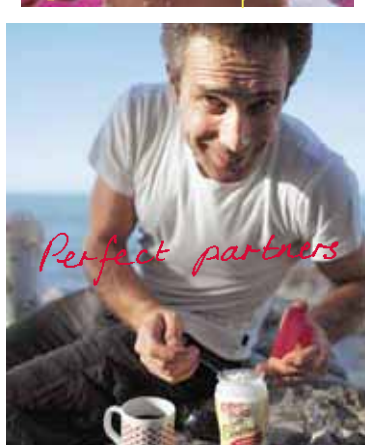
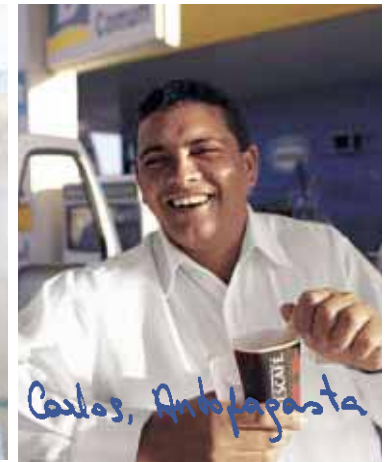


Management Report 2004



Key figures by management responsibility and geographic area

		2002	2003	2004		
Sales	Zone Europe	28 068	28 574	28 563		32.9%
In millions of CHF	Zone Americas	29 293	27 655	27 776		32.0%
	Zone Asia, Oceania and Africa	14 880	14 432	14 673		16.9%
	Nestlé Waters	7 720	8 066	8 039		9.3%
	Other activities ^(a)	9 199	9 252	7 718		8.9%
		89 160	87 979	86 769		100%
EBITA	Zone Europe	3 442	3 561	3 492		27.7%
(Earnings Before	Zone Americas	4 189	4 150	4 152		33.0%
Interest, Taxes	Zone Asia, Oceania and Africa	2 564	2 508	2 547		20.2%
and Amortisation	Nestlé Waters	696	782	669		5.3%
of goodwill)	Other activities ^(a)	1 517	1 537	1 744		13.8%
In millions of CHF		12 408	12 538	12 604		100%
	Unallocated items ^(b)	(1 468)	(1 532)	(1 634)		
	EBITA	10 940	11 006	10 970		
Capital expenditure	Zone Europe	868	925	925		29.2%
In millions of CHF	Zone Americas	904	739	813		25.7%
	Zone Asia, Oceania and Africa	584	541	587		18.5%
	Nestlé Waters	769	647	558		17.6%
	Other activities ^(a)	322	375	285		9.0%
		3 447	3 227	3 168		100%
	Unallocated items ^(c)	130	110	127		
		3 577	3 337	3 295		

^(a) Mainly Pharmaceutical products, Joint Ventures managed on a worldwide basis and Eismann. 2002 and 2003 comparatives also include Trinkts

^(b) Mainly corporate expenses as well as research and development costs

^(c) Corporate and research and development property, plant and equipment

Key figures by product group

		2002	2003	2004		
Sales	Beverages	23325	23520	21793		25.1%
In millions of CHF	Milk products, Nutrition and Ice cream	23376	23283	23582		27.2%
	Prepared dishes and cooking aids	15834	16068	15878		18.3%
	Chocolate, confectionery and biscuits	10774	10240	10258		11.8%
	PetCare	10719	9816	9934		11.5%
	Pharmaceutical products	5132	5052	5324		6.1%
		89160	87979	86769		100%
EBITA	Beverages	4075	4038	3867		30.6%
(Earnings Before	Milk products, Nutrition and Ice cream	2756	2796	2682		21.3%
Interest, Taxes	Prepared dishes and cooking aids	1712	1884	1924		15.3%
and Amortisation	Chocolate, confectionery and biscuits	1180	1047	1153		9.1%
of goodwill)	PetCare	1418	1444	1446		11.5%
In millions of CHF	Pharmaceutical products	1267	1329	1532		12.2%
		12408	12538	12604		100%
	Unallocated items ^(b)	(1468)	(1532)	(1634)		
	EBITA	10940	11006	10970		
Capital expenditure	Beverages	1004	936	806		24.4%
In millions of CHF	Milk products, Nutrition and Ice cream	495	421	576		17.5%
	Prepared dishes and cooking aids	304	251	250		7.6%
	Chocolate, confectionery and biscuits	285	208	201		6.1%
	PetCare	284	254	276		8.4%
	Pharmaceutical products	101	86	69		2.1%
		2473	2156	2178		66.1%
	Administration, distribution, research and development	1104	1181	1117		33.9%
		3577	3337	3295		100%

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Letter to Shareholders

Dear shareholder,

2004 was a year which, to a certain extent, lived up to our expectations of more normal trading conditions, compared to 2003, even if there were some unforeseen challenges. There were improvements in much of Asia and Africa, as well as in Latin America. Elsewhere, North America continued to be a buoyant market for us, but in Europe we were handicapped by both slower economic growth and the dramatic contrast between the poor Summer weather of 2004 and the excellent Summer of 2003. This latter issue had a particularly severe impact on the sales of our ice cream and water businesses in that region.

The most significant change in 2004, however, was the reversal in the trend of flat or falling raw material prices, which had lasted several years. In 2004, we experienced rises in almost all our raw material costs, including milk, green coffee and sugar, as well as in crude oil-related costs, including energy and both rigid plastic and flexible packaging.

One issue that remained with Nestlé in 2004 was currency volatility which, for the fourth consecutive year, slowed the growth momentum of Nestlé's sales. Reported sales, in Swiss Francs, declined 1.4% to CHF 86.8 billion, due partly to a negative 3.5% currency impact and partly to the level of divestitures which, at 3.6% of sales, out-weighed that of acquisitions, at 1.2%. There was a positive contribution from real internal growth (RIG), of 2.9%, and from pricing, of 1.6%, which combined to give organic growth of 4.5%, somewhat below our long-term target, but ahead of the food industry.

The delivery of organic growth of 4.5%, even despite negative contributions from our European food and Water businesses, demonstrates the benefit of our strong market positions, whether in emerging markets or the industrialised world, as well as the appeal of Nestlé's brands to consumers around the world.

As evidenced by the sales numbers, and with Nestlé's key strategic gaps now filled, 2004 was a quiet year for acquisitions, with more focus on divestitures. Management could thus focus on the existing business, whether the integration of recent acquisitions or delivering an improved performance from the different markets and product categories.

The Group's earnings before interest, tax and amortisation (EBITA) reached CHF 11.0 billion, a margin of 12.6% of sales. This margin performance was 10 basis points better than 2003. However, the currency situation, and specifically the weakness of the US dollar and related currencies, had a 30 basis points impact on the margin. Constant currency margins therefore improved 40 basis points.

The fuel for margin improvement lies within our savings programmes, Target 2004+ and Project FitNes, which are enabled by the GLOBE program. They exceeded their objective, delivering a total of CHF 1.3 billion of gross savings. Much of these savings were reinvested in higher marketing and input costs. The total number of factories fell from 511 at the start of the year to 500.

Target 2004+, which has reached a successful end, was replaced in January 2005 by Operation EXCELLENCE 2007, with an objective of achieving a further CHF 3 billion of savings over the next 3 years from our manufacturing asset base. This programme will also be enabled by GLOBE, which continues to be rolled out across the world. By the end of 2004, we had implemented GLOBE systems across markets that account for 10% of Group sales, a number which will increase dramatically during 2005.

The Group's net profit increased to CHF 6.7 billion, representing a margin of 7.7% and earnings per share of CHF 17.29.



Rainer E. Gut
Chairman of the Board

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

The Group's operating cash flow was CHF 10.4 billion, or 12% of sales whilst the free cash flow was CHF 6.6 billion, or 7.7% of sales, an improvement over 2003. Net debt fell to CHF 10.2 billion, further underlining Nestlé's AAA credit rating. Nestlé has announced that in view of its strong financial position, it has reviewed the management of its capital structure. As a result, the Board is proposing a dividend of CHF 8.– per share for 2004, representing a 11% increase over that paid for 2003. Furthermore, the Board has approved a share buy back for cancellation programme, with a value of up to CHF 1 billion in 2005. Future programmes could be more significant, but will be subject to market conditions as well as other strategic initiatives, such as acquisitions and divestitures. They will also respect Nestlé's commitment to its AAA debt rating.

Nestlé's development into the leading food, nutrition, health and wellness company made progress during 2004. In particular was the announcement of the creation of two separate units which, together, will bring greater focus and impetus to the implementation of this strategy: firstly, the creation of Nestlé Nutrition, a global business unit, ensures that the nutrition team is 100% focused on our core nutrition business where the consumer's primary purchasing motivation is the claims made by the product; the creation of a Corporate Wellness Unit, meanwhile, with the mission of driving the nutrition, health and wellness orientation across all our food and beverage businesses, ensures that a separate team can focus all its energies on the broader nutrition and wellness opportunity, regardless of the product category.

Whilst Nestlé Nutrition will not be a separate reporting unit until 2006, both initiatives are already a reality and we expect to see a benefit even in 2005 from the more dynamic focus that the two units bring to these two quite distinct opportunities. Otherwise, 2004 was marked by a number of more operational initiatives relating to consumer communication, recipes, research and development, and new products.

There was one departure from the Executive Board in 2004, with the retirement of Mr. Carlos Eduardo Represas. Mr. Represas had an outstanding 36 year career with Nestlé, mainly in the Americas, starting as a trainee in the USA and finishing as the Head of Zone Americas. His great contribution was to implement the concept of regionalisation across the Zone and thereby to improve our competitiveness. As reported in last year's Letter, he has been succeeded by Mr. Paul Bulcke.

There is one new proposal for the Board of Directors, Professor Günter Blobel, who was awarded the 1999 Nobel Prize in Physiology/Medicine and who has been a member of the Nestlé Nutrition Council since 2001.

Looking forward to 2005, we do not expect to see any particular improvement in market conditions in Europe, but we would hope that the strength of our business elsewhere in the world will enable the Group to report a good level of organic growth, in line with our long-term target, as well as an improvement in profitability.



Rainer E. Gut
Chairman of the Board



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

Dear Shareholder,

At the end of 25 years as a Board member and 5 years as Chairman, I would like to share with you my impressions of what has made Nestlé the company that it is today.

My years as Chairman have been marked by significant change within Nestlé. For many outside the organisation, that change is perhaps characterised by our transforming acquisitions in PetCare and Ice cream. For me, however, the greater change has been in the Executive Management of the Group, as many of the incumbents have reached retirement age. One of my main preoccupations over these last few years has been with the Group's human capital, primarily to ensure that we had the appropriate succession plans in place. I have been privileged to be able to travel all over the world, visiting 32 countries, meeting not just Nestlé managers, but people from all areas of our business, from a vast variety of backgrounds and cultures.

My lasting impression, regardless of the diversity of our people, has been one of a common culture, a "family", if you will. But, beyond that, I have been struck, time and again, by the dedication and commitment of our people and by their genuine spirit and warmth. We have people all over the world who, when confronted by war or civil strife, by disease or natural disaster, find themselves in situations beyond the imagination of many of us. In such circumstances, they have been unstinting in their efforts and their enthusiasm, but also in their humanity, often doing so much more than we could have expected. The most recent example was the spontaneous reactions of many of our people following the tsunami on 26 December 2004. I am not referring to the corporate effort, which was reflected in the provision of food and water supplies, transport and clothing, as well as expertise and funds, but to our people's own compassion and selfless bravery. They used their initiative, without any infrastructure and in appalling conditions, to get to the devastated areas and to search the hotels, hospitals and morgues for missing people, whether their own colleagues or extended family members of Nestlé employees. Working day and night, they succeeded in finding people and in getting them out of the area to safety and relative comfort. Their behaviour was a testament to the humanity and compassion that I have encountered so often in so many different countries around the world.

I know what has made Nestlé the great company that it is today and, as I look forward to 2005 and beyond, I know that they, all 247 000 of them, will remain our single most important competitive advantage. I give them my thanks, not just for their recent contribution, but for my own personal memories, experiences and friendships over the years.

Subsequent to my departure, Mr. Peter Brabeck-Letmathe will combine the role of Chairman of Nestlé with his existing role as Chief Executive Officer. In order to maintain the appropriate checks and balances, two Vice Chairmen of the Board, Mr. Andreas Koopmann, member of the Board since 2003, and Mr. Rolf Hänggi, member of the Board since 2004, will be elected. Mr. Brabeck-Letmathe has proved a visionary and inspiring leader, and the Board is convinced that his appointment is the optimal way to ensure strategic continuity and long-term value creation for our shareholders. Under his leadership, Nestlé will continue to focus on delivering long-term sustainable, profitable and capital efficient growth.



Rainer E. Gut
Chairman of the Board

Directors and Officers

Helmut O. Maucher
Honorary Chairman

Board of Directors of Nestlé S.A.

Term expires¹

Rainer E. Gut ^{2, 4} Chairman	2005
Peter Brabeck-Letmathe ² Vice Chairman and Chief Executive Officer	2007
Andreas Koopmann ^{2, 4} CEO Bobst Group SA	2008
Edward George (Lord George) ^{2, 4} Former Governor of the Bank of England	2007
Rolf Hänggi ^{2, 3} Vice Chairman Roche Holding Ltd	2008
Jean-Pierre Meyers ³ Vice Chairman L'Oréal	2006
Peter Böckli Attorney-at-law	2008
Nobuyuki Idei Chairman and CEO Sony Group	2006
André Kudelski Chairman and CEO Kudelski Group	2006
Kaspar Villiger ³ Former Swiss government minister	2009
Daniel Borel Co-founder and Chairman Logitech International S.A.	2009
Carolina Müller-Möhl Chairperson Müller-Möhl Group	2009

Secretary of the Board
Bernard Daniel
Secretary general

Independent auditors
KPMG Klynveld Peat Marwick Goerdeler SA
London and Zurich 2005

Executive Board

at 31 December 2004

Peter Brabeck-Letmathe
Chief Executive Officer
Michael W. O. Garrett ⁵
Asia, Oceania, Africa, Middle East
Francisco Castañer
Pharmaceutical and Cosmetic Products, Liaison
with L'Oréal, Human Resources, Corporate Affairs
Wolfgang H. Reichenberger
Finance, Control, Legal, Tax, Purchasing, Export
Lars Olofsson
Europe
Werner Bauer
Technical, Production, Environment,
Research and Development
Frits van Dijk ⁵
Nestlé Waters
Ed Marra
Strategic Business Units, Marketing
Paul Bulcke
United States of America, Canada,
Latin America, Caribbean
Chris Johnson
Deputy Executive Vice President
GLOBE Program, Information Systems, Strategic
Supply Chain, eNestlé, Group Information Security
Luis Cantarell
Deputy Executive Vice President
Nestlé Nutrition

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 Michael W. O. Garrett retires on 30 April 2005 and will be replaced by Frits van Dijk as of 1 May 2005. Carlo M. Donati, member of the Executive Board as of 1 January 2005, became Chairman and CEO of Nestlé Waters as of 18 February 2005

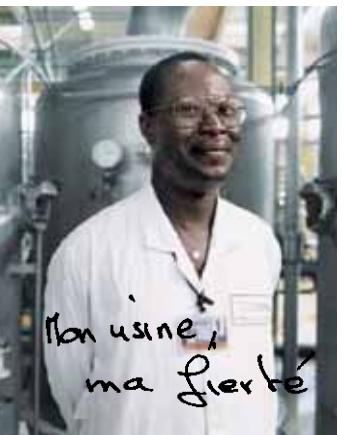
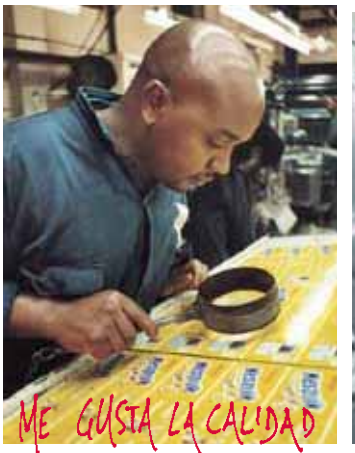
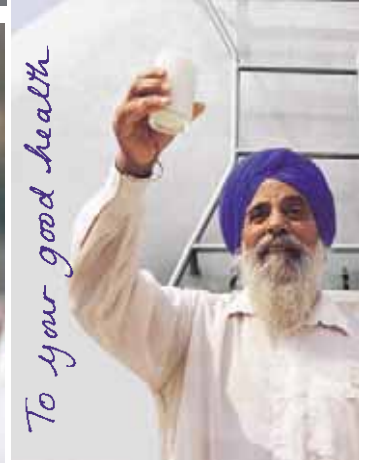
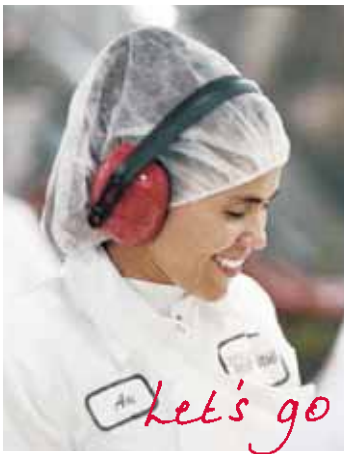
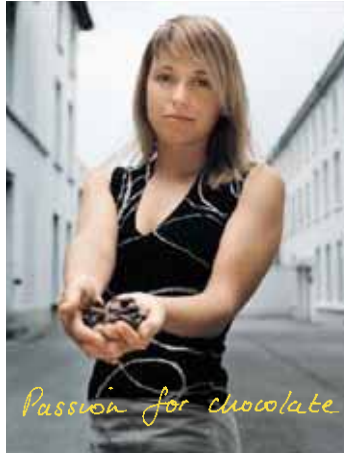


Executive Board (from left to right):

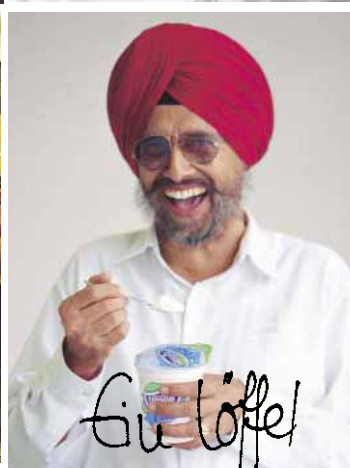
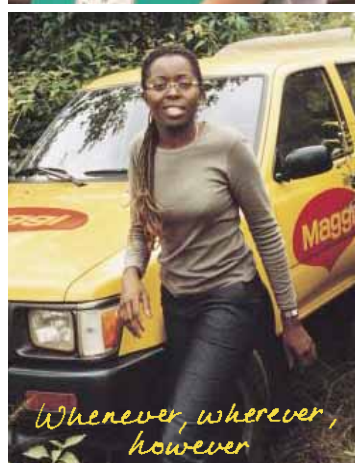
Chris Johnson	Francisco Castañer
Werner Bauer	Lars Olofsson
Michael W. O. Garrett	Wolfgang H. Reichenberger
Frits van Dijk	Luis Cantarell
Peter Brabeck-Letmathe	Paul Bulcke
Ed Marra	

For further information on the Board of Directors and the Executive Board, please refer to the Corporate Governance Report 2004, enclosed

Nestlé people at the heart of Good Food, Good Life



Nestlé people, passionate about our products, our customers and consumers... all around the world



Group performance

A consistent strategy... value creating... transforming...

