

- Share gains achieved in most categories in most key markets
- *Beneful* the most successful PetCare launch in recent years – now rolling out in Europe, and expanded for different need states
- *Purina Cat Chow Indoor Formula* the first food to focus on lifestyle, rather than life stage

Ice cream
Dreyer's Slow Churned grew 66% in 2005.

Beverages
Nespresso grew over 30% in 2005.

PetCare
Purina Cat Chow Indoor Formula grew 38% in 2005.

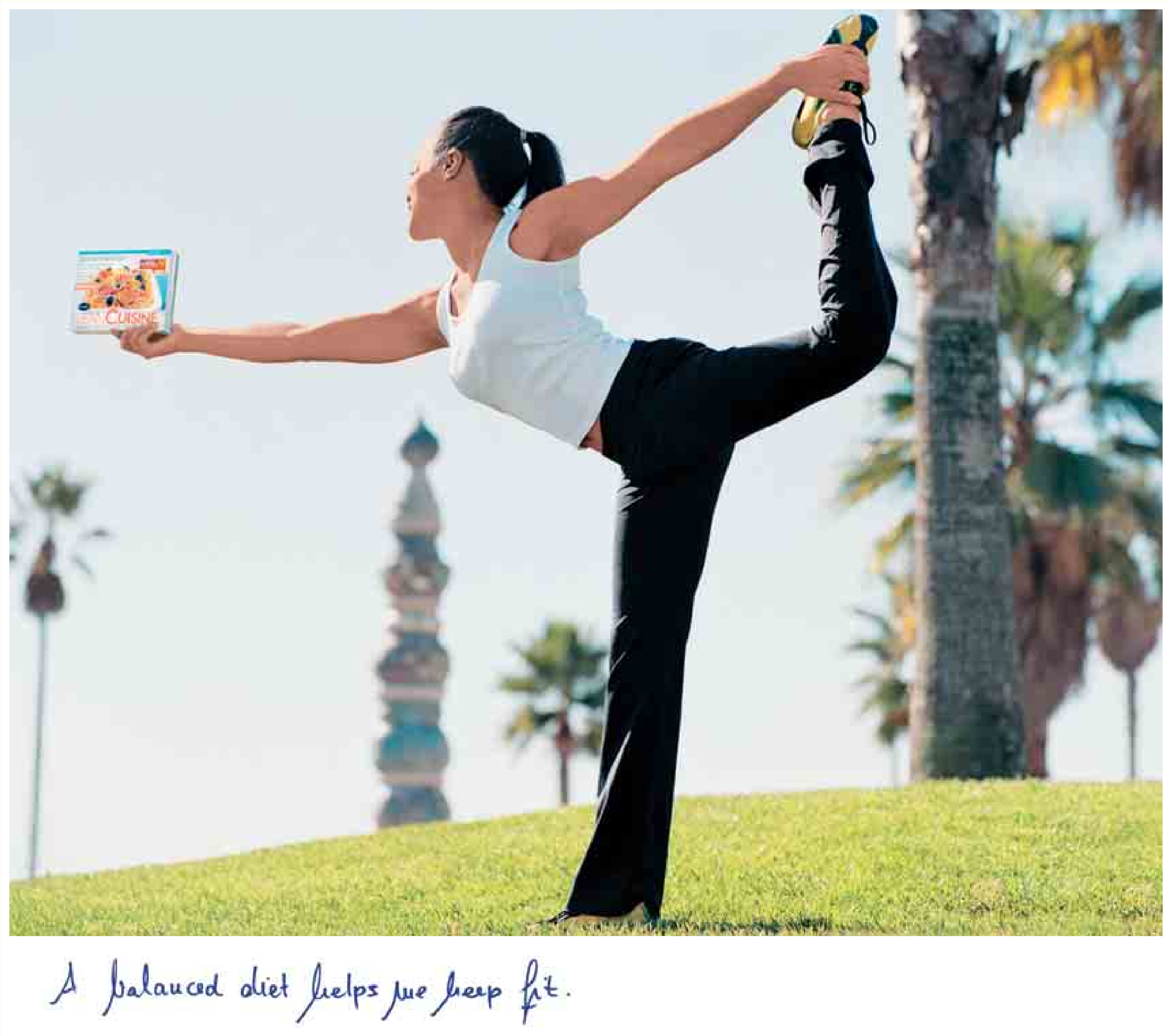


Milk products
Nestlé Ideal grew 25% in Latin America in 2005.

Chocolate
Aero grew 34% in the United Kingdom in 2005.

In 2005 18 billion *Nescafé* cups sold via vending machines

Stouffer's Lean Cuisine
North America



“A passion for quality –
on the plate
and in the mouth”

“Good Food, Good Life.” These four words capture the essence of what we do, what we believe in and what we offer to consumers around the world, as we evolve into the world’s nutrition, health and wellness Company.

Ready For a new school day

We want consumers to be able to benefit from our many nutritional innovations through our brands, especially in categories such as Nutrition, Beverages, Dairy, Culinary and Breakfast Cereals. But we are striving to offer across all product categories more nutritious products that, together with an active lifestyle, contribute to good health, even in Ice cream and Confectionery, which are traditionally associated with indulgence.

Our ability to manifest Good Food, Good Life is built on superior consumer insight, linked with scientifically-based know-how, proprietary technology and creativity – combined with bringing new and improved products quickly to market.

A key aspect of the innovation process is the speed and excellence of implementation in a given market, itself a contributor to a competitive advantage. We have addressed this not only through our clusters but also specifically through the creation of Innovation Acceleration Teams. Their role is to act as a catalyst for the accelerated deployment of new products – profitably and efficiently across the markets.

One area of focus is creating products that have a clear 60/40 blind-taste preference over competitors, as well as nutritional consumer benefits to achieve the highest accolade, a 60/40+ advantage over the competitors’ products.

60/40+ is a powerful tool, with tangible, measurable benefits. It helps us to concentrate on strong, breakthrough ideas, driven by our clusters.

Communicating nutrition, health and wellness

It's not enough just to improve the organoleptic and nutritional qualities of our products. We have to communicate our nutritional advantages in a way that is relevant to consumers and which improves their understanding of the nutritional values of our products. In this regard, the introduction of the Nestlé Nutritional Compass on our packaging is a significant initiative. But it's only one way of communicating and engaging with consumers. Our web-based and mobile phone recipe services help consumers to prepare tasty snacks and meals quickly and nutritiously. In Japan, Nestlé's mobile recipe site recorded a daily average 200 000 page views in 2005.

"A winning strategy is when innovation, renovation and communication all combine."

Our Consumer Services teams in 96 countries make over 10 million consumer contacts each year, mostly by telephone. The majority of calls are for information and advice, especially in the area of nutritional guidance, as consumers seek to improve their health and wellness.

The changing role of brands

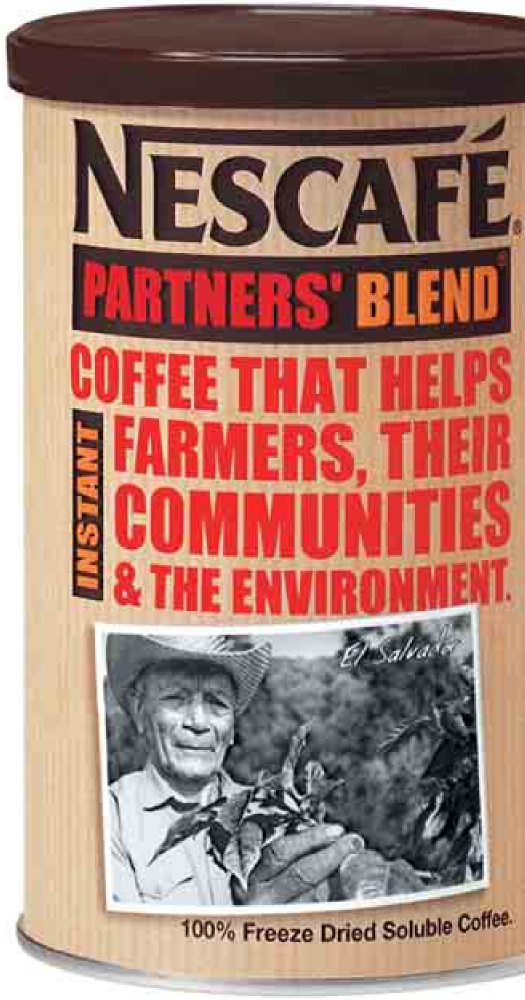
Today's consumers are interested in the overall accountability of the brands they buy, which means that a company's social reputation is increasingly associated with individual brands.

This is why it is important that a company's social responsibility be reflected across its activities, from its smallest supplier to its consumers.

We are therefore increasingly making our brands carriers of corporate social benefits, leading to superior competitive positioning. Examples include the launch of *Nescafé Partners' Blend* in the UK, carrying the approved FAIRTRADE mark that "guarantees a better deal for Third World producers"; and *Nespresso's* work with the Rainforest Alliance.

We are also bringing nutrition, health and wellness to people in a relevant and involving way by extending the *Maggi "Kochstudio"* culinary services concept to new markets such as Colombia with the launch of the "Centro de Cocina". Other initiatives include "Atelier Cuisine" in France and the "Nestlé-Ernährungsstudio" website in Germany.

The Nestlé Nutrition Institute provides health professionals with access to the most current and relevant nutrition information and tools. It fosters sound nutrition research and education in the fields of infant, healthcare and performance nutrition. To cite just one example, it organised international workshops for leading healthcare professionals on prevention and treatment of diabetes, and on protein and energy requirements in infancy.



Nescafé Partners' Blend

As a reflection of our long-established commitment to sustainable agriculture, and to the particular consumer interest in the UK, *Nescafé Partners' Blend* has been launched there – sourced from small-holders in Ethiopia and El Salvador, and certified by Fairtrade. Separately, Nestlé has a system of direct procurement in 7 out of 11 *Nescafé* factories in green coffee producing countries. Farmers deliver more than 100 million kilos of green coffee to our buying stations. This is generally coupled with technical assistance for farmers by Nestlé agronomists. Based on sustainable principles, the objectives are improved farm efficiency and crop quality as well as higher farmers' incomes.

