Management Report 2001

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

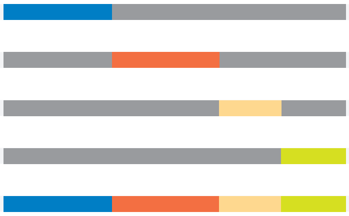
Peter Brabeck-Letmathe
Chief Executive Officer

Rainer E. Gut
Chairman of the Board

Key figures by management responsibility and geographic area

Sales

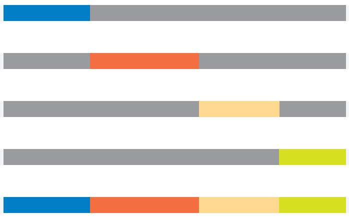
In millions of CHF



		2001	2000	1999
Zone Europe	31.6%	**26 742**	26 285	27 098
Zone Americas	31.4%	**26 598**	25 524	22 045
Zone Asia, Oceania and Africa	18.2%	**15 458**	15 710	13 611
Other activities (a)	18.8%	**15 900**	13 903	11 906
	100%	**84 698**	81 422	74 660

Results

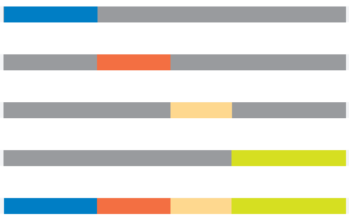
In millions of CHF



		2001	2000	1999
Zone Europe	25.2%	**2 783**	2 753	2 671
Zone Americas	31.9%	**3 531**	3 503	2 799
Zone Asia, Oceania and Africa	23.5%	**2 598**	2 673	2 185
Other activities (a)	19.4%	**2 149**	2 015	1 675
	100%	**11 061**	10 944	9 330
Unallocated items (b)		**(1 843)**	(1 758)	(1 416)
Trading profit		**9 218**	9 186	7 914

Capital expenditure

In millions of CHF



		2001	2000	1999
Zone Europe	27.3%	**954**	946	923
Zone Americas	21.4%	**747**	766	718
Zone Asia, Oceania and Africa	17.9%	**626**	550	381
Other activities (a)	33.4%	**1 169**	949	665
	100%	**3 496**	3 211	2 687
Unallocated items (c)		**115**	94	119
		3 611	3 305	2 806

(a) Mainly Pharmaceutical products and Water, managed on a worldwide basis.
(b) Mainly corporate expenses, research and development costs as well as amortisation of goodwill.
(c) Corporate and research and development fixed assets.

Key figures by product group

Sales

In millions of CHF

		2001	2000	1999
Beverages	28.3%	**24 023**	23 044	20 859
Milk products, nutrition and ice cream	27.1%	**22 953**	21 974	19 411
Prepared dishes, cooking aids and petcare	25.2%	**21 324**	20 632	20 185
Chocolate, confectionery and biscuits	13.3%	**11 244**	10 974	10 195
Pharmaceutical products	6.1%	**5 154**	4 798	4 010
	100%	**84 698**	81 422	74 660

Results

In millions of CHF

		2001	2000	1999
Beverages	37.5%	**4 259**	4 318	3 764
Milk products, nutrition and ice cream	22.7%	**2 572**	2 620	2 168
Prepared dishes, cooking aids and petcare	17.9%	**2 026**	1 948	1 850
Chocolate, confectionery and biscuits	10.8%	**1 234**	1 166	882
Pharmaceutical products	11.1%	**1 255**	1 212	1 077
	100%	**11 346**	11 264	9 741
Unallocated items [d]		**(2 128)**	(2 078)	(1 827)
Trading profit		**9 218**	9 186	7 914

[d] Mainly corporate expenses, research and development costs, amortisation of goodwill as well as restructuring costs.

Capital expenditure

In millions of CHF

		2001	2000	1999
Beverages	29.4%	**1 062**	936	618
Milk products, nutrition and ice cream	15.9%	**573**	530	366
Prepared dishes, cooking aids and petcare	12.8%	**460**	390	464
Chocolate, confectionery and biscuits	6.9%	**249**	250	280
Pharmaceutical products	2.7%	**99**	113	91
	67.7%	**2 443**	2 219	1 819
Administration, distribution, research and development	32.3%	**1 168**	1086	987
	100%	**3 611**	3 305	2 806

Letter to Shareholders

Ladies and Gentlemen,

The Nestlé Group has successfully navigated through a turbulent year, maintaining both excellent sales growth and performance. Turnover rose to CHF 84.7 billion. Group sales grew by 9.7% at comparable structure and constant exchange rates, resulting in a consolidated growth of 4.0% as a consequence of the strength of the Swiss franc. At 4.4%, our real internal growth (RIG) remained above our long term objective of 4%, an outstanding achievement in a challenging year.