Nestlé's four pillar strategy is focused on Operational efficiency, Innovation and renovation, Consumer communication and Product availability.

It touches every part of our activities, all the way from the source, our raw material suppliers, downstream to our customers and consumers. At its heart is the objective of marrying quality with safety, complexity with efficiency, and sales growth with profitability.

Nestlé stands apart in the food industry, differentiated by its categories, the strength of its brands, its scale in the industrialised world and the strength of its positions in emerging markets: these competitive advantages result from decisions taken in the past.

However, it is arguable that Nestlé could better exploit these advantages. Today's strategy is therefore to enable better performance short term, whilst moving the Group to a new dynamic of competitive advantage for the longer term, an advantage more structural than category-focused or geographic.

This strategy has four pillars, all operational, but also visionary. The first pillar is Operational efficiency. The efficiency drive is multi-faceted, covering the supply chain and manufacturing, administrative costs in the markets, central overheads and marketing costs. However, it focuses primarily on business aspects that do not touch the consumer. The factory efficiency programme, Target 2004+, was successfully closed at the end of 2004, achieving savings of over CHF 3.2 billion. It has been replaced by Operation EXCELLENCE 2007, reaching further upstream to our raw material suppliers and downstream to our customers. Meanwhile, Project FitNes continues to reduce administrative costs and will also run through to 2007.

The key enabler for our efficiencies is the GLOBE program (Global Business Excellence) which remains on track and on budget. GLOBE was launched over four years ago better to leverage our skills and size as a strength. As such, it should enable Nestlé to combine complexity with operational efficiency.

GLOBE has three objectives. The first two, to implement best practices and data standards, are at its "heart". All markets are implementing best practices and changing how they manage data to gain early benefits

and prepare for fully implementing the GLOBE systems. The third objective, standardised systems to support and sustain the best practices and data standards, is also well advanced. By end 2004, over 10% of Nestlé's Food and beverage business (12 countries, over CHF 8 billion in sales, 31000 users, 80 factories, 114 distribution centres and 129 sales offices) was operating with GLOBE's processes, data and systems. The next two years will see further system implementations encompassing most of Nestlé's Food and beverage business.

The vision behind Nestlé's operational efficiency strategy addresses structure: the Group will focus its local assets on those parts of the business that touch its consumers, whilst regionalising or centralising back-office functions. This will put consumers at the centre of every Nestlé manager's life, and enable them to focus all their energies on their consumers. As such, it is an efficiency drive which should facilitate faster growth.

The second pillar is Innovation and renovation, to keep our products relevant to the consumer, but also to keep ahead of competitors. Innovation also covers packaging, channels and distribution. In fact, it can touch all parts of our business, including our third pillar, Consumer communication.

The main evolution in consumer communication is the move to interactive marketing. Beyond the classical methods and media, we are looking to improve the pay-back, or efficiency, from our spend. Another way we are doing this is by consolidating our media-buying into two agencies. This will enable significant savings, to be reinvested in consumer-touching areas of marketing.

Innovation and renovation and Consumer communication focus on growth. Profitable internal growth is the biggest challenge in the food

industry. Why? Because profit requires efficiencies while growth requires investment. At Nestlé, investment focuses on innovation, renovation and marketing with an emphasis in favour of innovation because innovation is at the core of differentiation from competitors, whether branded goods or private label. Marketing is more about emphasising that differentiation; without innovation, marketing can be unfocused, unguided and ineffective.

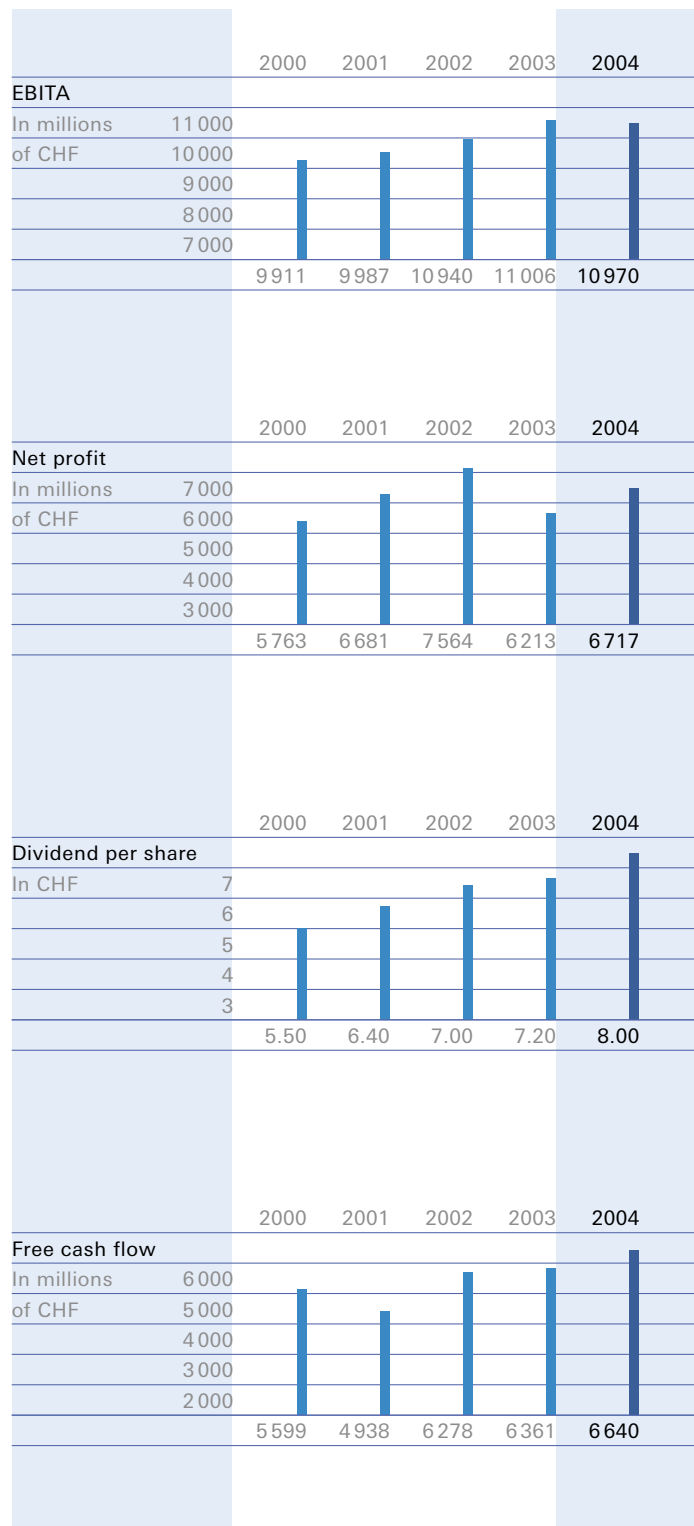
The last pillar is Product availability, "Whenever, wherever, however". This also directly touches the consumer, as seen in the development of out-of-home consumption and of our sales through smaller retailers and kiosks. It is also at the heart of our drive to improve our representation in the "hard discounter" channel in Europe.

Nestlé's four pillar strategy, enabled by GLOBE, seeks to optimise our cost structure whilst facilitating growth. This will ease Nestlé's move from a complex organisation, weighed down by the costs of complexity, to one that can benefit from its complexity whilst also being efficient. It should, therefore, enable returns commensurate with our position as leader in our industry.

The 40 basis points improvement in constant currency margins, delivered in 2004, reflects the operating improvement achieved within our businesses, particularly in the Americas and Zone Asia, Oceania and Africa.

Key figures (consolidated)

In millions of CHF (except per share data)		2003	2004
Sales		87 979	86 769
EBITDA Earnings Before Interest, Taxes, Depreciation and Amortisation of goodwill		13 669	13 754
as % of sales		15.5%	15.9%
EBITA Earnings Before Interest, Taxes and Amortisation of goodwill		11 006	10 970
as % of sales		12.5%	12.6%
constant currency margin improvement (basis points)			+40
Net profit		6 213	6 717
as % of sales		7.1%	7.7%
as % of average equity		17.3%	17.7%
Capital expenditure		3 337	3 295
as % of sales		3.8%	3.8%
Equity before proposed appropriation of profit of Nestlé S.A.		36 880	39 219
Market capitalisation, end December		119 876	115 237
Free cash flow Operating cash flow less capital expenditure, disposal of tangible assets as well as purchase and disposal of intangible assets		6 361	6 640
Per share			
Net profit	CHF	16.05	17.29
Underlying net profit Net profit before amortisation of goodwill, impairments, restructuring costs, results on disposals and significant one-off items.	CHF	20.23	19.33
The tax impact on the above items is also adjusted for.			
Equity before proposed appropriation of profit of Nestlé S.A.	CHF	95.29	100.96
Dividend as proposed by the Board of Directors of Nestlé S.A.	CHF	7.20	8.00



Nestlé's RIG accelerated in 2004 to 2.9% which, combined with pricing of 1.6%, gives organic growth of 4.5%. This level of growth was enabled by strong performances in the Americas and Zone Asia, Oceania and Africa.

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	2004
Sales	65 460	69 918
EBITDA	10 171	11 083
EBITA	8 189	8 840
Net profit	4 623	5 413
Equity before proposed appropriation of profit of Nestlé S.A.	29 742	34 707
Market capitalisation, end December	96 674	101 980
Per share		
Net profit	USD 11.95	13.93
Equity before proposed appropriation of profit of Nestlé S.A.	USD 76.85	89.35

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	2004
Sales	57 805	56 197
EBITDA	8 981	8 908
EBITA	7 231	7 105
Net profit	4 082	4 350
Equity before proposed appropriation of profit of Nestlé S.A.	23 641	25 467
Market capitalisation, end December	76 844	74 829
Per share		
Net profit	EUR 10.55	11.20
Equity before proposed appropriation of profit of Nestlé S.A.	EUR 61.08	65.56

Sales

A strong organic growth performance, in view of tough conditions in Europe

	-	0	+	
The composition of sales				
Organic growth				+4.5%
RIG				+2.9%
Pricing				+1.6%
Acquisitions-divestments				-2.4%
Exchange rates				-3.5%

Group sales were CHF 86.8 billion, a decline of 1.4% compared to 2003. The decline was due, on the one hand, to currency volatility, which had a negative impact of 3.5% of sales, and on the other to divestitures, which reduced sales by 3.6%. The positive contributions to sales were acquisitions, at 1.2%, RIG, at 2.9%, and selling prices

and residual items, at 1.6%. The combination of RIG and selling prices gives an organic growth of 4.5%.

RIG measures the like-for-like volume growth achieved by Nestlé from one year to the next. It excludes the impact of selling price increases. The organic growth was slightly below our target of 5-6%, but

remained a strong performance for a food and beverage company.

It was the fourth consecutive year that the translation of the Group's sales into Swiss Francs has resulted in a reduction in sales. It was, however, the first year since 2001 that divestitures outweighed acquisitions. This reflects the absence of any significant acquisitions, as well as the divestitures of a number of non-core and/or low margin businesses, including Trinks, a sizable distribution business.

2004 Sales ^(a)		Differences 2004/2003		2004
In millions of CHF		in CHF	in local currency	
By principal market	USA	+1.1%	+9.5%	23 531
	France	-2.6%	-4.0%	8 306
	Germany ^(b)	-26.4%	-27.5%	6 128
	United Kingdom	+3.8%	+0.6%	4 550
	Italy	-2.6%	-4.0%	4 387
	Brazil	+2.8%	+5.7%	2 899
	Spain	+2.8%	+1.4%	2 750
	Mexico	+0.6%	+13.9%	2 710
	Japan	-4.6%	-3.1%	2 694
	Canada	-7.7%	-6.6%	2 108
	Australia	+9.3%	+5.4%	1 820
	Greater China (incl. Taiwan)	+4.5%	+13.4%	1 593
	Switzerland	+1.6%	+1.6%	1 482
	Philippines	+3.5%	+16.3%	1 314
	Russia	+5.8%	+7.8%	1 246
	Other markets	+3.7%	^(c)	19 251
By continent	Europe	-5.0%	^(c)	36 124
	USA and Canada	+0.3%	^(c)	25 639
	Asia	+0.6%	^(c)	11 093
	Latin America and Caribbean	+2.3%	^(c)	9 292
	Africa	+6.2%	^(c)	2 393
	Oceania	+9.8%	^(c)	2 228
	Total Group	-1.4%	^(c)	86 769

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

^(b) Decrease of sales mainly due to divestiture of Trinks

^(c) Not applicable

Profitability

Reported and constant currency EBITA margins improve

Earnings before interest, tax and amortisation of goodwill (EBITA) were stable at CHF 11.0 billion, held back by the relative strength of the Swiss Franc, in particular against the US dollar and related currencies. The reported EBITA margin increased from 12.5% to 12.6%. At constant currency, the margin improved by a further 30 basis points. This constant currency performance, an increase of 40 basis points, gives an accurate picture of the underlying performance of our businesses around the world, foreign exchange volatility being beyond the control of management.

The cost of goods sold declined during 2004, both in actual terms and as a percentage of sales. This improvement was driven in part by acquisitions and divestitures and

in part by the Group's cost savings initiatives, particularly Target 2004+. Distribution costs remained unchanged at 8.1% of sales, whilst marketing and administrative costs increased by 70 basis points. This increase was also impacted by acquisitions and divestitures.

Spending on research and development increased by 20 basis points, to 1.6% of sales, reflecting mainly the creation of a Business Technology Centre for GLOBE.

The net profit reached CHF 6.7 billion, or 7.7% of sales, compared with CHF 6.2 billion, or 7.1%, in 2003 and included Nestlé's CHF 1.0 billion share of an exceptional gain at L'Oréal.

Earnings per share were CHF 17.29, compared to CHF 16.05 in 2003.

Our net financing costs were CHF 0.7 billion in 2004, compared with CHF 0.6 billion in 2003. The effective tax rate for the Group for the year was 30.6%, while the underlying rate was 28.2%.

Return on invested capital, capital expenditure and cash flow

Return on invested capital

Nestlé's return on invested capital excluding goodwill was unchanged at 19.9% due to currency volatility, in particular the strength of the euro and weakness of the US dollar versus the Swiss Franc, which neutralised the benefit of the improvement in profitability. Including goodwill, the return on invested capital was slightly down at 10.9%. This reflects the inclusion of Dreyer's for the whole year 2004, as compared to only 6 months in 2003.

Capital expenditure

The level of capital expenditure was unchanged in 2004 at CHF 3.3 billion, or 3.8% of sales. Zone Europe, where the majority of factories are based, received 28% of the spend, with Zone Americas receiving about 25%.

Zone AOA received about 18% and Nestlé Waters about 17%. The key projects were for *Nescafé* in Brazil and Thailand, for *Nestlé Aquarel* and PetCare in Europe and for Nestlé Waters and frozen sandwiches in the USA, as well as a distribution centre in Israel.

Cash flow

Operating cash flow improved from CHF 10.1 billion, or 11.5% of sales, to CHF 10.4 billion, representing 12% of sales in 2004. This was a particularly good performance, in light of the negative impact on cash flows of the weakness of the US dollar and related currencies. Free cash flow increased to CHF 6.6 billion in 2004, or 7.7% of sales, compared to CHF 6.3 billion, or 7.2% of sales in 2003.

Financial position

Net debt falls, enabling return of funds to shareholders

The Group's net debt declined from CHF 14.4 billion at the end of 2003 to CHF 10.2 billion at the end of 2004.

This reduction in net debt confirms the Group's strong operating and free cash flows, as well as the benefit of our disposal programme. Nestlé has announced that in view of its strong financial position, it has reviewed the management of its capital structure. As a result, the Board is proposing a dividend of CHF 8.– per share for 2004, representing a 11% increase over that paid for 2003. Furthermore, the Board has approved a share buy back for cancellation programme, with a value of up to CHF 1 billion in 2005. Future programmes could be more significant, but will be subject to market conditions as well as other strategic initiatives, such as acquisitions and divestitures. They will also respect Nestlé's commitment to its AAA debt rating.

