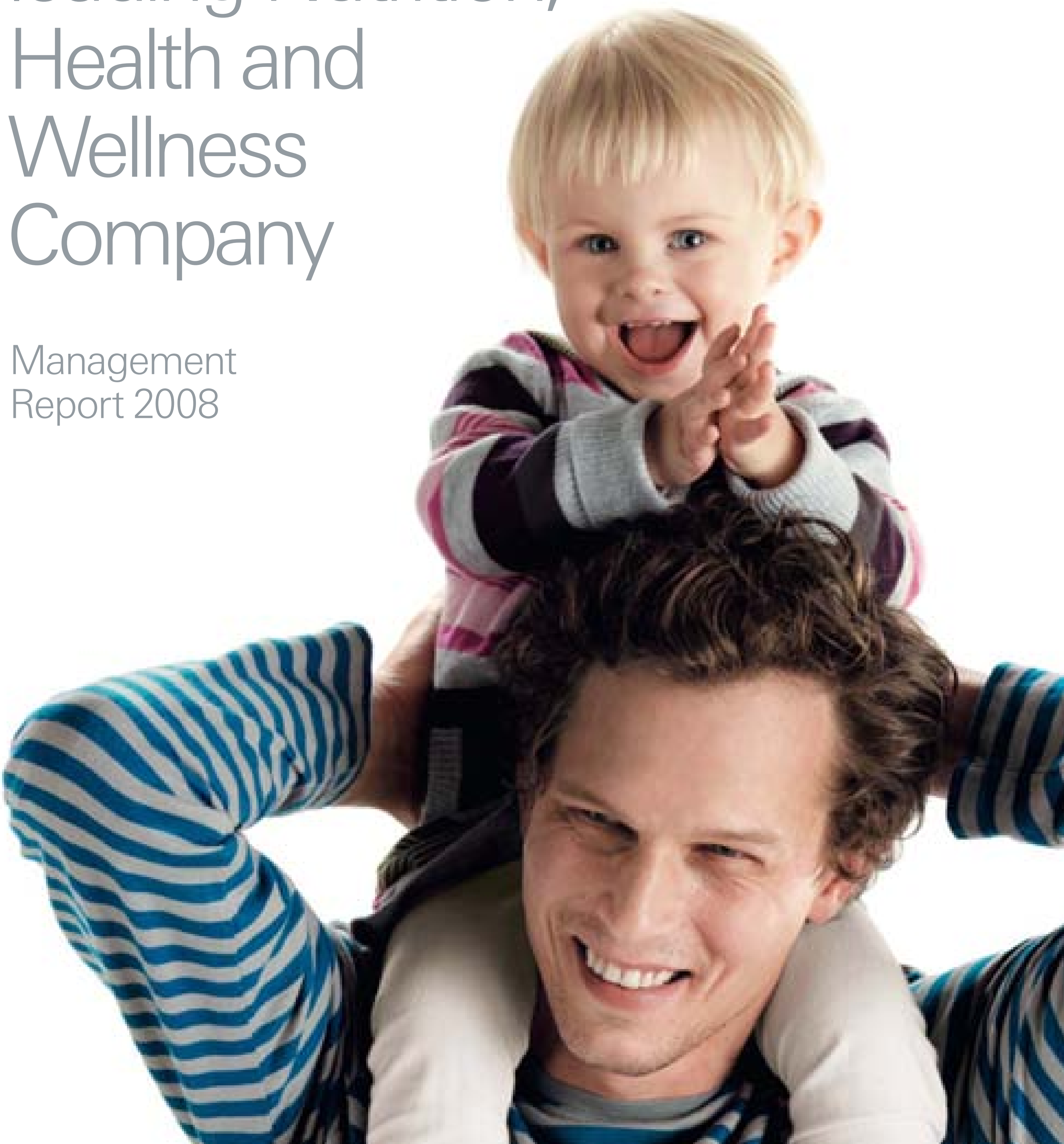
The World's leading Nutrition, Health and Wellness Company

Nestlé

Good Food, Good Life

Management Report 2008



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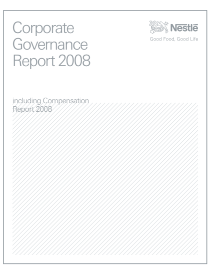
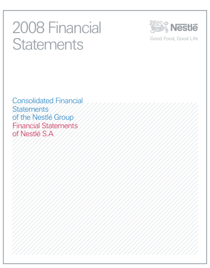
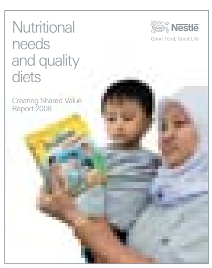






The brands in italics are registered trademarks of the Nestlé Group

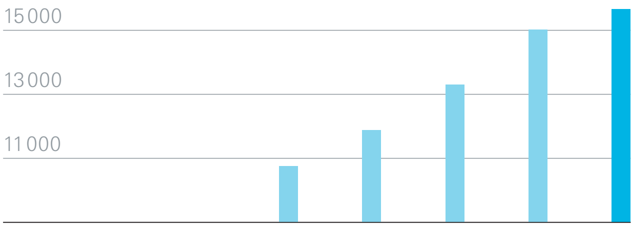
Key figures (consolidated)

In millions of CHF (except per share data)		2007	2008
Sales		107552	109908
EBIT (Group) Earnings Before Interest, Taxes, restructuring and impairments		15024	15676
as % of sales		14.0%	14.3%
EBIT (Food and Beverages) Earnings Before Interest, Taxes, restructuring and impairments		12589	13103
as % of sales (Food and Beverages)		12.6%	12.8%
Profit for the period attributable to shareholders of the parent Net profit		10649	18039
as % of sales		9.9%	16.4%
as % of average equity attributable to shareholders of the parent		20.6%	34.9%
Capital expenditure		4971	4869
as % of sales		4.6%	4.4%
Equity attributable to shareholders of the parent before proposed appropriation of profit of Nestlé S.A.		52627	50774
Market capitalisation, end December		195661	150409
Operating cash flow		13439	10763
Free cash flow [a]		8231	5033
Net financial debt		21174	14596
Ratio of net financial debt to equity (gearing)		40.2%	28.7%
Per share [b]			
Total earnings per share	CHF	2.78	4.87
Underlying [c]	CHF	2.80	2.82
Equity attributable to shareholders of the parent before proposed appropriation of profit of Nestlé S.A.	CHF	13.75	13.71
Dividend as proposed by the Board of Directors of Nestlé S.A.	CHF	1.22	1.40

[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] 2007 comparatives have been restated following 1-for-10 share split.
[c] 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

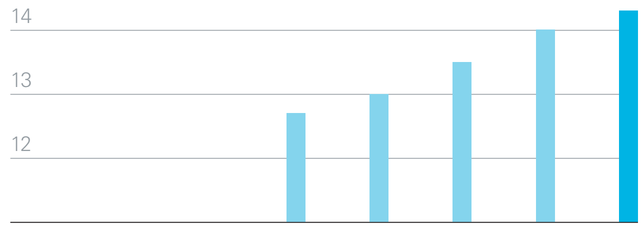
In millions of CHF



	2004	2005	2006	2007	2008
	10760	11876	13302	15024	15676

EBIT margin

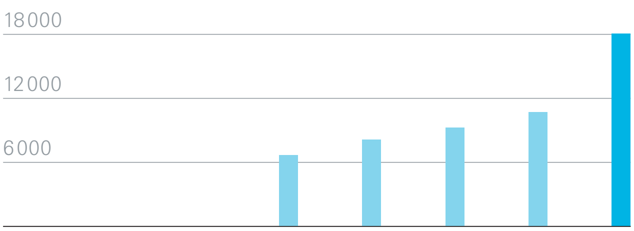
In %



	2004	2005	2006	2007	2008
	12.7	13.0	13.5	14.0	14.3

Net profit*

In millions of CHF

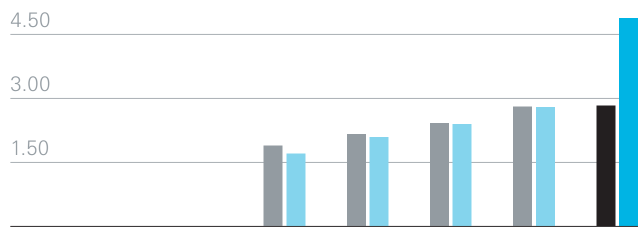


	2004	2005	2006	2007	2008
	6621	8081	9197	10649	18039

* Profit for the period attributable to shareholders of the parent

Earnings per share [a]

In CHF

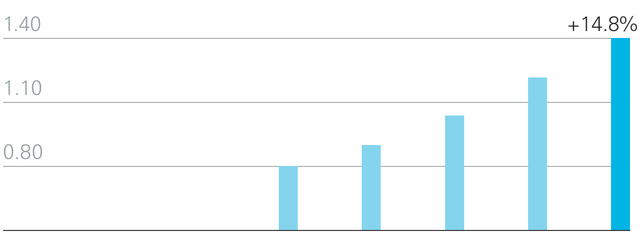


	2004	2005	2006	2007	2008
Underlying	1.88	2.15	2.41	2.80	2.82
Total	1.70	2.08	2.39	2.78	4.87

[a] restated following 1-for-10 share split

Dividend per share [a]

In CHF

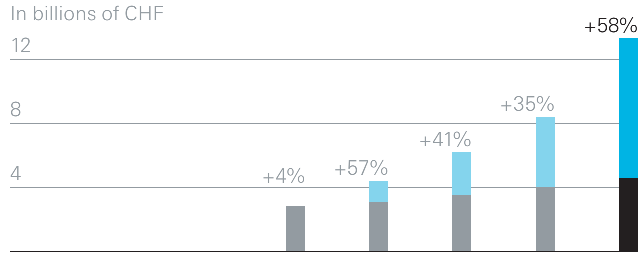


	2004	2005	2006	2007	2008
	0.80	0.90	1.04	1.22	1.40

[a] restated following 1-for-10 share split

Total cash returned to shareholders

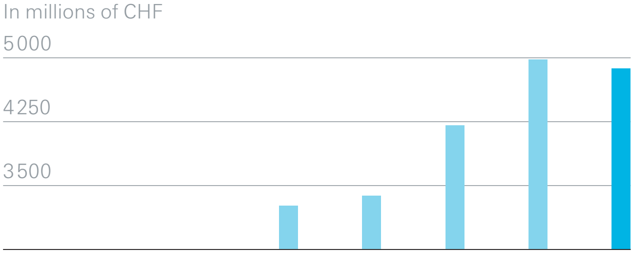
In billions of CHF



	2004	2005	2006	2007	2008
Share Buy-Back		1.3	2.7	4.4	8.7
Dividend	2.8	3.1	3.5	4.0	4.6

Capital expenditure

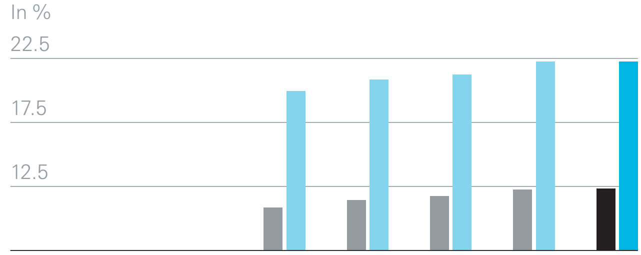
In millions of CHF



	2004	2005	2006	2007	2008
	3260	3375	4200	4971	4869

Return on invested capital (based on segment reporting)

In %



	2004	2005	2006	2007	2008
Including goodwill	10.8	11.4	11.7	12.2	12.3
Excluding goodwill	19.9	20.8	21.2	22.2	22.2

Highlights 2008

Strong operating performance – Nestlé Model delivered

- Organic growth of 8.3%; constant currencies growth of 10%
- EBIT increases 4.3% to CHF 15.7 billion
- EBIT margin up 30 basis points to 14.3%; +50 basis points, constant currencies
- Underlying net profit increases 0.7%; 10.9% constant currencies
- Return on invested capital of 22.2% excluding goodwill; 12.3% including goodwill

Currency volatility impacts transparency of operating performance

- Currency translation impacts reported sales, EBIT, cash flow and working capital performances
- Strength of reported performance demonstrates Nestlé's inherent qualities
- Six out of seven primary reporting segments combine strong organic growth with an improved EBIT margin

Strong financial position

- Net debt fell by CHF 6.6 billion to CHF 14.6 billion
- Predictable cash flows and high credit quality – well positioned for current environment

Significant commitment to shareholder value creation

- CHF 8.7 billion invested in shares bought for cancellation in 2008
- Proposed dividend increase of 14.8% to CHF 1.40 per share

2009 – Volatile business environment

- Nestlé likely to be one of the fastest growing companies in its industry
- Committed to achieving organic growth at least approaching 5%, as well as a further improvement of EBIT margin in constant currencies

Letter to our shareholders

Fellow shareholders,

2008 was a historic year that dramatically changed the world and the business environment. Beginning in the financial sector, and then spreading quickly to the "real" economy, higher levels of economic uncertainty combined with lower levels of business confidence have led the major economies simultaneously into recession. Stock markets have fallen sharply and consumers are increasingly wary to spend and unwilling to take risks that just a short time ago would have been considered quite acceptable and reasonable. Without any doubt, the present crisis is unprecedented in scope and it is hard to foresee what a post-crisis world will look like. 2009 will shape the new world, which, we hope, will be more stable and sustainable and ultimately more just and prosperous for everyone.

Central to this crisis is the notion of trust. Some once highly reputable companies have collapsed and others now depend for their survival on the largesse of the taxpayer. Long-term, this is an untenable situation in a globalised market economy.

Without trust, free market economic growth and development collapse. In times of economic turbulence, more than at any other times, an unwavering long-term orientation, clear strategies and firm implementation combined with strong values are essential for a company to successfully weather the storm. Indeed, we believe that Nestlé is better-placed than most, not only to ride the waves of this crisis with confidence, but also to benefit from what will be a period of rapid change and evolution.

In this global context, your Company has had its specific challenges. In 2007, for example, we experienced dramatic rises in the cost of many of our raw materials as a combination of strong demand, poor harvests and speculation drove prices to record levels. By 2008 we saw some of those same prices falling sharply as supply rose and demand fell, and the financial crisis reduced speculative trading. Nestlé was successful in managing its way through this period of cost pressure, reporting strong results in 2007.

Despite the very different challenges in 2008, we have once again not only achieved, but even outperformed the Nestlé Model, with organic growth at 8.3%, combined with an improvement in the EBIT margin, of 30 basis points to 14.3%. In constant currencies, the EBIT margin increased by 50 basis points. Our return on invested capital was 12.3%, including goodwill or 22.2% excluding goodwill. This performance reflects the benefit of having identified the challenges we faced early, of adapting our plans and of being agile and fast-moving in the many different countries where we are present.

In 2008 total sales increased by 2.2%, or CHF 2.4 billion, to CHF 109.9 billion. The EBIT increased by 4.3%, or CHF 0.7 billion, to CHF 15.7 billion. These numbers reflect the significant negative impact of currencies due to the strength of the Swiss Franc, our reporting currency. Our net profit increased by 69.4%, from CHF 10.6 billion, to CHF 18 billion. Our earnings per share increased 75.2% to CHF 4.87 per share. The net profit and earnings per share reflect the profit on disposal of 24.8% of Alcon. Our underlying earnings per share increased 10.9% in constant currency.

Some important management changes took place in 2008. After fifteen years of service Professor Peter Böckli retired from our Board of Directors. We thank Professor Böckli for his excellent contribution during his tenure on the Board. At the 2008 Annual General Meeting Dr Beat Hess was elected to the Nestlé Board of Directors. A Swiss national, Dr Hess is Group Legal Director of Royal Dutch Shell plc, and a member of the Shell Group Executive Committee. The roles of Chief Executive and Chairman were split, with Paul Bulcke appointed Chief Executive, and Peter Brabeck-Letmathe remaining Chairman. During 2008 Executive Board members Lars Olofsson and Paul Polman both left the Company. Luis Cantarell replaced Mr Polman as Head of Zone Americas and Laurent Freixe, who joined Nestlé in 1986 and was most recently Market Head for the Iberian Region, was appointed successor to Mr Cantarell as Head of Zone Europe.

The management team and all our people have been, and remain, wholly focused on managing the business and winning in the market-place, on delivering our strategic plan and meeting our financial objectives.

At Nestlé we have 283 000 people sharing the same vision and aligned behind a clear strategy which is expressed in a simple roadmap. Our ambition is for Nestlé to be recognised as the world's trusted leader in nutrition, health and wellness, and to be the reference for financial performance in our industry. We have again reported strong results in 2008 and we continue to drive for a higher level of performance, even in difficult circumstances.

The roadmap sets out the strategic and performance framework that will allow us to achieve this. It combines four competitive advantages with four growth drivers and four strategic pillars.

Our competitive advantages are our unmatched product and brand portfolio; our industry-leading R&D capability; our unrivalled geographic spread; and our people, values and culture.

- We have a unique product and brand portfolio that is an important element of our consumers' daily lives, throughout all life stages. This portfolio, which includes a host of billionaire brands, enables us to leverage our investments fast and effectively.
- We have industry-leading resources and assets through our extensive R&D network. This enables us to translate our consumer insights swiftly into successful commercialised products, leveraging the rapid progress in science and technology.
- Our comprehensive global presence paired with deep local consumer understanding give us a unique opportunity to benefit from the economic and demographic trends for growth in both developed and developing countries.
- Our people, our culture and our values remain our single most important competitive advantage. Long-term thinking, integrity, mutual respect, pragmatism, openness to diversity and a passion for quality and delighting consumers remain at the core of our company culture and of our daily strivings.

Our four growth drivers are "nutrition, health and wellness"; emerging markets and popularly positioned products (PPP); out-of-home market; and premiumisation.

- Our nutrition, health and wellness strategy has two facets. The first is our drive to achieve taste and nutritional superiority for all our products and brands relative to their competitor products. This we do through a proprietary process called 60/40+. The second focuses on consumers with defined nutritional needs who purchase our products for their specific nutritional benefits; these make up the portfolio of Nestlé Nutrition, a globally-managed division and the world leader with sales in 2008 of CHF 10.4 billion.
- Popularly positioned products are designed to be affordable on a daily basis for emerging consumers entering into the cash economy and buying branded goods. PPP take us to a new segment of the market, one which combines fast growth with profitable opportunities. Our total business in emerging markets achieved organic growth of 15.4% in 2008 and represents about CHF 35 billion in sales.
- The long-term growth trends for out-of-home food consumption exceed those of in-home-food; we are the leader in branded food and beverages in this fragmented industry and have created Nestlé Professional, with sales of CHF 6.2 billion, to enhance our presence in this market.

Our 2008 performance reflects the benefit of having identified the challenges we faced early, of adapting our plans and of being agile and fast-moving in the many different countries where we are present… our people have been, and remain, wholly focused on managing the business and winning in the market-place, on delivering our strategic plan and meeting our financial objectives… sharing the same vision and aligned behind a clear strategy.

Our strategy and our alignment on the 4x4x4 roadmap position us as winners, regardless of the environment. They do this by giving the Group excellent defensive characteristics, but also by creating a platform for profitable growth that has proven itself to be one of the most vigorous in the industry.

- In spite of the current economic environment, more and more consumers have the ability to buy higher value, premium and luxury products. Nestlé is already present in some categories, with *S.Pellegrino* and *Nespresso,* for example, and we have significant growth potential across many other categories.

Four strategic pillars guide our actions on a daily basis. They are innovation and renovation; operational efficiency; product ubiquity; and consumer communication.

- Our strong pipeline of innovation combined with renovation across our product portfolio has enabled us to continue to excite consumers about their food purchases as well as to differentiate our products from our competitors', whether branded or private label.
- Our Group-wide focus on operational efficiency, enabled by GLOBE, is ensuring competitiveness from a cost standpoint, combined with product quality and improving customer service levels.
- Our strategy of product ubiquity, "whenever, wherever, however", has given us a strong presence in a wide variety of channels, from traditional retail to out-of-home, from impulse to hard discount, from the internet to local markets. The result is that we have an extensive and diversified distribution network and a wide range of customers, with our top ten international retailers representing about 20% of our sales.
- Consumer communication is key to building our brands and our nutrition, health and wellness credentials. In addition to stressing socially responsible and environmentally sustainable facets, our brand communication is strongly reinforcing its focus on 60/40+ advantages.

We believe that our strategy and our alignment on the 4x4x4 roadmap position us as winners, regardless of the environment. They do this by giving the Group excellent defensive characteristics, but also by creating a platform for profitable growth that has proven itself to be one of the most vigorous in the industry. Furthermore, we believe that a tough economic environment is the ideal time to enhance these characteristics. We will also invest in our future through our commitment to our people, to the countries where we operate, through capital expenditure, through our products, brands and consumer focus, through our marketing expenditure, and through R&D and innovation.

These investments further reinforce our fundamental commitment to the principles of Creating Shared Value (CSV), which is the Nestlé way of doing business. CSV is based on the firm conviction that only by creating value for society as a whole can we create long-term value for our shareholders.

Nestlé's portfolio is rich with opportunity, which is one reason why there were no significant acquisitions in 2008. We invested CHF 4.9 billion in capital expenditure, whilst our expenditure on research and development reached CHF 2 billion, and we further increased our brand marketing support. We also accelerated the pace of our share buy-back, buying 183 609 000 shares for CHF 8.7 billion during the course of 2008. Our ability to invest so significantly in our business, despite the credit crunch, reflects the strength both of our business model and of our "industry gold standard" balance sheet, as well as confidence in our ability to continue to drive organic profitable growth. This confidence is also reflected in the proposed 14.8% increase in the dividend from CHF 1.22 to CHF 1.40 per share.

The on-going CHF 25 billion share buy-back and increased dividend reflect our commitment to create value for shareholders, even in a period of depressed financial markets. Another driver of shareholder value creation is Corporate Governance, so we are pleased to report that the modernised Articles of Association proposed to shareholders in 2008 were overwhelmingly accepted.

The global business environment in 2008 was affected by a number of unforeseen events, especially in the latter part of the year. Economies around the world have significantly weakened over the last few months and it is likely that developments could further impact consumer demand. However, Nestlé believes that it will once again be one of its industry's fastest growing companies this year, in line with the long-standing Nestlé model. For 2009, Nestlé is committed to achieving organic growth at least approaching 5%, as well as a further improvement of EBIT margin in constant currencies.