The trading margin was 10.9%, a resilient performance in view of the impact on the margin of the trade spend initiative and the initial costs of the GLOBE project. Net profit rose 15.9% to CHF 6681 million, resulting in an improved net margin of 7.9%. Earnings per share grew 15.7% from CHF 14.91 to CHF 17.25. Operating cash flow continues to be particularly healthy, at CHF 8.6 billion. This performance, as well as the favourable perspectives for the future, motivates the dividend proposal of CHF 6.40, an increase over last year's CHF 5.50 (adjusted for the share split).

The business environment in 2001 was markedly different from that of the preceding year. From the outset it was clear that North America was entering into recession and that Western Europe also would see slower growth. Eastern Europe, as well as most Asian countries felt less of an impact. In Latin America, with the exception of Argentina and Venezuela, the economic slow-down was not as marked as feared.

Overall, most of our markets met these challenges successfully and were able to deliver growth and performance slightly above our expectations, demonstrating the strength of our people, products and brands, as well as the resilience of our business to economic cycles.

The tragic events of September 11 and their global repercussions did not directly impact the Group's results. They, however, gave cause to reflect on the values and attitudes expressed in our corporate culture. As a truly global company, employing people from over 100 countries and of many creeds, Nestlé has consistently emphasized the importance of mutual respect and tolerance, regardless of culture, religion or nationality, without which our shrinking world cannot function or prosper.

We would like to seize this opportunity to thank all members of the management and the staff for their hard work and dedication. The competitive climate and the constant pressure of change are a real challenge; we are well aware that it is only with a loyal, motivated and competent staff that Nestlé can reach its ambitious objectives.

We remain true to our determination to deliver shareholder value through sustainable, capital efficient and profitable long term growth. Your Company is moving steadily along the strategic lines set out: operational efficiency, renovation and innovation, product availability and more relevant consumer communication – the four pillars which support our quest to confirm and even broaden our industry leadership and to deliver returns appropriate to that position.

In December of 2001 Nestlé successfully completed the Ralston Purina acquisition. Combining Ralston's and Friskies' know-how, technology and international presence makes us a leader in the fast-growing petcare business. Our objective for 2002 is to ensure a rapid integration of these businesses, and to see the first benefits, both commercial and financial, of the enlarged enterprise. It is testimony to the strength of Nestlé's financial position and our exceptional cash generation that, notwithstanding this USD 10.3 billion acquisition, we retain our AAA credit rating.

We have also become sole owners of Ice Cream Partners USA, which will enable us to introduce the innovative culture within Nestlé's impulse ice cream business to the premium Häagen-Dazs brand in North America. In Europe also, we reinforced our position in the northern and eastern part of the continent by making an offer for Schöller Holding, based in Germany. These moves demonstrate our determination to continue to strengthen our core product groups. Ice cream became a strategic growth area for Nestlé only in the Nineties. We are reaching the end of a period marked by acquisitions, and the Group is now consolidating this business and improving its profit base.

Another important step in 2001 was the announcement of a possible initial public offering (IPO) of Alcon, our ophthalmic business, which had sales of CHF 4.6 billion in 2001. Alcon filed a registration statement on the 22nd February 2002 with the United States Securities and Exchange Commission for this initial public offering. Offering a minority of its shares to investors in an IPO will highlight the value of Nestlé's retained stake in it. We intend to continue benefiting from the performance of Alcon. The move into the pharmaceutical industry in 1977 has played a positive role in our financial development over the years, and the IPO's purpose is precisely to illustrate the contribution Alcon continues to make to our profits and balance sheet. The Board feels that the partial IPO is the right approach to ensure a correct valuation of Alcon while enabling Nestlé to share in Alcon's future performance.

We are well aware that these measures only complement our main task, which is to seek continuous improvements in Nestlé's efficiency, whilst delivering top line growth. A first series of measures, targeting mainly production, was successfully conducted from 1997 to 2001, and yielded over CHF 4 billion in savings, exceeding our expectations. A second initiative, Target 2004, with a broader focus, was launched in January 2002, and we are confident that it will generate savings of over CHF 500 million per year until 2004. By then, we shall also experience the first significant benefits of our GLOBE (Global Business Excellence) initiative, which will enable us, amongst other things, to respond faster to business trends, drive down operational business costs and exploit more effectively economies of scale.

Looking at Nestlé's longer term perspective, we believe that our optimism is fully justified. Over its 136 years of existence, our Company has built an extraordinarily strong portfolio of brands, an unequalled worldwide presence and has always been able to attract and retain a highly motivated and loyal work force. Combined with a coherent structure and an international ownership of its shares, our Company is well equipped to handle the challenges of these times. Your support and realistic expectations, as loyal, long term shareholders, have played a key role in allowing management to concentrate on its foremost task which is to conduct the Company's business in order to deliver long term sustainable value to you. Nestlé has adapted its structures and procedures both at the Board level as well as for the Shareholders' Meeting in an evolutionary way, often as a pioneer in Switzerland.

