

Management Report 2007



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Corporate Governance Report 2007

2007 Financial Statements

The Nestlé *Creating Shared Value* Report

Key figures (consolidated)

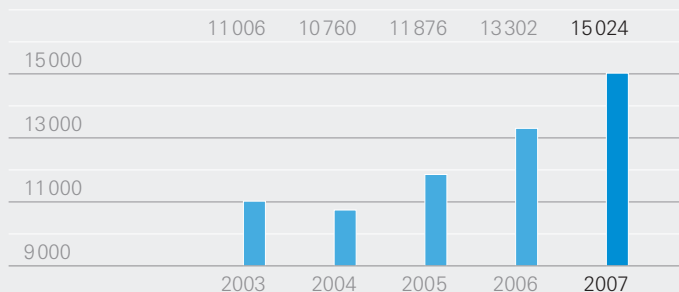
In millions of CHF (except per share data)	2006	2007	
Sales	98 458	107 552	
EBIT (Group) Earnings Before Interest, Taxes, restructuring and impairments	13 302	15 024	
as % of sales	13.5%	14.0%	
EBIT (Food and Beverages) Earnings Before Interest, Taxes, restructuring and impairments	11 166	12 589	
as % of sales (Food and Beverages)	12.2%	12.6%	
Profit for the period attributable to shareholders of the parent Net profit	9 197	10 649	
as % of sales	9.3%	9.9%	
as % of average equity attributable to shareholders of the parent	18.7%	20.7%	
Capital expenditure	4 200	4 971	
as % of sales	4.3%	4.6%	
Equity attributable to shareholders of the parent before proposed appropriation of profit of Nestlé S.A.	50 991	52 085	
Market capitalisation, end December	166 152	195 661	
Operating cash flow	11 676	13 439	
Free cash flow ^(a)	7 018	8 231	
Net debt	10 971	21 174	
Ratio of net debt to equity (gearing)	21.5%	40.7%	
Per share			
Total earnings per share	CHF	23.90	27.81
Underlying ^(b)	CHF	24.12	28.01
Equity attributable to shareholders of the parent before proposed appropriation of profit of Nestlé S.A.	CHF	132.51	136.03
Dividend as proposed by the Board of Directors of Nestlé S.A.	CHF	10.40	12.20

^(a) Operating cash flow less capital expenditure, disposal of tangible assets, purchase and disposal of intangible assets, movement with associates as well as with minority interests

^(b) Profit for the period attributable to shareholders of the parent from continuing operations before impairments, restructuring costs, results on disposals and significant one-off items. The tax impact from the adjusted items is also adjusted for.

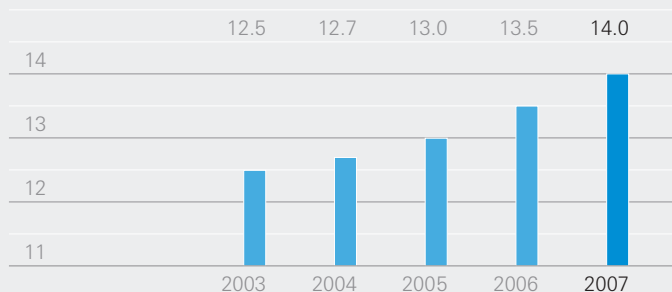
EBIT

In millions of CHF



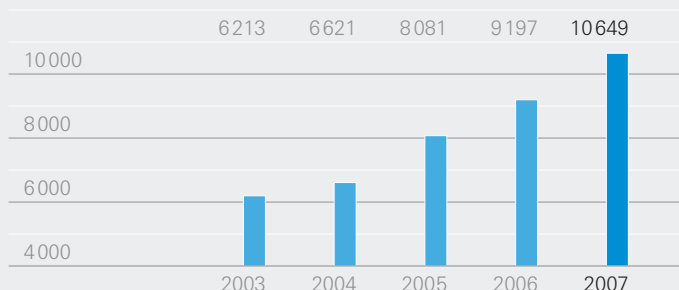
EBIT margin

In %



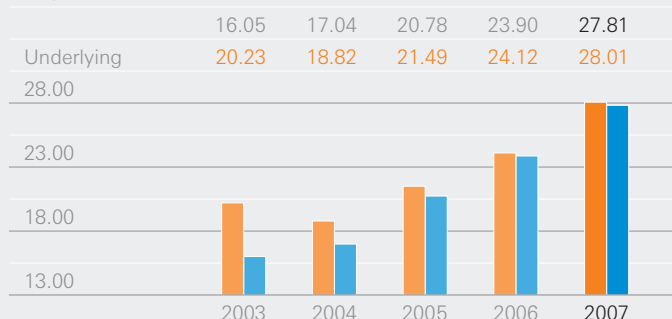
Net profit (Profit for the period attributable to shareholders of the parent)

In millions of CHF



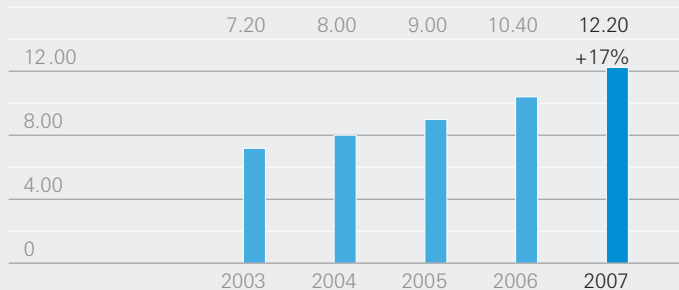
Total earnings per share

In CHF



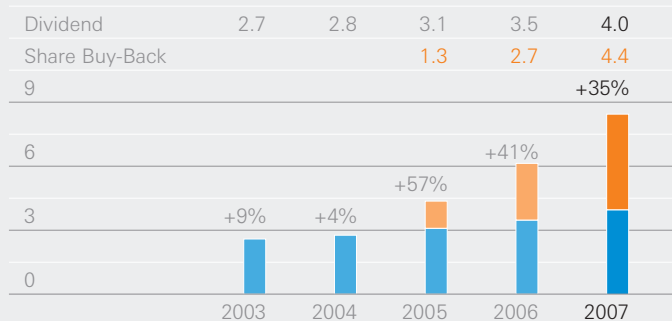
Dividend per share

In CHF



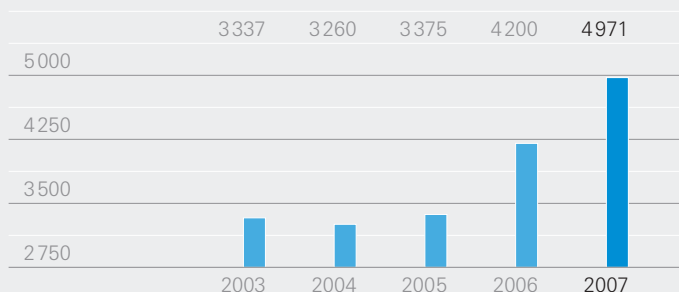
Total cash returned to shareholders

In billions of CHF



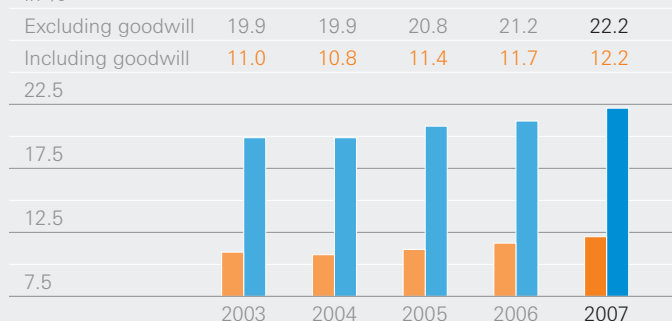
Capital expenditure

In millions of CHF



Return on invested capital (based on segment reporting)

In %



Highlights 2007

The leading Nutrition, Health and Wellness Company

Strategic priorities

- Acquisitions completed of Gerber and Novartis Medical Nutrition
 - Nestlé Nutrition now has annualised sales of about CHF 11 billion
 - Nestlé Professional founded to manage Nestlé's FoodServices business
-

Another year of delivery of the Nestlé Model

- Sales increased 9.2%, or CHF 9.1 billion to CHF 107.6 billion
 - EBIT increased 12.9%, or CHF 1.7 billion to CHF 15 billion
 - Organic growth of 7.4%; EBIT margin +50 basis points to 14%: the Nestlé Model
 - Net profit increased 15.8%, or CHF 1.4 billion to CHF 10.6 billion
 - Food and Beverages was the main contributor to growth and profitability
-

Cash flow improved and new Share Buy-Back launched

- Operating cash flow increased 15.1%, or CHF 1.7 billion to CHF 13.4 billion
 - ROIC excluding goodwill increased by 100 basis points to 22.2%
 - ROIC including goodwill increased by 50 basis points to 12.2%
 - A CHF 25 billion three-year Share Buy-Back Programme launched
 - Proposed dividend of CHF 12.20 per share, up 17.3%
-

2008: organic growth target of 5-6% and further improvement of the EBIT margin at constant currency – another year of delivery of the Nestlé Model

The Nestlé Model reconfirmed for the next ten years

Letter to our shareholders

Fellow shareholders,

I am delighted to be able to report to you on another year of delivery of the Nestlé Model, defined as the achievement of a high level of organic growth together with a sustainable improvement in EBIT margin. In 2007 organic growth was 7.4%, whilst the EBIT margin improved 50 basis points to 14% of sales. Over the twelve years that we have achieved the Nestlé Model, organic growth has averaged 5.9%, well within our target range of between 5% and 6%, and the EBIT margin has increased by an average of 35 basis points each year.

In 2007 total sales increased by 9.2% or CHF 9.1 billion to CHF 107.6 billion, exceeding for the first time the almost mystical barrier of CHF 100 billion, while the EBIT increased by CHF 1.7 billion from CHF 13.3 billion to CHF 15 billion. We also improved our working capital management, whilst our return on invested capital (ROIC) increased from 11.7% to 12.2% including goodwill, and from 21.2% to 22.2% excluding goodwill. This performance reflects a continued strong momentum in our business, which was already evident in 2006, and is all the more impressive in view of the weak USD and dramatic inflation in some key raw materials. Our Food and Beverages, Nutrition, Health and Wellness business was the main contributor to these results, but there was also a strong performance from Alcon, Galderma and Laboratoires innéov.

For the past few years I have updated you in this letter on Nestlé's transformation to the world's leading Nutrition, Health and Wellness Company. I am pleased, in this my final letter as both Chairman and Chief Executive, to be able to inform you that the major steps in that transformation have now been made. Key among these were the acquisitions of two businesses from Novartis, its Medical Nutrition division and the baby food business and iconic brand, Gerber. The first makes us the second largest, but only truly global Healthcare Nutrition company, whilst the second enhances our undisputed worldwide leadership in Infant Nutrition.

In 2008 Nestlé Nutrition will have annualised sales of about CHF 11 billion. It is a specialised nutrition business focused on products for people at the extremes of life, whether the newly born, the elderly, those with specific medical or health conditions, or extreme athletes. It is, by a significant margin, the world's largest specialised nutrition business, with an excellent growth perspective for both sales and profit.

I have always believed that it was important to have a strong, science-driven nutrition business at our core if we wanted to fully exploit the opportunity to enhance our business' nutritional potential. Today more than ever, we have that, and we will be able to leverage that nutritional know-how, those R&D break-throughs and consumer insights across our total Food and Beverages business for the benefit of all our consumers everywhere.

Those consumers range from the poorest to the wealthiest, from those who still cook traditional meals to those who seek greater convenience or are looking for specific alternatives with perceived consumer benefits and, of course, to those who like to eat out as much as they eat in. Each of these offers opportunities for us to provide high quality nutritious products, and it is our responsibility to do so regardless of where, or at what price point, we are selling our products. Those on lower incomes have an even greater need for highly nutritious food than those on higher incomes: their spending on food is not discretionary; it is often all they can afford.

We have designed specific strategies and organisations to realise each of these market opportunities. The lower income group is targeted through our Popularly Positioned Products (PPP) strategy, which seeks to deliver the right nutrition at the right price by engineering cost not just out of the product but also out of the whole business model. In 2007 our sales of PPP were about CHF 6 billion in Asia, Africa and Latin America out of a market that is estimated at about USD 70 billion. At the other end of the scale, we have a portfolio of successful premium brands, including *Nespresso*, *Mövenpick of Switzerland*, *Häagen-Dazs* and *S.Pellegrino*, and we believe that a premium strategy is applicable across all our product categories; good examples in Confectionery are the acquisition of Ruzskaya Confectionery Factory, owner of Russia's leading premium chocolate brand, *Comiflo*, and the collaboration with Pierre Marcolini, a leading Belgian confectioner, both announced in 2007.

We are implementing our Nutrition, Health and Wellness strategy in all our categories, using our own 60/40+ process to check that our products deliver both better taste and better nutrition than their competitor products. Our proprietary Branded Active Benefits (BABs), applied to products with sales of about CHF 4.4 billion in 2007, are at the heart of our strategy to enhance appropriate products with additional health benefits that consumers are seeking



for themselves or their children. Finally, we have reorganised our FoodServices business, focused on the out-of-home consumer, under the Nestlé Professional banner and have given it a new globally managed structure that provides it with greater focus, drive and effectiveness. One of Nestlé Professional's core competences is offering its customers added-value services, and this is an increasingly important area also for direct to consumer businesses such as Nespresso, Jenny Craig and Nestlé Nutrition Home Care.

These initiatives, together with our pre-eminence in the field of Nutrition, will ensure that Nestlé will not simply match the growth opportunity of demographics such as growing populations, increasing wealth and longer lives, but that it will clearly outpace that growth.

But the Nestlé Model is not just about growth; it is about sustainable profitable growth. Nestlé has made strides in improving its profitability over recent years, but remains rich with potential: some lies in the opportunities already mentioned, some within our structure. Our changing organisation, increasingly characterised by agile teams in each country, focused on their customers and consumers, understanding their local dynamics and able to move rapidly, seeks to realise that potential. These teams are supported by highly efficient manufacturing operations, as well as regional or global support structures for non core competence services. This means that the teams in the markets have more time to focus on their customers, consumers, products and brands.

GLOBE (Global Business Excellence) and, increasingly GNBS (Global Nestlé Business Services) are at the core of this transformation. GLOBE was never a savings programme, was always an enabler, and it is difficult, therefore, to attribute figures to it, but it is clear that we would not have been able to embark on our organisational transformation without GLOBE, nor to achieve the financial performance, at the same time as making the acquisitions and managing the transformation, that we have. Yet it is only now that we are starting to really benefit from the GLOBE implementation, with the improvement in working capital over the last two years of CHF 1.2 billion being one of many examples.

We continue to believe that our greatest opportunity to create value for our shareholders is through further transforming our Food and Beverages business into a Nutrition, Health and Wellness offering and by improving its performance further. We believe that we have the right

The Nestlé Model is not just about growth; it is about sustainable profitable growth. Nestlé has made strides in improving its profitability over recent years, but remains rich with potential... We continue to believe that our greatest opportunity to create value for our shareholders is through further transforming our Food and Beverages business into a Nutrition, Health and Wellness offering and by improving its performance further. We believe we have the right strategy and initiatives in place to achieve this.

strategy and initiatives in place to achieve this. This is not to say, however, that we are not looking for other opportunities for value creation. One such was the announcement in August of a multi-year CHF 25 billion Share Buy-Back Programme. This decision took into account our strong business momentum, our improving capital efficiency and future investment needs. It was taken in the knowledge that whilst we would lose our AAA debt rating, the strength of our balance sheet would ensure that we remained the "gold standard" for our industry.

Another driver of shareholder value creation is Corporate Governance. The Board of Nestlé embarked on a process to modernise the Articles of Association in 2005 and successfully proposed to the 2006 Annual General Meeting an amendment that would allow changes to those Articles. We then defeated a legal challenge in the first half of 2007 so that we are now able to propose to you a new set of Articles of Association. The Board believes that these Articles address the insights of our institutional investors, as well as those of our large contingent of private shareholders, and are in the Company's best interests.

Following the 2008 Annual General Meeting, I will step down as Chief Executive to continue in the role of active, non-executive Chairman of the Board. I believe that in Paul Bulcke the Group will have an excellent new Chief Executive, with experience in both emerging and industrialised markets. He is a strong, pragmatic leader, suited to a period of strategic and operational consolidation and a furthering of our Nutrition, Health and Wellness strategy. The Board feels very confident in his capacity to continue Nestlé's successful transformation into the world's pre-eminent Nutrition, Health and Wellness company. Paul's election to the Board will be proposed to shareholders at the Annual General Meeting. It is intended to appoint him as "Administrateur délégué"/Chief Executive Officer of Nestlé and to have him take on his new responsibilities on that day.

Mr. Peter Böckli is retiring from the Board after the 2008 Annual General Meeting. I would like to thank him for his valuable commitment to Nestlé over the past 15 years and in particular for his contribution in the challenging role as Chairman of the Compensation and Nomination Committee. To replace Mr. Böckli's role as the "legal voice", the Board is proposing to shareholders to elect Dr. Beat W. Hess as a non-executive director. A Swiss national, Dr. Hess is the Group Legal Director of Royal Dutch Shell and a member of the company's Executive Committee, with expertise in intellectual property and compliance.