We started this letter by discussing the tough business environment, so it is appropriate to end by thanking all our people, without whom we would not have been able to achieve what we did in 2008. As we said, we believe that our people, their qualities and values, are at the heart of what makes Nestlé the company it is. We thank them for their energy, enthusiasm and commitment that have contributed so much to our performance in 2008.

Peter Brabeck-Letmathe
Chairman of the Board

Paul Bulcke
Chief Executive Officer

Board of Directors of Nestlé S.A.

at 31 December 2008

Helmut O. Maucher
Honorary Chairman

Board of Directors of Nestlé S.A.

	Term expires[1]
Peter Brabeck-Letmathe [2, 4] Chairman	2012
Paul Bulcke [2] Chief Executive Officer	2011
Andreas Koopmann [2, 3] 1st Vice Chairman • CEO, Bobst Group	2011
Rolf Hänggi [2, 4, 5] 2nd Vice Chairman • Chairman, Rüd, Blass & Cie AG, Bankers	2011
Edward George (Lord George) [2, 3] • Former Governor of the Bank of England	2011
Kaspar Villiger [4, 5] • Former Swiss government minister	2009
Daniel Borel [3] • Co-founder and Board member, Logitech International S.A.	2009
Jean-Pierre Meyers [5] • Vice Chairman, L'Oréal S.A.	2011
André Kudelski [5] • Chairman and CEO, Kudelski Group	2011
Carolina Müller-Möhl • President, Müller-Möhl Group	2009
Günter Blobel • Professor, The Rockefeller University	2009
Jean-René Fourtou [3] • Chairman of the Supervisory Board, Vivendi	2011
Steven G. Hoch [4] • Founder and Senior Partner, Highmount Capital	2011
Naïna Lal Kidwai • CEO, HSBC India and Country Head of HSBC Group Companies in India	2011
Beat Hess • Group Legal Director, Royal Dutch Shell plc	2011

David P. Frick
Secretary to the Board

KPMG Klynveld Peat Marwick Goerdeler SA Zurich Independent auditors	2009

1 On the date of the Annual General Meeting
2 Chairman's and Corporate Governance Committee
3 Compensation Committee
4 Nomination Committee
5 Audit Committee

For further information on the Board of Directors please refer to the Corporate Governance Report 2008, enclosed


Peter Brabeck-Letmathe


Paul Bulcke


Andreas Koopmann


Rolf Hänggi


Edward George (Lord George)


Kaspar Villiger


Daniel Borel


Jean-Pierre Meyers


André Kudelski


Carolina Müller-Möhl


Günter Blobel


Jean-René Fourtou


Steven G. Hoch


Naïna Lal Kidwai


Beat Hess

Executive Board of Nestlé S.A.

at 31 December 2008

Executive Board
(from left to right):
José Lopez
Luis Cantarell
James Singh
Laurent Freixe
Frits van Dijk
Paul Bulcke
John J. Harris
Francisco Castañer
David P. Frick
Werner Bauer
Marc Caira
Richard T. Laube

Paul Bulcke
Chief Executive Officer

Members Executive Board

Francisco Castañer
EVP, Pharmaceutical and Cosmetic Products,
Liaison with L'Oréal, Human Resources
Werner Bauer
EVP, Innovation, Technology, Research and Development
ad interim:
Strategic Business Units, Marketing and Sales
Frits van Dijk
EVP, Asia, Oceania, Africa, Middle East
Luis Cantarell
EVP, United States of America, Canada,
Latin America, Caribbean
José Lopez
EVP, Operations, GLOBE
John J. Harris
EVP, Nestlé Waters
Richard T. Laube
EVP, Nestlé Nutrition
James Singh
EVP, Finance and Control, Global Nestlé Business Services,
Legal, Intellectual Property, Tax
Laurent Freixe
EVP, Europe
Marc Caira
Deputy EVP, Nestlé Professional
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 2008, enclosed

Corporate Governance and Compliance

Corporate Governance

Nestlé pursues a strategy of best practice of corporate governance. In 2008, the Annual General Meeting approved a complete revision of the Company's Articles of Association. 99% of the votes represented at the meeting were cast in favour of the revision. This brought to a close a process that started with a shareholder survey in 2005 and the decision 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, reflect the changed composition of our shareholders as shown on page 11 and consider developments in the legislative and corporate governance environment. Above all, they are in the best interests of the Company to aim for long-term, sustainable value creation, a statement which was expressly added to the new Articles.

Also in 2008, the Company revised its governance structure and appointed Mr. Paul Bulcke, previously Executive Vice President responsible for Zone Americas, as Chief Executive Officer. With the shareholders' approval he was appointed by the Board as "Administrateur délégué". Mr. Brabeck-Letmathe remains Chairman of the Board.

In accordance with our strategy of continuous improvement of the information provided to shareholders, Nestlé in 2008 produced for the first time a special annual compensation report describing the Company's compensation principles and the compensation granted to the Board and the Executive Board. The report was approved by the shareholders as part of the approval of the annual financial statements, in line with the Swiss Code of Best Practice for Corporate Governance. The Chairman of the Board commented on the report and answered pertinent questions prior to the vote, allowing shareholders to voice their opinion about the compensation granted.

Our governance strategy includes a continued engagement with our investors and also adaptation of our governance documentation in line with the evolving legal and governance environment. We also take an active role in shaping these developments in particular in our home market in Switzerland.

Compliance

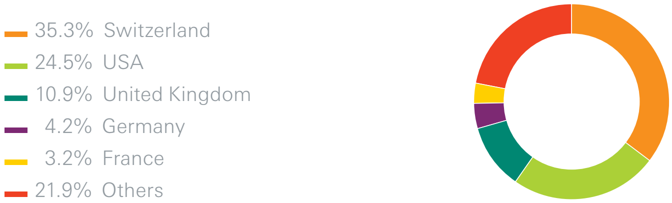
We believe complying with laws and internal regulations protects the Company's reputation and provides the basis for the creation of sustainable shared value. We pursue a zero tolerance strategy, yet a principles-based approach to Compliance. The Company has adopted a cross-functional set up of Compliance 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. Many other policies and standards complement this system.

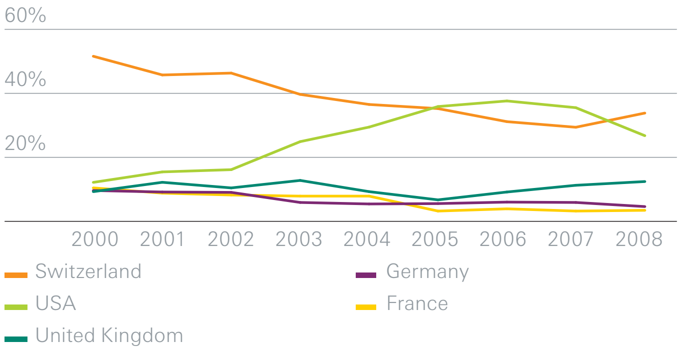
The roll-out of the new Code of Business Conduct marked a major milestone of the Group's Corporate Compliance Programme in 2008, which also included the adoption of the Group's Supplier Code and the implementation of various focussed compliance initiatives, including the launch of a corporate compliance e-learning tool, an antitrust learning tool, our anti-fraud programme, as well as a new self-assessment of the Group's internal control system and an annual risk assessment, both as required by the new Swiss company law. The Group Compliance function selects such initiatives on an ongoing basis to support the efforts at market level. It sets the tone, provides a framework and know-how and supports the coordination and functional leadership by the various relevant functions, all as needed to create trust and to protect our reputation in a changed legal and regulatory environment.

CARE (Compliance Assessment of Human Resources, Safety & Health, Environment and Business Integrity) is Nestlé's audit programme to verify that our operations comply with the Corporate Business Principles. In 2008 a new module was added covering business integrity.

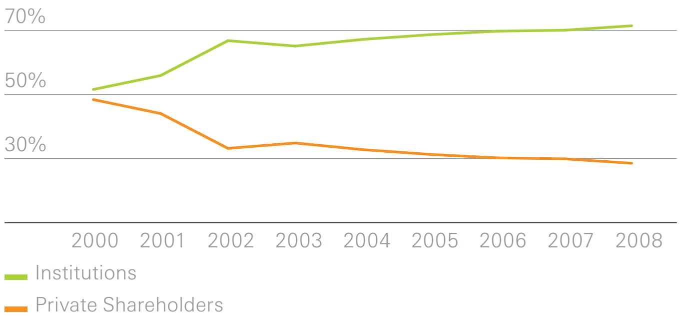
Shareholders by geography*



Distribution of Share Capital by geography*



Share Capital by Investor Type*



* Percentage devised from total number of registered shares. Registered shares represent 61.5% of the total share capital. Statistics are rounded, as at 31.12.2008

Creating Shared Value

Creating Shared Value is a principle for doing business founded on the conviction that shareholder interests and the interests of society must be aligned in order to achieve long-term business success. Creating Shared Value which is integrally linked to our core business strategies and operations means going beyond sustainability, to create value for shareholders and society.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Nestlé conducts its business according to the Nestlé Corporate Business Principles and the Nestlé Code of Business Conduct, as well as complying with external legislation. We also voluntarily support the ten principles of the UN Global Compact (page 21) and international certification standards such as ISO 14001 for environmental management, and OHSAS 18001 for occupational safety. By operating in line with the goals of sustainable development, we aim to ensure that our actions today do not compromise the needs of tomorrow. But we believe our role can go further, in generating value for society at the same time as we generate value for our shareholders.

Nestlé's compliance with external and internal laws and principles, and our social and environmental commitments, are the basis for Creating Shared Value for stakeholders at each stage of the value chain, including:

Shareholders
Nestlé's financial performance is detailed throughout this report.

Employees
Nestlé employs 283 000 people worldwide, of whom approximately half are in developing countries. In 2008, we paid salaries amounting to CHF 16 billion.

Communities
Nestlé's total capital expenditure is CHF 4.9 billion, of which CHF 1.7 billion is in developing countries. In China, for example, Nestlé's investment began two decades ago. Since then the Company has opened 19 factories in 18 different sites across the country and now employs around 13 000 people. In 2008 we opened a new R&D centre in Beijing focused on food safety and quality with an investment of over CHF 11 million. This brings the company's total R&D investment in China to CHF 21 million and the number of Nestlé Research employees in China to over one hundred.

Nestlé also funded social and environmental projects worth CHF 50.7 million globally this year, and we loaned CHF 30 million in microcredit to farmers worldwide.

Suppliers
Nestlé does business with around 165 000 suppliers, and purchased CHF 22.5 billion of raw materials in 2008.

Governments
We paid CHF 3.2 billion in income taxes.

Creating Shared Value
Three Areas of Focus
While we create shared value in many ways, there are three areas of focus which distinguish Nestlé from other companies:

- Nutrition: Nestlé is the world's foremost Nutrition, Health and Wellness company, and the primary value created for consumers is better nutrition. The companion report, *Creating Shared Value: Nutritional needs and quality diets,* describes the extensive work which Nestlé does in improving nutrition globally;
- Water: Water is key to ensuring the future of our business, and for global food security. It is a key focus for our operations;
- Rural development: Nestlé works directly with almost 600 000 farmers to increase their productivity, thereby raising their standard of living and our access to quality raw materials. Most of our factories are in rural areas, which serve as platforms for economic development in the surrounding region.

Nestlé seeks ongoing feedback on its Creating Shared Value reporting and we make improvements in suggested areas. For example, in this section we provide more detail on our main sustainability challenges and describe our risk management process more fully. Furthermore, we continue to improve our performance monitoring by refining and developing key indicators. Last but not least, we have provided more examples to demonstrate how we comply with all relevant industry regulations and standards. We have further to go with our reporting, particularly in quantifying the societal outcomes of our Creating Shared Value initiatives, and this will form part of our future plans.

Highlights
- We made significant improvement in workplace safety performance across the Company (page 20);
- Our supply chain initiatives were strengthened with the launch of our new Supplier Code (page 16);
- We continued to expand programmes that benefit farmers and their families (page 16);
- We met our target for total water withdrawal by tonne of product (page 18).

Challenges
- We fell short of our target for energy consumption per tonne of product, due to higher volumes in more energy intensive categories (page 18);
- We continue to communicate the proven consumer and health benefits of bottled water while also making progress on our environmental commitments (pages 20 and 44).

Creating Shared Value Highlights

Reducing our environmental footprint and reducing operational costs

68%
Increase in production volume since 1999

20%
Reduction of packaging material for bottled water in the five years to end 2008

58%
Water saved since 1999 per tonne of product

48%
Reduction of greenhouse gas emissions per tonne of product since 1999

Improving workers' earning capacity and creating a skilled workforce

42%
In developing countries, local Management Committee members who are nationals of the country

70 167
Number of employees in developing countries who received formal classroom training

25%
Leadership positions held by women

Helping farmers improve earnings and ensuring our supply of quality raw materials

594 223
Number of farmers receiving technical assistance

30 million
Value of microcredits to farmers in 2008, in CHF

Improved nutrition for the consumer and increasing sales and profitability for Nestlé

6254
Number of products renovated for nutrition and health considerations in 2008

11 million
Predicted number of additional low-income consumers using Nestlé fortified milk products by end 2011

Creating Shared Value at each stage of the value chain

	Agriculture and rural development		Environment, manufacturing and people		Products and consumers	
	Farmers and communities:	Supplier standards:	Food and beverage production:	Workforce development:	Responsible marketing:	Sales and growth:
Value for society	Helping improve yields, incomes and quality of life	Encouraging responsible practices among suppliers	Conserving natural resources	Providing job opportunities in safe, high-quality workplaces	Widening access to nutritional products consumers prefer	Generating local investment for economic growth
Value for Nestlé	Securing supplies of high-quality raw ingredients	Promoting more sustainable methods in the supply chain	Lowering manufacturing and distribution costs	Helping employees reach their potential	Building brands and entering new markets	Achieving competitive shareholder returns

Key initiatives

Creating Shared Value initiatives include:

- Helping to develop the dairy industry in East Africa (page 33);
- Supporting cocoa farmers (pages 17 and 53);
- Nespresso AAA coffee: sustainability in the brand DNA (page 40);
- *Häagen-Dazs:* helping prevent the decline of honey bees (page 49);
- Responsible agricultural sourcing (page 47);
- Creating jobs in emerging economies (page 33);
- Improving nutrition with Popularly Positioned Products (page 38);
- Bringing clean water to communities (page 21);
- Packaging eco-design (page 20);
- Innovations in bottled water packaging: examples from the USA (page 44);
- Measuring the corporate water footprint (page 46);
- Capturing energy and avoiding waste: "Java Log®" (page 46);
- Out-of-home leadership (page 38).

Nestlé's initiatives in health and nutrition – on topics including obesity and malnutrition – are covered in depth in our companion report, *Creating Shared Value: Nutritional needs and quality diets.*

Agriculture and rural development

Responsible Sourcing

Beyond our own sites, we are increasingly focusing on social and environmental standards in our supply chain. In July 2008 we launched the Nestlé Supplier Code to communicate and reinforce our expectations. Our Code covers all suppliers and is accessible in multiple languages via our website (www.nestle.com/suppliers). More than 120 000 suppliers have received the Code to date and acknowledged it by fulfilling purchase orders or contracts that refer to the Supplier Code.

With regard to ensuring compliance with the requirements of the Code, Nestlé is committed to achieve maximum efficiency for suppliers: Nestlé is an active member of the PROGRESS taskforce of AIM (the European Brands Association) and GMA (The Association of Food, Beverage and Consumer Products Companies) dedicated to improving the effectiveness and efficiency of the evaluation process in the supply chain. Nestlé manages suppliers' compliance using common industry standards and protocols. This approach helps to achieve broad improvements and avoid multiple assessments for suppliers.

Supporting farmers

Nestlé's long-term commitment to working directly with small farmers continued in 2008. Today, Nestlé works with almost 600 000 farmers globally, providing free technical assistance and around CHF 30 million of microloans each year. This approach is central to Nestlé's milk strategy, ensuring a stable, safe and high-quality supply without involving middlemen. By adapting the systematic approach of the Swiss Milk District System to dairy farming in developing countries around the world, Nestlé contributes to poverty reduction and improved nutrition on a large scale, and creates significant, long-term business success. The result has been a significant improvement in the income of small dairy farmers, who generated 5 million tonnes of locally sourced milk through milk districts in 2007. Nestlé's experience in assisting farmers and creating a dairy industry has been replicated in 29 countries to date, from Inner Mongolia in China to East Africa – where new plans are in place to support the development of the dairy industry in Kenya and Uganda (page 33). In each case, as Nestlé has prospered, so has the community.

Nestlé works with tens of thousands of coffee growers as well, to help them improve the quality and quantity of their production, protect the environment, and bring about better social conditions. For example, *Nescafé Partners' Blend* and *Nespresso* incentivise growers by paying premium prices for the highest-quality coffee produced in line with sustainability criteria, benefiting farmers and consumers and providing Nestlé with higher-quality coffee (page 40).

Nestlé also actively participates in programmes in the cocoa supply chain. With the International Cocoa Initiative (ICI) and the World Cocoa Foundation we are working to improve small growers' incomes, eliminate unacceptable child labour, and give children better access to education. In Côte d'Ivoire (producer of about 40% of the world's cocoa) farmers' yields and crop quality have been declining. Nestlé is working with three cooperatives in a pilot project to improve yields and social conditions. Nestlé has also joined UTZ, a leading certification initiative in which several industries are participating. All these initiatives are designed to contribute to more sustainably produced cocoa, so safeguarding the availability of quality cocoa for the long term, and improving farming communities' earnings and quality of life.

1

Vietnam
Picking coffee near Dak Lak, that will be used to supply the *Nescafé* factory in Ho Chi Minh City.

2

Côte d'Ivoire – Harvesting cocoa
Nestlé is funding a three-year sustainable cocoa project with three cooperatives of about 3000 farmers.

3

Erguna, Inner Mongolia, China
Dairy farmers delivering their milk to the new Nestlé collection station.

1

2

3

Environment, manufacturing and people

Our key environmental sustainability challenges are water conservation (our top environmental priority), energy efficiency and climate change, and packaging. For a full set of environmental indicators, see page 76.

Water conservation and management

Nestlé's approach starts with good water management in our own operations. We achieved our water targets for 2008 and reduced water withdrawal per tonne of production by 6% – part of a long-term approach that has seen us reduce water withdrawals per tonne of product by 58% since 1999. We aim to achieve a further water efficiency improvement of at least 10% over the next five years. In relation to bottled water, it now takes 1.76 litres of water to produce 1 litre, a fall of 26% since 1999. This compares favourably with other packaged beverages.

Establishing the water footprint of companies and products is a complex science in its infancy. This year we began participating with industry, NGO and academic partners to develop a sound basis for measurement that can lead to further performance improvements (page 46).

From as early as 1929, Nestlé has installed water treatment plants in its operations. 68% of our factories now operate such plants, which often go beyond local legislation, with 98% treating their water on-site or via off-site facilities. In line with international water quality standards, we remove 96% of the organic load in the water used in our production processes before returning it to the environment.

Agriculture accounts for 70% of global fresh water withdrawals and Nestlé agronomists are supporting farmers to adopt good practices. In Shuangcheng, China, we are helping dairy farmers to manage effluent correctly. In Ethiopia, El Salvador, Mexico and Nicaragua, we have helped coffee growers save up to 90% of the water used in the washing and pulping of coffee cherries – one of the most potentially wasteful uses of water.

Through community partnerships this year, we helped provide access to clean water to 22 000 in Rwanda. We are completing a project with the International Federation of Red Cross and Red Crescent Societies (IFRC) in Côte d'Ivoire, developing the Ivorian Red Cross water and sanitation response capacity and providing clean water and sanitation for 50 000 people. Another IFRC water and sanitation project for schools in the country's cocoa-growing belt will be carried out in 2009.

Our Chairman, Peter Brabeck-Letmathe, has consistently championed water sustainability issues. This effort contributed to water being discussed at the January 2008 World Economic Forum's meeting in Davos. Nestlé has also repeatedly called for water to be given a higher priority and has drawn attention to the serious impact on water resources from biofuels. We have also called for more investment in water infrastructure at country and city level, and better management, governance and pricing of water.

In July 2007, our Chairman was one of several founder signatories of the UN Global Compact CEO Water Mandate, and by August 2008 this had been endorsed by 32 business leaders. The Group has recently held working conferences on water footprinting and supply chain, and made a submission to the G8 calling for priority to be given to managing water resources.

Energy efficiency and climate change

Nestlé's energy management strategy is based on continuous improvement and innovation and seeks to achieve reductions in energy usage, cost and greenhouse gas emissions. In 2008 energy consumption differences in our product mix meant we did not achieve our expected overall energy performance target. Going forward, we will investigate setting energy consumption targets by product categories as we seek to achieve energy efficiency improvements of at least 5% in each of our key product categories over the next five years.

We published 2007 data on both direct and indirect energy consumption and CO_2 emissions for the first time in 2008. While this was an important step forward, we initially met challenges with definitions and data collection, which have now been rectified.

Nestlé's direct carbon footprint comes mainly from its factories. Although transport and logistics account for less than 10% of total direct CO_2 emissions, we will survey these areas in order to identify future potential reductions in cost, fuel consumption and GHG emissions. At present, we estimate that our transport fleet drove approximately 300 million km in 2008, producing about 250 000 tonnes CO_2.

Externally, Nestlé continued to participate in the Carbon Disclosure Project (CDP), the leading international forum for reporting progress and sharing good practice. As a founder member of the CDP's Supply Chain Leadership Collaboration group we are working to extend this group's scope to include water issues. In order to help develop relevant metrics for the industry, we are also participating in the Global Reporting Initiative (GRI) Food Processing Sector Supplement Working Group.

1

Peter Brabeck-Letmathe
Our Chairman contributed to water being discussed at the World Economic Forum, in Davos, Switzerland.

2

Brazil, Feira de Santana
In the context of increased production, we have reduced our global energy use by 42% per tonne of product over the past ten years.

3

Shuangcheng, China
Nestlé has installed water treatment plants in its operations, which often go beyond local legislation.

1

2

3

Eco-efficient packaging

Packaging is essential for food safety. It also helps to avoid wastage before and after purchase by maintaining freshness for the consumer. Our strategy is based on optimising materials, developing eco-efficient packaging, and providing meaningful information to consumers on recycling and disposal. A key initiative this year was our collaboration on PIQET, an important new packaging eco-design tool adopted by Nestlé. Design and technology innovations go hand in hand in order to reduce environmental impacts without compromising consumer needs. Our new *Nestlé NaturNes* babyfood pot is not only convenient and easy to use but requires less energy and produces fewer CO_2 emissions over its life cycle than the previous glass jar (page 45).