We will continue to do so as appropriate when new insights recommend such a course. Our process definitions and internal controls are rigorous and are continuously reviewed. As such, they complement the high standards of personal integrity and responsibility that we expect from our people.

In the course of the year, the General Management Group underwent some important changes. In March, Mr. Mario Corti left Nestlé after five very successful years as Chief Financial Officer. Mr. Wolfgang Reichenberger, then head of our market in Japan, had the necessary experience and qualifications to take over this key function and was named Executive Vice President and Group CFO in April 2001. He joined Nestlé in 1977 as an auditor and had since worked in a number of important assignments both at the Centre and in several markets. At the same time, Mr. Chris Johnson, Deputy Executive Vice President, also assumed responsibility for information technology, in addition to GLOBE, reporting directly to the Group CEO.

At the end of June Mr. Robert Raeber, Executive Vice President and Head of Zone Europe took his retirement after 34 years of service within the Group, most of it in Germany and France. Mr. Raeber has greatly contributed to adapting the structure of the business to the needs of the future and he has played an important role in the Group's expansion in Central and Eastern Europe through his entrepreneurial approach and drive. Mr. Lars Olofsson who has been with Nestlé since 1976 succeeds him. He started his career in Scandinavia and became CEO of our important French market before taking up his assignment as head of Zone Europe in July 2001.

In December, the Board elected Mr. Frits van Dijk as Deputy Executive Vice President. Mr. van Dijk is in charge of the worldwide water business of the Group and he reports directly to the Group CEO. His election emphasizes the strategic importance of the bottled water activities, which have become one of our key growth areas.

In general, we can look back with satisfaction on the year in review in which Nestlé delivered a resilient performance. We are confident that our Company is on track to renew its success today and in the years to come. We also want to express our gratitude to all the people who contributed to these results with their hard work, their loyalty and their creativity.

Rainer E. Gut
Chairman of the Board

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

Directors and Officers

Helmut O. Maucher (DE)
Honorary Chairman

	Term expires[1]
Board of Directors of Nestlé S.A.	
Rainer E. Gut (CH) [2, 4] Chairman	2005
Peter Brabeck-Letmathe (AT) [2] Vice Chairman Chief Executive Officer	2002
Vreni Spoerry (CH) [2, 3, 4] Member of Swiss Parliament	2002
George Simpson (GB) [2, 4] Industrialist	2004
Stephan Schmidheiny (CH) Chairman Anova Holding	2003
Jean-Pierre Meyers (FR) [3] Vice Chairman L'Oréal	2006
Peter Böckli (CH) [3] Attorney-at-law, Professor	2003
Arthur Dunkel (CH) Business consultant, Professor	2004
Nobuyuki Idei (JP) Chairman & CEO Sony Corporation	2006
André Kudelski (CH) President & CEO Kudelski Group	2006

Secretary of the Board

Bernard Daniel (CH)
Secretary general

Independent auditors

KPMG Klynveld Peat Marwick Goerdeler SA London and Zurich	2002

Group Management

as of 31st December 2001

Chief Executive Officer

Peter Brabeck-Letmathe (AT)
Direct responsibilities: Nutrition Strategic Business Division, Perrier Vittel Group

Executive Vice Presidents

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

Frank Cella (US)
Strategic Business Units, Marketing

Michael W. O. Garrett (GB/AU)
Asia, Oceania, Africa, Middle East

Rupert Gasser (CH/AT)
Technical, Production, Environment, Research and Development

Lars Olofsson (SE) *
Europe

Wolfgang H. Reichenberger (CH/AT) **
Finance, Control, Legal, Tax, Purchasing, Export

Carlos E. Represas (MX)
United States of America, Canada, Latin America

Chris Johnson (US)
Deputy Executive Vice President
GLOBE Programme, Information Systems, Logistics, eNestlé

With the exception Mr. P. Brabeck-Letmathe, all Directors are non-executive and independent

1 On the date of the General Meeting of Shareholders
2 Member of the Committee of the Board and Selection Committee
3 Member of the Audit Committee
4 Member of the Remuneration Committee
* Robert Raeber (CH) until 30th June 2001
** Mario A. Corti (CH) until 5th April 2001

Group Management (from left to right):
Wolfgang H. Reichenberger, Lars Olofsson, Frank Cella,
Michael W.O. Garrett, Peter Brabeck-Letmathe, Rupert Gasser,
Carlos E. Represas, Francisco Castañer, Chris Johnson

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Group performance

Nestlé's strategic priorities are focused on delivering shareholder value through the achievement of sustainable, capital efficient and profitable long term growth. Improvements in profitability will be achieved while respecting quality and safety standards at all times. They will be built on the continued strengthening of our brand portfolio, in which the Group continues to invest heavily.