Paul Bulcke's successor as Head of Zone Americas is Paul Polman, previously Chief Financial Officer (CFO), who joined Nestlé in 2006 after a 26 year career with Procter & Gamble. Paul brought significant dynamism to the CFO role and is sure to do the same in Zone Americas, the biggest of our three geographic Zones. Paul has been replaced as CFO by James Singh, previously Head of Acquisitions and Business Development, who joined Nestlé in 1977. There are two other changes to the Executive Board. Richard T. Laube, already a member of the Executive Board, has been appointed Executive Vice President to reflect the importance and size of Nestlé Nutrition. John J. Harris, previously Head of Nestlé Purina for Europe, Asia, Oceania and Africa, has taken over from Carlo Donati as Executive Vice President, Nestlé Waters. Carlo Donati, after 35 years with the Company and assignments on three continents, has expressed the wish to retire. The Board thanks him warmly for his substantial contribution over the years.

I would like to end by thanking everyone at Nestlé for their contribution, not just in 2007, but during my whole tenure as Chief Executive. During that time, Nestlé's sales have grown 78% from CHF 60.5 billion to CHF 107.6 billion and our EBIT 142% from CHF 6.2 billion to CHF 15 billion. Our share price, since my appointment was announced, has increased 323% from CHF 122.90 to CHF 520.–. In the last twelve years our total shareholder return was 408%. These are numbers that put Nestlé at the forefront of the industry, and have to be seen in the context of a significant strategic and operational transformation, creating a solid basis for the delivery of the Nestlé Model for many years to come. This is a great tribute to everyone at Nestlé around the world, including many of our retirees, without whom it would not have been possible.

My thanks go to all our people who have, and will continue to enable Nestlé to enhance the quality of life for everyone everywhere by providing good food and, therefore, good life all around the world, and will do it in a way that creates value for our shareholders, but also creates value for all other stakeholders. This is our concept of "Creating Shared Value" and our proprietary answer for how to respond to the double challenge of shareholder value creation and corporate social responsibility. Thank you all!

Finally the outlook for 2008. The Group is confident of achieving the Nestlé Model, with organic growth between 5% and 6%, an improvement in EBIT margin in constant currencies and a further increase in capital efficiency. The Nestlé Model, combined with our ongoing ambitious Share Buy-Back Programme, will deliver strong earnings per share growth, resulting in industry-outperforming, long-term shareholder value creation.



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

Board of Directors of Nestlé S.A.

at 31 December 2007

Helmut O. Maucher
Honorary Chairman

Board of Directors of Nestlé S.A.

	Term expires ¹
Peter Brabeck-Letmathe ² Chairman and Chief Executive Officer	2012
Andreas Koopmann ^{2,3} 1st Vice Chairman ● CEO, Bobst Group SA	2008
Rolf Hänggi ^{2,4,5} 2nd Vice Chairman ● Chairman, Rüd, Blass & Cie AG, Bankers	2008
Edward George (Lord George) ^{2,3,5} ● Former Governor of the Bank of England	2011
Kaspar Villiger ^{2,4,5} ● Former Swiss government minister	2009
Jean-Pierre Meyers ⁴ ● Vice Chairman, L'Oréal S.A.	2011
Peter Böckli ³ ● Attorney-at-law	2008
André Kudelski ⁴ ● Chairman and CEO, Kudelski Group	2011
Daniel Borel ³ ● Co-founder and Chairman, Logitech International S.A.	2009
Carolina Müller-Möhl ● President, Müller-Möhl Group	2009
Günter Blobel ● Professor, The Rockefeller University	2009
Jean-René Fourtou ● Chairman of the Supervisory Board, Vivendi	2011
Steven G. Hoch ● Founder and Senior Partner, Highmount Capital	2011
Nāina Lal Kidwai ● CEO, HSBC India and Country Head of HSBC Group Companies in India	2011

David P. Frick
Secretary to the Board

KPMG Klynveld Peat Marwick Goerdeler SA London and Zurich Independent auditors	2008
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¹ On the date of the Annual General Meeting

² Chairman's and Corporate Governance Committee

³ Compensation and Nomination Committee

⁴ Audit Committee

⁵ Finance Committee

For further information on the Board of Directors please refer to the Corporate Governance Report 2007, enclosed



Peter Brabeck-Letmathe



Andreas Koopmann



Rolf Hänggi



Edward George (Lord George)



Kaspar Villiger



Jean-Pierre Meyers



Peter Böckli



André Kudelski



Daniel Borel



Carolina Müller-Möhl



Günter Blobel



Jean-René Fourtou



Steven G. Hoch



Naina Lal Kidwai

Executive Board of Nestlé S.A.

at 31 December 2007

Peter Brabeck-Letmathe
Chairman and Chief Executive Officer

Members Executive Board

Francisco Castañer
EVP, Pharmaceutical and Cosmetic Products,
Liaison with L'Oréal, Human Resources,
Corporate Affairs

Lars Olofsson
EVP, Strategic Business Units, Marketing and Sales

Werner Bauer
EVP, Innovation, Technology, Research and Development

Frits van Dijk
EVP, Asia, Oceania, Africa, Middle East

Paul Bulcke
EVP, United States of America, Canada,
Latin America, Caribbean

Carlo Donati
EVP, Nestlé Waters until 01.12.2007

Luis Cantarell
EVP, Europe

Paul Polman
EVP, Finance and Control, GLOBE, Global Nestlé Business
Services, Legal, Intellectual Property, Tax

José Lopez
EVP, Operations

John J. Harris
EVP, Nestlé Waters as of 01.12.2007

Richard T. Laube
Deputy EVP, Nestlé Nutrition

Marc Caira
Deputy EVP, FoodServices Strategic Business Division

David P. Frick
SVP, Corporate Governance, Compliance
and Corporate Services

(EVP: Executive Vice President; SVP: Senior Vice President)

Yves Philippe Bloch
Corporate Secretary

For further information on the Executive Board, please
refer to the Corporate Governance Report 2007, enclosed

Executive Board

(from left to right):

David P. Frick

John J. Harris

Carlo Donati

Werner Bauer

Francisco Castañer

Paul Polman

Paul Bulcke

Peter Brabeck-Letmathe

Luis Cantarell

Frits van Dijk

Lars Olofsson

Richard T. Laube

José Lopez

Marc Caira



Corporate Governance and Compliance

Corporate Governance

With respect to Corporate Governance, Nestlé pursues a strategy of being in line with proven best practice. In 2007, the Board continued the work on the revision of the Company's Articles of Association, which should come to a conclusion with a shareholder vote at the 2008 Annual General Meeting. This will bring to a close a process that started with a shareholder survey in 2005 and the decision thereafter of our shareholders to mandate the Board with a complete revision of the Articles. The survey, as well as our subsequent dialogue with many investors, revealed that opinions were divided on these issues, with our significant group of (largely Swiss) private investors in one camp and the (often foreign) institutional investors in the other. The new Articles take into account the interests and concerns of both groups.

Nestlé engaged in this process, among other things, because some key decisions of our shareholders required the presence of at least two-thirds of the total share capital and a majority of three-quarters of the shares represented. Other resolutions required that half of all the shares be represented. Today, around a third of our share capital is held by shareholders who are not listed in the share register and who consciously waive their right to vote at the General Meeting. As a result, it had become factually impossible for our shareholders to make changes to these important provisions of our Articles.

The Board, therefore, submitted a motion to the 2006 General Meeting designed to give shareholders the opportunity to amend the Articles. The motion was passed, with 98% of the votes cast in support, and the Board was instructed to draw up a proposal for the total revision of the Articles. Following the successful defence of a legal challenge against this shareholder decision, the Board will present the new Articles to the 2008 General Meeting for approval. The new Articles reflect the changed composition of our shareholders, balance the interests of the various shareholder groups and reflect developments in the legislative and corporate governance environment. Above all, they are in the best interests of the Company to create long-term, sustainable shareholder value.

Also in 2007, the Board concluded the process of selecting and appointing a new Chief Executive Officer. Mr. Paul Bulcke, previously Executive Vice President responsible for Zone Americas, will take on that role following the 2008 General Meeting. With the shareholders' approval he will be appointed by the Board as "Administrateur délégué", as per Nestlé's governance model. Mr. Brabeck-Letmathe will remain Chairman of the Board. In preparation for the hand-over, the Board undertook the revision of the Board Regulations to reflect the new governance structure providing for a separation of the roles of Chairman and Chief Executive Officer.

Compliance

Nestlé believes complying with laws and internal regulations ("Compliance") protects the Company's reputation and provides the basis for the creation of sustainable shared value. The Company pursues a zero tolerance strategy, yet a principles-based approach to Compliance. It has adopted a cross-functional set up of Compliance where a number of functions contribute to an integrated Compliance management. While responsibility and accountability for Compliance are assigned to the markets as per the Company's Custodian Concept, a corporate Compliance function and a cross-functional Group Compliance Committee define the framework, facilitate the coordination between the relevant support functions and drive key Compliance initiatives. In addition, the Company has established a Compliance network in the major markets and has replicated the Committee structure where appropriate.

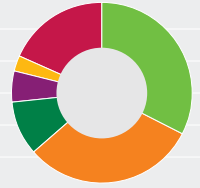
Nestlé's Corporate Business Principles and our new Code of Business Conduct are our non-negotiable worldwide minimum standards which we observe in addition to complying with locally applicable legislation. While the Corporate Business Principles, which include our commitment to the ten principles of the UN Global Compact, will continue to evolve and adapt to a changing world, they contain our basic foundation unchanged from the origins of our Company. Together with our Management and Leadership Principles, they reflect the basic ideas of fairness, honesty and a general concern for people. In 2007, the

Company adopted a new Code of Business Conduct, which will help the continued implementation of the Corporate Business Principles by providing more specific guidance to our employees in key areas. Many other policies and standards complement this system.

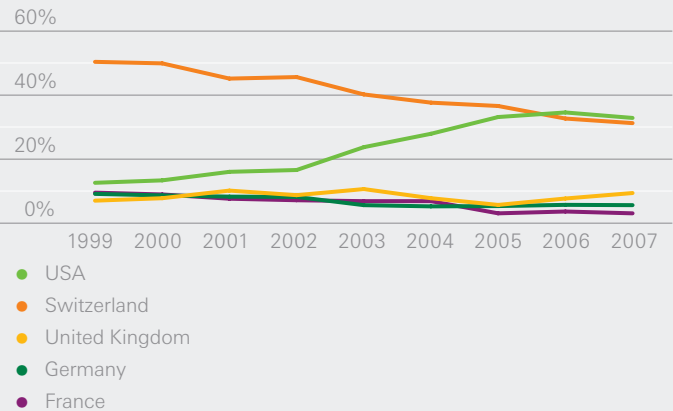
At the operational level, CARE is Nestlé's audit program to verify, through independent auditors, that our operations comply with the Corporate Business Principles in the areas of human resources, safety, health and environment.

Shareholders by geography*

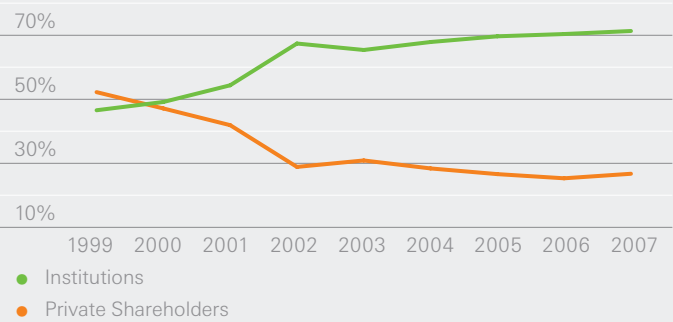
- 32.7% USA
- 31.0% Switzerland
- 9.9% United Kingdom
- 5.3% Germany
- 3.0% France
- 18.1% Others



Distribution of Share Capital by geography*



Share Capital by Investor Type*



* Percentage devised from total number of registered shares. Registered shares represent 64.1% of the total share capital. Statistics are rounded, as at 31.12.2007.

Creating Shared Value

Creating Shared Value is based on the simple truth that business and society are interdependent. As a profitable, responsible business, Nestlé respects people and the environment. We put long-term business development before short-term profit, with our investments bringing sustainable value for our business, our shareholders and society.

Reporting on shared value creation

Included with this Management Report is the Nestlé *Creating Shared Value* Report, covering Nestlé's impact on people and the planet. We first explored shared value in our 2005 report *The Nestlé Concept of Corporate Social Responsibility* as implemented in Latin America. Its authors, FSG Social Impact Advisors, led by Professor Mark Kramer of Harvard University's Kennedy School of Government, concluded that we are "in the front rank of companies that create real shared value for themselves and society at every step of their business process".

The accompanying *Creating Shared Value* Report examines in more detail Nestlé's global social and environmental performance. Our external advisers, including SustainAbility and AccountAbility, have since helped us to expand our global sustainability performance indicators, enabling us to measure our progress towards Nestlé targets and UN goals, and to identify and prioritise the business impacts of most concern to our stakeholders.

Societal and environmental benefits

Teaching vital skills in water management encourages sustainable practices. In partnership with UNDP, agricultural workers in Renata, Pakistan benefit from Nestlé sponsored training.

Rigorous testing assures the quality of milk produced in dairy farms for our finished products.

→



**Creating Shared Value – Fundamental
to our business strategy**



One such issue is water. We do not own or operate farms, but we source agricultural raw materials from others. Therefore, sustainable water use is one of our main areas of environmental focus, with 675 agronomists helping farmers to improve their farming and water management practices. We continue to lower our direct water consumption, despite the growth of our business, and as a founding signatory of the UN CEO Water Mandate in July 2007, we also invited business leaders to address access to and scarcity of water.

Principles and governance

Our approach, enshrined in the Nestlé Corporate Business Principles, Management and Leadership Principles, and Consumer Communication Principles, incorporates the 10 UN Global Compact (UNGC) principles to which Nestlé is a member. Nestlé also supports – through over 120 initiatives – the UN Millennium Development Goals, which address pressing issues such as poverty, education and health in developing countries.

We support these principles and goals through our longstanding global policies on nutrition, marketing, environment and human resources. External standards such as ISO 14001 on environmental management and OHSAS 18001 on occupational health and safety also apply in our factories, and compliance is assured through independent, external audits.

Nestlé is governed by a Board of Directors, supported by senior management bodies including the Operations Sustainability Council, Compliance Committee, Audit Committee and Risk Management Committee. The Executive Board sets annual social and environmental performance targets, which are integrated into business and personal objectives, and embedded into team goals throughout our operations.

External recognition for our ongoing commitment can be found in our continued inclusion in the Dow Jones Sustainability Indices.

For further information, see the accompanying Nestlé *Creating Shared Value* Report.

UN Global Compact principles



Human rights

- Support/respect the protection of internationally proclaimed human rights
- Non-complicit in human rights abuses

Labour standards

- Uphold freedom of association and the right to collective bargaining
- Eliminate all forms of forced and compulsory labour
- Effective abolition of child labour
- Eliminate discrimination in employment and occupation

Environment

- Support a precautionary approach to environmental challenges
- Promote greater environmental responsibility
- Encourage environmentally friendly technologies

Anti-corruption

- Work against all forms of corruption, including extortion and bribery

Shared value minimises adverse business impacts along the value chain and maximises positive contributions to Nestlé, our shareholders and society.

Agriculture and sourcing

- Agricultural and local supplier development
- Purchasing practices (e.g. direct sourcing)
- Sustainable agriculture/supply chain approach
- Industry initiatives

Value to Nestlé: traceability; quality assurance; reliable supply; committed growers; improved cost management and sustainable returns on investment.

Value to society: scalable standards of economic, social and environmental sustainability.



Environment and manufacturing

- Environmental practices
- Labour health and safety
- Workforce development
- Food safety standards
- Distributor development

Value to Nestlé: increased production; reduced costs; reduced consumption of resources and generation of waste.

Value to society: fewer resources used; reduced environmental impact; employment opportunities.



Products and consumers

- New/reformulated products for Nutrition, Health and Wellness
- Increased knowledge of nutrition/health
- Base of the pyramid
- Public-private partnerships

Value to Nestlé: entry into new/growing markets; wider brand recognition; consumer trust; product and brand differentiation.

Value to society: access to range of affordable, nutritional products; increased awareness of health/nutrition issues.



Leadership in Nutrition, Health and Wellness

The past year has been a water-shed year for Nestlé. We have emerged as a changed company.

Nestlé today is not simply the world's largest Food and Beverages company. During the last few years, we have made the strategic transformation to become the world's leading Nutrition, Health and Wellness company.

- Nestlé is the industry leader in Nutrition, Health and Wellness, active in Nutrition, Beverages and Water, Dairy, Cereals, Culinary, Meals...
- Nestlé Nutrition is the world leader in specialised nutrition, with annualised sales of about CHF 11 billion
 - The world leader in Infant Nutrition, Infant Formula and Baby Food
 - The world number two in Healthcare Nutrition
 - The world leader in science-based Performance Nutrition
 - The North American leader in customised Weight Management
- Nestlé has the industry's largest R&D network and is the largest publisher of nutritional information for scientists
- The *Nutritional Compass*, on over 90% of packaging, gives clear nutritional information to consumers
- Nestlé funds research into nutrition in developing markets, as well as education programmes for schools

Nestlé

Good Food, Good Life

The Nestlé Research and Development organisation, encompassing the Nestlé Research Center and its extensive network of more than 300 external collaborations, is a leading research entity in food, nutrition and life sciences. The Nestlé Research Center is part of a global network of 5000 R&D scientists and technologists who work together to advance the frontiers of nutritional science. Through ongoing research and development, they ensure better taste and nutrition with products of the highest quality and safety to respond to consumer needs at every stage of life all over the world.