Nestlé Waters' lightweight EcoShape bottle is another step forward in reducing packaging materials, and is just one example of progress made since 1991, when Nestlé began a continuous review of packaging reduction opportunities in all its businesses. As a result, we have reduced the volume of packaging material used per litre of bottled water by 19.6% over the last five years, saving 43 792 tonnes of packaging material in 2008 alone. Worldwide, the Goup's total packaging material savings from 1991 to 2008 amounted to 392 000 tonnes and CHF 683 million.

Complying with environmental standards

An updated Nestlé Policy on Environmental Sustainability (www.nestle.com/csv/environment), first published in 1991, was launched in 2008 to expand Nestlé's environmental commitments. This policy and the Nestlé Environmental Management System, which is aligned with ISO 14001 requirements, define our commitments, principles and procedures for environmental protection and performance improvement, including compliance with applicable regulations and our own internal standards.

In 2008 Nestlé was fined seven times for infringement of environmental regulations, amounting to CHF 34 312. Remedial action has been instigated to prevent future occurences.

241 Nestlé factories (53%) are now certified to ISO 14001, the leading international environmental standard (2007: 101/22%).

Employee and contractor health and safety

Nestlé has achieved very important reductions in workplace accidents for more than a decade by systematically improving safety culture, attitudes and behaviours, achieving factory certifications to OHSAS 18001 (the leading occupational safety standard), and monthly monitoring of safety indicators at corporate, market and site level. In the last five years alone the Lost Time Injury rate has fallen by 70%.

An updated Nestlé Policy on Safety and Health at Work (www.nestle.com/people/safety) was issued in 2008 to reiterate that employee safety is our top priority and to promote higher standards in our supply chain. Our large-scale operations make it necessary to give particular attention to safe driving. In order to reduce the risk of traffic accidents for employees and contractors, we rolled out a global, Company-wide safe driving programme covering all operating regions.

Workplace safety performance

- Notwithstanding our constant attention to safety, Nestlé was the object of 7 health & safety fines for a total amount of CHF 79 200 in 2008;
- Despite our best efforts to prevent accidents and to our deepest regret, 13 fatalities occurred in 2008 (2007: 15). 4 employees and 2 contractors were fatally injured on site. In addition, 6 employees died in road traffic accidents; and another in a fall off-site.

Our constant goal is zero accidents. We have made important reductions in our injury rates and continue to invest in training and best practices to accelerate this trend. Our aim is to be among the leaders in our industry peer group by 2012, which implies no more than one lost time injury per million hours worked.

Products and consumers

Responsible consumer communications

Our approach is enshrined in the Nestlé Corporate Business Principles (www.nestle.com/AllAbout) and Consumer Communication Principles, supported by compliance guidelines for marketing staff and advertising agencies. In July 2007, Nestlé strengthened its commitments towards children with two provisions to be implemented in all countries by the end of 2008: (1) no advertising or marketing activity to be directed at children under 6 years old; (2) advertising for children from 6 to 12 years to be restricted to products with a nutritional profile that helps achieve a healthy balanced diet.

Nestlé also participates in industry initiatives including the European Advertising Standards Alliance (EASA). In 2008, all the 84 Nestlé advertisements monitored by EASA complied. In addition, Nestlé has, to date, joined five voluntary, independently monitored initiatives at a national and regional level. These are the "EU Pledge", the "Thai Pledge", and the Children's Food and Beverage Advertising Initiatives in Australia, Canada and the United States.

Read more at
www.nestle.com/SharedValueCSR/ProductsAndConsumers/MarketingAndCommunications/MarketingAndAdvertising.htm

1

Pakistan
Some of the 4000 women livestock workers trained as part of this UNDP-Nestlé partnership learn about correct water management on their dairy farms.

2

Côte d'Ivoire
A Nestlé-sponsored farmer field school in Norbertkro teaches responsible labour practices, the importance of schooling for children and sustainable farming methods.

3

Rwanda
A Nestlé-sponsored community based clean drinking water project in partnership with the Lutheran World Federation and Interfaith Action for Peace in Africa at Kirehe, which reaches approximately 22 000 villagers.

UN Global Compact Principles

Examples of progress 2008

Human Rights
Initiated a Human Rights Compliance Assessment with the Danish Institute for Human Rights (DIHR), in order to evaluate potential human rights and labour rights risks in corporate policies or monitoring systems.

Labour
In addition, we launched the new Nestlé Supplier Code, which has provisions on working hours, compensation and non-discrimination; prohibits prison labour, forced labour and child labour; and states Nestlé's rights to audit, request corrective measures and terminate contracts.

Environment
Updated Nestlé Policy on Environmental Sustainability to expand commitments. Enhanced measurement of carbon footprint and energy efficiency by reporting indirect energy consumption and CO_2 emissions for the first time.

Anti-corruption
Rolled out a new e-learning tool on anti-trust to reinforce the principles of the Nestlé Code of Business Conduct among employees. We also translated and disseminated the Code in six languages and started developing concepts for an e-learning module specifically on anti-corruption.

UN Millennium Development Goals

Examples of progress 2008

Poverty and hunger
Invested CHF 50.7 million in community projects.

Education
Cote d'Ivoire cocoa supply chain: sponsored programmes to improve children's access to education and raise awareness in local communities to prevent the worst forms of child labour.

Water conservation and education: continued to share expertise and good practice with almost 600 000 farmers worldwide; continued to support Project WET, which to date has trained over 400 000 teachers and reached several million children in over twenty countries.

Gender equality
In rural Pakistan, we continued a joint initiative with the United Nations Development Programme to empower 4000 female dairy farmers with the skills and knowledge needed to improve the quality and value of their milk yields.

HIV/AIDS, malaria and other diseases
Continued financial support for the development of the IFRC's global HIV/AIDS training materials.

Environment
Provided funding and support for projects to deliver clean water to villages in Rwanda and Côte d'Ivoire.

Global partnerships
Nestlé supports international sustainable development initiatives including the IFRC, Common Code for the Coffee Community (4C), International Cocoa Initiative, and the UNGC CEO Water Mandate.

1, 2

3

Widening access to affordable food

Through Popularly Positioned Products (PPPs) we continue to widen access to high-quality, nutritious and affordable food. It is estimated that micronutrient deficiencies account for over 7% of the global incidence of disease. By adding micronutrients to our PPPs we are helping to address the most prevalent deficiencies. In emerging markets, for example, Nestlé is making safe, nutritionally fortified milks readily accessible to lower-income families.

Please see our companion report, *Nutritional needs and quality diets,* for many other examples of how Nestlé is Creating Shared Value for consumers.

Compliance and Engagement

UN Global Compact Principles and Millennium Development Goals

Nestlé Corporate Business Principles have incorporated the 10 UN Global Compact (UNGC) Principles since 2002. In partnership with others (for example, the International Cocoa Initiative), we also contribute towards the UN Millennium Development Goals.

Risk management and compliance

Nestlé's established risk management process supports early risk anticipation, identifies mitigating actions to manage emerging issues and enables sound business decisions to be made. The process identifies for the Executive Board those risks which require closer attention and management in the short term. Scenarios such as climate change and shifts in farming practice are analysed, together with other external factors that might lead to significant fluctuations in the price and availability of raw ingredients and packaging materials. The risk management process also covers major capital expenditure and other important projects.

In addition, the Operations Sustainability Council and the Issues Round Table, both of which are chaired by members of the Executive Board, identify and manage challenges in the medium to longer term. Key issues which have been identified through these fora are: environmental sustainability – particularly water conservation, energy efficiency and climate change; the sustainability of agricultural raw materials; and supply chain standards including human rights and working conditions. There are examples throughout this report of how we are responding to these challenges.

Complying with Nestlé Corporate Business Principles

CARE is Nestlé's group-wide integrated programme which verifies, through three leading, independent international certification bodies, that our operations comply with local legislation and with the Nestlé Corporate Business Principles. CARE audits are carried out on a three-yearly basis. Since July 2005, when the programme was initiated, over 490 sites have completed CARE audits. We aim to extend CARE to all Nestlé employees and all sites owned or operated by Nestlé by the end of 2010.

CARE findings are classified in three categories: "minor" (isolated and non-repetitive); "major" (systematic and repetitive); and "critical" (exceptional requiring immediate notification to Nestlé Compliance Committee).

Out of 490+ sites reports (as of end December 2008), there were no critical findings in any of the assessment criteria. 91% of findings were classified as minor and 9% as major. The CARE action plans are followed up and monitored through line management. Group Internal Audit then follows up on CARE corrective actions when it visits the sites.

Public engagement principles

We engage in ongoing dialogue with a wide variety of stakeholders. This includes: government and regulatory authorities in order to promote and implement sound legislation and regulation; non-governmental organisations that are committed to constructive engagement and principled behaviour; academic and professional bodies to foster new knowledge; and local communities to promote their well-being.

1

Colombia, educating workers on quality and safety
An employee checks his clothing before entering a sanitised area in the Dos Quebradas factory.

2

Brazil
Our Direct Store Delivery system ensures that affordable, nutritious Popularly Positioned Products are available to consumers from lower income groups.

3

Germany, Mainz
Co-generation plant where spent coffee grounds are used as fuel.

1

2

3

The 4x4x4 roadmap

The 4x4x4 roadmap to deliver growth and enhance performance

The different elements of the 4x4x4 roadmap overlap, interact and complement each other.

Competitive advantages

Individually and together, our four competitive advantages uniquely differentiate our Company.

Growth drivers

Four key opportunities, applicable across our product categories, offer potential for enhanced growth.

Strategic pillars

Each of our four strategic pillars represents an area of core competence in which we seek to excel.

For example, our industry leading R&D capability enables us to innovate and renovate our unmatched portfolio of "billionaire" brands at the necessary pace to ensure differentiation from and consumer preference over competitors' products. Our unmatched geographic presence meanwhile in terms of history, depth and coverage, enables us to drive our PPP (Popularly Positioned Products) strategy deeper and quicker into the world's emerging markets.

Nestlé's aim is to be the recognised leading Nutrition, Health and Wellness company in the world and the reference for financial performance in our industry

Over the last few years, we have consistently delivered the Nestlé Model, which is the combination of a high level of organic growth with an annual improvement in the EBIT margin, whilst also delivering our strategy to transform Nestlé from a food and beverage company into a Nutrition, Health and Wellness company. This has enabled us to deliver shorter-term performance whilst securing the foundations for longer-term profitable growth.

The opportunity today is to capitalise on these achievements and build gaps with our competitors by accelerating our operational performance. The path we have chosen is our 4x4x4 roadmap, comprising four competitive advantages, four growth drivers and four strategic pillars.

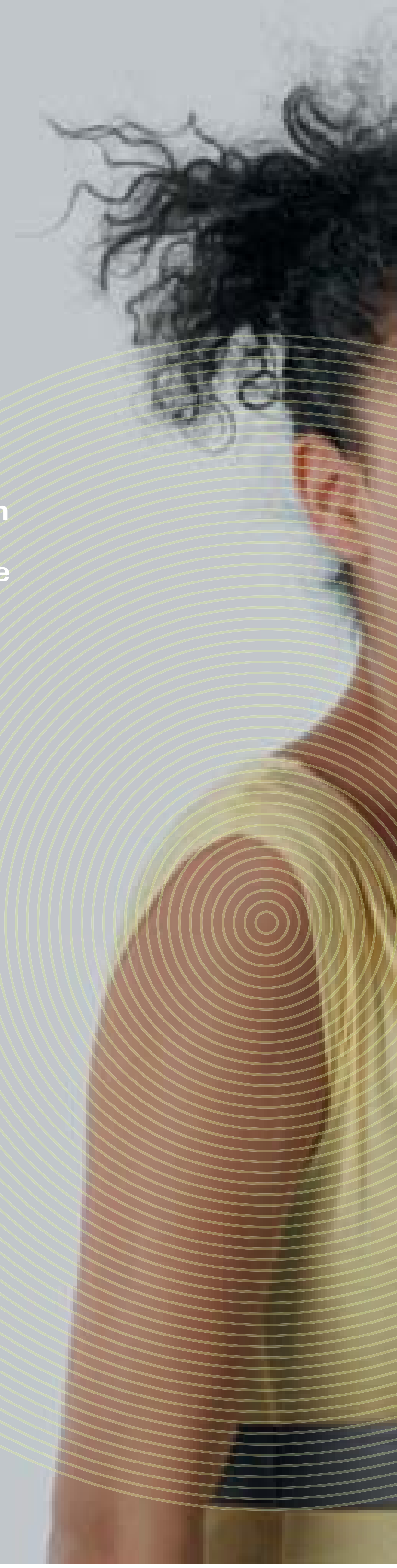
The 4x4x4 roadmap will enable a continued strong performance, relative to our peers, measured by the creation of shareholder value. It combines the right strategy and the necessary defensive qualities for the current environment with dynamic growth potential as economies recover.

At Nestlé, we are committed to a way of doing business which we call "Creating Shared Value". The cornerstone belief is that the only way for business to create long-term value for its shareholders is by also creating value for those societies in which it operates. You will come across creating shared value again and again over the next few pages. Some might describe it as an approach to corporate social responsibility. We describe it as an approach to doing business.

Four Competitive Advantages

Nestlé has a unique set of inherent strengths to help fulfil its nutrition, health and wellness vision, meet the challenge of intense competition, and deliver the Nestlé Model of shareholder value creation. A key objective is to leverage these strengths to build gaps between us and our competitors.

- Unmatched product and brand portfolio
- Unmatched R&D capability
- Unmatched geographic presence
- People, culture, values and attitude




MAGGI

Unmatched product and brand portfolio

Nestlé has the largest range of foods and beverages of any food company. They span added-value, inherently nutritious categories such as dairy, nutrition, beverages, culinary, confectionery, petcare and breakfast cereals, and together they form an unrivalled portfolio of billionaire brands.

Our brands meet consumer needs and enhance the quality of life for everyone... babies, toddlers, children, teenagers, adults, mothers-to-be, the elderly... from day-break to bed-time.

Our basket of products reaches all consumers, from the connoisseur, through *Nespresso* and Pierre Marcolini artisan chocolates, to those on the lowest incomes through our daily affordable range of nutritious Popularly Positioned Products.

We sell over a billion products every day, to millions of consumers, who choose to trust in our products several times a day, making Nestlé one of the most democratically endorsed companies in the world.

Our brands are part of everyday life, fostering great consumer loyalty. Many are decades old, some over 100 years. Most are leaders, globally or locally. All continuously build consumer preference, growing stronger bite by bite, day after day.

Brands are nourished through innovation and renovation. Their relationships with consumers, like all relationships, are built on trust and flourish on communication and respect. At the heart of these relationships lies our knowledge of different cultures and our ability to adapt to their needs, tastes, and preferences. The trust is earned through an unstinting, unquestioning commitment to the highest levels of safety and quality, backed up by rigorous controls from crop to shop.

Strengthening nutritional benefits

Across our portfolio, we are continually achieving superior nutritional benefits and taste characteristics compared with competitors.

Fast profitable growth Our "billionaire" brands, each with annual sales of more than CHF 1 billion, account for about 70% of our Food and Beverages sales. Generally, they are growing faster than market average, and most have higher than Group average margins.

Beverages

Milk products

Prepared dishes and cooking aids

Confectionery

Ice cream

Nutrition

Water

PetCare

Pharmaceutical products

Unmatched R&D capability

Nestlé has a long nutritional science heritage. The first product to carry the name of the company's founder, Henri Nestlé, was an innovative infant cereal developed to nurture babies, giving them a healthy start in life. His ambition even in 1866 was to market his product and its benefits across the world.

Since then, Nestlé has gone from strength to strength but always following in the footsteps of Henri Nestlé, ensuring its products meet consumer needs by inventive research to provide positive benefits for millions of people.

For example, our Nestlé Nutrition business is pioneering new ground in specialised nutrition by developing and delivering innovative, effective, scientifically proven products with functional benefits. For babies, the development of Infant Formulas with probiotics which can support the immune system is one example. For the elderly, we are investigating the role of nutrition in maintaining mobility and independence during old age. Nestlé spent CHF 2 billion on R&D in 2008 – more than any other food company. We have about 5000 people from over 50 countries working in our R&D network of Research Centres, Product Technology Centres and Application Groups around the world. This is greatly expanded by our open innovation that taps into some 300 external research institutions, including universities, start-ups, and key suppliers, as well as our own venture funds.

Consumer insights and Nutrition, Health and Wellness benefits are the starting points for our R&D and the fuel for our innovation pipeline across all categories. But R&D extends beyond the product itself, developing new technologies, for example for packaging and vending machines, and researching specific areas such as ingredient and product safety, sensory quality and metabolics.

Unmatched geographic presence

The competitive advantage created by our unmatched geographic presence, with our products marketed in about 130 countries, is not simply our global spread, as many companies can claim a similar reach, nor is it just our scale, with over CHF 35 billion of sales in emerging countries. It is the fact that we have been in most countries for many decades, many for over a hundred years. It means that our products have been enjoyed by generations of families, that many of our brands are perceived as local by our consumers, and that we have an unmatched reputation for quality, taste and nutrition. It also means that we've had plenty of time to learn and understand local cultures and habits, and benefit local economies and communities.

A significant part of that benefit comes from our manufacturing asset base, with 456 factories located all over the world. These factories represent our long-term commitment to contribute to economic prosperity in the communities where we are present through investment, profitable growth and increasing employment opportunities.

Although our products are available all over the world, we do not believe in a standard worldwide taste. We go to great lengths to adapt our products to local tastes. Although *Maggi* is a global brand, its soup products are very different, for example, in Poland from Indonesia. *Nescafé,* meanwhile, has over 200 formulations around the world. That said, our long-standing presence in countries all over the world has enabled us to learn about the shared opportunities that our product categories have in different countries, as well as the need to tailor and adapt. This means that we are able to drive growth by quickly rolling out our products across many countries.

Although Nestlé is a global giant and the world's largest food and beverage company, it is a closely knit network of local companies, each with sufficient scale to leverage its

Pioneering science-based research

Our relentless pursuit of innovation is spearheading research that feeds into our whole portfolio of products. It focuses on eight consumer benefit areas. (For each, we have included some product examples.)

Protection
Nido **growing up milk with immune enhancing properties;** ***Nescafé Protect,*** **rich in polyphenols and antioxidants.**

Weight management
Jenny Craig **personalised nutrition programmes;** ***Sveltesse*** **low fat, fibre enriched drinking yoghurt;** ***Lean Cuisine*** **calorie controlled meals.**

Healthy recovery
Clinutren Protect **decreases the side effects of chemo/radiotherapy and aids digestion pre/post surgery.**

Growth & development
Cerelac **infant cereal with** ***Prebio***[1] **facilitates babies' digestion of critical nutrients and supports the development of healthy gut flora.**

Digestive comfort
Nesvita **and** ***Svelty*** **functional milks and yoghurts have soluble fibres to support regularity and help reduce bloating.**

Performance
PowerBar **has a special blend of carbohydrates for optimum sustained energy delivery.**

Healthy ageing
Proprietary Nestlé BABs (Branded Active Benefits) such as ***Omega 3-6*** **and** ***ActiCol*** **contribute to cardio-vascular health.**

Skin health & beauty
innéov **products address skin anti-ageing, UV protection and hair quality.**

Decades of local experience
Nestlé has always been the most multinational food company, and has been present in most countries far longer than competitors.

Australia	over 100 years
Africa	over 80 years
Brazil	over 80 years
China	over 130 years
Germany	over 130 years
India	over 90 years
Mexico	over 70 years
Switzerland	over 140 years
UK	over 130 years
USA	over 110 years

1

Innovative science and technology
The Nestlé Research Centre in Lausanne, Switzerland is home to more than 300 PhD scientists committed to discovering new ways for nutrition to contribute to good health.

2

Pioneering innovation
We are inventing the future. For example, one of our external collaborations, with EPFL (Ecole Polytechnique Fédérale de Lausanne) is developing the world's leading diet and brain research programme.

Second R&D Centre in China

The R&D Centre in Beijing, opened in November 2008, complements our existing research centre in Shanghai and our 19 factories in Greater China.

1, 2

own synergies, yet agile and nimble in spotting opportunities and tackling challenges. Our principle is "centralise what we can, but decentralise as much as possible".

People, culture, values and attitude

Our emphasis on both leveraging our scale and being agile in our approach to business opportunities and challenges is part of our cultural DNA. Our people thrive within this environment. Their strengths, talent and energy are the life blood of our organisation. Our culture places a high value on long-term thinking, integrity, mutual respect, pragmatism, openness to diversity and a passion for quality and for pleasing our consumers.

We are highly disciplined. We are aligned on our vision. We have the tools, best practices and skills to allow us to translate vision to action. We respond to challenges thoughtfully and with the benefit of experience. We are never satisfied with the status quo, and are constantly challenging ourselves for greater speed, efficiency, learning and achievement.

Our approach to decision making is based on pragmatism and flexibility. We delegate to those best qualified to make the best decisions regardless of hierarchy. We are experts in team work, fully aligned behind common objectives, with a clear focus on individual responsibility and action. We are open to ideas and willing to learn. We provide individuals with the opportunity to add value in whatever way they can.

We are a truly international company that enjoys a rich diversity of nationalities. This provides us with a unique competitive advantage. For example, diverse local insights are a catalyst for better innovation. Multi-functional, multi-cultural teams optimise product launches. Multi-cultural leadership ensures a rich blend of ideas and opinions. Decision making is strengthened through critical cultural insights and local knowledge.

Our principles are clearly articulated on our website, but they are brought to life by our people. They are applied globally in each of our markets to ensure that our behaviour and our way of doing business is consistent everywhere. This creates a powerful force of 283 000 people with one set of values, aligned behind our vision, focused on achieving our objectives.

Extending our values beyond our own people

We run more than 150 projects worldwide to ensure more stable, sustainable incomes for farmers and long-term high quality supplies for Nestlé. Our 771 agronomists and 7787 technical experts work with almost 600 000 farmers. For example, in developing countries we are helping dairy farmers to improve milk quality and quantity through livestock management and genetics. Our Swiss 'milk district' system of cooling and collection stations, first introduced by Nestlé to Brazil and South Africa in the 1920s and now in 30 countries, has helped farmers improve their earnings by an average of 2%-5% each year.

Nutrition Training in Nestlé

The NQ (Nutritional Quotient) Nutrition Training programme is part of our WellNes in Action strategy. Nutrition is everybody's business at Nestlé, and NQ encourages a healthier lifestyle and healthier eating among employees, who in turn are able to develop better products and influence their family and friends. 79 353 employees have already taken part. Before the course, a test determines the employee's NQ – i.e. their level of health and nutrition knowledge. After the training, a further test shows qualitative and quantitative progress.