General comments

2001 may yet come to be seen as a seminal year for the Group, despite that Nestlé's financial performance in the year might be characterised as resilient rather than as demonstrating dramatic progress: it was the year when we made a commitment to drive efficiencies aggressively from within the Group; when we made the biggest acquisition in the Group's history; and when we took initial steps towards an IPO of Alcon which we expect will be, upon its completion, the largest IPO to date in the pharmaceutical industry.

All those initiatives, whether internally or externally focused, share a common objective: to increase the total return to our shareholders by improving our existing operations, investing our cash flow in businesses with superior returns, and by improving the visibility of the value that lies within Nestlé by realising the potential within the Group. These are significant steps towards Nestlé being recognised as the leading food company in the world, not just in terms of size, but also in terms of financial performance.

Improving existing operations Our manufacturing efficiency programme, MH97, was brought to a successful close in December 2001. It delivered savings of over CHF 4 billion in 5 years, significantly ahead of its target of CHF 600 million per year. Its replacement is Target 2004, a three year programme that seeks to build on the culture of continuous improvement created by MH97. Target 2004 is more rigorous and structured than MH97 and is built around a repository of best practice that is shared around the world. We are committed to achieving at least a further CHF 1.5 billion of savings from our manufacturing operations by the end of 2004.

Our focus on efficiencies has been expanded beyond our manufacturing base to encompass all aspects of Nestlé's operations. This began with the launch of GLOBE in last year's Management Report. There is much we can do, however, to improve our "white collar" and purchasing efficiencies before 2005 when we will see the first big wins from GLOBE.

Efficiency needs to extend to administrative functions, as well as to those that interact with our suppliers and customers. Otherwise we risk giving away the gains made in manufacturing. Two initiatives have been launched in this area: IC^3 and Project Fitness.

IC^3 (Increasing Customer and Channel Contributions) is based on benchmarking: we benchmark our performance at comparable retail customers and then work on improving the less performing ones. If we can improve our performance through, for example, changing the product offering, the distribution arrangements or the point of sale display, the customer will benefit also, either from higher sales or higher marginal contribution or both. The intention is not necessarily to reduce the level of our trade spend, so much as to work with our customers to make that spend more effective. The objective, therefore, is to increase the momentum of our sales growth.

Project Fitness, which has two priorities, is a more introspective initiative, focused on the administrative areas of the Group. Its goal is to reduce administrative costs and to redirect the administrative functions so that they have an obligation to deliver value from their areas of responsibility. We are committed to a saving of 1% of sales from this project over the next three to four years.

Being the lowest cost producer, or setting the pace in administrative efficiencies, is only one prerequisite for success. Another is quality. This is at the forefront of everything that we do, a non-negotiable deliverable for our people. Thus, efficiency targets will not be met at the cost of quality: in fact, improved efficiency can often bring improved quality.

Sitting beside quality is the need for consumers to have a clear preference for our products over those of our competitors. Again we use benchmarking to measure our effectiveness in this area, with the objective that our products should achieve a consumer preference of at least 60:40.

Investing for superior returns Achieving consumer preference is an area in which Ralston Purina, Nestlé's biggest ever acquisition, has been successful. We received clearance for the acquisition to proceed on the 11th December 2001 and immediately began integrating it with our Friskies petcare operation. We appreciate the need, in a highly dynamic market such as petcare, to act quickly and decisively to deliver value from this investment. From the work that we have been able to do ahead of the integration it is clear that each business has much to bring to the other. We look forward to achieving our promised synergies of USD 260 million and to enhancing the performance of the enlarged petcare operation.

