Management Report 2003

Nestlé's strategic priorities are focused on delivering shareholder value through the achievement of sustainable, capital efficient and profitable long-term growth

Key figures

Key figures by management responsibility and geographic area

			2003	2002	2001
Sales	Zone Europe [a]	32.5%	28 574	28 068	26 742
In millions of CHF	Zone Americas	31.4%	27 655	29 293	26 598
	Zone Asia, Oceania and Africa	16.4%	14 432	14 880	15 458
	Nestlé Waters	9.2%	8 066	7 720	7 418
	Other activities [a] [b]	10.5%	9 252	9 199	8 482
		100%	87 979	89 160	84 698

EBITA	Zone Europe [a]	28.4%	3 561	3 442	2 942
(Earnings Before	Zone Americas	33.1%	4 150	4 189	3 593
Interest, Taxes	Zone Asia, Oceania and Africa	20.0%	2 508	2 564	2 653
and Amortisation	Nestlé Waters	6.2%	782	696	622
of goodwill)	Other activities [a] [b]	12.3%	1 537	1 517	1 536
In millions of CHF		100%	12 538	12 408	11 346
	Unallocated items [c]		(1 532)	(1 468)	(1 359)
	EBITA		11 006	10 940	9 987

Capital expenditure	Zone Europe [a]	28.7%	925	868	954
In millions of CHF	Zone Americas	22.9%	739	904	747
	Zone Asia, Oceania and Africa	16.8%	541	584	626
	Nestlé Waters	20.0%	647	769	839
	Other activities [a] [b]	11.6%	375	322	330
		100%	3 227	3 447	3 496
	Unallocated items [d]		110	130	115
			3 337	3 577	3 611

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

[b] Mainly Pharmaceutical products, joint ventures and "Trinks" (Germany)

[c] Mainly corporate expenses as well as research and development costs

[d] Corporate and research and development property, plant and equipment

Key figures
by product group

			2003	2002	2001
Sales	Beverages	26.7%	23 520	23 325	24 023
In millions of CHF	Milk products, Nutrition and Ice cream	26.5%	23 283	23 376	23 041
	Prepared dishes and cooking aids	18.3%	16 068	15 834	15 092
	Chocolate, confectionery and biscuits	11.6%	10 240	10 774	11 244
	PetCare	11.2%	9 816	10 719	6 232
	Pharmaceutical products	5.7%	5 052	5 132	5 066
		100%	87 979	89 160	84 698

EBITA	Beverages	32.2%	4 038	4 075	4 259
(Earnings Before	Milk products, Nutrition and Ice cream	22.3%	2 796	2 756	2 578
Interest, Taxes	Prepared dishes and cooking aids	15.0%	1 884	1 712	1 573
and Amortisation	Chocolate, confectionery and biscuits	8.4%	1 047	1 180	1 234
of goodwill)	PetCare	11.5%	1 444	1 418	453
In millions of CHF	Pharmaceutical products	10.6%	1 329	1 267	1 249
		100%	12 538	12 408	11 346
	Unallocated items (e)		(1 532)	(1 468)	(1 359)
	EBITA		11 006	10 940	9 987

Capital expenditure	Beverages	28.0%	936	1 004	1 062
In millions of CHF	Milk products, Nutrition and Ice cream	12.6%	421	495	573
	Prepared dishes and cooking aids	7.5%	251	304	267
	Chocolate, confectionery and biscuits	6.3%	208	285	249
	PetCare	7.6%	254	284	193
	Pharmaceutical products	2.6%	86	101	99
		64.6%	2 156	2 473	2 443
	Administration, distribution, research and development	35.4%	1 181	1 104	1 168
		100%	3 337	3 577	3 611

(e) Mainly corporate expenses as well as research and development costs

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In this document, the brands in italics are registered trademarks of the Nestlé Group

Rainer E. Gut
Chairman of the Board

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

Letter to Shareholders

Dear shareholder,

The volatile trends prevailing in 2002 continued through 2003, with currency crises, economic uncertainty, continued trade disputes and political uncertainty in many parts of the world. 2003 also brought conflicts in Iraq and Côte d'Ivoire, as well as the SARS outbreak in China and other Asian countries.

Nestlé's performance in such an environment underlines the benefit of its geographic spread, leading market positions and strong brands. Earnings before interest, tax and amortisation of goodwill (EBITA) reached CHF 11.0 billion, with margins moving forward from 12.3% to 12.5%. At constant currency, the margin improvement would have been even more marked, with a 2003 margin of 12.9%.

The development of the Group's sales was held back for the second consecutive year by the strength of the Swiss franc. Reported sales, in Swiss francs, were down 1.3%, due mainly to the 7.6% negative currency impact. In US dollars, sales would have increased by an impressive 13.7%. The most important element in the development of sales, organic growth, was 5.1%, consisting of 2.2% real internal growth (RIG) and 2.9% pricing. This strong pricing performance reflects our strategy to protect margins in an environment characterised by higher raw material costs, particularly cocoa, and inflationary environment, particularly in Latin America countries. Such pricing action often results in a temporary slowdown in RIG. The contribution from acquisitions, net of divestitures, was 1.2%.

The Company's net profit and earnings per share performance are not comparable to that of 2002 because of the positive one-time benefits in that year that resulted from the partial IPO of Alcon, our ophthalmic business, and the disposal of Food Ingredients Specialities, as well as the one-time charges taken relating to restructuring and impairments of both goodwill and tangible fixed assets. The net profit for 2003 was CHF 6.2 billion, a margin of 7.1%, whilst earnings per share were CHF 16.05. The underlying net profit, excluding the significant one-time benefits, charges and amortisation, impairments and restructuring costs, was CHF 7.8 billion, whilst the underlying earnings per share increased 7% to CHF 20.23.

The Company's operating cash flow was CHF 10.1 billion, whilst the free cash flow in 2003 was CHF 6.4 billion, or 7.2% of sales, a slight improvement over 2002. Net debt decreased to CHF 14.4 billion, which underlined the AAA credit rating, recognising the Company's financial strength and significant free cash flow generation.

In view of our performance in 2003 and of our positive prospects, the Board proposes a dividend of CHF 7.20, an increase of 2.9% over the CHF 7.– per share paid for 2002.

In the difficult business environment during 2003 a priority for Nestlé was to maintain our trend of improving sustainable profit margins. Key to this achievement were the Group's efficiency initiatives, as well as the GLOBE programme. Target 2004+ delivered cost savings of CHF 930 million from our manufacturing assets. This asset base continued to evolve and, during the year, we acquired or opened 29 factories and sold or closed 26 of our facilities. 2003 was the first year in which Project FitNes realised significant savings from our administrative cost base, with CHF 220 million achieved and reflected in a 20 basis point reduction in administrative costs as a percentage of sales.

GLOBE, standing for Global Business Excellence, is the enabler for many of our savings. This programme remained on course in 2003, with a global roll-out of its business excellence and data standardisation elements, as well as the successful implementation of a common IT platform in countries in each of the three Zones.

In 2003 we made two acquisitions that contributed to our position, built over the last decade, as one of the world market leaders in ice cream. We completed the merger of the Dreyer's Grand Ice Cream Company with our USA ice cream business in June 2003. This important merger gives us leadership in the USA, the world's largest ice cream market. We have moved quickly to begin to integrate the two businesses, and believe that this is a truly transforming deal for Nestlé, both in terms of scale, but also in terms of financial performance for this category. The enlarged Dreyer's is listed on the NASDAQ, which provides a high level of transparency as the two companies realize the opportunities created by the merger. We also completed the acquisition of the Mövenpick ice cream business. The high quality of the *Mövenpick* brand ideally complements our premium brand ice cream portfolio, which includes *Häagen-Dazs* in North America and *Antica Gelateria del Corso* in Italy.

The biggest acquisition of 2002, Chef America*,* performed well in its first full year under Nestlé ownership. Its brands, including *Hot Pockets, Lean Pockets* and *Croissant Pockets,* delivered outstanding growth and strong profitability.

Nestlé's strategy to develop into the leading food, nutrition, health and wellness company took some constructive steps forward in 2003. Aside from the many product launches that offered some particular nutritional benefit, notable events included the study and test-market of a possible oral care joint venture with the Colgate-Palmolive Company and the highly successful launch of the first product by Innéov, our recent joint venture with L'Oréal in nutricosmetics. We established a global team of Nestlé Nutrition Champions, who work with our businesses to help them deliver effective nutrition strategies. Life Ventures, a venture capital fund established in 2002 to provide access to new science and technology relating to food and nutrition, made its first eight investments during 2003. These were in the fields of naturally derived bioactives, phyto-nutraceuticals and healthcare nutrition, amongst others. The investments are in companies in Germany, the Netherlands and the USA and were selected from some 500 opportunities.

There are some changes to the Board of Directors in 2003/2004. Mrs. Vreni Spoerry, Lord Simpson and Mr. Arthur Dunkel, whose terms expire, will not stand for re-election. Each has provided strong leadership and made an important contribution to Nestlé whilst, together, they enabled the Company to benefit from a wealth of knowledge and broad experience. Sir Edward George, the former Governor of the Bank of England, Mr. Kaspar Villiger, former member of the Federal Council and President of the Swiss Confederation, Mr. Rolf Hänggi, Vice Chairman of the Board of Directors of Roche Holding Ltd., Mr. Daniel Borel, Co-founder and Chairman of the Board of Directors of Logitech International S.A., and Mrs. Carolina Müller, Chairman of the Board of Directors of the Müller-Möhl Group, are being proposed as new Directors.

There was one departure from the Executive Board at the end of 2003. Mr. Frank Cella, Head of the Strategic Business Units and Marketing, retired after 40 years with the Company. Mr. Cella made a significant contribution in the areas of consumer insight and consumer communication, as well as innovation, and was a strong advocate of the Nestlé Management and Leadership Principles. His successor is Mr. Ed Marra, who joined Nestlé Canada in 1981. He spent ten years in various senior positions in Canada before moving to the USA as Senior Vice President of marketing for Stouffer's Frozen Foods. He was appointed President of the US Beverages division in 1996 before returning to Canada as Market Head in 2000. Mr. Paul Bulcke joined the Executive Board in October 2003 and has taken responsibility from January 2004 for our Latin American and Caribbean markets, with the exception of Mexico. He will assume responsibility for the rest of Zone Americas in July on the retirement of Mr. Carlos Represas. Mr. Bulcke joined Nestlé in 1979 and has worked in Europe and the Americas. He was Market Head successively of Portugal, of the Czech and Slovak Republics and, from 2000 to 2003, of Germany. Finally, and as stated in last year's Management Report, Mr. Luis Cantarell, the Head of Nutrition Strategic Business Division, was appointed Deputy Executive Vice President as from 1st January 2003.

We would like to take this opportunity to thank all Nestlé people for their great enthusiasm during 2003: approximately 253 000 people from over 100 countries, and more than 100 nationalities, have contributed directly to our success. More than a million others including suppliers, such as farmers in developing countries, have also been dedicated supporters of Nestlé. In a year marked by so many difficulties, we would particularly like to highlight the commitment of so many of our people who have found themselves at the forefront of one of the challenges mentioned at the start of this letter, be it civil unrest, a health scare or difficult economic conditions. We have committed long term to the countries where we are present, but it is only through the great efforts of our people in those places that we are able to do this. We thank all of them for their loyalty and enthusiastic commitment.

Looking forward, we know that we can continue to rely on the dedication of our people as we take our next steps towards building the world's leading food, nutrition, health and wellness company. Market conditions are likely to remain challenging. We will continue to focus on delivering a good level of growth, as well as improved profitability and cash flows, and would expect to be able to report positive news in the Half-yearly Report.

Rainer E. Gut
Chairman of the Board

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

Directors and Officers

Helmut O. Maucher Honorary Chairman

Board of Directors of Nestlé S.A.

	Term expires[1]
Rainer E. Gut [2, 4] Chairman	2005
Peter Brabeck-Letmathe [2] Vice Chairman and Chief Executive Officer	2007
Vreni Spoerry [2, 3, 4] Member of Swiss Parliament [5]	2004
George Simpson [2, 4] Industrialist	2004
Jean-Pierre Meyers [3] Vice Chairman L'Oréal	2006
Peter Böckli [3] Attorney-at-law	2008
Arthur Dunkel Consultant, Professor	2004
Nobuyuki Idei Chairman and CEO Sony Group	2006
André Kudelski Chairman and CEO Kudelski Group	2006
Vernon R. Young Professor of nutritional biochemistry	2007
Andreas Koopman CEO Bobst Group SA	2008

Secretary of the Board

Bernard Daniel Secretary general

Independent auditors

KPMG Klynveld Peat Marwick Goerdeler SA London and Zurich	2005

Executive Board (from left to right):
Chris Johnson
Wolfgang H. Reichenberger
Frits van Dijk
Francisco Castañer
Michael W.O. Garrett

1 On the date of the General Meeting of Shareholders
2 Member of the Committee of the Board
3 Member of the Audit Committee
4 Member of the Remuneration Committee
5 Until November 2003
6 Until 31st December 2003
7 As of 1st January 2004 Deputy Executive Vice President Latin America (excluding Mexico) and Carribean and, as of 1st July 2004, Executive Vice President for the United States of America, Canada, Latin America and Caribbean

Ed Marra was nominated Executive Vice President for the Strategic Business Units and Marketing as of 1st January 2004

Executive Board

at 31st December 2003

Peter Brabeck-Letmathe Chief Executive Officer

Michael W. O. Garrett Asia, Oceania, Africa, Middle East
Carlos E. Represas United States of America, Canada, Latin America, Caribbean
Francisco Castañer Pharmaceutical and Cosmetic Products, Liaison with L'Oréal, Human Resources, Corporate Affairs
Frank Cella [6] Strategic Business Units, Marketing
Wolfgang H. Reichenberger Finance, Control, Legal, Tax, Purchasing, Export
Lars Olofsson Europe
Werner Bauer Technical, Production, Environment, Research and Development
Frits van Dijk Nestlé Waters
Chris Johnson Deputy Executive Vice President GLOBE Programme, Information Systems, Strategic Supply Chain, eNestlé
Luis Cantarell Deputy Executive Vice President Nutrition Strategic Business Division
Paul Bulcke [7] Deputy Executive Vice President

Peter Brabeck-Letmathe
Carlos E. Represas
Lars Olofsson
Frank Cella
Werner Bauer
Luis Cantarell
(Paul Bulcke is not present)

For further information on the Board of Directors and the Executive Board, please refer to the Corporate Governance Report 2003, enclosed

Nestlé will progressively evolve from a respected, trustworthy food and beverage company to a respected, trustworthy food and beverage, nutrition, health and wellness company

This objective is encapsulated as:

Good Food, Good Life

Food for growth

Food for energy

Food for life

Group performance

A constant strategy… value creating… transforming… leading…

Industry and investors experienced a year of uncertainty in 2003, with unfavourable conditions in many countries around the world. There was, however, one constant in 2003 for shareholders in Nestlé: our strategy, originated in 1997 and unchanged as we enter 2004.

The four pillars of our strategy are Innovation and renovation, Consumer communication, Whenever, wherever and however, and Operational efficiency. We also have in place several measurable initiatives, including GLOBE, Target 2004+ and Project FitNes, all of which continued to progress well in 2003 and offer further benefits in 2004 and the years thereafter. It is the combination of these pillars and objectives that gives substance to our statement that our strategic priorities are focused on delivering shareholder value through the achievement of sustainable, capital efficient and profitable long-term growth.

Why, in a fast changing world, are the four pillars as relevant today as they were in 1997?

Innovation and renovation continues to be the lifeblood of internal growth. Consumers are always seeking new experiences, and it is our innovation that provides them. We have updated our 60/40 consumer preference test to include a nutritional element so that not only will new products need to be preferred by 60% of consumers in a blind tasting, but they will also have to be of a high nutritional standard. Established products, meanwhile, need to stay relevant to consumers if they are to earn their place in consumers' shopping baskets. *Nescafé,* for example, would not be the leading brand in its category 65 years after its launch if it was not being continually renovated. Established products, also, are being reviewed from a nutritional perspective.

Consumer communication has been key to ensuring that consumers are aware of the innovative products available to them. It is also at the heart of the relationship between Nestlé and its consumers: that relationship is one of trust, and is nourished by responsible communication. Consumer communication in general has been under the spotlight in recent years, as companies across many different sectors are challenged to be good corporate citizens. Nestlé has long been committed to responsible consumer communication, but has reviewed its communication guidelines and internal monitoring procedures in 2003 and reinforced them as appropriate.

Whenever, wherever and however is focused on ensuring appropriate availability of our products. Our focus on this area has been most visible through acquisitions in areas such as Water and Ice cream, where a large proportion of the sales are driven by impulse purchasing decisions. We have also been active in Europe building a Home and Office delivery division in our Water business, taking advantage of our expertise in that sector, gained in the USA. Another key element of this strategy is our FoodServices business which provides products and services to restaurants, schools, hospitals and other out-of-home food operators. A further example is our Nestlé Home Care business which provides hospital outpatients with specific high nutrition food and services in their homes.

Whereas those three pillars are focused on the consumer, Operational efficiency is internally focused. With over 500 factories around the world, we have an asset base that is rich with opportunity for improved returns. Our savings initiative, Target 2004+, which will be completed in the current year, was established with the objective of removing CHF 2.4 billion from our production cost base within three years. With two years of the programme completed, we have already achieved CHF 2.1 billion of savings. We are expecting a further CHF 900 million in 2004. Operation Excellence will succeed Target 2004+ with the objective to continue to improve the efficiency of our worldwide operations.

There are opportunities for savings, also, beyond our factories. Nestlé is changing from a locally focused international business to a consumer focused global business. What does that mean and how will it affect our consumers?

Today Nestlé has head offices, back offices, sales offices or factories in most countries around the world. This is a structure that grew up over 137 years during which communications were significantly simpler than they are today and international trade barriers and transport costs were significantly higher. A structure that was right for yesterday's business environment is not right for tomorrow's. The change will see us focusing our local assets on those parts of our business that are important to our consumers, whilst regionalising or centralising back office functions. The major dynamic in this change is that it will unquestionably put consumers at the centre of every local Nestlé manager's life, and will enable managers to focus all their energies on their consumers.

Project GLOBE is at the heart of this change. It will enable us to leverage our size as a strength and will unite and align the Group internally so we can be more competitive externally: by standardising the back end of our business, we can be more flexible at the front end, where we touch our customers and consumers with our products and brands.

The role of Project FitNes is to ensure that we secure those savings in our administrative structure that are enabled by these developments. As such, it is the perfect partner for Target 2004+, with its focus on manufacturing costs. Project FitNes has the objective of reducing administrative costs by 1% of sales by 2006. At the end of 2003 achieved savings had reached 0.3% of sales.