My favourite daily moment

Soy el "Chef" esta noche

Re-inventing milk

Milks are inherently nutritious with regular consumption and are also good carriers of additional nutrition. In this context, we have a continuous innovation pipeline to “re-invent milk”. Our main growth drivers are in the children’s health and nutrition segment, now a CHF 2.7 billion sales category, with brands such as *Nestlé Nido, Ninho, Dancow,* and *Nespray;* and in the adult health and wellness segment, with brands such as *Svelty* and *Nesvita.* Examples where we have included Branded Active Benefits (BABs) include the *Nido* nutrition system (*Nido 1+, 3+* and *6+*) where we have included *Prebio* 1 for protection, *Prebio* 3 for optimised growth and development and *Calci-N* for bone health; and *Nestlé Nesvita Pro-Heart* with *ActiCol* to help lower plasma cholesterol which is a risk factor for cardiovascular disease.

Consumer insight inspires relevant innovation

Good consumer insight is an invaluable input for innovation. For example, our work in Mexico revealed that a substantial number of women who were concerned with their figure also suffered from gastro-intestinal tract problems and, in particular, bloating of the stomach. To meet their need, we launched *Svelty Low Fat Milk* with *ActiFibras,* which contains maltodextrins, calcium and vitamins to aid digestion and reduce constipation. Its organic gowth was over 4% in 2005 and it is now selling across Latin America and is being launched throughout Asia.

Nutritious innovation in Cereals

Milks provide the opportunity for a nutritious start to the day, as do the products of our joint venture with General Mills, Cereal Partners Worldwide (CPW) which for the first time achieved sales of over CHF 2 billion in 2005. We have

Branded Active Benefits (BABs)

BABs were first introduced by Nestlé seven years ago to increase the nutrient content and health benefits of existing Nestlé products. Today, products with BABs have sales of over CHF 2.9 billion. To work effectively, they are best consumed regularly, therefore dairy products and breakfast cereals are particularly good carriers. Examples include *Nestlé NAN* with *Protect Start* and *Protect Plus, Nestlé Milo* with *Actigen-E* for optimum energy release, and *Nestlé Nido* with *Prebio* 1 for a healthy digestive system.

Nido Prebio[1]
Mexico

Nesvita
Pro-Heart
with *ActiCol*
Philippines

Nestlé
Shreddies
United Kingdom

¡Ya reciclando!

PARA SA MALUSOG NA SIMULA

a kiss from Eric makes my day

launched whole grain cereals in the UK and France and, by 2007, all *Nestlé* cereals will use whole grain.

Nestlé Shreddies contains complex carbohydrates to release energy slowly, improving concentration, whilst *Nestlé Corn Flakes* are fortified with vitamin C to help strengthen the immune system. Building on the success of *Nesquik Breakfast Cereal*, *Milo Breakfast Cereal* has been launched in Australia and New Zealand, where it is already the Number 5 branded cereal.

Innovation generates strong growth in *Nescafé*

Overall, *Nescafé* has enjoyed a very successful year, benefiting from its 2004 re-launch. Further innovations include the launch of a new coffee system capable of making delicious *Nescafé* coffee with a crema, and frothy *Cappuccino* with fresh milk.

Nescafé is increasingly popular out-of-home. In Latin America we have developed the "Top Cup" programme with a vending machine that is less affected by high humidity prevalent in many Latin American countries. This enables us to deliver constant high in-cup quality, bringing our *Nescafé* brand within easy access for "wherever, whenever" consumption.

"Top Cup is a good example of competitive advantage not being one big advantage, but the combination of several small advantages right through the value chain: better product + better system + better discipline + better people."

Nespresso, the worldwide pioneer of portioned coffee and European market leader in espresso machines, has again shown 30% growth and good profitability. The super-premium *Nespresso* lifestyle concept continues to develop around the world. There are 39 *Nespresso* Boutiques in

Nespresso AAA Programme

The *Nespresso* AAA Sustainable Quality Programme has been set up to provide 1.6 million *Nespresso* Club members with top quality "Grands Crus" varieties of coffee, while supporting economic, social and environmental development for small scale coffee farmers and their communities. Working with the Rainforest Alliance, a leading NGO dedicated to improving the sustainability of tropical agriculture, and agronomists, as well as Nestlé's sustainable agriculture experts, the *Nespresso* AAA Programme ensures best practice in cultivation, productivity and coffee quality.

Nescafé
Excella Mild
Japan

Nescafé Cappuccino

Germany is the world's biggest cappuccino market, but has been driven by price pressure. Our R&D-driven proprietary technology led to a considerably enhanced product, especially in terms of the foam or crema, which is the key criterion for consumers who want "an everyday moment of genuine pleasure" from their cappuccino. High product quality, contemporary packaging and a well-executed communication programme, justified a price increase of 25% at the time of its 2004 relaunch and resulted in an organic growth of 17% in 2005 and a further gain in market share.

ネスカフェを飲むと
東京での楽しかった日々を思い出す

34 cities across Europe as well as in Tel Aviv, Tokyo, Osaka, New York and Sydney. The *Nespresso* Magazine is published in five languages, and distributed to 860 000 readers in 10 countries (www.nespresso.com).

Where coffee and tea are enjoyed, so too is *Coffee-mate* and our other coffee-enhancers, which are now generating sales in excess of CHF 1 billion.

Our joint venture with Coca-Cola, Beverage Partners Worldwide (BPW), delivered a good performance in 2005 with organic growth of 9.4%, driven by strong growth in *Nestea.*

Successful frozen food roll-out

Europe continued to see the roll-out of *Maggi Hot Pockets.* Introduced in France, Germany, Spain and the UK, these are small frozen meals that deliver crisp results from the microwave. *Hot Pockets* has long been a winner in the USA, and we recognized the opportunity to apply the same product concept to other markets, adapting it to local tastes with local flavours and ingredients. Using further product renovation, we were able to reduce TFA content (Trans Fatty Acids) to below 2%.

Frozen food is one of our biggest businesses in the USA, and 2005 launches included *Stouffer's Corner Bistro,* a premium frozen range of six restaurant-inspired meals. This product range is aimed at the 70% of USA consumers who eat dinner out at least once a week. Based on this consumer segmentation, *Stouffer's* has been able to attain a higher price point.

A brand marriage brings life to the soup category

In Latin America we linked a dairy brand, *Nido,* with a culinary brand, *Maggi,* to herald the launch of a soup, *Maggi Sopa Crecimiento* with *Nestlé Nido.* Mothers can now give their

Stouffer's Corner Bistro
United States

Home is my favorite restaurant

Maggi Crecimiento
Brazil

Um para mim, um para o papai

Maggi Sveltesse
Europe

Maggi Hot Pockets
Europe

Wie frisch us em Garte

Parfait après un match!

children the great taste of *Maggi* chicken noodle soup combined with the goodness of *Nido* milk to provide them with the added benefits of calcium and vitamins A and D.

For adult consumers, *Maggi Sveltesse* Instant Soups combine nutrition and convenience particularly well. Zero fat and rich in vitamins, they deliver a weight management proposition with all the goodness of vegetables in a handy stick pack. They are now complemented with a range of low fat sauces.

In Iran, we launched a range of *Maggi* soups, bouillons and Khoresht (stews) that were a direct result of consumer insights obtained through over a hundred in-home visits in nine cities. 500 hours of interviews and cooking 200 recipes gave us a deep understanding of local cuisine and food habits.

"Our winning strategy matches consumer insight with Nestlé science to create consumer-relevant benefits. We then apply our proprietary technology to develop the right products with the right attributes."

In Israel, the *Tivall* range of frozen, meat-free vegetarian meals includes Corn Schnitzel, Frankfurters, Flavoured Meatballs and Drumsticks – all cholesterol free, with soya protein fibre and low sugar release.

Maggi Atta Noodles in India are fulfilling consumers' local taste preferences with a convenient and affordable product that delivers nutritious whole wheat and real vegetables – proof that 60/40+ applies equally to basic products.

70 years of renovation at *Milo*

In the chocolate malt beverages category, where Nestlé has a global share of around 40%, *Milo* is our lead brand in Asia, Oceania and Africa with over CHF 1 billion in sales. Invented in Australia in 1934, it is an energy food drink with nutrition at the core of its consumer proposition.

Its inspiration came from Milon, the athlete who won the Pythian Games in 69 BC. For over 70 years, *Milo* has encouraged sports at grass roots level and involved millions of children in its sponsored events. The addition of the BAB *Actigen-E* to *Milo* helps children optimize the release of energy via a balance of vitamins and minerals that are cofactors in energy metabolism.

Nesquik, our lead brand in Europe and the Americas, has also benefited from the addition of the BAB *Nutri-Activ-B* in Latin America and in *Nesquik Plus* in Europe. When added to milk, they provide children with a high level of nutrition. These developments have helped accelerate growth in Europe and Latin America.

Enhancing nutrition in Ice cream

We have made significant inroads in enhancing nutrition in Ice cream. *Dreyer's Slow Churned* has achieved organic growth in 2005 in the USA of over 66%, whilst *Häagen Dazs Light* took category leadership within two months.

"It's a real revolution. We are setting the new standard for ice cream, and will launch it across the world."

Across Europe, we have rolled out the *Sveltesse* sorbet bar, in a variety of fruit flavours, all with zero fat. In Switzerland we have also successfully extended the brand into individual-portion cups.

A sweet, a chocolate or ice cream?

Last year saw an imaginative cross-over between confectionery and ice cream with the creation of a totally new ice cream concept for snacking consumption. The highly successful launch in the USA of *Dibs,* a bite-size product, has extended ice cream consumption through added convenience and ease of eating. The *Dibs* launch drove total frozen Snacks category growth by 8.6%.

New formats, new flavours in chocolate

Kit Kat, a CHF 1.2 billion brand, saw continued renovation with many new flavours, including blood orange, mango and passion fruit, red berry, peanut butter, and café latte.

Adding more pleasure for our *Aero* consumers in the UK, we launched *Aero Bubbles,* bite-size mint chocolate balls that clearly reflect the *Aero* consumer benefit of "Feel the bubbles". It's now rolling out in other countries and the technology is being applied to other brands.

Perugina Nero is the first Italian brand to focus uniquely on dark chocolate. Benefiting from this growing sector, the range includes tablets, chocolate and dried fruit dragees, and "Sfoglie" – thin chocolate leaves.

Dreyer's Slow Churned
Now you can choose the "light" option without compromising on the flavour.

Aero Bubbles
United Kingdom

Häagen Dazs Light
United States

Milo Fuze

Malaysia is one of *Milo's* bed-rock markets where we have in excess of 90% brand share. To assure profitable growth in such a situation, it's necessary to keep the market energized. In early 2005, we launched *Milo Fuze* with *Actigen-E*, a 3 in 1 formulation that only requires the addition of water. The range includes *Fuze* with high calcium non-fat milk and *Fuze* with cereals. In its first year, *Milo Fuze* accounted for 8% of Malaysian *Milo* turnover.