The net financing cost increased slightly to CHF 0.7 billion, compared to CHF 0.6 billion in 2003, reflecting somewhat higher interest rates in 2004, as well as a poorer liquidity

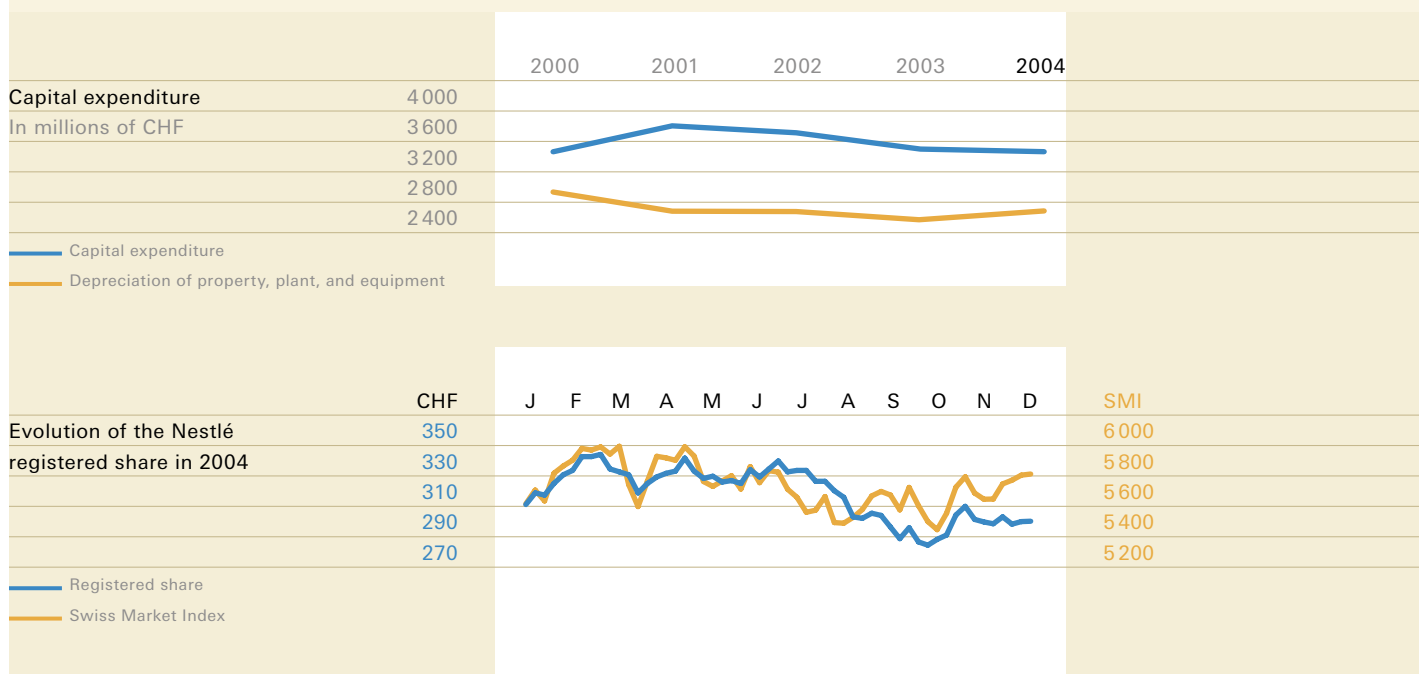
performance in 2004, compared to the strong performance in 2003.

Equity rose from CHF 36.9 billion to CHF 39.2 billion, net of treasury shares, the carrying value of which remained unchanged at CHF 2.4 billion.

The ratio of net debt to equity improved from 38% at 31 December 2003 to 25% at 31 December 2004.

Shares, stock exchange

The Nestlé share price started the year at CHF 309.– and ended at CHF 297.50. This represented an underperformance against the Swiss market and the Dow Jones Stoxx Food & Beverage index.



Corporate social responsibility

Sustainability: fundamental to our long-term strategy

Nestlé's management of its social and environmental impact is based on the Nestlé Corporate Business Principles, available on our website, www.nestle.com. These cover all aspects of our engagement with stakeholders and encompass the ten principles of the United Nations Global Compact.

Nestlé's aim is to create long-term value for our shareholders, consumers and customers, for our people and national economies. A key element of our Principles is that our business should not sacrifice long-term development for short-term profit. Socially responsible and sustainable business practices are not an add-on: they are an essential component of our long-term strategy.



Our people

The quality of social relations between a company and its people is a fundamental factor affecting the sustainable development of a business. Nestlé has a long track record in maintaining a positive relationship with its people.

Nestlé's presence all over the world means that we are dealing with social matters in countries with different cultures and labour practices. Our challenge is to ensure that the relationship with our people is governed by a clear policy, which is respected around the world. On the relatively small number of sites where no official union representatives are present, we deploy a policy of dialogue with our staff, or their representatives, to ensure that our employees' needs and aspirations are fully considered.

Our industrial relations policy is widely distributed and is also discussed during seminars and workshops: social issues need to be handled transparently. Even though they are managed at local level, each manager is conscious that his attitude reflects a global policy and that he is responsible for our reputation as a social partner.

Social disputes sometimes arise. Indeed, we will disagree with the demands of unions if their demands are unrealistic. It is not always possible to reach a consensus, and we recognise the rights of unions to defend their interests through appropriate actions based on prevailing laws and practices. In such circumstances, we will continue to maintain and encourage dialogue. The willingness to raise issues and the determination to find long-term solutions is a positive contribution to the sustainable development of our operations and the Group. As in family life, so in industrial relations, it is sometimes necessary to have a discord before being able to build together for the future.

We encourage continuous dialogue between our people and our management to ensure sustainable development of our operations

Nestlé's Human Resources Policy states that social disputes should be resolved at local level. This is to ensure that these are dealt with by people who are directly responsible for the solution. It does not prevent us from having a constructive relationship with the International Union of Food Workers. This relationship constitutes a platform to build a common understanding on how excellent relations should be developed between social partners.

We formed a European Workers Council (EWC) before the Directive of the European Union came into force requiring such action. The EWC meets twice a year and is guided by a small steering committee which also gathers twice a year. During these meetings, employees who represent their European colleagues receive detailed information on the evolution of the businesses in Europe, share views on social matters and suggest improvements. We consider that the EWC operates on the basis of a constructive relationship. We continue to consider unions and employee representatives as valuable partners and to encourage permanent dialogue whenever disputes arise.

In terms of health and safety, following the publication of the Nestlé Policy for Health and Safety at Work, we have further reinforced our efforts to promote safe work practices as a top priority throughout the Group. In line with our firm belief that work-related injuries and illnesses can be prevented, we saw a decline in the number of cases by 39% during the period 1999-2003.



Nestlé Brazil helps tens of thousands of children to eat healthier diets, using games, cooking activities, and puppets

Nestlé and the public

Our customer and third-party surveys show that Nestlé enjoys a very high level of consumer trust. We realize that communication with consumers is central to that trust and, in 2004, we revised and amplified our Consumer Communication Principles (found in the Corporate Business Principles and on our website). These guidelines are, we believe, the most comprehensive in the food industry. They contain special guidance on advertising and other communication to children. The Principles forbid communications that might take advantage of children's credulity or undermine parents' authority. We also promote balanced diets and active lifestyles.



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

For the third year in a row, the 22-country GlobeScan Survey on Corporate Social Responsibility found that Nestlé was one of the three companies most frequently cited by the public when asked to name a socially responsible company. They cited as one of their main reasons the high quality, reliability and safety of Nestlé products. In this survey, an average of 75% of consumers in five southern hemisphere countries said Nestlé is "among the very best" or above average on social responsibility issues. Those countries were Ghana, South Africa, Nigeria, Brazil and Indonesia.



Part of the reason for that trust is our contribution to good nutrition in each country. For instance, in Brazil, we provided nutrition education to 80 000 children in 22 regions through Program Nutrir, an initiative that brings our employees together with organisations to teach good nutrition through games, cooking projects and puppet shows. In Nigeria, we sponsor a national women's group, the Duchess Club which, in 2004, held nutrition classes for its 5000 members, as well as food safety workshops for more than 4000 women who sell food in open-air markets.



Above and left: The Duchess Club in Nigeria, holds nutrition classes for women who sell food in open-air markets

This commitment to good nutrition underpins our marketing of infant foods. We follow national implementation of the relevant WHO Code in all countries, and voluntarily implement all parts of the Code in all

For the third year in a row, a 22-country survey found that Nestlé was one of the companies most frequently cited by the public as socially responsible... 75% of consumers in five southern hemisphere countries said Nestlé is “among the best” or above average on social responsibility issues.

developing countries. To manage compliance with both the law and the Code, we conduct extensive training and internal and external auditing. We also have an Ombudsman system for internal whistleblowers. We are the only company to prohibit voluntarily the labelling and marketing of any complementary foods for infants (cereals, baby foods in jars, etc.) in developing countries during the first six months of life. We are also the only company that applies the WHO Code in developing countries to those of its “stage 2” follow-on formula products, for children over 6 months of age, which share an infant formula brand.

In 2004, Nestlé commissioned Bureau Veritas, an international auditing company with expertise in social accountability, to carry out an independent review of Nestlé’s infant food marketing in three African countries of their choice (South Africa, Nigeria and Mozambique). Bureau Veritas reported a good awareness of and compliance with the Nestlé Instructions and national legislations implementing the WHO Code (for additional information see the Africa Report enclosed with the 2004 Management Report).

Nestlé’s environmental focus on water, climate and energy

Our environmental performance indicators show continuous improvement in the eco-efficiency of our manufacturing practices. These results confirm that, during the 2000-2003 period, we have been able to achieve a decoupling between the growth of our production volume, which amounted to 32%, and our consumption of natural resources. The 2003 indicators cover 90% of our factories that were in operation for the full year. Additional details of our environmental achievements throughout the supply chain, including latest performance indicators, are available at www.environment.nestle.com.

Our environmental performance is driven by the Nestlé Environmental Management System (NEMS), which is aligned with the ISO 14001 international standard and is mandatory for all our operating companies and plants. Water management is one of our top environmental priorities. During 2004, we reviewed the efforts in

our factories to protect water. In addition to the many measures to reduce water consumption and to increase awareness, the review demonstrated our continuous pattern of investing an average of CHF 30 million annually specifically to construct and expand wastewater treatment facilities in our factories.

We also reinforced our efforts to save energy and reduce emissions of greenhouse gases. As an example, our factory in Graneros, Chile, converted its air heaters and boilers from oil and coal to natural gas, resulting in annual greenhouse gas savings of 19 000 tonnes CO₂. With this project, we pioneered the Clean Development Mechanism of the Kyoto Protocol, when we developed the methodology for boiler fuel switching and had it approved by the CDM Board of the United Nations Framework Convention on Climate Change.

As another example, our Himeji factory installed the first liquified natural gas high-efficiency cogeneration plant in Japan for electricity and steam. This new plant uses 19% less fuel than the previous installation and reduces CO₂ emissions by 41%, representing an annual reduction of 32 000 tonnes of CO₂. Nestlé Japan has received the New Energy Award in recognition of this significant innovation.

We continued to pursue our packaging source reduction programme: without compromising product quality, packaging material savings from 1991 to 2004 amounted to 275 000 tonnes and CHF 500 million on a worldwide basis.

Our agricultural supply chain

During 2004 we continued to ensure the quality and safety of our agricultural raw materials. Our initiatives are adapted to sustainable sourcing methods (directly from farmers or through trade) and concentrated on key raw materials such as milk, coffee, and cocoa. In parallel we supported sustainable farming practices and engaged in capacity building programmes at farm level.

			2000	2001	2002	2003
Nestlé environmental progress	Water consumption	m ³	8.40	7.63	6.20	5.78
	Energy consumption	gigajoules (GJ)	3.61	3.44	3.08	2.83
	Waste water generation	m ³	6.30	5.87	4.89	4.36
	Greenhouse gases	kg CO ₂	191	178	155	142
	Air acidification potential	kg SO _x equiv.	1.17	1.09	0.84	0.70
	Ozone depleting substances	g R-11 equiv.	1.17	1.07	0.33	0.30
	By-products/waste generation	kg	70.4	69.5	58.3	52.9
	By-products/waste recovery	%	72.6	72.3	78.1	79.7

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

In relation to sustainable milk sourcing, we provided further technical assistance to farmers supplying milk to our factories, with over 800 agricultural extension experts helping more than 300 000 farmers. In coffee, numerous projects are helping farmers in sustainable production (e.g. in China, Indonesia, Mexico, the Philippines and Thailand, where this assistance is associated with sourcing). We have also initiated several projects to elaborate sustainable production methods with trading companies (in Guatemala, Nicaragua and Vietnam).

Our efforts to support ecological, economical, and socially sustainable cocoa production are integrated into industry initiatives and co-ordinated with governmental and non-governmental organisations. The programmes concentrate on social aspects and have, as a main target, the possible abuse of child labour in African countries; these programmes are addressed with the International Labour Organisation (ILO) and local governments. We are a founding member of the International Cocoa Initiative working with ILO, unions, and humanitarian organisations to eliminate harmful child labour practices. Nestlé is also active in the World Cocoa Foundation and the International Cocoa Organisation to support sustainable cocoa production by assisting and training farmers in Africa, Latin America, and South East Asia.

The SAI-Platform, the Sustainable Agriculture Initiative of the food industry, is increasingly recognised for its catalysing effect and awareness building on sustainable development in mainstream agriculture. Nestlé is a founding member of this organisation. Further information is available at www.saiplatform.org.

Nestlé and the United Nations Millennium Development Goals for poverty reduction

About half of our factories and employees are in the developing world, and about 3.4 million people (employees, suppliers and their families) earn their living through our business activities. Our long-term business development approach has helped bring substantial numbers of people out of poverty, through improved job skills and better-paying dependable work opportunities. We thus contribute to poverty reduction in poorer countries, first by creating economic development and growth and, second, through social and community programmes that enhance our impact. Three projects are outlined below, selected from over fifty examples of Nestlé's contribution to the UN Millennium Goals to reduce poverty (further information is available at www.nestle.com):

China: Increasing milk consumption – We have helped tens of thousands of dairy farmers meet dramatically rising consumer demand, precipitated by government campaigns to combat malnutrition through increased dairy consumption. As consumer demand rose 100% over the last decade, we worked with farmers to increase production in a safe and sustainable way. Ultimately, we help farmers improve their livelihoods and provide affordable, nutritious milk products to Chinese consumers.

Ethiopia: Clean water for vulnerable populations – Through the Office of the UN High Commissioner for Refugees in Ethiopia, we helped bring clean drinking water to 210 000 people and their livestock in drought-stricken eastern Ethiopia. We have made a substantial investment in the well and pipeline system, and hydrogeologists from Nestlé Waters have worked with UN experts to make the water system productive and sustainable for years to come.

2004	Variation 2000-2004
5.27	-37.3%
2.73	-24.4%
4.26	-32.3%
133	-30.4%
0.65	-44.8%
0.29	-75.5%
57.4	-18.4%
77.0	



Increasing production of milk
to combat malnutrition in China



Improving water supplies
to refugee camps in Ethiopia



HIV/AIDS prevention education
in Africa

Nigeria and Kenya: Preventing HIV/AIDS – With the Red Cross/Red Crescent Societies, we supported nationwide programmes that educated more than 800 000 teenagers about HIV/AIDS prevention. These are in addition to several other nationally-based HIV/AIDS initiatives throughout Africa, Latin America and Asia, and intensive programmes to prevent and treat HIV/AIDS among our own people.

Please read our report *The Nestlé commitment to Africa*, accompanying this report and available on our website.

Recognition

We have been included for the fourth year in a row in the Dow Jones Sustainability World Index and, for the first time, in the Dow Jones STOXX Index. These indices choose the world's leading companies in good social and environmental practices. Further recognition includes being ranked 19th out of the Global 100 by AccountAbility, 2nd out of 32 by Oekom Research, a AA rating (4th out of 25) by Innovest and Best in Class by Storebrand SRI.

Management responsibilities: Food and beverages

Zone Focus

2004 was characterised on the one hand by tough trading conditions in Europe for our Food and Water businesses but, on the other hand, by improved conditions, compared to 2003, in Latin America and parts of Zone Asia, Oceania and Africa. Nestlé's success in riding these more positive trade winds, as well as a continued strong performance in the USA, compensated to a great extent for the weaker performance in Europe. This chapter looks in detail at our business in the different parts of the world.

		2002	2003	2004		
Zone Europe	Western	25 814	26 000	25 751		90.2%
In millions of CHF	Eastern and Central	2 254	2 574	2 812		9.8%
	Total sales	28 068	28 574	28 563		100%
	Beverages	4 623	4 901	4 980		17.4%
	Milk products, Nutrition and Ice cream	7 514	7 825	7 308		25.6%
	Prepared dishes and cooking aids	7 721	7 729	8 038		28.1%
	Chocolate, confectionery and biscuits	5 102	5 035	5 050		17.7%
	PetCare	3 108	3 084	3 187		11.2%
	Total sales	28 068	28 574	28 563		100%
	EBITA	3 442	3 561	3 492		12.2%
Zone Americas	USA and Canada	19 425	19 089	19 047		68.6%
In millions of CHF	Latin America and Caribbean	9 868	8 566	8 729		31.4%
	Total sales	29 293	27 655	27 776		100%
	Beverages	3 646	3 298	3 111		11.2%
	Milk products, Nutrition and Ice cream	8 690	8 535	9 240		33.3%
	Prepared dishes and cooking aids	5 725	5 906	5 565		20.0%
	Chocolate, confectionery and biscuits	4 164	3 733	3 691		13.3%
	PetCare	7 068	6 183	6 169		22.2%
	Total sales	29 293	27 655	27 776		100%
	EBITA	4 189	4 150	4 152		14.9%
Zone Asia, Oceania and Africa	Oceania and Japan	4 757	4 497	4 553		31.0%
In millions of CHF	Other Asian markets	6 234	5 819	5 926		40.4%
	Africa and Middle East	3 889	4 116	4 194		28.6%
	Total sales	14 880	14 432	14 673		100%
	Beverages	5 110	4 770	4 812		32.8%
	Milk products, Nutrition and Ice cream	5 995	5 876	5 938		40.5%
	Prepared dishes and cooking aids	1 791	1 822	1 889		12.9%
	Chocolate, confectionery and biscuits	1 441	1 415	1 456		9.9%
	PetCare	543	549	578		3.9%
	Total sales	14 880	14 432	14 673		100%
	EBITA	2 564	2 508	2 547		17.4%
Nestlé Waters	Europe	3 504	4 067	3 910		48.6%
In millions of CHF	USA and Canada	3 739	3 545	3 610		44.9%
	Other regions	477	454	519		6.5%
	Total sales	7 720	8 066	8 039		100%
	EBITA	696	782	669		8.3%
	Retail	6 384	6 727	6 664		82.9%
	Home and Office Delivery (HOD)	1 336	1 339	1 375		17.1%
	Total sales	7 720	8 066	8 039		100%



		-	0	+	RIG	OG
RIG and	Western				-1.6%	-1.1%
Organic growth (OG)	Eastern and Central				+1.2%	+7.9%
	Zone Europe				-1.3%	-0.4%
Change in the average value of key currencies versus CHF	EUR					+1.5%
	GBP					+3.2%

Zone Europe (EUR)

Sales and profitability

Europe experienced difficult trading conditions due to limited economic growth, higher household savings and an increased price competition among retailers.