Helping to develop the dairy industry in East Africa

Over the next two years, Nestlé is supporting the East African Dairy Development Board through a programme designed to increase the income of dairy farmers in Kenya and Uganda. Farmers will be trained to improve breeding and feeding practices so they can obtain better, higher quality yields, and help increase the quantity and quality of fresh milk supply with a view to secure delivery of instant full cream milk powder bulk. Nestlé has provided extensive technical assistance in the areas of Production & Quality Assurance to bring product quality from New Kenya Cooperative Creameries and Sameer Agriculture and Livestock Ltd up to required standards to initiate this sourcing arrangement, and we expect volumes to increase in line with the growth of our businesses. Producing more full cream milk powder in these countries enables Nestlé to export milk products to other COMESA (Common Market for Eastern and Southern Africa) countries with reduced tariffs and duties, increasing both availability and affordability in the Equatorial African Region.

Benefiting local communities by creating jobs in emerging economies

Nestlé's capital expenditure for the last few years has been between 3.5% and 5% of sales, reaching CHF 4.9 billion in 2008 alone. Much of this investment has been for increased capacity to support growth, and much has been in emerging countries, where 48% of Nestlé's factories are located. This growth has led to increased employment at Nestlé, as well as greater opportunities for Nestlé's partners, suppliers and contractors.

1

Strong commitment to training

Classroom and e-learning involves 260 000 employees each year.
In the last six years, 3000 key people participated in Leadership Training at the London Business School.

2

Talent has no nationality

Over 100 nationalities work at Nestlé. This diversity is clearly a benefit. Each year many of our people move from country to country, sharing their experience.

3

Food is local

To meet local needs, there are many thousands of Nestlé products produced in 456 factories in more than 80 countries.

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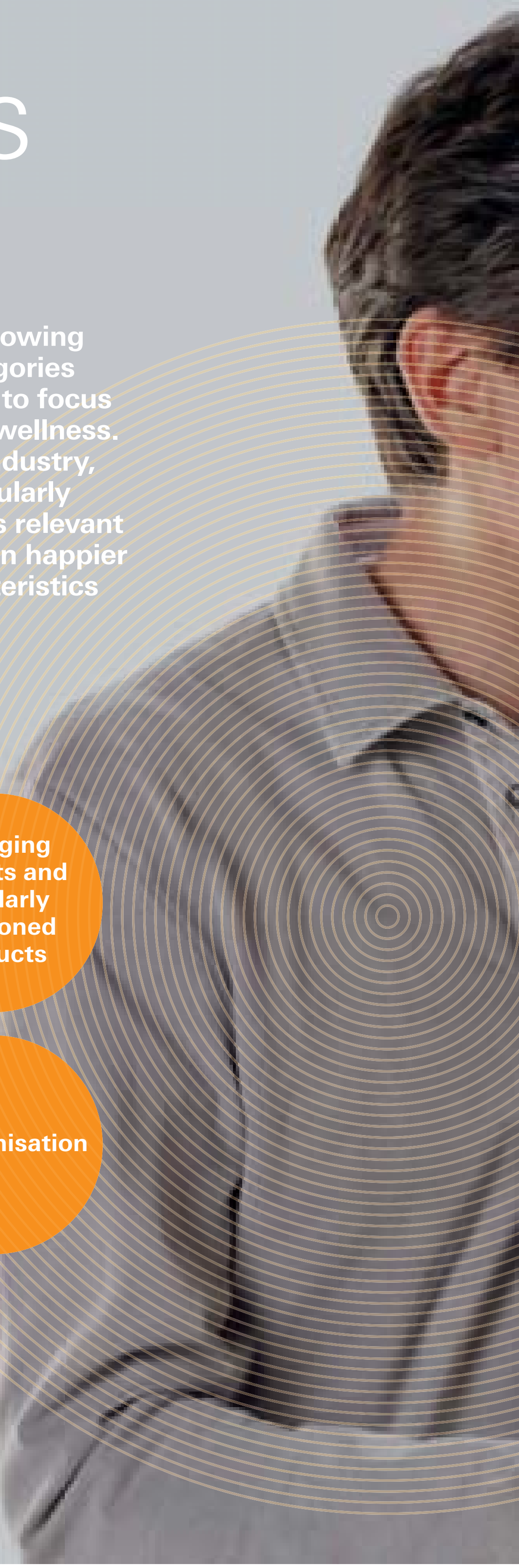
Four Growth Drivers

Nestlé's track record demonstrates that we are one of the fastest growing companies in our industry. This reflects the dynamics of those categories that we have chosen to be in, as well as the success of our strategy to focus on added value products and, in particular, on nutrition, health and wellness. We believe that we will continue to set the pace for growth in our industry, and we have four specific but broad reaching areas that offer particularly exciting potential across many categories and countries. They are as relevant to consumers today, in a tough economic environment, as they are in happier times and, as such, will enhance our shorter-term defensive characteristics as well as providing growth momentum in the future.

- Nutrition, health and wellness
- Emerging markets and popularly positioned products
- Out-of-home leadership
- Premiumisation



Nutrition, Health and Wellness

People's desire for nutrition, health and wellness runs deep. It's a fundamental need regardless of geography, culture, or income.

A healthy and balanced diet must be enjoyable in order to be sustainable. That's why we focus on "positive nutrition", delivering superior nutrition with superior taste. It's not to do with not eating certain foods, but having good products in the right quantities. Reducing calories can be good, but improving the nutritional profile and adding flavour and pleasure are important.

If we offer better taste than our competitors, we sell more products. If we offer better nutrition, we sell more products. If we combine both better taste and better nutrition, we create a compelling proposition for consumers and ensure accelerated profitable growth. This is what we call achieving 60/40+. We are doing this across our portfolio by reducing trans fatty acids, salt and sugar or increasing micronutrients such as vitamins and minerals or adding our proprietary BABs (Branded Active Benefits).

We are improving nutritional density, adding whole grains, calcium, Omega-3s and antioxidants. 6027 of our products were renovated for nutrition or health considerations in 2008: 2998 now provide increased contents of nutrition ingredients or essential nutrients, and 3029 contain less sodium, sugars, trans fatty acids, total fat or artificial colourings.

Our Nestlé Nutrition business enhances quality of life for people with specific needs. Its range of specialist products address weight management, optimise athletes' performance, help patients suffering from illness or disease – or who are in intensive care – and help premature babies and babies with digestive problems.

The successful integration of recent acquisitions Gerber, Novartis Medical Nutrition and Jenny Craig has brought additional valuable nutritional expertise to the world's leading Nutrition company as well as strengthening its market positions.

Our opportunity for bigger, better bolder innovation is enormous. We pioneered the use of probiotics, and today are applying them in products worth more than CHF 3 billion. Looking ahead, to cite just two examples, we're involved in research into brain development and deterioration, and personal diagnostics for health and nutrition.

Taste and nutritional superiority

Our 60/40+ initiative is unique in ensuring that nutritionally-enhanced products always meet consumers' taste preferences. 60/40+ is accelerating growth, driving innovation and renovation, and is at the heart of our ambition to be recognised as the leading Nutrition, Health and Wellness company. It works in two ways. First it measures a product's taste performance against its key competitors – our aim is to win by at least a 60 to 40 preference. Second, it measures nutritional superiority, the "+". It is the largest initiative of its kind in the industry. In 2008, products with sales of CHF 13.6 billion were analysed.

100% natural

***NaturNes* is the first wholly natural baby food to be launched in Europe. *Maggi Panier de Légumes* is the first 100% natural sachet soup in France. *Maggi* Cream of Mushroom soup in the Middle East, made with natural bolet mushrooms, is free of preservatives and scored a taste preference of 74%. *Milkybar* in the UK is a mainstream confectionery brand positioned as "all natural".**

Sharing science-based knowledge

The Nestlé Nutrition Institute is the world's largest publisher of nutritional information for scientists, and contributes significantly to the nutritional education of doctors and other healthcare professionals. Last year, a book, "Paediatric Nutrition in Practice" was launched at the World Paediatric Congress. With a targeted distribution of 50 000, it's likely to be one of the most widely used reference books for paediatricians, medical students, nutritionists, pharmacists, dieticians and midwives working in preventive and curative services in both affluent and poorer populations around the world.

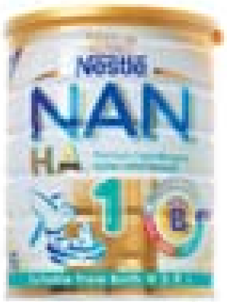
1

Our 60/40+ initiative is unique
More than 300 60/40+ managers, Nutrition, Health and Wellness managers and nutritionists are devoted to making the 60/40+ programme deliver tasty nutrition around the world.

2, 3

Nutrition education
For years, Nestlé has run programmes reaching over 10 million school children to give them a better understanding of the basics of nutrition.

Fast roll-out delivers faster incremental sales
Nestlé NAN with probiotics was launched in 2005, has been rolled out to over 70 countries, and is now a billionaire brand. Its 2008 organic growth was 24.5%.



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Emerging markets and PPP

Our food and beverage sales in emerging countries achieved 15.4% organic growth in 2008 and accounted for over 30% of sales, or about CHF 35 billion. We are well placed to benefit from the projected population increase in the developing world (estimated to grow by 3.3 billion between 2000 and 2050) as well as rising incomes. We are also successfully targeting CHF 1.3 trillion of sales made in the traditional grocery trade in the ten largest emerging countries. Indeed we expect at least to double our sales in emerging markets in the next ten years (in constant currencies).

Our Popularly Positioned Products (PPP) appeal to the lower income segment (the world has 2.8 billion consumers earning less than USD 10 a day) by offering relevant and good quality nutritious products, particularly beverages, dairy, culinary and confectionery, at price points that enable these consumers to buy them on a daily basis. In so doing, they help deliver a balanced nutritional diet for consumers, profitable growth for Nestlé, and contribute to the economies of emerging countries and their people. PPP accounted for about 6% of our food and beverage sales and achieved organic growth of 27.4% in 2008.

Our PPP strategy is built on a low-cost business model that relies on local sourcing, local manufacture and local distribution to take cost out of all areas of the business. We train micro-distributors, often financed by our micro-loans, and provide vending carts that can reach market stalls and small shops that account for much of the retail space in emerging countries. In this way, PPP are a source of income for street traders and individual distributors.

We sell many products at significantly less than a dollar – without sacrificing taste or nutrition. For example, *Bear Brand* fortified milk sells for Php 10 in the Philippines, equivalent to about USD 0.20. A study found that around a third of Philippines children aged 1 to 5 were under weight and/or under height, and identified specific micronutrient deficiencies. These were then addressed by adding iron, zinc and vitamin C to *Bear Brand.* In 2008 we sold 56 000 tons via 237 micro-distributors and over 400 000 "sari-sari" stores.

Our multi-tier strategy targets all income levels, but has specific solutions for the two areas where population growth is highest, with PPP providing nutritional sustenance for the Affordability segment and Premiumisation providing indulgence for the top end.

Our PPP business targets consumers for whom the food spend is not discretionary and who are reassured by the quality and pleasure that they associate with Nestlé brands. It also offers a "safe haven" of recognised quality and safety for consumers who may find themselves forced to trade down in tough economic conditions.

Out-of-home leadership

Today, in North America, almost 50% of the consumer food and beverages spend is out-of-home. Brazil, Russia, India and China show similar trends, and many Western European countries are not far behind. With sales of CHF 6.2 billion and 10 000 employees in 97 countries, Nestlé Professional is the world's leading manufacturer in this highly fragmented out-of-home market.

In order to accelerate our development and further capitalise on the out-of-home growth opportunity, we transitioned Nestlé Professional to a globally managed business, effective from 1 January 2009. The scale of the opportunity is demonstrated by our ambition to double Nestlé Professional's sales in the next ten years (in constant currencies).

Nestlé Professional is advantaged over its competitors by its ability to call upon Nestlé's R&D resources, brands such as *Nescafé* and *Maggi,* and our expertise in Nutrition, Health and Wellness. It is well positioned to become a solution-driven,

PPP and ethnic products in developed countries

Many people buy products related to their countries of origin, for example *Maggi* Arôme and Bouillons in France, imported from Africa, and certified halal food, selected and prepared according to Islamic law. *Nescafé Clasico* for the Hispanic population in the USA is another very successful example.

Tackling malnutrition

In the developing world, micronutrient malnutrition is a common risk factor for disease. Nestlé partners health authorities, enabling many PPPs to be fortified with micronutrients to address local needs.

One example of a multi-tier strategy

Available in more than 50 countries, *Nestlé Nido* is one of our biggest brands. For over 60 years, *Nido* has been providing mothers with a complete range of nutritious milk products to help raise healthy, well nourished children.

1

Affordable
Nido Everyday
Added protein, calcium, vitamin D, iron and other micronutrients help to make children more resistant to sickness by addressing major nutritional deficiencies.

2

Mainstream
Nido Fortified
A nutritionally complete solution for healthy growth of children of all ages. Fortified with nutrients to support the "10 Signs of Good Nutrition". The "10 Signs" include clear skin and shiny hair, regular bowel movement, good muscle development and correct weight to height ratio.

3

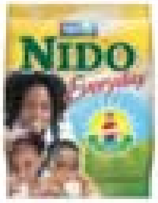
Premium
Nido Nutrition System 1+ 3+ 5+
The Growing Up Milk solution that provides protection and relevant nutritional benefits by age range, such as gut protection, brain development and bone strength, specifically developed to adapt to children's growth needs with the right nutrition at each stage of development. Enhanced with our proprietary immune-booster probiotic Lactobacillus *Protectus.*

4

Nido NutriLight
A non-fat, low calorie, fibre enriched milk designed for children's weight management.

5

Super Premium
Nido Excella Gold
The most scientifically advanced product in the *Nido* range, *Nido Excella Gold* supports children's holistic development with a brain development ingredient and an exclusive immunity formula.



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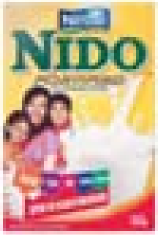

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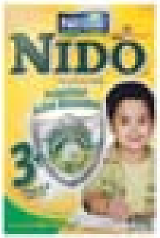

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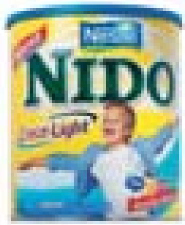

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Making the most of every opportunity

Across the world, population growth is greater at the top and base of the income pyramid. Those with annual per capita income above USD 22 000 are forecast to grow by 40% (from 2005–2015) and those with incomes between USD 3 000–13 000 by 31%, whereas the middle income group between USD 13 000–22 000 by only 11%.

Annual per capita income	growth % 2005-2015
Above USD 22 000	+40%
Between USD 13 000–22 000	+11%
Between USD 3 000–13 000	+31%

customer-centric force in the out-of-home industry.

Service is an integral part of the Nestlé Professional customer experience. In addition to supplying customers with leading products and brands, value-added services help develop and ensure long-term customer intimacy. Services include sharing consumer trends and insights, point-of-sale and systems support, menu planning and nutrition, health and wellness advice.

Customers seeking to provide their consumers with healthier options, appreciate the out-of-home application of 60/40+ as well as the Nestlé Professional Performance Testing Programme. These initiatives ensure our solutions deliver consumer preference as well as competitive and nutritional advantage to operators.

Premiumisation

Luxury and premium products are a key opportunity for above-average growth and returns. The premium food and beverage sector is forecast to grow by over 13% per annum through to 2020.

Whereas "value" products are priced 15% or more below average, and "mainstream" products range between –15% to +20% of average, premium products can command more than 20% above category norms – and luxury products can soar by three to ten times the average.

The higher income group, the core premium market, is forecast to grow faster than other income segments, and comprise about 850 million people by 2015. It's estimated that there will soon be more potential consumers of luxury and premium products in China than in the whole of Europe.

We are extremely well positioned across our product portfolio, including mainstream products. An example is *Nido Excella Gold,* launched in Mexico in late 2007 and rolling out to Asia in 2009.

In confectionery, the growth of dark, premium chocolate is the most visible sign of "premiumisation". We are the world's largest dark chocolate manufacturer and launched over 200 dark chocolate products in the last two years, including a range for Nespresso*,* created by the chocolatier Pierre Marcolini. In coffee, *Nescafé Dolce Gusto,* launched in 2006, was rolled out to fifteen European countries by the end of 2008, and is also in USA and Japan. In total, it has captured 33% market share, sold over a million machines and notched up capsule sales of about CHF 200 million in 2008.

In ice cream, *Mövenpick of Switzerland, Häagen-Dazs* and *Antica Gelateria del Corso* have all shown good growth. In waters, in some countries, *Perrier* is referred to as the champagne of waters, and commands super-premium prices, as does *S.Pellegrino. Acqua Panna* bottled water has the same pH-value as red wine, which makes it the best complement to a fine dinner.

Premiumisation is equally applicable in our other categories. In PetCare, *Purina Beneful* has further premiumised the premium dog food segment, and achieved organic growth of 38% in 2008.

Our premium products offer a moment of pleasure to mainstream consumers who want to treat themselves, or the assurance of the highest quality raw materials and sensory pleasure for the discerning high end consumer. Even in tough times, premium food remains an affordable treat, a little taste of luxury.

Benefiting Nestlé, consumers and farmers

Highest quality coffee beans and sustainable methods benefit everybody and are vital for Nespresso. By 2010, we are committed to increasing the volume of green coffee purchased through the Nespresso AAA Sustainable Quality programme to 50% of Nespresso's total requirements, up from the 2008 level of 40%. This is despite the expected significant organic growth in the business during that period, nearly 40% in 2008. The Nespresso AAA programme is independently verified by Rainforest Alliance, and contributes to economic viability, sustainability and social equity on coffee farms.

Finest ingredients
The delicate flesh of heritage raspberries is pureed to make this unbeatably smooth sorbet, its intense red punctuated by the juicy flesh of strawberries. A richly pleasurable natural fruit delight with 54% fruit content.

1
Nespresso boutique in New York
Luxury and premium products are a key opportunity for above-average growth and returns.

The channel as discriminator
The secret to success in the luxury and premium sector is a mix of bold innovation, allied with strong emotional ties and selective distribution models. *S.Pellegrino* is the exclusive choice in 80% of Guide Michelin starred restaurants.

Nestlé Professional Beverage Centre and Customer Innovation Campus

In 2007, we inaugurated the Nestlé Professional Beverage Centre in Orbe, Switzerland which focuses on global beverage solutions innovation management. In 2008, we opened the Nestlé Professional Customer Innovation Campus in Solon, Ohio in the United States which focuses on regional food solutions innovation management. Both centres enable our customers to leverage our capabilities in profitable solutions development while addressing specific business needs.

Out-of-home leadership creates Shared Value

Nestlé Professional has launched *Nescafé Partners' Blend* in selected Western European countries. *Nescafé Partners' Blend* uses top quality Fairtrade-certified Arabica beans from farming co-operatives in El Salvador and farmers in Ethiopia.

Premiumisation out-of-home

Chef les Fonds Premium is a new range of super-premium stocks for restaurants.

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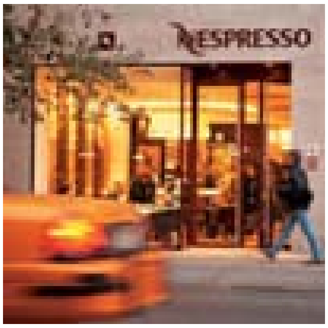
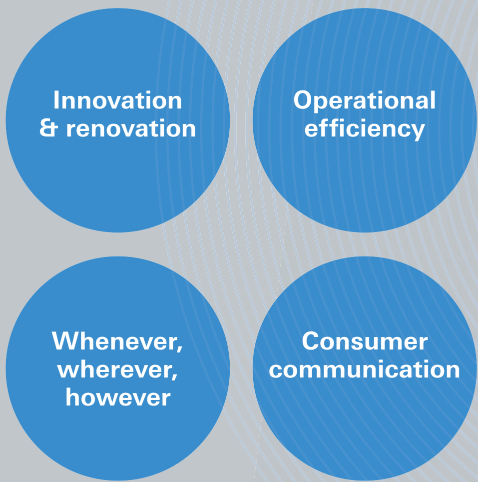


Four Strategic Pillars

Our priority is to excel in four core competences. Innovation & renovation drives nutrition, health and wellness and places our brands ahead of the competition. Operational efficiency creates gaps with our competitors through our focus on excellence in operational performance. Whenever, wherever, however ensures our products are always available, whilst Consumer communication keeps consumers abreast of the innovation and renovation and builds our brands' reputations. But Consumer communication is two-way: it also informs our innovation and renovation and thus the cycle begins again, with consumer-relevant innovation and renovation.




NaturNes

Innovation & renovation

Just to stay where we are, we have to change – at least as fast as consumer expectations – and that means constant renovation. To grow our leadership positions means moving quicker, leap-frogging and going beyond what consumers tell us. And that requires innovation, leading the consumer forward, so that we are not simply a consumer-driven company, but a company that drives the consumer.

Continual small improvements keep our products fresh and up-to-date. Major innovations create fundamental changes. Both add value for consumers, accelerate growth and deliver sustainable shareholder value. Increasingly, science-driven research and development is creating more added-value products and in turn creating higher profitability.

Innovation has created successful brands and products that today account for billions of additional sales from products that did not exist only a few years ago (eg – *Beneful, Nescafé Dolce Gusto, Nan H.A.*). Our project-rich innovation pipeline will generate similar growth in future years.

Innovation goes beyond the product itself. Innovation opens up new routes to market – for example by designing small ice cream vending machines. Innovative packaging is saving energy and resources – we have reduced the weight of bottled water plastic packaging by 19.6% per litre over the last five years. Indeed, Nestlé has introduced the lightest-weight bottle in the industry and will go lighter still in 2009. Innovative engineering technology improves production line efficiency and cuts manufacturing costs.

Bigger, better, bolder innovation depends on having open-minded and passionate inventors in R&D who bridge science, technology, business and consumer needs. Major pioneering innovations hit the "innovation sweet-spot" where best-in-class science and technology combine to deliver precisely targeted nutrition, health and wellness benefits that lead to significant business success. Bigger, better, bolder innovations at Nestlé have to meet a confirmed consumer need, be technologically feasible and have robust commercial potential.