Ski
Australia

Also new in Europe was the hexagonal packaging for *Smarties,* which can be used as construction toys, linking to form imaginative shapes. In 2005, 30 billion *Smarties* were consumed in more than 25 countries.

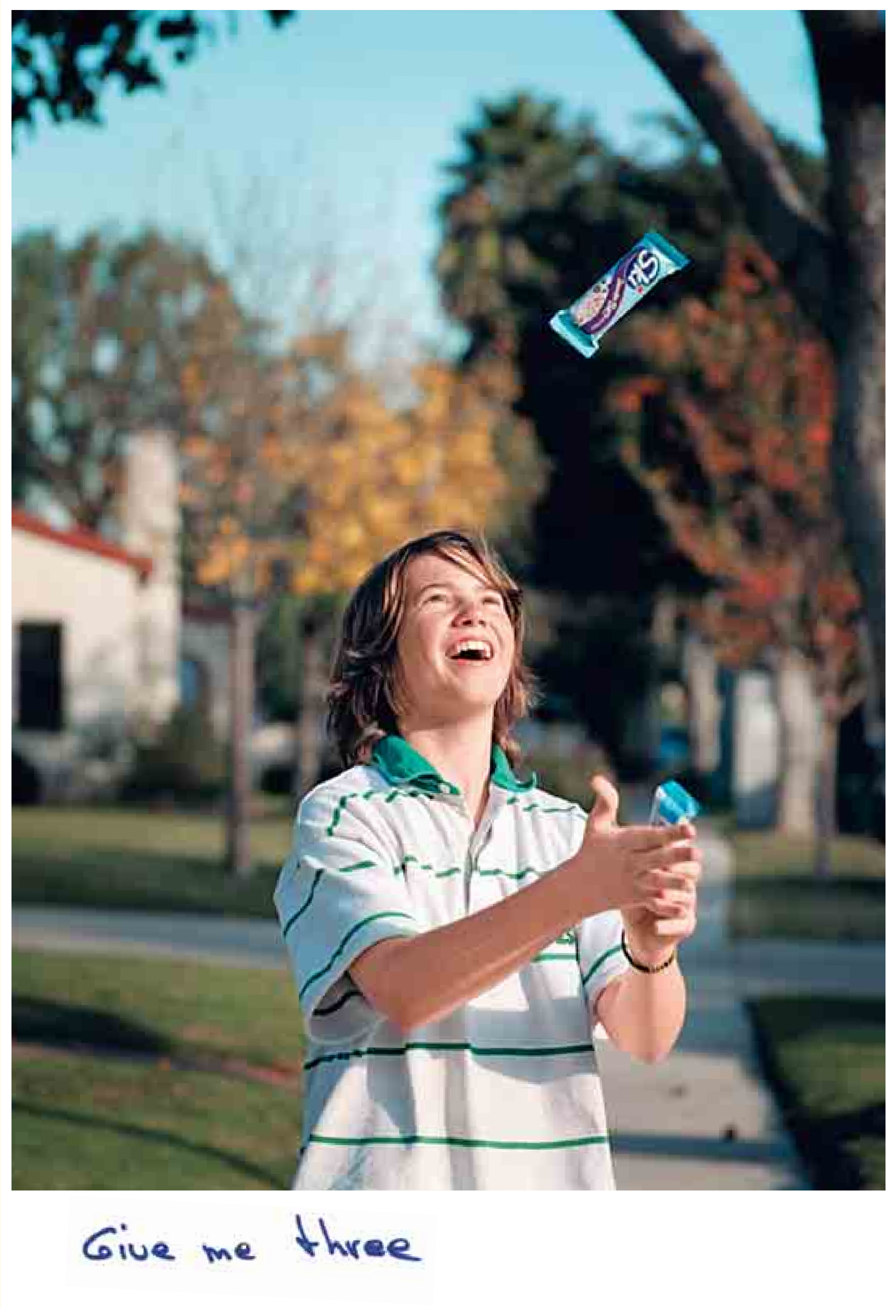
Our focus on nutrition, health and wellness in Confectionery, is on the use of "noble ingredients" such as fruit, milk, cereals, nuts and yoghurt, and on calorie containment and reduction. We have introduced many sugar-free products such as *Polo,* and *Nestlé Delight* chocolate with no added sugar, as well as lower sugar content in brands including *Kit Kat Light.* We already have several dark chocolate brands with high levels of anti-oxidants and magnesium, which will be rolled out to more markets.

But the most dramatic wellness launch was *Ski* in Australia, where we transferred the health benefits from the *Ski* yoghurt brand to the confectionery category. Following its success in Australia, our Innovation Acceleration Teams are applying the concept to other parts of the world.

Proprietary wafer technology

Nestlé is the biggest company in wafer bars in the world. We created a new wafer product, with proprietary technology developed in Poland, to satisfy the consumer need for a wafer that was light in mouth-feel but delivered an indulgent "big" chocolate experience.

This product technology is now successfully used on different brands in China, India, Spain, Brazil, Venezuela, Ecuador, and the USA – all markets where wafer count-lines are popular. Different brands, different countries – but the same technology and the same product positioning, as well as an appealing price point... yet high per kilo profitability.



Nescafé
LiquiMix
North America

Cool break

Vittel Vitalitos for children

Launched in 2005, this is the first range of fun and collectable bottles of pure and flavoured waters specially designed for children – helping parents to get them to drink healthier beverages. *Vittel Vitalitos* contains natural mineral water, with no sweeteners or preservatives.

In Brazil, we have extended biscuit usage into the snack and count-line arena by developing on-the-go, single portion products. Following good results, they have been rolled out in Chile, Ecuador and Venezuela, and are now selling in countries that account for 90% of our biscuit sales.

Nestlé FoodServices

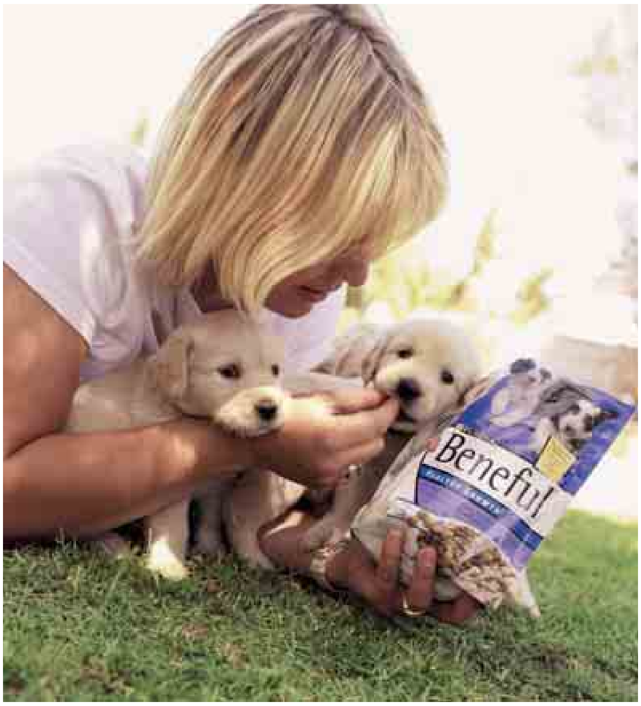
Nestlé FoodServices is the largest food services manufacturing company in the world. One figure alone impresses: In 2005 we sold 18 billion cups of *Nescafé* via branded vending machines.

In the growing out-of-home category, we are building operator loyalty by providing relevant, customised, added-value solutions. Seven European markets launched a closed coffee system for offices, which account for more than 40% of overall coffee consumption. In Malaysia, McDonald's launched our milk-based, low-sugar, hot and cold speciality beverage solutions for nutrition-conscious consumers. In North America we created a new beverage system, based on liquid concentrates, to sell speciality beverages to universities and theme parks, including Disney.

We have initiated many nutrition, health and wellness services and brands including NutriServices in France, with qualified dieticians on hand and a telephone hot-line. In Switzerland, we developed a nutritional menu planning service, initially for hospital patient meals. The programme is available to all Nestlé markets and can be customized to any menu planning need.

Examples of Nestlé FoodServices' product innovations include the *Maggi Nutriplus* range in Australia that offers benefits such as high protein and fibre, low or reduced fat, low or reduced sodium, and a low Glycaemic Index factor.

Beneful Healthy Growth
United States



Ouch! Not my fingers!

Purina Fancy Feast

Purina Fancy Feast Gourmet Gold dry cat food combines 100% complete and balanced nutrition that cats need with the refined flavour cats demand. Savoury morsels made with real seafood or poultry and other tasty ingredients are lightly cooked and basted to a delicately crunchy finish for a gourmet experience. Launched in January 2005 in the USA, this is the best tasting nutritional dry cat food versus all the leading brands.

Friskies

Relaunched in 2005, *Friskies* contains a balance of proteins and amino acids recognised to help cats maintain a healthy heart.

Les Essentiels is a French range of frozen fruit and vegetable based lozenges, enriched with calcium, protein and fibre, incorporating *Nestlé's Calci-N* BAB, designed specially to meet the nutritional needs of the elderly.

Pets are benefiting as well

We also want our pets to share our health and wellness benefits. 60/40+ is as important for our pets as it is for us, and ensures the highest palatability and nutrition standards in the industry.

Launched in the USA in 2001, *Purina Beneful* is the most successful pet food launch in 20 years. For dogs, *Beneful* provides the perfect balance of wholesome ingredients like real meat, whole grains and vitamin-rich vegetables for a completely balanced meal. *Beneful Original* and new products such as *Healthy Weight, Healthy Radiance, Healthy Growth* and *Healthy Harvest,* have created a brand with sales over CHF 380 million.

"Consumer insight gives category authority."

Consumer insight has changed the rules of the game for pet food, shifting the focus from life-stage to life-style, which has enabled *Purina Cat Chow Indoor Formula* to record sales of USD 100 million in 2005. *Purina Cat Chow Indoor Formula* is formulated for adult cats that have special needs associated with living indoors, such as controlling hairballs and maintaining a healthy weight. It contains a special blend of ingredients to satisfy the nutritional requirements of indoor cats and to deliver natural flavors like wholesome grains, salmon and garden greens. This indoor concept and formula has been expanded into other *Purina* brands around the globe.

The *Friskies* brand also brought first-to-market innovation to the pet food industry with the inclusion of Milkballs. *Friskies Feline Favorites* in the USA and *Friskies* formulas in Asia, Oceania and South Africa are the only dry cat food that offers consumers a way to safely feed their cat the great taste of milk. It is also the only pet food to include a human grade branded ingredient – *Carnation* milk.