→



Science-based innovation for specific nutritional needs



Nutrition, Health and Wellness for people with special nutritional requirements

The Nestlé Group comprises an agile fleet of businesses, each strong and flexible, with its own crew and with its own skills. At the head of the fleet is the pioneer, Nestlé Nutrition, breaking new ground in specialised nutrition.

Our Nestlé Nutrition business enhances quality of life through innovative, science-based nutrition for people with specific needs. For example, Nestlé Nutrition's *Nutren Balance* bars are scientifically formulated to provide better glucose control for people with diabetes.

The role of Nestlé Nutrition

Nestlé Nutrition enhances the quality of life for consumers with special nutritional requirements – for example, babies, children, the elderly, those suffering from diseases, proactive health seekers, athletes and other sport competitors.

Nestlé Nutrition develops effective, scientifically-proven nutrition products with functional health benefits that meet people's nutritional needs at every stage of life and, in so doing, help them to live fuller, happier, healthier and longer lives.

While taste is important, the key driver for Nestlé Nutrition's more specialised nutrition products is to provide functional benefits that address specific conditions. Innovative science-based nutritional know-how backed by rigorous clinical studies creates nutritionally superior benefits versus competitors and helps build strongly differentiated brands.

A formidable force

Recent acquisitions (Jenny Craig in 2006, Novartis Medical Nutrition and Gerber in 2007) have made Nestlé Nutrition a formidable force. With annualised sales of about CHF 11 billion, it is the world leader in specialised nutrition by a significant margin, twice the size of its nearest competitor. While the acquisitions have added critical mass and created a stronger springboard for growth, more important are the competitive capabilities that they bring, enabling Nestlé Nutrition to break new ground with innovative specialised nutrition products and services that deliver clearly defined health benefits.



Gerber

Leaders in Infant Nutrition

The acquisition of Gerber has extended Nestlé's global leadership in its fast-growing Infant Nutrition business and has brought with it considerable specialist scientific expertise. Scientists and nutritionists in the Gerber laboratory in Fremont, USA are world leaders in developing innovative baby and infant foods that meet the special needs of healthy growing children.





**Innovative nutritional benefits
for healthy growing children**



Uniquely global

Nestlé Nutrition is the only truly global, specialised nutrition business, and has considerable commercial presence, capability and strength in over 100 countries. This geographical spread enables the business to market its products and services, and introduce new products, much more extensively than competitors.

Perfect strategic fit

Each acquisition fits perfectly with our nutrition, health and wellness strategy: Jenny Craig allows Nestlé to enter into the strategic area of weight management; Novartis Medical Nutrition to reinforce our position in healthcare nutrition; and Gerber to extend our leadership across key areas of infant nutrition. Together, they enable us to strengthen Nestlé Nutrition's competitive position in terms of geography and/or need states. Crucially, they bring performance-oriented skills and capabilities to enable Nestlé Nutrition to compete even more effectively. We warmly welcome all the people who have joined us. We have quickly found that we share a close cultural fit.

Out-performing the Nestlé Model

Each acquisition is a growing business in its own right. Each will contribute to the sustainability of the Nestlé Model. Indeed, Nestlé Nutrition's goal is to grow faster than the Nestlé Model, aiming for sustainable organic growth of 10% and EBIT margin of 20% or more.

World leader in Infant Nutrition

Nestlé Nutrition comprises four business units, each with a clear consumer focus and precisely targeted products and services that provide specific nutritional benefits.

The first is Infant Nutrition, which represents over 70% of Nestlé Nutrition's sales and is growing at a double-digit rate. In the footsteps of our founder Henri Nestlé, its role is to reduce infant mortality and help babies develop to their fullest potential. Nestlé products that improve infants' health not only make babies more comfortable and happy; they

also make their mothers and fathers happier. Breast milk is the best choice for feeding an infant. However, for mothers who cannot or decide not to breastfeed, Nestlé Nutrition uses cutting edge research to offer optimum nutrition solutions for infant-feeding in the first year of life.

Infant Nutrition applies Gerber's "Start Healthy, Stay Healthy" concept across its portfolio. The product range includes infant formulas, infant cereals, meals and drinks. Infant formulas include speciality products for premature babies and babies with digestive problems. Those for healthy babies give increased protection against allergies. As babies develop and move on to solid foods, the range of products centres on providing the right nutrition at the right moment of growth to build a healthy foundation for life.

Wholesome snacking for toddlers

In North America, the *Graduates from Gerber* product line includes wholesome and nutritious meals, snacks and beverages that are designed specifically for toddlers. *Graduates Lil' Crunchies* are a tasty bite-sized snack made with 100% wholegrain corn. They have zero trans fat, no preservatives or artificial flavourings and 30% less sodium than the leading cheese flavoured snack.

Graduates Mini Fruits, with 100% real fruit but no artificial flavours, colours or preservatives, are available in organic varieties, and are a tasty way to give children a full serving of real fruit.

Gerber's product range includes infant formulas, infant cereals, meals and drinks.

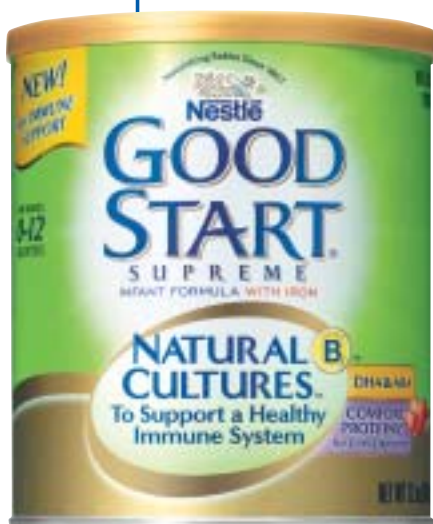


Paediatric Specialities for infants with disorders

Alfaré is part of the Paediatric Specialities range for severely sick or malnourished children. Sold in over 40 countries, *Alfaré* is a hypoallergenic infant formula particularly designed for babies with digestion disorders, food intolerances and hypersensitivity. Its sister product *Althéra* is for infants with allergies to cow's milk and soy milk protein. Other products in the Paediatric Specialities range are for premature and low-birth-weight infants, and children with lactose malabsorption.



Infant Formula that goes beyond complete nutrition
Good Start Natural Cultures provides complete nutrition for babies, but is also the first and only infant formula in the USA with probiotics. These good bacteria strengthen the baby's immune system, increase levels of antibodies, and support the natural protective barrier in the digestive tract. Other nutrients help eye and brain development. Nestlé was first to use probiotics in food products, and has collected over 2500 strains for screening and clinical studies.



Functional infant cereals for digestive disturbances

Diarrhoea is a major health risk during the first two years of life, especially in developing countries. *Nestlé Nestum Healthy Tummy* rice cereal is a nutritionally balanced meal that includes our proprietary probiotics and prebiotics (*Bifidus BL* and *Prebio*¹). Probiotics encourage the growth of beneficial gut microflora, to reduce the incidence and severity of diarrhoea. *Nestlé Nestum Gentle Fibre* oat cereal, also with *Prebio*¹ and *Bifidus BL*, is for infants with constipation. Oat grains and prunes provide a balanced meal with sufficient prebiotic fibre to relieve constipation. Both products ensure the intake of key nutrients for growth and help reinforce the infant's natural defences.



Nature's nutrition is best for baby

In France, *Nestlé NaturNes* harnesses the best of nature's goodness and applies Nestlé's nutritional expertise and knowledge of babies' development to support their healthy, natural growth. Recipes are designed to meet babies' nutritional needs for the optimal development of their body, mind and immune system. Naturally ripened ingredients are carefully grown and selected and strictly controlled with traceable origins. Nestlé's patent-pending new preparation and aseptic process retains all the nutrients and natural taste. As a result, *NaturNes* meets the twin challenge of best nutrition and most pleasant taste.



HealthCare Nutrition's products focus on six areas:



→ Critical care, surgery and gastro-intestinal – providing patients with immune enhancing formulas and nutrients in their most easily digestible form.

→ Oncology – helping cancer patients through their treatment and recovery phase.

→ Paediatrics – helping children to manage chronic conditions such as Crohn's disease or Cystic Fibrosis.

→ Obesity and diabetes – helping diabetics to manage blood glucose and weight, and reduce potential co-morbidities.

→ Proactive health-seekers – helping consumers who are seeking a nutritional solution to prevent or manage nutritional deficiencies.

→ Frail and elderly – helping them to remain independent and fight the negative effects of malnutrition and dysphagia, and manage associated co-morbidities such as cognitive decline.

Leadership in healthcare nutrition

HealthCare Nutrition is the second largest sector of the Nestlé Nutrition business, and like Infant Nutrition, has strong growth and margin expectations. It is currently the world's number two healthcare nutrition business, but growing fast and on the way to market leadership.

Its role is to help people with specific nutritional deficiencies, disease states and health conditions such as diabetes, cancer and Crohn's disease to improve and live as normally as possible.

Breaking new ground in performance nutrition

Performance Nutrition is the division's third business, a smaller specialised sector. Its role is to provide relevant nutrition to those who participate and compete seriously in sports. The product range includes energy bars, sports drinks, proteins and other supplements. Cutting-edge sports nutrition research has led to newly formulated products that improve endurance by 8%.

In 2007, powered by *PowerBar* and *C2Max*, Haile Gebreselassie beat the world marathon record by 28 seconds in Berlin – 26.2 miles in 2 hours, 4 minutes, 26 seconds.

British triathlete Chrissie Wellington won the Ironman World Championships in Hawaii, fuelled by *PowerBar* and *C2Max* gels.



Helping intensive care patients

Patients in intensive care units experience problems with nutrition tolerance and absorption. *Peptamen AF* is a nutritionally complete formula for tube feeding or oral nutrition and helps modulate inflammatory response in critical patients.

The *Modulis* range is a world's first in enteral nutrition: it enables personalised prescriptions of various macro and micro-nutriments. *Modulis* AntiOx and Amino5 are designed to provide intensive care patients with essential nutrition, while limiting inflammatory response, fighting oxidative stress, contributing to protein synthesis and improving immune defences.



Products for cancer patients

Depending on the severity of their condition, cancer patients can be under oral nutrition or tube feeding, either in hospital or at home, where they can benefit from Nestlé Home Care. The launch of *Clinutren Protect* reinforces Nestlé Nutrition's position in nutritional intervention in oncology, by offering an innovative oral nutrition solution with specific ingredients for patients undergoing chemo/ radio therapy with a risk of mucositis.

Impact is a clinically-proven oral or tube-feeding solution that results in fewer post-operative infections, improved wound healing and better nutrition for faster recovery.



Helping ill patients with nutritional supplements
As a result of illness – or its treatment – many patients experience decreased appetite and risk malnutrition or weight loss.
***Clinutren* is a range of easy-to-digest oral nutritional supplements. They have an appealing taste and are a good source of important vitamins and minerals. Rich in calories, they enhance energy and support weight gain. High protein content builds muscle and promotes recovery.**



Helping athletes optimise performance

The *PowerBar* range of products (energy bars, gels and sports drinks) has been re-launched with the innovative *PowerBar* Performance System: step 1 "Energise" for pre-workout energy, step 2 "Refuel" for in-game fuel, step 3 "Rebuild" for post-workout nutrition. A specific ratio of glucose and fructose carbohydrates improves endurance performance. Amino acid-rich protein aids muscle repair. Quick-digesting carbohydrates speed up glycogen restoration. Sodium brings rapid, efficient re-hydration.



Tackling obesity through a personalised weight management programme

By 2020, it is estimated that obesity will affect more people than malnutrition. Jenny Craig, the fourth business in the division, is our Weight Management business and brand that helps overweight and obese people to lose weight and keep it off. There are over 600 Jenny Craig centres in six countries, including USA, Canada and Australia, where consumers receive one-on-one advice from 2000 consultants. Tailor-made programmes comprise personalised, calorie-controlled, nutritionally-balanced meals. Jenny Craig joined Nestlé Nutrition in 2006 and achieved double-digit growth in 2007.

The ultimate convenience in weight management

Jenny Direct was started in 1995 to enable clients to access the *Jenny Craig* Weight Management programme from their own homes. Nutritional and lifestyle advice is given on the *Jenny Direct* website and by telephone. *Jenny Craig* calorie and portion-controlled meals are delivered direct to the client's home. *Jenny Direct* has proven to be an outstanding success with sales more than doubling over the last three years. Some 7000 clients are benefiting each week.

A flourishing service sector

10% of Nestlé Nutrition's sales come from services such as *Gerber Life*, or combining products with services such as *Jenny Craig*. As with other service-oriented businesses in Nestlé, such as *Nespresso*, they are proving to be highly effective models for value creation.

Bigger, better, bolder innovations

Our acquisitions have complemented our R&D capabilities, leading to an increase in R&D investment and a stronger innovation and renovation pipeline. The amount we invest in R&D far exceeds our competitors. Our expertise stretches beyond Nestlé Nutrition and positively affects the entire Nestlé portfolio. In effect, it is the "science engine" that drives the Nestlé business.

Affordable financial security for children

With a 70% market share, *Gerber Life* is North America's leader in juvenile life insurance. *Gerber Life's Grow-Up* brand of children's life insurance is a low cost means for parents and grandparents to help provide long term financial security for their children and grandchildren. Its whole life protection doubles in coverage at age 21 with no increase in premiums. Founded 40 years ago, *Gerber Life* now protects over three million lives and has more than USD 33 billion of life insurance coverage in force.

Optifast – clinically proven long-term weight loss

84 clinical trials in the USA have shown how effective the *Optifast* weight loss programme is. Studies of 20000 patients showed a 21% average weight loss (52 lbs). The programme's unique structure first activates weight loss with the *Optifast* full meal replacement diet. This is followed by six weeks' transition to regular foods. Weekly education sessions cover nutrition, diet, exercise and long-term lifestyle modification. Regular medical monitoring ensures safe and rapid weight loss.

Weight management is a growth business: *Optifast* in the USA has grown 14% on average in each of the last three years.



Our strategy is to develop “bigger, better, bolder” innovations that build bigger, better brands. Our highly disciplined R&D process creates solutions that answer three questions: What is needed by consumers? What is technically and scientifically possible? What is commercially achievable?

Nestlé Nutrition’s R&D pipeline includes more than 60 projects supported by over 60 clinical and human studies. To protect its intellectual property, Nestlé Nutrition has over 1000 granted patents, and that number is continuously on the increase. More than 100 projects are getting ready for launch in the next 18 months in over 100 countries.

Cross-fertilisation between Nestlé businesses helps to inspire greater innovation. Nestlé Nutrition works with the Group’s Product Technology Centres, gaining access to all the proprietary science and innovation in Nestlé. The learning and know-how gained at Nestlé Nutrition is also transferred to our other businesses, for example through Branded Active Benefits (BABs).

Nestlé Nutrition has 25 partnerships with universities, research institutes, bio-tech start-ups, and specialist suppliers, working in areas such as genomics, proteomics and metabolomics. One partnership is developing the world’s leading diet and brain research programme. Another is studying the genetic background of individuals and its role in pre-disposition to food-related diseases such as obesity and diabetes.

Bigger opportunities, bolder initiatives, better execution

The recent launch of *NAN* infant formula has set a precedent for future launches. It was successfully launched in more than 50 countries within 18 months, and has quickly become one of our “billionaire” brands. Rolling out innovations to more consumers in more markets means bigger innovation. Dramatically improving consumer benefits means better innovation. Our new *NAN* infant formulae are clinically proven to enhance the baby’s immune defences and, as a result, to significantly prevent gastrointestinal infections and, in the case of our *NAN H.A.* hypoallergenic formulae, also to reduce the risk of allergies by 50%.



Working with the medical profession
Nestlé Nutrition’s 3600 medical delegates work with doctors, nurses and dietitians to provide relevant information, products and services to help their patients.

Sharing science-based knowledge
The Nestlé Nutrition Institute is a medical and scientific network providing health professionals outside Nestlé with current and appropriate nutritional education, information and tools. It partners leading health and nutrition institutes around the world, and fosters nutrition research and education in the fields of paediatric, clinical and performance nutrition. It is the world’s largest publisher of nutritional information for scientists. Its workshops and symposia have been bringing together leading scientists and clinicians from around the world for over 25 years.

Nutrition, Health and Wellness for everyday life

Our Food and Beverage products enhance consumers' lives, because of the enjoyment and social pleasure of eating together, but also because of their contribution to personal health, nutrition and wellness.

We sell over a billion products around the world daily, realising our Nutrition, Health and Wellness strategy of contributing to people's quality of life by making good food better – bringing our consumers “Good Food, Good Life”.

Making what is good even better

Many of Nestlé's chosen product categories are inherently healthy and therefore have considerable potential for continued growth. They are also excellent carriers of additional nutritional benefits. By applying our nutritional science, we are able to make what is already good even better.