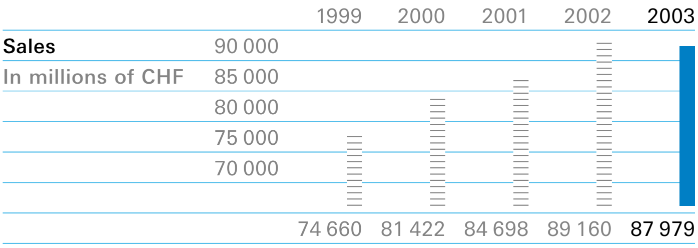
Structural and organisational change, and the greater efficiency that it will bring, is only one part of Nestlé's future. The other element, discussed in detail elsewhere in this document, is the transformation of the Group from the world's leading food company to the world's leading food and beverage, nutrition, health and wellness company. Nestlé, with its genesis as a nutrition company and its R&D leadership in that area, with its existing strong brands and product portfolio, and with its credibility with the medical community and amongst consumers, is uniquely able to achieve this goal.

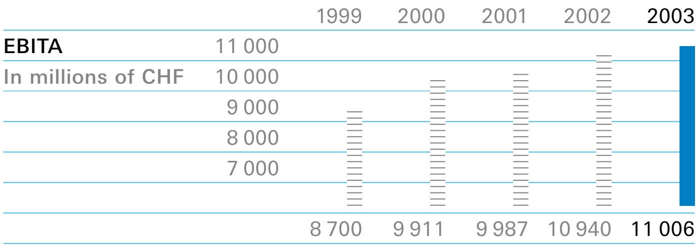
At Nestlé, we seek to deliver returns commensurate with our position as the leader in our industry. We have made significant steps along that path and, with our direction clear, we expect to make further progress in the years ahead.

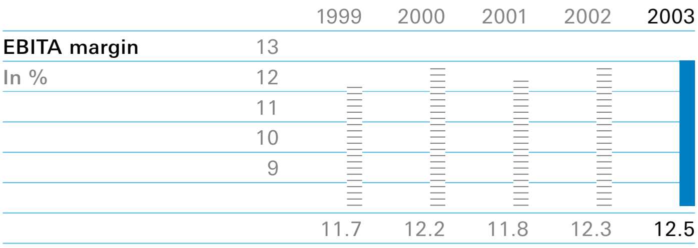
Key figures (consolidated)

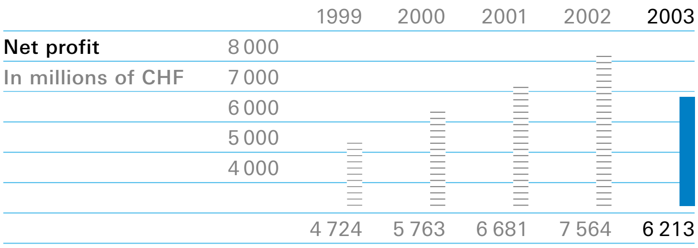
In millions of CHF (except per share data)

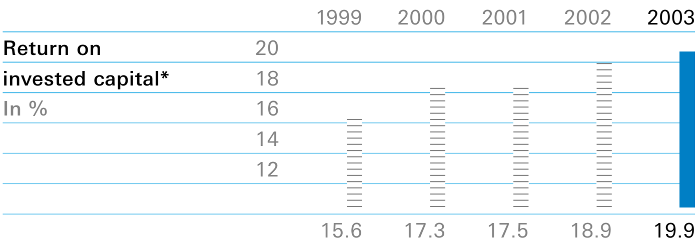
		2003	2002
Sales		87 979	89 160
EBITDA Earnings Before Interest, Taxes, Depreciation and Amortisation of goodwill		13 669	13 671
as % of sales		15.5%	15.3%
EBITA Earnings Before Interest, Taxes and Amortisation of goodwill		11 006	10 940
as % of sales		12.5%	12.3%
Net profit		6 213	7 564
as % of sales		7.1%	8.5%
as % of average equity		17.3%	22.1%
Capital expenditure		3 337	3 577
as % of sales		3.8%	4.0%
Equity before proposed appropriation of profit of Nestlé S.A.		36 880	34 819
Market capitalisation, end December		119 876	113 368
Free cash flow Operating cash flow less capital expenditure, disposal		6 361	6 278
of tangible assets as well as purchase and disposal of intangible assets			
Per share			
Net profit	CHF	16.05	19.51
Underlying net profit Net profit before amortisation of goodwill, impairments,	CHF	20.23	18.90
restructuring costs, results on disposals and significant one off-items.			
The tax impact on the above items is also adjusted for			
Equity before proposed appropriation of profit of Nestlé S.A.	CHF	95.29	89.82
Dividend as proposed by the Board of Directors of Nestlé S.A.	CHF	7.20	7.00
Factories	Number at year end	511	508



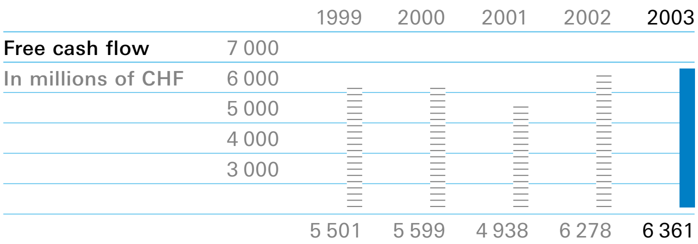


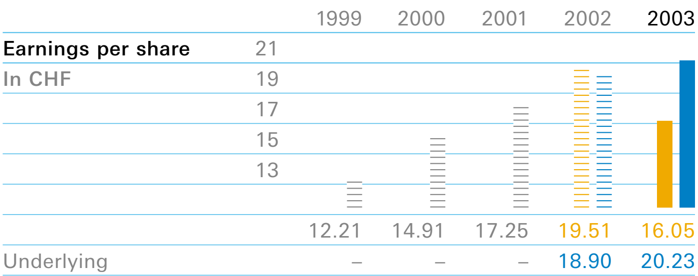


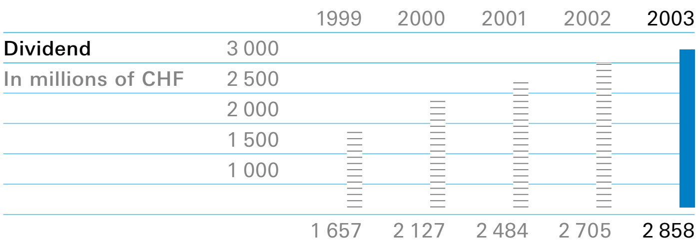




* based on segment reporting







Principal key figures in USD (illustrative)

In millions of USD (except per share data)

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

		2003	2002
Sales		65 460	57 560
EBITDA		10 171	8 826
EBITA		8 189	7 063
Net profit		4 623	4 883
Equity before proposed appropriation of profit of Nestlé S.A.		29 742	25 049
Market capitalisation, end December		96 674	81 560
Per share			
Net profit	USD	11.95	12.60
Equity before proposed appropriation of profit of Nestlé S.A.	USD	76.85	64.62

Principal key figures in EUR (illustrative)

In millions of EUR (except per share data)

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

		2003	2002
Sales		57 805	60 777
EBITDA		8 981	9 319
EBITA		7 231	7 458
Net profit		4 082	5 156
Equity before proposed appropriation of profit of Nestlé S.A.		23 641	23 848
Market capitalisation, end December		76 844	77 649
Per share			
Net profit	EUR	10.55	13.30
Equity before proposed appropriation of profit of Nestlé S.A.	EUR	61.08	61.52

Sales
Organic growth exceeds 5%

In 2003, Nestlé's sales dipped by 1.3% to CHF 88.0 billion as a result of the strength of the Swiss franc.

Exchange rate movements, in a second consecutive year of strength for the Swiss franc, reduced sales on translation into Swiss francs by 7.6%. The main influence was the US dollar, as well as some Latin American currencies, whilst the euro actually gained in value against the Swiss franc.

Real internal growth (RIG) was 2.2%. RIG measures the like for like volume growth achieved by our Company from one year to the next. It excludes the impact of selling price increases. This RIG performance reflects, among other things, difficult trading conditions in Latin America, where our priority was to protect our EBITA margins, and in Japan, particularly in the ready-to-drink beverage segment.

Selling prices and residual items increased sales by 2.9%, an unusually high level. The price increases were most pronounced in Latin America, due to inflationary pressures resulting from currency weaknesses, as well as in Chocolate, as a result of the sharp increases in the cost of the cocoa raw material.

Organic growth, which excludes acquisitions and divestitures and is measured at constant exchange rates, was 5.1%, a slight improvement over 2002 and within our target range of 5-6%.

Acquisitions, net of divestitures, increased sales by 1.2%, with acquisitions adding 2.7% and divestitures taking 1.5%. More detail is given on page 20.

2003 Sales [(a)]

In millions of CHF

		Differences 2003/2002 in CHF	Differences 2003/2002 in local currency	
By principal market	USA	–3.6%	+11.1%	23 278
	France	+4.2%	+0.4%	8 529
	Germany	+8.3%	+4.3%	8 330
	Italy	+7.5%	+3.6%	4 503
	United Kingdom	–7.2%	–1.7%	4 385
	Japan	–15.2%	–9.7%	2 824
	Brazil	–14.9%	+5.6%	2 820
	Mexico	–17.8%	+6.4%	2 695
	Spain	+6.7%	+2.9%	2 673
	Canada	+6.0%	+8.0%	2 283
	Australia	+7.6%	+3.4%	1 665
	Greater China (incl. Taiwan)	–4.3%	+10.8%	1 525
	Switzerland	+4.3%	+4.3%	1 459
	Philippines	–15.5%	+2.5%	1 270
	Russia	+7.6%	+20.3%	1 177
	Other markets	+0.3%	(b)	18 563
By continent	Europe	+4.5%	(b)	38 029
	USA and Canada	–2.8%	(b)	25 561
	Asia	–8.7%	(b)	11 023
	Latin America and Caribbean	–13.0%	(b)	9 083
	Africa	+7.0%	(b)	2 253
	Oceania	+8.2%	(b)	2 030
	Total Group	–1.3%	(b)	87 979

(a) Sales by market and continent include food and other activities

(b) Not applicable

Profitability

Margin improvement reflects underlying business performance

Earnings before interest, taxes and amortisation of goodwill (EBITA) increased from CHF 10.9 billion to CHF 11.0 billion, despite the strength of the Swiss franc. The reported EBITA margin improved from 12.3% to 12.5%. At constant currency, the margin would have risen a further 40 basis points. In a time of somewhat dramatic currency movements, it is the progression in margin that provides the better picture of the underlying performance of the Group.

The cost of goods sold declined further during 2003, both in actual terms and as a percentage of sales. This improvement was driven by the Group's cost savings initiatives, particularly Target 2004+, and was the prime reason for the increase in EBITA margin.

Distribution costs rose slightly as a percentage of sales, driven by the good growth of our ice cream business.

Marketing and administrative costs also rose slightly, despite the 20 basis points reduction in administrative costs resulting from Project FitNes. This increase, therefore, underlines the quality of our EBITA margin improvement in 2003, which was achieved whilst continuing to invest behind our core brands.

Spending on research and development was stable in Swiss francs, resulting in an increase as a percentage of sales.

The net profit and earnings per share comparisons between 2002 and 2003 have to be seen in the light of the gains made in 2002, which resulted from the partial IPO of Alcon and disposal of FIS, and totalled over CHF 4.5 billion, as well as of the restructuring costs and the impairments of goodwill and manufacturing assets in 2002, which totalled CHF 3.3 billion. Net profit in 2003 reached CHF 6.2 billion and the margin was 7.1%. Earnings per share reached CHF 16.05. There was an improvement in both the underlying net profit margin, of 70 basis points, and in the underlying earnings per share, of 7%.

There was an improvement in the profit margin of all Zones as well as Nestlé Waters and Other activities.

Our net financing costs fell from CHF 0.7 billion in 2002 to CHF 0.6 billion.

The effective tax rate for the year end was 27.8%. The Group's underlying tax rate is 27.7%.

Return on invested capital, capital expenditure and cash flow

Return on invested capital

Nestlé's return on invested capital excluding goodwill increased in 2003 from 18.9% to 19.9%. Including goodwill, it remained unchanged at 11%.

Capital expenditure

Capital expenditure in 2003 was CHF 3.3 billion, or 3.8% of sales, compared with CHF 3.6 billion, or 4% of sales, in 2002.

The main beneficiaries of the investment were Europe and the Americas, where we have the bulk of our assets. There was continued investment also in Nestlé Waters, as we continued to fuel the growth therein.

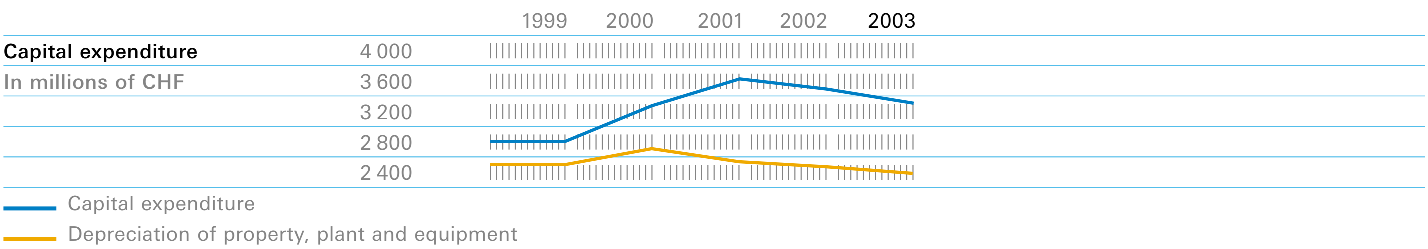
By product group, approximately CHF 0.9 billion was invested in Beverages, with the bulk of that going to Nestlé Waters. The facility in Orbe for *Nescafé* and *Nespresso* was the other major project during 2003.

In Prepared dishes and cooking aids we opened a major new frozen food plant in Jonesboro, Arkansas in the USA.

There were no significant investments in Milk products, Nutrition and Ice cream, Chocolate, confectionery and biscuits or PetCare. The main area of focus was on capacity increases, often in Zone Asia, Oceania and Africa and other emerging markets, or restructuring, often in Europe.

Cash flow

Operating cash flow decreased slightly from CHF 10.2 billion to CHF 10.1 billion, but was unchanged as a percentage of sales. Free cash flow was unchanged at CHF 6.3 billion, but increased by 20 basis points to 7.2% of sales. The Swiss franc cash flow figures are impacted by the strength of the Swiss franc, as most of our cash flows are generated outside Switzerland.



Acquisitions and divestitures
Creating winning environments

The Group's acquisition and divestment activities are driven by its strategy of creating winning environments for its businesses. Over the past few years, mergers and acquisition activities have contributed to Nestlé achieving global leadership positions in both Ice cream and PetCare and have consolidated our value leadership in Water. During 2003, we announced strategic acquisitions and alliances in three categories: Ice cream, Water and Confectionery with oral care content.

Total investment in acquisitions amounted to CHF 2.0 billion, whilst divestitures generated CHF 0.7 billion.

Strategic acquisitions and bolt-ons

Nestlé realised its objective of becoming the leader in Ice cream in the USA through the combination of Nestlé's US ice cream business with Dreyer's Grand Ice Cream Company. The enlarged company will benefit both from the proven Dreyer's management team and from significant potential for operational synergies. In 2002, Dreyer's had sales of USD 1.4 billion.

Nestlé also acquired the super-premium *Mövenpick* ice cream brand in 2003 and related businesses.

We continued to grow our leading position in Water, one of Nestlé's fastest growing categories. In particular, we expanded our presence in the European Home and Office Delivery (HOD) distribution channel with the acquisition of Powwow in Europe. Nestlé Waters is now the leader in the HOD channel in Western and Eastern Europe. Other acquisitions in HOD included Clearwater in Russia.

In June, Nestlé announced a co-operation between our Confectionery business and Colgate-Palmolive, a leader in the area of oral care. This is an example of our determination to grow our business by developing innovative products in the wellness area.

There were bolt-on acquisitions during the year in a number of categories. Nespresso, our espresso coffee in capsules business, pursued the acquisition of several distribution businesses in the HOD channel in Europe and Asia. We also announced the acquisition of OJSC Volynholding, the leading condiment company in the fast growing Ukrainian market.

Divestitures

In line with our focus on core activities, we have continued to move the Group upstream from low commodity food processes towards the consumer and added-value areas of the food industry through divestments of manufacturing assets and processes, as well as of businesses in areas such as Sugar confectionery, Meal ingredients and Roast and ground coffee.

We have also announced divestments in low margin businesses, which did not fit with our longer-term strategic direction. Examples include the disposal of our dairy business in Turkey and the announced reduced participation in Trinks, a distribution business in Germany.

The benefits of our increasingly dynamic portfolio will be clear as Nestlé confirms its position as one of the fastest growing food groups, able also to deliver improved profitability.

Financial position
AAA credit rating recognises financial strength and free cash flow

The Group's net debt declined from CHF 15.0 billion at the end of 2002 to CHF 14.4 billion at the end of 2003, having peaked at CHF 21.1 billion at the end of June 2003. This reduction in net debt confirms the Group's strong cash flow generation and the benefit of our programme of divestments of non-core businesses and financial assets.

The net financing cost reduced from CHF 0.7 billion in 2002 to CHF 0.6 billion in 2003.

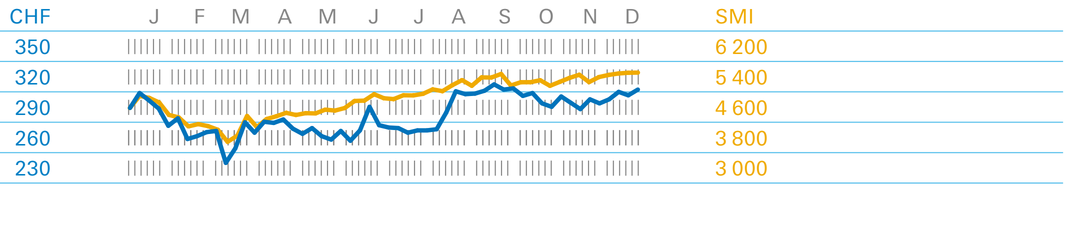
Equity rose from CHF 34.8 billion at the end of 2002 to CHF 36.9 billion. These figures are net of treasury shares, whose carrying value declined from CHF 2.6 billion to CHF 2.4 billion.

The ratio of net debt to equity improved from 42% at the 31st December 2002 to 38% at the 31st December 2003.

Shares, stock exchange

The Nestlé share improved from its 2002 closing price of CHF 293.– to close 2003 at CHF 309.–, an increase of CHF 16.–, or 5.5%. This represents its first under-performance against the Swiss market for six years, but is an out-performance against the Dow Jones Stoxx Food & Beverage Index, which declined in value by 3.4%.

Evolution of the Nestlé registered share in 2003



GLOBE Global Business Excellence

On track with enabled savings

The three original GLOBE objectives have remained unchanged since the initiative was announced in 2000. They are the implementation of harmonised Nestlé business excellence best practices, the implementation of data standards and data management ("managing data as a corporate asset") and the implementation of standardised information systems and technology. Through 2003, the GLOBE Programme continued to be on time and on budget.

The first two objectives, Nestlé business excellence and data standardisation & data management, are at the heart of the GLOBE Programme. They are the key factors in the CHF 3 billion of benefits that GLOBE will enable by 2006 through the Group savings initiatives, Target 2004+, Project FitNes and Operation Excellence. All operating companies have begun to work on these two objectives.