Innovation and communication are the engines for growth

The combination of innovation, proprietary technology, attractive design, and clear consumer communication is the engine that's driving the growth of our brands and will continue to do so in the years ahead.

Pharmaceutical activities

Alcon

For almost 60 years, Alcon has been developing products to help people to see better. Alcon's products help prevent vision loss from glaucoma, they treat and prevent eye infections, they relieve the symptoms of eye allergies and maintain the general health of the eye. They even restore vision through cataract surgery.

According to the United Nations, by the year 2050, one in five people – nearly two billion people worldwide – will be over 60 years old. Because most serious eye diseases are associated with longevity, this ageing trend underscores the need for new technologies and treatments to address age-related vision problems and improve people's day-to-day lives.

The innovations and contributions of Alcon's 12 500 employees led the company to global sales of CHF 5.45 billion, with organic growth of 10.6%, while EBITA grew 26.5% to CHF 1.75 billion. The global infrastructure Alcon has built – including affiliates in more than 70 countries – allows the company to fulfill the demand for eye care products and services around the world, and to grow operating income even faster than sales.

In the pharmaceutical area, market share gains by *Travatan* ophthalmic solution gave Alcon the fastest growing glaucoma franchise in the industry. New products such as *Vigamox* ophthalmic solution, *Nevanac* ophthalmic suspension and *Ciprodex Otic* suspension, which treat eye and ear infections and inflammation, also gained share during the year, while Alcon's flagship allergy drug, *Patanol* ophthalmic solution, maintained its share leadership despite aggressive competition.

Alcon's Medical Missions Programme has supported thousands of physicians in global charitable efforts for more than 40 years.

Alcon
80% of patients who received *AcrySof ReSTOR* lenses in clinical studies reported never using glasses after surgery.

Alcon's recently introduced *AcrySof ReSTOR* intraocular lens has allowed tens of thousands of cataract patients to experience life free from cloudy vision – and without needing glasses. This exciting new lens accelerated sales of intraocular lenses, which are the foundation of Alcon's surgical business.

Systane lubricant eye drops for the treatment of dry eye symptoms lifted sales growth in the consumer segment, gaining share in key markets. Alcon's *Opti-Free* family of contact lens cleaners had solid sales in a highly competitive market and is positioned well for 2006 with the USA approval of *Opti-Free RepleniSH* disinfecting solution, which provides greater comfort for contact lens wearers.

For further information, please consult Alcon's Annual Report or its website: www.alconinc.com.

Galderma

Skin problems can run deep, affecting people's physical and emotional wellbeing. Galderma, the world leader in the topical dermatology prescription product market, devotes its research and marketing efforts exclusively to helping people with dermatological problems.

A Nestlé-L'Oréal joint venture founded in 1981, Galderma operates in a highly competitive market, especially in the United States. Its 2005 sales of CHF 985 million nevertheless represented growth of 8.8%, double that of the reference market.

In Europe, the Middle East, Africa and Australia, Galderma showed excellent sales growth of 13.6%, which can be credited to the outstanding performance of *Loceryl,* an antifungal drug. The Latin American and Asian countries also showed exceptional growth thanks to wider marketing of *Tri-Luma* for the treatment of melasma.

The USA launch of *MetroGel 1%* gave a new lease on life to the *Metro/Rozex* franchise, which had been seriously impacted by generic competitors. *Metvix* continued its geographical deployment, with launches in Italy, Spain and the Netherlands. The *Clobex* range of high-potency corticosteroid products for the treatment of psoriasis maintained strong growth.

Galderma
Widening its field of action by going beyond drug-based treatments to focus on patients' quality of life.

Galderma
MetroGel 1%: The easy-to-follow once daily treatment regimen increases the convenience to patients with chronic Rosacea.

Cosmetics activities

L'Oréal

Present in more than 130 countries, L'Oréal is continuing to enhance the beauty and wellbeing of women and men with its 17 global brands (L'Oréal Professionnel, Redken, Matrix, L'Oréal Paris, Garnier, Maybelline, Softsheen Carson, Lancôme, Biotherm, Helena Rubinstein, Giorgio Armani, Ralph Lauren, Cacharel, Kiehl's, Shu Uemura, Vichy and La Roche-Posay), sold through all types of distribution channels.

L'Oréal, world leader in the cosmetics industry, is 28.8% owned by Nestlé and 29.9% owned by the Bettencourt family (considering own shares held by L'Oréal and the share purchase programme). In 2005 the group recorded consolidated sales of EUR 14.5 billion, an increase of 6.5% (4.8% like-for-like), and a net profit of EUR 1.97 billion. Once again there was double-digit growth in net earnings per share, which amounted to EUR 2.60.

In 2005 L'Oréal's winning strategy enabled it to achieve high growth in the United States, where the success of Garnier's Fructis and Nutrisse lines was confirmed. Asia remains a reservoir of growth for the group, with particularly dynamic trends in China and India (and very strong expansion in Vichy sales). Growth in Eastern Europe is also extremely robust, particularly in the Russian Federation. Although Western Europe remained sluggish, there were signs of a gradual improvement towards the end of 2005.

For further information, please consult L'Oréal's Annual Report or the website: www.loreal-finance.com.

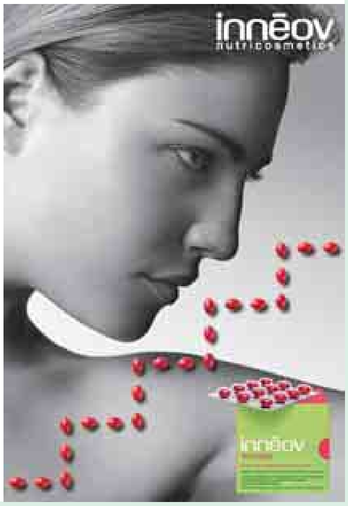
Laboratoires innéov

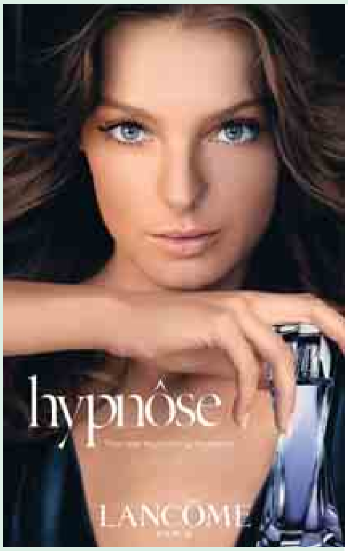
In 2005, Laboratoires innéov, a Nestlé-L'Oréal joint venture in the beauty nutritional supplements field, has reached 11% market share in Europe in the segments where the brand is present.

In the course of 2005, internationalisation has continued with the launch of the brand in three new European markets. Besides the two existing products – *firmness* and *hair mass* – a new product has been launched for dry skins: *innéov smoothing replenishment.*

New men expert range from L'Oréal Paris: the best technology for every man's skin.

innéov firmness No. 1 on the anti-ageing segment in Europe with 38% market share.





hypnôse
The new mysterious and sensual fragrance based on a woody oriental harmony.

Couleur Experte
introduces a totally new form of luxury to mass-market multi-tonal coloration.

Financial review

Sales

- Organic growth of 6.2% drives sales to CHF 91.1 bn
- Real Internal Growth of 4.2%

Profitability

- EBITA margin increases 20 basis points (bps) to 12.9% despite raw material cost pressures
- Margin improves by a further 10 bps on a comparable share-based payment basis
- Return on invested capital including goodwill improves by 50 bps
- Underlying net profit per share increases 12.9%
- Proposed dividend increased 12.5% to CHF 9.– per share

Cash flow and financial position

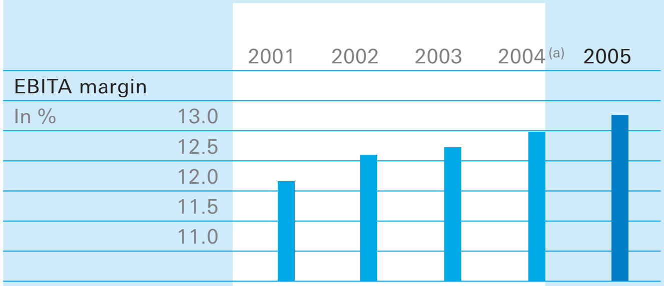
- Operating cash flow exceeds CHF 10 bn, with free cash flow above CHF 6.5 bn
- CHF 1 bn share buy-back programme completed; CHF 3 bn share buy-back programme launched
- Net debt fell slightly to CHF 9.6 bn; AAA debt rating retained
- The ratio of net debt to equity (gearing) improved to 18.6%

The Nestlé share and the stock market

- The share price increased by 32% in 2005
- Total shareholder return is 44% over 3 years, 267% over 10 years

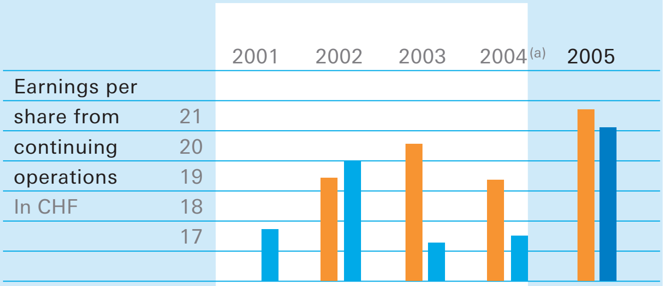
The Nestlé Model of strong organic growth and a consistent improvement in EBITA margin was delivered in 2005 – and is again the target for 2006.