Driving nutritional superiority with 60/40+

60/40+ is a unique programme and set of tools that works to optimise the taste preference and nutritional superiority of our products. The 60/40+ name derives from our objective for our products to have a nutritional “plus” while still winning at least 60% of consumers in a preference taste test against direct competitor products. Set up in 2004, it has helped transform our product portfolio and is a major influence on product innovations. We put about 20% of our relevant sales through 60/40+ testing each year.

60/40+ extends across all our Food and Beverage categories and is supported by 325 60/40+ managers, nutritionists and Nutrition, Health and Wellness managers.

Locally produced for local consumers

Over 90% of Nestlé products sold in China are made in China. Our R&D Centre in Shanghai uses local insight, including knowledge of Chinese functional ingredients, to help ensure that product formulations meet the needs of families for high quality, enjoyable and tasty foods which provide the appropriate nutrition at an affordable price.

→



World class expertise
Local insight



Out-performing on taste and nutrition

We are driving Nutrition, Health and Wellness across all our product categories, but there is still potential to do more. In some categories we are further ahead, but in every category we have products delivering a taste and nutrition performance, not only above market average, but also above our nearest competitor.

Improving the nutritional foundation

There are many ways to improve the nutritional foundation of our products. We do it by reducing salt, sugar and trans fatty acids, and by adding whole grains, BABs, and micronutrients such as vitamins, minerals and trace elements (e.g. more calcium, Omega-3s, antioxidants, etc.). We are facilitating good digestion with prebiotics, probiotics, fibres and whole grains. We are facilitating weight management via calorie management (less fat, less sugar) and no-fat cooking.

Branded Active Benefits (BABs) – enhancing health benefits

Nestlé's Branded Active Benefits are physiologically active food components that are incorporated into products to provide consumers with a complementary health benefit – in addition to the good taste and normal nutrient content of the product itself.

So far, 13 individual BABs have been developed and are being used in hundreds of products – across different categories and brands – to improve digestive health, immune defences, weight management, physical and mental development and healthy ageing. Examples include *Actigen-E* to optimise the release of energy, *Calci-N* for stronger bones and teeth and *Calci-Lock* to reduce bone loss, especially in post-menopausal women.

Not only do they provide a clear competitive, proprietary advantage, they also add value and enhance profit. Products with BABs contribute to sales of more than CHF 4 billion.

Reaching out in developing markets

Our responsibility is to make good nutritious food available and accessible to everyone, everywhere – including developing or emerging countries, for example in Africa and Asia where, for many, their food spend is not discretionary. Our “Popularly Positioned Products” (PPP) bring best quality, highly nutritious foods and beverages within reach of billions of people at the “base of the pyramid”. Their incomes are comparatively low, yet sufficient to provide spending power on trusted products that contribute to improving their quality of life.

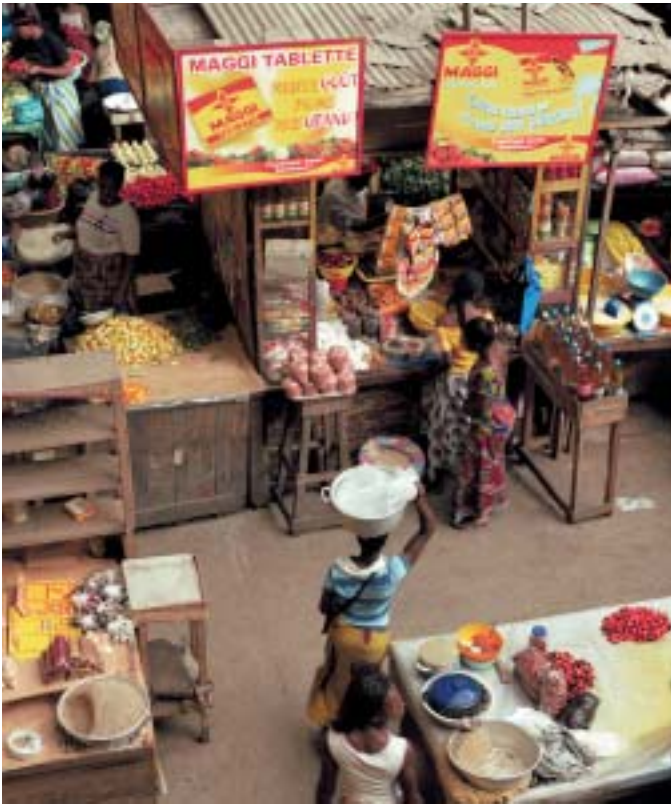
Premiumisation

At the other end of the product spectrum, products and brands that offer clear premium consumer values, be it in quality, service or convenience, offer scope for even higher margins. An example is in PetCare, where we have launched *Purina Gourmet Diamant* in Europe and *Fancy Feast Elegant Medleys* in North America.

Indeed, the constant upward movement in the economic pyramid stimulates demand for products that go further and further beyond simple sustenance to include more and more added-value benefits that in turn generate higher margins. This trend benefits our premium and super-premium brands.

Accessibility means affordable low prices and taking our products to where consumers live. We sell them in street markets, from mobile vending carts, or “door-to-door”. Our “PPP” sales are growing profitably at an annual rate of 27%.





Maggi cubes

In Central and West Africa, 65 million *Maggi* bouillon cubes are sold every day. For affordability, they are sold individually at extremely low cost. They are widely distributed in neighbourhood stores and by local women, achieving 45% penetration in rural areas. Above all, they address micronutrient deficiencies. Iodine is important for brain development and is also a tastier alternative to salt.

Bear Brand

30% of the world population is anaemic. 35% has insufficient iodine in their diet. Half a million children go blind each year as a result of vitamin A deficiency. By adding low-cost micronutrients in the form of vitamins, minerals and trace elements, Nestlé “PPP” products, such as *Bear Brand* in the Philippines, address the most prevalent deficiencies at affordable prices. Lower-cost alternative sources (soya, dhal, cereals, etc.) provide vital proteins.



Advertising to consumers

Nestlé Principles concerning appropriate communication with consumers have been a part of the Nestlé Corporate Business Principles since they were first published in 1999, and are required reading for all marketing staff and advertising agencies globally. These principles include specific criteria for communication with children, aimed at encouraging moderation, healthy dietary habits and physical activity, not undermining the authority of parents or creating unrealistic expectations of popularity or success. They were further strengthened in 2007 with two new provisions: no advertising or marketing activity directed at children under 6 years, and advertising for children from 6 to 12 years must be restricted to products with a nutritional profile which helps children achieve a healthy balanced diet, including clear limits for such ingredients as sugar, salt and fat.

Consumer communication and education – encouraging a balanced diet

Nestlé runs or is involved with many educational programmes directed at adults and children, all over the world, that include advice and information about nutrition and a healthy balanced diet.

Our most important communication initiative is the inclusion of the *Nutritional Compass* on our packs. Packaging is the perfect medium for nutritional information as it reaches the consumer at significantly relevant moments: at the point of purchase, at the point of preparation or at the point of consumption.

We call it a “compass” as it helps people to navigate their way to a healthy, balanced diet, to know where they stand, where they want to go, and how to find their way. It does this in four ways: a standardised nutrient content table; a “good to know” panel that further explains nutritional aspects; a “good to remember” panel with health tips; and a “good to talk” panel with contact details, which contributed to over 10 million calls received by our Consumer Services teams and nutritionists in 2007.

Applying nutritional benefits more widely through cross-fertilisation

Nestlé Nutrition’s use of probiotics – beneficial bacteria that strengthen the immune system – have helped Laboratoires innéov, our joint venture with L’Oréal, to strengthen the cellular defences of the skin in its range of skin protection products. Similarly, experience from using probiotics in Infant Nutrition has been transferred to our dairy products for growing children and adults. Our research in nutrigenomics has led to a *Purina* product for dogs with osteoarthritis.

Superior science and research

Our commitment to research puts nutrition at the heart of Nestlé. Superior science, nutrition research and technology drive innovation around nutrition, health and wellness. Science-based research leads to proprietary, protectable, patented and perceivably better products.

We invested about CHF 1.9 billion in research in 2007. We have about 5000 people working in R&D with 300 PhD scientists working at the Nestlé Research Center alone. We also have our own venture funds investing in food science, and have created partnerships with suppliers, pharmaceutical companies and others to ensure that we have the broadest exposure to R&D and science in the industry.



Nutritional Compass

→ The *Nutritional Compass* was launched in 2005 and is now on almost all our products around the world.



Nutrition, Health and Wellness: our values

Positive Nutrition

- We are committed to increasing the nutritional value of our products whilst improving taste and pleasure.
- We believe in a balanced healthy lifestyle and eating habits, and actively support their promotion.

Moderation

- We believe in variety and moderation of consumption to achieve a balanced healthy diet.
- We discourage over-consumption.

Authenticity and Transparency

- We are committed to provide factual and transparent nutrition and health information in all our communication.
- We will always encourage and empower consumers to make informed decisions about their diet and lifestyle.
- We believe that science and research are the foundation on which we can satisfy the consumer need for nutrition, variety, taste and convenience.

Nutrition, Health and Wellness across the product portfolio

Our Nutrition, Health and Wellness strategy is all about enhancing the consumer benefits inherent in our products and ensuring that those benefits are simply and clearly communicated. It differentiates our products from those of our competitors and imbues our brands with greater relevance and appeal to consumers. It is the goal of this strategy to make available highly nutritious products every day to billions of people all over the world.

Consumers are willing to pay more for brands which they perceive to be higher quality, more relevant and a better choice for their lifestyles. We believe that by improving the quality of life for our consumers, we will also improve the returns for our investors.

Our “billionaire brands” are built on strong, loyal relationships with consumers, based on providing relevant benefits and solutions. They tend to grow faster than their category, proving their in-built superiority. They remain the primary focus of our nutrition, health and wellness efforts.

In the following pages, we feature examples from all our product categories.

Nestlé's billionaire brands

These brands have annual sales in excess of CHF 1 billion. Our Food and Beverages billionaire brands account for about 70% of our Food and Beverages sales. Many of them are multi-billionaires, including *Nescafé*, *Purina*, *Maggi* and the recently acquired *Gerber*.



¹ *Nestea* measured on retail value.

² In Nutrition, the *Nestlé* brand has sales in excess of CHF 1 billion in both the Infant Nutrition and Baby Food categories.

Nestlé's billionaire brands

Prepared dishes and cooking aids



Beverages ¹



Confectionery



Ice cream



Water



Nutrition ²



Milk products



PetCare



Pharma



Beverages – coffees that contribute to health and wellness

For many people, a cup of coffee is vital for their overall well-being. In the context of Nutrition, Health and Wellness, we provide decaffeinated – or less caffeine – varieties, and sugar and fat-free alternatives.

We are also the first to market coffees such as *Nescafé Protect* with added nutritional and health benefits – over and above the inherent antioxidants that are increasingly recognised for their benefits. Our *Nescafé Body Partner* coffee mixes are exceptionally quick and easy to prepare and include functional ingredients such as added antioxidants, cereals, high-calcium milk and ginseng.

Beverages – Nutrition, Health and Wellness for growing children

Our chocolate and malt milk products, *Nesquik*, *Milo* and *Nescau* encourage children to drink more milk and benefit from its inherent goodness, especially as a natural source of calcium for the development of healthy bones and teeth. Further nutritional benefits and added vitamins and minerals make these brands more pertinent in a healthy balanced diet.

Water – essential to life

At Nestlé Waters, our Nutrition, Health and Wellness strategy is two-fold. In European countries and the USA, for example, our concern is to meet the combined needs of health, well-being and pleasure. In emerging markets in Asia, Africa and Latin America, our concern is to make safe, healthy water readily available and accessible.

Water is essential for the body to function correctly. It is a calorie-free drink which is immediately assimilated by the body, keeping it hydrated at the optimum level without providing any superfluous energy. Natural mineral waters are also rich in important minerals such as calcium and magnesium.

Nestlé Waters' 72 brands account for about 10% of Nestlé sales. Among them, *Hépar* has the highest magnesium content of any mineral water in France. In China, the unique formulation of *Nestlé Energy-E* boosts both physical and mental performance. In the USA, *Poland Spring* and *Deer Park* offer fluoride-enriched water for children, and *Nestlé Pure Life* is sold in 25% of school cafeterias.

Milk products and Ice cream – a pillar of nutrition

Milk is a baby's first food and continues as a pillar of nutrition at every stage of life. In this context, our range of dairy products is a major contributor to Nutrition, Health and Wellness. Our aim in all we do is to combine wholesome goodness, pleasurable nutrition and healthy enjoyment.

Our main focus is on providing functional benefits that address consumers' everyday nutritional deficiencies and health concerns. For example, in the 1-6 year old children's category, *Nido* is the world's leading brand of powdered milk, offering probiotics (*Lactobacillus Protectus*) and BABs which strengthen the child's defence system against harmful germs and bad bacteria. In the adult category, *Nesvita* and *Svelty* functional milks and yogurts offer a complete range of functional benefits, from smoother digestion and weight management to bone and heart health. In the canned liquid milks category, we have developed many healthier options such as *Milkmaid* condensed milk with 50% fewer calories and *Carnation* soy evaporated milk.

All over the world, coffee is consumed by billions of people every day. Over 4000 cups of *Nescafé* are drunk every second! Globally, in a market with dozens of brands, *Nescafé* is by far the largest, accounting for 23% of global coffee consumption. *Nespresso*, selling direct to consumers, is one of the fastest-growing brands in the Nestlé Group (up 40% in 2007).





Nesquik

Nesquik in the USA has been reformulated with 25% less sugar than its next competitor, yet it still out-performs on 60/40 taste preference. It has the “+” of providing 100 mg more calcium per serving.



Nescafé Protect
Nescafé Protect, launched in Mexico and a number of Asian countries, is one of our “Good for you” coffee solutions in our *Body Partner* range. It has a superb, mild and smooth taste. What makes it even more special is its unique blend of roasted beans and green beans. A proprietary process preserves the chlorogenic acids and polyphenols to give it three times more antioxidants than green tea. The resulting “cup of goodness” helps fight against free radicals, one of the main causes of ageing.



Milo

In Malaysia, *Milo* is in effect the national drink for children – selling considerably more than any soft drink. Proprietary technology has led to a new malt process that improves the carbohydrate mix which, together with *Actigen-E*, optimises energy release.



Contrex

Contrex is a French mineral water naturally rich in calcium, helping bone structure and its upkeep. 1.5 litres provides 81% of the daily recommended amount for adults. Since 1954 it has been the favourite of France’s weight-conscious women. Now it is enjoyed in more than 40 countries. In the USA it is sold in natural foods stores, spas and beauty salons.

Breakfast cereals – bringing wellness to breakfast

All Nestlé breakfast cereals contain the wholesome goodness of whole grain, helping to reduce cholesterol and the risk of heart disease as well as diabetes and cancer. Low in fat and with fibre-rich bran, they also contribute to healthy body weight. Most of our cereals contain no added sugar and salt at all, and we've removed partially hydrogenated fats completely. *Shredded Wheat* is made with just one ingredient: whole grain wheat.

Cereals are also excellent carriers of additional nutritional benefits. Our proprietary BABs provide complex carbohydrates that release energy slowly, helping children at school with improved concentration; or add calcium for strong bones; or extra vitamins and minerals to help strengthen the immune system.

Ice cream – enhancing special moments

Our strategy is to create consumers' preferred brands through a variety of products that give incomparable ice cream pleasure that they can feel good about.

One of our greatest successes has been the launch of our "60% milk" take-home ice-cream in Chile which gives consumers stronger nutritional values and the pleasure of a creamier taste. We have also improved nutritional profiles by reducing levels of sugar and fat. The *Skinny Cow* low fat chocolate with fudge ice-cream is 96% fat free, has no trans fat and is just 150 calories per serving. We have also launched products for specific health-related needs such as "no lactose" ice-cream in Finland, and have enriched our products with vitamins, minerals and BABs, such as *Nesquik* ice-cream with *Calci-N*.

Prepared dishes and cooking aids – helping consumers to eat tasty nutritious meals, every day

The Nutrition, Health and Wellness strategy for our food brands is to be the consumers' trusted partner by helping them to prepare and eat tasty and balanced meals every day. In this context, our food products divide into three areas.

First, those that deliver great taste and nutritional reassurance. For example, our new recipe *Maggi* Lasagne à la Bolognaise in France uses 100% natural ingredients, no preservatives, 26% less salt and 28% less fat. It out-performs on 60/40+ and achieved a 15% sales increase in 2007.

Second, those that are great tasting and address specific nutritional needs. In India, instant noodles are a very popular snack but consumers are looking for more nutritional variants. *Maggi* Rice Noodles Mania is a balanced snack solution with rice benefits, 35% less salt, 30% less fat, and higher protein and added vegetables. It has achieved 3% market share and its launch has provided added impetus to the whole *Maggi* range.

Third, those that provide complete meal solutions and address a specific health-related need. *Lean Cuisine* "Steam" in Australia helps people with their weight and body management. With an average 400 calories per serving, each meal is 97% fat free, contains one serving of vegetables and is free from artificial colours, flavours or preservatives. A 60/40+ consumer preference of over 80% has led to 12% market share within three months of its launch.