In such an environment our sales were maintained at CHF 28.6 billion, essentially due to the strength of the euro against the Swiss Franc. The organic growth of -0.4% was generated by positive price adjustments of 0.9%, which partly compensated the negative RIG of 1.3%. This RIG performance was distorted by our ice cream business, which was severely affected by the adverse weather during the summer season, contrasting with the extraordinarily good conditions which prevailed in 2003. The shortfall of Ice cream hides a positive evolution of the RIG in several key categories, including Culinary, Soluble coffee and PetCare.

The Zone's EBITA was CHF 3.5 billion and the margin 12.2% in 2004. The successful achievement of savings through productivity and structural cost improvements within our industrial and administrative set-up could only partly offset the negative impacts of increased trade spend, brand support and reduced growth. The main profit shortfall was in Ice cream whereas the most marked improvements in profitability were in Chocolate and confectionery, Culinary and Frozen food.

Western Europe reached an organic growth of -1.1% and a RIG of -1.6%. Germany and France, Nestlé's two biggest European markets, with about one third of the Zone's sales, felt the greatest impact from the consumer climate and increasing price competition amongst retailers. Their performance was hindered, also, by the impact of their large ice cream businesses. Elsewhere, excluding the negative impact of Ice cream, most markets, particularly Spain, Italy and the Nordic Region, achieved a positive organic growth.

In Eastern and Central Europe the organic growth was 7.9%, close to the performance achieved in 2003, with a positive evolution recorded in most countries. Russia achieved a positive organic growth, but was held back by the disruption caused by the need to implement our own distribution and sales organisation and the associated significant stock adjustments. Among the other countries, there was particularly good growth in Ukraine.

Zone Europe succeeded in maintaining its strong positions in most product categories, even despite the difficult trading conditions. This underlines the strength of our strategic brands and reflects our determination to give continuous strong support to our key innovations and renovations, brands and value drivers. Among several initiatives the following were highlights:



The Orbe site in Switzerland unites the Product Technology Centre for coffee, the world's most advanced factory for soluble coffee (*Nescafé*), and the new *Nespresso* factory, producing for consumers worldwide

In Confectionery, Italy launched a new gifting assortment for speciality shops under the *Perugina* brand. In Spain there was a continued dynamic development of the *Caja Roja* range, as well as the successful launch of the wafer snack. The launches of *Cailler* premium tablets in Switzerland and the roll-out of *Kit Kat* in Poland and Ukraine were also successful. In the UK several new initiatives on *Kit Kat* reinforced the brand as consumers' favourite choice for a break, the best example being the launch of *Kit Kat Editions*.

In PetCare, we delivered an excellent performance from our premium and super premium products, such as *Pro Plan*, *ONE*, *Gourmet* and *Baker*.

In Beverages, new technologies were rolled out giving improved aroma and taste in *Nescafé* soluble coffee and improving the creaminess and "coffeeness" in *Nescafé* Cappuccino. Both product improvements have enabled us to enhance our leadership in this product category.

In Culinary products, we launched *Thomy les Sauces* in Germany and Switzerland, *Envie de Sauces* under the *Maggi* brand in France and *Maggi Feel Good*, which was mainly a range of soups, in Germany. Also, we have continued the successful roll-out of *Nestlé* and *Herta* dough products.

In Frozen food, we recently launched a new concept of microwavable snacks, *Maggi Hot Pockets*. This initiative started towards the end of 2004 in France and will be extended to other markets in 2005.

In Chilled dairy, we have rolled out our new *Nestlé Sveltesse* range and launched the *Geste Minceur* drink.

In Ice cream, the third quarter saw the relaunch of the *Mövenpick* range in Germany. We also acquired the Finnish Valio ice cream business. This acquisition complemented our Nordic ice cream business and put Nestlé in the number one position both in Finland and in the overall Nordic region.

In the Out-of-Home channel the main initiative was the launch of a new easy-to-use beverage system for *Nescafé*, aiming at convenience shops and small businesses.

We enlarged our branded product offer to take advantage of the growth potential resulting from increasing consumer acceptance of Hard Discounters and were successful in expanding our presence in this channel.

We continued our strategy to divest non-strategic activities and brands, with the sale of our milk powder business in the Netherlands, our potato based businesses in the Netherlands and Germany, as well as our



Above: The tasting kitchen in the *Maggi* factory, Singen, Germany, controls the sensory quality in day-to-day production of Culinary products

Right: *Stouffer's* frozen food factory in Springville, Utah, USA

chocolate business under the *Goplana* brand in Poland. In August we sold the Eismann Group of companies. Eismann delivered frozen food to private households and, as such, did not constitute a strategic priority.

Operational efficiency

Cost savings in all sectors of the organisation enabled us to keep total fixed costs at the same level as in 2003. In production, the main benefit of Target 2004+ was a considerable decrease in our cost base through increased line efficiencies and the disposal or closure of eleven factories, particularly in Dairy, Chocolate, Culinary and PetCare. In administration, we further improved "white-collar" efficiency in all major markets through Project FitNes.

The creation of a European purchasing organisation for important materials, initially for twelve markets, delivered its first savings in 2004. This organisation will be extended both in terms of geographic and materials coverage.

Outlook

The consumer climate and competitive environment are not expected to change in 2005. In this context, our key focus will be to protect margins while reinforcing our market shares in our key product categories.

The cost savings initiatives will protect our margins and increase funds for generating growth through key innovations, brands and value categories.

We aim to take advantage of our solid platform in Central and Eastern Europe to generate substantial growth in countries where consumption rates are rising and markets are growing. In highly competitive markets of Western Europe growth should mainly come from our focused efforts in innovation and renovation as well as from our expansion into differentiated sales channels.



		-	0	+	RIG	OG
RIG and	USA and Canada				+4.4%	+6.2%
Organic growth (OG)	Latin America and Caribbean				+5.8%	+10.7%
	Zone Americas				+4.8%	+7.7%
		■ RIG ■ += OG				
Change in the average value of key currencies versus CHF	USD					-7.7%
	BRL					-2.7%
	MXN					-11.7%

Zone Americas (AMS)

Sales and profitability

2004 has been a year of exceptional progress for Zone Americas, with sales growth above the industry average. Organic growth reached 7.7%, comprised of 4.8% RIG and 2.9% pricing. In spite of the 8% devaluation of the US dollar against the Swiss Franc, sales for the year reached CHF 27.8 billion, slightly ahead of 2003.

The Zone's EBITA margin was 14.9%, the slight decline from 15.0% reflecting the inclusion of Dreyer's for a whole year, which masks an operating improvement elsewhere in the Zone.

The organic growth performance, which included Dreyer's Grand Ice Cream Company from July to December, was made possible by good performances from both our North American and Latin American businesses, with 6.2% and 10.7% respectively.

In the USA, RIG was particularly strong in Performance nutrition, due to the growth of the *PowerBar* and *Pria Carb Select* offerings, and in Infant nutrition with *Nestlé Good Start*, whilst the Frozen food category accelerated after a slow start. There were exceptional performances in this category from *Stouffer's* and *Stouffer's Lean Cuisine*, both of which have been repositioned more competitively in the dynamic US food market. The performance of *Hot Pockets* was fueled by launches of "low carb" *Lean Pockets*

Ultra, *Pot Pie* and fruit pastries. In Ice cream, Dreyer's delivered exceptional RIG, inspired by the successful launch of slow churned *Dreyer's Grand Light*. We were also able to expand our *Nesquik* ready-to-drink vending machines in schools, increasing children's access to milk.

The PetCare operations in North America returned to more normal levels of growth, after a slow 2003, with RIG driven by significant innovation and renovation, and pricing by the need to recover higher commodity costs. This strong sales performance enabled an improvement in PetCare margins, despite the raw material pressures. *Beneful Healthy Weight Management* was one among many innovations in 2004, as was *Pet Promise*, a line of organic pet food giving us a presence in the natural food channel. Our business in Latin America has been impacted by the BSE issues at the end of 2003, but our priority brands have shown strong growth, and the *Beneful* brand was successfully launched in Brazil and Mexico.

In Canada we increased our leadership position in Confectionery, with new product launches including *Aero Caramel*. Infant nutrition had another year of outstanding growth with a strong performance from *Nestlé Good Start*, whilst Frozen food was impacted by the BSE related embargo. In Foodservices we sold our potato business to McCain Foods.



In the *Stouffer's* factory experienced line-operators take pride in creating products that meet consumer expectations

Our Latin American businesses were able to recover from the difficult economic conditions experienced in 2003, with a much stronger RIG of 5.8%, compared to -3.8% for 2003. Pricing was not at the dramatic levels seen in 2003, but contributed 4.9% to give an organic growth of 10.7%.

In Brazil, we achieved a good acceleration in growth and profitability after a slow start, driven by the application of the four pillar strategy and aided by the recovery in the economy. Most businesses, in particular Chocolate, Dairy, Infant and HealthCare nutrition, performed well. In categories where there was particular competitive pressure, such as Soluble coffee and Powdered beverages, we have plans in place to defend our leadership.

The performance in Mexico was once again outstanding. We achieved further growth and excellent margins, driven by a focus on a fast rotation of products at point-of-sale, focused marketing support and significant innovation and renovation. All categories contributed to the performance, particularly Soluble coffee and Chocolate. Chocolate's performance was improved by our new direct store delivery system, which will be developed to fuel growth in other categories. *Kit Kat Chunky* was successfully launched in Mexico.

Dairy Partners Americas (DPA), our joint venture with Fonterra, has been extended and now covers five countries. Significant progress was made towards securing a cost competitive supply of fresh milk and milk ingredients and building strong positions in chilled and liquid milk products. Currently, the individual joint ventures of the alliance cover thirteen sites and source over 2.5 billion litres of fresh milk.

The Zone's sales performance was founded on the four pillar strategy. We established a dynamic innovation and renovation platform, focused on core brands and fed by proprietary consumer insight, supported by leading edge technology and Research and Development competence. This benefited from markets having been clustered together so they can share and accelerate development and launch activities regionally where appropriate. The availability (whenever, wherever, however) pillar was addressed through channel-specific launches, a broadened distribution network, increased direct store delivery and an emphasis on out-of-home consumption. We focused on improving the quality and effectiveness of both our communications and our investment in communication. We are consolidating our media buying and planning, whilst our shared services will leverage scale and efficiency across all consumer promotions and syndicated services.



Operational efficiency

The Zone's margin performance reflected our successful drive to lower costs in 2004 through operational efficiencies. This optimisation of our production infrastructure will continue as we create focused, competitive, specialised factories. The Group-wide initiatives, Target 2004+ and FitNes, have driven costs out of our system and will remain an area of focus in the future. We are leveraging our significant scale in the Zone and gaining efficiencies through a common purchasing approach that touches every spend category, utilising a network of experts. We are establishing shared service centres in North America and Latin America to allow our business units to focus on generating growth and market share. We have also divested basic food manufacturing activities such as cocoa processing, chocolate mass-making and basic milk powder.

Outlook

Our actions in 2004 have been driven by the four pillar strategy and guided by the three objectives of Growth, EBITA improvement and market share gains. Our 2004 performance demonstrates that our approach delivers results. In 2005, consumers will continue to be at the centre of our activities as we strive to deliver on their needs through our brands, products and know-how. With this focus, a favourable economic environment and the platform established through the four pillars, we expect a continued strong performance from the Zone.



		-	0	+	RIG	OG
RIG and	Oceania and Japan				+0.7%	+0.4%
Organic growth (OG)	Other Asian markets				+7.5%	+10.6%
	Africa and Middle East				+4.6%	+8.8%
	Zone AOA				+4.6%	+6.9%
Change in the average value of key currencies versus CHF	JPY					-1.6%

Zone Asia, Oceania and Africa (AOA)

Sales and profitability

2004 was another challenging year for the markets of Zone AOA, with political crises in Iraq and Central West Africa Region, natural disasters in Asia, rising raw material costs and high oil prices. Despite these difficulties, sales amounted to CHF 14.7 billion. RIG improved considerably compared to last year and the Zone finished the year with 4.6% and with an organic growth of 6.9%.

The Zone's EBITA margin reached 17.4%, unchanged compared to 2003. Zone AOA has suffered from higher input costs, especially milk prices, but most of the increases have been passed on to consumers. The remaining cost increases have mainly been compensated by the on-going saving initiatives.

Japan saw a general improvement in macroeconomic indices. However, it was not an easy year for the food industry as a new rule on consumption tax drove retailers to seek price reductions from manufacturers. Until June, Nestlé Japan's performance was above expectations, but exceptionally hot weather in the summer months affected the sales of *Nescafé* soluble coffee and creamers. On the other hand, there were good performances from liquid beverages and confectionery.

The retail environment in Oceania Region continued to be challenging, with major retailers competing aggressively, seeking to re-engineer their supply chains to reduce cost bases and stepping up their private label strategies. However, Oceania achieved positive RIG through a continuing focus on innovation and on growing in channels outside of supermarkets. Profit margins also improved, with saving initiatives more than compensating for an increased spend on brands.

The Greater China Region, which reported a double-digit RIG, continues to achieve sustainable profitable growth in all channels. Its strong performance resulted from its efficient supply chain, continuous innovation and renovation and expansion of the breadth and depth of its distribution, as well as efficient and effective communication of the powerful *Nestlé* brand. Continuous progress is being made in all businesses and channels across this massive, diverse and highly competitive market.

It has been a difficult year for Nestlé Philippines. Uncertainties due to the presidential election impacted the first half, and the difficult trading environment continued into the second half. Increasing inflation and a heightened awareness of the country's economic and fiscal difficulties resulted in lower consumer confidence. Despite this,



Above: The Shuangcheng factory for milk products was Nestlé's first factory in China. Built in 1990, it employs 990 workers, buys milk from some 22 000 farmers and benefits directly or indirectly about 100 000 people in the local community

Left: In Africa, pushcart-vendors ensure the availability of *Nescafé* to local consumers, wherever, whenever, however

and two rounds of price increases necessitated by higher input costs, Nestlé Philippines registered strong growth, particularly in the second half of the year. Market shares were maintained or increased.

The South East African Region's business climate was characterised by steady growth, lower inflation and interest rates and a more stable exchange rate. We achieved a solid RIG due to good performances in Nutrition and Shelf stable dairy. Profitability increased due to the good sales growth, effective cost control and improved efficiency.

The Malaysia-Singapore Region benefited from an economic recovery, and we out grew most Food and beverage companies, whilst also increasing our EBITA margins. Emphasis was put on reducing stocks-in-the-trade, in conjunction with a strong innovation and renovation drive.

The Middle East Market again produced solid sales growth, despite the unstable situation in Iraq, the Palestinian problem and security issues in Saudi Arabia. This performance was achieved not only in the Gulf countries, whose economies were helped by high oil prices, but also in Syria, Jordan and Lebanon, where the highest growth rates were recorded. In Iran, we completed our first full year of operations and met our expectations.

In the South Asia Region, it was a year of successive blows to consumer confidence: erratic monsoons in India, floods in Bangladesh, and political turmoil mostly in Nepal, but also in India and Sri Lanka, which both elected new coalition Governments, temporarily slowed the rate of economic expansion. Nonetheless, we deepened distribution, defended and developed category leadership and maintained tight cost control. As a result, internal growth was in line with GDP growth, whilst profitability was healthy, above that of the regional competitors. At the end of the year the region was struck by the tsunami, with devastating consequences for many communities. Although there was no major direct impact on our business, our local organisations were confronted by significant challenges to which they responded in an exemplary fashion. In fact, their efforts went way beyond any corporate imperative and were a wonderful reflection of their own generosity of spirit.

The Indochina Region achieved satisfactory results for the year, led by strong growth in Ice cream, while other key product categories improved or maintained their market share in the region. Our greatest challenge in the second half of the year came from cost increases in raw and packaging materials, aggravated by a temporary government restriction on selling price



Above: Nestlé milk collection centre in China
 Right: San Pellegrino spring, in the North of Italy

increases for many products. The fundamentals of our business in Indochina are very strong and we expect to benefit from continued economic growth.

In Turkey, the progress made towards EU accession, as well as improving economic conditions, brought stability and confidence to the market. After the sale of the Chilled dairy business, we accelerated to high double-digit RIG and made major gains in profitability. The outlook for continued accelerated profitable growth is very promising, as strong market positions have been achieved in most key categories.

Operational efficiency

Zone AOA Supply Chain was created during 2004, located in Bangkok, to drive supply chain performance improvements throughout the Zone. In the technical area, meanwhile, projects in ASEAN and Oceania have been completed to design the optimal structures for the technical management at corporate and factory level, and to enhance shared services. We are also taking advantage of our ASEAN Industrial Structure to undertake regional projects with a common systematic approach to understanding consumers and to enable a business strategy and alignment for innovation and renovation, leading to the most efficient use of the industrial structure.

Outlook

Considerable savings have already been attained in manufacturing, through the Target 2004+ initiatives and high performance factory projects. Therefore future profit increases will be generated by solid growth, based on continuous innovation and renovation and on the enormous potential Zone AOA has due to the expected increase in population.

Ageing populations and obesity are also relevant in Zone AOA. Our re-orientation towards a food, nutrition, health and wellness company should provide the foundation to develop products addressing these issues.



		-	0	+	RIG	OG
RIG and	USA and Canada				+14.8%	+9.7%
Organic growth (OG)	Europe				-9.3%	-8.4%
	Other regions				+7.6%	+9.1%
	Nestlé Waters				+2.4%	+0.6%

■ RIG ■ += OG

Nestlé Waters

Sales and profitability

Sales remained almost unchanged, at CHF 8.0 billion. Organic growth was 0.6%, of which RIG was 2.4% and pricing -1.8%. This low level of growth was the main reason for the fall in profitability. The EBITA margin decreased from 9.7% of sales to 8.3%.