During 2003, there were over 800 Nestlé business excellence projects in progress. These projects are not dependent upon the GLOBE systems as they either do not require any systems or can be implemented with the existing ones. They will enable benefits and prepare each country for a smooth systems implementation. One success was in Mexico, where we have been able to enable savings of over USD 800 000 through improved billing accuracy.

Over 230 global data standards have been defined. By the end of 2003, all participating Nestlé companies had cleansed their data and implemented data management best practices. Obsolete, duplicate and incorrect records have been minimised, and markets are seeing tangible benefits through fewer errors in transactions and improved customer service. Among other benefits, data management allows harmonisation of raw material specifications. For example, the culinary businesses in five European countries were able to reduce specifications from 973 to 521, resulting in less complexity and lower costs.

At the end of 2002, three pilot businesses (Switzerland, Chile/Peru/Bolivia and Malaysia/Singapore) implemented all three GLOBE objectives. These businesses were chosen in part for their complexity, with about CHF 3 billion in sales, more than 13 000 employees (8000 users of the system), 22 factories, 33 distribution centres, 13 third party warehouses and 88 sales offices across six countries. All three achieved their goal of being able to "order, produce, ship, invoice, and collect" after their "go-lives". This does not mean that everything was perfect. The pilots provided valuable lessons for subsequent systems implementations. Beneficiaries in 2003 were Thailand and Poland, which successfully implemented their GLOBE systems that year.

2004 will be an active year for GLOBE. All participating countries will realise benefits through the implementation of best practices and data standardisation and data management, whilst a number of key markets in each Zone will implement the GLOBE systems.

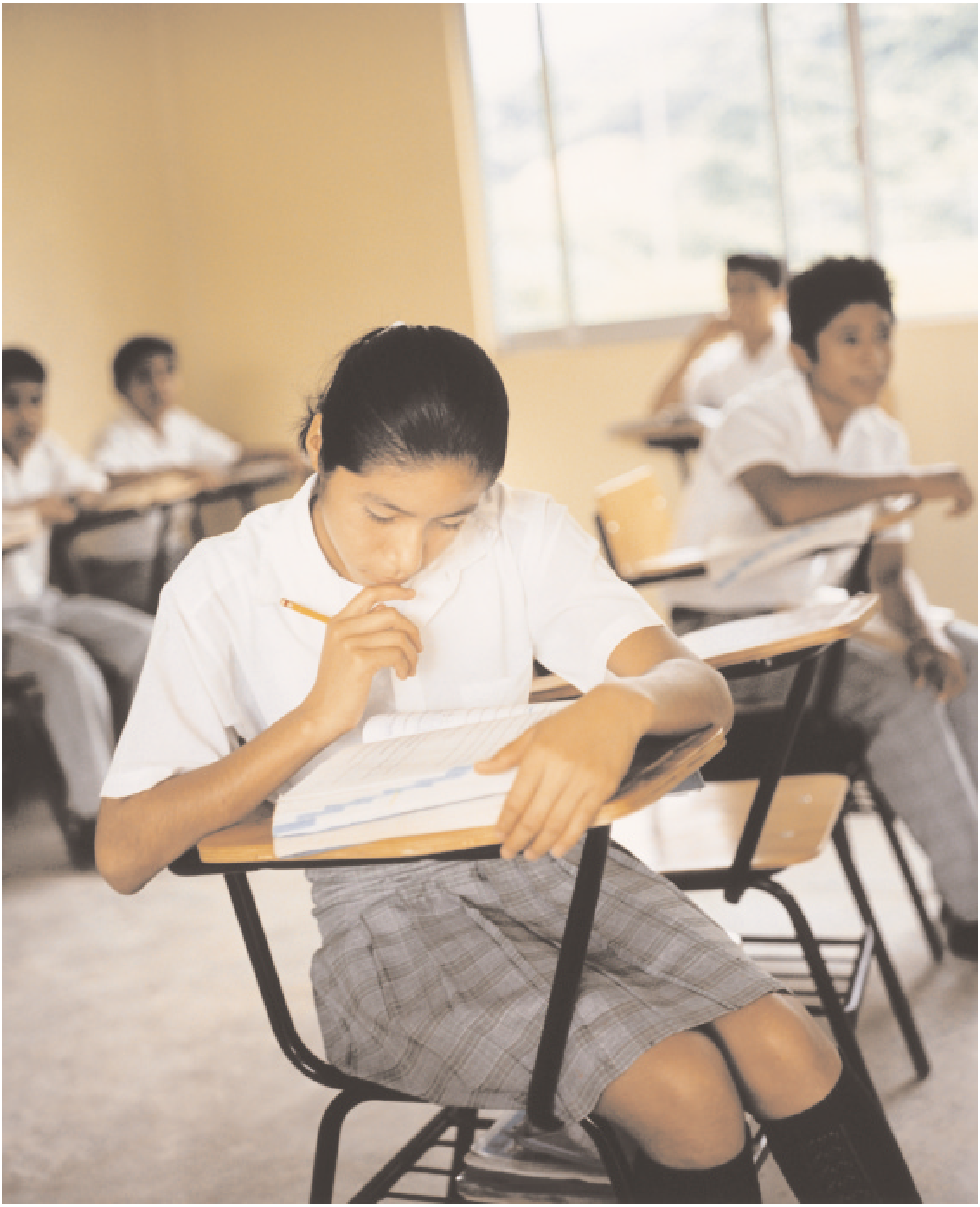
The GLOBE "go-live" at the Chembong factory, for *Milo,* Chocolate and Sugar confectionery, in Malaysia in 2003


CHONG Y.F.
Nestlé
CHEMBONG
BUSINESS EXCELLENCE
GLOBE
UNLOCKING OUR POTENTIAL
Nestlé

In the 137-year life of Nestlé, our fundamental approach to business has been the creation of long-term sustainable value for our consumers, customers, employees, shareholders and society as a whole. The Nestlé Corporate Business Principles lay out our basic responsibilities to these stakeholders and openly state that we favour long-term business development over short-term profit. They include all nine principles of the United Nations Global Compact regarding labour standards, human rights, and the environment.

Sustainable development

Children in the Tezonapa region of Mexico in a school supported by Nestlé



Applying the Nestlé Corporate Business Principles

The Nestlé Corporate Business Principles, first published in 1998, with subsequent revisions in 2002 and 2003, lay out Nestlé's basic commitments to corporate social responsibility and sustainable development. These include Nestlé's commitments to:

— Customers and consumers
— Society and public/private partnerships
— Employees
— Agricultural raw materials
— Environment
— The United Nations Global Compact (human rights, labour and environment)

The following describes key events and accomplishments in 2003 as we applied our Corporate Business Principles in each of these fields.

Nestlé and the UN Global Compact

The nine Principles of the United Nations Global Compact, dealing with labour rights, human rights and the environment, form an integral part of the Nestlé Corporate Business Principles, available on the Nestlé corporate web site, www.nestle.com. On a number of different occasions Nestlé has been a public advocate for the Global Compact, as proposed by UN Secretary General Kofi Annan in his speeches in Davos in 1999 and 2001.

The nine Principles of the Compact are meant first and foremost as a platform to lead a focused dialogue "for learning and sharing lessons about what works and what doesn't." (Kofi Annan 2001). Nestlé wants to lead this dialogue "with those actually concerned", i.e. with people in the developing world working with Nestlé as employees, suppliers, partners and in those communities. (Peter Brabeck-Letmathe, speaking at the United Nations in Geneva, 2002).

The nine Principles reflect core values of the Group. We are fully committed to respect and enact them and, at the same time, we ask for the Principles to be implemented by states and others to protect and respect our employees as citizens, and the Group as a whole.

This is the first time we report on our involvement in the UN Global Compact, and we understand this also as part of the dialogue; reporting will further develop as we gain experience.

Human Rights – In 2003 Nestlé became a founding member of the International Cocoa Initiative, an organisation working with unions, non-governmental organisations, other companies in the cocoa industry and the International Labour Organisation (ILO). The initiative is focused on West Africa, with the aim of implementing ILO Convention 182, dealing with unacceptable forms of child labour.

The Nine Principles of the UN Global Compact

Human Rights

1. Respect international human rights – the 1948 Universal Declaration of Human Rights – within their sphere of influence;
2. no complicity in human rights abuses.

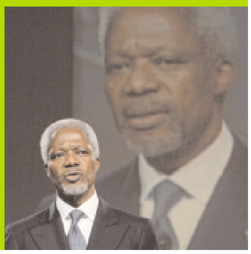
Labour

3. Assure freedom of association and the right to collective bargaining;
4. no use of forced labour;
5. no use of child labour;
6. no discrimination in employment.

Environment

7. Support a precautionary approach to environmental challenges;
8. initiatives to promote greater environmental responsibility;
9. encourage environmentally friendly technologies.

Kofi Annan at the World Economic Forum in Davos



While most rules of the 1948 Universal Declaration of Human Rights are addressed to governments, Nestlé applies them within its sphere of direct influence.

Labour rights – In 2003 Nestlé investigated allegations of unpaid prison labour being used in China by subcontractors to produce toy *Nesquik* rabbits. While the allegations proved to be unfounded, the labour restrictions included in the Purchasing Principles which we provide to suppliers (based on our Corporate Business Principles) were expanded specifically to include subcontractors.

Nestlé Waters experts are working with the UNHCR to improve water supplies to refugee camps in Ethiopia

Customers and consumers

The Nestlé Corporate Business Principles regarding customers and consumers were significantly expanded in 2003, with a much more detailed set of Consumer Communications Principles dealing with advertising and other communications to consumers. An expanded set of Principles dealing with advertising to children was an important part of the development, and a new system of review of television advertising by headquarters' management was instituted. These new Consumer Communications Principles are believed to be the most complete and stringent set of advertising guidelines of any food company. They are available on the Nestlé corporate website.

Society and public/private partnerships

The United Nations High Commission on Refugees (UNHCR) has named Nestlé a Global Partner of the UNHCR in recognition of our support of and active participation in improving water supplies for refugee camps in Ethiopia. Nestlé Waters experts are working with the UNHCR to improve water supplies to refugee camps there, as well as to document procedures which can be used by other refugee camps to develop and protect water sources.

Nestlé has engaged with the World Health Organisation (WHO) and major food companies to explore goals regarding improved nutrition and health aspects for consumers, including obesity.

Mr. Brabeck-Letmathe met with both the outgoing WHO Director General, Dr. Gro Harlem Brundtland, and the new WHO Director General, Dr. Jong Wook Lee, to discuss how to improve nutrition on a global level. In addition, members of Nestlé's senior management are leading a coalition of global food and drink manufacturers in on-going dialogue with WHO.

Nestlé continues as a founding corporate sponsor of Red Cross/Red Crescent Federation's Africa Health Initiative (ARCHI 2010), focused on HIV/AIDS. Nationwide programmes have been developed in Nigeria and Kenya to teach teenagers how to protect themselves against infection by HIV/AIDS, and to assist those living with HIV/AIDS. Mr. Brabeck-Letmathe has agreed to serve on the Board of Directors of the Foundation of the Federation of the Red Cross/Red Crescent Societies.

04
Member of Dow Jones Sustainability Indexes

Nestlé has been selected in the Dow Jones Sustainability Index, 2004, Foods Sector, with a "best in class" rating in all three sections, economic, environmental and social

Employees

Having published in 2002 the Nestlé Human Resources Policy, as well as Nestlé on the Move to Flat and Flexible Organisations, 2003 has seen a new edition of the Nestlé Management and Leadership Principles, as well as the Nestlé People Development Report.

The Nestlé Management and Leadership Principles were first issued in 1997. They include the principles and values that form the core of Nestlé's corporate culture and they recognise the behaviour that members of the organisation should adopt.

The first version reflected the situation of the Company at that time and needed to be revised in view of the challenges the Company is facing today. The new version continues to strengthen Nestlé's core values, but increases the focus on those skills that will ensure Nestlé's future.

Strong emphasis is put on Nestlé's capability to adjust to an ever-changing environment. This capability will continue to be challenged as Nestlé continues to grow, both in size and complexity. The new Management and Leadership Principles also clearly illustrate the human dimension of Nestlé, reinforcing our strong orientation to people, products and brands rather than systems.

To support the implementation of these policies, major initiatives were undertaken during 2003:

The Leadership Programme has the objective to develop the leadership skills of the top executives. During 2003 and 2004, around 250 participants will enhance their inter-personal and networking skills. The ability to co-operate, to stimulate initiative and to focus on results calls for an in-depth change in the way leadership is exercised. The top executives of the Group will be leading by example to implement this change.

Develop People is a new approach towards management performance. This approach is essential in that it corresponds to the fundamental changes in today's working environment, for example:

— direct supervision has almost disappeared, resulting from the fact that an individual's presence and performance are progressively disconnected from each other;
— the energy of each employee is required to contribute actively to results: motivation and dynamic leadership therefore become more important than supervision;
— people development has evolved from its strong hierarchical framework and, as a result, employees who recently started their career may no longer feel stimulated in a traditional organisational set-up.

Top: Quality control in water manufacturing in Shanghai, China
Above: Rive-Reine, Nestlé International Training and Conference Centre

		2003	2002
By geographic area	Europe*	40.9%	40.9%
	Americas	33.9%	34.2%
	Asia, Oceania and Africa	25.2%	24.9%

* 6693 employees in Switzerland in 2003

		2003	2002
By activity	Factories	136	139
In thousands	Administration and sales	117	115
	Total	253	254

All these changes impose a different way of assessing individual performance. More emphasis is put on long-term objectives and on developing the personal skills required to achieve these. In a fast-moving business environment, it is key to retain a long-term view. Professional skills remain of primary importance but they need to be complemented by communication and leadership skills, without which a network organisation cannot operate.

Stouffer's factory
in Springville, USA

The human resources policies and the Management and Leadership Principles are supported by on-going communication plans to ensure that they are "lived" by the organisation.

The Management and Leadership Principles are not only distributed widely throughout the Nestlé Group, and translated into many languages, but are also presented and discussed in all training programmes taking place at our International Training and Conference Centre in Rive-Reine, Switzerland, reaching some several thousand employees each year.

A high priority is attached to direct contact with staff even at the highest level of the organisation. The CEO of the Nestlé Group holds a large number of formal and informal meetings with a random selection of employees, where the implementation of the Management and Leadership Principles is discussed. Such meetings, also held by the other members of the Executive Board, allow the top management to have direct feedback on the involvement and motivation of staff.

Talent Management: Nestlé attaches great importance to its ability to attract talented people. An independent organisation, Universum, performs an international survey to measure the attraction of companies for graduates of major educational institutions. This survey positions Nestlé as the most favoured employer in Switzerland and as an employer of high repute in many other countries in Europe, Asia and the USA.

The precise targeting of the appropriate talent has become an integral part of the development strategy in human resources. The efforts deployed to position the Company are addressed to the community at large but also to universities, or other high-level educational institutions, as well as to the scientific community.

The numerous spontaneous job applications addressed to Nestlé are managed systematically, including those registered on the Nestlé recruitment web site. Recruitment has become more explicitly based on a variety of competences that are in line with today's working environment, as well as with the capacity to operate in a network organisation.

As mentioned in all Nestlé human resources policies, professional skills and insight and the capacity, and willingness to apply the company's Management and Leadership Principles form the criteria for being employed by Nestlé, regardless of origin, nationality, religion, race, gender or age. This is clearly reflected by the 72 different nationalities employed at the company's head office in Switzerland, as well as by the expatriate population around the rest of the world, which numbers 82 different nationalities. This diversity, reflecting Nestlé's worldwide presence, is one of the key components of the Company's success.

Agricultural raw materials

Nestlé continued its efforts to support sustainable farming practices wherever feasible and especially where the Company has direct contact with farmers. These efforts are concentrated on key raw materials such as milk and coffee.

A number of important projects have been instituted locally to help coffee farmers in Mexico, China, Thailand and other countries (see the Coffee Report included with this Management Report or www.nestle.com).

Nestlé, together with some other food companies, founded the Sustainable Agriculture Initiative of the food industry (www. saiplatform.org) with the aim of preserving or developing sources of raw materials that are sustainable from an economic, social and environmental perspective.

Nestlé has also been active in the new Common Code for the Coffee Community (CCCC) project from its launch. This is a joint project of the coffee trade and industry, the countries of origin, development cooperation and interest groups to develop a global code for the sustainable growing, processing and trading of mainstream coffee.

Thailand and Mexico: coffee plantations

Environment

During 2003 Nestlé continued to improve its environmental performance throughout the supply chain.

The environmental performance indicators (EPIs), as detailed in the following table, demonstrate our on-going commitment to sustainable manufacturing practices and to eco-efficiency, i.e. the ability to manufacture more products with less resources and waste. The results below demonstrate improving trends in a period during which production volume increased by 27%.

The 2002 indicators cover the 98% of Nestlé factories that were in operation for the full year. The latest EPIs will be published on www.environment.nestle.com.

Collecting milk for the Shuangcheng factory in China

		1999	2000	2001	2002
Water consumption	m^3 per tonne product	8.59	8.40	7.63	6.20
Energy consumption	gigajoules (GJ) per tonne product	3.65	3.61	3.44	3.08
Waste water generation	m^3 per tonne product	6.62	6.30	5.87	4.89
Greenhouse gases	kg CO_2 per tonne product	197	191	178	155
Air acidification potential	kg SO_X equiv. per tonne product	1.21	1.17	1.09	0.84
Ozone depleting substances	g R-11 equiv. per tonne product	2.41	1.17	1.07	0.33
By-products/waste generation	kg per tonne product	78.5	70.4	69.5	58.3
By-products/waste	% recovery	74.9	72.6	72.3	78.1

Top: Aubigny Friskies factory, France
Above: Waste recovery in a food factory, Nigeria

The Nestlé Environmental Management System (NEMS) has been updated to take advantage of the experience gained with its implementation throughout the Company. The revised NEMS reinforces the focus on continuous improvement of environmental performance. It also takes into account the latest developments regarding environmental management systems. NEMS responds to Nestlé's specific needs while, at the same time, being compatible with international standards. It requires all Nestlé operating companies and sites throughout the world to establish environmental targets and plans, to monitor progress against plans, to check results, to define preventive and corrective actions and to improve the efficiency of environmental management. As an example, the Nestlé Research Centre in Switzerland has been awarded the Eco-conscience Trophy 2003 Certificate of Excellence for its significant reduction of energy and water consumption. The award committee composed of representatives of the public and private sectors, WWF and media stated that the "attitude of Nestlé serves without discussion as an example for business".

In the area of packaging, we continued to develop solutions that contributed to a better environment, while at the same time pursuing our packaging source reduction programme. Packaging material savings from 1991 to 2003 amounted to 245 000 tonnes.

Significant results have been achieved in the phase-out of ozone-depleting substances by converting refrigeration plants to natural refrigerants. The quantity emitted during 2002 was only 3.5% of that emitted in 1986 when measurements first began. As an example, the Institution of Chemical Engineers awarded Nestlé United Kingdom their top award, The Cremer & Warner Medal in 2003 for the development and installation of a new carbon dioxide/ammonia refrigeration plant. This new plant eliminates the use of ozone depleting substances and offers improved energy efficiency.