In South African townships, *Nestlé Pure Life* is sold from kiosks which also act as supply points for street vendors from neighbourhood areas. It ensures safe healthy water, it creates jobs, and it contributes profitable growth for Nestlé: some 200 million bottles were sold during a six month period.





Nesvita and Cerevita

Nesvita and Cerevita healthy cereal drinks and porridges offer nutritious energy and digestion for children and adults in Asia, Africa and Latin America. The inclusion of BABs, such as ActiCol, helps to lower plasma cholesterol – a risk factor for cardiovascular disease – and ActiFibras – which contains maltodextrins, calcium and vitamins – aids digestion and reduces constipation.



Nestlé Fitness

Nestlé Fitness is a healthy, 99% fat-free cereal that in one serving provides 50% of the recommended daily allowance of eight vitamins and 20% of the recommended daily allowance of iron. It's one of our leading breakfast cereal brands, selling in over 50 countries across Europe, Asia and Latin America.

Mövenpick
 “Eis Conchiert”
 Our Low Temperature Freezing (LTF) technology has led to *Nestlé* ice-creams with 50% less fat and 30% fewer calories that taste as rich and creamy as full-fat equivalents. First launched in the USA on the *Dreyer’s Slow Churned* brand, they have been an unprecedented success, with sales equal to the standard range. Recent product extensions include *Slow Churned Yogurt Blend* and *No Sugar Added*. In Europe, our LTF ice-creams have continued to grow in their second year thanks to successful new product launches for *Mövenpick “Eis Conchiert”* in Germany, and additional flavours for *La Laitière “Lentement Fouettée”* in France.



Herta

Herta in France now offers as many as 25 specific product-related quality commitments, all controlled by an independent agency. These cover quality issues, for instance the exclusive use of fresh meat for ham or the use of 100% natural ingredients in soups; and food safety issues such as the selection of meat suppliers, breeding conditions, and traceability. Recent additions include nutritional claims such as fat and salt reductions. This commitment and expression of superiority versus competitors has led to strong sales growth and has enabled the brand to join our billionaire club.



Confectionery – developing healthier products

Confectionery is first and foremost a treat, but that in no way means it is exempt from Nestlé's Nutrition, Health and Wellness drive. In this context, we provide great tasting and nutritionally responsible products with healthier options, combined with clear information so that people can enjoy confectionery as part of a healthy, balanced diet and lifestyle.

In Latin America, *Nestlé Bocaditos* (Pillows) are light indulgence chocolate snacks made with healthy ingredients – corn, wheat and cereal pieces with fibre – coated with chocolate or yogurt, and with strawberry, tropical fruit or strawberry yogurt fillings.

In Australia, Nestlé is backing the “switch to dark” chocolate campaign which highlights the health benefits of consuming dark chocolate in moderation. Dark chocolate is rich in antioxidants. The website www.switchtodark.com includes facts and figures, clinical papers and healthy eating tips.

FoodServices – extending nutritional benefits out-of-home

Our vision is to be world leader in value-added Nutrition, Health and Wellness solutions in the FoodServices industry. With more out-of-home eating, more travel, more schools, hospitals and retirement homes, our FoodServices business, which already accounts for nearly 7% of Nestlé sales, is poised for growth. With this in mind, we announced in 2007 the creation of Nestlé Professional, a new globally managed FoodServices business. We believe that this new structure will bring greater focus, drive and effectiveness.

Strategic initiatives include nutrition screening of key products to ensure the right levels of health sensitive nutrients, and the use of ingredients with an intrinsic nutritional value and/or low levels of salt, fat or sugar. BABs and nutrient fortification meet specific consumer needs. The *Nestlé Nutritional Compass* is applied to packaging. Nutritional services include call centres and nutritional training for customers.

In all these ways, Nestlé Professional is bringing Nutrition, Health and Wellness to children, recovering patients, the elderly, business travellers and holiday-makers in channels such as schools, hospitals and nursing homes, airports, hotels and restaurants. A specific example is *Nestlé Nesvita* soy drink which is naturally rich in calcium, protein and phytosterols, and is sold in McDonald's in Malaysia.

PetCare – bringing Nutrition, Health and Wellness to pets

For more than 85 years, Nestlé Purina's mission has been to make the world a better place for pets. Consumer understanding, R&D, validation (including 60/40+) and quality assurance apply equally to our petcare products. Hundreds of Purina scientists, nutritionists and researchers carry out over 20 000 taste tests each year. They focus on helping pets to live better, longer lives by creating pet foods that can improve the balance of beneficial bacteria for optimal digestion, enhance lean body mass through proprietary ingredients, help boost the immune system, or slow the effects of ageing.

Purina Cat Chow Naturals is a premium dry cat food made with natural ingredients cats love, like chicken and salmon, whole grains and leafy greens. All ingredients in *Naturals* are free of added artificial flavours and preservatives, and its natural fibre blend helps control hairballs. This new formula exemplifies total cat and owner wellness through physical and emotional health. The *Naturals* line extension was launched in the USA in 2006 and brought 4.8 million new users into the *Purina Cat Chow* franchise. Since the product launch, *Naturals* sales have represented 60% of *Purina Cat Chow's* total growth.

Nutripro

Our Nutripro nutrition magazine is published quarterly in several languages. A CD is sent to our markets to enable adaptation to meet local customer and operator needs. It is the first nutrition magazine which is modifiable to serve global needs in the FoodServices industry.



Trencito Milki

Launched in several Latin American countries, *Trencito Milki* (Snow White) is a nutritious snack that encourages children's milk consumption. It is a chocolate that turns into milk in the mouth. It uses special sintering technology to enrobe the powdered milk centre with milk or white chocolate.



Nutritional Quotient

In 2007 we launched a nutrition training programme called NQ, for Nutritional Quotient, to help our employees make healthier eating choices and to further contribute to our Nutrition, Health and Wellness strategy through improved identification of business opportunities, innovation and renovation and stronger consumer communications. It includes business cases and interactive games addressing specific product category challenges, and is being rolled out globally from 2008.

Purina
Purina Pro Plan Vital Age 7+ with Longevis is a super premium dry cat food for cats aged seven or older. The **BAB Longevis** is proven to extend a mature cat's healthy life by up to one year. **Longevis** is a proprietary blend of antioxidants, vitamins, fibre and fatty acids designed to counter the effects of ageing that make it more difficult for cats to absorb nutrients such as fat, protein and fat-soluble vitamins such as vitamin E. **As a result, Longevis slows down the decline in body weight and lean body tissue which make older cats more prone to illness. It was launched in Europe in 2006.**



The Nestlé Model

Creating value through profitable growth

The Nestlé Model seeks to achieve three measurable objectives over a long period of time:

- Annual organic growth between 5% and 6%
- Year-on-year improvement of EBIT margin
- An improving trend in Return on Invested Capital

We believe we can deliver the Nestlé Model over at least the next ten years.

Nestlé has met this model's objectives over the last 12 years, making it one of very few companies that have consistently reported an improvement each year in both top and bottom-line growth. This has resulted in Nestlé being able to provide its shareholders with a total shareholder return over that period of 408%.

This performance is the result of a clear strategy, strong management, leading brands and an effective operational plan.

A number of opportunities will contribute to the continued profitable growth of Nestlé over the next decade, enabling us to improve the lives of consumers and continue to outperform the industry.

Nutrition, Health and Wellness

Nestlé Nutrition and our industry-leading R&D capability, are the science engines for our Nutrition, Health and Wellness strategy across our Food and Beverages business.

This strategy is centred on categories which have in-built nutritional benefits to which consumers are increasingly attracted as they seek to live healthier lives. They also provide a base for science-driven nutritional enhancement, for example through inclusion of BABs, that provide additional consumer benefits and enable higher margins. 60/40+ plays a key role in delivering our Nutrition, Health and Wellness strategy.

For superior taste and dispensing performance

Nestlé Professional is Nestlé's Out-of-Home dedicated business that markets products and solutions in schools, hospitals, airports, hotels and restaurants, etc. This necessitates special product formulations and system development to ensure high quality, nutritional benefits and food safety.





Solutions through applied science
wherever, whenever, however



The emerging consumer – Popularly Positioned Products

By 2010 nearly 90% of the world population will live in developing and emerging countries. This is a consumer segment that offers potential for profitable growth, provided that it is run within specific business models and distribution structures that manage cost out of the system. Our Popularly Positioned Products are present across Africa, Asia and Latin America, providing good nutrition at an affordable price on a daily basis to consumers at the base of the pyramid. This market has been described as a ten-year USD 70 billion opportunity, and Nestlé is already present with sales of about USD 6 billion.

There is also an emerging middle class and affluent consumer in these markets. Nestlé has an unrivalled scale in emerging markets, with critical mass and strong consumer recognition of its brands. As such it is ideally placed to continue to grow with these consumers.

The out-of-home segment

Nestlé Professional will bring greater focus and enhance the effectiveness of our FoodServices business, which has significant potential for further profitable growth in a market valued at about CHF 400 billion.

The affluent consumer – “premiumisation”

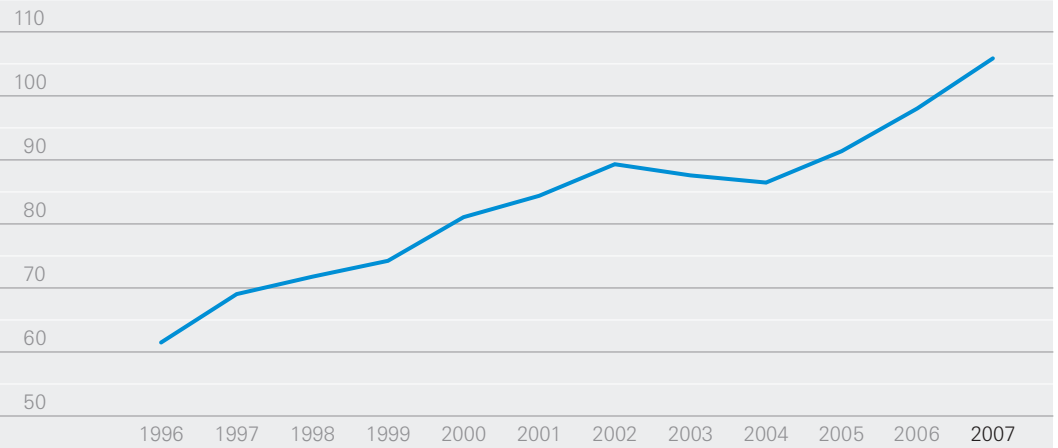
The emerging super-premium sector offers scope for exclusive, high quality products that provide sensory pleasure for consumers and high growth and profitability for Nestlé. Examples include *Nespresso* in coffee and *Mövenpick* in ice cream, but this is a segment with potential in each of our categories, as consumers increasingly seek respite in indulgence from their high pressured, hectic lives.

The world's population is increasing. People are more affluent and living longer. There is greater awareness that food and drink affects the quality of our life. In this environment, Nestlé is opportunity-rich, and, with its billionaire brands and leadership positions in most countries, is ideally positioned to turn those opportunities into sustainable, profitable growth. We are therefore confident that we will deliver the Nestlé Model over at least the next ten years.

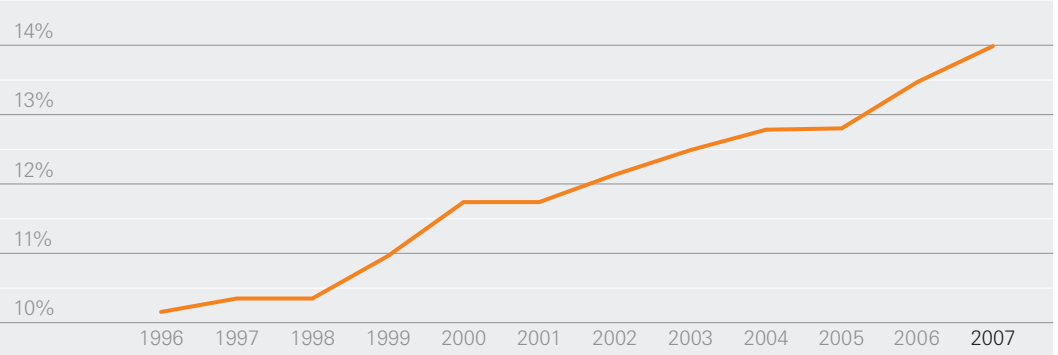


The Nestlé Model: combining a high level of organic growth with consistent EBIT margin improvement

Sales in billion of CHF



EBIT Margin %



1996 Sales CHF 60.5 billion
 2007 Sales CHF 107.6 billion
 Organic growth 12 years: average 5.9%

1996 EBIT CHF 6.2 billion. Margin 10.2%
 2007 EBIT CHF 15 billion. Margin 14%
 EBIT margin 12 years: average +35 bps

Flawless, efficient and effective execution

No company can save its way to prosperity. Savings are necessary to stay competitive, but competitive advantage comes from excellence in execution, and from a company's ability to leverage growth for improved performance.

At Nestlé, therefore, hand in hand with our strategic transformation to a Nutrition, Health and Wellness company, we have been managing an organisational transformation to enable us to focus more on demand generation. The resulting organisation, characterised by an agile fleet of businesses and a highly efficient support structure, is itself increasingly becoming a competitive advantage.

Agile fleet of businesses

Nestlé is now made up of a number of businesses, each with its own appropriate business model to ensure success. Each has its own specific management, close to the consumer and focused on profitable demand generation. The businesses are highly interdependent, aided by an efficient support structure which leverages our know-how internally, and also leverages our scale externally for more effective partnerships with suppliers and customers.

GLOBE – the major enabler for operational efficiency and growth

GLOBE enables us all to talk one language, with one set of definitions, one set of tools and one set of measures. This commonality is at the heart of the GLOBE programme. It removes unnecessary complexity and makes us an interdependent company. It drives discipline, leads to effective, real-time benchmarking, creates clear responsibilities and enables effective decision making. In effect, it moves us from a reporting to a real time, action-driven organisation.

GLOBE enables us to merge necessary complexity, such as our wide range of products, diverse routes to market and different business models, with efficiency, by leveraging our size as a strength for improved financial performance.

Reducing packaging material

The world's leading R&D centre for mineral waters is located in Vittel, France. The centre's work includes the development of light-weight packaging using far less material but still having sufficient strength to protect the product. In the USA, the Madison factory in Florida is just one of many factories using the new EcoShape bottle.

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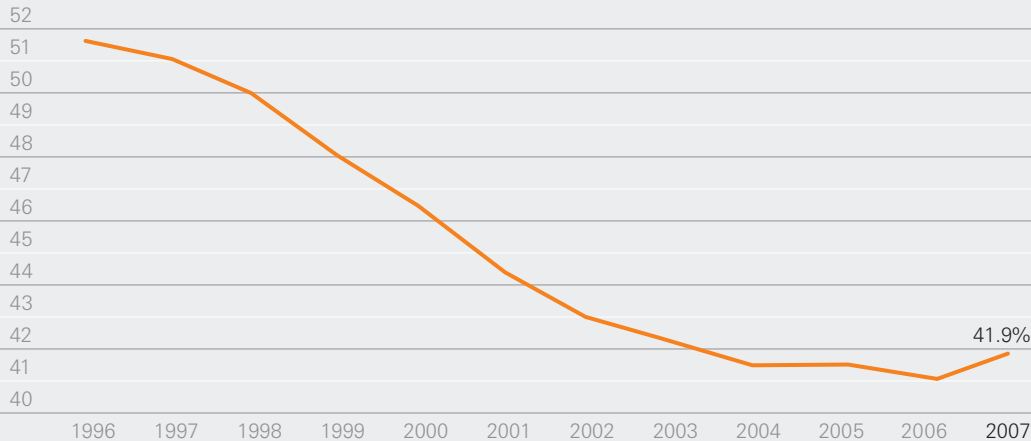


Applying scientific know-how
for a more sustainable environment



“Operation EXCELLENCE 2007”: continuing a 10-year journey of cost optimisation

Cost of goods as % of sales



MH'97

- Continuous Improvements

Target 2004+

- Functional Targets
- Best Practice
- Restructuring the Industrial Network

“Operation EXCELLENCE 2007”

- Aligned targets across the Supply Chain
- Integrated Distribution and Industrial Networks
- Continuous Improvement culture

“Operation EXCELLENCE 2007” – driving cost-competitiveness

For over 10 years, Nestlé has been successful in cost-optimisation initiatives, particularly in manufacturing, yielding savings of CHF 10 billion. “Operation EXCELLENCE 2007” has replicated this success, exceeding its objective of CHF 1 billion savings in 2007. Our Cost of Goods (COGS) as a percentage of sales has reduced from 52.1% in 1996 to less than 42% in 2007. Savings initiatives have played a key part in this achievement. So too has our strategy to move to higher value-added products, where the COGS weigh less in the selling price.

The increase in COGS in 2007, despite significant efficiencies, results from the severe inflation in commodity costs, particularly agricultural commodities. Nestlé will continue to drive efficiencies to compensate for such cost pressures.

Generating demand across all business models

GLOBE facilitates flexibility and agility, enabling us to manage many different business models, whether globally-driven premium businesses (Nespresso), regionally managed businesses (PetCare); very local businesses (Culinary), stand-alone businesses (Jenny Craig), or service-driven businesses (Gerber Life). It allows each business to operate with its own optimal structure, without compromise, to improve demand generation. It works effectively across all categories, all channels and all markets.