Profitability



	2001	2002	2003	2004 [a]	2005
EBITA margin (In %)	11.8	12.3	12.5	12.7	12.9

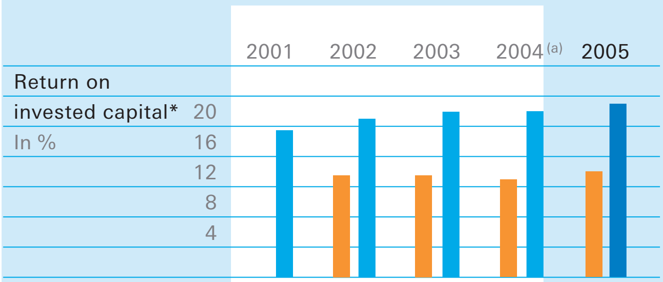
[a] Restated following the first application of IFRS 2 Share-based Payment and the discontinued operation resulting from the announcement made in December 2005 for the Chilled dairy activities in Europe



	2001	2002	2003	2004 [a]	2005
Earnings per share from continuing operations (In CHF)	17.25	19.51	16.05	16.97	20.58
Underlying		18.90	20.23	18.82	21.25

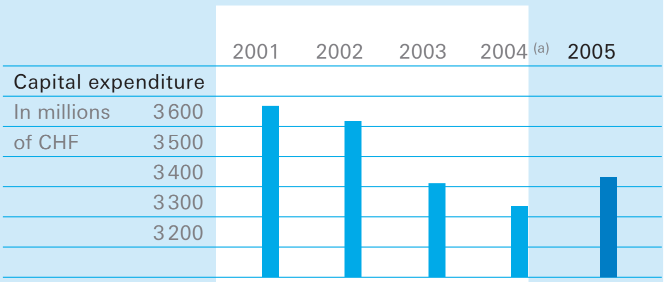
[a] Restated following the first application of IFRS 2 Share-based Payment

Return on invested capital/capital expenditure



	2001	2002	2003	2004 [a]	2005
Including goodwill	–	11.0	11.0	10.8	11.3
Excluding goodwill	17.5	18.9	19.9	19.9	20.5

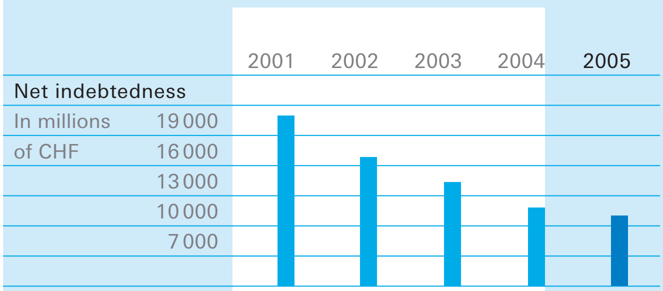
* based on segment reporting
[a] Restated following the first application of IFRS 2 Share-based Payment and the discontinued operation resulting from the announcement made in December 2005 for the Chilled dairy activities in Europe



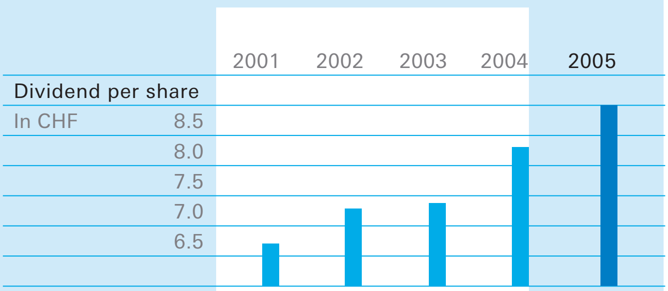
	2001	2002	2003	2004 [a]	2005
Capital expenditure (In millions of CHF)	3 611	3 577	3 337	3 260	3 375

[a] Restated for the discontinued operation resulting from the announcement made in December 2005 for the Chilled dairy activities in Europe

Financial position



	2001	2002	2003	2004	2005
Net indebtedness (In millions of CHF)	19 400	15 000	14 400	10 200	9 600



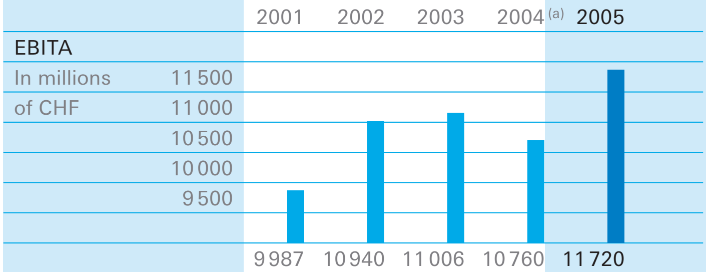
	2001	2002	2003	2004	2005
Dividend per share (In CHF)	6.40	7.00	7.20	8.00	9.00

Key figures
(consolidated)

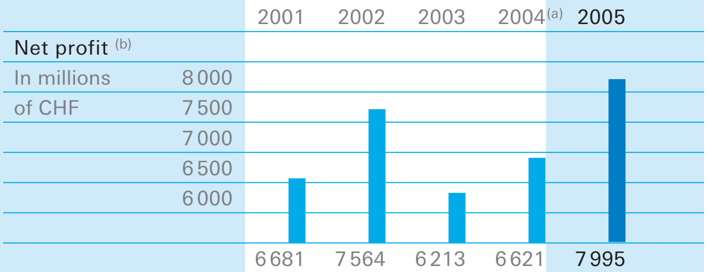
In millions of CHF (except per share data)

		2004 [a]	2005
Sales		84 690	91 075
EBITDA Earnings Before Interest, Taxes, Depreciation and Amortisation of goodwill		13 544	14 448
as % of Sales		16.0%	15.9%
EBITA Earnings Before Interest, Taxes and Amortisation of goodwill		10 760	11 720
as % of Sales		12.7%	12.9%
Profit for the period attributable to the Group Net profit		6 621	7 995
as % of Sales		7.8%	8.8%
as % of average equity		17.4%	18.0%
Capital expenditure		3 260	3 375
as % of Sales		3.8%	3.7%
Equity attributable to the Group before proposed appropriation of profit of Nestlé S.A.		39 236	49 847
Market capitalisation, end December		115 237	152 576
Free cash flow [b]		6 640	6 557
Per share			
Profit for the period attributable to the Group from continuing operations	CHF	16.97	20.58
Underlying [c]	CHF	18.82	21.25
Equity attributable to the Group before proposed appropriation of profit of Nestlé S.A.	CHF	101.01	128.20
Dividend as proposed by the Board of Directors of Nestlé S.A.	CHF	8.00	9.00

[a] Restated following the first application of IFRS 2 Share-based Payment and the discontinued operation resulting from the announcement made in December 2005 for the Chilled dairy activities in Europe, where applicable
[b] Operating cash flow less capital expenditure, disposal of tangible assets as well as purchase and disposal of intangible assets
[c] Profit for the period attributable to the Group from continuing operations before amortisation of goodwill, impairments, restructuring costs, results on disposals and significant one-off items. The tax impact from the adjusted items is also adjusted for. 2004 comparatives have also been restated for comparable share-based payment cost and discontinued operation.



[a] Restated following the first application of IFRS 2 Share-based Payment and the discontinued operation resulting from the announcement made in December 2005 for the Chilled dairy activities in Europe



[a] Restated following the first application of IFRS 2 Share-based Payment
[b] Profit for the period attribuable to the Group

Principal key figures (illustrative)

Income statement figures translated at average rate;
Balance sheet figures at year end rate

In millions of USD (except per share data)

		2004 [(a)]	2005
Sales		68 243	72 976
EBITDA Earnings Before Interest, Taxes, Depreciation and Amortisation of goodwill		10 914	11 577
EBITA Earnings Before Interest, Taxes and Amortisation of goodwill		8 670	9 391
Profit for the period attributable to the Group Net profit		5 335	6 406
Equity attributable to the Group before proposed appropriation of profit of Nestlé S.A.		34 722	38 051
Market capitalisation, end December		101 980	116 470
Per share			
Profit for the period attributable to the Group from continuing operations	USD	13.67	16.49
Equity attributable to the Group before proposed appropriation of profit of Nestlé S.A.	USD	89.39	97.86

In millions of EUR (except per share data)

		2004 [(a)]	2005
Sales		54 851	58 796
EBITDA Earnings Before Interest, Taxes, Depreciation and Amortisation of goodwill		8 772	9 327
EBITA Earnings Before Interest, Taxes and Amortisation of goodwill		6 969	7 566
Profit for the period attributable to the Group Net profit		4 288	5 162
Equity attributable to the Group before proposed appropriation of profit of Nestlé S.A.		25 478	31 953
Market capitalisation, end December		74 829	97 805
Per share			
Profit for the period attributable to the Group from continuing operations	EUR	10.99	13.29
Equity attributable to the Group before proposed appropriation of profit of Nestlé S.A.	EUR	65.59	82.18

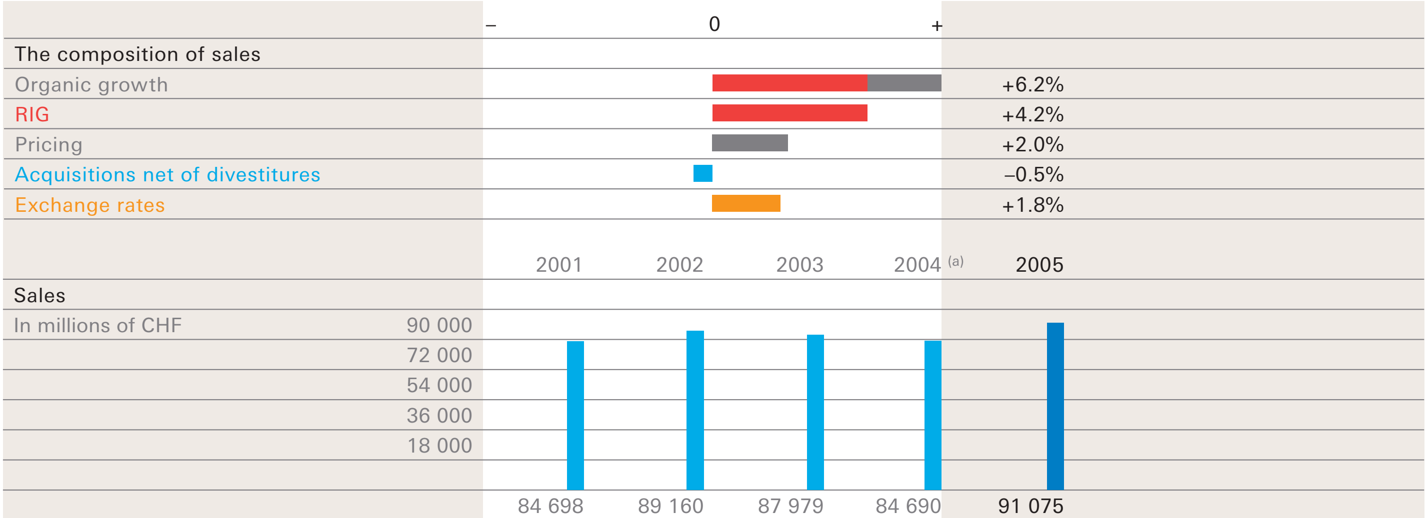
[(a)] Restated following the first application of IFRS 2 Share-based Payment and the discontinued operation resulting from the announcement made in December 2005 for the Chilled dairy activities in Europe, where applicable

Sales
Strong growth delivered by key brands

The Group's sales increased 7.5% to CHF 91.1 billion in 2005 from CHF 84.7 billion in 2004. This performance was driven primarily by organic growth, which reached 6.2%. Organic growth is the combination of Real Internal Growth (RIG), which measures the like-for-like volume growth, which reached 4.2% in 2005, and of pricing, which reached 2.0%. The other contributor to growth was the appreciation against the Swiss Franc of a number of our key trading currencies. There was a slight reduction in sales resulting from the divestiture of businesses, net of some acquisitions, of 0.5%.