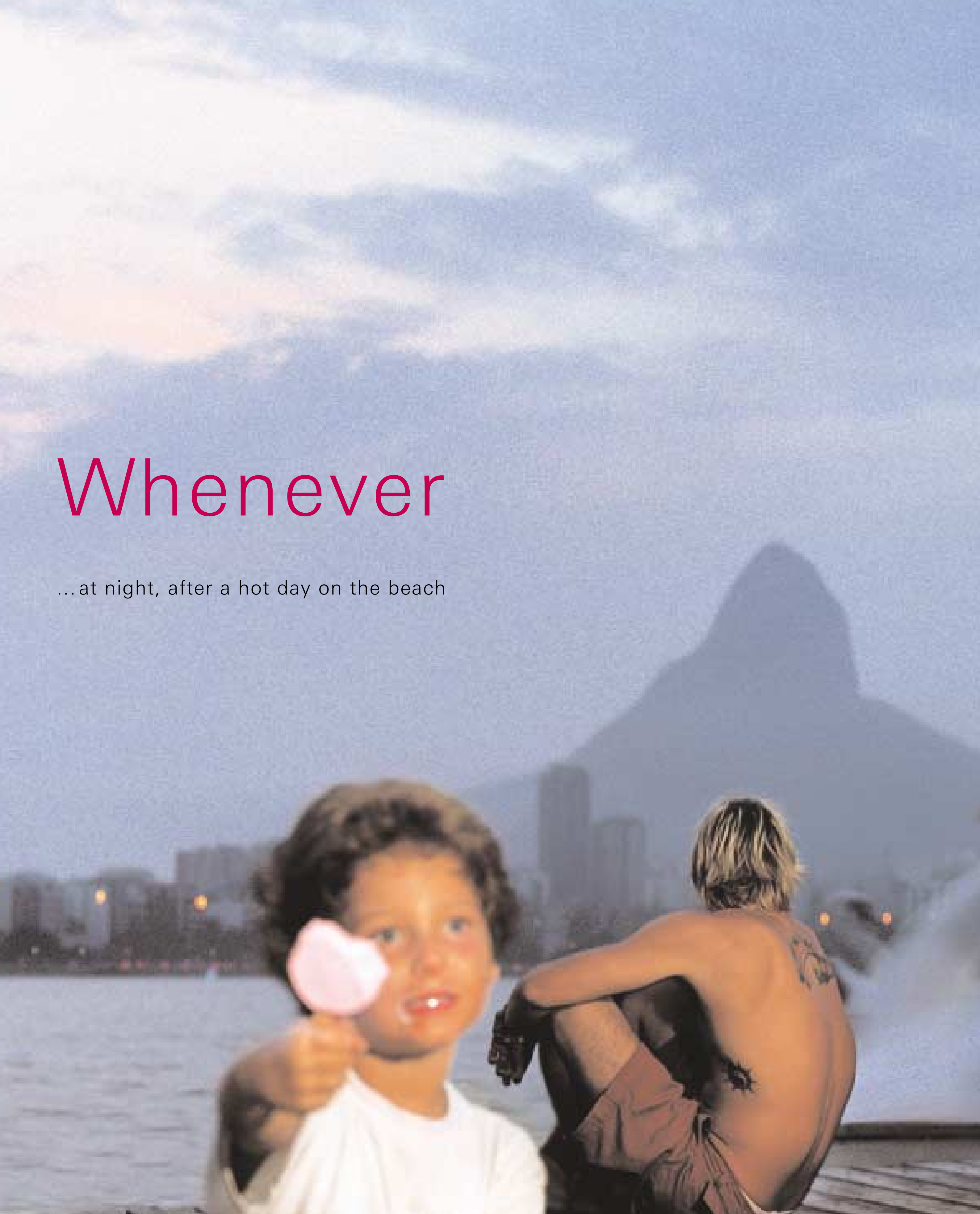
We will seek further opportunities to improve the financial performance of the Group by adding new businesses to our portfolio, whilst continuing to emphasize internal growth.

Improving visibility The ability continuously to enhance its performance has been behind the success of Alcon, our global leader in vision care. The increased visibility of Alcon's performance, which we expect to be achieved in 2002, upon completion of our partial IPO of Alcon, should facilitate both an understanding of the potential that lies within Nestlé and an accurate valuation of Nestlé.