GLOBE is built on best practices, both internal and external; and it promotes their rapid adoption across the organisation. Hundreds of best practices include aspects such as Food Quality, Health and Safety, Pricing – the Nestlé Way, Supply Chain Management, and Marketing. While many initiatives appear to be savings-driven, they are in fact about providing a better service to our customers, and fresher, higher quality products to our consumers – the key drivers of demand generation. Thus GLOBE enables a virtuous circle of continuous improvement: better management of supply chain reduces working capital and saves money, but also speeds up route-to-market, providing fresher products to drive growth. We can then leverage that growth in our operations to drive further savings. Yet another competitive advantage.

Capital Efficiency

“Operation EXCELLENCE 2007” went beyond manufacturing to tackle opportunities in warehousing, planning processes and network optimisation, among others. It was supported by GLOBE systems, which provided data on under-performing areas, enabling fast and sustainable improvements along the value stream. As a result, for example, Trade Net Working Capital as a percentage of sales, a key indicator of Supply Chain effectiveness, has been on a two-year improving trend, while “Bad Goods”, a measure of internally-created supply chain damages, reached its lowest level since records began. Working capital improvement remains a key area of focus, with opportunities for improvement in all areas. The overriding objective is to get fresher products faster to our consumers for their improved pleasure – improved working capital is the financial measure of our success in this goal.

Global Nestlé Business Services (GNBS) allowing our front-line to concentrate on demand generation for profitable growth

Like GLOBE, GNBS brings cost benefits to the Group, by supporting our in-market teams with shared services for selected back-line activities, including Employee Services, Facility Services, IS/IT Services and Financial Services. The provision of these services releases our people around the world, who are closest to consumers, to spend more time with our customers and focus more intensely on profitable demand generation. That way, they are better able to deliver sustainable profitable growth – another virtuous circle of cost savings combined with enhanced demand generation.

Better people means better performance

Our strategy and the way we execute it is, of course, dependent on the quality of our people. Leadership in Nutrition, Health and Wellness relies on science-driven innovation, and on having people with the right skill-sets. We have benefited from driving decision-making down through the organisation, and cascading responsibility to all levels.

Being closer to our consumers reinforces the intimacy that we have with them and our understanding of their evolving needs. This human factor further enhances our ability to meet the objectives of the Nestlé Model, and also sows the seeds of our future success.

Pharmaceutical and cosmetics activities

Nestlé owns about 77% of the pharmaceutical company Alcon, and about 30% of L'Oréal with whom it has two joint ventures: Galderma and Laboratoires innéov.

Alcon

In 2007, Alcon's sales grew 9.1% to CHF 6.7 billion, while EBIT grew 14.1% to CHF 2.3 billion. A long-term focus on the global development of key brands contributed to the 2007 performance. Sales were enhanced by market share gains of Alcon's *AcrySof* intraocular lenses, especially premium technologies that provide correction for spherical aberration, astigmatism and presbyopia. In addition, Alcon experienced strong growth in its pharmaceutical franchise due to share gains by its *Travatan* ophthalmic solutions for the treatment of glaucoma. The company also introduced in the USA the only once-a-day treatment for eye allergies, *Pataday* ophthalmic solution. In Japan, Alcon launched three of its key global brands: *Patanol* ophthalmic solution for allergies, *Vegamox* ophthalmic solution for infections and *TravatanZ* ophthalmic solution for glaucoma. Alcon also experienced unusually fast growth in its consumer category, led by share gains by *OptiFree Express* and *RepleniSH* multipurpose disinfecting solutions that resulted from competitor product recalls in 2006 and 2007.

For further information, see Alcon's annual report or www.alcon.com.

L'Oréal

The growth of L'Oréal, world number one in cosmetics, accelerated in 2007 to reach 8.1% (8.0% like-for-like). Sales amounted to EUR 17.1 billion and net earnings per share to EUR 3.36, an increase of 13%.

Growth continued at a solid rate in Western Europe. The increase in growth in North America has been gradual, while the rise in sales has accelerated significantly in the Rest of the World. Overall, L'Oréal has made large market share gains, especially in the emerging countries.

Pro-Xylane, an anti-ageing molecule based on green chemistry and a product of seven years of research, has been incorporated in six products, including Skin Genesis by L'Oréal Paris and Substiane from La Roche-Posay, which are both worldwide success stories. The strong performance of the new perfumes, particularly Fuel for Life by Diesel, has meanwhile bolstered the group's number one position in prestige fragrances. Lastly, L'Oréal is continuing to integrate The Body Shop into the group and win over new target groups: men, with a breakthrough for Lancôme and its new skincare line, and seniors, with Color Suprême hair colourant from L'Oréal Professionnel.

For further information, see the L'Oréal annual report or www.loreal-finance.com.

Galderma

Worldwide sales grew 11.7% in 2007 to CHF 1.2 billion. The success of the key brands *Differin* (acne), *Clobex* (psoriasis), *Loceryl* (onychomycosis) and *Cetaphil* (therapeutic skin care line) and the launch of the higher strength *Differin gel 0.3%* in North America contributed to the double digit-growth. In addition, the new fixed dose combination therapy for acne, *Epiduo*, achieved marketing authorization in Argentina and Denmark and positively concluded the Decentralised European registration procedure (DCP) in 12 other countries. Galderma also expanded its presence in the fast growing corrective dermatology segment.

For further information, see www.galderma.com.

Laboratoires innéov

A joint venture between Nestlé and L'Oréal, Laboratoires innéov became in 2007 the European leader in beauty-related nutritional supplements, sold in pharmacy.

For further information, see www.inneov.com.



Alcon

Introduced in 2007, Alcon's *Pataday* ophthalmic solution is the only once-a-day treatment in the USA for itching associated with ocular allergies.



Galderma

Differin 0.3%, the higher available concentration of adapalene, provides fast powerful efficacy for more challenging acne.

L'Oréal
Pro-Xylane, the anti-ageing molecule based on green chemistry and a product of seven years of research, has been incorporated in six products including Skin Genesis by L'Oréal Paris.



Laboratoires innéov

In 2007, Laboratoires innéov successfully launched *innéov cellulite*, which has become N°1 in its segment.



Group performance

Sales	+9.2%	CHF 107.6 billion
Organic growth	+7.4%	
Real internal growth	+4.4%	
EBIT	+CHF 1.7 bio	CHF 15 billion
EBIT margin	+50 bps	14%
Net profit	+CHF 1.4 bio	CHF 10.6 billion
Operational cash flow	+CHF 1.7 bio	CHF 13.4 billion
Free cash flow	+CHF 1.2 bio	CHF 8.2 billion
Total shareholders return	+23%	
Proposed Dividend	+17.3%	CHF 12.20 per share

Principal key figures (illustrative)

Income statement figures translated at average rate;

Balance sheet figures at year end rate

In millions of CHF (except per share data)

	2006	2007
Sales	98458	107552
EBIT (Group) Earnings Before Interest, Taxes, restructuring and impairments	13302	15024
EBIT (Food and Beverages) Earnings Before Interest, Taxes, restructuring and impairments	11166	12589
Profit for the period attributable to shareholders of the parent Net profit	9197	10649
Equity attributable to shareholders of the parent before proposed appropriation of profit of Nestlé S.A.	50991	52085
Market capitalisation, end December	166152	195661

Per share

Total earnings per share	CHF	23.90	27.81
Equity attributable to shareholders of the parent before proposed appropriation of profit of Nestlé S.A.	CHF	132.51	136.03

In millions of USD (except per share data)

	2006	2007
Sales	78742	89927
EBIT (Group) Earnings Before Interest, Taxes, restructuring and impairments	10638	12562
EBIT (Food and Beverages) Earnings Before Interest, Taxes, restructuring and impairments	8930	10526
Profit for the period attributable to shareholders of the parent Net profit	7355	8904
Equity attributable to shareholders of the parent before proposed appropriation of profit of Nestlé S.A.	41727	46257
Market capitalisation, end December	135967	173766

Per share

Total earnings per share	USD	19.11	23.25
Equity attributable to shareholders of the parent before proposed appropriation of profit of Nestlé S.A.	USD	108.44	120.81

In millions of EUR (except per share data)

	2006	2007
Sales	62543	65421
EBIT (Group) Earnings Before Interest, Taxes, restructuring and impairments	8450	9139
EBIT (Food and Beverages) Earnings Before Interest, Taxes, restructuring and impairments	7093	7658
Profit for the period attributable to shareholders of the parent Net profit	5842	6478
Equity attributable to shareholders of the parent before proposed appropriation of profit of Nestlé S.A.	31691	31433
Market capitalisation, end December	103264	118081

Per share

Total earnings per share	EUR	15.18	16.92
Equity attributable to shareholders of the parent before proposed appropriation of profit of Nestlé S.A.	EUR	82.36	82.10

Financial Review

Overview

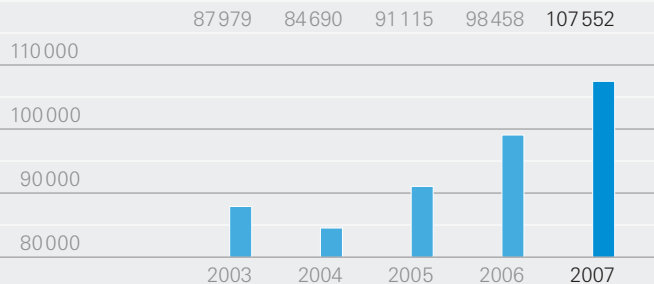
2007 was the year in which agricultural commodities broke out of their previous trading ranges and patterns. It became clear that a combination of unpredictable weather, changing consumption patterns, growing demand for food-related commodities from non-food industries and increased speculation by financial organisations were creating a new dynamic in the market for agricultural commodities.

Nestlé benefited from first mover advantage, having already identified this trend before the start of the year, and ahead of many peers, and put in place the necessary strategy to respond to it, including early pricing actions, recipe changes and further increasing our efficiency drives. More fundamental to Nestlé's ability to deliver strong results even in this environment, however, was the impact of the strategic transformation that has taken place over the last few years, and which has created the world's leading Nutrition, Health and Wellness Company. Not only is Nestlé the leader in specialised nutrition, but its whole portfolio has become increasingly added-value through incorporating either a health benefit, such as milks with BABs, an added element of convenience, such as *Nescafé Dolce Gusto*, or through premiumisation, such as *Nespresso*.

At the same time, Nestlé's structure has evolved from that of the classic multinational, laden by its size, to a grouping of agile, focused businesses able to respond rapidly to their own individual opportunities and challenges, whilst also able to leverage the scale of the Group for efficiencies. There is no better example of that in 2007 than Nestlé Nutrition: it acquired and integrated two businesses which significantly increased its sales, whilst also facing a tough raw material environment. Despite these managerial and competitive challenges it delivered 9.7% organic growth and a 30 basis point improvement in EBIT margin to 17.2%. This was an excellent performance in that context which means that Nestlé Nutrition enters 2008, as the global leader, with about CHF 11 billion of sales, well placed to further drive its performance.

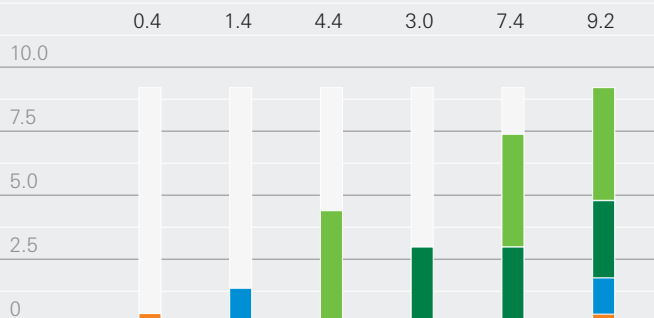
Sales (Group)

In millions of CHF

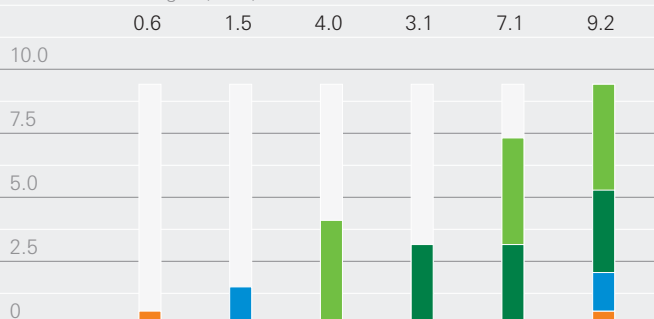


The composition of sales

Group (In %)



Food and Beverages (In %)



- +●=Organic growth
- RIG
- Pricing
- Acquisitions net of divestitures
- Exchange rates

Nestlé today, with the right consumer offering and the right business structure, is unique in its industry, differentiated from and competitively advantaged over its peers. As such, its performance is less the hostage of raw material volatility or economic trends, and more the result of delivering against its strategy and executing with discipline.

Strong sales growth

Group sales reached CHF 107.6 billion, an increase of CHF 9.1 billion or 9.2% from 2006. The major contributor was organic growth of 7.4%. This was above our annual target of 5-6%, and comprised Real Internal Growth (RIG) of 4.4% and pricing of 3%. Acquisitions added 2.6%, more than compensating divestitures of 1.2%. Foreign exchange contributed 0.4%.

The Food, Beverages and Nutrition business, with sales of CHF 100.3 billion, an increase of CHF 8.5 billion or 9.2%, was the main contributor to growth. It achieved organic growth of 7.1%, with RIG of 4% and pricing of 3.1%. This relatively high level of pricing, compared with recent years, reflects our success in passing on raw material cost pressures, and is a testament to the strength of our brands. The difference between the Group and the Food, Beverages and Nutrition organic growth is accounted for by our pharmaceutical activities, Alcon and our two joint ventures with L'Oréal, Galderma and Laboratoires innéov, which recorded 11% organic growth.

Nestlé's portfolio of billionaire brands was the engine for growth, with many achieving above-market performances. It is notable that the faster growing brands often have Nutrition, Health and Wellness characteristics that resonate powerfully with consumers. We have a strong innovation pipeline to ensure future growth, are renovating products on a continuous basis, with our 60/40+ process, and are continually seeking to further enhance the value of our brands through the addition of BABs. Brands carrying BABs grew over 15% in 2007 and achieved sales of CHF 4.4 billion.

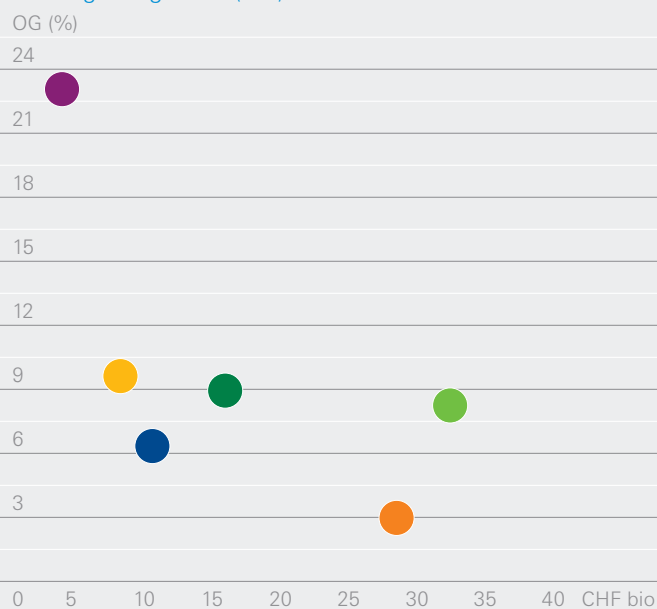
Geographic Food and Beverages sales and organic growth by continent (OG)



In billions of CHF	OG (%)	Sales
● Europe*	4.2	39.0
● Americas*	8.6	42.5
● Asia, Oceania and Africa*	9.6	18.8

* each region includes sales of the Zones, Nestlé Waters, Nestlé Nutrition, Nespresso and Food and Beverages joint ventures.

Geographic Zones Food and Beverages sales and organic growth (OG)



In billions of CHF	OG (%)	Sales
● Zone Europe	3.0	28.5
● Zone Americas	8.1	32.9
● Zone Asia, Oceania and Africa	8.8	16.6
● Nestlé Waters	6.6	10.4
● Nestlé Nutrition	9.7	8.4
● Other Food and Beverages*	23.2	3.5

* mainly Nespresso and Food and Beverages joint ventures managed on a worldwide basis.

Each of our product groups, our geographic Zones and our globally managed businesses achieved positive organic growth. This demonstrates both that our growth was broad-based and that we have strong momentum in the business, following also above-target growth numbers in 2006.