The complexity of modern-day innovation demands strict alignment between all business functions to maximise the potential in new products and processes. Cross functional innovation teams include R&D, the Strategic Business Units and the Markets. As our product launch dates approach, our Innovation Acceleration Teams ensure fast, flawless roll-out to priority countries.

Innovations in bottled water packaging: examples from the USA

Nestlé Waters North America (NWNA) continues to invest in improving its environmental performance, with the objective of having the industry's lightest environmental footprint per unit of product. One priority is the bottle itself, and the company has made progress in reducing the bottle's environmental footprint by introducing innovative, lighter-weight packaging. The carbon embedded in the purchased PET resin for the bottle accounted for 55% of NWNA's greenhouse gas emissions, so in the fifteen years to 2007, NWNA reduced the amount of PET plastic in its bottles by 40%. The EcoShape bottle, launched in 2007, achieved a further 14% reduction in plastic used, and weighs only 12.5 grams on average. It remains the lightest branded half-litre bottle on the US market. We estimate that it will save more than 88 million kilograms of resin and help avoid more than 356 000 tonnes of CO_2 equivalent emissions from its launch to the end of 2009. The company plans to reduce plastic in its half-litre bottles by an additional 15% by 2010.

In addition, since 1994, NWNA has manufactured 98% of its PET packaging in its plants, saving the energy required to ship 160 000 truckloads of empty bottles to its sites. This investment in packaging technology is backed up by a commitment to recycling. The returnable bottles for its US Direct-to-Home & Office business get used thirty-five times. When their useful life is up, the majority are recycled into products such as lawn furniture, synthetic lumber and outdoor sheds. In terms of public recycling, the USA only have about a 25% plastic recycle rate and about half of Americans have access to kerbside recycling. A lot is about education and changing habits. NWNA is advancing the goal of a minimum 60% recycling rate for PET beverage bottles by 2018 through partnerships, coalition-building, consumer education, improved kerbside recycling programmes and policy initiatives.

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State-of-the-art knowledge in food science and nutrition
Nutritional profiles are continuously assessed, and recipes and formulations updated. State-of-the-art knowledge in food science and nutrition leads to on-going improvements and the best products in the market. Safety, meanwhile, is non-negotiable.

Proprietary technology for improved nutrition and energy saving

Science-driven proprietary technology is driving our nutrition, health and wellness strategy. As a result of proprietary process technology, *Nescafé Protect* is rich in antioxidants – helping to defuse free radicals that are a main cause of ageing. Our proprietary and revolutionary aseptic process means that *NaturNes* baby foods retain nutrients more effectively and capture more of the taste of natural ingredients than competitor products. *NaturNes* also benefits the environment by using plastic rather than glass jars, thereby reducing primary energy consumption by up to 27% and greenhouse gas emissions by up to 31%.

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Operational efficiency

Operational efficiency is essential to remaining competitive. It also offers the potential for competitive advantage if we are able to achieve break-through improvements in efficiency. Over the past ten years we have made average annual savings of over CHF 1 billion.

Our approach has tended to be project-driven and to target specific areas, for example manufacturing or supply chain, with time-based goals. The new centre-piece of our cost-cutting strategy is NCE (Nestlé Continuous Excellence). Unlike previous programmes, this is an on-going initiative that covers the entire value chain from raw materials, manufacturing, packaging, distribution and the customer to the consumer. It takes us from our efficiency project approach to a new lean thinking mind-set approach.

The overriding goal of NCE is to accelerate operational performance and create gaps with the competition and thus to support delivery of the Nestle Model year after year. It will maximise value and minimise waste by engaging the hearts and minds of all employees, aiming for 100% engagement and "Zero Defect and Zero Waste". It is centred on our Nestlé Integrated Management System (NIMS), our leadership development process and goal alignment. It introduces Total Performance Management and "lean thinking" into all manufacturing and supply chain operations. It nurtures a sustainable improvement culture for fast, disciplined, flawless execution. It empowers our people at all levels to make them responsible and autonomous in their daily work. For example, a shop floor machine operator will manage important productivity enhancing decisions.

The programme includes new best practices for manufacturing, people development and performance management. Some 700 standards are applied in our factories covering aspects including product quality, health and safety and the environment. NCE pilot results have shown its potency as well as the scale of opportunity: Waste reduced by 50%; Consumer complaints down 33%; Unplanned stoppages down 70%; Quality defects down 70%; Inventory down 50%; Production line changeovers down from three hours to less than ten minutes; Line efficiency up 15%; Productivity up 27%.

GLOBE (Global Business Excellence) is enabling savings and economies of scale on a regular, on-going basis throughout the company. It was designed to harmonise our systems, analyse our business more effectively, optimise economies of scale and share best practices. It has proven to be an enabler of extraordinary power, leveraging efficiency, skills and know-how, and has now been effectively integrated in our most recent acquisitions, Novartis Medical Nutrition and Gerber. GLOBE itself will benefit from NCE. GLOBE is also proving to be an enabler of growth by freeing up our people to spend more time on customer-focused and consumer-targeted projects.

Improving transportation efficiency and reducing accidents

Dairy Partners America (DPA) is cutting costs and improving reliability of supplies by providing its milk collection contractors' truck drivers in Brazil with accident prevention training. Coupled with an incentive scheme and modern data logging, this resulted in 58% fewer accidents in the first half of 2008, compared with the entire previous year, and a rate at least ten times lower than national average. DPA has been sharing its approach with other companies in Brazil in the interests of safer driving for all, whilst we are starting similar programmes in other Latin American countries as well as Pakistan and Central Europe.

Capturing energy and avoiding waste: "Java Log®"

Nestlé USA is helping to safeguard the environment through pollution prevention and control, energy conservation and recycling/solid waste management practices. For example, our Freehold, New Jersey beverage factory has found a unique way to capture available energy and avoid waste, capitalising on the fact that coffee grounds can have as much as 25% more energy capacity than wood when combusted. The factory works with a producer of fireplace logs, "Java Log®", who use Nestlé's spent coffee grounds to produce and market "coffee firelogs" for use in domestic fireplaces. This is an efficient, cost-effective and environmentally sound waste management solution for Nestlé, a source of raw materials for the "Java Log®" manufacturer, and an alternative energy choice for "Java Log®" consumers.

More information on this product can be found at http://www.java-log.com

More efficient water accountability and use

Together with leading companies, universities and experts (including WWF, UNESCO and The Nature Conservancy) we are sharing knowledge and participating in the Water Footprint Working Group to establish a scientific basis for water footprint accounting, eventually via ISO, and to agree common metrics. We will test methodology, covering the entire life cycle of one of our products.

Water foot-printing is vital for long-term conservation efforts. Accurate accounting of the volume of fresh water used by companies and embedded in products will provide a more holistic view of impacts, alongside energy use and greenhouse gas emissions, and improve our capacity to conserve natural resources.

1

Reaching out direct
Nestlé products are sold at many millions of outlets. We train our own sales teams who use motorcycle carts to take our products to the shops.

2

Improving performance through local production
Local production, for example in our PPP factories in rural areas of developing markets, creates supply chain efficiency. Raw materials are more readily accessible and finished products are closer to target markets.

Responsible agricultural sourcing

To produce our extensive range of products, we purchase around CHF 22.5 billion of raw materials per year from more than 60 countries, with two-thirds sourced from emerging countries. Nearly a fifth of our sales are dependent on raw materials sourced or partly sourced direct from farmers, including milk, coffee, cocoa, fruit, vegetables, cereals and potatoes. Our specialist teams of agronomists and agricultural technologists work with farmers to improve quantity and quality by increasing yields and reducing crop diseases. Improving quality and sustainable production assures long-term supply for us, but also increases farmers' incomes and their quality of life.

1, 2

Whenever, wherever, however

We want our products and brands to be available wherever consumers want them. Broadening availability attracts more consumers, increases consumption moments, and contributes to profitable growth.

For our consumer business, this means a multiple channel strategy, ranging from traditional retailers – hyper- and supermarkets, hard discounters, "mom and pop" stores and street markets – to all the impulse opportunities, especially street vendors, kiosks and vending machines that are so vital to ice cream and confectionary sales. Then there's the growing in-home channel where, via the internet, *Nespresso* and *Jenny Direct* have built flourishing home-delivery businesses, and in some countries we sell PPP door-to-door.

Out-of-home provides Nestlé Professional, our specialist FoodServices business, with endless opportunities from cruise ships, airlines, and long-haul trains to schools, universities, hospitals, hotels and restaurants. The objective is to have our products available for any occasion, any place – railway and service stations, offices, sports centres, ski slopes, at fairs, exhibitions and cinemas, in fact wherever people go for work, leisure and pleasure.

Given our extensive product portfolio, distribution is complex. Many channels, many products, different recipes and formulations, different pack sizes, all exacerbate what is inherently a logistical challenge. Transporting ice-cream in hot climates, or ambient foods in sub-zero temperatures, adds to the complexity and requires technologies that ensure that the product – either in transit, on shelf or in-home – retains the same freshness and quality as when it came off the production line.

Making what is complex, simple is a Nestlé skill. Enabled by GLOBE, and built on specific business models, we have been able to reduce costs and deepen distribution in all channels.

Consumer communication

Consumer communication is about forging relationships between consumers and our brands to create strong "loyalty fortresses". Above all, it's about generating demand and building market share to accelerate growth and profit. An example is *Nespresso,* which in 2008 – supported by highly effective communication – out-grew the world coffee market twenty fold. For instance, in France and Switzerland, its volume share of the market was 3%, its value share 20% and its profit share 35%.

Our flagship brands with strong nutritional credentials are the carriers and communicators of our vision and strategy. Through them, consumers experience for themselves the benefits of nutrition, health and wellness. The brands also provide demonstrable evidence of quality and safety.

The way we communicate through our brands influences our corporate reputation and brand image. In effect, consumer communication is the way our brands behave in public, whether in mass media or increasingly in one-to-one digital and telephone communication – for example, our 1000 advisors in 80 Consumer Service Centres in 70 countries have over 10 million consumer contacts each year.

For effective communication we need to know our audience. It's not enough simply to listen to them. Our job is to achieve deeper levels of consumer understanding than our competitors. One way is to spend time living and shopping with them, and getting first-hand understanding of their needs, motivations, routines, purchasing habits, decision-making and the everyday aspects of their lives.

It is this second aspect of communication, listening to our consumers, that enables us to start the cycle again, returning to innovation and renovation with feedback from consumers about what they want from us. This feedback ensures that our innovation and renovation remains consumer-relevant and enhances the likelihood of success of our product launches and renovations.

Communicating nutritional advantages
Factual information, such as GDA (Guideline Daily Amount) is complemented with the *Nestlé Nutritional Compass.* This innovative nutrition labeling system took three months from idea to concept, four months from concept to shelf, and eighteen months to be on 80% of packs worldwide. It is now on 98% of packs.

Funding research into the decline of honey bees
Häagen-Dazs is funding research by Pennsylvania State University and the University of California into causes and prevention of the sharp decline in honey bee populations.

Website "Croquons la Vie"
In France, over one million consumers have joined the "Croquons la Vie" Club. It includes 3500 recipes aimed at helping people to eat better and live healthier.

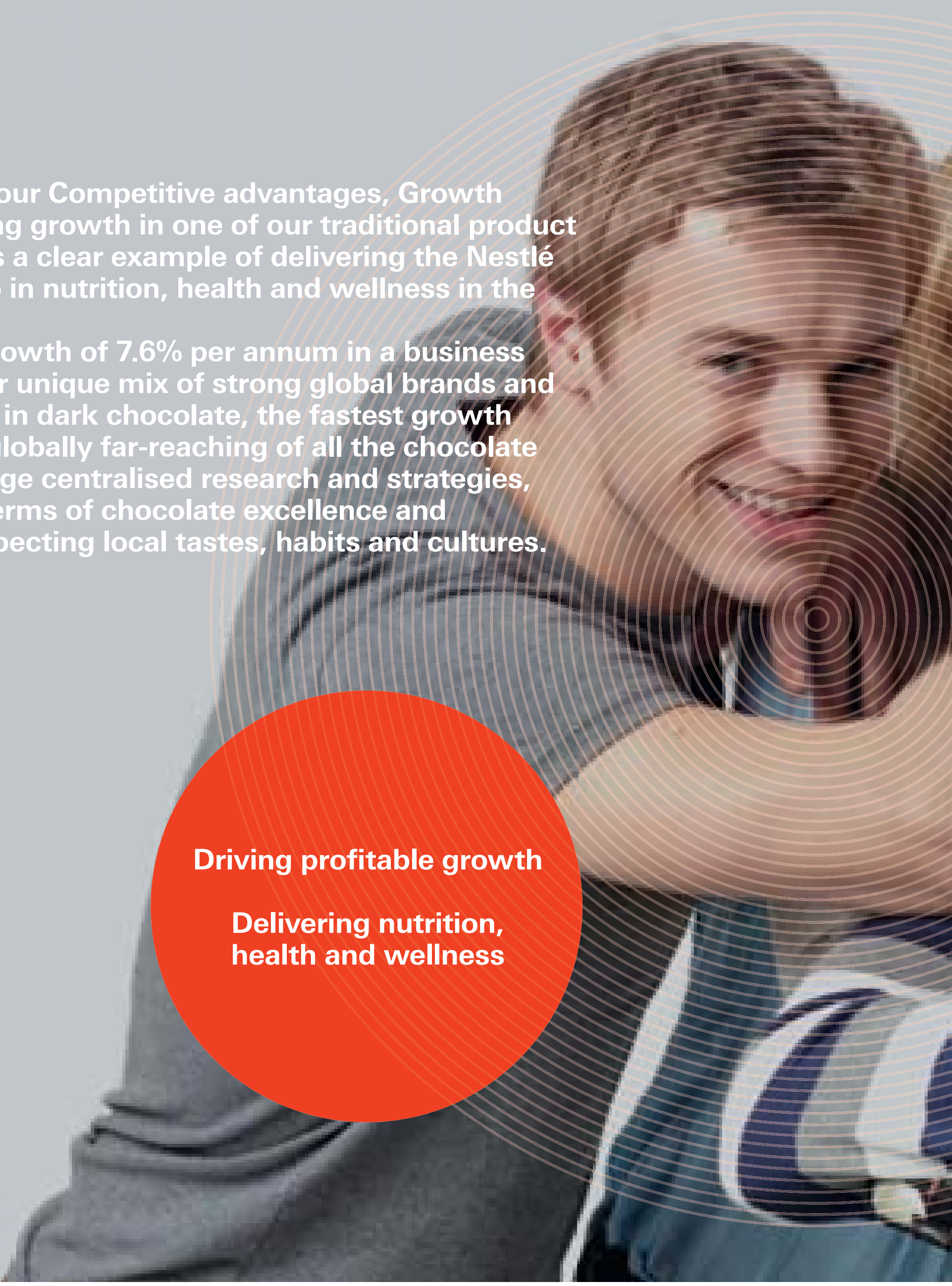
Nesfrappé

Nesfrappé is a brand new concept targeted at young adults, the "on the go" generation, drinking and snacking any time anywhere. Launched in Mexico, South Korea, Singapore and the UK, it aims to disrupt their current beverage drinking habits and establish ready-to-drink coffee as a new category. *Nesfrappé* is convenient, refreshingly ice cold and made with the goodness of milk and best quality coffee from *Nescafé.* In Mexico, its biggest market, *Nesfrappé* achieved leadership within three months, driving category growth by 81%.

The 4x4x4 Nestlé roadmap in action – Chocolate

In this section we demonstrate how our Competitive advantages, Growth drivers and Strategic pillars are driving growth in one of our traditional product categories. Our chocolate business is a clear example of delivering the Nestlé Model and contributing to leadership in nutrition, health and wellness in the important sweet foods category.

We are driving overall chocolate growth of 7.6% per annum in a business with sales of CHF 9.8 billion, with our unique mix of strong global brands and well-loved local brands. We are No 1 in dark chocolate, the fastest growth sector worldwide. We are the most globally far-reaching of all the chocolate manufacturers. We are able to leverage centralised research and strategies, and apply them to all our brands in terms of chocolate excellence and innovation and renovation, while respecting local tastes, habits and cultures.




KitKat

Competitive advantages

- **Unmatched product and brand portfolio**
- **Unmatched R&D capability**
- **Unmatched geographic presence**
- **People, culture, values and attitude**

What marks us out in terms of our product and brand portfolio is our wide range of local brands. Global brands such as *Nestlé* and *KitKat* each have sales over CHF 1 billion, but 70% of our business comes from local brands. These brands, such as *Rossiya* in Russia and *Nestlé Savoy* in Venezuela, are very traditional, well-established, loved, indeed cherished by consumers. They benefit from enduring brand loyalty handed down from generation to generation.

Our unmatched R&D capability goes back to 1875 when Daniel Peter invented milk chocolate. Today, our R&D centres around the world focus more on the relationship between chocolate and nutrition, health and wellness. R&D is also developing leading edge processing technologies such as aeration to produce lighter products.

Our unmatched geographic presence, with 52 factories across the world, enables us to sell our products in 61 countries. In Brazil, our biggest market, we have 49% market share. The UK is our second largest, followed by USA, Russia, France, Italy, Germany and Canada.

As a result of our strength in local chocolate brands, we are No 1 in many countries and are leading the way in BRIC countries (Brazil, Russia, India and China) where annual sales are growing by 15%–20%. In Latin America we experienced organic growth of 16.4% in 2008.

Our chocolate business is a typical example of how Nestlé draws on its diversity of people to share global technology and grass-roots local knowledge. Thirty-eight nationalities work in our R&D network, whilst we rely heavily on local employees in our local operations. For example in Brazil, 95% of our employees are Brazilian citizens. To increase their competitiveness, each year we bring our people together from around the world and from all disciplines, to share experience and best practice in a series of category specific workshops.

Growth drivers

- **Nutrition, health and wellness**
- **Emerging markets and popularly positioned products**
- **Out-of-home leadership**
- **Premiumisation**

The desire for nutrition, health and wellness is universal. Consumers seek products in all categories that offer nutritional benefits and contribute to good health. For many, it goes further: they also look for enjoyment and pleasure as a source of well-being. That is why eating chocolate plays such a fundamental role in their life. The key is to practice "good food, good life" and link healthy exercise with a balanced diet and responsible consumption.

Against this background, our strategy is to create the best tasting chocolate, and thereby enhance its enjoyment; and to improve nutritional benefits in a number of ways, across the entire product portfolio, in order to have a competitive advantage.

We have developed healthier options by reducing, removing or replacing ingredients, leading to all-natural products or products with reduced fat, sugar, cholesterol, and no artificial ingredients or preservatives. We are increasing the content of healthy, actively nutritious ingredients and nutrients such as dairy, fruit, cereals, nuts, antioxidants, calcium and fibre. For example, we have boosted the cereal content in *Nestlé Bocaditos* in Mexico, and Dark *Nestlé Raisinets* in the USA have a high antioxidant content.

Our Popularly Positioned Products (PPP) sell predominantly in emerging markets and are achieving double digit growth. All our factories, including the newest, under construction in Dubai, are producing PPP for what is now the largest, fastest growing segment of the chocolate market. BRIC countries in particular are driving growth – with brands such as *Baton* in Brazil and *Confetti* in Russia. *Munch* Wafer in India is selling through two million outlets at just 5 rupees; and *Nestlé* Wafer in China sells for 1 renminbi.

Chocolate excellence
While taste differs by country, the expertise in making products is the same worldwide. Our new Worldwide Chocolate Centre of Excellence in Broc, Switzerland, is our flagship centre dedicated to excellence in chocolate. It brings together over 130 years of expertise – international chocolate-making professionals, top confiseurs, sensory experts and packaging designers who focus their R&D efforts on developing the finest chocolate premium and luxury products.

Profiting from premiumisation
We are well represented in the faster growing premium segment with brands such as *Perugina Nero* and *Baci* (Italy), *Nestlé Noir* and *Lanvin* (France), *Nestlé Gold* (Global), and *Cailler* (Switzerland) as well as *Toronto* in Venezuela, *Alpino* in Brazil, *After Eight* in the UK, and *Comilfo* and *Rossiya Zolotaya Marka* in Russia.

Healthier options
Milkybar in the UK is all natural. *Smarties* in the UK has no artificial ingredients or colourings. *Nero Sfoglie* in Italy and *Orion* Intense dark chocolate in the Czech Republic have high antioxidant levels. In addition, Nestlé's proprietary Branded Active Benefits (BABs) help us to create actively nutritious chocolate products, for example, *Savoy* with *Calci-N* helps strengthen bones and teeth.

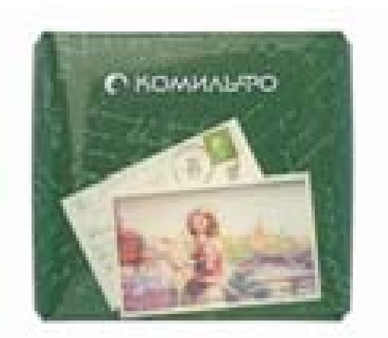
Helping cocoa farmers and their families

Nestlé buys over a fifth of the world's fine cocoa, as distinct from "bulk cocoa". We source and process fine cocoa in its country of origin, most significantly in Ecuador and Venezuela.

Fine cocoa is grown predominantly by small farmers on low incomes. Their yields are poor and prone to disease, including from Witches Broom fungus and Pod Borer.

Nestlé provides education for farmers to help them adopt good agricultural practices in cocoa harvesting, for example, fermentation, drying, storage, and pruning. We advise and encourage co-operatives to simplify and optimise the supply chain for farmers. Other initiatives help to increase farmers' incomes, improve cocoa quality and increase productivity.

At the other end of the market, premium chocolate grew by 7.5% and luxury chocolate by 8.0% last year, both well above category average. Our strategic partnership with one of the world's leading luxury chocolate makers, Pierre Marcolini, enables us to harness his skills, inspiration and artistic talent for premiumisation of brands and development of new luxury chocolate products. *Nespresso* chocolate is a range of luxury chocolates, launched in 2008 in Switzerland and France, and sold exclusively in its boutiques. Ten flavours were specially developed to harmonise with the different *Nespresso* coffees.



Strategic pillars
- **Innovation & renovation**
- **Operational efficiency**
- **Whenever, wherever, however**
- **Consumer communication**

Our focus on innovation and renovation is driving superior quality, taste and texture and our quest for healthier, lighter eating. One example is *KitKat* where we have optimised every aspect of the product including formulation and packaging, leading to 10% growth across Europe. Another example of our speed in innovation is the *Nespresso* chocolate launch that went "from bean to box" in under a year.