Nestlé Waters' RIG achievement in 2004 was very different from region to region. Whilst North America returned to the excellent growth of two years ago, Europe was sharply negative due to the poor summer weather. With Europe representing about half of Nestlé Water's sales, it was inevitable that the total growth rate would be impacted. Middle East, Africa and Latin America contributed positively.

We decreased selling prices in certain markets as part of our strategy to defend our market share for specific brands. The most important instance was in the large North American market, where we were able to more than compensate for the lower pricing through increased efficiencies, savings in overhead costs, significantly increased volumes and market share. On the other hand, we increased prices in some parts of Europe, the Middle East, Africa and Latin America.

Nestlé Waters entered the expanding retail and Home & Office (HOD) markets of South Korea and Indonesia through joint ventures with the Pulmuone Group and The Coca-Cola Company. Our entry into those significant markets is consistent with our strategy of strengthening our business in markets which should offer a high level of profitable growth.

The weak performances of several of our local and international brands, particularly in Europe, were partly offset by the strong development of the *Nestlé* branded waters. *Nestlé Pure Life* and *Nestlé Aquarel* continued to deliver strong growth rates in most of the 34 markets where they operate, with annual sales surpassing CHF 600 million, or 2.2 billion litres, and with combined growth above 45%.

The low level of total organic growth was the key adverse influence on profitability, as it was only partially compensated by our savings initiatives in manufacturing and the supply chain, as well as by containment of fixed costs. The cost of PET, our main raw material, which is linked to the oil price, rose considerably during the year and, again, was only partially mitigated by good purchasing management. In addition, the unfavourable evolution of exchange rates, in particular the US dollar versus the euro, penalised our exports from France and Italy. There were also one-time costs



Poland Spring's three factories supplied 2.1 billion bottles of water in 2004, making it Nestlé Waters' biggest brand in the United States and Canada

related to the integration of our European HOD businesses, acquired during the three previous years. That integration effort will be concluded during 2005.

The final issue for profitability was our French factories' continuing low productivity, whether compared to our factories elsewhere or to the competition's. We will improve our productivity, and our profitability, in France either through a set of corrective measures such as an early retirement plan and a new company structure, or through the divestment of certain brands.

United States and Canada

The North American retail bottled water segment, where we are the market leader, continued to grow well, even if the competitive environment once again pushed prices downwards.

We adjusted our pricing strategy in January 2004 for certain brands, regions and channels in a successful strategy to protect our market share. Overall organic growth reached 9.7%, driven by the 190 basis points positive evolution of our PET market share in all measured markets.

International brands, primarily *Perrier*, *S.Pellegrino* and *Acqua Panna*, expanded our position in the premium out-of-home segment with double-digit growth rates. Our regional brands, such as *Poland Spring* and *Zephyrhills*, each with a leading position in its territory, also improved their shares. Our value brand, *Nestlé Pure Life*, with coverage across the USA and Canada, played an important defensive role for our regional spring water brands, and contributed strongly to our overall growth.

Our HOD business was essentially flat, reflecting market growth. The HOD market in the US was under pressure from the lower prices in the retail PET segment and from erosion of the profitable cooler rental business. Cost reduction initiatives, new service offerings and higher sales of ancillary products, such as cups and small-format bottled waters, helped to offset the impact of weaker five gallon bottle and cooler rental revenues.

All retail and HOD activities combined, Nestlé Waters North America once again delivered an improved EBITA margin, as well as organic growth of 9.7%.

Europe

The Water industry had a difficult year in Europe: the heatwave of the previous year, which had resulted in record levels of consumption, was followed by poor summer weather in 2004; there was an unprecedented



level of media coverage around Water, not least due to a competitor's withdrawal; there was a move towards lower priced and private label brands, which took share from all the major branded bottlers; and, in Germany, the industry was penalised by the mandatory deposit regulation, which limits the distribution of one-way PET products.

Nestlé Waters' organic growth in Europe was -8.4%, with sales reaching CHF 3.9 billion. The EBITA margin also decreased from the level achieved in 2003. Consumption trends affected our performance across Europe. Our international premium brands, whose main territory is Europe, as well as our premium local brands, were the most heavily penalised by the market's evolution. *Nestlé Aquarel* was our bright spot and, helped by its value price positioning, achieved 40% organic growth.

This was the first full year of the integration process of our European HOD businesses. As part of that process we have cleansed our customer lists, written off bad debts, discontinued service to unprofitable customers and closed depots. As a result, sales growth was slightly negative, but we are confident that the integrated business will contribute significant volume and profit growth, as well as sizeable synergies with our retail business.

Other regions

Our performance in the rest of the world was generally good, although still coming from a relatively small base. The majority of markets in the Middle East, Latin America and Asia showed double-digit growth rates. Particularly impressive were China, Egypt, Brazil and Argentina, all of which achieved organic growth rates above 30%, with our worldwide brand *Nestlé Pure Life* at the forefront. Profitability in these regions improved once again.

Outlook

After the setback in Europe in 2004, we expect the global bottled water market to once again be the fastest growing beverage category in 2005, with high single-digit growth rates. We would anticipate that value growth will lag slightly behind the volume growth, due to the continued movement of consumers toward lower priced offerings.

Nestlé Waters should return to a more normal level of growth, with North America continuing to be the main catalyst, together with the less mature markets of Europe and the emerging countries. Such a performance, together with a continued focus on efficiencies, would ordinarily also lead to an improvement in EBITA margins.

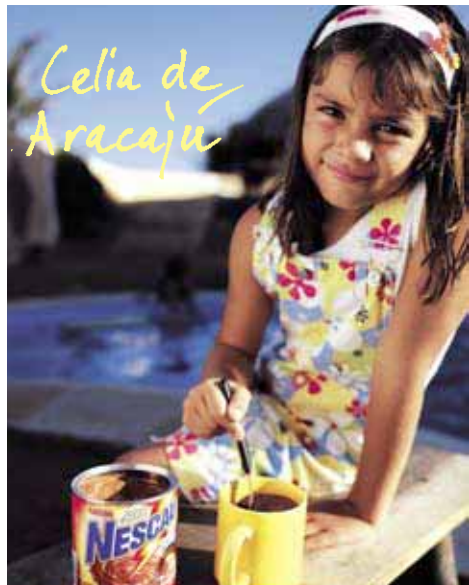
Leading positions in dynamic food and beverage categories

Nestlé has sustained an average organic growth over the last ten years of about 5%, above the food industry average. This is in part to our geographic spread, discussed in the last chapter, but also due to the categories that we have chosen to be in, our leadership in those categories, either globally or in the most dynamic market for a particular category, and the strength of the relationship between our brands and our consumers.

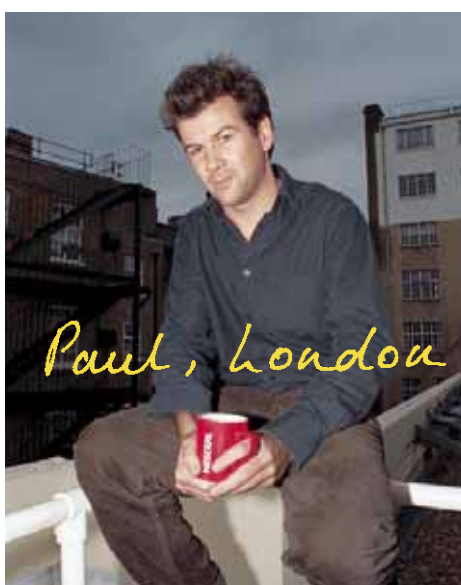
This next chapter reviews 2004 from the perspective of our product groups, focusing on our performance and the key influencers of that performance, whether internal, such as innovation and availability, or external, such as raw material costs.

		2002	2003	2004		
Beverages	Soluble coffee	8 287	8 046	8 079		37.1%
In millions of CHF	Nestlé Waters	7 720	8 066	8 039		36.9%
	Other	7 318	7 408	5 675		26.0%
	Total sales	23 325	23 520	21 793		100%
	EBITA	4 075	4 038	3 867		
Milk products, Nutrition and Ice cream	Milk products	12 339	11 208	10 791		45.8%
In millions of CHF	Nutrition	5 143	5 003	5 223		22.1%
	Ice cream	5 010	6 147	6 557		27.8%
	Other	884	925	1 011		4.3%
	Total sales	23 376	23 283	23 582		100%
	EBITA	2 756	2 796	2 682		
Prepared dishes and cooking aids	Frozen and chilled	8 711	9 484	9 212		58.0%
In millions of CHF	Culinary and other	7 123	6 584	6 666		42.0%
	Total sales	15 834	16 068	15 878		100%
	EBITA	1 712	1 884	1 924		
Chocolate, confectionery and biscuits	Chocolate	8 493	8 155	8 181		79.8%
In millions of CHF	Confectionery	1 306	1 231	1 205		11.7%
	Biscuits	975	854	872		8.5%
	Total sales	10 774	10 240	10 258		100%
	EBITA	1 180	1 047	1 153		
PetCare	USA and Canada	6 498	5 642	5 661		57.0%
In millions of CHF	Europe	3 108	3 084	3 187		32.1%
	Other regions	1 113	1 090	1 086		10.9%
	Total sales	10 719	9 816	9 934		100%
	EBITA	1 418	1 444	1 446		
Nestlé FoodServices (Out-of-Home)*	Zone Europe	2 849	3 029	3 016		46.6%
In millions of CHF	Zone Americas	1 971	1 935	1 804		27.8%
	Zone Asia, Oceania and Africa	1 786	1 577	1 655		25.6%
	Total sales	6 606	6 541	6 475		100%
Alcon	Sales	4 661	4 579	4 857		
In millions of CHF	EBITA	1 188	1 243	1 454		
Associated companies	Nestlé's share of results	504	593	1 588		
In millions of CHF						
Pharmaceutical and cosmetic joint ventures	Nestlé's share of sales	471	473	467		
In millions of CHF						

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



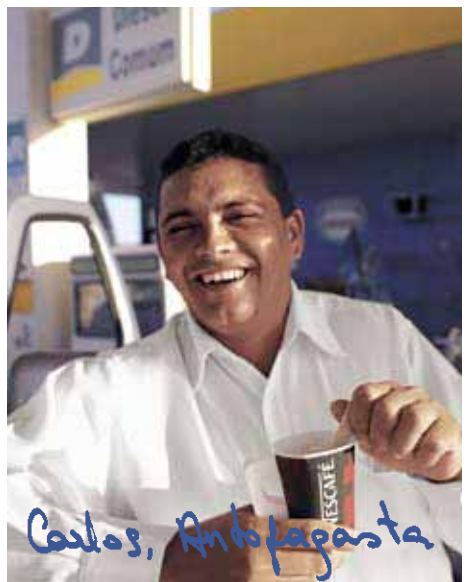
Celia de Aracaju



Paul, London



ARNI EN QANAAQ



Carlos, Antofagasta



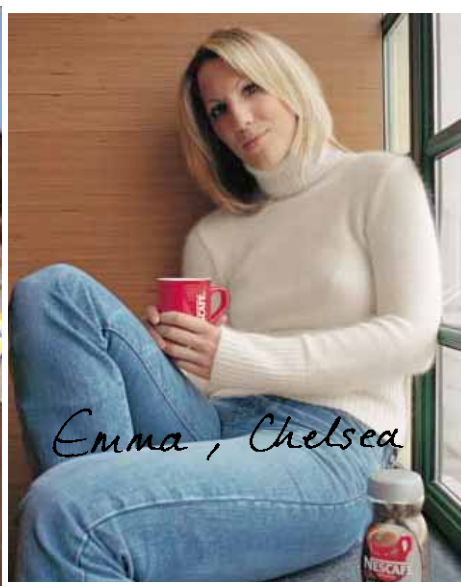
Ramona et Olivia, Nanterre



Carlos, Beach Raid



Meus primos, Verão



Emma, Chelsea



Nespresso Milano

powder prices. This has restored some stability to the market.

We achieved strong growth in Zone AOA, spearheaded by *Milo*, which continues to make excellent progress in both developed and developing markets. *Milo* was also introduced in several new markets, notably in Africa. Europe and North America saw a solid performance by *Nesquik* resulting in market share gains.

One of our major initiatives has been to strengthen the nutritional benefits of our brands through multi-market new product launches: *Nesquik Plus* in Europe and the extension of our proprietary branded active benefits, such as *Nesquik with Nutri Active B* for Latin America and *Actigen E* in all *Milo* markets and in Brazil for *Nescau*. Other significant introductions have been *Nesquik Junior* in Spain and the relaunch of *Nesquik Syrup* in the US.

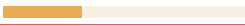







Nespresso delivered RIG in excess of 30% and sales of about CHF 600 million. This good performance comes despite strong competition in the portioned coffee market, and was achieved as a result of key competitive advantages of *Nespresso*: best in-cup quality combined with high variety and individual choice, as well as machines offering the best technology and high convenience. A further key element was the extension of the range both of coffees, with the launch of its *Lungo* blends, and of machines, in partnership with Miele, Siemens and De Longhi and through *Nespresso Essenza*, a new entry point system.

The *Nespresso* Club and Internet services continue to develop, with a premium *Nespresso* branded magazine and new *Nespresso* boutiques, which now total 34 in 14 countries. *Nespresso Professional* is also expanding rapidly, with an extended coffee offer and new out-of-home distribution channels, guaranteeing that a wider range of consumers are enjoying *Nespresso* wherever, whenever and however.

Beverage Partners Worldwide, our joint venture with Coca Cola, experienced slower growth than in 2003, with RIG of 1.8%, due to the poor Summer in Europe.

Milk products, Nutrition and Ice cream

This product category is at the heart of Nestlé's nutrition, health and wellness strategy. Its growth was driven by innovation focused on branded active benefits, on differentiated and segmented consumer benefits and on new technology that looks set to change consumers' perceptions of ice cream.

Sales split*	Zone EUR		7 308
In millions of CHF	Zone AMS		9 240
	Zone AOA		5 938
* excludes sales within Other activities			
		- 0 +	
RIG and Organic growth (OG)	Milk products		RIG +2.2% OG +5.9%
	Nutrition		RIG +5.9% OG +8.7%
	Ice cream		RIG -1.2% OG +0.5%
	Total product group		RIG +2.4% OG +5.4%
			

Sales reached CHF 23.5 billion. RIG was 2.4% and organic growth 5.4%. The EBITA margin dipped to 11.4% of sales, reflecting the inclusion for the whole year of Dreyer's.

Shelf stable dairy delivered a good RIG, as well as market share gains, due primarily to our focus on innovation and renovation.

The *Nido*, 1+, 3+, 6+ nutrition system for growing up milks with branded active benefits had an excellent performance, especially in Mexico, Indonesia and Colombia. There were strong sales too in our other milk businesses for children.

In the sweetened condensed milk category, we also registered good growth, specifically in our biggest market, Brazil, due to the launch of an attractively shaped new can.

Our tea creamer business in Pakistan (UHT and powder) and in India (powder), both under the brand *Everyday* have grown strongly.

In coffee creaming, we have delivered a record performance, inspired by the launch of *Latte Creations*, a unique and proprietary foaming coffee creamer, in our biggest markets, the USA and Japan.

In Chilled dairy, the European business is now focused on four key segments: Light, Indulgence, Children, and, of course, Health through the *Sveltesse* brand, which has been rolled out across Europe. This has resulted in a more focused business, with approximately half the number of SKU's and more effective marketing support. We have taken initiatives to improve our financial performance including licensing *LC¹* to Müller in Germany and Austria, exiting the Netherlands and Poland, and outsourcing production and distribution in Switzerland to Emmi. We have also sold the Weiding factory

and closed the factory in Slaverton. In 2005 we will continue to focus on improving our performance in the market place. Meanwhile, we have seen good progress in Zones AOA and AMS, with record results in Australia and Mexico due to greater focus and to leveraging strong brands, such as *Nido*.

Infant nutrition achieved organic growth above the Group average, driven equally by volume and pricing, with the Americas and AOA the key contributors. We rolled-out products incorporating fat blends based on recent scientific advances and are gearing-up for unprecedented innovation across our product categories and geographic locations in the coming year.

HealthCare nutrition also delivered growth above the Group average, with all regions contributing and Western Europe and Brazil at the forefront. New product launches included varieties of *Carnation Instant Breakfast* in North America, and



Perfect partners



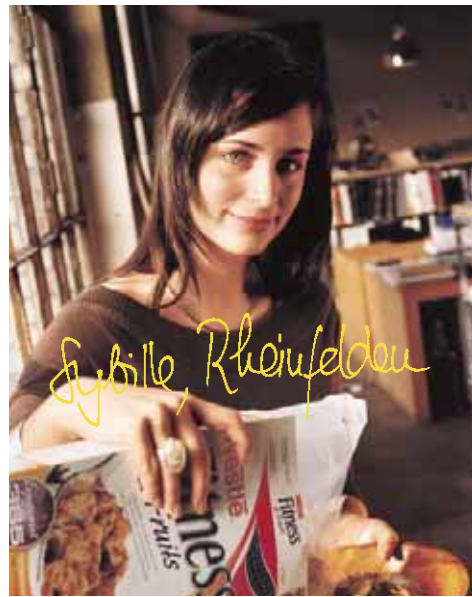
Kids go further



Mercedes em Recife



Helena en Brasilia



Sybille, Rheinfelden



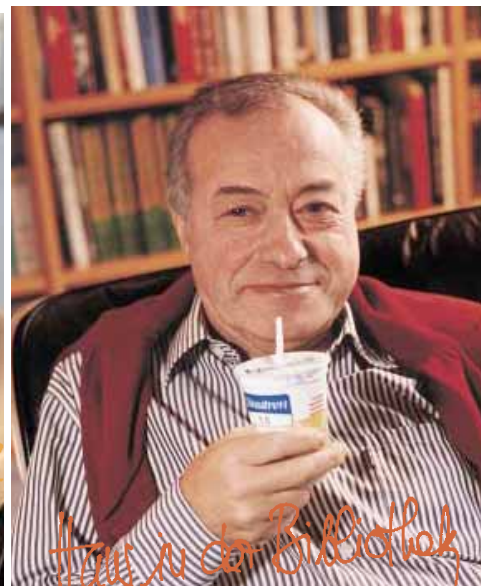
Suzanne, KeyWest



迅速能量, 活力十足



Silvia at school



Hans in der Bibliothek

The merger with Dreyer's progressed well, delivering double-digit growth whilst also achieving milestones in its integration plan. Key brands such as Häagen Dazs and Dreyer's Grand Light were at the forefront of this growth.

an extension of *Clinutren* in Europe. Retail pharmacies and home care are the fastest growing channels.