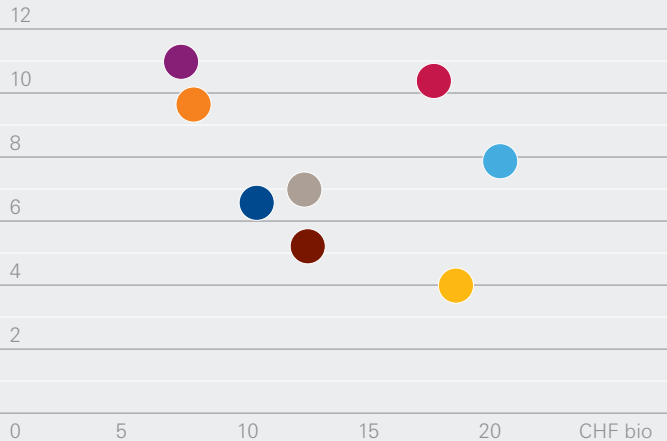
Powdered and liquid beverages, including *Nescafé*, *Milo*, *Nesquik*, *Nescau* and *Nespresso*, achieved organic growth of 10.3%. Nestlé Waters, with brands such as *Vittel*, *S.Pellegrino* and *Nestlé Pure Life* reported 6.6%. Milk products (including Breakfast cereals) and Ice cream with brands such as *Nido*, *Dreyer's* and *FitNes*, reached 7.8%. Nestlé Nutrition, with brands such as *Jenny Craig*, *Nestlé NAN* and *Alfaré*, achieved 9.7%. Prepared dishes and cooking aids, with brands such as *Maggi*, *Stouffer's*, *Lean Cuisine* and *Buitoni*, reached 4%. Confectionery with brands such as *KitKat*, *Cailler* and *Crunch*, achieved organic growth of 5.3%, whilst PetCare, including *Purina* and *Friskies*, reached 7%.

Looking from a geographic basis, Zone Europe reached 3% organic growth, whilst Zone Americas reported 8.1% and Zone Asia, Oceania and Africa (AOA) achieved 8.8%. The key markets in Europe all achieved positive organic growth, and the Chocolate, Soluble coffee and PetCare categories were particularly strong. Eastern Europe continued to deliver double digit organic growth. In the Americas, the US and PetCare business delivered good growth, whilst Latin America achieved double digit growth due to heavy pricing. In Zone AOA, Shelf stable dairy, Culinary and Powdered beverages were all over 10% organic growth, and there was good growth also from many other categories. Most emerging markets also grew double digit.

Our total Food and Beverages business also including Nestlé Waters, Nestlé Nutrition, Nespresso and our other globally managed businesses, achieved 4.2% organic growth in Europe, 8.6% in the Americas and 9.6% in AOA.

Product group sales and organic growth (OG)

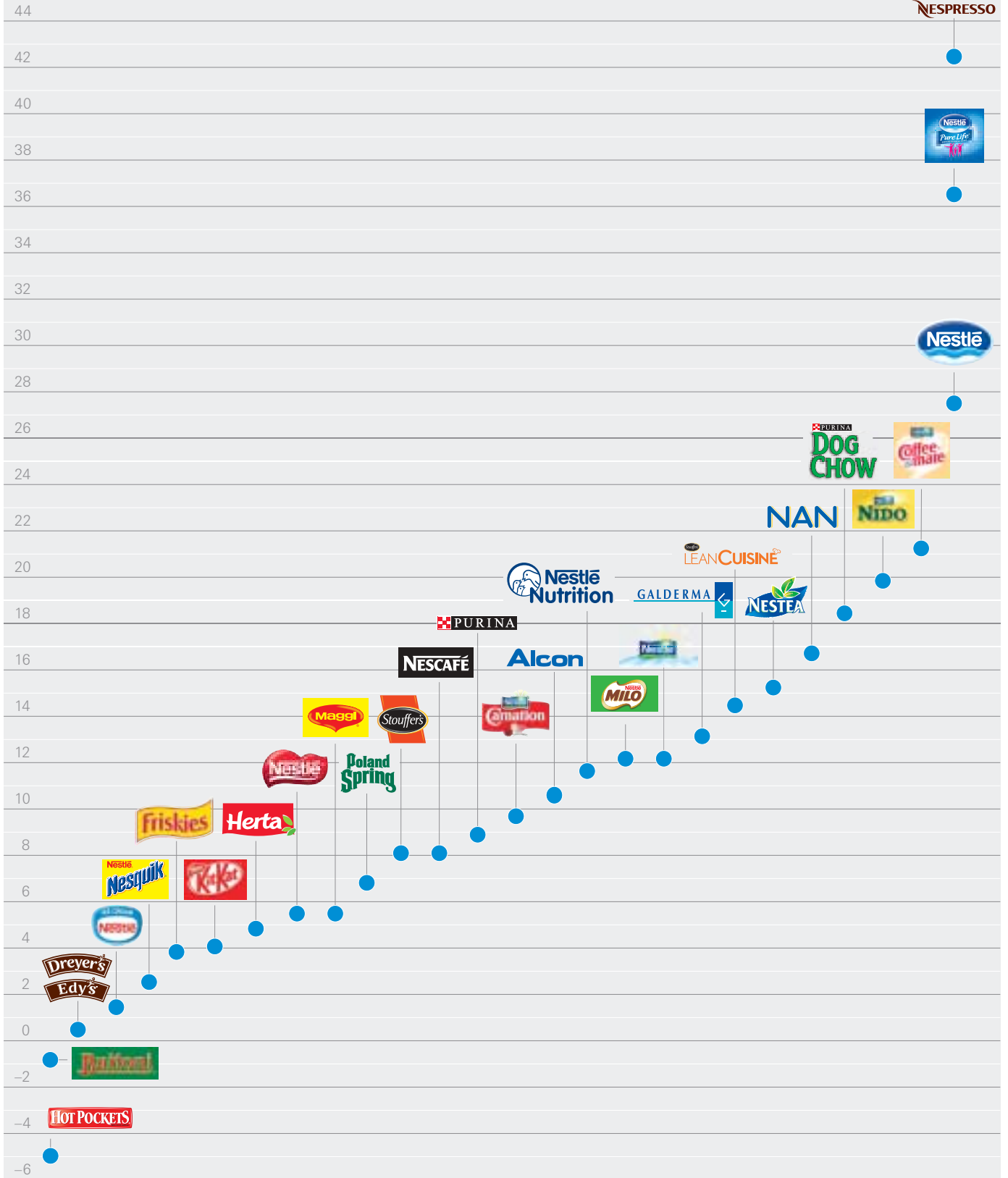
OG (%)



In billions of CHF	OG (%)	Sales
● Powdered and liquid beverages	10.3	17.9
● Nestlé Waters	6.6	10.4
● Milk products and Ice cream	7.8	20.7
● Nestlé Nutrition	9.7	8.4
● Prepared dishes and cooking aids	4.0	18.5
● Confectionery	5.3	12.3
● PetCare	7.0	12.1
● Pharmaceutical products	11.0	7.3

Key brands deliver growth above market

Organic growth (%)



A significant increase in profitability

The defining feature of 2007 was a significant increase in input costs. Nestlé's challenge was to digest those costs, continue to support the growth of its brands, invest in R&D and improve its EBIT.

The increase in cost of goods sold (COGS) outpaced the 9.2% growth in sales to grow 10.6% and by 60 basis points as a percentage of sales. This is a direct result of the significant inflation in agricultural raw materials. Distribution costs were also up, reflecting the higher oil price, as well as the faster than Group average growth of our more distribution-intensive businesses. We increased our Marketing spend by CHF 1.5 billion and our R&D spend by about CHF 150 million, but as a percentage of sales both fell, by 90 and 10 basis points respectively. A notable success here has been greater efficiency in trade spend. Our Administration costs also fell, by 20 basis points, reflecting efficiencies also in this area. The result was a 50 basis point improvement in the EBIT margin, even despite a 10 basis point negative impact from currency translations. The EBIT rose by CHF 1.7 billion from CHF 13.3 billion to CHF 15 billion, an increase of 12.9%.

This performance underlines the importance of the Nestlé Model, of giving equal importance to both growth and EBIT margin, because this EBIT margin improvement would not have been possible without the leverage that came from the strong organic growth achieved in 2007.

We had slightly higher financial expense in 2007 than 2006, these were partially offset by higher financial income. Taxes were 20 basis points lower in 2007, as a percentage of sales, and we had a 20 basis point higher contribution from our Associated companies. Our Net profit was CHF 10.6 billion or 9.9% of sales, up 15.8% or 60 basis points from CHF 9.2 billion or 9.3% of sales. Our total earnings per share increased by 16.4% to CHF 27.81 from CHF 23.90.

Zone and product group performance

There were good performances from Zone Europe with the EBIT margin improving by 30 basis points to 12%, and Zone Americas, with the margin up by 50 basis points to 16.3%. The EBIT margin in Zone Asia, Oceania and Africa slipped back by 30 basis points to 16.3%, still a good level. Nestlé Nutrition improved its margin to 17.2%, but Nestlé Waters slipped back by 50 basis points to 8.2%.

By product group, the performance was also generally good. The EBIT margin at Milk products and Ice cream improved by 90 basis points to 11.1%, Confectionery by 10 basis points to 11.6% and PetCare by 40 basis points to 15.5%, whilst Pharmaceutical products improved by 140 basis points to 33.3%. Powdered and liquid beverages was unchanged at 22.4%, while Prepared dishes and cooking aids slipped by 20 basis points to 13%.

Cash flow increases, and capital expenditure supports growth

The strong operating performance and improved profitability are reflected in the Group's cash flow performance. Operating cash flow increased by CHF 1.7 billion from CHF 11.7 billion to CHF 13.4 billion, whilst the free cash flow increased from CHF 7 billion to CHF 8.2 billion.

Capital expenditure increased quite significantly, as expected, to support the many innovations and growth opportunities that the Group has. Capital expenditure rose from CHF 4.2 billion to CHF 5 billion.

Return on invested capital further improves

The Group's return on invested capital increased by 100 basis points to 22.2%, excluding goodwill and by 50 basis points, including goodwill to 12.2%. The smaller increase, including goodwill, results from the acquisitions of Gerber and Novartis Medical Nutrition.

Financial position remains strong

The Group's net debt rose from CHF 11 billion at the end of 2006 to CHF 21.2 billion at the end of 2007. This reflects the cost of acquisitions, particularly Gerber and Novartis Medical Nutrition, as well as the impact of the Share Buy-Back Programme in which CHF 4.4 billion was invested in 2007.

Nestlé share outperforms

Having ended 2006 at CHF 433.–, the Nestlé share ended 2007 at CHF 520.–, a 20.1% increase. This compares to the SMI, which was down 3.4% and the Dow Jones Stoxx Food and Beverage, which was up 10.9%.

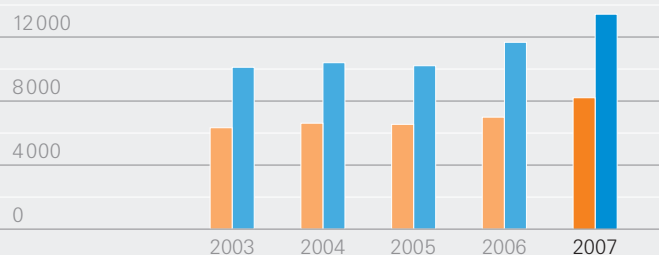
Dividend and total shareholder return

The Group is proposing to shareholders a dividend of CHF 12.20 per share, an increase of 17.3% over the CHF 10.40 paid in respect of 2006. The 2006 dividend, paid in 2007, contributed to a total return to shareholders of 23% in 2007.

Improving performance – Cash flow

In millions of CHF

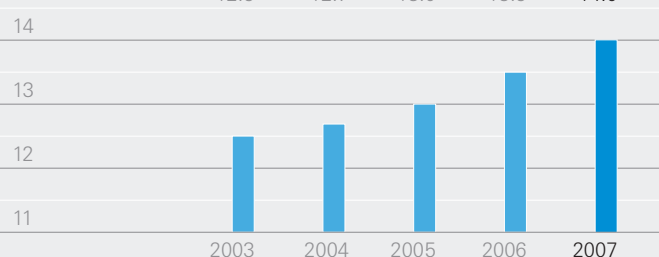
Free cash flow	6361	6640	6557	7018	8231
Operating cash flow	10125	10412	10205	11676	13439



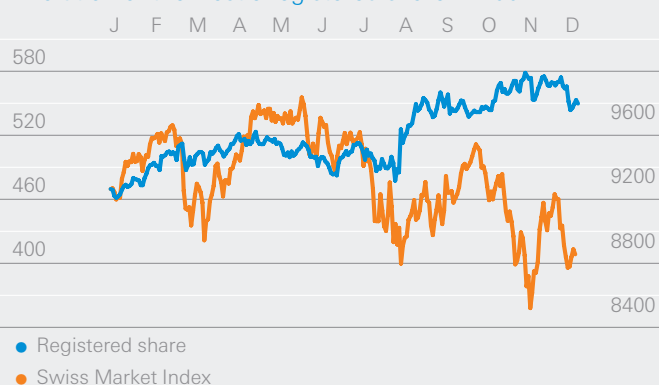
Improving performance – EBIT margin

In %

	12.5	12.7	13.0	13.5	14.0
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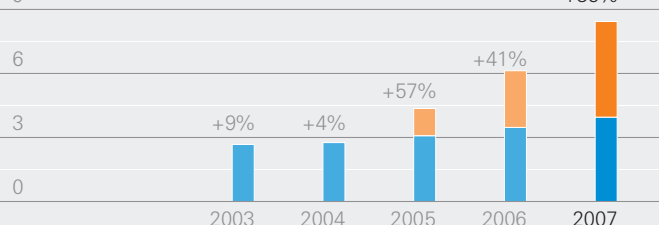
Evolution of the Nestlé registered share in 2007



Total cash returned to shareholders

In billions of CHF

Dividend	2.7	2.8	3.1	3.5	4.0
Share Buy-Back			1.3	2.7	4.4
					+35%



Management responsibilities

Food and Beverages

In millions of CHF	2005	2006 ^(a)	2007		RIG (%)	OG (%)
Zone Europe						
Western	22 726	23 241	24 476		86.0%	
Eastern and Central	2 873	3 411	3 988		14.0%	
Beverages	5 286	5 598	6 168		21.7%	
Milk products and Ice cream	3 295	3 436	3 556		12.5%	
Prepared dishes and cooking aids	8 631	8 858	9 254		32.5%	
Confectionery	5 025	5 174	5 593		19.6%	
PetCare	3 362	3 586	3 893		13.7%	
Total sales	25 599	26 652	28 464		100%	2.0 3.0
EBIT	3 082	3 109	3 412		12.0%	
Capital expenditure	797	812	932		3.3%	
Zone Americas						
USA and Canada	19 412	20 603	20 824		63.3%	
Latin America and Caribbean	9 544	10 684	12 093		36.7%	
Beverages	3 505	3 770	4 007		12.2%	
Milk products and Ice cream	8 787	9 470	10 159		30.9%	
Prepared dishes and cooking aids	5 916	6 395	6 534		19.8%	
Confectionery	4 117	4 420	4 678		14.2%	
PetCare	6 631	7 232	7 539		22.9%	
Total sales	28 956	31 287	32 917		100%	3.3 8.1
EBIT	4 364	4 946	5 359		16.3%	
Capital expenditure	908	1 125	1 371		4.2%	

^(a) Comparatives have been restated. See Consolidated Financial Statements.

In millions of CHF	2005	2006 ^(a)	2007			RIG (%)	OG (%)
Zone Asia, Oceania and Africa							
Oceania and Japan	4 676	4 624	4 571			27.6%	
Other Asian markets	5 626	6 466	6 983			42.2%	
Africa and Middle East	3 994	4 414	5 002			30.2%	
Beverages	5 168	5 436	5 685			34.3%	
Milk products and Ice cream	4 854	5 365	5 572			33.7%	
Prepared dishes and cooking aids	2 112	2 370	2 714			16.4%	
Confectionery	1 586	1 731	1 886			11.4%	
PetCare	576	602	699			4.2%	
Total sales	14 296	15 504	16 556			100%	4.4 8.8
EBIT	2 334	2 571	2 697			16.3%	
Capital expenditure	546	588	675			4.1%	
Nestlé Waters							
Europe	3 959	4 179	4 551			43.7%	
USA and Canada	4 222	4 805	5 118			49.2%	
Other regions	606	652	735			7.1%	
Total sales	8 787	9 636	10 404			100%	5.0 6.6
EBIT	709	834	851			8.2%	
Capital expenditure	601	923	1 043			10.0%	
Nestlé Nutrition							
Europe	2 063	2 314	2 807			33.3%	
Americas	1 800	2 236	3 897			46.2%	
Asia, Oceania and Africa	1 407	1 414	1 730			20.5%	
Total sales	5 270	5 964	8 434			100%	6.5 9.7
EBIT	932	1 009	1 447			17.2%	
Capital expenditure	134	194	271			3.2%	

Leading positions in dynamic categories

In millions of CHF	2005	2006 ^(a)	2007		RIG (%)	OG (%)
Beverages						
Soluble coffee	8 783	9 477	10 371		36.7%	
Nestlé Waters	8 787	9 636	10 404		36.8%	
Other	6 272	6 769	7 470		26.5%	
Total sales	23 842	25 882	28 245		100%	6.6 8.9
EBIT	4 131	4 475	4 854		17.2%	
Capital expenditure	752	1 105	1 409			
Milk products, Nutrition and Ice cream						
Milk products	9 881	10 820	11 742		40.3%	
Nestlé Nutrition	5 270	5 964	8 434		29.0%	
Ice cream	7 023	7 424	7 521		25.8%	
Other	1 101	1 227	1 409		4.9%	
Total sales	23 275	25 435	29 106		100%	2.8 8.3
EBIT	2 598	3 003	3 744		12.9%	
Capital expenditure	689	702	933			
Prepared dishes and cooking aids						
Frozen and chilled	9 656	10 307	10 705		57.9%	
Culinary and other	7 017	7 328	7 799		42.1%	
Total sales	16 673	17 635	18 504		100%	3.2 4.0
EBIT	2 176	2 323	2 414		13.0%	
Capital expenditure	261	272	305			
Confectionery						
Chocolate	8 640	9 103	9 754		79.6%	
Sugar confectionery	1 207	1 204	1 207		9.9%	
Biscuits	947	1 092	1 287		10.5%	
Total sales	10 794	11 399	12 248		100%	2.3 5.3
EBIT	1 257	1 309	1 426		11.6%	
Capital expenditure	194	258	316			

^(a) Comparatives have been restated. See Consolidated Financial Statements.