Communication on environmental issues was further developed during the year, with the publication of Nestlé and Water – Sustainability, Protection and Stewardship, a report which includes The Nestlé Water Policy. This document describes how our commitment is integrated throughout our activities, and highlights our practices, initiatives and achievements through a wide range of case studies.

2003 was a year in which our managers needed to respond to macro issues in each of our three Zones, as well as to a particularly tough competitive environment in Water in North America.

This section discusses the trading performance of our Food and beverage business in each of our three Zones and of Nestlé Waters, and shows how successful we were in responding rapidly to the changing business environment.

In a year that was marked by the war in Iraq, the SARS outbreak, the hostilities in Côte d'Ivoire, the currency crises in Latin America, as well as a general economic malaise and tough competitive conditions in many of our markets, it is pleasing to be able to report an improvement in EBITA margins for each of our four Food and beverage reporting responsibilities.

Management responsibilities: Food and beverage

			2003	2002	2001
Zone Europe*	Western	91.0%	26 000	25 814	24 655
	Eastern and Central	9.0%	2 574	2 254	2 087
	Total sales	100%	28 574	28 068	26 742
	Beverages	17.2%	4 901	4 623	
	Milk products, Nutrition and Ice cream	27.4%	7 825	7 514	
	Prepared dishes and cooking aids	27.0%	7 729	7 721	
	Chocolate, confectionery and biscuits	17.6%	5 035	5 102	
	PetCare	10.8%	3 084	3 108	
	Total sales	100%	28 574	28 068	
	EBITA	12.5%	3 561	3 442	
Zone Americas	USA and Canada	69.0%	19 089	19 425	15 548
	Latin America and Caribbean	31.0%	8 566	9 868	11 050
	Total sales	100%	27 655	29 293	26 598
	Beverages	11.9%	3 298	3 646	
	Milk products, Nutrition and Ice cream	30.9%	8 535	8 690	
	Prepared dishes and cooking aids	21.3%	5 906	5 725	
	Chocolate, confectionery and biscuits	13.5%	3 733	4 164	
	PetCare	22.4%	6 183	7 068	
	Total sales	100%	27 655	29 293	
	EBITA	15.0%	4 150	4 189	
Zone Asia, Oceania	Oceania and Japan	31.2%	4 497	4 757	4 998
and Africa	Other Asian markets	40.3%	5 819	6 234	6 380
	Africa and Middle East	28.5%	4 116	3 889	4 080
	Total sales	100%	14 432	14 880	15 458
	Beverages	33.1%	4 770	5 110	
	Milk products, Nutrition and Ice cream	40.7%	5 876	5 995	
	Prepared dishes and cooking aids	12.6%	1 822	1 791	
	Chocolate, confectionery and biscuits	9.8%	1 415	1 441	
	PetCare	3.8%	549	543	
	Total sales	100%	14 432	14 880	
	EBITA	17.4%	2 508	2 564	
Nestlé Waters	Europe	50.4%	4 067	3 504	
	USA and Canada	44.0%	3 545	3 739	
	Other regions	5.6%	454	477	
	Total sales	100%	8 066	7 720	
	EBITA	9.7%	782	696	
	Retail	83.4%	6 727	6 384	
	Home and Office Delivery (HOD)	16.6%	1 339	1 336	
	Total sales	100%	8 066	7 720	

In millions of CHF

* 2002 Figures restated for Eismann, now reported in Other activities


new
Nestlé
KitKat
Kubes

Zone Europe (EUR)

Sales and profitability

Sales rose to CHF 28.6 billion. This was achieved despite the 2.1% reduction from divestitures, net of acquisitions, which resulted from our strategy to divest non-strategic and low profit activities. Exchange rates had a positive effect of 1.1%, which was essentially due to the strength of the euro against the Swiss franc. Organic growth of 2.1%, made up of price adjustments of 2.0% and a RIG of 0.1%, was the key contributor to the positive evolution of sales.

The EBITA of the Zone was CHF 3.6 billion. The margin improved from 12.3% in 2002 to 12.5% in 2003, despite higher pension costs and increased marketing support. Savings through productivity and structural cost improvements within our industrial and administrative bases were a key contributor to the achievement of the EBITA performance and included the first benefits from the important restructuring initiatives started in 2002. The main contributors to the improved profitability were PetCare, Culinary products, Ice cream and Chilled dairy.

The major external influences during the year were the deteriorating economic situation and increasing pressure on selling prices exercised by discounters and deflationary pricing with private labels. In this difficult context, and despite the resulting modest RIG, we succeeded in either maintaining or improving our shares in the majority of our key product categories. Selling price adjustments resulted mainly from higher cocoa prices and from our determination to maintain our profit margin.

The RIG performance also reflected strong competition in the more mature European food markets. The hot summer weather, meanwhile, impacted the RIG of certain key product categories, particularly Chocolate and Culinary, which was only partly offset by the benefit to the RIG of the smaller Ice cream category.

Western Europe achieved organic growth of 1.3%. A positive evolution was recorded in most countries. The main contributors were Italy, Spain, Portugal and Greece. The slightly negative RIG of –0.4% was essentially due to the aggressive price policy and development of hard discounters in Germany and France, as well as the consumption decline of certain market segments in the UK and Switzerland.

Eastern and Central Europe achieved organic growth of 9.9% and a RIG of 5.1%. The slowdown compared to 2002 was due essentially to Russia, which was affected by the consumption decline in Chocolate resulting from increased selling prices. However, we succeeded in improving our share of this important product category. Russia continues to have great potential, and we expect an acceleration of growth in 2004. The aggregate growth elsewhere in Central and Eastern Europe was in line with the good performance achieved in 2002.

Our ice cream business moved forward well, both in terms of sales and profitability. The hot summer weather ensured good growth and, impressively, we were able to gain share in most key countries. Our improved asset utilisation, as a result of the restructuring initiatives started in 2002, as well as the successful integration of the Schöller ice cream business, contributed to a strong EBITA margin improvement. The April 2003 acquisition of the *Mövenpick* brand for super premium ice cream products and related ice cream businesses further strengthened our position in some European markets, particularly Switzerland.

PetCare Europe further optimised its industrial structure and cost base and pursued its value creation strategy, focusing on higher added value products. There was rapid growth from super premium and premium products, such as *Pro Plan, Vital Balance/One* and *Gourmet* all over Europe as well as *Bakers* in the UK.

Kit Kat Kubes, to share with friends, launched in the UK

The year 2003 was important for our European Chilled dairy business. Particularly noteworthy was the alliance in Germany and Austria with the German market leader, Müller. This transaction was coupled with the licensing of our *Nestlé LC1* brand to Müller. In Switzerland we announced the conclusion of a co-packing and distribution agreement with Emmi, the Swiss Chilled dairy industry leader, and the divestment to them of our factory in Hirzel. These long-term alliances with strong local operators in the dairy market will facilitate the development of our brands and products in these countries. In the UK, we successfully integrated the dairy chilled business acquired from Northern Foods in 2002.

Another important event was the acquisition, in November 2003, of OJSC Volynholding, the Ukrainian leader in the segments of mayonnaise, ketchup and mustard. This acquisition, added to our *Maggi* range, gives us clear market leadership in Culinary products and strengthens our presence in Ukraine, giving a third major pillar for our business alongside Confectionery and Beverages. It also makes Nestlé the most important food company in Ukraine.

We also actively pursued our strategy to divest non-strategic, low profit activities and brands, with the sale of our milk powder businesses in Germany and the UK, as well as our canned prepared dishes and canned dessert businesses in France.

Innovation and renovation

Innovations and renovations since 2001 delivered more than 30% of our sales in 2003. This illustrates the importance of innovation to our sales growth. Among several successful initiatives in 2003, the following should be highlighted:

In Ice cream, the extension of *La Laitière* range in France, the re-launch of *La Cremeria* with new recipes in Italy, the introduction of a new range under *La Lechera* in Spain.

Authenticity and quality or how to become a major player in retail, *La Laitière,* France

In Infant nutrition, the launch of a *Nestlé Mon Potager* range of vegetables in plastic cups in France as well as a new range of *Nestlé* vegetable soup and cereals in France and Germany.

In Chilled dairy, the roll-out of the *Nestlé Sveltesse* brand in Italy, the UK, Belgium and Portugal, and the European launch under the *Nestlé Sveltesse* brand of a new generation of fruit yoghurts combining fruits and pastry desserts recipes.

In Culinary products, the introduction of the *Maggi* range into the seasoning segment in Eastern Europe, and the launch of a new *Maggi* soups concept in Germany, Poland and Russia.

In Beverages, the European re-launch of *Nescafé Classic* using a new technology to improve the aroma.

In Confectionery, the launch of *Kit Kat Kubes,* of *Nestlé Sveltesse* cereal bars in France and the Czech Republic, as well as *Fruity Smarties* in Germany.

Management initiatives

We pursued the three Group initiatives, Target 2004+, Project FitNes and IC^3. In production, the main result was a considerable decrease in our cost base and an increase in asset utilisation, achieved through the reduction of production lines and the disposal or closure of 11 factories, particularly in Dairy, Nutrition, Ice cream, Chocolate and PetCare. In administration, improvements in "white-collar" efficiency in all major markets through Project FitNes contributed to a reduction in overheads of 60 basis points before the impact of higher pension costs. Significant steps have also been taken towards shared service centres in the key European countries.

Outlook

Our key objective in 2004 is to accelerate growth whilst continuing to increase the EBITA margin. In the mature and highly competitive markets of Western Europe growth will mainly come from our focused and increased efforts in innovation and renovation. In Eastern Europe we expect strong growth coming mainly from Russia, Ukraine and Central Europe.

The Zone's EBITA margin should improve as a result of our sales growth and of our increased efficiency in production and administration. Our product portfolio optimisation will continue and will enable a further concentration of our marketing and commercial spend to the benefit of the higher growth and value categories.

		– 0 +	RIG	OG
RIG and Organic growth (OG)	Western		–0.4%	+1.3%
	Eastern and Central		+5.1%	+9.9%
	Zone Europe		+0.1%	+2.1%

RIG   + = OG

Change in the average value of key currencies versus CHF	EUR		+3.7%
	GBP		–5.6%


Dreyer's
Grand Light
SUPERIOR TASTE GUARANTEED
ALL NATURAL FLAVORS
Chocolate Fudge Mousse
Chocolate Mousse Light Ice Cream with Swirls of Chocolaty Fudge

Zone Americas (AMS)

Sales and profitability

There was a difficult economic environment across the Americas during 2003, as well as a significant deterioration of exchange rates against the Swiss franc. As a consequence, sales for 2003 were CHF 27.7 billion, a reduction of CHF 1.6 billion. The Zone's organic growth was 5.4%, due particularly to pricing in Latin America. This level of pricing depressed the RIG, which ended the year at 0.6%.

Our decision to focus on margin protection in our more difficult markets paid off, with good progress in profitability. The EBITA margin improved from 14.3% in 2002 to 15.0% in 2003. There was a reduction in distribution costs, trade spend, marketing and general overheads. These sales and profitability figures constitute a good performance in the prevailing economic circumstances.

The sales performance of the Zone can be split into two parts – being the North (USA, Canada and Mexico) and the Middle and South (all the other countries/regions of the Zone). In the North, where economies have remained relatively strong, we have been able to outperform industry growth and achieve our highest profit margin. The Nutrition business in the USA shows particularly good development, along with our nutrition and wellness brands in other divisions such as *Stouffer's Lean Cuisine.* These developing businesses proved the merit of our focused strategy in the area of Nutrition. Other areas of particular note are the growth in *Nescafé, Nestlé Toll House* refrigerated cookies and Food-Services. This year also saw the first full year of the Hand-held Foods Group *(Hot Pockets* and *Lean Pockets),* which operates within the Nestlé Prepared Foods Company. This business performed in excess of our assumptions at the time of the acquisition and showed good growth and innovation with new products such as *Mexican Style Hot Pockets* and *Hot Pocket Pot Pie Express.*

The pet care market in the USA was highly competitive during the year and did not grow at historical levels. Our performance, particularly in terms of sales growth, was also impacted by our integration of the Friskies and Purina businesses. Nevertheless, we improved profit margins on the other hand, PetCare in Latin America and the Caribbean performed well, despite the economic conditions.

Our Canadian business continues to show growth rates and EBITA margin improvement above industry levels. We now have the top three selling confectionery brands in the country, along with category leadership. There was good growth too in Nutrition and *Stouffer's Lean Cuisine*, as well as *Coffee-Mate* and *Nesquik.*

In Mexico, our greater alignment of sales to consumption, initiated in the second half of 2002, has proven very successful, delivering growth in sales and record margins. Additionally, we have maintained or improved the strong shares that we enjoy in our strategic categories. Shelf stable dairy, Nutrition, Ice cream and Confectionery, in particular, experienced excellent growth. *Nescafé,* meanwhile, expanded its vending presence to capitalise on the "on-the-go" consumption opportunity.

Very difficult economic conditions in the middle and south of the Zone, most evident in Brazil, Venezuela, Argentina, Colombia and the Dominican Republic, hampered our ability to generate any momentum in underlying sales volumes. Consequently, we focused on protecting and improving our margins and, in face of rising input costs and currency devaluations, we made improvements in pricing. Therefore, despite a low RIG, we were able to deliver healthy organic growth. In Brazil, we have improved our position in Ice cream, with a positive RIG. Our Biscuits business has been restructured to focus on value added products with better margins and

Dreyer's Grand Light, a light ice cream that tastes as rich and creamy as full fat, launched in the USA prospects. We made good progress in Nutrition, with our health care products now consolidated under the *Nutren* brand.

We received final approval in the USA for the merger of our Nestlé USA ice cream business with Dreyer's Grand Ice Cream Company. This merger gives us the number one position in ice cream in the USA and will become a cornerstone of our worldwide Ice cream business. We have already begun the integration process, with synergies identified and being realised. Elsewhere in Ice cream, we inaugurated a new factory in Cuba in April and completed a merger with Payco in Puerto Rico in July. Payco is the leading ice cream distributor while Nestlé is the only local manufacturer.

At the end of October we inaugurated a new USD 165 million frozen food factory in Jonesboro, Arkansas, USA.

The Dairy Partners of America (DPA) joint venture with Fonterra, covering Chilled dairy and Ready to drink milks in Brazil, Argentina and Venezuela, as well as the supply by DPA to Nestlé of plain milk powder, was established in 2003.

Innovation and renovation

2003 was a very intense year for innovation and renovation, and among many successes were:

In Beverages, *Nescafé Frothé* and *Nescafé Java* in the USA, *Nescafé Ice* in Canada.

In Culinary, *Stouffer's Lean Cuisine* microwavable pizza and low carbohydrate dishes in the USA, the expansion of *Maggi Chicken Delights* through Latin America, and the introduction of a seasoning, *Maggi Chef,* in a number of countries.

In PetCare, the launch of *Purina Beneful Dry Dog* brand extensions in the USA, and the introduction of *Purina Beneful* in Brazil and Mexico.

In Nutrition, the implementation of *Nido 1+, 3+, 6+* and the roll-out of the *Nestlé* Developmental Nutrition Plan throughout Latin America, and the launch of *Nan* with probiotics in Mexico, the launch of *Milo/Nescau Actigen-E* in Chile and Brazil.

In Confectionery, the launch of *Kit Kat Chunky* in Latin America, manufactured in Brazil and Venezuela, the launch of *Nestlé Toll House* confections in the USA, as well as new *Aero* and *Smarties* products in Canada.

In Ice cream there have been improvements in growth and share in the key countries of Canada, Brazil, Mexico and Chile. Additionally, intense new product activity took place across the Zone, including *Häagen Dazs Extras* in Canada, *Häagen Dazs Desserts Extraordinaire* in the USA, as well as *Drumstick Easter Egg* in Brazil and *Negresco* in Paraguay and Brazil, *Zux* in Mexico and *Chúpate el Dedo* in Chile and Peru.

Management initiatives

2003 has seen the consolidation of the management and organisational structures put in place during 2002. This included the formation of new regions such as the Austral-America Region (started in 2002 and comprising Chile, Argentina, Peru, Bolivia, Paraguay and Uruguay) and the new Caribbean Region (a consolidation of the English and Spanish speaking Caribbean), with its Head Office in Santo Domingo, Dominican Republic. Changes have also been implemented in our structure in Brazil in order to maintain a fast, flexible and focused organisation.

In the USA, meanwhile, our operating company, Nestlé USA, has been split into two companies, Nestlé Brands Company and Nestlé Prepared Foods Company. These two businesses, together with the Nestlé Purina PetCare Company, will report into the Office of the Chairman located in Glendale, California. They will eventually be supported by a Nestlé Business Services Company, which will provide shared services for many functions and activities. The first stages of the creation of this unit have been completed and further steps will be taken in 2004. This new structure will enable our businesses to meet the challenges of the rapidly changing competitive environment and to focus on their development priorities and market strategies.

The integration process in the USA of Ralston Purina (now Nestlé Purina PetCare Company) and Chef America (now Hand-held Foods Group, part of Nestlé Prepared Foods Company) has continued in 2003. To date we can conclude that our financial assumptions and synergy targets at the time of the acquisitions have been more than adequately met, thanks to the commitment of all managers and employees involved. We are confident that these businesses will continue to realise the promise that they showed at the time they were acquired. Furthermore, each has introduced new ideas and ways of doing business for the benefit of the Company as a whole.

We have continued with existing initiatives including the optimisation of our business portfolio by divesting non-strategic businesses such as *Ortega* and *Nestlé Flipz* in the USA. In Mexico and Brazil, meanwhile, we have divested our cocoa processing facilities to a company specialised in these activities.

Outlook

The improvement over the last years in our EBITA margin bears witness to the successful implementation of all the Group initiatives of Target 2004+, IC^3 and Project FitNes. The key objectives of 2004 will be to continue with the positive evolution of the EBITA margin for the Americas, whilst also delivering volume growth as a key element of our organic growth. These will be delivered by further focusing our business, whilst also building our presence in the Nutrition and Wellness categories. The difficult economic conditions of the last two years forced many markets to reorganise and restructure. This leaves the Zone in a strong competitive position, when economic conditions improve, particularly in Latin America, to take advantage of future growth opportunities.

		– 0 +	RIG	OG
RIG and Organic growth (OG)	USA and Canada		+2.8%	+3.6%
	Latin America and Caribbean		–3.8%	+9.0%
	Zone Americas		+0.6%	+5.4%

RIG + = OG

Change in the average value of key currencies versus CHF	USD		–13.2%
	BRL		–19.4%
	MXN		–22.8%


ACB
Made Of MILO
MILO

Zone Asia, Oceania and Africa (AOA)

The Australian Institute of Sport (AIS) and Nestlé encourage young Australians to lead active, healthy lives

Sales and profitability

2003 was one of the most challenging years for the Zone, with the war in Iraq and its impact on our Middle East operations, the macro-economic problems in Japan, the economic disruptions/troubles in West Africa and the outbreak of SARS in major Asian countries. Despite these events, sales reached CHF 14.4 billion. Organic growth was 4.5%, with RIG of 1.8%. EBITA, which was under pressure due to higher prices of raw and packaging materials (e.g. milk solids, MSK and Cocoa), increased from 17.2% to 17.4%.