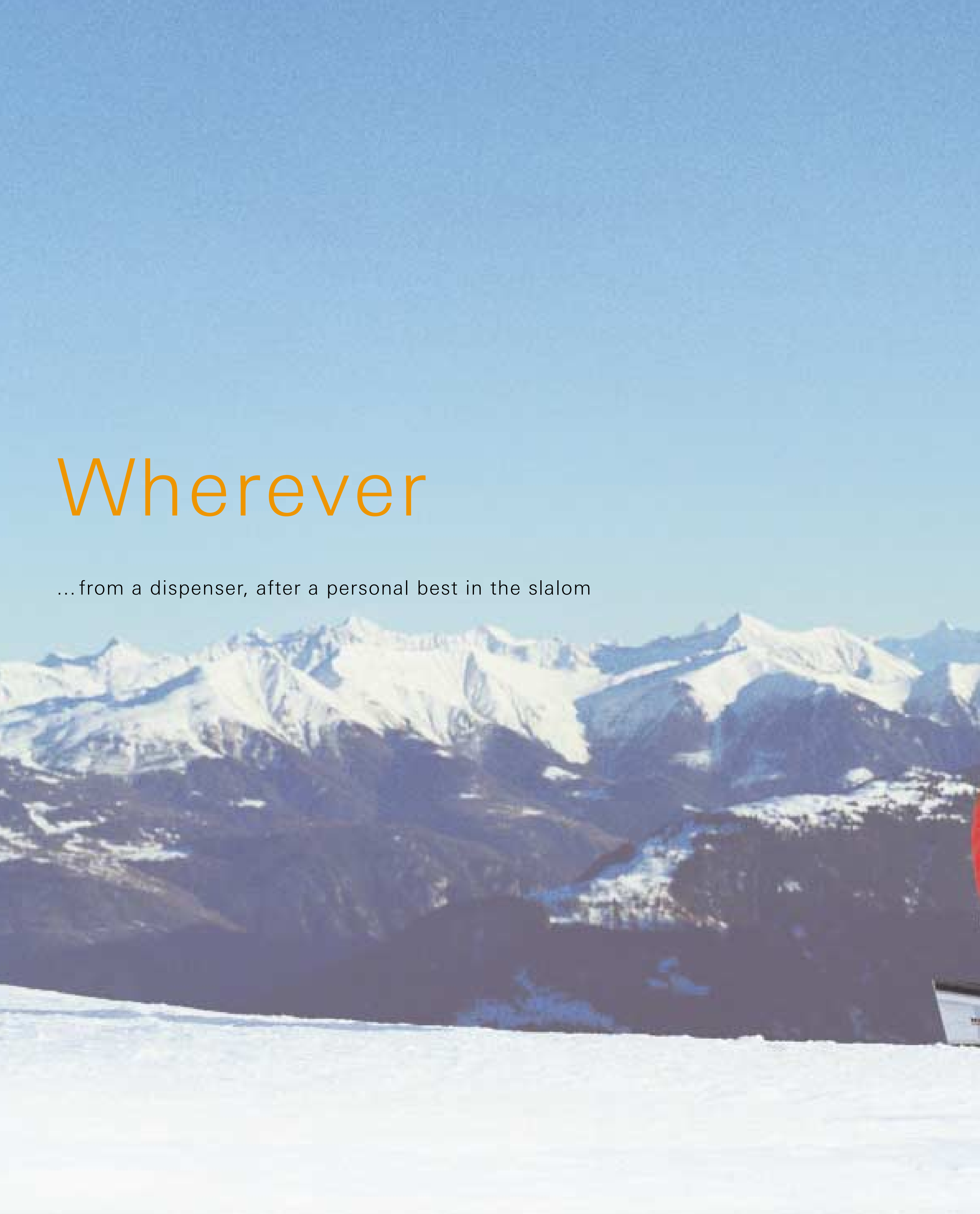
Nestlé's valuation will be driven above all by the management team delivering on commitments such as those discussed here. We have made these commitments because we believe that they are realistic, just as other commitments such as the GLOBE project enabling benefits of CHF 3 billion by 2006 are realistic. But we have made these commitments also because we believe that Nestlé is the leading food company in the world. As such, it is able to take a step up in performance to deliver financial returns commensurate with that leadership position.

Whenever

...at night, after a hot day on the beach




SORVETES
Nestlé
SORVETES
Nestlé
LaFrutta
Troppo
Mega



Wherever

...from a dispenser, after a personal best in the slalom


NESCAFÉ
SANTA CRUZ
NESCAFÉ
NESCAFÉ
NESCAFÉ

However

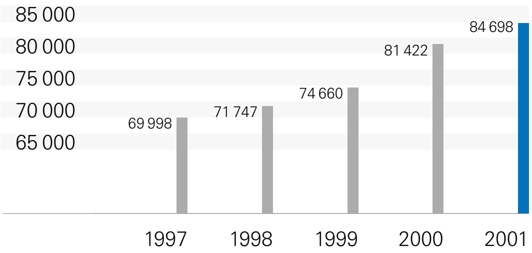
...after a game, to add life for the next challenge

Key figures (consolidated)

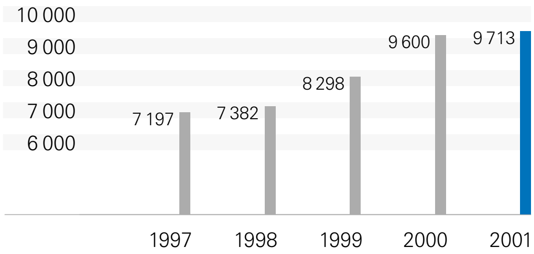
In millions of CHF (except per share data)

		2001	2000
Sales		**84 698**	81 422
EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation)		**12 444**	12 516
as % of sales		**14.7%**	15.4%
EBITA (Earnings Before Interest, Taxes and Amortisation)		**9 713**	9 600
as % of sales		**11.5%**	11.8%
Trading profit		**9 218**	9 186
as % of sales		**10.9%**	11.3%
Net profit		**6 681**	5 763
as % of sales		**7.9%**	7.1%
as % of average equity		**21.0%**	21.2%
Expenditure on tangible fixed assets		**3 611**	3 305
as % of sales		**4.3%**	4.1%
Equity before proposed appropriation of profit of Nestlé S.A.		**33 653**	29 904
Market capitalisation, end December		**137 230**	146 864
Per share (adjusted for the share split)			
Net profit	CHF	**17.25**	14.91
Equity before proposed appropriation of profit of Nestlé S.A.	CHF	**86.88**	77.40
Dividend as proposed by the Board of Directors of Nestlé S.A.	CHF	**6.40**	5.50
Personnel (2001 excludes 6964 of Ralston Purina)	Number at year end	**229 765**	224 541
Factories (2001 excludes 29 of Ralston Purina)	Number at year end	**468**	479