The Food & Beverage business also performed well, delivering 6.0% organic growth, with 3.8% RIG. Almost all the product categories delivered strong growth as the Group's biggest brands showed the benefit of their strong market positions, with generally good growth and share gains in their key markets. Particularly impressive was the recently acquired *Dreyer's* brand, as well as *Häagen Dazs,* in USA Ice cream, and the *Purina* brands, acquired in 2001, and now rolled out in Europe as well as North America. But there were strong performances from many of Nestlé's home-grown brands. The *Nestlé* brand itself performed well in Water, Infant Nutrition, especially in the USA and Shelf stable dairy, whilst *Nescafé, Nesquik* and *Friskies* all took share in key European markets. *Milo* and *Maggi* performed well in Zone AOA, whilst *Coffee-mate* grew dramatically in North America. *Nespresso* continued to expand globally, delivering over 35% organic growth in the process and being on track to join the billion Swiss Franc brands at the end of 2006. *Hot Pockets,* the iconic American snack, grew well also in Europe, as its roll-out gathered pace. In the USA, meanwhile *Stouffer's* and *Stouffer's Lean Cuisine* both enjoyed strong growth, further enhancing their leadership positions. In Chocolate, we saw dramatic growth in both *Kit Kat* and *Aero* in Japan, as well as strong performances in Australia and Latin America.

Geographically, it is clear that we outperformed the market in Zone Americas, achieving organic growth of 7.8%. Nestlé Waters was also particularly strong at 8.6% organic growth, with North America continuing to be the growth engine. Zone AOA was slower at 6.6%, held back by a slow year in China resulting from our product exchange there in May, even though there was a strong recovery in the second half, as well as slow growth in the Philippines, another sizable market. Zone Europe reported 2.0% organic growth, a number that does not stand comparison with the other Zones, but which represents share gains in Soluble coffee, PetCare and Frozen food. The Other activities, primarily Alcon, but also including Nespresso and other smaller globally managed businesses, achieved strong organic growth once again, at 11.6%.



The composition of sales	
Organic growth	+6.2%
RIG	+4.2%
Pricing	+2.0%
Acquisitions net of divestitures	–0.5%
Exchange rates	+1.8%

Sales In millions of CHF	2001	2002	2003	2004 [a]	2005
	84 698	89 160	87 979	84 690	91 075

[a] Restated following the discontinued operation resulting from the announcement made in December 2005 for the Chilled dairy activities in Europe

Profitability
Margin improved 20 basis points

The Group's EBITA improved 8.9% to CHF 11.7 billion in 2005, leading to an EBITA margin improvement of 20 basis points to 12.9% of sales. The 2004 EBITA figure has been restated following the retrospective application of new International Financial Reporting Standards (IFRS) adopted as from 1 January 2005, whilst both the Group's sales and EBITA figures have been restated following the creation in December 2005 of the European Chilled Dairy venture with Lactalis. On a comparable share-based payment cost basis, the EBITA margin increased by a further 10 basis points.

The net profit (profit for the period attributable to the Group) increased 20.7% to CHF 8.0 billion to give a net profit margin of 8.8% of sales. The 2005 net profit is not comparable to 2004 mainly due to the new accounting treatment of goodwill as from 1 January 2005 following adoption of IFRS 3 (Business Combinations). The underlying earnings per share increased 12.9%, to CHF 21.25.

The business environment was characterized by high raw material costs and competitive trading environments, particularly in Europe and Japan. Nestlé also had some very specific issues to manage, such as the product exchange in China. We endeavoured to compensate the inflationary pressures through our efficiency programmes, Operation EXCELLENCE 2007 and Project FitNes, which together achieved savings of CHF 1.2 billion. Our cost of goods sold remained unchanged at 41.7% of sales, as did our distribution costs, at 8.1% of sales. We responded to the competitive trading environment through continued investment in our brands, demonstrated by increased marketing spend, innovation and channel and distribution initiatives. The marketing and administrative spend increased by about CHF 2.0 billion, but fell 10 basis points to 35.7% of sales, whilst spending on research and development dipped by 10 basis points.

The net financing cost fell to CHF 0.6 billion, reflecting the benefit of lower average net debt in 2005 than in 2004, partly compensated by higher interest rates. The effective tax rate for the Group for the year was 25.4%; whilst the underlying tax rate was 28.1%.

Return on invested capital, capital expenditure and cash flow

Return on invested capital

The Group's return on invested capital improved both before and after goodwill, reflecting our improved management of both key drivers, profit and capital. The return on invested capital excluding goodwill increased from 19.9% to 20.5% whilst, including goodwill, it improved from 10.8% to 11.3%. There was also an improvement in the Food & Beverage return on invested capital.

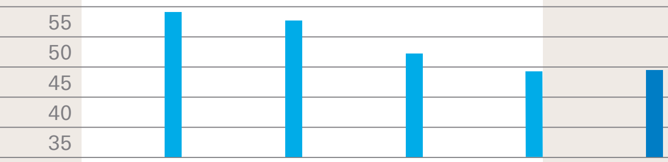
Capital expenditure

The Group's capital expenditure increased slightly from CHF 3.3 billion to CHF 3.4 billion but was slightly down as a percentage of sales. North America and Europe were the main beneficiaries, whilst the biggest projects were a Freeze Dried Soluble Coffee plant in Russia, an Ice cream facility in Bakersfield in the USA and PET lines and blowmould machines in a number of Water facilities in the USA. There was also a significant investment at Alcon in a new research facility at Fort Worth in the USA.

Cash flow

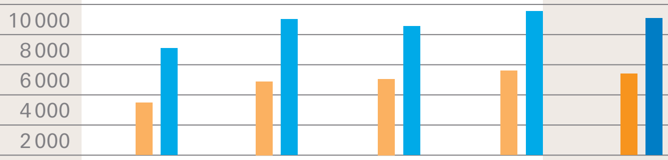
The Group's operating cash flow was CHF 10.2 billion, slightly down compared to 2004. The free cash flow was CHF 6.6 billion, also slightly down compared to 2004. These figures include a CHF 600 million extraordinary cash contribution to certain of our pension funds. Excluding this outflow, the cash flow would have been greater than in 2004.

	2001	2002	2003	2004 [a]	2005
Cash conversion cycle					
Days					
	58	56	50	47	47



[a] Restated following the discontinued operation, resulting from the annoucement made in December 2005 for the Chilled dairy activities in Europe

	2001	2002	2003	2004	2005
Cash flow					
In millions of CHF					
Free cash flow	4 938	6 278	6 361	6 640	6 557
Operating cash flow	8 614	10 248	10 125	10 412	10 205



Financial position

The Group's net debt declined slightly during the year, from CHF 10.2 billion to CHF 9.6 billion. This slight decline in net debt reflects the Group's more active management of its capital structure in 2005, relative to previous years. In the past few years, the Group has prioritized debt reduction, whereas in 2005, the priority was to return funds to shareholders, whilst respecting our AAA debt rating.

Our first share buy-back programme, with a value of CHF 1 billion was announced in February 2005 and completed on 31 October. A second programme, with a value of CHF 3 billion, was announced on 17 November. By 31 December, shares to a value of about CHF 350 million had been bought back.

The strong performance in 2005 allows us to propose a dividend of CHF 9.– per share, an increase of 12.5% over the CHF 8.– per share paid in 2005.

The net financing cost fell slightly, reflecting lower average net debt in 2005 compared to 2004, to CHF 0.6 billion. Equity attributable to the Group rose from CHF 39.2 billion to CHF 49.8 billion, representing 48% of total assets, net of treasury shares, the carrying value of which was CHF 2.8 billion. The ratio of net debt to equity improved from 25.2% at 31 December 2004 to 18.6% at 31 December 2005.

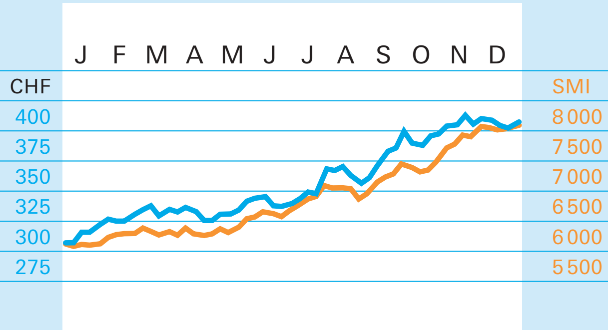
Shares, stock exchange

The Nestlé share price started 2005 at CHF 297.50 and ended the year at CHF 393.–. This 32% increase was in line with the Swiss Market but represents an out-performance against the Dow Jones Stoxx Food & Beverage, which rose 25.7% over the course of 2005.

Total shareholder return

Nestlé's total shareholder return (including capital appreciation and dividend payments) was 35% in 2005, and was 44% over three years, 15% over five years and 267% over 10 years.