This margin improvement was due to the continued realisation of savings initiatives and selective selling price increases. We also completed the major restructuring of our Confectionery manufacturing facilities in Australia and New Zealand.

Macroeconomic problems in Japan, characterised by four successive years of consumer price deflation, resulted in another difficult year. 2003 was particularly affected by the restructuring of our vending business, which has, however, created a solid base to establish a long-term business model.

Nestlé Greater China Region, with double digit RIG, has once again delivered a very strong performance, demonstrating sustainable growth in both sales and profits. This was a notable achievement as business operations were hit hard by SARS, with some 90% of worldwide cases reported in this region. The foodservice channels and impulse lines of Ice cream, Water and Confectionery suffered a temporary setback as a change in attitude and behaviour kept people at home, but, through tenacious effort, have rebounded strongly.

The wide ranging effects of the war in Iraq had a negative impact on our business in the Middle East. We had to contend with an uncertain political outlook in the region, with logistical issues which led to lost sales, with a reduced consumer base resulting from the departure of many expatriate families, reduced business travel and a lack of tourists. Together, these issues resulted in lower economic activity and a more challenging environment for the foodservice segment. Despite this difficult context, Nestlé Middle East not only did well but also took additional responsibility by taking over the management of the countries of Iran and Iraq.

Having planned an industrial venture for many years, we succeeded in setting up Nestlé Iran PJSCo which started operations in April 2003. This is a market where the general awareness of the *Nestlé* brand is quite high, and our first product, Infant cereals, won a positive response from consumers. These were manufactured at our new factory in Qazwin. A second plant is under construction on the same site and will be dedicated to Infant nutrition. We are optimistic about the potential of this country of 70 million people, even if these are just first steps.

There was an increasingly competitive environment in the Oceania Region, characterised by general trade de-stocking and slowing growth in key categories. Nonetheless we succeeded in achieving a positive RIG, delivered by effective innovations and renovations throughout 2003.

Market demand in the second half of the year slowed for Nestlé Philippines, but market shares for the key brands were generally maintained. The profit margin was affected by the combined impact of the peso devaluation and the higher prices for some key raw materials. 2004 will be a challenging year, with national elections and a rather unstable economic environment. We expect, however, to generate growth and improve the EBITA of our core product categories by expanding our business through distributors and focusing on out-of-home consumption and continuous innovation and renovation.

Nestlé Thailand achieved excellent results. The economy continued to be strong, driven by consumer spending and capital expenditure, as well as record low interest rates and good export growth. Thailand is likely to remain one of South-East Asia's more attractive markets for foreign investment for the remainder of the decade. We are well positioned to benefit from this.

As the economies of the South Asia Region continue to improve, supported by economic reforms and increased political stability, the outlook for growth is encouraging. We achieved good results this year, outperforming GDP growth, as we continued to strengthen our position across categories by offering innovative and "value for money" products and formats. Good monsoons in 2003, a decrease in social tensions, and an upswing in tourist arrivals to the sub-continent are all catalysts for sustained growth, and Nestlé is well positioned to further expand its reach as the number of consumers of packaged foods increases.

In South Africa, the trade environment was strongly impacted by the strength of the rand, which resulted in significant parallel importing activities in key categories and trade de-stocking. Despite a low RIG, we achieved a positive organic growth. A new logistics hub, established in Mauritius, will cover 14 countries in the South and East African region and will increase efficiency and reduce costs.

The improving trend of growth in Nestlé Central West Africa Region (CWAR) was brought to a temporary halt by the troubles in Côte d'Ivoire, which divided the country into two parts. Nestlé was not able to operate in the northern and western parts of the country as all the distributors had left. The borders with Burkina Faso and Mali were closed for almost a year and, although they have recently been re-opened, it is still safer to transport goods through Ghana. Lost sales due to the troubles are estimated at 6% of CWAR sales. It is difficult to see the situation improving before the scheduled October 2005 election.

Innovation and renovation

2003 was an excellent year for innovation and renovation. A big variety of new products have been launched and many already show positive sales and market growth trends. Among highlights were:

Nestlé Thailand: a low fat version of *Bear Brand* sterilised milk.

Nestlé Australia: its biggest ever relaunch, the *Nestlé All Natural* yoghurt range, high in calcium, with acidophilus and available regular or 99% fat free; Nestlé Australia was the

Milo, with *Actigen-E,* to help promote optimal energy release, launched in China first to develop and launch the highly successful *Kit Kat Caramel Chunky;* a further innovation was the entry into the super premium ice cream segment with the unique range *Wicked.*

Nestlé Japan: *Kit Kat Gold,* a premium indulgent petit *Kit Kat* very well received by consumers who are looking for a more indulgent small treat.

Nestlé China: innovations in infant formula enhanced the growth of our powerful *Nan* and *Lactogen* brands, whilst the launch of *Nestlé Omega 3:6* reinforced our strong presence in adult milk powders; our leading position in growing-up milks was also strengthened through new products such as *Neslac Super Premium.*

Nestlé Philippines: *Milkybar* with *Nido,* positioned as "*Nestlé* Milk in a Bar"; *Milkybar* is the ideal "milk on-the-go" for any time consumption; in Confectionery, the *Nestlé Milo* wafer with energy releasing *Actigen-E*.

Nestlé South Africa: *Dairymaid* premium bulk ice cream in tubs of 1 kg to add value to the growing take-home sector; in Confectionery *Bar One Gold,* a "light" version of the famous *Bar One* countline.

Management initiatives

Project FitNes initiatives such as shared service centres are starting to gather momentum and should deliver further savings across the Zone. Implementation of the tools and the standards for further savings is progressing according to plan. Most of the regions are represented in the saving benchmarks which are established on a yearly basis, with a further improvement targeted for 2004.

Outlook

2004 will be another year of challenge, although we would not expect as many issues as in 2003. We will strive to improve EBITA margins through a strong focus on basic fundamentals, innovation and renovation, a secure high quality growth, streamlining of portfolios and improving industrial and administrative efficiencies.

Looking further ahead, it is encouraging that whilst today approximately 74% of the world population is living in Zone AOA, that figure will have increased to about 77% by 2010. Further, by 2010 the Zone will have an additional 120 million people, who can afford packaged food, and an additional 630 million people for whom convenience and pleasure in food products are important. These demographic developments underpin a high potential for long-term, sustainable, profitable growth.

		RIG	OG
RIG and Organic growth (OG)	Oceania and Japan	–3.5%	–3.9%
	Other Asian markets	+4.9%	+7.2%
	Africa and Middle East	+3.1%	+10.2%
	Zone AOA	+1.8%	+4.5%

RIG + = OG

Change in the average value of key currencies versus CHF	JPY	–6.1%


SAN PELLEGRINO TERME
45 cl
ACQUA
PANNA
NATURAL MINERAL WATER

Nestlé Waters

Sales and profitability

Sales increased 4.5% to CHF 8.1 billion. The main driver of this improvement was 9.1% organic growth, comprising 8.8% RIG and 0.3% pricing. This was partly offset by a 6.7% exchange rate impact, mainly due to the weakness of the US dollar against the Swiss franc.

Nestlé Waters achieved an outstanding growth rate, maintaining momentum for a third successive year of strong growth. The main contributors were Europe, especially countries such as France, Italy and the UK, which benefited from an extraordinary summer heat-wave, and other regions such as the Middle East. North America maintained good growth despite the highly competitive environment.

Overall, the selling price variance was the result of adapting our price levels to market trends; therefore, almost stable in North America, with some increases in Europe, the Middle East and Latin America.

External growth due to acquisitions increased sales by 2.1%. Consistent with our strategy of expanding the Home and Office Delivery (HOD) business, our main acquisition was Powwow, the leading player in Europe. This segment is still small in Europe, but has promising potential in terms of growth and profitability.

The expansion of the *Nestlé* branded waters continued, reaching the important milestone of 1 billion litres, with strong growth rates in the majority of the 32 countries where they are sold. Additionally, our international brands delivered solid growth, especially *S.Pellegrino* and *Perrier,* the latter driven by important efforts in innovation and renovation.

EBITA increased 12% over 2002, to CHF 782 million. This represents a margin improvement of 70 basis points, reaching 9.7% of sales.

The improved profitability was driven mainly by the high organic growth, as well as by specific savings initiatives which delivered increased manufacturing productivity and an improved supply chain, as well as fixed costs containment.

The cost of PET, our main raw material, swung during the year, increasing in several regions of the world. Notwithstanding this, skillful purchasing enabled us to ensure that there was no significant impact on our manufacturing costs.

United States and Canada

Growth in the retail bottled water segment in North America, where Nestlé is the leader, continued at high levels, albeit somewhat lower than last year. Its evolution was characterised by an intense competitive environment, with strong pricing pressure, as well as poor weather during several summer months. The HOD segment was flat, reflecting the economic environment.

Nestlé Waters succeeded in delivering a solid 8.9% organic growth in this difficult environment, even after the outstanding growth rate in 2002, and in keeping its share stable.

Our brand strategy covers three levels: our premium international brands, primarily *Perrier, Vittel, S.Pellegrino* and *Acqua Panna,* our regional brands, each with a strong presence in the territory where it operates, and our value brand, *Aberfoyle/Nestlé Pure Life,* with national coverage in the USA and Canada. We improved volumes primarily by increasing the levels of in-store display inventory, while reducing selling prices only selectively, and we protected overall profitability through tight cost control. Consequently we delivered profitable growth, reflected by the fact that our EBITA in this region increased at a higher pace than sales. Savings initiatives, especially in production and logistics, were an important contributor to improved profitability.

The re-branding of *Aberfoyle* to *Nestlé Pure Life* continued and will be completed in early 2004. The sales performance of *Aberfoyle/Nestlé Pure Life* was remarkable: a 25% organic growth in 2003 leading to more than 600 million litres sold in the USA and Canada.

Europe

Sales increased 16%, to CHF 4 billion, driven by 8.6% organic growth, and the contribution of acquisitions, particularly Powwow.

The historic heat wave in Western Europe during the second and third quarters led to double-digit growth in several countries. The increased consumer demand, as well as a variety of innovations and renovations, fed this growth. Especially encouraging was the growth in mature countries such as France and Italy, as well as the UK, Hungary, Switzerland and Portugal.

Nestlé Waters' HOD business in Vietnam

Our European spring water, *Nestlé Aquarel,* recorded very strong growth in the majority of its countries. The brand visibility increased through partnerships with several European theme parks, as well as sponsorship of the Tour de France cycling race. We also sponsored major cycling events in Portugal and Spain. Its development in Hungary was impressive, almost doubling sales, after its successful launch last year. The brand was introduced in Slovakia and in the Czech Republic during 2003. *Nestlé Aquarel* uses existing production capacities, thus delivering logistical benefits and improving the use of our invested capital. It is available today in 14 countries across Europe.

Our international brands, produced in France and Italy, delivered excellent growth, partly helped by the good weather in Western Europe, but also in the case of *Perrier* due to innovation and renovation. After two successful launches in the previous year, *Perrier* in PET and *Perrier FLUO,* the brand continued innovating and extending its offer with the launch in France and Belgium of *L'Eau de Perrier,* a light sparkling water.

Nestlé Wellness was another fruit of innovation. Launched in Germany under the *Nestlé* brand umbrella, this product, made from natural ingredients such as *Nestlé Aquarel*, ginseng and herbs demonstrates Nestlé Waters' desire to launch products with a strong wellness connotation.

Our activities in HOD showed high growth rates, mainly driven by the UK. Our presence in this segment was further strengthened by the acquisition of Powwow, which brings leading positions in most of the seven countries where it operates. In two years we have built a significant presence throughout Europe, ranking number one, with operations in twelve countries. Nestlé Waters Powwow has started the process of integrating its different entities and will, over a two-year horizon, contribute significant volume and profitability to the Group, as well as sizeable synergies.

Other regions

Operations in the rest of the world also showed a good progression, particularly in the Middle East, as well as in some countries in Latin America and Asia. Our business in China was impacted by the SARS crisis, but nevertheless volume grew at double-digit rates.

Our development in these regions was led by *Nestlé Pure Life,* our worldwide brand. In the majority of countries where the brand is present, progress was very positive, especially in Uzbekistan, Turkey, Jordan, Egypt, Thailand, the Philippines and Argentina. In 2003, the brand was launched in the United Arab Emirates, Saudi Arabia, Egypt (HOD) and Russia, where the local HOD brands were partially switched to *Nestlé Pure Life.* The brand is now available in 17 countries.

Profitability in these regions outstripped the growth in sales, reflecting our preference for businesses that deliver margin opportunity over simple volume expansion.

Outlook

The bottled water segment is expected to continue being the fastest growing beverage category. However, if weather conditions in 2004 are normal, the breakdown of growth by region will be unequal: North America, given the present consumption trends and the bad weather during several months of 2003, should see a higher growth pattern than in 2003; Western Europe's growth rates will be soft, even negative, as sales in 2003 were particularly strong due to the exceptional heat wave.

Overall, Nestlé Waters is expected to continue growing, although at a slower pace than in the last three years. Main sources of growth should be North America, the European HOD segment and the other regions of the world.

		0 +	RIG	OG
RIG and	USA and Canada		+9.3%	+8.9%
Organic growth (OG)	Europe		+7.5%	+8.6%
	Rest of the world		+13.2%	+13.6%
	Nestlé Waters		+8.8%	+9.1%

RIG + = OG

The strength of Nestlé's brands has given the Group an unparalleled position on a global basis across a wide range of product categories. Six worldwide corporate brands, *Nestlé, Nescafé, Nestea, Maggi, Buitoni* and *Purina,* contribute about 70% of the Group's sales, with the *Nestlé* brand contributing about 40%. Nestlé also owns regional and national brands with which consumers have a close and often long-standing familiarity.

Nestlé's brands and products are the focus of continual innovation and renovation so that they meet or exceed our consumers' expectations, whether for taste or for nutritional quality. We seek to maintain a clear-cut quality superiority for our products through achieving a 60/40 consumer preference. We also ensure that our products have a high nutritional standard. We are ensuring too that our brands are marketed responsibly and that they are available whenever, wherever and however our consumers want them.

Among other household names around the world are *Nespresso, Nesquik, Milo* and *Nescau* in Beverages. *Perrier, S.Pellegrino, Vittel, Acqua Panna, Poland Spring* and *Zephyrhills* in Water; *Nido*, *Nespray, La Lechera* and *Carnation* in Milk products; *Stouffer's, Lean Cuisine, Herta* and *Thomy* in Prepared dishes and cooking aids; *Kit Kat, Smarties, Crunch, Polo, Cailler, Butterfinger, Rossiya* and *Oron* in Chocolate and Confectionery and *Friskies, Felix, Alpo* and *Beneful* in PetCare.

Products and brands

			2003	2002	2001
Beverages	Soluble coffee	34.2%	8 046	8 287	8 937
	Nestlé Waters	34.3%	8 066	7 720	7 418
	Other	31.5%	7 408	7 318	7 668
	Total	100%	23 520	23 325	24 023
	EBITA		4 038	4 075	4 259
Milk products,	Milk products	48.1%	11 208	12 339	13 061
Nutrition	Nutrition	21.5%	5 003	5 143	5 366
and Ice cream	Ice cream	26.4%	6 147	5 010	3 770
	Other	4.0%	925	884	844
	Total	100%	23 283	23 376	23 041
	EBITA		2 796	2 756	2 578
Prepared dishes	Frozen and chilled	59.0%	9 484	8 711	7 566
and cooking aids	Culinary and other	41.0%	6 584	7 123	7 526
	Total	100%	16 068	15 834	15 092
	EBITA		1 884	1 712	1 573
Chocolate,	Chocolate	79.6%	8 155	8 493	8 745
confectionery	Confectionery	12.0%	1 231	1 306	1 377
and biscuits	Biscuits	8.4%	854	975	1 122
	Total	100%	10 240	10 774	11 244
	EBITA		1 047	1 180	1 234
PetCare	Sales		9 816	10 719	6 232
	EBITA		1 444	1 418	453
Nestlé FoodServices	Zone Europe	46.3%	3 029	2 849	2 633
(Out-of-Home)*	Zone Americas	29.6%	1 935	1 971	2 130
	Zone Asia, Oceania and Africa	24.1%	1 577	1 786	1 970
	Total	100%	6 541	6 606	6 733
Alcon	Sales		4 579	4 661	4 624
	EBITA		1 243	1 188	1 166
Associated companies	Nestlé's share of results		593	504	535
Pharmaceutical and cosmetic joint ventures	Nestlé's share of sales		473	471	440

In millions of CHF

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


NESCAFE

Beverages

Sales and profitability

Reported sales were flat at CHF 23.5 billion. Organic growth was 6.8%, including a RIG of 5.3%. There were strong performances from Nestlé Waters, Soluble coffee and Chocolate/malt beverages, as well as *Nespresso* and Beverage Partners Worldwide. Emerging markets continued to be the growth drivers for Soluble coffee, as well as for Chocolate/malt beverages. Our initiative to improve the profitability of our Liquid beverage business in Japan had a somewhat dramatic impact on RIG, but leaves us well placed to deliver a good margin improvement in 2004 in that business. The product group margin was 17.2% of sales, reflecting the fast growth of Trinks, which has a lower margin, as well as increased marketing spend for *Nescafé.*

Review of 2003

2003 saw the continuation of low green coffee prices for an unprecedented fourth year. The situation for those farmers who depend solely on coffee for their income has become very difficult in certain countries. To respond to this situation, Nestlé has further accelerated its activities in developing a more sustainable coffee activity from tree to cup – sustainable from a social, economic and environmental point of view.

Examples of some of these activities are included in the separate report on Nestlé and green coffee accompanying the Management Report.

The key reason behind the low green coffee prices is a basic supply-demand imbalance. Too much green coffee is produced in comparison to what the roasters need to fulfil demand. One could also look at this as "not enough demand". For Nestlé, as a roaster, creating consumer demand is a clear responsibility. Our commitment to meeting this responsibility is demonstrated by our coffee sales in 2003, with brands such as *Nescafé* and *Nespresso* once again outpacing the growth of the global coffee market.

Particularly encouraging growth rates were recorded in markets as contrasting as Germany, Canada and the Middle East, Argentina and Ukraine, as well as in the USA.

We are continuing to roll-out new technologies for *Nescafé*. In 2003 these activities were focused particularly on the USA, Brazil, Germany and France, reinforcing the position of *Nescafé* as the preferred product for local consumers.

In the **Chocolate/malt beverage** area, our very strong *Milo* brand continued to make excellent progress particularly in South and East Asia. Nestlé research was able to bring a new, proprietary branded active ingredient to the brand *(Actigen-E).* This was a major contribution to the excellent growth rates on *Milo.*

Beverage Partners Worldwide had a successful year in 2003 with RIG of 8.4%, reflecting good performances in Europe and Asia.

Nestlé Waters is discussed on pages 46 to 49.