Performance nutrition recorded impressive growth, inspired by the rapid and very successful launch of low carb varieties of *PowerBar* and *Pria*.

The Ice cream business has experienced varied performances around the world, albeit that we have generally been able to improve our market positions. Both Zone Americas and Zone AOA achieved high growth, whilst Europe was impacted by a very poor Summer season, contrasting dramatically with the hot Summer of 2003.

Our growth has been significant in mature ice cream markets such as the USA, Australia and Chile, thanks to strong, well-supported innovation plans. At the same time, we have enjoyed strong sales in countries where there remains high potential for ice cream, such as China, Malaysia, Egypt, Peru and Thailand. The acquisition of Valiojäätelö in Finland delivered leadership in the Nordic countries.

Innovation has continued to be the key growth driver. Particularly exciting was the highly successful launch of the *Slow Churned Dreyer's Grand Light* range in the USA. Through new patented technology, we have brought to market a product which is as light and creamy as standard ice cream, but with half the fat. This proves that consumers will accept nutrition-related products provided there is no compromise on quality and taste. The nutrition opportunity has been addressed around the world with new launches including the *Sveltesse* stick in France, Spain and Portugal, and *Legend Real Dairy* in Canada. Finally, key success stories from the last two years have travelled the world, including *Drumstick Royale* initially launched in Australia, which has reached Chile, Europe, Canada, Malaysia and Mexico.








Häagen Dazs, part of our Super Premium range, has had a strong year in the USA, driven by innovation and a new communication campaign. *Mövenpick* is benefiting from its re-launch in Germany and has opened its first parlour in Zurich, "the ice cream gallery". Similarly, *Antica Gelateria del Corso* is starting its geographical expansion with the creation of traditional Italian boutiques serving ice cream with a spatula.

Cereal Partners Worldwide (CPW), our joint venture with General Mills, had another year of strong growth and improving profitability, driven by developing markets in Latin America, South East Asia, the Middle East and Southern Europe. CPW continued to expand its core global franchises of *Fitness*, *Nesquik*, *Chocapic* and *Cheerios*, whilst new items included *Fitness Chocolat* in Europe, *Fitness* with yogurt in Mexico and the introduction of the *Fitness* cereal bars in the UK and Central Europe. CPW also launched a new global brand, *Cookie Crisp*, into Asia, Latin America and South West Europe.

Dairy Partners Americas, our alliance with Fonterra, extended to include 8 joint ventures in 5 Latin American countries. Currently, the joint ventures cover 13 sites and source over 2.5 billion litres of fresh milk.

Prepared dishes and cooking aids

A broader product range, offering consumers more choice of nutritional and health benefits, including sodium reduction, combined with great taste, was the foundation of growth across the product group. The introduction of *Hot Pockets* to Europe, meanwhile, could create a new food category for consumers.

Sales split*	Zone EUR		8038
In millions of CHF	Zone AMS		5565
	Zone AOA		1889
* excludes sales within Other activities			
		- 0 +	
RIG and Organic growth (OG)	Frozen and chilled		RIG +2.3% OG +3.1%
	Culinary and others		RIG +1.8% OG +4.1%
	Total product group		RIG +2.1% OG +3.5%
			

Sales reached CHF 15.9 billion. RIG was 2.1% and organic growth 3.5%. The EBITA margin rose to 12.1% of sales.

The global demand for affordable and convenient taste enhancement continued to favour our Culinary business. Excellent growth in Eastern Europe, China, the Middle East, Africa and India was tempered somewhat by a slowing demand in Western Europe. Latin America experienced a resurgence in growth due to effective innovation, while we strengthened our position in Eastern Europe with the acquisition of the *Torchin* business, the leader in the Ukrainian market in mayonnaise, ketchup and mustard.

Our North American frozen food business, the leader in that market, continues to benefit from the double-digit growth of *Hot Pockets*. In the second half of the year, we also experienced a strong resurgence in the growth of *Stouffer's* and *Lean Cuisine*. As the impact from the Atkins' diet diminished, we continued

to gain market share through successful renovations of both brands. Our Chilled culinary business also grew. In Europe we have doubled our liquid dough business over the past year as *Nestlé Bake It* continued to perform well and was successfully expanded into new markets.

Looking forward, the September 2004 launch of *Maggi Hot Pockets* into France will create a new segment in Europe in high quality, microwaveable hand-held meals while, in the USA, the launch of *Hot Pockets Sweet Pastries*, and of *Subs* heartier soft bread sandwiches, will continue to support double-digit growth.

Also in the USA, the launch of *Stouffer's Grilled Entrees*, featuring lighter, tastier recipes, and of *Lean Cuisine Spa Cuisine*, featuring more vegetables, will fuel continuing growth by responding to consumer demand for healthier, wholesome eating options.

In Latin America the rapid launch of *Maggi Costilla Bouillon* across Central and South America was a major factor in our solid growth in that region.

Thomy dressings were expanded into Germany to respond to increasing interest in salad consumption and we began to extend the *Torchin* brand from mayonnaise products into traditional seasonings and recipe mixes and soups.

Our *Toll House Break and Bake* refrigerated cookie line continued its dramatic share growth, with the most recent innovations adding new holiday seasonal products and minis.

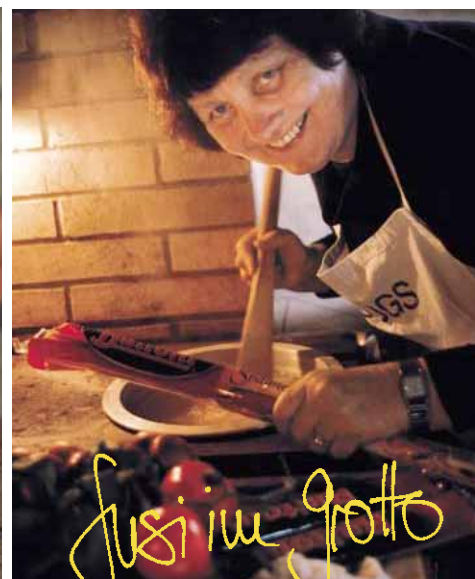
Sodium-reduction programmes are now in place around the globe on the majority of *Stouffer's*, *Maggi*, *Lean Cuisine* and *Hot Pockets* product lines. "Trans" fatty acid reduction is also well underway with 90% of our products likely to meet stringent governmental and Nestlé guidelines by the end of 2005.



Tengorra sul cantiere



Yo soy la cocinera



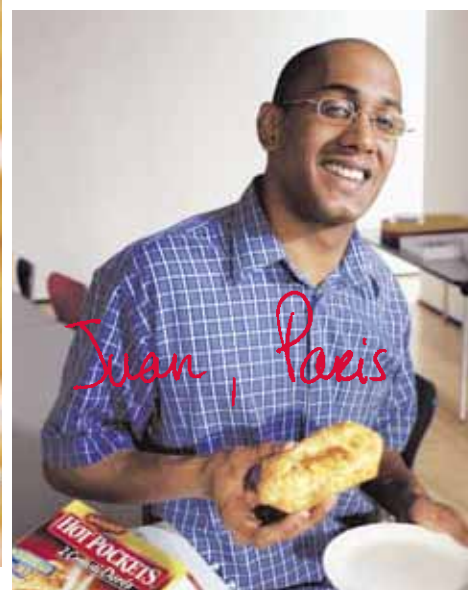
fusi im gatto



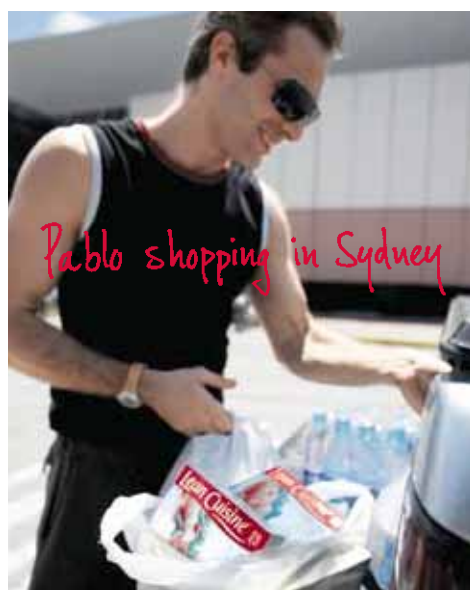
Auller's, Berlin



Corinne em Barléis



Juan, Paris



Pablo shopping in Sydney



Réunion de famille



My secret for good cooking

Production capacity has been added or upgraded to support the growth of bouillon in Central West Africa, dough in Europe and the USA and chilled salads in Israel, whilst we opened a new culinary factory in Russia. Packaging harmonisation and production cost optimisation programmes are continuing in culinary operations in Europe and Latin America and in our European and North American frozen food operations.

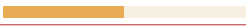





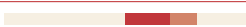

The successful *Maggi Kochstudio* concept has been expanded to a number of new cities in Germany and is regularly adding novel cooking concepts, classes and nutritional advice. This service aspect of the *Maggi* brand is also being expanded in many other countries via websites and consumer service centres. *Lean Cuisine* is enhancing its nutritional support through sponsorship of women's health workshops, wellness fairs and its nutritional advisor role within its website.

In Vietnam, *Maggi* growth has accelerated due to a sales and distribution effort aimed at increasing visibility and placement with the many "hawkers" and other outlets in the traditional fresh markets. Reaching the outdoor market with product and point-of-purchase cooking demonstrations and advertising is an important part of the business development of *Maggi*.

Overall, therefore, 2004 was a positive year, leaving us well placed for further progress in 2005.

Chocolate, confectionery and biscuits

The foundation of growth in Chocolate was our innovation pipeline, focused on consumers' desire both for indulgence and for nutritional alternatives to established products. The category benefited also from a return to more normal market conditions, after the raw material cost volatility of 2003.

Sales split*	Zone EUR		5 050
In millions of CHF	Zone AMS		3 691
	Zone AOA		1 456
* excludes sales within Other activities			
		- 0 +	
RIG and Organic growth (OG)	Chocolate		RIG +2.6% OG +3.4%
	Confectionery		RIG -1.3% OG +0.8%
	Biscuits		RIG +1.3% OG +5.4%
	Total product group		RIG +2.0% OG +3.2%
			

Sales reached CHF 10.3 billion. RIG was 2.0% and organic growth 3.2%. The EBITA margin rose to 11.2% of sales.

Following the difficulties for the chocolate industry in 2003, there was a more stable environment for much of 2004. We have seen solid value growth in all regions, with excellent results in Latin America, Canada and Japan.

We have consolidated our position in our key markets in Western Europe, despite the difficult trade environment. The management team in the UK has put in place a new strategy, and the first results are encouraging, with market share gains and a strong innovation pipeline.

Major highlights of the year include launches under our flagship brand *Kit Kat*. We have introduced the premium priced *Kit Kat Editions* in the UK, whilst new flavours such as Green Tea in Japan, Blood Orange and White Winter

in Germany and Chunky Peanut Butter in Canada have all achieved excellent consumer acceptance.

Our other strategic brands also benefited from our strong innovation pipeline, with launches including *Aero Caramel* in Canada and *Butterfinger Crisp* in the USA. *Smarties* tablets were introduced in Europe whilst a new chewy fruit format was launched in the UK. 2004 saw many added value launches under our strong local brands such as *Rossiya* in Russia and *Orion* in the Czech Republic. In Poland, we introduced a new range of indulgent wafers using the *Princessa* brand, whilst a range of Nestlé branded wafer snacks were launched across Europe. In Oceania we launched a range of indulgent tablets also under the Nestlé brand.

We have re-organised our Research and Development resources to improve the alignment of our product development with specific consumer needs and to establish a stronger innovation pipeline.

The streamlining of our industrial structure has continued during 2004, mainly in Europe and North America. This is tied closely to our worldwide portfolio optimisation effort and our drive to improve manufacturing efficiency. We have also continued to divest under-performing businesses with the clear aim of improving our financial performance. Examples of our on-going focus on branded value-added products were the sales of our cocoa processing activities in York and Hamburg and the Goplana business in Poland.

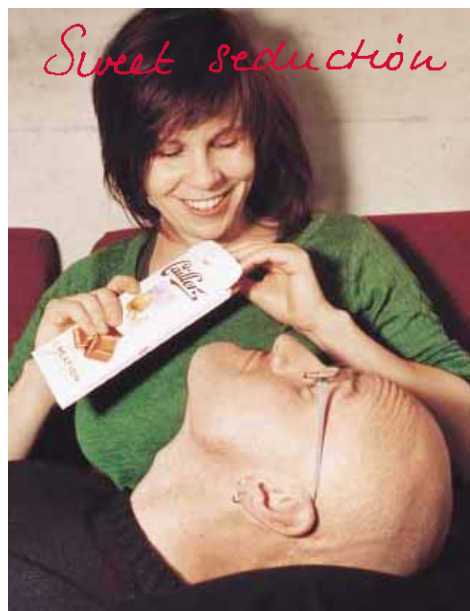
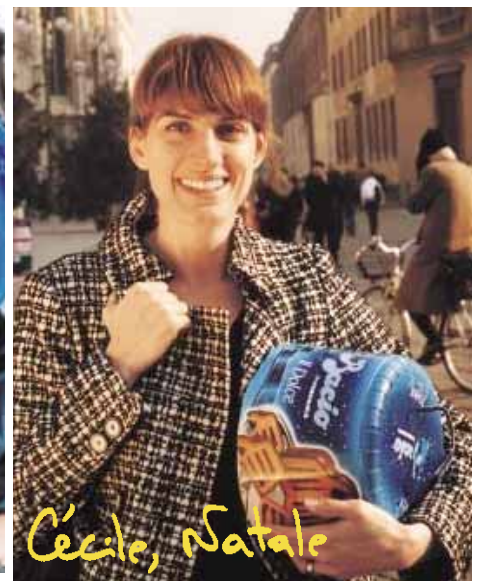
In the Sugar confectionery category, divestitures of non-core businesses continued throughout 2004 and resulted in a positive contribution to the EBITA margin. We now have a much clearer focus on our core sugar business in markets where it is complementary to the chocolate business. Several markets launched innovations with elements of permissibility and wellness, including sugar-free jellies under the *Allen's* brand in Oceania.



Our biscuit category saw an improvement during 2004 due to the performance in Brazil where we launched portion-pack sandwich biscuits. The continued success of *Cocosette* in Venezuela and the launch of added-value chocolate biscuits in Chile were other notable events. Meanwhile we sold our non added-value biscuit business in Central America.

We will continue to communicate the benefits of good, positive indulgence in chocolate containing noble ingredients, whilst seeking opportunities to support the Group vision for nutrition, health and wellness. The launch of *Kit Kat* low carb and *Rolo* low carb in the UK, and *Crunch* sugar free in the USA, show our commitment to enhance our product portfolio to meet new consumer needs.

Our greater focus on our key markets will continue to drive the competitiveness of our business, and we expect our exciting pipeline of innovations to drive growth in market share and profitability during 2005.



PetCare

Innovation was the keystone of PetCare's success in 2004, whether invigorating favourite brands or creating new market opportunities such as organic foods. The growth in 2004 has confirmed the significant potential for pet food, whether in the industrialised world or in emerging markets.

Sales split	USA and Canada		5 661
In millions of CHF	Europe		3 187
	Other regions		1 086
		- 0 +	
RIG and Organic growth (OG)	Total product group		RIG OG
			+3.1% +6.2%

■ RIG ■+■ OG

Sales reached CHF 9.9 billion. RIG was 3.1% and organic growth 6.2%. The EBITA margin was 14.6% of sales.

North America's performance benefited from new and renovated products as well as from the overall growth of the pet care category. In Europe, the performance was impacted by the on-going rationalisation of our portfolio, as well as slow category growth and the competitive market. Markets in Latin America and AOA experienced mixed results, with developing markets performing well.

Nestlé Purina is passionately committed to making pets' lives better by providing the best in nutrition, taste and enjoyment. 2004 marked the launch of the corporate strategic brand tagline "Your Pet, Our Passion" in various forms of consumer communication across the globe. Nestlé Purina's quest to provide nutritional excellence for pets through innovation and renovation continued this year

with initiatives ranging from broad nutritional renovation of a trusted brand like *Dog Chow*, to the bundling of nutritional benefits that address key health and wellness concerns for indoor cats, to the development of foods that address targeted health issues such as arthritis.

Purina Dog Chow has a history of providing consumers with complete, balanced nutrition tailored to dogs' specific dietary needs at each stage of life. In 2004, this brand was relaunched to incorporate the latest in pet nutrition, focused on the "Build, Replenish, Repair" platform – building the digestive system, replenishing vital organs, including a healthy heart, and repairing muscle cells so dogs stay vigorously healthy.

Purina Beneful dog food is currently the premium nutrition leader. Both *Original* and *Healthy Weight* formulas have had great success in the USA. *Beneful Healthy Weight Management Formula* provides calorie-smart nutrition and uses high quality

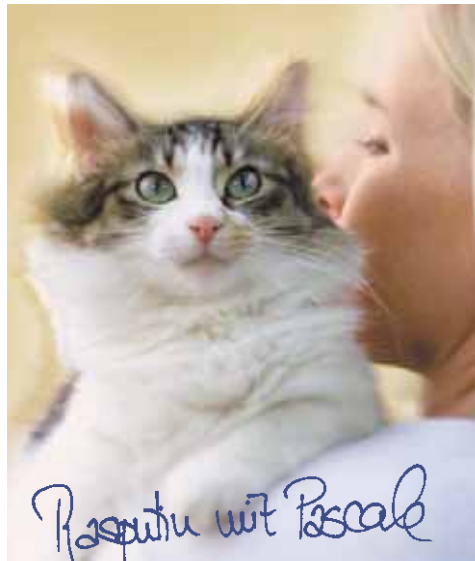
protein, including natural soy, to help maintain lean muscle mass during weight loss. In 2004, the brand was successfully launched in Mexico and Brazil, with additional market expansions and line extensions planned for 2005.