Evolution of the Nestlé registered share in 2005



Registered share
Swiss Market Index

Management responsibilities
Food and Beverages

In millions of CHF

Zone Europe

Zone Europe	2003	2004 [(a)]	2005		RIG	OG
Western	26 000	23 672	24 563	88.9%	+0.1%	+1.7%
Eastern and Central	2 574	2 812	3 057	11.1%	+1.3%	+5.3%
Beverages	4 901	4 980	5 286	19.1%		
Milk products, Nutrition and Ice cream	7 825	5 229	5 316	19.2%		
Prepared dishes and cooking aids	7 729	8 038	8 631	31.3%		
Chocolate, confectionery and biscuits	5 035	5 050	5 025	18.2%		
PetCare	3 084	3 187	3 362	12.2%		
Total sales	28 574	26 484	27 620	100%	+0.2%	+2.0%
EBITA	3 561	3 395	3 259	11.8%		
Capital expenditure	925	890	849	3.1%		

Zone Americas

Zone Americas	2003	2004 [(a)]	2005		RIG	OG
USA and Canada	19 089	19 047	20 396	66.3%	+5.6%	+7.0%
Latin America and Caribbean	8 566	8 729	10 361	33.7%	+4.9%	+9.6%
Beverages	3 298	3 111	3 505	11.4%		
Milk products, Nutrition and Ice cream	8 535	9 240	10 588	34.4%		
Prepared dishes and cooking aids	5 906	5 565	5 916	19.2%		
Chocolate, confectionery and biscuits	3 733	3 691	4 117	13.4%		
PetCare	6 183	6 169	6 631	21.6%		
Total sales	27 655	27 776	30 757	100%	+5.4%	+7.8%
EBITA	4 150	4 142	4 708	15.3%		
Capital expenditure	739	813	943	3.1%		

[(a)] Restated following the first application of IFRS 2 Share-based Payment and the discontinued operation resulting from the announcement made in December 2005 for the Chilled dairy activities in Europe, where applicable

Zone Asia, Oceania and Africa	2003	2004 [a]	2005		RIG	OG
Oceania and Japan	4 497	4 553	4 702	29.9%	+1.8%	+1.6%
Other Asian markets	5 819	5 926	6 438	41.0%	+2.8%	+7.5%
Africa and Middle East	4 116	4 194	4 564	29.1%	+4.4%	+11.0%
Beverages	4 770	4 812	5 168	32.9%		
Milk products, Nutrition and Ice cream	5 876	5 938	6 262	39.9%		
Prepared dishes and cooking aids	1 822	1 889	2 112	13.4%		
Chocolate, confectionery and biscuits	1 415	1 456	1 586	10.1%		
PetCare	549	578	576	3.7%		
Total sales	14 432	14 673	15 704	100%	+3.0%	+6.6%
EBITA	2 508	2 538	2 628	16.7%		
Capital expenditure	541	587	593	3.8%		

Nestlé Waters					RIG	OG
Europe	4 067	3 910	3 959	45.1%	+0.9%	–0.2%
USA and Canada	3 545	3 610	4 222	48.0%	+17.7%	+16.5%
Other regions	454	519	606	6.9%	+18.0%	+19.8%
Retail	6 727	6 664	7 389	84.1%		
Home and Office Delivery (HOD)	1 339	1 375	1 398	15.9%		
Total sales	8 066	8 039	8 787	100%	+9.5%	+8.6%
EBITA	782	666	709	8.1%		
Capital expenditure	647	558	601	6.8%		

Leading positions in dynamic categories

In millions of CHF

Beverages	2003	2004 [a]	2005		RIG	OG
Soluble coffee	8 046	8 079	8 783	36.8%	+3.1%	+6.7%
Nestlé Waters	8 066	8 039	8 787	36.9%	+9.5%	+8.6%
Other	7 408	5 675	6 272	26.3%		
Total sales	23 520	21 793	23 842	100%	+6.4%	+8.2%
EBITA	4 038	3 852	4 112	17.2%		
Capital expenditure	936	806	752			

Milk products, Nutrition and Ice cream					RIG	OG
Milk products	11 208	8 712	9 881	42.5%	+3.0%	+8.3%
Nutrition	5 003	5 223	5 237	22.6%	+2.2%	+5.3%
Ice cream	6 147	6 557	7 023	30.2%	+5.2%	+5.8%
Other	925	1 011	1 094	4.7%		
Total sales	23 283	21 503	23 235	100%	+3.5%	+6.7%
EBITA	2 796	2 593	2 609	11.2%		
Capital expenditure	421	541	689			

Prepared dishes and cooking aids					RIG	OG
Frozen and chilled	9 484	9 212	9 656	57.9%	+3.4%	+4.7%
Culinary and other	6 584	6 666	7 017	42.1%	+1.8%	+4.1%
Total sales	16 068	15 878	16 673	100%	+2.7%	+4.4%
EBITA	1 884	1 916	2 132	12.8%		
Capital expenditure	251	250	261			

Chocolate, confectionery and biscuits					RIG	OG
Chocolate	8 155	8 181	8 640	80.0%	+0.5%	+2.9%
Confectionery	1 231	1 205	1 207	11.2%	–2.1%	+0.3%
Biscuits	854	872	947	8.8%	+1.3%	+3.4%
Total sales	10 240	10 258	10 794	100%	+0.2%	+2.6%
EBITA	1 047	1 148	1 215	11.3%		
Capital expenditure	208	201	194			

[a] Restated following the first application of IFRS 2 Share-based Payment and the discontinued operation resulting from the announcement made in December 2005 for the Chilled dairy activities in Europe, where applicable

PetCare	2003	2004 [a]	2005	2005	RIG	OG
USA and Canada	5 642	5 661	6 088	57.6%	+5.6%	+6.6%
Europe	3 084	3 187	3 362	31.8%	+4.0%	+5.0%
Other regions	1 090	1 086	1 119	10.6%	–3.3%	–1.8%
Total sales	9 816	9 934	10 569	100%	+4.1%	+5.2%
EBITA	1 444	1 443	1 515	14.3%		
Capital expenditure	254	276	274			

Nestlé FoodServices (Out-of-Home)*					RIG	OG
Zone Europe	3 029	3 016	3 190	48.2%	+1.1%	+3.2%
Zone Americas	1 935	1 804	1 674	25.3%	+0.6%	+5.2%
Zone Asia, Oceania and Africa	1 577	1 655	1 751	26.5%	+3.3%	+5.5%
Total sales	6 541	6 475	6 615	100%	+1.6%	+4.3%

Pharmaceutical and cosmetic joint ventures			
Nestlé's share of sales	473	467	510

Alcon				RIG	OG
Sales	4 579	4 857	5 452	+10.2%	+10.6%
EBITA	1 243	1 382	1 748		
Capital expenditure	239	171	195		

Associated companies			
Nestlé's share of results	593	1 588	896

* Nestlé FoodServices' sales and results are also included in the relevant product groups

Geographic data: people, products, sales

Nestlé has 487 factories in 84 countries around the world. This is a reduction from 500 in 2004. During the year, 2 factories were acquired or opened and 14 were closed or divested and 2 factories were merged.

Factories

By geographic area	2004	2005
Europe [a]	197	185
Americas	164	165
Asia, Oceania and Africa	139	137
Total	500	487

Employees

By geographic area	2004	2005
Europe* [a]	38.4%	37.9%
Americas	34.6%	36.0%
Asia, Oceania and Africa	27.0%	26.1%

* 7 223 employees in Switzerland in 2005

By activity In thousands		
Factories [a]	132	133
Administration and sales [a]	115	120
Total	247	253

[a] Includes factories and about three thousand employees related to the discontinued operation resulting from the announcement made in December 2005 for the Chilled dairy activities in Europe

2005 Sales

In millions of CHF

	Differences 2005/2004 [a] in CHF	in local currency	2005
By principal market			
USA	+8.7%	+8.1%	25 588
France	+2.3%	+1.9%	7 591
Germany	+3.8%	+3.5%	6 357
United Kingdom	+3.6%	+3.7%	4 390
Italy	–2.9%	–3.2%	4 016
Brazil	+29.8%	+6.9%	3 763
Mexico	+12.7%	+8.4%	3 055
Japan	–1.4%	+0.2%	2 657
Spain	+4.0%	+3.7%	2 592
Canada	+10.6%	+1.9%	2 331
Australia	+10.7%	+6.2%	2 015
Greater China Region	+7.1%	+5.5%	1 706
Switzerland	+4.2%	+4.2%	1 476
Philippines	+5.6%	+3.1%	1 388
Russia	+7.6%	+5.0%	1 341
Other markets	+9.8%	[b]	20 809
By continent			
Europe	+3.6%	[b]	35 261
USA and Canada	+8.9%	[b]	27 919
Asia	+7.0%	[b]	11 982
Latin America and Caribbean	+18.9%	[b]	11 052
Africa	+5.0%	[b]	2 405
Oceania	+10.2%	[b]	2 456
Total Group	+7.5%	[b]	91 075

[a] 2004 restated following the discontinued operation resulting from the announcement made in December 2005 for the Chilled dairy activities in Europe
[b] Not applicable

■ Beverages
■ Milk products, Nutrition and Ice cream
■ Prepared dishes and cooking aids
■ Chocolate, confectionery and biscuits
■ PetCare
■ Pharmaceutical products

The figure in bold after the country denotes the number of factories.
● Local production (may represent production in several factories)
■ Imports (may, in a few particular cases, represent purchases from third parties in the market concerned)

Europe

Country	Factories	Beverages	Milk products, Nutrition and Ice cream	Prepared dishes and cooking aids	Chocolate, confectionery and biscuits	PetCare	Pharmaceutical products
Austria	1	● ■	■	● ■	■	■	■
Belgium	4	■	● ■	● ■	■	■	● ■
Bulgaria	1	■	■	■	● ■	■	■
Czech Republic	2	■	■	■	● ■	■	■
Denmark	1	■	● ■	■	■	■	■
Finland	2	■	● ■	■	■	■	■
France	36	● ■	● ■	● ■	● ■	● ■	● ■
Germany	25	● ■	● ■	● ■	● ■	● ■	■
Greece	4	● ■	● ■	■	■	■	■
Hungary	4	● ■	● ■		● ■	● ■	■
Italy	22	● ■	● ■	● ■	● ■	● ■	■
Netherlands	5	● ■	● ■	● ■	● ■	● ■	■
Norway	1	■	● ■	■	■	■	■
Poland	8	■	● ■	● ■	● ■	■	■
Portugal	6	● ■	● ■	■	■	■	■
Republic of Ireland	2	■	■	■	● ■	■	● ■
Romania	2	● ■	■	■	● ■	■	■
Russia	9	● ■	● ■	● ■	● ■	■	■
Slovak Republic	1	■	■	● ■	■	■	■
Spain	17	● ■	● ■	● ■	● ■	● ■	● ■
Sweden	3	● ■	● ■	● ■	■	■	■
Switzerland	8	● ■	● ■	● ■	● ■	■	● ■
Turkey	2	● ■	■	●	●	■	■
Ukraine	2	■	■	● ■	● ■	■	■
United Kingdom	17	● ■	● ■	■	● ■	● ■	■

Americas

Country	Factories	Beverages	Milk products, Nutrition and Ice cream	Prepared dishes and cooking aids	Chocolate, confectionery and biscuits	PetCare	Pharmaceutical products
Argentina	9	● ■	● ■	● ■	■	● ■	■
Brazil	23	● ■	● ■	●	●	● ■	● ■
Canada	14	● ■	● ■	● ■	● ■	● ■	● ■
Chile	6	● ■	● ■	● ■	● ■	■	■
Colombia	4	● ■	● ■	● ■	● ■	● ■	■
Cuba	3	● ■	● ■	■	■	■	■
Dominican Republic	3	■	● ■	● ■	■	■	■
Ecuador	2	● ■	● ■	● ■	● ■	■	■
El Salvador	1	■	● ■	■	■	■	■
Guatemala	1	■	■	● ■	■	■	■
Jamaica	1	● ■	● ■	■	■	■	■
Mexico	12	● ■	● ■	● ■	● ■	● ■	● ■
Nicaragua	1	■	● ■	■	■	■	■
Panama	1	■	● ■	● ■	■	■	■
Peru	1	■	● ■	● ■	● ■	■	■
Trinidad and Tobago	1	● ■	● ■	■	■	■	■
United States	75	● ■	● ■	● ■	● ■	● ■	● ■
Uruguay	1	● ■	■	■	■	■	■
Venezuela	6	● ■	● ■	● ■	● ■	● ■	■