Outlook

The outlook for 2004 is for a year of unprecedented new product activity across our categories, with particular emphasis on *Nescafé* and *Nesquik.*

Sales split*		
	Zone EUR	4 901
	Zone AMS	3 298
	Zone AOA	4 770

RIG and Organic growth (OG)		RIG	OG
	Soluble coffee	+3.6%	+3.8%
	Nestlé Waters	+8.8%	+9.1%
	Total product group	+5.3%	+6.8%

* excludes Nestlé Waters and sale within Other activities

RIG + = OG

Nescafé Energo, with *Actigen-E,* launched in Russia


Nestlé
Calcium Plus

Milk products, Nutrition and Ice cream

Sales and profitability

Reported sales were flat at CHF 23.3 billion. Organic growth was 5.1%, including RIG of 1.1%. All the constituents contributed to the positive organic growth, with particularly good performances from Ice cream, HealthCare and Performance nutrition and Cereal Partners Worldwide. The margin increased 20 basis points to 12% of sales, reflecting progress in our Ice cream and Chilled dairy businesses, as well as in HealthCare nutrition.

Review of 2003

Shelf stable dairy achieved good share gains, due to our focus on innovation and renovation and an accelerated introduction of the high added-value *Nido 1+, 3+, 6+* Nutrition System with branded active ingredients (BAI) for children. Other innovations included ready to use liquid *Everyday* in Pakistan (a tea creamer), high value adult milks such as *Svelty* in Mexico (high calcium milk with Prebiotics) and *Omega* in China (to help control cholesterol).

Chilled dairy improved its profitability and established a basis for sustainable growth. We have unlocked synergies in our pan-European organisation and created a standard appearance for *Sveltesse,* our wellness brand for adults. In South America, *Svelty/Molico,* the Zone's adult wellness brand, was the focus of innovation. We are also achieving good growth in Australia and South Asia.

Infant nutrition achieved good growth in key Asian and East European countries, as well as in Mexico and the Middle East. We streamlined our industrial structure, creating focused, dedicated production centres and laying a solid foundation for our key growth drivers of innovation and renovation.

HealthCare nutrition continued to achieve above Group average growth. Notable successes included *Nutren* in Asia, *Clinutren* in Europe and *Peptamen* in North America.

Performance nutrition performed well, with *PowerBar* delivering double-digit growth, helped by its successful low-carb varieties.

The strategy of adding nutritional functionality to established *Nestlé* brands through BAIs continued successfully with sales of over CHF 2 billion.

Ice cream increased its growth, profitability and market shares by strengthening its leading positions in countries such as Canada, Australia, Switzerland, the Philippines, Malaysia and Russia, whilst improving its positions in countries such as France, Brazil and Thailand. It also delivered record growth in China.

We took leadership in the USA through the merger of our US ice cream business with Dreyer's Grand Ice Cream Company. We also added to our portfolio of super premium brands in Europe with the acquisition of the *Mövenpick* brand.

Finally, Ice cream also has a role in nutrition and wellness through products such as *Legend Better For You:* more products will follow in 2004.

Cereal Partners Worldwide, our joint venture with General Mills, performed well in 2003, delivering strong growth, particularly in the cereal bar segment, and improved profitability.

Outlook

Actions taken in 2003 leave the product categories well placed to move forward in 2004.

Sales split*	Zone EUR	7 825
	Zone AMS	8 535
	Zone AOA	5 876

		– 0 +	RIG	OG
RIG and Organic growth (OG)	Milk products		–0.5%	+3.7%
	Nutrition		+1.3%	+5.2%
	Ice cream		+3.3%	+7.0%
	Total product group		+1.1%	+5.1%

* excludes sales within Other activities

RIG + = OG

Nestlé Calcium Plus, recommended by the Osteoporosis Society of the Philippines Foundation, Inc.


Maggi

Prepared dishes and cooking aids

Sales and profitability

Reported sales increased slightly to CHF 16.1 billion. Organic growth was 4.1%, including RIG of 2.4%. This was a well-balanced performance with Culinary, Culinary chilled and Frozen food all contributing well to the organic growth. The margin increased 90 basis points to 11.7% of sales, benefitting from the acquisition of Chef America and effective cost reduction implementation.

Maggi Crescimento soups enriched with *Ninho* milk or *Mucilon,* a source of vitamins, calcium and iron, Brazil

Review of 2003

Our North American frozen food business continued to grow and gain market share on the strength of its expanded portfolio. The newly acquired *Hot Pockets* provides leadership in both frozen prepared meals and handheld snacks. Continued strong *Stouffer's Lean Cuisine* growth was partly offset by other *Stouffer's* products reflecting increasing consumer awareness of the obesity issue.

Lean Cuisine launched a successful crispy microwavable Pizza and a line of low carbohydrate meals to respond to divergent consumer needs for healthy indulgence and carbohydrate control. *Hot Pockets* successfully launched *Pot Pie Express,* a handheld version of an American favourite, which helped fuel double-digit growth.

Chilled products achieved continued growth, led by *Nestlé Toll House,* which is approaching leadership in the growing US cookie dough segment. The launch of *Ultimates,* a larger and more chocolaty cookie concept, drove growth and maintained our innovation leadership. The liquid dough launches in Europe were followed by effective line extensions which continued the excellence performance of the "Bake It" concept.

Buitoni, our Italian food brand, is poised for significant growth in the coming year as we enter chilled pizza in selected European countries and expand our presence in chilled pasta and sauce as well as in frozen pizza.

Culinary products, centred on the *Maggi* brand and focused on convenient meal preparation, continued to demonstrate good growth in developing countries which bodes well for the future of this profitable segment. China, India, Eastern Europe, Central and West Africa and the Middle East are increasingly important growth and profit contributors. Effective deployment and localisation of existing products and concepts is driving this growth, and the opportunity for continued innovation is significant. Bouillon continues its good growth, and *Maggi* launched an array of soup concepts in 2003 including *Maggi Sveltesse* in France, as well as unique seasoning concepts such as *Maggi Magic Chef* in Latin America and *Maggi Recipe Secrets* in the Middle East and Eastern Europe.

Outlook

2004 will be a positive year for the product group. We should benefit from an increased emphasis on innovation, as well as the increasing importance of high growth businesses such as *Hot Pockets* and *Lean Cuisine.* The high growth geographies in Asia, Africa and Eastern Europe, meanwhile, will drive growth in our successful Culinary business.

Sales split*	Zone EUR	7 729
	Zone AMS	5 906
	Zone AOA	1 822

		0 +	RIG	OG
RIG and	Frozen and chilled		+3.3%	+3.7%
Organic growth (OG)	Culinary and others		+1.3%	+4.6%
	Total product group		+2.4%	+4.1%

* excludes sales within Other activities

RIG   + = OG


Nestlé
Made with NIDO

Chocolate, confectionery and biscuits

Sales and profitability

Reported sales fell to CHF 10.2 billion, in part due to disposals of non-core businesses. Organic growth was 3.6%, strong pricing more than compensating the negative 3.2% RIG. The RIG was impacted by the significant retail price increases resulting from the rise in cocoa bean costs early in the year, as well as by inflationary pressures in our important Brazilian business and the unusually long and hot summer in Europe. Global volumes of our strategic brands in fact increased in 2003. The margin reached 10.2% of sales, impacted by pension costs, as well as by the volatility of the raw material price.

Review of 2003

Our strategy during the year has been to continue to improve the quality of our categories, whether by divesting under-performing businesses and streamlining our industrial base or through continued innovation and renovation of our product portfolio. This is central to our on-going objective of improving the performance of this strategic business unit.

Highlights of the year included a continued focus on our flagship brand *Kit Kat,* with the further roll-out of *Kit Kat Chunky* in Central and Eastern Europe, notably in the Czech and Slovak Republics and Poland. We also began the roll-out in Latin America, starting with Venezuela and Brazil. The UK, meanwhile, launched *Kit Kat Kubes,* a new nibble and sharing format, whilst Japan successfully introduced *Kit Kat Gold.* These launches continue our commitment to innovation and investment in our key brand.

There have also been initiatives on our other strategic brands, such as *Smarties, Aero, Polo, Quality Street, After Eight* and *Crunch,* as well as on our strong local brands such as *Butterfinger, Cailler* and *Rossiya.*

We have focused on the wellness dimension within Confectionery with, for example, the launch in France and the Czech Republic of a range of healthy chocolate cereal snacks for adults under the *Sveltesse* brand.

Also in the wellness area is the agreement we have reached with Colgate-Palmolive to develop a business in portable oral care. This joint venture is a key development for our sugar confectionery category.

Brand communication continues to be a priority, and we have introduced our new Chocolate visual identity which underlines the *Nestlé* equity on our strategic brands.

Both the Biscuits and Sugar confectionery segments have seen divestitures of non-core businesses. Although this action has reduced our reported sales in the shorter term, it will have a positive longer-term impact on margins, as well as bringing a clearer management focus. This process will continue in 2004.

Outlook

We would expect to see improved trading conditions in 2004, helped by less volatile raw material prices. In the meantime, we have continued to improve the competitive situation of our business, as well as the quality of our operations. We also have a good pipeline of innovations. We would expect therefore to be able to benefit from any improvement in trading conditions.

Sales split*		
	Zone EUR	5 035
	Zone AMS	3 733
	Zone AOA	1 415

RIG and Organic growth (OG)		RIG	OG
	Chocolate	–3.1%	+4.0%
	Confectionery	–1.9%	+2.1%
	Biscuits	–6.1%	+2.0%
	Total product group	–3.2%	+3.6%

* excludes sales within Other activities

RIG + = OG

Milkybar with *Nido,* a delicious treat with the goodness of milk


Purina Science
CLA
PROTECTS WHILE IT NOURISHES
Purina
PRO PLAN
CHICKEN & RICE
Pollo e Riso
Pollo y Arroz

PetCare

Sales and profitability

Reported sales fell to CHF 9.8 billion. Organic growth was 1.6%, including RIG of 0.5%. The margin increased 150 basis points to 14.7% of sales. Industry growth slowed below expectations and historical levels in the USA and other key countries, whilst the level of competitive activity increased significantly. Our portfolio optimisation has led to reductions in sales of lower-yielding products, primarily in Europe, Latin America and Asia, Oceania and Africa. At the same time, we have focused on increasing the growth of our higher yielding super premium and premium products. Total merger synergies had reached USD 275 million by the end of 2003, significantly ahead of our original forecast.

Review of 2003

Innovation and renovation were at the top of the Nestlé Purina PetCare agenda in 2003. In the United States, a number of new products were launched, including *Cat Chow Indoor Formula, Beneful Healthy Weight Formula* and *Pro Plan* wet dog and cat foods; these last two are the first super premium nutrition wet foods, and they have the form, variety and taste appeal found in the super premium category. *Cat Chow Indoor Formula,* with wholesome grains and garden greens, was launched for indoor cats, specifically formulated for their needs, such as controlling hair balls and maintaining healthy weight.

The original *Beneful* product, the *Tidy Cats* line of litter products and the *Alpo* wet brand continued to achieve good growth. These were strong performances in a more competitive, lower growth environment.

In Europe, our portfolio optimisation initiative led, as expected, to a sales decline but an increase in profitability. The core super premium brands, *Pro Plan* and *Purina One,* as well as single serve cat products and the *Bakers* premium brand dog food enjoyed significant growth.

In Latin America and the Caribbean, our portfolio optimisation, as well as strong *Dog Chow* and mainstream sales, delivered increased sales and profits despite the economic and political issues in several markets.

In Zone Asia, Oceania and Africa, sales gains in South-East Asia and New Zealand were offset by continued declines in Japan and South Africa and the effects of portfolio optimisation in Australia.

At the heart of the Nestlé Purina PetCare business is a commitment to the overall wellbeing of companion animals. An example of this commitment is our ground-breaking 14-year study that showed that the median life-span of dogs fed to an ideal body condition was 1.8 years longer than their litter mates. Building on this knowledge, Purina developed the *Purina Life Plan,* with tools that help pet owners manage their dogs' health.

Outlook

We expect the competitive environment to remain unchanged into 2004, particularly in the premium sector. Nevertheless, Nestlé Purina PetCare will continue expanding its strategic brands and products around the world through innovative launches and the expansion of successful product concepts.

Beneful's new line extension, *Healthy Weight Formula,* helps dog owners provide calorie-smart nutrition without sacrificing taste

		0 +	RIG	OG
RIG and Organic growth (OG)	Total product group		+0.5%	+1.6%

RIG + = OG


Maggi
Wellness
Buljong
Bouillon
Liemi
Nestlé
FoodServices

Nestlé FoodServices (Out-of-Home)

Sales and profitability

The adverse economic environment that has prevailed for the last couple of years continued in 2003, although the global Foodservice sector maintained a growth level above that of the grocery market. Nestlé's business performed well, even despite the impact of SARS. The reported overall real internal growth (RIG) figure reflects the initiative in Japan to improve the profitability of our beverage vending business by discontinuing under-performing machines. Our strategic categories including the *Nescafé, Nestea, Milo* and *Nesquik* brands, as well as Culinary and Frozen food, performed well.

Review of 2003

Our major beverage brands achieved strong growth rates in key countries such as the USA, Mexico, Oceania, Greece, Malaysia, the Philippines and Singapore. The alignment of Nestlé's research and development network with key businesses, customers and external business partners was the basis for our innovation and renovation of the strategic beverage category for selected channels and priority geographies. This enabled us to accelerate our expansion of this category. Meanwhile portfolio optimisations such as Frozen food in Germany, Chilled dairy in France and Turkey and Milk products in Chile improved the business' profitability.

The highlights of 2003 included the implementation of dedicated beverage business models applying value adding services to specific trade channels with an orchestrated product and systems focus and a controlled route to market; the achievement of 10% share of the total out-of-home coffee consumption, with 22 billion cups per annum; the deeper partnerships with international operators, which improved insight and accelerated our development; and, under the *Chef* brand, the launch in France of a culinary chilled paste range of concentrated stocks with lower salt content.

Outlook

Our improved customer insight, segment by segment, will enable us to implement more focused innovations in 2004, which, together with our investment in equipment and route to market, gives us confidence in our ability to deliver increased share in the year ahead.

		– 0 +	RIG
RIG	Zone EUR		+1.0%
	Zone AMS		+2.8%
	Zone AOA		–4.2%
	Total		+0.2%

Maggi Wellness bouillon, Nordic region


INFINITI
AqL
1.1 mm Liquefaction
Divide and Conquer
Irrigation
58
Metrics
00:00
Custom
AquaLase
Magnitude
Limit
10
Burst
Dynamic Rise 4
Vacuum
650
Asp Rate
60
Setup
PrePhaco
Sculpt
Quad
Epi
Cortex
Polish
IA 1
Alcon

Alcon

Alcon's productive and rich R&D pipeline helps fuel the company's growth. Shown above and opposite are just three of the new products launched in 2003: the *Infiniti* lens removal system, *Vigamox* anti-infective and *Systane* lubricant eye drops

Sales and profitability

Alcon continued its strong growth in 2003, with organic growth of 9.0%. Sales reached CHF 4.6 billion. Alcon's EBITA reached CHF 1.2 billion, representing an increase in margin from 25.5% to 27.1% as a result of efficient utilisation of its established global infrastructure.

Review of 2003

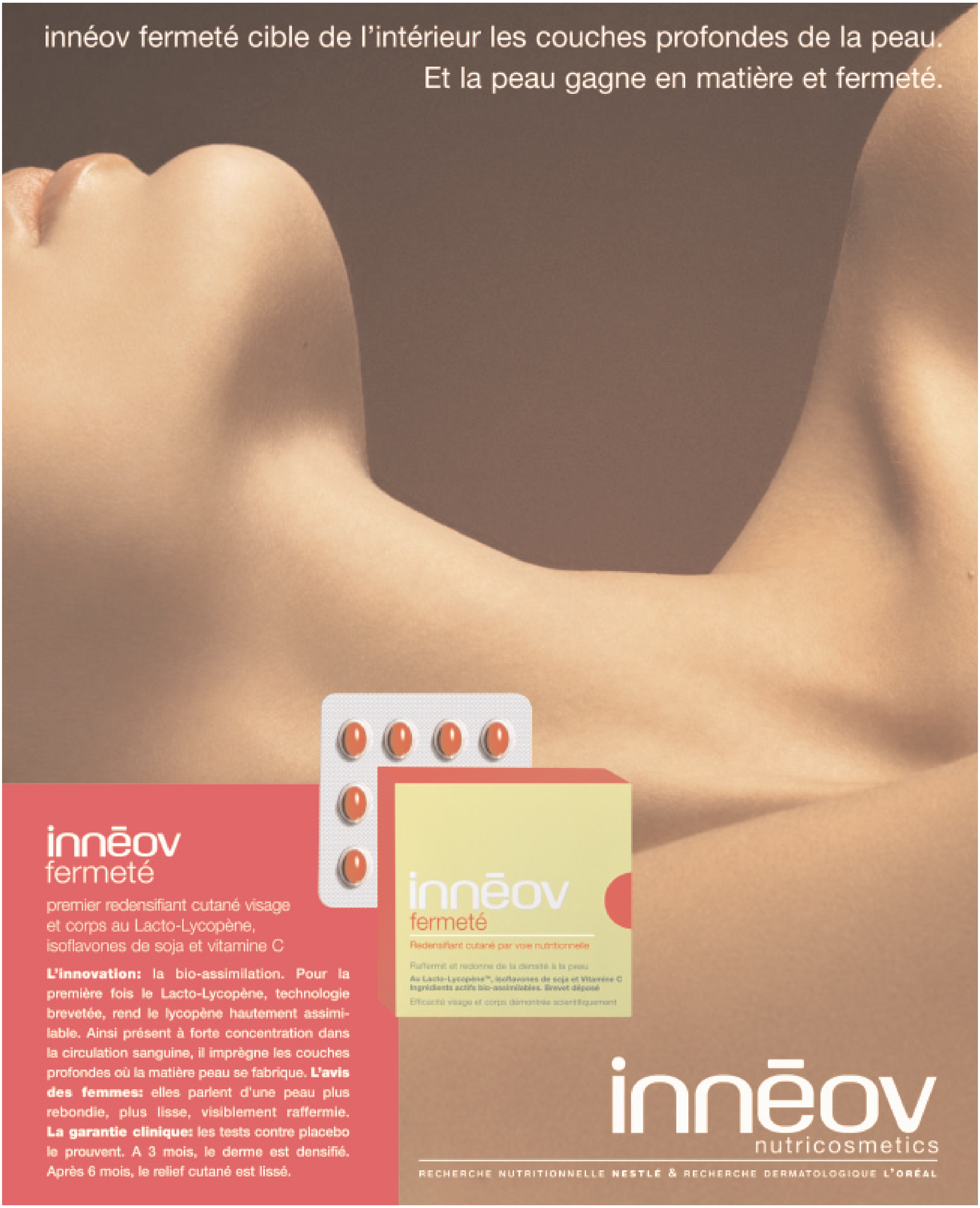
Alcon's products improve the quality of life for patients around the world by restoring, preserving and improving their eyesight. The company's drugs cure eye infections, control glaucoma and relieve debilitating allergy symptoms; its surgical products restore and enhance vision through cataract removal and lens replacement, vitreoretinal procedures and refractive surgery; and its consumer eye care products keep eyes moist and contact lenses clean and comfortable.