The La Penilla chocolate factory in Spain was chosen to run the pilot for NCE (Nestlé Continuous Excellence) and test "lean thinking" in order to achieve even greater operational efficiency. The overall aim was to harness a force of "lean thinkers" to create a "lean journey" – from cocoa bean to chocolate bite in only 30 days, rather than the previous 60 days. Reducing lead times demands interrogation of every step in the supply chain, from simplifying or unifying recipes to reducing stock cover, from the number of inks used in packaging to cutting production line downtime and improving truck loading logistics. The pilot showed how reduction of stocks and working capital worked hand in hand to give better service to customers as well as maximising product freshness on-shelf.

In chocolate, widespread distribution and excellent in-store visibility are key to sales growth. 70% of purchases are on impulse, so we strive to ensure our products are available whenever, wherever, however in outlets such as convenience stores, petrol stations, independent "Mom and Pop" stores and street kiosks. Our focus is on strategies that range from Direct Store Delivery in Latin America, to traditional main-shelf category management in supermarkets in Europe.

Consumer communication in the chocolate category requires special skills. Point of sale is particularly important, as such a high proportion of sales are made on impulse. A different communication style and packaging is required for chocolate as a gift. Packaging itself can be a valuable communication medium, especially to impart nutritional information and healthy eating tips. We use the *Nestlé Nutritional Compass* to communicate nutritional and health benefits. However, we go further, and take particular care to indicate how chocolate fits into a balanced diet, and to recommend portion size as part of the recognised GDA (Guideline Daily Amounts).

Tackling cocoa crop disease
Our research centre in Tours, France, is developing disease resistant high yielding plants to help cocoa farmers enhance their crops.

Lighter eating
Harnessing innovative technologies such as wafer, sintering, extrusion and aeration leads to lighter, healthier products. 75 years ago *KitKat* was one of the first chocolate products made with a light wafer. Its finger format makes it easily portionable. The *KitKat* ritual to "Have a break, Have a *KitKat*" is itself an invitation to a moment of well-being.

Eating responsibly
More and more of our chocolate products are made to break easily into portions or packed in resealable packs. It enables easier sharing and makes it simpler for consumers to ration their consumption as part of a balanced diet.

The finest Swiss chocolate
Switzerland is world famous for its chocolate. The original Nestlé factory in Broc, Switzerland sources fresh milk from Gruyère. Our best-known Swiss brand, *Cailler,* grew sales by 22% in 2008 as a result of new product launches, distribution gains, new packaging and effective consumer communication.

Superior taste and nutrition
60/40+ ensures superior taste as well as nutritional advantage. For example, *Trencito Milki* has 44% milk content. It achieved high 60/40+ scores as a result of its Nutritional Foundation and Nutritional Competitive Advantage. The product is now being successfully rolled out from Chile and Mexico to other countries.

Nestlé nutritional brands extended to chocolate

Chocolate has intrinsic nutritional values. Dark chocolate, in particular, is a rich source of polyphenols with beneficial antioxidising effects. We also develop new chocolate products for other Nestlé brands that are good carriers of nutritional benefits. For example, our *Milo* beverage brand is available in a chocolate ball format in Peru and *Nesquik* as a chocolate bar in Ukraine, Russia and many other countries. In the Philippines, our *Milkybar* is made with *Nido* milk.

Pharmaceutical and cosmetics activities

Alcon

Alcon, the world's leading eye care company, experienced sales growth of 2.1% to CHF 6.8 billion and EBIT grew 4.7% to CHF 2.4 billion. Unprecedented growth in international markets, especially those in emerging countries, was a large contributor to Alcon's performance in 2008. The strength of the surgical category was enhanced with the launch of *AcrySof ReSTOR +3.0 Add* and *AcrySof Phakic* intraocular lenses outside of the USA, as well as the *AcrySof ReSTOR Aspheric* and *AcrySof Toric* lenses in Japan. The company also introduced the *Constellation* vitrectomy system, the next generation platform for vitreoretinal surgery. Growth in the pharmaceutical segment was driven by global share gains in glaucoma by the *Travatan* family and *Azopt* ophthalmic solutions. Consumer category growth was attributed to sustained global market share for *OPTI-FREE RepleniSH* and *Express* multipurpose disinfecting solutions and the global growth of *Systane* lubricant eye drops, supported by the launch of *Systane ULTRA* in the USA.

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

L'Oréal

Sales reached EUR 17.5 billion, with like-for-like growth of 3.1% and 6.6% at constant exchange rates. Net earnings per share amounted to EUR 3.49, an increase of 3.8% and 6.8% at constant exchange rates.

World leader in cosmetics, L'Oréal once again grew faster than the cosmetics market in 2008. As a result, the group continues to strengthen its worldwide position, particularly in the new markets of Eastern Europe and Asia.

2008 has been a year of major technological innovations, such as Excell 10' from L'Oréal Paris which is revolutionising hair colouration, and Oscillation from Lancôme, the first powermascara by micro-oscillation. Vichy has introduced the first "biological lifting", Liftactiv CxP. In luxury products, the end of the year has been marked by the launch of several fragrances: Notorious by Ralph Lauren, the men's fragrance Emporio Armani Diamonds for Men, and finally Magnifique, the women's fragrance by Lancôme.

Consolidated since June 30th 2008, the acquisition of Yves Saint Laurent Beauté complements the group's portfolio of luxury brands, and is strengthening L'Oréal's ambition to become the world's leader in luxury cosmetics.

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

Galderma

Galderma pursued its ascent with an increase of 12.1% in net sales in 2008 to CHF 1.4 billion.

Several global strategic brands *Differin* (acne), *Rozex/Metro* (rosacea), *Clobex* (psoriasis), *Oracea* (rosacea), a key product from the 2008 acquisition of CollaGenex, *Tri-Luma* (pigmentary disorders), *Cetaphil* (therapeutic skin care) and *Dysport* (hyperfunctional facial lines) – contributed to the double-digit growth rate and resulted in substantial market-share gains.

In addition, *Epiduo,* the new combination treatment for acne, was introduced in several countries during the year and approved in the United-States at the end of the year. *Differin* 0.1% gel was launched in Japan, the 2nd biggest dermatology market in the world – where it is the first topical retinoid approved for acne.

For further information, see www.galderma.com

Laboratoires innéov

innéov benefits from a unique synergy between Nestlé's Advanced Research in Nutrition and L'Oréal's Skin & Hair Biology Research.

The products are based on an innovative and patented association of nutrients to protect, correct and stimulate skin and hair cellular processes from within, for daily beautified benefits.

With eight products, innéov is present in seventeen countries and is a leading brand of oral cosmetics, distributed in Europe through pharmacies and parapharmacies.

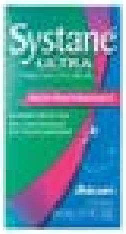
For further information, see www.inneov.com

1
Launched in 2008, Alcon's *Systane ULTRA* lubricant eye drops is a high-performance dry eye therapy that sets a new standard for over-the-counter dry eye relief.

2
Differin 0.1% gel, the first retinoid for acne approved in Japan.

3
Launch of *innéov homme anti-chute:* a new product designed to fight the four causes of male hairloss. Launch of the *innéov* brand in Brazil.

4
In 2008, Lancôme launched Oscillation, the first powermascara by micro-oscillation, for which four patents have been filed.



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2

3

Further to an agreement early 2008 between Nestlé S.A. and Novartis AG, Novartis AG owns now a minority stake in Alcon of approximately 25% of Alcon's outstanding shares, while Nestlé remains Alcon's majority shareholder with approximately 52% of Alcon's outstanding shares.

Nestlé owns about 30% of L'Oréal with whom it has two joint ventures: Galderma and Laboratoires innéov.

4


Financial review

Sales	+2.2%	CHF 109.9 bio
Organic growth	+8.3%	
Real internal growth	+2.8%	
EBIT margin constant currencies	+50 bps	
EBIT margin	+30 bps	14.3%
EBIT margin Food and Beverages constant currencies	+40 bps	
EBIT margin Food and Beverages	+20 bps	12.8%
Net profit	CHF 18.0 bio	
Underlying earnings per share constant currencies	+10.9%	
Operating cash flow	CHF 10.8 bio	
Free cash flow	CHF 5.0 bio	
Proposed Dividend	+14.8%	CHF 1.40 per share

Principal key figures (illustrative)

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

In millions of CHF (except per share data)		2007	2008
Sales		107 552	109 908
EBIT (Group) Earnings Before Interest, Taxes, restructuring and impairments		15 024	15 676
EBIT (Food and Beverages) Earnings Before Interest, Taxes, restructuring and impairments		12 589	13 103
Profit for the period attributable to shareholders of the parent Net profit		10 649	18 039
Equity attributable to shareholders of the parent before proposed appropriation of profit of Nestlé S.A.		52 627	50 774
Market capitalisation, end December		195 661	150 409
Per share [a]			
Total earnings per share	CHF	2.78	4.87
Equity attributable to shareholders of the parent before proposed appropriation of profit of Nestlé S.A.	CHF	13.75	13.71

In millions of USD (except per share data)		2007	2008
Sales		89 927	101 389
EBIT (Group) Earnings Before Interest, Taxes, restructuring and impairments		12 562	14 461
EBIT (Food and Beverages) Earnings Before Interest, Taxes, restructuring and impairments		10 526	12 087
Profit for the period attributable to shareholders of the parent Net profit		8 904	16 640
Equity attributable to shareholders of the parent before proposed appropriation of profit of Nestlé S.A.		46 738	48 095
Market capitalisation, end December		173 766	142 473
Per share [a]			
Total earnings per share	USD	2.33	4.49
Equity attributable to shareholders of the parent before proposed appropriation of profit of Nestlé S.A.	USD	12.21	12.98

In millions of EUR (except per share data)		2007	2008
Sales		65 421	69 288
EBIT (Group) Earnings Before Interest, Taxes, restructuring and impairments		9 139	9 882
EBIT (Food and Beverages) Earnings Before Interest, Taxes, restructuring and impairments		7 658	8 260
Profit for the period attributable to shareholders of the parent Net profit		6 478	11 372
Equity attributable to shareholders of the parent before proposed appropriation of profit of Nestlé S.A.		31 761	34 120
Market capitalisation, end December		118 081	101 074
Per share [a]			
Total earnings per share	EUR	1.69	3.07
Equity attributable to shareholders of the parent before proposed appropriation of profit of Nestlé S.A.	EUR	8.30	9.21

[a] 2007 comparatives have been restated following 1-for-10 share split

This section should be read in connection with the 2008 Financial Statements.

Overview: a strong performance in a tough environment

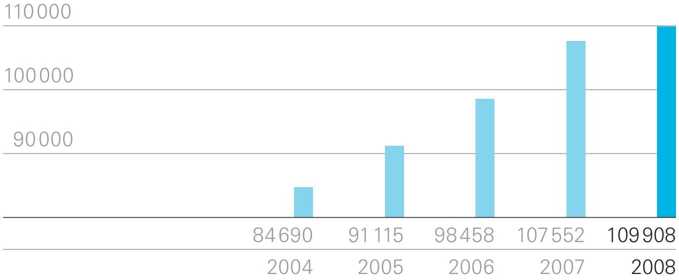
The last twelve months will likely be remembered for the unprecedented and rapid changes in the economic environment, the sharply falling stock markets, a global crisis of confidence, the rising unemployment and volatile currencies and raw material prices. In this environment, Nestlé delivered a performance that combined very strong sales growth, driven by organic growth well above the Group's target run rate of 5% to 6%, with the achievement of a sustainable improvement in the EBIT margin (Earnings Before Interest, Taxes, restructuring and impairments). This performance was broad-based with almost all primary reporting segments contributing positively. The Group continued its share buy-back and also increased its investment in research & development and marketing, the key building blocks for future profitable growth.

Raw material cost pressures began to increase significantly back in 2007 and prevailed well into 2008. After some softness in the middle of the year, these pressures look like re-emerging to some degree in 2009. Their impact in 2008 is very visible in the high level of pricing achieved by the Group, as well as the impact on the Group's cost of goods sold. Our ability to take such necessary pricing action, and to do so whilst continuing to achieve a good positive level of RIG (real internal growth) is testimony to the strength of our brands, particularly our host of billionaire brands, as well as to the very active programme of innovation and renovation that was running through the course of the year. Evidence of the significant influence of renovation, keeping well-established brands relevant to consumers can be found in two brands, both over 50 years old: *Nescafé* that achieved almost 10% organic growth in 2008 and *KitKat* that achieved well over 10%. Both benefited over the course of 2007 and 2008 from renovation of existing lines and innovation, with the launch of new variants. The same is true of brands across the other categories.

Pricing and RIG were significant factors in our ability to deliver an improvement in EBIT margins. Just as important, however, was our continued improvement in the product mix, as we continue to drive our nutrition, health and wellness strategy across all our product categories, and our accelerated drive for efficiencies from farm gate to consumer. Operational efficiency incorporates areas such as the supply chain, our factories, administrative & headquarters costs, SKU rationalisation and improved returns on our marketing and trade spends. GLOBE continues to enable these efficiencies, as well as our drive for reduced complexity, including our Global Nestlé Business Services initiative, realising opportunities for shared services and outsourcing of non-differentiated services.

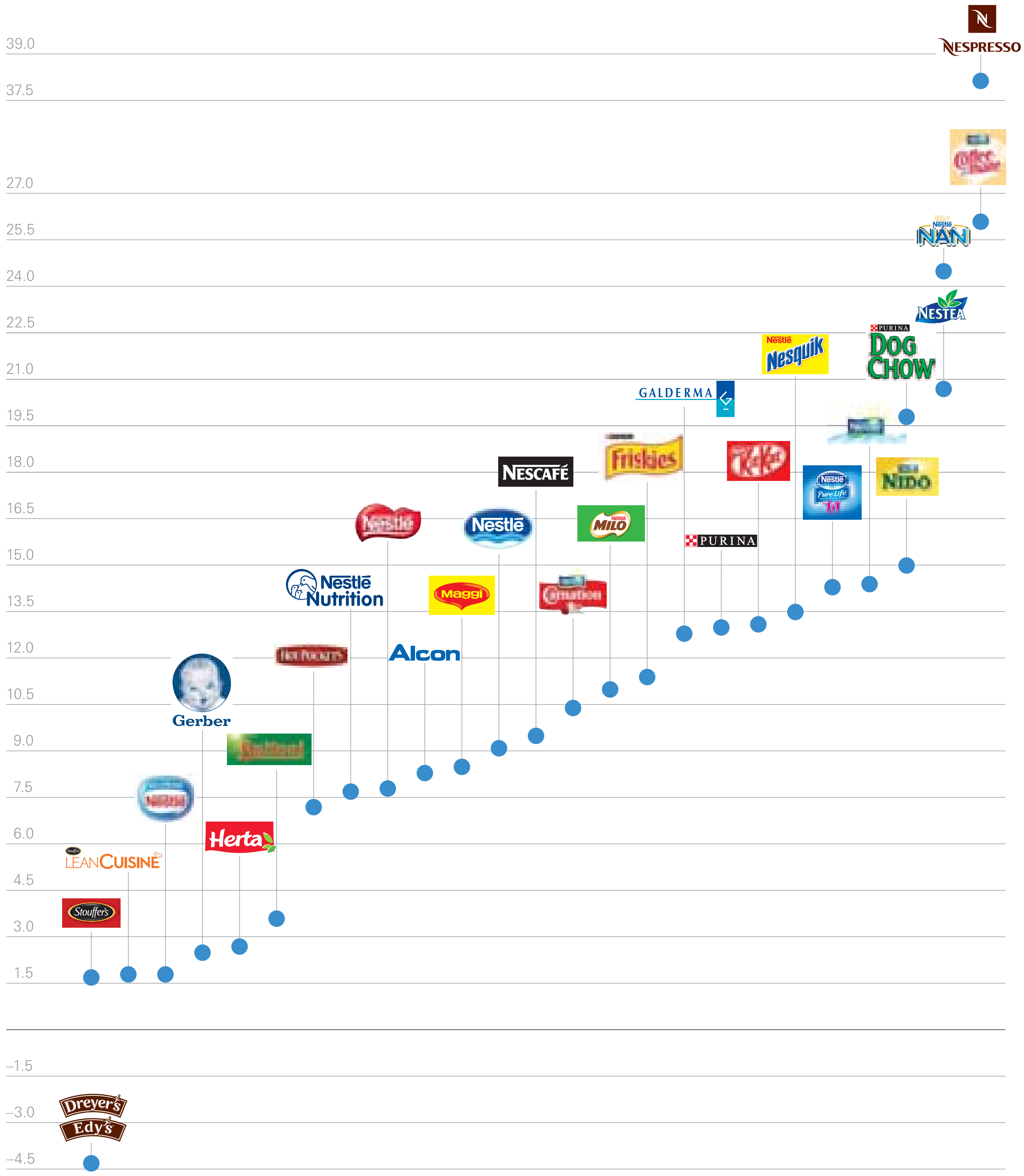
Sales (Group)

In millions of CHF



Nestlé's billionaire brands

Organic growth (%)



The Nestlé Model, defined as the achievement of organic growth of between 5% and 6% combined with an improvement in the EBIT margin, was achieved again in 2008. Over the last ten years, Nestlé has reported an average annual organic growth of 6.2% and an average annual improvement in the EBIT margin of 30 basis points. Over that time, the Group's sales have increased from CHF 74.7 billion to CHF 109.9 billion and the EBIT from CHF 8.3 billion to CHF 15.7 billion. The challenge now is to achieve the Nestlé Model again in 2009, recognising that the business environment has deteriorated significantly over the last twelve months.

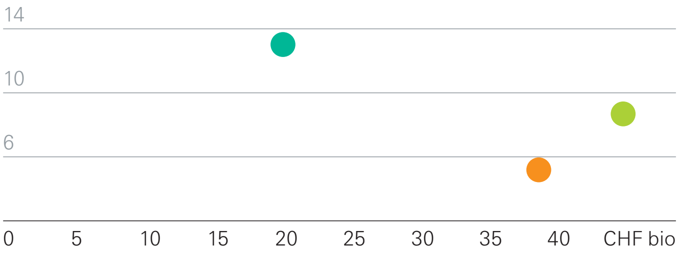
2008 Sales – above target organic growth

Organic growth was 8.3%, with RIG of 2.8% and pricing of 5.5%. The impact of acquisitions (+2.4%), net of disposals (–0.7%) was +1.7%. The main contributors to acquisitions were Gerber and Novartis Medical Nutrition, acquired in 2007. The main disposals were the Family Frost ice cream distribution business in Germany and the *Buitoni* dried pasta business in Italy, as well as some other frozen and ambient culinary businesses. Foreign exchange reduced our reported Swiss franc sales by 7.8%, reflecting another strong year for the Swiss franc, particularly against the US dollar and Euro. Overall, the Group's sales increased 2.2% in 2008 to CHF 109.9 billion.

The Food and Beverages business had sales of CHF 102.4 billion, with organic growth of 8.2%, consisting of RIG of 2.3% and pricing of 5.9%. The high level of pricing reflected the significant raw material cost pressure experienced both in the second half of 2007 and for much of 2008. The RIG held up well despite the pricing, reflecting the strength of our brands and market positions, a consistent flow of consumer-relevant product innovation and renovation, supported by effective consumer communication. Our total Food and Beverages business, including the Zones, the Globally Managed Businesses and the joint ventures, achieved 5.3% organic growth in Europe, 8.8% in the Americas and 13.1% in Asia, Oceania and Africa. Our developing markets around the world achieved organic growth of 15.4% on sales of CHF 35 billion.

The difference between the Group and the Food and Beverages sales numbers is accounted for by our Pharmaceutical activities, being Alcon and our two joint ventures with L'Oréal, Galderma and Laboratoires innéov. This segment recorded 8.8% organic growth and 8.4% RIG.

Food and Beverages
Sales and organic growth by continent (OG)

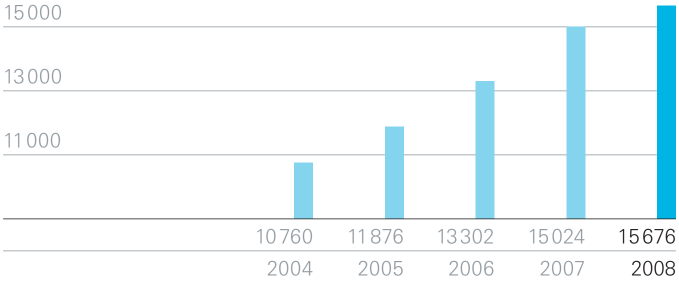


In billions of CHF	OG (%)	Sales
Europe*	5.3	39.1
Americas*	8.8	43.8
Asia, Oceania and Africa*	13.1	19.5

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

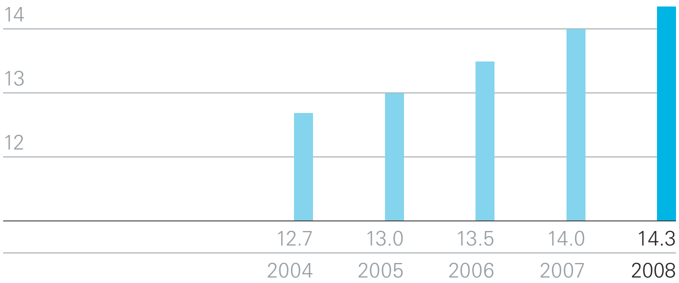
EBIT

In millions of CHF



EBIT margin

In %



Profitability – EBIT margin improves despite currency pressure

The Group's EBIT increased 4.3% from CHF 15 billion to CHF 15.7 billion, resulting in a 30 basis point increase in the EBIT margin from 14% to 14.3%. In constant currencies, the EBIT margin improved by 50 basis points. The Food and Beverages EBIT margin increased by 20 basis points to 12.8%, by 40 basis points in constant currencies.

The improved EBIT margin performance was achieved despite significant raw material pressure, which resulted in a 120 basis point increase in our cost of goods sold to 43.1% of sales. This increase was despite the offset of our efficiency initiatives which contributed over CHF 1 billion of gross savings. The efficiency drive is also reflected in lower distribution costs, down 30 basis points to 8.2% of sales. This improvement also reflects the different growth rates in our product categories, with Nestlé Waters, for example, which is distribution intensive, having negative organic growth in 2008. The Marketing and Administrative expenditure fell by 130 basis points to 32.6% of sales. Again, efficiencies played a role, with 50 basis points of this improvement achieved in administrative costs. We have also continued to focus on improving our return on our marketing and trade spends. We have, however, continued to support our brands and lay the foundations for future growth, demonstrated by the fact that our 2008 marketing expenditure increased by 7.5% in constant currencies. Another pillar for future growth, Research & Development, increased by 10 basis points to 1.8% of sales, and reached CHF 2 billion. This performance demonstrates Nestlé's ability to continue to achieve profitable growth whilst absorbing cost pressure, driving efficiencies and investing for future growth.