2004 marked the launch of products with bundled nutritional benefits that address key health and wellness concerns in addition to providing basic nutritional needs. Examples of bundled benefits are found in *Purina Cat Chow Indoor Formula* and *Purina ONE Sensitive Systems* formulas.

Purina ONE provides the nutritional tools pet owners need to proactively optimize their pet's health and long, active life through wellness and special formulas, all backed by the latest scientific research. This year, the brand launched *Purina ONE Sensitive Systems*, the first super premium brand in the dry cat and dry dog categories to offer a product with bundled nutritional benefits to address skin, coat and digestive



Durante la pesca



Raspoutine mit Pascale



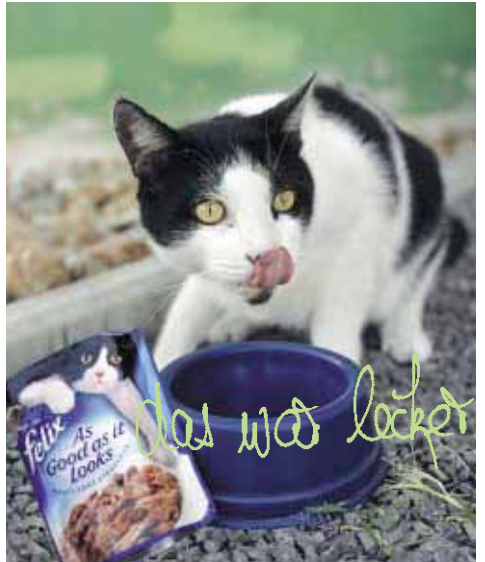
Björn, Lillehammer



Dog's life, good life



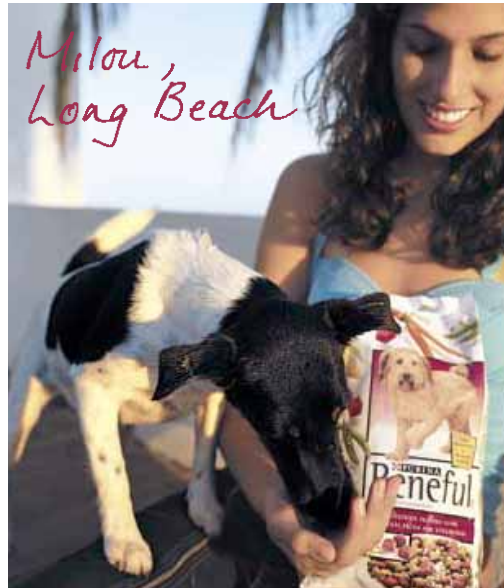
Fido saluda a sus abuelos



Das war lecker!



Rover, St Louis



Milou, Long Beach



Give me some more

health issues, three of the main health concerns of the target consumer.

The *Purina Pro Plan* line is formulated to support the protective systems of pets, specifically the immune and digestive systems, and skin and coat, that help keep pets healthy. In 2004, *Pro Plan* introduced ten innovative products in the USA, including *Small Breed Weight Management*, which includes 20% less fat and provides an optimal protein level to help dogs lose fat, not muscle. This is most applicable in markets experiencing a shift in the nature of pet owning, such as Latin America and Asia, where the trend of owning small dogs is on the rise.

Targeted nutritional needs are addressed with *Purina Veterinary Diets*, offered exclusively through vet clinics and including *Joint Mobility Canine Formula*, designed to help increase mobility in dogs with arthritis. It contains a unique blend of nutrients including high levels of long chain omega-3 fatty acids, which work at the cellular level to reduce the inflammatory response in dogs with arthritis, as well as a natural source of glucosamine for joint health and mobility and increased antioxidants to help fight the stresses of ageing. This diet is based on molecular and genetic research conducted by Nestlé Purina scientists in collaboration with Colorado State University.

Today's consumers want the best possible nutrition for their pet. Communicating science and

technology in a relevant manner can be a challenge. Two examples of successful consumer communication in 2004 are the *Purina ONE 30-Day Challenge* in the USA and the *Pro Plan* alternative media and merchandising campaigns in Latin America.








The *Purina ONE 30-Day Challenge* encourages consumers to transition their pet to *Purina ONE* for 30 days, rating the six signs of optimal health in their pet both before and after. It was rolled out nationally in the USA via radio endorsement, print, direct mail, in-store displays and product demonstrations, and has resonated extremely well with consumers in the USA. It has been extended in several other markets in Europe, Australia, and Japan.

Innovative merchandising in Argentina and a consumer communication campaign in Mexico have provided branded nutritional information at virtually every point of contact, including path to purchase, traditional and alternative media, and product demonstrations by veterinarians in-store, resulting in increased brand awareness, sales and distribution.

Nestlé Purina is well positioned to meet the continued competitive pressures in the global pet food market place. We will bring innovation into the market in the premium and super premium segments, renovate our portfolio of trusted brands, communicate effectively and expand our presence in markets where we are under-represented.

Nestlé FoodServices (Out-of-Home)

Nestlé FoodServices has delivered accelerated growth, benefiting from a segment-specific strategy that has enabled it to develop channels as diverse as education, health and quick service restaurants through its ability to offer perceived freshness, nutritional benefits, and ethnic flavour diversity.

		-		0	+	RIG	OG
Sales split	Zone EUR						3016
In millions of CHF	Zone AMS						1804
	Zone AOA						1655
RIG and Organic growth (OG)	Zone EUR					-1.2%	-0.7%
	Zone AMS					+3.8%	+5.8%
	Zone AOA					+6.6%	+7.6%
	Total product group					+2.2%	+3.3%

■ RIG ■ += OG

Sales reached CHF 6.5 billion. RIG was 2.2% and organic growth was 3.3%.

Nestlé FoodServices offers professional solutions of unique consumer brands and complementary professional brands to meet the needs of operators in the foodservice industry. It uses customer and consumer insight to develop value-adding food and non-carbonated hot and cold beverage solutions.

2004 has seen a gradual recovery in the industry, after 3 years of decline. The consumer trends, however, remain unchanged: consumers eat more out of home, also in emerging markets, particularly in urban areas. Customers are increasingly seeking customised food, offering perceived freshness, nutritional benefits and ethnic diversity. Among our nutrition, health and wellness initiatives were customized food solutions specific to the education and healthcare markets. We introduced a range of fortifying soups in France for the

older generations and *Maggi Wellness* in the Netherlands, whilst Switzerland developed nutritionally balanced frozen menu components. In Portugal we launched *NutriServices* to support our customers, whilst in Germany we successfully introduced allergen and preservative-free frozen and culinary ranges. In Oceania there were gluten-free and added calcium desserts.

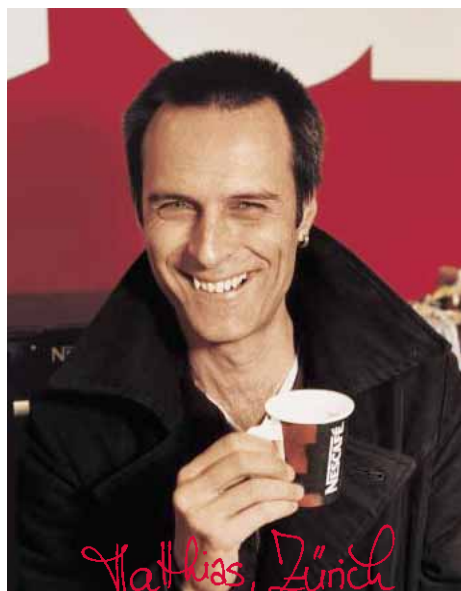
Nestlé FoodServices is focused on strategic categories: beverages, led by *Nescafé*, *Nestea*, *Milo* and *Nesquik*, and culinary and frozen food, with our leading consumer and professional brands such as *Maggi*, *Buitoni*, *Chef* and *Minors*. This focus was reinforced in 2004 through divestitures in non-strategic categories such as mashed potatoes in Germany, USA and french fries in Canada.

During 2004 we grew above the global industry average and also improved profitability. We experienced double-digit growth with beverages in a number of countries, mainly in AOA, Central and Eastern Europe, and Latin America.

There was remarkable growth in the Greater China Region after SARS in 2003, in Indonesia, which has a foodservice focused dairy business, and very good results also in Oceania and South Asia. Soluble coffee and powdered beverages grew well in Malaysia and Israel. Our Japanese Can Vending business recovered following the restructuring initiative in 2003.

Russia, Hungary, Ukraine, the Czech Republic and Slovakia achieved very good results, with soluble coffee driving the growth. In Western Europe the business was stable. Spain and the Netherlands, however, performed well.

In the Americas, the USA delivered a good performance, mainly due to improved customer insight and focus, but benefiting also from disposals and restructuring. Innovation in the USA included the launch of *Trinity*, a unique speciality hot and cold (over ice) liquid concentrate beverage system developed for quick service restaurants.



We extended our *Nescafé* Top Cup programme to four major markets in Latin America, achieving a significant sales increase per machine, as well as a clear consumer and customer preference over competitors. In Mexico there was exceptional growth in speciality beverages.

Looking forward, we will continue to build on our strengths and focus on those areas which can be improved. Our customer focus combined with clear strategic categories, selected channels and priority geographies, will further enhance our relevance to the foodservice operators.

Nutrition, health and wellness

Nutrition, at the heart of our business

When Henri Nestlé offered consumers a science-based infant cereal in response to a major nutritional challenge of the late nineteenth century, he founded a company on the sound principles of health and life enhancement, with nutrition at its heart. Nearly 140 years later, we are responding to the nutritional challenges of our day with our strategy for nutrition, health and wellness.



As we move to occupy fully our position as a food, nutrition, health and wellness company, we are, today, on the threshold of another important transition. First, we are creating Nestlé Nutrition, a global business organisation to strengthen the focus on our core nutrition businesses. Second, we are putting in place the Corporate Wellness Unit to integrate nutritional value-added in our food and beverage businesses. Thirdly, we continue to integrate nutritional thinking into the way we are fulfilling our corporate social responsibility.

Nestlé Nutrition:

Strengthening Nestlé's core nutrition leadership

An important element of our strategy is strengthening our leadership in our core nutrition business. This business can be characterised as one in which the consumer's primary motivation for a purchase is the claims made by the product based on its nutritional content. As such, it lies somewhere between the food and beverage industry and the pharmaceutical industry and has unique defining characteristics. It is based on high-level research and development and requires supporting clinical trials, as well as regulatory know-how.

In order to reinforce our competitive advantage in this core area, we have decided to create an autonomous global business organisation within the Group, effective January 2006, and charge it with operational and profit and loss responsibility for the claim-based businesses of Infant Nutrition, HealthCare Nutrition and Performance Nutrition. Nestlé Nutrition aims to deliver superior business performance by offering consumers trusted, science-based nutrition products and services. It will

Nestlé's focus on nutrition, health and wellness is threefold:

- _ Nestlé Nutrition strengthens the Company's leadership in the core nutrition business
- _ the Corporate Wellness Unit drives the integration of nutritional value-added in our food and beverage product groups
- _ nutrition, health and wellness are at the heart of Nestlé's actions as a corporate citizen

demonstrate leadership in "claim-first" products and brands, support health and provide care for consumers with special needs at every stage of life.

Corporate Wellness Unit:

Driving nutrition as value-added

The Corporate Wellness Unit will drive the nutrition, health and wellness orientation across all our food and beverage businesses. This is a huge task that goes beyond just reformulating some products or putting icons on packaging. It is a holistic approach that impacts every aspect of our business. It will also encompass a major communication effort, both internally and externally, and will drive a close alignment of our scientific and Research and Development expertise with consumer benefits.

This Unit will be responsible for steering horizontal, cross-business projects that address current consumer concerns, such as the Nestlé response to obesity, as well as anticipating future consumer trends, such as meeting the nutritional needs of an ageing population.

It will also drive the internal nutrition education programmes and employee wellness programmes across different Nestlé markets, including human resources initiatives that reflect a healthy attitude to life.

The unit will assume responsibility for the development and implementation of the 60/40+ process. This proprietary strategic tool is at the core of our innovation/renovation programme to develop a nutrition value-added



Clear on-pack information ensures that consumers can understand the nutritional content of what they are eating

in the *Nestlé* brand and product portfolio. The 60/40+ process relies on an objective and scientific assessment of the nutritional profile of a product, compared to that of direct competitors, and translates these elements into a communicable competitive product advantage.

Responsible communication

Relevant and credible nutrition communication is the cornerstone for building long-term trust and loyalty with consumers. To this end, we have updated our Corporate Communication Principles, issued a policy on nutrition labelling and health claims and developed clear guidelines to ensure that consumers have a quick and clear understanding of the advantage that every *Nestlé* product offers.

Leading-edge science:

Dialogue with scientific leaders

At *Nestlé*, science underpins our efforts to develop new products and to improve existing ones with nutritional value-added. To this end, we have aligned our Research and Development efforts with specific areas of consumer benefits. This is especially true of the work carried out at the *Nestlé* Research Center, where we conduct research in food and nutrition. The NRC is one of the leading research institutes in the world specialising in this field. The work of the NRC provides the basis for product development elsewhere in the *Nestlé* Research and Development network.

As the centre of our nutritional competence, the NRC goes beyond conducting research. In October 2004, it hosted the first International Nutrition Symposium. Unique in its kind, this symposium brought together scientific leaders from a cross-section of disciplines and from around the world. Over three days, they addressed

key issues central to human health and diet in the future. Participants included three Nobel laureates in medicine and physiology: namely, Günter Blobel (Nobel Laureate, 1999), Joseph Goldstein (1985) and Michael Brown (1985).

This symposium is in line with *Nestlé*'s on-going dialogue with leading scientific minds in the areas of nutrition and health. With roots going back more than 25 years, the *Nestlé* Nutrition Council is a group of international experts which advises *Nestlé* on nutrition and health issues. Professor Blobel, has been a member of the NNC since 2001. His appointment as a member of the *Nestlé* S.A. Board of Directors will be proposed to the Ordinary General Meeting in April 2005.

Nutrition, health and wellness:

Part of *Nestlé*'s corporate social responsibility

The *Nestlé* strategy for nutrition, health and wellness goes beyond products. It is a philosophy that underlies the Group's attitudes and actions as a corporate citizen.

A good example of this is the role that *Nestlé* is playing in a community health initiative. The Fleurbaix-Laventie Healthville project is a 15-year intervention study conducted in the two towns of Fleurbaix and Laventie in France. Since 1992, and continuing until 2007, *Nestlé* France has been working with public health authorities, schools, local health practitioners and the local councils towards the goal of preventing childhood obesity. The programme involved building awareness of the issue amongst children and their families. It also involved identifying children at risk. Nutritional information distributed at schools created greater awareness of nutritional issues amongst children, who then brought this learning home to their parents.



The five-year EPODE initiative – “Together, let’s prevent childhood obesity” – builds on Fleurbaix and Laventie by extending the Healthville experience to ten other towns in France



From left to right: Messrs Werner Bauer, Joseph Goldstein (Nobel laureate, 1985), Günter Blobel (Nobel laureate, 1999), Michael Brown (Nobel laureate, 1985), Peter Brabeck-Letmathe, and Peter van Bladeren at Nestlé’s first International Nutrition Symposium

How successful was the Healthville project? Between 1992 and 2000, there was no significant increase in the number of obese or over-weight children in these two towns. While there is no control in the strict scientific sense, the prevalence of obesity in children of the same age has doubled elsewhere in the region. The lesson is clear: obesity is avoidable.

Today, the five-year EPODE initiative, “Together, let’s prevent childhood obesity”, builds on the experience at Fleurbaix and Laventie. In extending the Healthville experience to ten towns, the programme aims to replicate the success, while adjusting the measures taken to reflect different situations. Nestlé in France is one of two private sector partners and the only company from the food industry in the EPODE initiative.

The Healthville project is just one example: around the world we are trying to make a difference, not just through our products, but through our involvement in local communities.

Pharma-cosmetic activities

Products for vision, skin, and beauty

Nestlé owns about 75% of Alcon, which is listed on the New York Stock Exchange. It also owns 26.9%* of L'Oréal, the world leader in the cosmetics industry. L'Oréal and Nestlé have established two joint ventures. The first is Galderma, in the field of dermatology. The second is Laboratoires innéov, in the field of nutricosmetics.

* Considering the share repurchase programme of L'Oréal



Alcon products preserve or restore sight, and help maintain eye health. Left, *Travatan*, keeps glaucoma from stealing vision. Centre, the *Infiniti* lens removal system, combined with *AcrySof* intraocular lenses, restores sight damaged by cataracts. Right, *Patanol*, keeps eyes free of the signs and symptoms of eye allergies

Alcon

Every day of our lives we awake to the possibility of wonderful things. But without the ability to see the beauty of each day, it is more difficult to live healthy and vibrant lives. Alcon is dedicated to preserving and restoring sight, improving vision and maintaining the health of the eye, throughout the world. Clear vision and healthy eyes allow people to maintain their independence and live life to its fullest.

Alcon's products prevent vision loss from glaucoma, restore sight through cataract and retinal surgery and enhance visual acuity with refractive surgery. They also maintain the health of the eye by protecting the retina from harm, treating and preventing eye infections, relieving eye allergy symptoms, keeping contact lenses clean and comfortable and providing relief for dry eyes.

Alcon is, by far, the world's largest eye care company. It has leading market positions in nearly every product category within ophthalmology, a rich research pipeline, a fully established global business and exceptional financial strength. The eye care industry is poised to continue growing because of ageing global populations, increased access to new medical technologies in the developing world and the introduction of novel therapies to treat eye diseases.