The company has a very experienced management team, leading positions in nearly every product category within ophthalmology, a rich research pipeline, an unmatched global scope and exceptional financial strength. Due to the expansion of new technology around the world, novel therapies in eye care and the aging global population, the categories in which Alcon competes are likely to exceed USD 15 billion in the next few years, which would represent a 30% increase from 2003.

In March 2002, Alcon became publicly traded through an Initial Public Offering of about 25% of the company's stock on the New York Stock Exchange. By 31st December 2003 Alcon's market capitalisation had risen to nearly USD 18.7 billion, an increase of over 83% since the IPO. Traded under the symbol "ACL", Alcon's progress can be monitored on its web site at www.alconinc.com.

Outlook

The coming year will be one of the most productive in terms of research and development, and regulatory filings. Alcon will file product approval applications with the US Food and Drug Administration on at least five major new products. Two of these stand out for the size of their market potential in the years to come. They are *Retaane,* Alcon's unique proprietary investigational drug for wet age-related macular degeneration, and *Restor,* a pseudo-accommodative intraocular lens with capabilities to deliver excellent near and distance vision. With a powerful product portfolio today and an enviable pipeline of potential new products, outstanding sales and marketing personnel and a highly efficient global manufacturing and distribution infrastructure, Alcon is poised for another year of dynamic growth.


innéov fermeté cible de l'intérieur les couches profondes de la peau.
Et la peau gagne en matière et fermeté.
innēov
fermeté
premier redensifiant cutané visage et corps au Lacto-Lycopène, isoflavones de soja et vitamine C
L'innovation: la bio-assimilation. Pour la première fois le Lacto-Lycopène, technologie brevetée, rend le lycopène hautement assimilable. Ainsi présent à forte concentration dans la circulation sanguine, il imprègne les couches profondes où la matière peau se fabrique. **L'avis des femmes:** elles parlent d'une peau plus rebondie, plus lisse, visiblement raffermie. **La garantie clinique:** les tests contre placebo le prouvent. A 3 mois, le derme est densifié. Après 6 mois, le relief cutané est lissé.
innēov
fermeté
innēov
nutricosmetics
RECHERCHE NUTRITIONNELLE NESTLÉ & RECHERCHE DERMATOLOGIQUE L'ORÉAL

Associated companies and pharmaceutical and cosmetic joint ventures

Garnier Fructis shampoo launched in 2003 in the USA

Couleur Experte, multi-tonal coloration system available on the mass-market

Clobex Lotion, a highly potent corticosteroid for conditions such as psoriasis

fermeté, the first product launched by Laboratoires Innéov, benefitting from the combination of Nestlé's and L'Oréal's research expertise

L'Oréal

L'Oréal is controlled by the French holding company Gesparal, of which 51% is held by the Bettencourt family and 49% by Nestlé. With a presence in over 130 countries, L'Oréal is the world leader in the cosmetics industry. Its international brands (including L'Oréal Professionnel, Matrix, Redken, L'Oréal Paris, Garnier, Maybelline, Soft Sheen·Carson, Lancôme, Biotherm, Helena Rubinstein, Giorgio Armani, Ralph Lauren, Cacharel, Kiehl's, Shu Uemura, Vichy and La Roche-Posay) are focused on five high added value business segments: colourants, haircare, make-up, skincare and fragrances.

Supported by innovations from the research laboratories, new product launches and continuing geographic expansion, L'Oréal delivered strong organic growth, well in excess of that of the global cosmetics market. In 2003, consolidated sales increased by 7.1% like-for-like to EUR 14 billion. Net profit increased to EUR 1.65 billion.

Growth is continuing in Western Europe, particularly in the United Kingdom, Spain and Italy. In North America, the group achieved record annual market share gains. The start made by Garnier's Fructis shampoo and by L'Oréal Paris Couleur Experte colourants in North America is highly promising. In new markets, sales growth continued at an extremely high level, in Asia (particularly China and Taiwan), Brazil, the Russian Federation and Hungary, Australia and India, contributing to a marked improvement in profitability.

For further information, consult L'Oréal's annual report or visit www.loreal-finance.com

Galderma

Galderma, the joint venture between Nestlé and L'Oréal in the field of dermatology, delivered another strong performance in 2003 with organic growth of 10.6%, reporting sales of CHF 932 million in a relatively flat market. *Differin,* Galderma's top-selling product, maintained its leading position in the treatment of moderate acne, achieving double digit growth, eight years after its launch, as did *Loceryl,* an anti-fungal drug. Meanwhile, Galderma's pipeline delivered three major launches during 2003, *Solagé* in the US and Canada, *Metvix* in Germany and in the United Kingdom and *Clobex Lotion* in the USA.

The continual expansion of Galderma's product portfolio and its deep investment in research and development, the largest in the world in the field of dermatology, demonstrate Galderma's commitment to being a leader in meeting the needs of dermatologists.

Laboratoires Innéov

Innéov, the joint venture between Nestlé and L'Oréal in the field of Nutricosmetics, launched its first product, Innéov *fermeté/firmness,* in nine European countries in 2003. This successful product has achieved a leading position in the anti-aging skin segment in all nine countries.

During 2004, Innéov will be expanded into new countries, and a second product will be added to the range.

Good Food, Good Life – four words that sum up Nestlé's philosophy and serve as a touchstone as we enter a new era in nutrition and health. This simple phrase, seen on Nestlé buildings around the world, guides our core business operations in scientific research, product development and marketing. Nutrition was the cornerstone on which Nestlé was founded. Today Nestlé is evolving and yet remaining loyal to its heritage as it develops from the world's leading food company into the world's leading food, nutrition, health and wellness company. Our aim is to engage consumers in managing their diet and nutrition and to help them live healthier longer lives.

Nestlé and Nutrition: Good Food, Good Life at the heart of our business

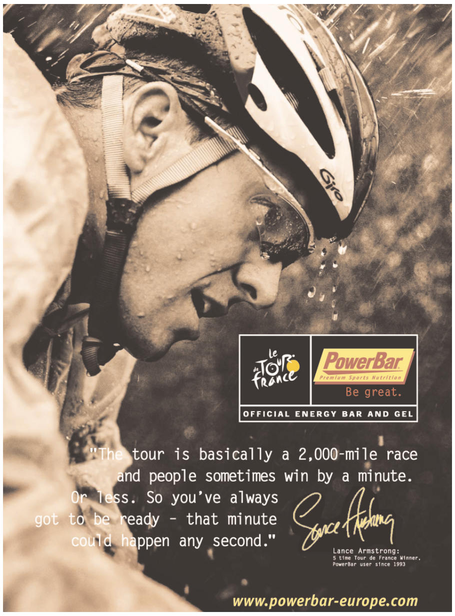
Food for wellness

Public health authorities have identified good nutrition and physical activity as key preventative factors in healthcare…

….throughout people's lives

Addressing consumer preferences…

More and more, healthy food fills the family shopping cart



A complex mix of consumer preferences, changing demographics and socio-economic factors is boosting the market demand for healthy products.
A growing number of consumers see diet as more than just nourishment – it is a means to promote health, enhance performance and even prevent disease. These health-conscious consumers want food products that help them feel good and look good, give them more energy, foster the growth and development of their children and ease health problems. And of course, they want great taste and convenience.

Shifting demographics, such as the rapidly expanding ageing population, are dramatically changing the market landscape. About 600 million people in the world today are over age 60. According to the WHO, their number will double in the next twenty years. As these generations live longer, they want to live better, with independence and a high quality of life. At the same time, their nutrition needs are changing. As people age, they are at greater risk of malnutrition and dehydration, due to factors such as a decreased appetite, their reduced sense of taste, or difficulty in preparing food. Because of their special needs, the ageing population is expanding the market for products to encourage healthy ageing.

Socio-economic factors are also significantly influencing the market. For example, the incidence of obesity, rising dramatically in both rich and poor countries, is creating greater awareness among consumers of the need for both balanced nutrition and physical activity. As a result, demand for products with weight loss or weight control benefits continues to be high.

At the same time, malnutrition – still the leading cause of death, globally – requires the food industry to make food fortification a priority.

From a public health perspective, good, pro-active nutrition – as early in the life cycle as possible – is increasingly important in preventive health care. With steady growth in chronic diseases such as diabetes or cardiovascular disease, prevention is the easiest remedy, particularly in countries with overburdened health care systems.

As a global food company, Nestlé's pursuit of health and wellness is based on a holistic view of today's nutrition needs, throughout the world. It is the natural evolution of a company that leads the industry in anticipating and adapting to change.

A century ago, the food industry's main objectives were to provide basic sustenance and to make food widely available. From there, the industry worked to ensure its products tasted great and contributed to a pleasurable experience. More recently, convenience became a top priority. Nestlé is striving to add nutrition and wellness to this progression of achievements. No food and beverage company is better positioned to deliver on this mission.

Developing foods and drinks at the Nestlé Research Center (NRC) to meet consumers' health-related nutrition needs, helping them to live their life to the fullest

The successful range of nutritional supplements *Clinutren,* to be re-launched in 2004, supports the nutritional status and functions of people suffering from medical conditions linked to cancer treatment, Alzheimer's disease or post-operative recovery

…with scientific and nutritional advances

Strong brands and product innovation drive Nestlé's wellness vision

Easy digestion, resistance to disease, strong bones, lower cholesterol, clear skin, no allergies, less colic, weight loss: these are some of the health benefits that Nestlé food products – many already available in grocery stores – can offer. With more than 8000 brands around the world, Nestlé has been working over the last five years to optimise the nutritional and health value of its entire portfolio. The breadth and diversity of Nestlé's products are strong advantages in helping consumers integrate nutrition and wellness throughout their diet. Based on scientific and nutritional advances, this strategic approach is unfolding on three levels: first, in efforts to create new innovative products and ingredients; second, on renovating existing products, and third, by increasing the importance of nutrition assessments in product testing.

Calci-N is a milk-derived calcium source used in leading *Nestlé* brands. Clinical studies conducted by Nestlé in collaboration with the University of Geneva, have shown that *Calci-N* improves bone density and that the improvement is sustained for a long period of time

Innovations on ingredients deliver health and wellness benefits

Health-promoting branded active ingredients (BAIs) are among the most promising advances in the development of nutrition, health and wellness in Nestlé products. BAIs are physiologically active substances that add health or wellness benefits beyond the good taste and nutrient content a product may already have. For centuries, people across cultures recognised that certain foods – such as yoghurt and ocean fish – offered a specific health benefit. But the formal "scientific discovery" of these ingredients was first made in the 1700s by James Lind, and further explored in the late 1800s by the eminent Russian scientist Ilja Metchnikoff. In the early 1980s, with modern scientific interest and the help of new technology, researchers learned to isolate specific ingredients, replicate them, and integrate them in food products. Nestlé scientists were, and still are, at the forefront of these innovations.

Natural products, including plants, are good sources of BAIs. The chicory root, long used as an ingredient in human foods, provides the prebiotic inulin. A specific formulation of inulin forms the basis of the BAI *Prebio*[1], used in *Nestlé* powdered milks for toddlers and young children to maintain the health and proper functioning of the digestive system.

Nestlé uses BAIs in dozens of products for adults and children including yoghurts, milks, beverages and infant formulas. Nestlé's health claims associated with BAIs are based on scientific research and extensive laboratory trials performed by Nestlé scientists or in universities around the world.

Continuous renovation leads to healthier products

Nestlé continuously reviews products to see whether renovation or reformulation can improve them. In recent years, nutritional quality and health benefits have been driving these improvements. In the last five years, in a sample of just 48 countries, Nestlé introduced over 600 new or renovated products in categories such as water, yoghurt, milk, cereal, biscuits, ice cream and prepared frozen meals. Changes included reductions in calories, sugars, fats and salts; smaller portion sizes; fortification with iron, iodine, vitamins and minerals; addition of fruits, and conversion from white flour to whole grains.

B_L or *Bifidobacterium lactis,* which is added to our infant nutrition range, is a probiotic with clinically proven gastrointestinal health benefits (e.g. reduced incidence of diarrhoea)

Along with all other categories of products, confectionery, ice cream and other indulgence items can be renovated to reduce sugar or calories. But throughout the renovation process, taste is paramount. Even with an elevated interest in healthy products, consumers still want and make room for indulgences in their lives and in their diets. They don't want to compromise, and Nestlé won't either. These products have a role in a balanced diet.

Nutritional value at the centre of product testing

Our rigorous product superiority testing, traditionally based on a 60/40 preference, has evolved into a new system of 60/40+ that includes an added scientific component based on nutritional quality. This tool is another concrete example of how Nestlé is making its nutrition and wellness vision part of day-to-day operations.

Historically, the aim of 60/40 testing was to produce a product chosen by six out of ten people based on taste and pleasure. Now, in addition to the consumer preference testing, Nestlé scientists also conduct a nutritional assessment. Using a series of criteria based on nutritional qualities such as calories, protein, fat, fiber, added sugar, sodium, vitamins and functional ingredients, the scientists calculate a nutritional value.

Nestlé managers have found the 60/40+ test to be a useful filter for assessing whether a product is in line with the vision for health and wellness.

The 60/40+ product testing includes an added scientific component based on nutritional quality

Product renovation in practice: the *Sveltesse* example

Traditionally associated with yoghurts, cheeses and other dairy products, *Sveltesse* is moving into bottled water, ice cream, cereal bars and frozen prepared meals. As it expands, *Sveltesse* must deliver on its promise to taste good and be a low or no fat, low calorie option.

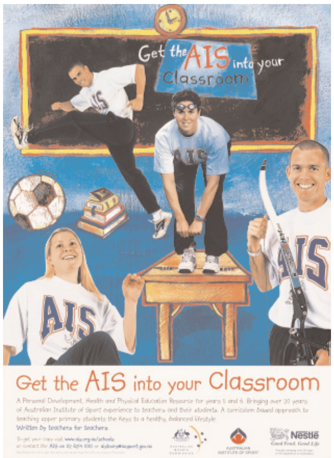
To protect its integrity, a "brand guardian" oversees the nutritional profile of any new product, its core values and personality and the marketing.

Sveltesse, meaning slimness or elegance in French, offers an example of how production processes can support renovation. To improve the quality and taste of fruit in *Sveltesse* ice cream and yoghurts, Nestlé worked with farmers and food preparers on delivery and stewing processes to maximise freshness and ensure that nutrients and flavour are not cooked away.

Sveltesse marketing features "regular" people – not super-models – confidently showing off their belly buttons and letting consumers know it is possible to have a healthy diet without having to sacrifice the joy of eating.

Helping consumers to prioritize nutrition and wellness

Nestlé launched "Programa Nutrir" in Brazil in 1991. Courses are run by Nestlé staff volunteers



The Australian Institute of Sport (AIS) identified a need to encourage young Australians to lead active, healthy lives

In a snapshot of what is emerging as the global norm, a 2003 study for the UK Food Standards Agency concluded that many British children do not learn enough about balanced nutrition or the importance of physical activity.

As a trusted brand name, *Nestlé* has a significant ability to engage consumers around nutrition and wellness issues, and provides them with a diverse portfolio of products that promotes a shift to healthier eating. We are agents of change in helping consumers learn and think more about their diet. To achieve this, we are aligning all consumer communications – advertising and marketing campaigns, product labelling, children's education programmes, our website and various other media – around positive nutrition messages. This includes all communication with children, who are particularly vulnerable to unclear messages.

We are committed to responsible advertising and marketing to children and have internal marketing codes to formalise that commitment. We adhere to voluntary guidelines, such the International Chamber of Commerce Rules on Children and Young People and Marketing. We understand that consumers rely on us to give them helpful, accurate information. We look at our communication efforts in the context of Good Food, Good Life to ensure our actions meet and exceed these values.

Consumer education promotes nutrition awareness and physical activity

Nestlé supports scores of consumer education programmes around the world, all tailored to the specific local needs, and reinforces its wellness mandate by carrying that message to the communities in which we work.

In Australia, Nestlé is a partner of the Australian Institute of Sport, an elite training institution for athletes which promotes public awareness of the importance of sport, supports research and creates scholarships and in-school programmes around sports and nutrition.

Nutrition education is at the heart of our presence in emerging markets. In Nigeria, Nestlé's nutrition education programmes centre on daily, 5-minute radio bulletins on nutrition; programmes in secondary schools; media awards for journalists covering nutrition; periodic nutrition seminars for public health officials; and an annual Nestlé Nutrition Day to bring together government policy makers, community leaders and others to discuss nutrition. In Central America, Nestlé sponsors monthly, full-page newspaper articles covering nutrition topics, and monthly scientific periodicals for doctors and other health care professionals on the latest nutritional advances.

Advertising campaigns reflect Nestlé's responsibility

Nestlé has initiated advertising campaigns that focus on nutrition and healthy eating as a source of enjoyment, while still marketing our products. In France, the campaign centres on promoting balanced meals with fresh fruit and vegetables, regular exercise and eating breakfast. Mothers, whose babies are beginning to eat solid foods, are encouraged to try new tastes with their babies, especially important in helping children develop a life-long taste for fruit and vegetables.

Any advertising that includes *Nestlé* confectionery products respects the fact that confectionery is a treat and, as such, can be a pleasurable part of an active and healthy lifestyle. *Nestlé* confectionery is never portrayed as a meal replacement, and is not shown being consumed in excessive quantities.

Clear nutritional information on packs provides consumers with important facts for a balanced diet

Nestlé Developmental Nutrition Plan gives a clear and simple visual illustration of the unity of the baby food range

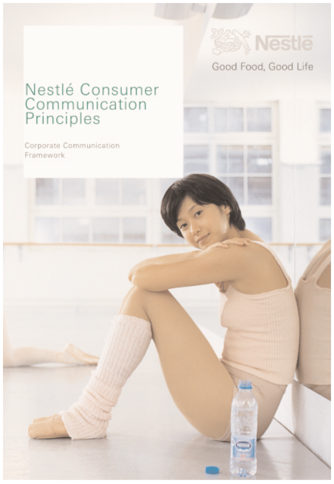
Pro-active communication facilitates healthier choices

Improving the overall clarity of nutritional information

Product labelling takes on new importance with today's consumers

Increasingly, shoppers make food choices based on what they learn from the product packaging. While this is common among consumers with higher education levels, we have the expertise to use this point of contact to raise awareness among all shoppers, regardless of their backgrounds.

We are improving the overall clarity of nutritional information and provide product labelling, even in countries where it is not required by law. We are adding simple, scientifically-based nutrition messages that explain health benefits of products, and we have revised information on preparation methods to recommend less oil, or suggest using herbs and spices to replace salt.



The Nestlé Consumer Communication Principles ensure the highest standards of responsible communication

Sharing our knowledge and information

Consumers often ask Nestlé for nutrition related information. We understand that this is a reflection of the trust they have in our brands, and recognise it as part of our responsibility to help them understand our products, as well as to learn more about balanced nutrition.

Nestlé Online, a telephone helpline available in dozens of countries, answers hundreds of consumer calls every week, whilst the Internet is helping us capture consumer interest in nutrition. Along with our corporate nutrition web site, Nestlé provides country-specific and product-specific resources. In the UK, Nestlé has a "Wellbeing" website designed for children and their parents to learn more about calories and healthy weight. In the US, the *Lean Cuisine* web site includes an "Ask the Nutritionist" feature.