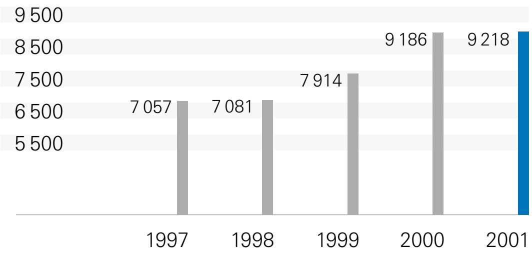
Sales
In millions of CHF



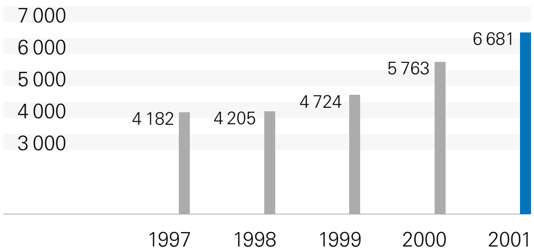
EBITA
In millions of CHF



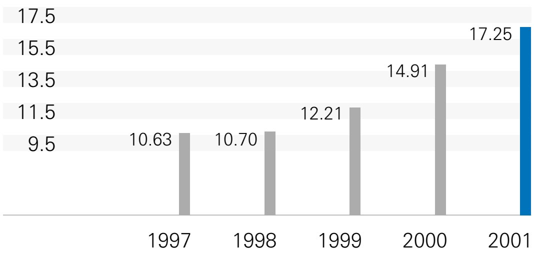
Trading profit
In millions of CHF



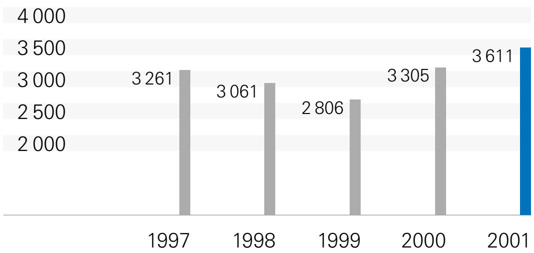
Net profit
In millions of CHF



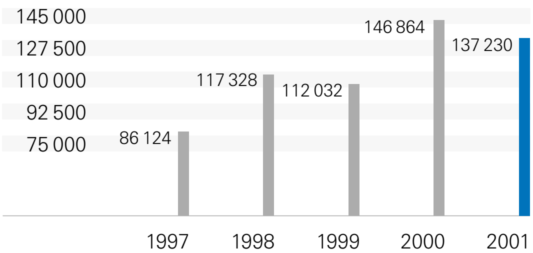
Earnings per share
In CHF



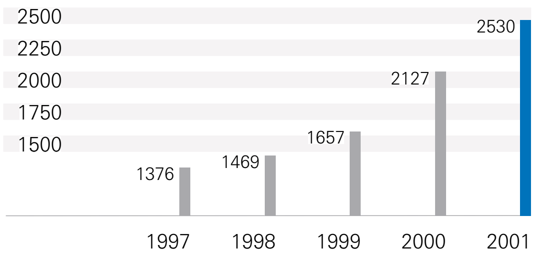
Capital expenditure
In millions of CHF



Market capitalisation
In millions of CHF



Dividends paid
In millions of CHF



Principal key figures in USD (illustrative)

In millions of USD (except per share data). Figures translated at the year end rate

		2001	2000
Sales		**50 415**	49 648
EBITDA		**7 407**	7 632
EBITA		**5 781**	5 854
Trading profit		**5 487**	5 601
Net profit		**3 977**	3 514
Equity before proposed appropriation of profit of Nestlé S.A.		**20 032**	18 234
Market capitalisation, end December		**81 685**	89 551
Per share (adjusted for the share split)			
Net profit	USD	**10.27**	9.09
Equity before proposed appropriation of profit of Nestlé S.A.	USD	**51.71**	47.17

Principal key figures in EUR (illustrative)

In millions of EUR (except per share data). Figures translated at the year end rate

		2001	2000
Sales		**57 228**	53 567
EBITDA		**8 408**	8 234
EBITA		**6 563**	6 316
Trading profit		**6 228**	6 043
Net profit		**4 514**	3 792
Equity before proposed appropriation of profit of Nestlé S.A.		**22 739**	19 674
Market capitalisation, end December		**92 723**	96 621
Per share (adjusted for the share split)			
Net profit	EUR	**11.65**	9.81
Equity before proposed appropriation of profit of Nestlé S.A.	EUR	**58.70**	50.90

Sales

In 2001, Nestlé's sales rose 4.0% to CHF 84.7 billion. On a like for like basis, excluding acquisitions and divestitures, and at constant exchange rates, sales would have risen 9.7%.