Asia, Oceania and Africa

Country	Factories	Beverages	Milk products, Nutrition and Ice cream	Prepared dishes and cooking aids	Chocolate, confectionery and biscuits	PetCare	Pharmaceutical products
Algeria	1	● ■	■	■	■		
Australia	11	● ■	● ■	● ■	● ■	● ■	■
Bahrain	1	● ■	■	■	■		■
Bangladesh	1	● ■	● ■	■			■
Cameroon	1	● ■	● ■	●			■
Côte d'Ivoire	2	● ■	● ■	●			■
Egypt	4	● ■	● ■	●	■		■
Fiji	1	■	■	● ■	● ■		■
Ghana	1	● ■	● ■	● ■	■		■
Greater China Region	20	● ■	● ■	● ■	● ■	■	● ■
Guinea	1	■	■	● ■	■		■
India	6	● ■	●	●	●		■
Indonesia	9	● ■	● ■	● ■	● ■	■	■
Iran	1	■	●		■		■
Israel	9	● ■	● ■	●	● ■	■	■
Japan	3	● ■	● ■	● ■	● ■	■	■
Jordan	1	● ■	■	■	■		■
Kenya	1	● ■	● ■	● ■	■		■
Lebanon	1	● ■	■	■	■		■
Malaysia	6	● ■	● ■	● ■	● ■	■	■
Morocco	1	● ■	● ■	● ■	■		■
New Caledonia	1	● ■	● ■	■	● ■		■
New Zealand	2	■	■	● ■	● ■	● ■	■
Nigeria	1	● ■	● ■	●			■
Pakistan	5	● ■	● ■	●	● ■		■
Papua New Guinea	1	● ■	■	● ■	■		■
Philippines	6	● ■	● ■	● ■	● ■	■	■
Qatar	1	● ■	■	■	■		■
Republic of Korea	2	● ■	●	● ■	■	■	■
Saudi Arabia	4	● ■	● ■	● ■	■		■
Senegal	1	■	● ■	● ■			■
Singapore	1	● ■	■	■	■	■	■
South Africa	12	● ■	● ■	● ■	●	● ■	■
Sri Lanka	2	● ■	● ■	●			■
Syria	1	● ■	● ■	● ■			■
Thailand	7	● ■	● ■	● ■	■	■	■
Tunisia	1	● ■	● ■	■	■		■
United Arab Emirates	1	● ■	■	■	■		■
Uzbekistan	1	● ■	● ■	■	■		■
Vietnam	4	● ■	● ■	● ■			■
Zimbabwe	1	● ■	● ■	● ■	■		■

The Nestlé story

In order to remain competitive, companies have to adapt constantly in line with their changing environment. The better they are able to satisfy both existing and newly emerging consumer needs, the more successful they will be. In reality, this is easier said than done. Entrepreneurs and managers are faced with the task of interpreting the panoply of information coming from the market and identifying long-term trends, and translating these into an appropriate business strategy.

In 1866, the founders of Anglo-Swiss Condensed Milk Co. in Cham decided to produce the first condensed milk in Europe on an industrial scale to satisfy the need for pure, long-life milk. One year later in Vevey, Henri Nestlé developed a baby formula that offered a safe and nutritionally better alternative to other existing breast-milk substitutes for mothers who were unable to provide breast milk. Both companies were challenged with bringing their products to a wider audience and driving their geographic expansion forwards. In 1905, they decided to merge.

This same year also saw the launch of the first *Nestlé* branded chocolate, which following years of collaboration ultimately led to Nestlé's takeover of the long-established Swiss chocolate-makers Peter, Cailler and Kohler in 1929. Having previously been active exclusively in the dairy industry, Nestlé now also had a foothold in confectionery.

The boom years leading up to and during the First World War came to an abrupt end once peace came, with overcapacities, devaluation and currency turbulence combined with a cumbersome administrative structure meaning that, in 1921, Nestlé reported the first and only loss in its history. Drastic restructuring measures combined with the streamlining of the organisational structure were necessary in order to make the company competitive again. With its new-found strength, Nestlé survived the stock market crash of 1929 and the subsequent global economic crisis.

In the 1930s, the newly organised research department allowed for a considerable expansion of the existing range of milk products and baby foods (*Nestogen* 1930, *Sinlac* 1932, *Nescao* 1932, *Pelargon* 1934, *Milo Tonic* 1934) and promoted the first, initially somewhat tentative foray into the pharmaceutical sector (*Nestrovit* 1936 together with Roche) as well as a much more decisive one into the coffee business (*Nescafé* 1938).

After the Second World War, up until the end of the 1950s, challenges included integrating the company Maggi acquired in 1947, modernizing production facilities and introducing *Nescafé* in additional countries. These were the areas in which the fastest growth rates were being seen.

In the 1960s, external growth via acquisitions began, facilitating the company's entry into new areas of the food industry: canned goods (Crosse & Blackwell 1960, Libby 1963), ice cream (France Glaces and Jopa 1960, Delasa 1963), chilled and frozen products (Findus 1962, Chambourcy 1968) and water (Vittel and Deer Park 1969).

The 1970s saw Nestlé's first foray into the hospitality and wine making industries (Eurest and Cahills 1970, Beringer 1971, Stouffer 1973) – areas that were later resold – and the purchase of Ursina-Franck (1971) rounded out the traditional business. Economic turbulence (oil crises, high

Henri Nestlé, 1814-1890

1866	Anglo-Swiss Condensed Milk Co.
1867	Henri Nestlé's Infant cereal
1905	Nestlé and Anglo-Swiss Condensed Milk Co.
	(New name after merger)
1929	Peter, Cailler, Kohler, Chocolats Suisses S.A.
1938	Launching of *Nescafé*
1947	Nestlé Alimentana
	(New name after merger with Maggi)
1960	Crosse & Blackwell
1969	Vittel
1971	Ursina-Franck
1973	Stouffer
1974	L'Oréal (Minority interest)
1977	Nestlé S.A. (new name)
	Alcon
1985	Carnation, Friskies
1986	Herta
1988	Buitoni-Perugina, Rowntree
1992	Perrier
1993	Finitalgel
1994	Alpo
1998	Sanpellegrino, Spillers Petfoods
2000	PowerBar
2001	Ralston Purina
2002	Schöller, Chef America
2003	Mövenpick (ice cream business)
	Dreyer's Grand Ice Cream, Powwow
2004	Valio (ice cream business)
2005	Wagner
	Protéika, Musashi (nutrition businesses)

inflation, strong currency fluctuations) had an impact on the growth of the Group, and for the first time significant moves were made to diversify outside the food industry. This diversification took the form of a minority stake in the cosmetics company L'Oréal (1974) and the acquisition of the ophthalmology firm Alcon Laboratories (1977), of which a proportion of around 25% was listed on the New York Stock Exchange in 2002 with much success.

Following a period of consolidation at the beginning of the 1980s in which the product portfolio was streamlined, unprofitable areas of the business sold and the financial basis of the Group improved, Nestlé's task was to develop a greater geographical presence and to be the No. 1 or at least a strong No. 2 with its products in its core areas. In order to strengthen its market share in the USA, in 1985 Nestlé acquired Carnation, which was active in the dairy industry, pet food production and the catering trade. In order to improve its position in chocolate and confectionery, Nestlé bought Rowntree and Buitoni-Perugina in 1988.

Following the fall of the Berlin Wall and the opening of previously inaccessible markets in Eastern Europe and Asia, Nestlé's task in the 1990s was to regain a foothold in these highly promising countries. The focus was increasingly on ensuring internal growth and strengthening growth areas such as water (Perrier 1992, Sanpellegrino 1998), pet food (Spillers 1998, Purina 2001) and ice cream (Finitalgel 1993, Schöller 2002, Mövenpick and Dreyer's Grand Ice Cream 2003, Valio 2004), and the Group is now working on building up new areas of business involving food with proven added health benefits. In 1997, the Nutrition Strategic Business Division (NSBD) was created. In 2005, Nestlé established the stand-alone Nestlé Nutrition to further develop its Nutrition, Health and Wellness strategy by providing a global focus to this activity.

Having transformed itself from a purely dairy company into a traditional food producer with a wide portfolio, Nestlé is now aiming to become the world's leading nutrition, health and wellness company. It is hoped that its extensive product range will contribute to the well-being of people by providing very specific consumer benefits. The aim is to satisfy the need not only for food safety, convenience, enjoyment and taste, but also for healthy, personalized food that can be tailored to suit individual risk factors such as obesity, diabetes, and vascular and cardiovascular diseases.

More information about Nestlé's history can be found at www.nestle.com

Shareholder information

Stock exchange listings

At 31 December 2005, Nestlé S.A. shares were listed on the SWX Swiss Exchange (ISIN code: CH0012056047). American Depositary Receipts (ADRs) (ISIN code: US6410694060) representing Nestlé S.A. shares are offered in the USA by Citibank.

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

As to information concerning the share register (registrations, transfers, address changes, dividends, etc.), please contact
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The Company offers the possibility of depositing, free of charge, Nestlé S.A. shares traded on the SWX Swiss Exchange at its Share Transfer Office in Cham.

Nestlé URL: www.nestle.com

Important dates

6 April 2006
139th Annual General Meeting, "Palais de Beaulieu", Lausanne

12 April 2006
Payment of the dividend

25 April 2006
Announcement of first quarter 2006 sales figures

23 August 2006
Publication of the Half-yearly Report January/June 2006

19 October 2006
Announcement of first nine months 2006 sales figures; Autumn press conference

19 April 2007
Annual General Meeting "Palais de Beaulieu", Lausanne

The Management Report contains forward looking statements which reflect Management's current views and estimates. The forward looking statements involve certain risks and uncertainties that could cause actual results to differ materially from those contained in the forward looking statements. Potential risks and uncertainties include such factors as general economic conditions, foreign exchange fluctuations, competitive product and pricing pressures and regulatory developments.

In case of doubt or differences of interpretation, the English version shall prevail over the French and German text.

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