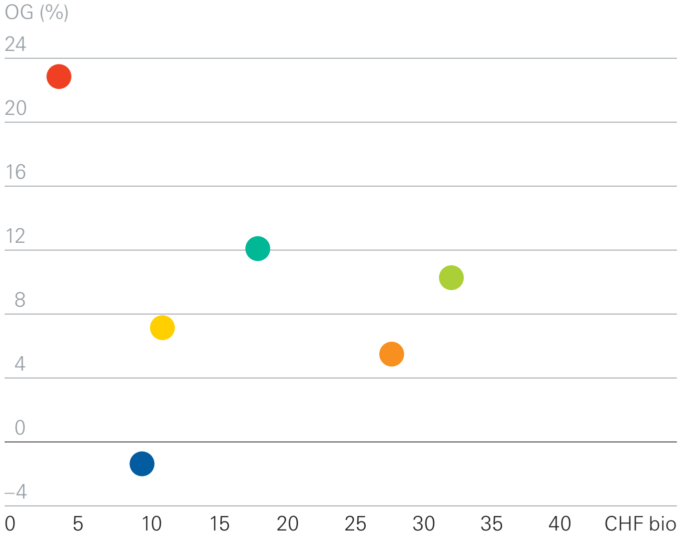
Primary segment reporting: Zones and Globally Managed Businesses

The three geographic Zones all performed well relative to their markets.

Zone Europe reported 5.6% organic growth, including 1.4% RIG. The Zone's EBIT margin increased by 20 basis points to 12.2% of sales. Organic growth was mid-single digit in Western Europe and 14% in Eastern Europe. All the major markets in the West achieved positive organic growth, with Germany, United Kingdom and Switzerland, as well as the pan-European PetCare business, particularly strong.

Zone Americas achieved 10.3% organic growth, including 2.7% RIG, and a 20 basis points improvement in its EBIT margin to 16.5% of sales. There was high single-digit organic growth in North America, and about 15% in Latin America. Most regions contributed well to the organic growth, and the regional PetCare business grew in the mid teens.

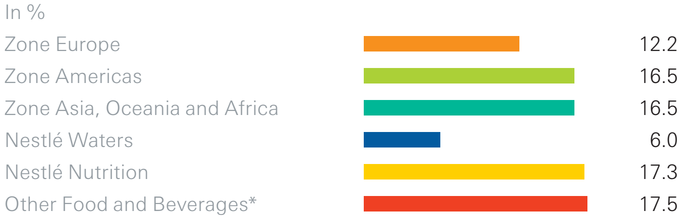
Primary segment reporting: Food and Beverages Sales and organic growth (OG)



In billions of CHF	OG (%)	Sales
Zone Europe	5.6	28.2
Zone Americas	10.3	33.1
Zone Asia, Oceania and Africa	12.2	17.1
Nestlé Waters	–1.6	9.6
Nestlé Nutrition	7.7	10.4
Other Food and Beverages*	23.5	4.0

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

Primary segment reporting: Food and Beverages EBIT margin



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

Zone Asia, Oceania and Africa reported 12.2% organic growth, including 3.7% RIG. Its EBIT margin also increased by 20 basis points to 16.5% of sales. There were strong performances from all the emerging markets, with almost all of them achieving double-digit organic growth. Japan also achieved positive organic growth.

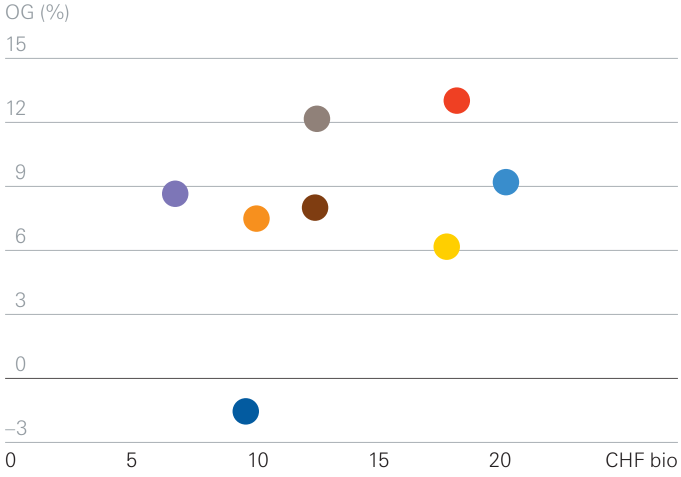
The two large Globally Managed Businesses are Nestlé Waters and Nestlé Nutrition.

Nestlé Waters saw its RIG and organic growth become negative, –3.9% and –1.6% respectively, and experienced a 220 basis point decline in EBIT margin to 6% of sales. The growth was impacted by a combination of external factors, being mainly the consumer down-trading due to the economic environment, and the somewhat emotional debate about the perceived environmental issues around the category. The decline in EBIT margin is a direct result of the reduced sales, exacerbated by cost pressures, particularly oil-related, as well as under-performance in parts of the European Home and Office Delivery (HOD) business. A key contributor to the European HOD under-performance was sold early in 2009.

Nestlé Nutrition achieved organic growth of 7.7% with RIG of 1.8% and improved its EBIT margin by 10 basis points to 17.3% of sales. The biggest division, Infant Nutrition, had another very strong year with near double-digit organic growth, driven in particular by Infant Formula. The weight management division, Jenny Craig, achieved double-digit organic growth, although the pace of growth slowed significantly during the course of the year. The other two divisions were slower, particularly Performance Nutrition, where we have been going through a significant programme of product rationalisation.

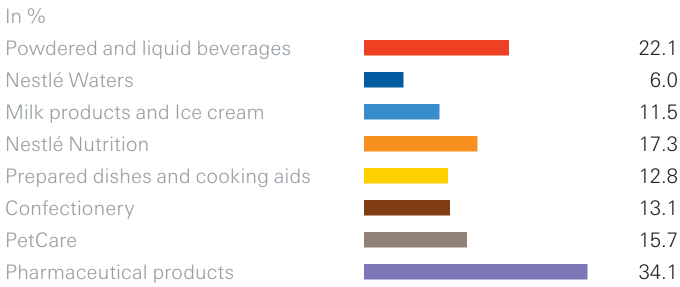
The remaining smaller businesses, primarily Nespresso and the two joint ventures, Cereal Partners Worldwide (with General Mills) and Beverage Partners Worldwide (with Coca Cola), are grouped together as Other Food and Beverages. They achieved organic growth of 23.5% with RIG of 20.1%, and improved their EBIT margin by 170 basis points to 17.5% of sales. The constituent businesses all performed well, and Nespresso continued to achieve near 40% organic growth.

Secondary segment reporting: Product groups Sales and organic growth (OG)



In billions of CHF	OG (%)	Sales
Powdered and liquid beverages	12.8	18.9
Nestlé Waters	–1.6	9.6
Milk products and Ice cream	9.2	20.5
Nestlé Nutrition	7.7	10.4
Prepared dishes and cooking aids	6.1	18.1
Confectionery	8.0	12.4
PetCare	12.1	12.5
Pharmaceutical products	8.8	7.5

Secondary segment reporting: Product groups EBIT margin



Secondary segment reporting: Product groups

Powdered and Liquid Beverages had an excellent year, with organic growth of 12.8% and RIG of 7.4%. The EBIT margin fell 30 basis points to 22.1% of sales. Soluble coffee's organic growth was about 10% due to a strong performance by *Nescafé* in all three Zones. There have been launches and roll-outs of health focused products in Asia under brands such as *Nescafé Body Partner, Nescafé Protect* and *Nescafé Greenblend.* The European roll-out of *Nescafé Dolce Gusto* has continued, with the brand achieving leadership in a number of markets. The roll-out has now moved to Mexico, Japan and the USA. Powdered Beverages achieved near 10% organic growth, whilst Liquid Beverages exceeded 10%. There were strong performances from the billionaire brands, *Nesquik, Nestea* and *Milo.* Again, the focus on nutrition, health and wellness has paid dividends, connecting with consumers through simple, effective and imaginative communication, bringing to life benefits such as lower sugar and fat or enhanced energy management.

Milk products and Ice cream, reported organic growth of 9.2% with RIG of 1.2%. The EBIT margin increased 40 basis points to 11.5% of sales. The ambient dairy business had a strong year for organic growth, still partly reflecting the effects of the steep rise in milk prices back in 2007. The business has benefited from its strategy of market segmentation, both by price and by consumer need, for example through the *Nestlé Nido Nutrition System.* In common with the Beverages product group, it is able to offer consumers products at every price point, meaning that they are able to trade up or down within the category without trading out of Nestlé products. Ice cream achieved positive organic growth. The segment suffered from poor European weather, as well as cost pressures in the North American market, which led to market contraction as consumers reacted poorly to the necessary increased pricing. There were good performances at the premium end of the market, however, from brands such as *Mövenpick of Switzerland* and *Häagen-Dazs,* as well as from products targeted at the "better for you" segment, such as *Skinny Cow.*

Prepared dishes and cooking aids achieved organic growth of 6.1% with RIG of 1.1%. The EBIT margin fell 20 basis points to 12.8% of sales. *Maggi* was once again the outstanding brand in this product group with high single digit organic growth. The emerging markets continued to be the driver of growth for the brand. The US Frozen Food business accelerated during the year, with all three billionaire brands, *Stouffer's, Lean Cuisine* and *Hot Pockets* achieving positive organic growth. *Herta* also achieved positive organic growth in Europe, whilst *Buitoni* benefited from the disposal of its dry pasta business in Italy.

Confectionery delivered organic growth of 8% with RIG of 1.4%. The EBIT margin increased 150 basis points to 13.1% of sales. *KitKat* achieved double-digit organic growth, with a strong performance in Europe and emerging markets. The core four finger *KitKat* was renovated, with improved crispiness, whilst an extension was launched, *KitKat Senses,* targeted at female consumers. We continued to focus on the premium segment, with launches in dark chocolate, and in super-premium with a new range of chocolates, designed by Pierre Marcolini and sold exclusively through Nespresso boutiques.

PetCare had very strong organic growth of 12.1% with RIG of 5.2%. The EBIT margin increased 20 basis points to 15.7% of sales. There was good growth in all three Zones. The RIG held up well despite the necessary pricing, reflecting the strength of brands such as *Friskies, Beneful, Dog Chow, Gourmet* and *Fancy Feast,* and continued innovation around health and wellness for dogs and cats, with products such as *Cat Chow Healthful Life, Beneful Playful Life, ONE Natural Balance* and *Bakers 2 in 1.*

Pharmaceutical products reported organic growth of 8.8% with RIG of 8.4%. The EBIT margin increased 80 basis points to 34.1% of sales.

Net Profit and earnings per share

Other income include profit on disposal of the 24.8% share of Alcon by Nestlé to Novartis, amounting to CHF 9.2 billion. Other expenses include mainly restructuring costs, mostly related to European rationalisation projects, and impairments of goodwill, of which CHF 442 million relates to the Nestlé Waters Home and Office Delivery (HOD) business.

Net financing cost increased from CHF 0.9 billion in 2007 to CHF 1.1 billion in 2008. This increase is mostly explained by some one-off fair value losses in trading securities, of which a significant portion is related to Alcon.

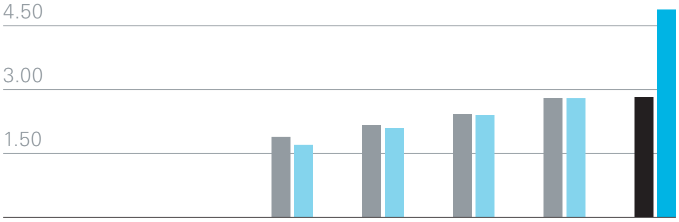
The Group's effective tax rate fell from 25.3% in 2007 to 17.3% in 2008, an evolution essentially due to the tax free gain resulting from the disposal of the 24.8% share of Alcon. The underlying tax rate increased to slightly above 27%, an evolution resulting mostly from the market mix.

The Group's share of results of associates comprises for the most part L'Oréal, representing CHF 938 million (2007: CHF 1302 million). The decrease in L'Oréal's results is mainly explained by the one-off gain on disposal made in 2007 in relation to Sanofi Synthelabo.

Our Net profit was CHF 18 billion or 16.4% of sales, up 69.4% or 650 basis points from CHF 10.6 billion or 9.9% of sales. Our earnings per share, restated for the 1-for-10 share split, increased by 75.2% to CHF 4.87 from CHF 2.78. The increase is mainly explained by the one-off gain realised on the partial disposal of Alcon. The underlying earnings per share increased by 0.7% and by 10.9% in constant currencies.

Earnings per share [a]

In CHF

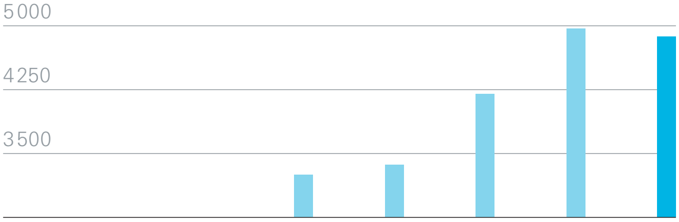


	2004	2005	2006	2007	2008
Underlying	1.88	2.15	2.41	2.80	2.82
Total	1.70	2.08	2.39	2.78	4.87

[a] restated following 1-for-10 share split

Capital expenditure

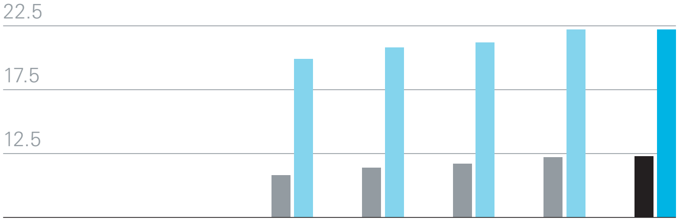
In millions of CHF



	2004	2005	2006	2007	2008
	3260	3375	4200	4971	4869

Return on invested capital (based on segment reporting)

In %



	2004	2005	2006	2007	2008
Including goodwill	10.8	11.4	11.7	12.2	12.3
Excluding goodwill	19.9	20.8	21.2	22.2	22.2

Cash flow

In millions of CHF	2007	2008
Operating cash flow	13 439	10 763
Cash flow from investing activities	(15 753)	4 699
Cash flow from financing activities	3 897	(16 884)
Currency retranslations	(267)	663
Increase/(decrease) in cash and cash equivalents	1 316	(759)

The Group's operating cash flow decreased by 19.9% despite the strong operating performance and improved profitability of the Group. This reflects the decline in the value of most currencies relative to the Swiss franc in 2008. Additionally there was a higher level of working capital compared to last year, mainly in inventories as a result of the increased cost of certain raw materials and the decision to increase inventories of some products. Operating cash flow decreased by CHF 2.6 billion from CHF 13.4 billion to CHF 10.8 billion, whilst the free cash flow decreased from CHF 8.2 billion to CHF 5 billion. The Group's capital expenditure remained stable at CHF 4.9 billion at the end of 2008 (2007: CHF 5 billion).

The major movement within the Group's investing activities in 2008 was the CHF 10.7 billion received from the sale of 24.8% share of Alcon to Novartis, whereas in 2007 it was the payment of CHF 9.5 billion to Novartis for the acquisition of Gerber and Novartis Medical Nutrition.

In respect of shareholder returns, the Group's financing activities comprise the Share Buy-Back Programme in which CHF 8.7 billion was invested in 2008 (2007: CHF 4.4 billion), an increase of about CHF 2 billion compared to the original plan, and prior-year dividends up 14.2% to CHF 4.6 billion (2007: CHF 4 billion).

The Group's net financial debt dropped from CHF 21.2 billion at the end of 2007 to CHF 14.6 billion at the end of 2008.

Financial position further strengthened

In millions of CHF	2007	2008
Current assets	35 770	33 048
Non-current assets	79 591	73 167
Total assets	115 361	106 215
Current liabilities	43 326	33 223
Non-current liabilities	17 259	18 076
Equity	54 776	54 916
Total liabilities and equity	115 361	106 215

Trade working capital represented 10.5% of sales at the end of 2007 and decreased to 10% of sales at the end of 2008. This evolution is mainly due to the favourable currency impact resulting from the strength of the Swiss franc. Non-current assets also decreased globally as a result of the evolution of currencies against the Swiss franc and the impairment of goodwill for the Nestlé Waters HOD business.

The proceeds of the sale of a 24.8% share of Alcon, CHF 10.7 billion, were used to reduce the Group's exposure to the short-term commercial paper market. Nestlé enjoys predictable cash flows which, combined with its high credit quality, have positioned it well in recent market conditions, enabling it to continue to make below-market rate debt offerings. Nestlé's strong financial position is reflected in the fact that it has invested CHF 8.7 billion in its Share Buy-Back Programme in 2008. By the end of 2008, it had completed CHF 13.1 billion of the planned CHF 25 billion Share Buy-Back Programme and, subject to market conditions, the Group remains on schedule to complete it within the planned thirty-six month period. There were no significant acquisitions in 2008.

The equity ratio increased from 47.5% of the total balance sheet to 51.7%. This is the direct consequence of the partial sale of Alcon, but also of the EBIT improvement.

The Group's strong balance sheet and its high standing with debt investors are clearly an advantage in the current difficult credit market conditions, and Nestlé intends to continue to prioritise a strong balance sheet.

Return on invested capital

The return on invested capital remained at 22.2% excluding goodwill, as the invested capital increased in line with the returns. Thanks to a favourable foreign currency impact, the return on invested capital including goodwill improved by 10 basis points to 12.3%.

Principal risks and uncertainties

Group Risk Management

The Nestlé Group Enterprise Risk Management Framework (ERM) is designed to identify, communicate, and mitigate risks in order to minimise their potential impact on the Group. A "Top-Down" assessment occurs annually and focuses on the Group's global risk portfolio. It involves the aggregation of individual "Top-Down" assessments of Zones, Globally Managed Businesses, and selected markets. It is intended to provide a high-level mapping of Group risk and allow Group Management to make sound decisions on the future operations of the Company. Risk assessments are the responsibility of line management; this applies equally to a business, a market or a function, and any mitigating actions identified in the assessments are the responsibility of the individual line management. If a Group-level intervention is required, responsibility for mitigating actions will generally be determined by the Executive Board. The results of the Group ERM are presented to the Executive Board and Audit Committee annually. In the case of an individual risk assessment identifying a risk which requires action at Group level, an ad hoc presentation is made to the Executive Board.

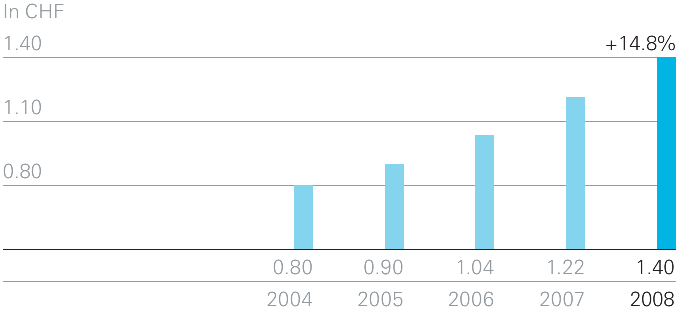
Factors affecting results

Nestlé's reputation is based on consumers' trust. Any major event triggered by a serious food safety or other compliance issue could potentially impact upon Nestlé's reputation or brand image. The Group has all required policies, processes and controls in place to prevent against such an event.

Nestlé is dependant on sustainable supply of a number of raw materials, packaging materials and services/utilities. Any major event triggered by natural hazards (drought, flood, etc.), change in macro-economic environment (shift in production patterns, "biofuels", excessive trading) resulting in input price volatilities and/or capacity constraints could potentially impact upon Nestlé's financial results. The Group has necessary policies, processes and controls in place to mitigate against such an event.

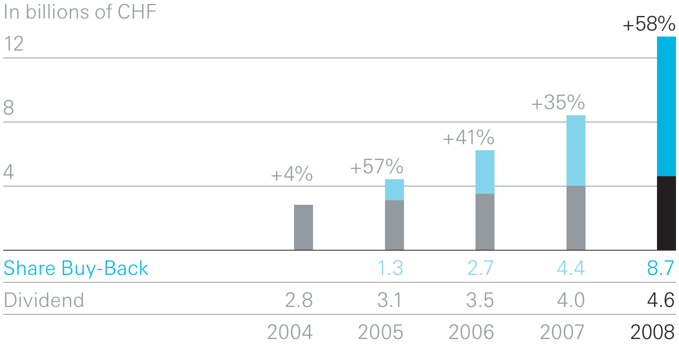
The Group's liquidities/liabilities (currency, interest rate, derivatives, and/or hedging, pension funding obligations, commercial credit) could potentially be impacted by any major event in the financial markets. Nestlé has necessary policies, processes and controls in place to mitigate against such an event.

Dividend per share [a]

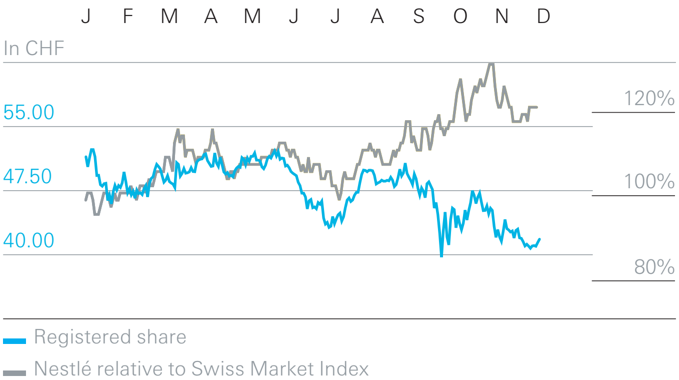


[a] restated following 1-for-10 share split

Total cash returned to shareholders



Evolution of the Nestlé registered share in 2008



Nestlé is dependant on sustainable supply of finished goods for all product categories. A major event in one of Nestlé's key plants, at a key supplier, contract manufacturers, co-packers, and/or key warehouse facility could potentially lead to a supply disruption and impact upon Nestlé's financial results. Necessary business continuity plans are established and regularly maintained in order to mitigate against such an event.