Nestlé uses the Internet as a tool to provide health conscious consumers with up-to-date nutritional information

Nestlé people take charge of the nutrition strategy

Nestlé people are the most important factor in our nutrition strategy. To integrate the strategy efficiently, we created a team of **Nestlé Nutrition Champions.** They operate within the strategic business units and countries to make the nutrition strategies work in their very diverse, multicultural environments. They are also linked to experts at product technology centres. This commitment is essential: we are strengthening our employees' knowledge and understanding of nutrition, particularly throughout the business units and countries.

To support a range of training activities, Nestlé provides senior managers with opportunities to learn more about nutrition. We produce interactive E-learning modules on nutrition topics, which are distributed globally through our Intranet and CD-ROMs. At the corporate level, we produce quarterly newsletters with detailed information on a key area of nutrition, such as obesity, food fortification or BAIs. Country level managers also produce similar materials based on the products sold in their countries.

The standards Nestlé sets for nutrition and wellness are reflected in the environment in which we work. The Nestlé campaign of "Le Plaisir de l'équilibre" – (the pleasure of balanced eating) is promoted to employees to help them make nutritious choices for their families.

The Product Technology Centre, Singen, opened in 2004, is focused on culinary research

Dr. Irène Corthésy is a digestive tract specialist researching at NRC the calming effect of probiotic yogurt cultures on gastritis and bowel metabolism

Emmanuelle Belin-Batard is an expert in sensory evaluation at NRC, translating research findings on taste and olfaction into products people like

Prof. Bruce German is an expert in lipid nutrition at NRC and studies how each individual human gene can influence our need for special foods

Integrated research drives nutritional advances…

At Nestlé, excellence starts with science

Today, our scientists and researchers are leading thinkers in nutrition science who pioneer advances, contribute to global scientific debate and illuminate the future direction of nutrition and health. Nestlé employs more than 3500 people from 50 countries in its integrated network of research, development and product testing centres. This commitment demonstrates the extent to which science underpins our core business.

As the world's largest corporate publisher on nutrition science research and information, Nestlé contributes to the continuing information and education of health professionals in the area of paediatrics, infant, clinical and performance nutrition

The Nestlé Consultative Committee on Nutrition

Created 25 years ago to guide top management on nutrition and health priorities, the high level panel today includes scientists from seven different countries, including Nobel Prize winner Prof. Guenter Blobel. Back in 1995, when obesity rates were not a high public health priority, this panel was already reviewing the issue, along with topics such as nutrition and the elderly, food fortification, bone health, and dietary supplements.

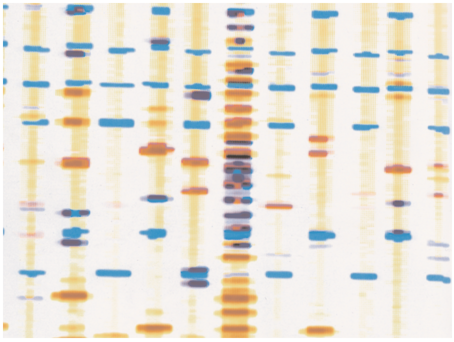
Nestlé understands that scientific advances require a long-term investment, and that today's research may be tomorrow's major breakthrough. For example, Nestlé's energy management research, which will help inform the science of weight loss and the prevention of obesity, has been under way for nearly a decade. Another example is the science of nutrigenomics, how food and nutrients influence genes. Research funded by Nestlé is shaping current thinking on how food and nutrition can prevent disease, or take the place of pharmaceuticals in addressing medical problems.

The Nestlé Research Center (NRC)

The NRC is Nestlé's major "think tank" for new ideas, playing a central role as a generator of scientific knowledge in food science, nutrition, quality and safety that feeds the science and technology pipeline for all Nestlé products. The multidisciplinarity of NRC's competencies represents an enormous potential for innovation and renovation, which responds to consumers' needs. The knowledge that NRC is building today will support Nestlé's future in nutrition and health.

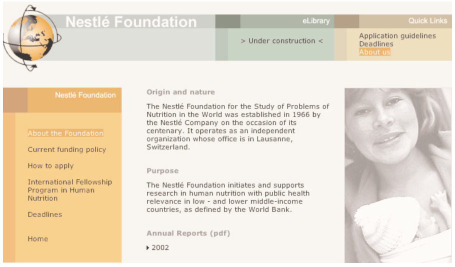
Nestlé's contribution to the global scientific community, as the world's largest corporate publisher of nutrition science research and information, is well known. The **Annales Nestlé,** a paediatric journal published since 1942, is widely regarded as an authoritative source of the most recent information on clinical practice and research. **The Nest,** on the other hand, provides practical information on public health and child nutrition issues, as well as on the physical and psychological needs of infants and young children. The Nestlé Nutrition workshops, run since 1982, bring together leading scientists and clinicians from around the world to discuss topics of concern to the international health community. Their conclusions are published in the form of books and booklets. Nestlé is also widely acknowledged for its partnerships with leading health and nutrition institutes around the world, such as the Medical Research Council in the UK; the Institute of Maternal and Child Health in China and South Africa's Stellenbosch University.

"Isn't life great?"
Developing health promoting
food for everyday consumption...



...through studying complex mechanisms
of nutrition, health and disease

...to respond to specific consumer needs



The Nestlé Foundation's mandate is to contribute to improving nutrition in developing countries

The Nestlé Foundation for the Study of Problems of Nutrition in the World

Established in 1996, the Nestlé Foundation reflects our commitment to extend the boundaries of nutrition knowledge. It operates as an independent organisation with a mandate to contribute to improving nutrition in developing countries through initiating and supporting research in human nutrition with public health relevance in low- to middle-income countries, as defined by the World Bank. One of the Foundation's main aims is the transfer of scientific and technological knowledge to target countries, and most Foundation-sponsored research projects are realized in collaboration with scientists at universities and research institutes in such countries.

The International Fellowship Programme in Human Nutrition Research, an important part of the Foundation's work, is intended to develop and strengthen the research capacity of selected nutrition units in low-income countries by offering training in nutrition research to several of their staff members. Within the framework of this programme, the Nestlé Foundation awards fellowships in human nutritional science.

These collaborations ensure Nestlé has access to the best scientific minds and can contribute to the newest research and the best possible products, tailored to the specific needs of consumers in different parts of the world.

Nutrition and wellness: Nestlé's roots and future

Our founder, Henri Nestlé, created his company in the 19th Century to provide good nutrition. Some 137 years later, our corporate focus remains the same, with the Nutrition Strategic Business Division the focal point for today's nutrition strategy and the platform for infant, healthcare and performance products.

In the 21st Century, a responsible company demonstrates its commitments not merely through foundations and philanthropy, but by taking its responsibilities into the heart of its business operations. With its nutrition strategy, Nestlé is doing exactly that.

"Happiness is a child without allergies and a good night's sleep. Is that too much to ask?"

"Designer clothes? How about designer foods customised to the nutritional needs of everyone in the family?"

The Exhibition on nutrition and wellness at the Nestlé headquarters in Vevey is a "think tank" for visitors and Nestlé employees from all over the world

Nestlé, today, is committed to addressing tomorrow's consumers' needs

Nestlé has 511 factories in 86 countries around the world. This is an increase from 508 in 2002. During the year, 29 factories were acquired or opened, whilst 26 were closed or divested. We are running a Group wide drive to improve the performance of our assets through the sharing of best practice, improved technology and communication, more sophisticated supply chain management and shared resources. We are also refocusing our manufacturing base to meet the demands of today's more liberated international marketplace, whilst seeking to realise the benefits of our scale to achieve high flexibility at low cost.

General information

Manufacture and sale of products

Europe							
Austria	1	●■	■	●■	■	■	■
Belgium	3	●■	●■	●■	■	■	●■
Bulgaria	1	■	■	■	●■	■	■
Czech Republic	3	■	■	■	●■	■	■
Denmark	2	■	■	■	■	■	■
Finland	1	■	●■	■	■	■	■
France	39	●■	●■	●■	●■	●■	●■
Germany	28	●■	●■	●■	●■	●■	■
Greece	5	●■	●■	●■	■	■	■
Hungary	4	●■	●■	●■	●■	●■	■
Italy	24	●■	●■	●■	●■	●■	■
Netherlands	8	●■	●■	●■	●■	●■	■
Norway	1	■	●■	■	■	■	■
Poland	8	●■	●■	●■	●■	■	■
Portugal	6	●■	●■	■	■	■	■
Republic of Ireland	2	■	■	■	●■	■	●■
Romania	2	●■	■	■	●■	■	■
Russia	10	●■	●■	●■	●■	■	■
Slovak Republic	1	■	■	●■	■	■	■
Spain	16	●■	●■	●■	●■	●■	●■
Sweden	4	●■	●	●■	■	■	■
Switzerland	9	●■	●■	●■	●■	■	●■
Turkey	4	●■	●■	●	●	■	■
Ukraine	2	■	■	●■	●■	■	■
United Kingdom	24	●■	●■	■	●■	●■	■
Americas							
Argentina	9	●■	●■	●■	■	●■	■
Brazil	22	●■	●■	●	●	●■	●■
Canada	15	●■	●■	●■	●■	●■	●■
Chile	7	●■	●■	●■	●■	■	■
Colombia	4	●■	●■	●■	●■	●■	■
Costa Rica	1	■	■	■	●■	■	■
Cuba	3	●■	●■	■	■	■	■
Dominican Republic	3	●■	●■	●■	■	■	■
Ecuador	2	●■	●■	●■	●■	■	■
El Salvador	1	■	●■	■	■	■	■
Guatemala	1	■	●■	●■	■	■	■
Jamaica	1	●■	●■	■	■	■	■
Mexico	13	●■	●■	●■	●■	●■	●■
Nicaragua	1	■	●■	■	■	■	■
Panama	1	■	●■	●■	■	■	■
Peru	1	■	●■	●■	●■	■	■
Puerto Rico	1	■	●■	■	■	■	■
Trinidad and Tobago	1	●■	●■	■	■	■	■
United States	76	●■	●■	●■	●■	●■	●■
Uruguay	1	●■	■	■	■	■	■
Venezuela	6	●■	●■	●■	●■	●■	■
Asia, Oceania and Africa							
Australia	11	●■	●	●■	●■	●■	■
Bahrain	1	●■	■	■	■		■
Bangladesh	1	●■	●■	■			■
Cameroon	1	●■	●■	●			■
Côte d'Ivoire	2	●■	●■	●			■
Egypt	4	●■	●■	●	●■		■
Fiji	1	■	■	●■	●■		■
Ghana	1	●■	●■	●■	■		■
Guinea	1	■	■	●■	■		■
India	6	●■	●	●	●		■
Indonesia	3	●■	●■	●■	●■	■	■
Iran	1		●				■
Israel	12	●■	●■	●	●■	■	■
Japan	3	●■	●■	●■	●■	■	■
Jordan	1	●■	■	■	■		■
Kazakhstan	1	■	●■	■	■	■	■
Kenya	1	●■	●■	●■	■		■
Lebanon	1	●■	■	■	■		■
Malaysia	6	●■	●■	●■	●■	■	■
Morocco	1	●■	●■	●■	■		■
New Caledonia	1	●■	●■	■	●■		■
New Zealand	3	■		●■	●■	●■	■
Nigeria	1	●■	●■	●			■
Pakistan	5	●■	●■	●	●■		■
Papua New Guinea	1	●■	■	●■	■		■
People's Republic of China	20	●■	●■	●■	●■		●■
Philippines	6	●■	●■	●■	●■	■	■
Qatar	1	●■	■	■	■		
Republic of Korea	1	●■	●	●■	■	■	■
Saudi Arabia	4	●■	●■	●■	■		■
Senegal	1	■	●■	●■			■
Singapore	1	●■	■	■	■	■	■
South Africa	12	●■	●■	●■	●	●■	■
Sri Lanka	2	●■	●■	●			■
Syria	1	●■	●■	●■			■
Thailand	6	●■	●■	●■	●■	■	■
Tunisia	1	●■	●■	■	■		■
United Arab Emirate	1	●■	■	■	■		
Uzbekistan	1	●■	●■	■	■		■
Vietnam	4	●■	●■	●■			■
Zimbabwe	1	●■	●■	●■	■		■

- 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)

			2003	2002
Number of factories	Europe		208	208
	Americas		170	165
	Asia, Oceania and Africa		133	135
	Total		511	508

The story of Nestlé: from nutrition to wellness

"The thought that my invention could save the lives of so many children counted enormously; the financial gain was not the prime motivation."
(Henri Nestlé, 1869)

Food is a core element in our daily lives. Not only does it enable us to survive, but appropriate amounts and quality also help to ensure a better standard of living by contributing to our health and wellness. Consumer needs and expectations associated with a particular food product are not fixed, but change with time and according to geographic region, culture and the various stages of life. Ever since its foundation in 1866, Nestlé's goal has been to keep in step with this constant process of change. It reacts to new consumer requirements with innovative and continually renovated products, and implements new scientific findings in tasty foods.

High infant mortality rates, and the lack of suitable replacement foods for babies with no access to breast milk, were the motivation behind Henri Nestlé's invention of Farine Lactée. He was also able to offer his first product – as an easily digestible and readymade food – to convalescent and elderly people, thus laying the foundations of today's concept of nutrition.

At the same time, the lack of pure fresh milk in European cities motivated the American Page brothers to found Europe's first condensed milk factory in Switzerland in 1866. The two companies, Nestlé and the Anglo-Swiss Condensed Milk Co., merged in 1905, uniting not only their worldwide distribution and production network, but also their milk-processing expertise. The unique network of research and development centres, built up over a number of decades, facilitated the development of a wide range of specific milk and dietary products, from preparations enriched with vitamins in the 1930s through to today's probiotic food.

Backed up by the best possible product quality and food safety standards, Nestlé promotes consumer health and wellbeing while at the same time adhering to regional traditions with regard to taste and pleasure.

When it comes to taste and pleasure, many consumers think first and foremost of the range of chocolate products that has belonged to Nestlé since 1905 and was expanded significantly in 1929 with the takeover of the Swiss chocolate makers Peter, Cailler and Kohler, and in 1988 with the acquisition of Rowntree *(Kit Kat, Smarties).* Originally, chocolate was enjoyed in liquid form, but was primarily a means of healing illnesses and providing strength. Due to its high nutritional value, it has also been used for a long time as a popular snack for all kinds of leisure activities. The expansion of our activities into the area of Performance nutrition with the takeover of *PowerBar* in 2000 follows this trend.

Julius Maggi can undoubtedly be viewed as a pioneer in the creation of convenience foods, having offered workers' families a protein-rich, affordable and quickly prepared food in the form of his vegetable soup in 1884. Following the acquisition of Maggi in 1947, preserved and frozen foods and Italian cuisine supplemented Nestlé's product range in this area. With the expansion of the FoodServices division and the takeover of Chef America in 2002, Nestlé acknowledged the growing trend for eating out-of-home.

In addition, product lines with specific nutritional characteristics (less salt, fewer calories, etc.) are aimed at helping young and elderly, health-conscious consumers to achieve their individual nutritional goals (e.g. weight-loss or low-cholesterol diets). *Nestlé HomeCare* provides outpatients in certain countries with specific high-nutrition foods and nutrition-related services.

Nestlé's development from a straight-forward food manufacturer to a wellness company is also highlighted by changes in the Beverages division. In the last decade in particular, Nestlé has expanded its traditionally broad and successful range of nutritional and flavoured drinks (*Milo* 1934, *Nescafé* 1938, *Nestea* 1944, *Nesquik*

Farine Lactée for infants and convalescent and elderly persons

Gala Peter advertisement with mountaineer

1948, *Nespresso* 1986) with both sparkling and non-sparkling mineral water (*Vittel* 1969, *Perrier* 1992, *Nestlé Pure Life* 1998, *Nestlé Aquarel* 2000).

Pets contribute to the wellbeing of many people. With the acquisition of *Carnation* in 1985, we entered the pet food business, becoming a joint world leader via mergers with Spillers (1998) and Purina (2001).

Since 1974, Nestlé has also held an indirect participation in L'Oréal. Following the 1989 joint venture, Galderma, in dermatology, the 2002 joint venture, "Laboratoires Innéov", combined the competencies of Nestlé in nutrition research with those of L'Oréal in cosmetics. This creates access to a further dimension of nutrition, that of promoting beauty and wellness via specific nutritional supplements.

The success of the 1977 move into the pharmaceuticals industry with the takeover of Alcon was highlighted with the partial IPO (around 25%) in 2002.

With the objective of ensuring optimal nutrition, Nestlé takes into account the consumer's increasing expectations with regard to food, but it also makes a contribution to good health and illness prevention that extends above and beyond the traditional concerns of sustenance, pleasure and convenience.

With over a hundred years of experience, we know that the trust of our consumers is based on the quality and safety of our products. We also know that we must continue to deserve this trust.

For further information visit:
www.nestle.com
(all about Nestlé/hystory).

1866 Anglo-Swiss Condensed Milk Co.
Condensed milk

1867 Henri Nestlé's Infant cereal
Infant cereal

1905 Nestlé and Anglo-Swiss Condensed Milk Co.
(New name after merger)

1929 Peter, Cailler, Kohler, Chocolats Suisses S.A.

1938 Development 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.

1977 Alcon

1985 Carnation

1985 Friskies

1986 Herta

1988 Buitoni-Perugina

1988 Rowntree

1992 Perrier

1993 Finitalgel

1994 Alpo

1998 Sanpellegrino

1998 Spillers Petfoods

2000 PowerBar

2001 Ralston Purina

2002 Schöller

2002 Chef America

2003 Mövenpick

2003 Dreyer's

2003 Powwow

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

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

1 Annual report; accounts of Nestlé S.A. and of the Nestlé Group; report of the auditors

1a 2003 annual report and accounts of Nestlé S.A.; report of the auditors

1b 2003 consolidated accounts of the Nestlé Group; report of the Nestlé Group auditors

2 Release of the Board of Directors and of the Management

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

4 Elections to the Board of Directors

4a Sir Edward George (for a term of 3 years)

4b Mr. Kaspar Villiger (for a term of 5 years)

4c Mr. Rolf Hänggi (for a term of 4 years)

4d Mr. Daniel Borel (for a term of 5 years)

4e Mrs. Carolina Müller (for a term of 5 years)

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

Elections to the Board of Directors

At the General Meeting of 22nd April 2004, the terms as directors of Mrs. Vreni Spoerry, Lord Simpson and Mr. Arthur Dunkel will expire. They do not stand for another term.

The Board of Directors recommends that the General Meeting elect the following candidates as new directors:

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

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

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

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

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

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

Important dates 2004

21st April 2004
Announcement of first quarter 2004 sales figures

22nd April 2004
137th Ordinary General Meeting, "Palais de Beaulieu", Lausanne

28th April 2004
Payment of the dividend

18th August 2004
Publication of the Half-yearly Report January/June 2004

21st October 2004
Announcement of first nine months 2004 sales figures;
Autumn press conference

Shareholder information

Stock exchange listings

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

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e-mail: ir@nestle.com or visit the investor relations web site www.ir.nestle.com

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

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

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

Nestlé URL: http://www.nestle.com

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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