In millions of CHF	2005	2006 ^(a)	2007		RIG (%)	OG (%)
PetCare						
Total sales	10 569	11 420	12 130		100%	3.8
EBIT	1 532	1 730	1 876		15.5%	
Capital expenditure	274	345	402			
Nestlé FoodServices (Out-of-Home)*						
Total sales	6 132	6 913	7 237		100%	2.5
* Nestlé FoodServices' sales and results are also included in the relevant product groups.						
Alcon						
Sales	5 452	6 123	6 679		100%	10.6
EBIT	1 751	2 038	2 326		34.8%	10.7
Capital expenditure	195	267	264			
Health and beauty joint ventures						
Nestlé's share of sales	510	564	640			
Associated companies						
Nestlé's share of results	896	963	1 280			

Geographic data: people, factories and sales

Nestlé has 480 factories in 86 countries around the world. This is a reduction from 481 in 2006. During the year, 24 factories were acquired or opened and 24 were closed or divested. Furthermore, 1 factory was converted into a distribution centre.

Factories by geographic area

	2006	2007
Europe	180	184
Americas	162	166
Asia, Oceania and Africa	139	130
Total	481	480

Employees by geographic area

	2006	2007
Europe*	35.8%	34.5%
Americas	37.2%	38.3%
Asia, Oceania and Africa	27.0%	27.2%

* 8563 employees in Switzerland in 2007

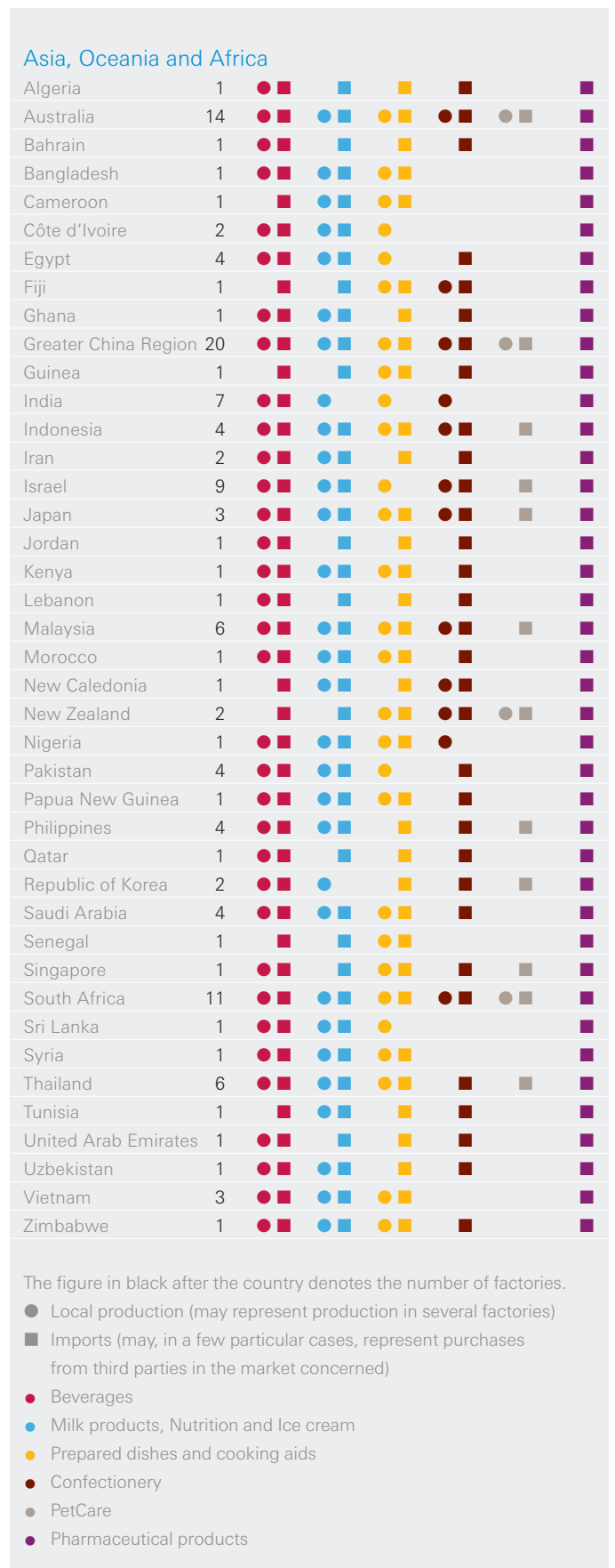
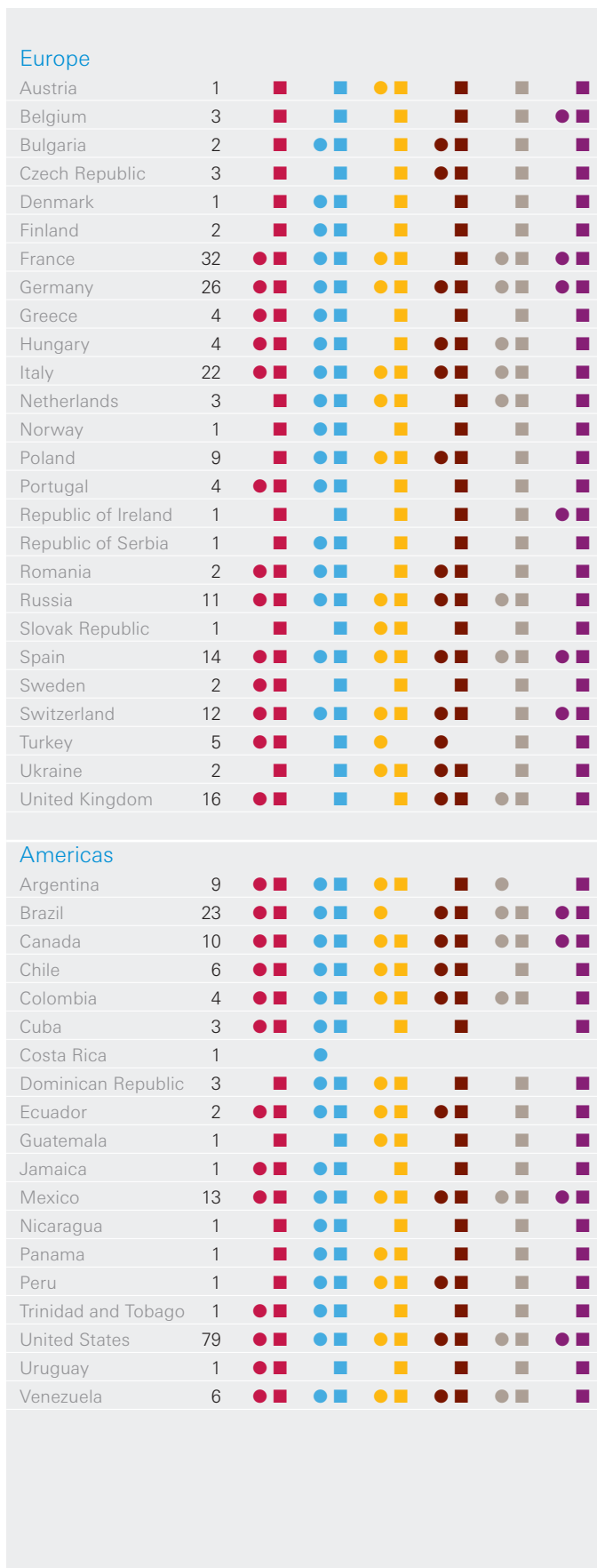
By activity

In thousands	2006	2007
Factories	137	144
Administration and sales	128	132
Total	265	276

2007 Sales

In millions of CHF	Differences 2007/2006		2007
	in CHF	in local currency	
By principal market			
United States	+7.1%	+12.0%	29 720
France	+7.7%	+3.1%	8 634
Germany	+3.1%	-1.3%	6 639
Brazil	+20.9%	+13.1%	5 294
United Kingdom	+6.5%	+2.9%	4 710
Italy	+8.8%	+4.1%	4 597
Mexico	+6.6%	+11.5%	3 484
Spain	+9.9%	+5.3%	3 013
Canada	+2.1%	-0.1%	2 713
Australia	+20.3%	+12.8%	2 660
Russia	+22.4%	+20.5%	2 070
Greater China Region	+10.0%	+9.4%	2 047
Japan	-15.4%	-10.7%	2 020
Philippines	+13.7%	+6.6%	1 758
Switzerland	+9.2%	+9.2%	1 666
Other markets	+13.7%	(a)	26 527
By continent			
Europe	+9.7%	(a)	41 011
United States + Canada	+6.7%	(a)	32 433
Latin America + Caribbean	+14.8%	(a)	14 331
Asia	+6.6%	(a)	13 673
Oceania	+18.7%	(a)	3 158
Africa	+8.1%	(a)	2 946
Total Group	+9.2%	(a)	107 552

(a) Not applicable



The Nestlé story – all the way to Nutrition, Health and Wellness

In 1866 the American brothers George and Charles Page founded the Anglo-Swiss Condensed Milk Co. in Cham (the Canton of Zug in Switzerland), Europe's first condensed milk factory, thereby satisfying the need for pure, long-life milk, especially in the cities. One year later in Vevey (the Canton of Vaud in Switzerland), Henri Nestlé from Frankfurt am Main (Germany) developed a baby formula that offered a safe and more nutritious alternative to other existing breast-milk substitutes for mothers who were unable to provide breast milk. At the same time, he could offer convalescent and elderly people an easily digestible, ready-made food, which became one of the cornerstones of what is now Nestlé Nutrition. After many years of tough competition, the two companies merged in 1905 to form the new company "Nestlé & Anglo-Swiss Condensed Milk Co."

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

The crisis years in the wake of the First World War prompted Nestlé to restructure. The company streamlined its organisational structure and also strengthened its organic growth by focusing on developing new products. The research department was completely reorganised in the 1930s to this end, allowing for the considerable expansion of the existing range of milk products and baby foods with *Nestogen* in 1930, *Sinlac* in 1932, *Nescao* in 1932, *Pelargon* in 1934 and *Milo Tonic* in 1934, and the first, initially somewhat tentative foray (together with Roche) into the pharmaceutical sector with *Nestrovit* in 1936, as well as a much more decisive one into the coffee business with *Nescafé* in 1938. The latter has since been marked by constant innovation and further expansion, most recently with the winning formula of *Nespresso* and the successful launch of *Nescafé Dolce Gusto* in Europe as well as *Nescafé Protect*, mainly in Asia.

The challenges faced once the Second World War was over included integrating Maggi, acquired in 1947. The founder, Julius Maggi, had been one of the first entrepreneurs, in 1884, to offer working-class families affordable, high-protein and quick-to-prepare soup products. Maggi took Nestlé into the culinary sector.

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

The 1970s saw Nestlé's foray into the hospitality and winemaking industries (Eurest and Cahills 1970, Beringer 1971, Stouffer 1973) – areas that were later resold – whilst the purchase of Ursina-Franck (1971) expanded the traditional business. Economic turbulence (oil crises, high inflation, strong currency fluctuations) had an impact on the growth of the Group, and for the first time significant moves were made to diversify outside the food industry. The purchase of a minority stake (now 30%) in the world's largest cosmetics company L'Oréal (1974) was followed by the acquisition of the ophthalmology firm Alcon Laboratories (1977), also world leader in its area, of which a proportion of around 25% was floated on the New York Stock Exchange in 2002.

Following a period of consolidation at the beginning of the 1980s in which the product portfolio was streamlined, unprofitable areas of the business sold and the financial basis of the Group improved, Nestlé's task was to develop a greater geographical presence and to be the No. 1 in all areas of activity. In order to strengthen its market share in the USA, in 1985 Nestlé acquired Carnation, which was active in the dairy industry, pet food and the catering trade. In order to improve its position in chocolate and confectionery, as well as in the culinary sector, Nestlé bought Rowntree (*KitKat*, *Smarties*, *After Eight*) and Buitoni-Perugina in 1988. The company created the conditions for further organic growth by expanding its research capability, notably by founding the Nestlé Research Center in Lausanne in 1987, the world's leading private research institution in the food and nutrition sectors.

Following the fall of the Berlin Wall and the opening of previously inaccessible markets, Nestlé's task in the 1990s was to gain a stronger foothold in Eastern Europe and Asia. In addition to expanding geographically, Nestlé focused specifically on strengthening the three product areas promising the best possible opportunities for growth: water (Perrier 1992, Sanpellegrino 1998, Hennie 2007),

Henri Nestlé, 1814-1890



pet food (Alpo 1994, Spillers 1998, Purina 2001) and ice cream (Finitalgel 1993, Schöller 2002, Mövenpick and Dreyer's Grand Ice Cream 2003, Valio 2004, Delta Ice Cream 2005). In 2000, the launch of the GLOBE initiative (Global Business Excellence) with its group-wide, standardised best practices, data standards and information systems created the organisational basis for Nestlé's focused, strategic transformation into a nutrition, health and wellness company. Nestlé reinforced its performance nutrition business with its acquisition of PowerBar in 2000 and Sporting Sportlernahrung GmbH in 2002. Its subsequent purchases of Musashi Pty in 2005, Jenny Craig in 2006, and Novartis Medical Nutrition and Gerber in 2007, also from Novartis, made Nestlé the world's leading nutrition company, boasting annualised sales of about CHF 11 billion in this sector.

During this period, Nestlé also introduced new organisational structures. Following Nestlé Waters, which has been run as of 1993 as a globally managed division, in 2005, the Nestlé Nutrition division was made an independent entity within the Group with global responsibility for the areas of infant nutrition, healthcare nutrition, weight management and performance nutrition. The existing strategic business unit for out-of-home catering (FoodServices) is currently being transformed into Nestlé Professional, acquiring full operational responsibility from 2008 and full financial responsibility from 2009. These major changes serve to consolidate the considerable progress already made and should facilitate further growth.

More information about Nestlé's history can be found at www.nestle.com and in the book by Albert Pfiffner and Hans-Jörg Renk: "Transformational Challenge. Nestlé 1990-2005", NZZ-Verlag, 2007.

1866	Anglo-Swiss Condensed Milk Co.
1867	Henri Nestlé's Infant cereal
1905	Nestlé & Anglo-Swiss Condensed Milk Co. (New name after merger)
1929	Peter, Cailler, Kohler, Chocolats Suisses S.A.
1938	Nescafé launch
1947	Nestlé Alimentana S.A. (New name after merger with Maggi)
1960	Crosse & Blackwell
1969	Vittel
1971	Ursina-Franck
1973	Stouffer
1974	L'Oréal (Minority interest)
1977	Nestlé S.A. (new name) Alcon
1985	Carnation, Friskies
1986	Herta
1988	Buitoni-Perugina, Rowntree
1992	Perrier
1993	Finitalgel
1994	Alpo
1998	Sanpellegrino, Spillers Petfoods
2000	PowerBar
2001	Ralston Purina
2002	Schöller, Chef America
2003	Mövenpick (Ice cream business) Dreyer's Grand Ice Cream, Powwow
2004	Valio (Ice cream business)
2005	Wagner, Protéika, Musashi (Nutrition businesses)
2006	Jenny Craig, Uncle Tobys
2007	Novartis Medical Nutrition, Gerber, Henniez

Shareholder information

Stock exchange listings

At 31 December 2007, Nestlé S.A. shares were listed on the SWX Swiss Exchange (ISIN code: CH0012056047). American Depositary Receipts (ADRs) (ISIN code: US6410694060) representing Nestlé S.A. shares are offered in the USA by Citibank.

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Further information

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The Nestlé Management Report, the Financial Statements and the Corporate Governance Report are available on-line as a PDF file in English, French and German. The Consolidated income statement, balance sheet and cash flow statement are also available as Excel files.

As to information concerning the share register (registrations, transfers, address changes, dividends, etc.), please contact

Nestlé S.A. (Share Transfer Office)
Zugerstrasse 8, CH-6330 Cham (Switzerland)
tel. +41 (0)41 785 20 20
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.

Nestlé URL: www.nestle.com

Important dates

10 April 2008
141st Annual General Meeting, "Palais de Beaulieu",
Lausanne

16 April 2008
Payment of the dividend

21 April 2008
Announcement of first quarter 2008 sales figures

7 August 2008
Publication of the Half-yearly Report January/June 2008

23 October 2008
Announcement of nine months 2008 sales figures;
Autumn press conference

19 February 2009
2008 Full Year Results; press conference

23 April 2009
142nd Annual General Meeting, "Palais de Beaulieu",
Lausanne

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

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



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