Nestlé has operations in 84 different countries and its products are sold in more than 120 countries in the world. Security, political stability, legal & regulatory, macroeconomic, foreign trade, labour, and/or infrastructure risk(s) could potentially impact upon Nestlé's ability to do business in a country or region. Events such as a human pandemic could potentially also impact upon the Group's ability to operate. Any of these events could potentially lead to a supply disruption and impact upon Nestlé's financial results. Regular monitoring and ad hoc business continuity plans are established in order to mitigate against such an event. The Group's wide geographical and product category spreads represent a tremendous natural hedge.

The Nestlé share – relative out-performance in a negative year for markets

At the 2008 Annual General Meeting, shareholders voted in favour of a 1-for-10 share split. In common with financial markets the world over, the Nestlé share price fell in 2008. Having closed 2007 at CHF 52.– (adjusted for the split), it ended 2008 at CHF 41.60. However, the Nestlé share has performed well relative to the market during the period, out-performing the Swiss Market Index by 14.7%, as well as the Dow Jones Stoxx Food and Beverage Index by 17.1%.

Dividend

The Board is proposing to shareholders an increase in the dividend of 14.8%, from CHF 1.22 per share (restated for the 1-for-10 share split) to CHF 1.40 per share. This proposal reflects the Group's strong performance in 2008, the Board's expectations for 2009, as well as its understanding of the importance of dividends in the context of depressed financial markets.

Outlook

The global business environment in 2008 was affected by a number of unforeseen events, especially in the latter part of the year. Economies around the world have significantly weakened over the last few months and it is likely that developments could further impact consumer demand. However, Nestlé believes that it will once again be one of its industry's fastest growing companies this year, in line with the long-standing Nestlé Model. For 2009, Nestlé is committed to achieving organic growth at least approaching 5%, as well as a further improvement of EBIT margin in constant currencies.

Management responsibilities
Food and Beverages

In millions of CHF	2006	2007	2008		RIG (%)	OG (%)
Zone Europe						
Western	23 241	24 476	23 690	84.1%		
Eastern and Central	3 411	3 988	4 463	15.9%		
Beverages	5 598	6 168	6 254	22.2%		
Milk products and Ice cream	3 436	3 556	3 376	12.0%		
Prepared dishes and cooking aids	8 858	9 254	8 989	31.9%		
Confectionery	5 174	5 593	5 604	19.9%		
PetCare	3 586	3 893	3 930	14.0%		
Total sales	26 652	28 464	28 153	100%	1.4	5.6
EBIT	3 109	3 412	3 446	12.2%		
Capital expenditure	812	932	904	3.2%		

Zone Americas						
USA and Canada	20 603	20 824	20 294	61.2%		
Latin America and Caribbean	10 684	12 093	12 840	38.8%		
Beverages	3 770	4 007	4 115	12.4%		
Milk products and Ice cream	9 470	10 159	10 234	30.9%		
Prepared dishes and cooking aids	6 395	6 534	6 212	18.7%		
Confectionery	4 420	4 678	4 769	14.4%		
PetCare	7 232	7 539	7 804	23.6%		
Total sales	31 287	32 917	33 134	100%	2.7	10.3
EBIT	4 946	5 359	5 469	16.5%		
Capital expenditure	1 125	1 371	1 359	4.1%		

In millions of CHF	2006	2007	2008		RIG (%)	OG (%)
Zone Asia, Oceania and Africa						
Oceania and Japan	4624	4571	4476	26.1%		
Other Asian markets	6466	6983	7328	42.8%		
Africa and Middle East	4414	5002	5327	31.1%		
Beverages	5436	5685	6019	35.1%		
Milk products and Ice cream	5365	5572	5562	32.5%		
Prepared dishes and cooking aids	2370	2714	2913	17.0%		
Confectionery	1731	1886	1902	11.1%		
PetCare	602	699	734	4.3%		
Total sales	15504	16556	17130	100%	3.7	12.2
EBIT	2571	2697	2826	16.5%		
Capital expenditure	588	675	663	3.9%		

Nestlé Waters

Europe	4179	4551	4261	44.4%		
USA and Canada	4805	5118	4562	47.6%		
Other regions	652	735	766	8.0%		
Total sales	9636	10404	9589	100%	–3.9	–1.6
EBIT	834	851	573	6.0%		
Capital expenditure	923	1043	768	8.0%		

Nestlé Nutrition

Europe	2314	2807	2986	28.8%		
Americas	2236	3897	5475	52.8%		
Asia, Oceania and Africa	1414	1730	1914	18.4%		
Total sales	5964	8434	10375	100%	1.8	7.7
EBIT	1009	1447	1797	17.3%		
Capital expenditure	194	271	355	3.4%		

Other Food and Beverages

Total sales	2728	3458	3983	100%	20.1	23.5
EBIT	371	548	696	17.5%		
Capital expenditure	141	269	304	7.6%		

Nestlé Professional*

Total sales			6159	100%	0.4	6.1

* Nestlé Professional's sales and results are included in the Zones. From 2009 this globally managed business will be reported within Other Food and Beverages

Leading positions in dynamic categories

Beverages

In millions of CHF	2006	2007	2008	Share	RIG (%)	OG (%)
Soluble coffee	9477	10371	10688	37.5%		
Nestlé Waters	9636	10404	9589	33.7%		
Other	6769	7470	8197	28.8%		
Total sales	25882	28245	28474	100%	3.3	7.5
EBIT	4475	4854	4756	16.7%		
Capital expenditure	1105	1409	1159			

Milk products, Nutrition and Ice cream

In millions of CHF	2006	2007	2008	Share	RIG (%)	OG (%)
Milk products	10820	11742	12189	39.4%		
Nestlé Nutrition	5964	8434	10375	33.5%		
Ice cream	7424	7521	6969	22.5%		
Other	1227	1409	1403	4.6%		
Total sales	25435	29106	30936	100%	1.4	8.7
EBIT	3003	3744	4158	13.4%		
Capital expenditure	702	933	896			

Prepared dishes and cooking aids

In millions of CHF	2006	2007	2008	Share	RIG (%)	OG (%)
Frozen and chilled	10307	10705	10247	56.6%		
Culinary and other	7328	7799	7870	43.4%		
Total sales	17635	18504	18117	100%	1.1	6.1
EBIT	2323	2414	2311	12.8%		
Capital expenditure	272	305	387			

Confectionery

In millions of CHF	2006	2007	2008	Share	RIG (%)	OG (%)
Chocolate	9103	9754	9802	79.2%		
Sugar confectionery	1204	1207	1145	9.3%		
Biscuits	1092	1287	1423	11.5%		
Total sales	11399	12248	12370	100%	1.4	8.0
EBIT	1309	1426	1620	13.1%		
Capital expenditure	258	316	329			

In millions of CHF	2006	2007	2008		RIG (%)	OG (%)
PetCare						
Total sales	11 420	12 130	12 467	100%	5.2	12.1
EBIT	1 730	1 876	1 962	15.7%		
Capital expenditure	345	402	431			

Alcon						
Total sales	6 123	6 679	6 822	100%	8.5	8.3
EBIT	2 038	2 326	2 436	35.7%		
Capital expenditure	267	264	317			

Health and beauty joint ventures			
Nestlé's share of sales	564	640	721

Associated companies			
Nestlé's share of results	963	1 280	1 005

Geographic data: people, factories and sales

Nestlé has 456 factories in 84 countries around the world. This is a reduction from 480 in 2007. During the year, 10 factories were acquired or opened and 30 were closed or divested. Furthermore the reorganisation of our factories resulted in 4 factories being satellised.

Factories by geographic area

	2007	2008
Europe	184	165
Americas	166	168
Asia, Oceania and Africa	130	123
Total	480	456

Employees by geographic area

	2007	2008
Europe*	34.5%	34.0%
Americas	38.3%	38.7%
Asia, Oceania and Africa	27.2%	27.3%
Total		

* 8 957 employees in Switzerland in 2008

Employees by activity

In thousands	2007	2008
Factories	144	147
Administration and sales	132	136
Total	276	283

Sales

In millions of CHF	Differences 2008/2007		
By principal market	in CHF	in local currency	2008
USA	+0.7%	+11.1%	29 922
France	–0.9%	+2.7%	8 558
Germany	–1.9%	+1.7%	6 511
Brazil	+7.1%	+11.2%	5 668
Italy	–3.4%	+0.1%	4 440
United Kingdom	–12.1%	+5.7%	4 140
Mexico	+2.4%	+15.1%	3 569
Spain	+0.8%	+4.5%	3 039
Canada	–6.1%	+4.4%	2 549
Australia	–6.4%	+2.4%	2 490
Russia	+19.1%	+28.5%	2 465
Japan	+12.6%	+7.4%	2 274
Greater China Region	+8.9%	+10.3%	2 230
Switzerland	+24.0%	+24.0%	2 066
Philippines	+5.6%	+12.9%	1 856
Other markets	+6.0%	(a)	28 131

By continent			
Europe	+0.6%	(a)	41 265
USA + Canada	+0.1%	(a)	32 470
Latin America + Caribbean	+8.3%	(a)	15 523
Asia	+7.5%	(a)	14 701
Africa	+1.6%	(a)	2 992
Oceania	–6.4%	(a)	2 957
Total Group	+2.2%	(a)	109 908

(a) Not applicable

Europe

Austria	1	■	■	●■	■	■	■
Belgium	3	●■	■	■	■	■	●■
Bulgaria	2	■	●■	■	●■	■	■
Czech Republic	3	■	■	●■	●■	■	■
Finland	2	■	●■	■	■	■	■
France	30	●■	●■	●■	■	●■	●■
Germany	21	●■	●■	●■	●■	●■	●■
Greece	4	●■	●■	■	■	■	■
Hungary	3	●■	■	■	●■	●■	■
Italy	19	●■	●■	●■	●■	●■	■
Netherlands	2	■	●■	■	■	●■	■
Poland	8	●■	●■	●■	●■	■	■
Portugal	4	●■	●■	■	■	■	■
Republic of Ireland	1	■	■	■	■	■	●■
Republic of Serbia	1	■	■	■	■	■	■
Romania	1	●■	■	■	●■	■	■
Russia	12	●■	●■	●■	●■	●■	■
Slovak Republic	1	■	■	●■	■	■	■
Spain	13	●■	●■	●■	●■	●■	●■
Sweden	2	●■	■	■	■	■	■
Switzerland	12	●■	●■	●■	●■	■	●■
Turkey	5	●■	■	●	●	■	■
Ukraine	2	■	■	●■	●■	■	■
United Kingdom	13	●■	■	■	●■	●■	■

Americas

Argentina	8	●■	●■	●■	■	●	■
Brazil	23	●■	●■	●	●■	●■	●■
Canada	10	●■	●■	●■	●■	●■	●■
Chile	6	●■	●■	●■	●■	■	■
Colombia	4	●■	●■	●■	●■	●■	■
Costa Rica	1	■	●				■
Cuba	3	●■	●■	■	■		■
Dominican Republic	2	■	●■	●■	■	■	■
Ecuador	2	●■	●■	●■	●■	■	■
Guatemala	1	■	■	●■	■	■	■
Jamaica	1	●■	●■	■	■	■	■
Mexico	13	●■	●■	●■	●■	●■	●■
Nicaragua	1	■	●■	■	■	■	■
Panama	1	■	●■	●■	■	■	■
Peru	1	■	●■	●■	●■	■	■
Trinidad and Tobago	1	●■	●■	■	■	■	■
United States	82	●■	●■	●■	●■	●■	●■
Uruguay	1	●■	■	■	■	■	■
Venezuela	7	●■	●■	●■	●■	●■	■

Asia, Oceania and Africa

Algeria	1	●■	■	■	■		■
Australia	13	●■	●■	●■	●■	●■	■
Bahrain	1	●■	■	■	■		■
Bangladesh	1	●■	●■	●■			■
Cameroon	1	■	●■	●■			■
Côte d'Ivoire	2	●■	●■	●			■
Egypt	4	●■	●■	●	■		■
Fiji	1	■	■	●■	●■		■
Ghana	1	●■	●■	■	■		■
Greater China Region	19	●■	●■	●■	●■	●■	■
Guinea	1	■	■	●■	■		■
India	6	●■	●	●	●		■
Indonesia	3	●■	●■	●■	●■	■	■
Iran	2	●■	●■	■	■		■
Israel	8	●■	●■	●	●■	■	■
Japan	3	●■	●■	●■	●■	■	■
Jordan	1	●■	■	■	■		■
Kenya	1	●■	●■	●■	■		■
Lebanon	1	●■	■	■	■		■
Malaysia	6	●■	●■	●■	●■	■	■
Morocco	1	●■	●■	●■	■		■
New Caledonia	1	■	●■	■	●■		■
New Zealand	2	■	■	●■	●■	●■	■
Nigeria	1	●■	●■	●■	●		■
Pakistan	3	●■	●■	●	■		■
Papua New Guinea	1	●■	●■	●■	■		■
Philippines	4	●■	●■	■	■	■	■
Qatar	1	●■	■	■	■		■
Republic of Korea	2	●■	●	■	■	■	■
Saudi Arabia	4	●■	●■	●■	■		■
Senegal	1	■	■	●■			■
Singapore	1	●■	■	●■	■	■	■
South Africa	10	●■	●■	●■	●■	●■	■
Sri Lanka	1	●■	●■	●			■
Syria	1	●■	●■	●■			■
Thailand	6	●■	●■	●■	■	■	■
Tunisia	1	■	●■	■	■		■
United Arab Emirates	1	●■	■	■	■	■	■
Uzbekistan	1	●■	●■	■	■		■
Vietnam	3	●■	●■	●■			■
Zimbabwe	1	●■	●■	●■	■		■

The figure in black after the country denotes the number of factories

● Local production (may represent production in several factories)

■ Imports (may, in a few particular cases, represent purchases from third parties in the market concerned)

— Beverages

— Milk products, Nutrition and Ice cream

— Prepared dishes and cooking aids

— Confectionery

— PetCare

— Pharmaceutical products

Creating Shared Value – Performance summary

Nestlé has developed performance indicators to provide a focus for measuring and reporting Creating Shared Value. The summary below forms part of our communication on progress on the UN Global Compact Principles. Unless stated otherwise, performance indicators are for the year ending 31 December 2008.

Nestlé Creating Shared Value performance indicators

		2007	2008	GRI reference[1]
Manufacturing and our environmental footprint				
Materials	Raw materials and ingredients (except water [see below], million tonnes)	20.48	21.43	EN1
	Packaging materials (million tonnes)	4.08	4.00	EN1
	By-products (for recycling, million tonnes)	1.07	1.11	EN22
	Reduction of by-products (per tonne of product) over 10 years	58%	54%	n/a
	Waste (for final disposal, million tonnes)	0.372	0.410	EN22
	Reduction of waste (per tonne of product) over 10 years	58%	49%	n/a
Energy	Direct energy consumption (Peta Joules)	85.3	86.9	EN3
	Indirect energy consumption (Peta Joules)	63.7	65.3	EN4
	Energy saved (per tonne of product) over 10 years	45%	42%	EN5
Greenhouse gases	Direct CO_2 emissions (million tonnes)[2]	4.13	4.10	EN16
	Indirect CO_2 emissions (million tonnes)	3.1	3.0	EN16
	Reduction of direct CO_2 emissions (per tonne of product) over 10 years	53%	48%	EN18
	Reduction of indirect CO_2 emissions since 2007 (per tonne of product)	n/a	3%	EN4
Water	Total water withdrawal (million m^3)	157	147	EN8
	Water saved (per tonne of product) over 10 years	59%	58%	n/a
	Total water discharge (million m^3)	101	96	EN21
	Quality of water discharged (average mg COD/l)	62	95	EN21
Packaging	Source reduction (thousand tonnes): since 1991	326.3	392.0	n/a
	Source reduction (CHF million): since 1991	583.7	683.0	n/a
	Reduction of packaging weight (per l of product – Nestlé Waters) over 5 years	22%	20%	n/a
Governance	ISO 14001/OHSAS 18001-certified sites (number of certificates)	171	455	n/a
	Sites audited through CARE programme (since July 2005)	403	490	n/a
Our people				
	Workforce size (total number of employees)	276 050	283 000	LA1
	Lost Time Injuries (per million hours worked)	3.7	2.8	LA7
	Total Injury Rate (per million hours worked)	7.5	6.1	LA7
	Leadership positions[3] held by women	24%	25%	LA4
	Local Management Committee members native to country in developing countries	42%	42%	n/a
	Formal classroom training received in developing countries (number of employees)	65 647	70 167	LA10
	Key Business Positions	917	970	n/a
	Employees with potential to fill Key Business Positions	3 247	3 919	n/a
Agriculture and rural development				
	Farmers trained through capacity-building programmes	111 800	158 837	n/a
	Markets covered by Sustainable Agriculture Initiative Nestlé (SAIN) programmes	28	32	n/a
	Suppliers audited for safety, quality and processing	3 400	3 417	n/a

1 GRI = Global Reporting Initiative
2 Includes CO_2 from fuel usage, refrigerants and Ozone Depletion Potential (ODP) substances
3 Defined as positions with people management responsibilities

Independent assurance – Preliminary findings statement

Introduction
Bureau Veritas UK has been engaged to provide external assurance to the stakeholders of Nestlé SA (Nestlé), over the Creating Shared Value (CSV) content (presented on pages 12 to 23) and CSV actions as indicated in the Nestlé Management Report 2008 (the Report). The preparation of the Report is the sole responsibility of Nestlé. Our overall aim is to provide reasonable assurance to stakeholders over the accuracy and reliability of the CSV information included in the Report.

Scope and methodology
The scope of the assurance included
1. a review of related activities undertaken by Nestlé over the reporting period January 2008 to December 2008;
2. a limited review of information from external partners relating to materiality assessment and stakeholder convenings;
3. a review of information relating to Nestlé's issues, responses, performance data, case studies and underlying systems to manage such information and data;
4. an evaluation of Safety, Health and Environment (SHE) data and systems;
5. a pilot assessment of the implementation of CSV related policies and processes at the market level.

As part of the scope outlined above, Bureau Veritas undertook the following:
- interviews with key management at Nestlé's head office;
- review of processes for identification and collation of relevant information, report content and performance data from Group operations globally;
- verification of performance data and factual information within the Report;
- visits to approximately 3% of operational sites across nine countries to evaluate the SHE data management systems and data reliability and accuracy;
- a visit to Nestlé South Africa to review the understanding and implementation of market level CSV related processes as presented within the Report.

Preliminary findings
Based on our review, it is our opinion that the Report:
- includes information that is reliable, understandable and clearly presented;
- provides a reasonable account of relevant activities and performance over the reporting period;
- presents a continuation of discussions around issues established during the last CSV report (albeit in a précis format), and as such does not omit any subject area considered to be of material importance although more commentary on performance relating to "Our People" KPIs should have been included;
- demonstrates an improvement on previous reporting by the inclusion in the text of the issues and challenges that Nestlé faces. Additional information provides context and a better understanding of Nestlé's responses to such issues;
- provides an account that is inclusive of related Nestlé activities, although it should be noted that due to the brevity of the CSV content within the Report, all relevant stakeholders concerns cannot be addressed in full.

Pilot assessment of policy implementation in Nestlé Markets
A pilot assessment of the implementation of CSV related policies and programmes within a sample market indicate that Nestlé is taking a proactive approach to issues of material concern. There exists in South Africa a strong regulatory environment in relation to employment and social issues, and Nestlé South Africa is undertaking its activities under the sphere of Broad Based Black Economic Empowerment at each stage of its value chain as defined by its CSV approach.

Assurance findings are reported in the full assurance statement on nestle.com/csv

Key areas for improvement are reported in the full assurance statement on nestle.com/csv

Considerations and limitations
Excluded from the scope of our work is information relating to:
- activities outside the defined reporting period;
- statements of commitment to, or intention to, undertake action in the future;
- statements of opinion, belief and/or aspiration.

Our assurance does not extend to the information hyperlinked from the Report.

Our review was carried out to provide reasonable, rather than absolute assurance and we believe the scope above provides a reasonable basis for our conclusions.

This independent statement of preliminary findings should not be relied upon to detect all errors, omissions or misstatements.

Detailed considerations and limitations are included in the full statement on www.nestle.com/csv

Our statement of independence, impartiality and competence can be found in the full assurance statement on www.nestle.com/csv

Bureau Veritas UK Ltd., London, February 2009

Statement of independence, impartiality and competence
Bureau Veritas is an independent professional services company that specialises in quality, health, safety, social and environmental management advice and compliance with almost 180 years history in providing independent assurance services and an annual turnover in 2007 of EUR 2.1 billion.

Bureau Veritas has implemented a code of ethics across its business which is intended to ensure that all our staff maintain high standards in their day-to-day business activities. We are particularly vigilant in the prevention of conflicts of interest. We believe our assurance assignment does not raise any conflicts of interest.

Competence: our assurance team completing the work for Nestlé S.A. has extensive knowledge of conducting assurance over environmental, social, health, safety and ethical information, systems and processes, and with over 20 years combined experience in this field an excellent understanding of good practice in corporate responsibility reporting and assurance.

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 about 25% was floated on the New York Stock Exchange in 2002 and another 25% was sold to Novartis in 2008.

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, Henniez 2007), 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

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

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, with sales of about CHF 109.9 billion in 2008.

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), Nestlé Professional, will be transformed into a globally managed business from 2009. These major changes serve to consolidate the considerable progress already made and will – together with an acceleration of internal processes – facilitate further profitable 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", Nestlé, 2007.

Henri Nestlé
When Henri Nestlé (1814 to 1890) developed his Infant Food, he created the cornerstone for the largest Nutrition, Health and Wellness Company.

Shareholder information

Stock exchange listings
At 31 December 2008, Nestlé S.A. shares were listed on the SIX Swiss Exchange (ISIN code: CH0038863350). American Depositary Receipts (ADRs) (ISIN code: US6410694060) representing Nestlé S.A. shares are offered in the USA by Citibank.

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The Nestlé Management Report, the Financial Statements and the Corporate Governance Report are available on-line as a PDF file 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
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fax +41 (0)41 785 20 24
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The Company offers the possibility of depositing, free of charge, Nestlé S.A. shares traded on the SIX Swiss Exchange.

Nestlé URL: www.nestle.com

Important dates
22 April 2009
Announcement of first quarter 2009 sales figures

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

28 April 2009
Dividend Record Date

29 April 2009
Payment of the dividend

12 August 2009
Publication of the Half-yearly Report January/June 2009

22 October 2009
Announcement of nine months 2009 sales figures; Autumn press conference

19 February 2010
2009 Full Year Results; press conference

15 April 2010
143rd 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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