In 2004, Alcon's sales increased to CHF 4.9 billion, with organic growth of 11.1%, while EBITA grew 17% to CHF 1.45 billion. Pharmaceutical sales contributed much of this growth, as strong sales of *Travatan* and *Patanol* ophthalmic solutions were bolstered by the success of newer products like *Vigamox* ophthalmic solution and *CiproDex Otic* suspension, both of which had their first full year of sales in 2004. Surgical sales, which account for

almost half of Alcon's sales, posted exceptionally high growth as the launch of the company's new *Infiniti* cataract system and continued adoption of the *AcrySof Natural* intraocular lens resulted in market share gains on a global basis. Alcon's consumer business grew faster than the market as *Opti-Free Express* multipurpose disinfecting solution maintained its leadership position in the top ten markets and *Systane* lubricating eye drops reenergized the company's artificial tears product line.

After 34 years of dedicated service and inspiring leadership, Tim Sear retired as Alcon's Chief Executive Officer. At Alcon, Inc.'s 2005 Annual General Meeting he will also be retiring from his position as Alcon's Chairman. Mr. Sear established Alcon's international presence, which today accounts for almost half of the company's sales. He also expertly led Alcon back to the stock market with its partial IPO in 2002. During his seven years as CEO, Alcon sales grew from just under USD 2 billion to almost USD 4 billion. Cary Rayment, a long-time senior Alcon executive, with more than 20 years experience in the eye care industry, has assumed these roles and will lead the most experienced management team in the ophthalmic industry.



Left, artistic coloration realised with L'Oréal Professionnel's Majirel in Asia. Right, customised diagnosis in a Russian pharmacy. Within a year, Normaderm has become the first reference of Vichy in Russia

L'Oréal

In February 2004 it was announced that the relationship between Nestlé and L'Oréal would be put on a new basis, following the merger of L'Oréal and Gesparal. As a result, Nestlé's previous 49% stake in Gesparal has become a 26.9% (considering the share repurchase programme of L'Oréal) direct holding in L'Oréal, whilst the Bettencourt family's 51% stake in Gesparal became a 27.5% direct holding in L'Oréal at the end April 2004.

L'Oréal is the world leader in the cosmetics industry. The group manages 17 international brands marketed through all types of distribution channels: L'Oréal Professionnel, Redken and Matrix in hair salons; L'Oréal Paris, Garnier, Maybelline and SoftSheen•Carson in mass-market outlets; Vichy and La Roche-Posay in pharmacies and drugstores; Lancôme, Biotherm, Helena Rubinstein, Giorgio Armani, Ralph Lauren, Cacharel, Shu Uemura and Kiehl's in perfumeries and department stores.

In 2004, the group scored many successes. Its sales reached EUR 14.5 billion, a like-for-like increase of 6.2%. Once again, this was higher than the growth rate of the global cosmetics market. Net profit amounted to EUR 3.63 billion, including an exceptional dilution profit of over EUR 2 billion resulting from the deconsolidation of Sanofi-Synthélabo.

With a presence in more than 130 countries, L'Oréal is continuing its strong geographic expansion. In Asia, the success of Garnier, Maybelline and Vichy is galvanising sales, particularly in China. In Latin America the group is continuing to expand, primarily in Mexico and Brazil. Strong growth has been achieved in Eastern Europe, notably in Poland and the Russian Federation. In Western Europe, the group is continuing to grow, with



La Roche-Posay Laboratoire pharmaceutique innovates with Rosaliac, a daily skincare product for sensitive skin which neutralises redness. It associates two complementary vitamins: B₃ and vitamin CG



From left to right, *Differin*, a topical drug for the treatment of acne. *Loceryl* lacquer, an antifungal drug for the treatment of nail mycoses. Launching of second product: *innéov hair mass*

good performances in Spain, the United Kingdom and the Scandinavian countries. Lastly, the group has increased market share in many segments in North America, with breakthroughs by Redken for Men and Fructis from Garnier.

Galderma

Galderma, the joint venture between Nestlé and L'Oréal in the field of dermatology, reported sales of CHF 905 million, a decrease of 3%, in a very competitive market, particularly in the USA. In Europe, the difficulties encountered in Germany after the enforcement of new drug regulations were compensated by the very good results obtained in France.

Successes included *Differin*, Galderma's top-selling product, which maintained its leading position in the treatment of moderate acne; *Loceryl*, an antifungal drug, which maintained strong growth, despite loss of reimbursement in Germany; *Metvix* which continued its geographical deployment with new launches in Benelux, Switzerland, and Australia; and *Clobex Shampoo*, the first very high potency corticosteroid in such a formulation, for the treatment of scalp psoriasis, which was introduced on the USA market with great success.

Laboratoires innéov

In 2004, Laboratoires innéov, the joint venture between Nestlé and L'Oréal in the beauty nutritional supplements field, consolidated its leadership on the anti-ageing market in ten European countries thanks to the success of *innéov firmness*.

Innéov hair mass is innéov's second product. It has been launched on the main European market segment, hair.

In 2005, the innéov business will be extended to other countries, notably in Eastern Europe, and the range will be expanded with a third product.

For further information, please consult L'Oréal's or Alcon's Annual Report or visit: www.loreal-finance.com, www.alconinc.com or www.galderma.com

General information

People, products, places

Nestlé has 500 factories in 83 countries around the world. This is a reduction from 511 in 2003. During the year, 15 factories were acquired or opened and 29 were closed or divested. Furthermore the reorganisation of our factories resulted in 1 factory being satellised and 4 becoming stand-alone, to give a net increase of 3. Nestlé employed 247 000 people in 2004, a decrease from 253 000 in 2003.

		2003	2004
Factories by geographic area	Europe	208	197
	Americas	170	164
	Asia, Oceania and Africa	133	139
	Total	511	500

Employees by geographic area			2003	2004
Europe*		40.9%	38.4%	
Americas		33.9%	34.6%	
Asia, Oceania and Africa		25.2%	27.0%	

* 6 594 employees in Switzerland in 2004

By activity			2003	2004
In thousands	Factories		136	131
	Administration and sales		117	115
	Total		253	247

Europe

Austria	1	■●■□●■
Belgium	4	■●■□●■●■
Bulgaria	1	■□●■■
Czech Republic	2	■□●■■
Denmark	1	■□●■■
Finland	2	■□●■■
France	37	■●■□●■●■●■●■
Germany	27	■●■□●■●■●■●■
Greece	5	■●■□●■■
Hungary	4	■●■□●■■
Italy	23	■●■□●■●■●■●■
Netherlands	8	■●■□●■●■●■
Norway	1	■□●■■
Poland	7	■□●■●■●■
Portugal	6	■●■□●■■
Republic of Ireland	2	■□●■■
Romania	2	■●■□●■■
Russia	10	■●■□●■●■●■
Slovak Republic	1	■□●■■
Spain	17	■●■□●■●■●■●■
Sweden	4	■●■□●■■
Switzerland	8	■●■□●■●■●■
Turkey	2	■●■□●■●
Ukraine	2	■□●■■
United Kingdom	20	■●■□●■●■●■●■

Americas

Argentina	9	■●■□●■■
Brazil	22	■●■□●■●■●■●■
Canada	14	■●■□●■●■●■●■
Chile	6	■●■□●■■
Colombia	4	■●■□●■■
Cuba	3	■●■□●■■
Dominican Republic	3	■□●■■
Ecuador	2	■●■□●■■
El Salvador	1	■□●■■
Guatemala	1	■□●■■
Jamaica	1	■●■□●■■
Mexico	13	■●■□●■●■●■●■
Nicaragua	1	■□●■■
Panama	1	■□●■■
Peru	1	■□●■■
Trinidad and Tobago	1	■●■□●■■
United States	75	■●■□●■●■●■●■
Uruguay	1	■●■□●■■
Venezuela	5	■●■□●■■

Asia, Oceania and Africa

Australia	12	■●■□●■●■●■
Bahrain	1	■●■□●■■
Bangladesh	1	■●■□●■■
Cameroon	1	■●■□●■■
Côte d'Ivoire	2	■●■□●■■
Egypt	4	■●■□●■●■
Fiji	1	■□●■■
Ghana	1	■●■□●■■
Guinea	1	■□●■■
India	6	■●■□●■●■
Indonesia	10	■●■□●■●■●■
Iran	1	■□●■■
Israel	10	■●■□●■●■●■
Japan	3	■●■□●■■
Jordan	1	■●■□●■■
Kenya	1	■●■□●■■
Lebanon	1	■●■□●■■
Malaysia	6	■●■□●■●■
Morocco	1	■●■□●■■
New Caledonia	1	■●■□●■■
New Zealand	2	■□●■■
Nigeria	1	■●■□●■■
Pakistan	5	■●■□●■●■
Papua New Guinea	1	■●■□●■■
People's Republic of China	20	■●■□●■●■●■●■
Philippines	6	■●■□●■●■
Qatar	1	■●■□●■■
Republic of Korea	2	■●■□●■■
Saudi Arabia	4	■●■□●■■
Senegal	1	■□●■■
Singapore	1	■●■□●■■
South Africa	12	■●■□●■●■●■
Sri Lanka	2	■●■□●■■
Syria	1	■●■□●■■
Thailand	7	■●■□●■●■
Tunisia	1	■●■□●■■
United Arab Emirates	1	■●■□●■■
Uzbekistan	1	■●■□●■■
Vietnam	4	■●■□●■■
Zimbabwe	1	■●■□●■■

- 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)

1866	Anglo-Swiss Condensed Milk Co.
1867	Henri Nestlé's Infant cereal
1905	Nestlé and Anglo-Swiss Condensed Milk Co. (New name after merger)
1929	Peter, Cailler, Kohler, Chocolats Suisses S.A.
1938	Launching of <i>Nescafé</i>
1947	Nestlé Alimentana (New name after merger with Maggi)
1960	Crosse & Blackwell
1969	Vittel
1971	Ursina-Franck
1973	Stouffer
1974	L'Oréal (Minority interest)
1977	Nestlé S.A. (new name)

1977	Alcon
1985	Carnation, Friskies
1986	Herta
1988	Buitoni-Perugina, Rowntree
1992	Perrier
1993	Finitalgel
1994	Alpo
1998	Sanpellegrino, Spillers Petfoods
2000	PowerBar
2001	Ralston Purina
2002	Schöller, Chef America
2003	Mövenpick, Dreyer's Grand Ice Cream, Powwow
2004	Valio (ice cream business)

The Nestlé story

Serving consumers since 1866

Nestlé has 138 years experience in developing quality products that satisfy the need for good, healthy food. Originally, food was considered good when it was safe. Over time, demands became more sophisticated, requiring food to be "pure" and quick to prepare. Good food then had to offer the right mix of the most important nutrients in order to ensure a balanced diet. In addition to the aspects of safety, health and convenience came the need for food to be tasty and enjoyable.

Today, not just a few of these aspects have to be taken into account when producing food, but practically all of them, all of the time. This follows an ever increasing demand for products with specific characteristics adapted to a precise situation or category (sport, illness, age, etc.). Keeping pace with all these changing requirements, Nestlé developed from a traditional manufacturer of food to the leading food, health and wellness company worldwide. Its extensive range of products aimed at promoting the wellness of consumers offers specific benefits and advantages.

With the founding of the Anglo-Swiss Condensed Milk Co. in 1866 and the launch of condensed milk in Europe, the American Page brothers satisfied the need for genuine, long-life milk in cities and on long journeys.

For his part, Henri Nestlé wanted to offer mothers who were unable to breastfeed their children a safe alternative in light of the high infant mortality rates of the time. He did this by developing "farine lactée" in 1867. His easily digested, ready-made substitute rapidly became a hit.

The two companies, Nestlé and Anglo-Swiss, merged in 1905, thus uniting not only their worldwide distribution and production network, but also their know-how with regard to milk processing. The work carried out with researchers and doctors, coupled with the creation of specialized teams and research centres, facilitated the development of a variety of specific milk and dietary products, right up to today's health-promoting food.

For a long time, chocolate, associated primarily by today's consumers with taste and enjoyment, was used for medicinal purposes and as a tonic. Indeed, it is still used as a tonic today. Nestlé launched its own chocolate in 1905, and benefited from its collaboration with long-standing Swiss chocolate firm Peter, Cailler und Kohler, which eventually joined the Nestlé Group in 1929. The acquisition of Rowntree in 1988, with its *Kit Kat* and *Smarties* brands, as well as the 2000 acquisition of PowerBar in the performance nutrition segment, extended the range of products with a high nutritional value and a great taste. One segment that can definitely be said to offer this is the ice cream segment, which was launched in 1960 and has continuously been expanding since the 1990s. Two new



Henri Nestlé, founder of the Nestlé Company in Vevey, Switzerland



Kohler chocolate advertisement, 1931



Farine Lactée for infants, convalescent, and elderly persons

products, low-calorie and low-fat *Dreyer's Grand Light Ice Cream* and the *Pria Carb Select* bar specially developed by *PowerBar* for women, show how products can be tailored to the requirements of specific groups of clients.

From 1884, Julius Maggi, too, was focusing on health and convenience aspects, with his low-cost, protein-rich and easy-to-prepare vegetable soup targeting the workers' families of those days. After the acquisition of Maggi in 1947, conserves and frozen foods were added and, since 1988, Italian food under the *Buitoni* brand has completed this range. Nestlé responded to the growing trend for eating "on the move" and snacking with its FoodServices division and the acquisition of Chef America in 2002.

In the 1990s, mineral waters were added to the broad range of tonic and flavoured drinks (*Milo* 1934, *Nescafé* 1938, *Nestea* 1944, *Nesquick* 1948, *Nespresso* 1986). This sector has proved to be a dynamic one, given the scarcity of clean drinking water in many parts of the world and the desire for natural mineral water as part of a healthy diet.

It is not only for themselves that people want good, quality food: they want their pets to enjoy the benefits too. The acquisitions of *Carnation* (1985), *Spillers* (1998) and *Purina* (2001) turned Nestlé into a joint, global leader in pet foods.

The participation in L'Oréal, initiated in 1974, led to a joint venture with Galderma in the dermatology sector in 1989 and to the Laboratoires Innéov joint venture in 2002. This focuses on the development of active-agent food supplements which promote health and beauty (e.g. for skin and hair) from the inside. This move has taken Nestlé's skills in food research and combined them with L'Oréal's expertise in cosmetics.

Nestlé's research today promises to produce personalized nutrition products which specifically target individual risk factors such as obesity, diabetes and cardio-vascular diseases. Nestlé is working actively towards finding solutions for the future.

Nestlé's history shows that the company has grown successfully not just through acquisitions, but also through innovation and renovation. This is the result of a strategy that has not sacrificed long-term development potential to short-term gain. This long-term focus remains in place today, although we believe that we are able, also, to deliver shorter term improvements in financial performance. It is Nestlé's priority to continue to provide the best products, which offer the best benefits for the consumer, wherever they are, whatever their needs may be and throughout their lives.

For further information on Nestlé's history, please visit www.nestle.com

Shareholder information

Stock exchange listings

At 31 December 2004, Nestlé S.A. shares (ISIN code: CH0012056047) were listed on the following stock exchanges: SWX Swiss Exchange, London and Paris. American Depositary Receipts (ADRs) (ISIN code: US6410694060) representing Nestlé S.A. shares are offered in the USA by Citibank.

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Further information

For additional copies of this document, please go to www.nestle.com/Media_Center

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

As to information concerning the share register (registrations, transfers, address changes, dividends, etc.), please contact Nestlé S.A.
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tel. +41 (0)41 785 20 20
fax +41 (0)41 785 20 24
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: www.nestle.com

Important dates

- 14 April 2005
138th Ordinary General Meeting,
"Palais de Beaulieu", Lausanne
- 20 April 2005
Payment of the dividend
- 25 April 2005
Announcement of first quarter
2005 sales figures
- 17 August 2005
Publication of the Half-yearly
Report January/June 2005
- 20 October 2005
Announcement of first nine
months 2005 sales figures;
Autumn press conference
- 6 April 2006
Ordinary General Meeting
at the "Palais de Beaulieu", Lausanne

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

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



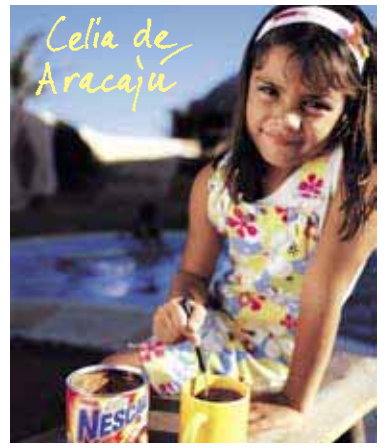
Cécile, Natalo



迅速能量. 活力十足



Sybilie, Rheinfeldou



Celia de Aracaju



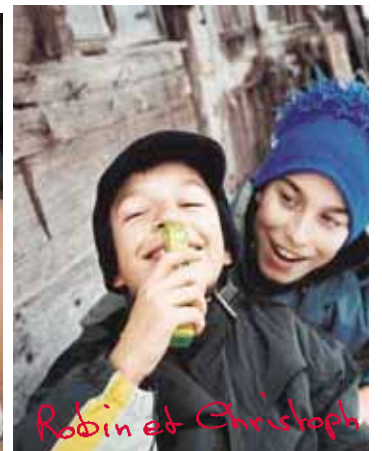
Paul, London



Mercedes em Recife



Ramona et Olivia, Naville



Robin et Christoph



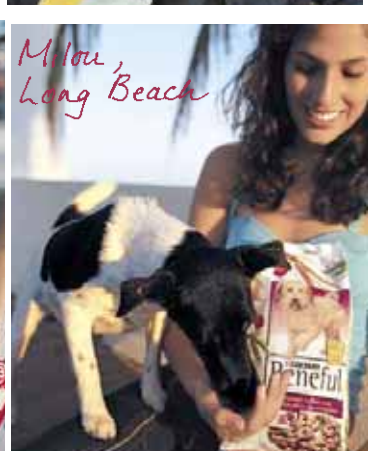
Silvia at school



Tangoma sul cantiere



Good for friends



Milou, Long Beach