Real internal growth (RIG) was strong during the year at 4.4%, unchanged from 2000, but ahead of our trend target of 4%. Overall this was another excellent performance, and highlights included the performances of Eastern Europe, Africa, Perrier Vittel Group and pharmaceuticals. In a difficult economic environment, there were resilient performances from many of our other markets.

Selling prices, and general price reductions, contributed 5.3% to sales in 2001. About 2.0% represents price increases achieved in the market place. The remainder represents the efficiencies obtained from our focus on increasing customer and channel contributions (IC^3). By working with our customers we have refocused our trade budget, reducing the level of general price reductions and investing more in consumer facing activities. The total funds made available to customers was maintained, with lower general price reductions matched by an increase in marketing expenses.

Divestitures, net of acquisitions, reduced sales by 1.0%. The detail is provided on page 22. The divestitures were in areas which were either non-core or underperforming. There were only two acquisitions of any size during the year: Ralston Purina and the remaining 50% of Ice Cream Partners USA. These were completed in December 2001 and had no material impact on sales.

Exchange rate movements had a negative impact on sales of 4.7%, reflecting the strength of the Swiss franc against most currencies, except the US dollar.

Zone Europe achieved a RIG of 2.1%, slightly down from the 2.5% seen in 2000 and the 2.6% at the half year 2001. Zone Americas reached 3.9% RIG, compared with 4.4% in 2000 and 2.9% at the half year 2001. Zone AOA achieved 5.6% RIG, against 6.0% last year and 7.2% at the half year.

2001 Sales[a]

In millions of CHF	Differences 2001/2000 in CHF	in local currency	
By principal market			
USA	+7.5%	+7.9%	**20 398**
France	+8.0%	+11.6%	**7 914**
Germany	+0.8%	+3.8%	**6 649**
United Kingdom	–6.4%	–1.2%	**4 753**
Italy	+3.9%	+7.1%	**4 096**
Japan	–11.1%	+0.8%	**3 879**
Mexico	+8.1%	+7.0%	**3 754**
Brazil	+2.9%	+31.7%	**3 485**
Spain	+7.8%	+10.9%	**2 470**
Canada	+5.0%	+9.8%	**1 748**
Philippines	–0.3%	+15.3%	**1 532**
Australia	–9.8%	+1.3%	**1 461**
Switzerland	+10.3%	+10.3%	**1 303**
Other markets	+5.6%	(b)	**21 256**
By continent			
Europe	+3.7%	(b)	**34 057**
USA + Canada	+7.3%	(b)	**22 147**
Asia	+0.0%	(b)	**12 872**
Latin America + Caribbean	+5.7%	(b)	**11 762**
Africa	+3.6%	(b)	**2 083**
Oceania	–8.8%	(b)	**1 777**
Total Group	+4.0%	(b)	**84 698**

(a) Sales by market and continent include food and other activities.
(b) Not applicable.

In our other activities, Perrier Vittel Group, excluding the Trinks distribution business, increased its RIG from 5.4% in 2000 to 9.1% in 2001, although this was slightly down from the 9.6% at the half year 2001. Including the Trinks business, RIG moved forward from 5.7% in 2000 to 7.1% in 2001. Alcon, our pharmaceutical business, also improved its RIG to 9.2% from the 7.1% achieved in 2000 and the 7.5% at the half year 2001.

Profitability

Trading profit (Earnings before interest and tax, EBIT) rose slightly in 2001, from CHF 9.19 billion to CHF 9.22 billion, a margin of 10.9% of sales.

Earnings before interest, tax, depreciation and amortisation (EBITDA) were CHF 12.44 billion, a margin of 14.7%, compared to CHF 12.52 billion in 2000. Earnings before interest, tax and amortisation (EBITA) rose from CHF 9.60 billion to CHF 9.71 billion, a margin of 11.5%.

The main impacts on profitability included the increase in distribution costs, which rose from CHF 5.88 billion to CHF 6.42 billion. This was in part due to the success of Perrier Vittel Group, which is distribution intensive, as well as to increased oil costs in the early part of the year. We also continued to invest in the future of our business, demonstrated by a 12% increase in Research and Development costs to CHF 1.16 billion. Conversely, we saw a reduction in raw material and packaging costs.

Profit margin comparisons between 2000 and 2001 need to take account of the implementation of our IC3 initiative which resulted in a reduction in our general price reductions of about CHF 2.8 billion, which was reinvested in marketing and distribution.

Cost structure of the Group (illustrative)
In percent

	2001	2000
Raw materials	**23.1**	24.2
Packaging	**9.7**	9.9
Salaries and welfare expenses	**15.4**	15.7
Depreciation	**3.0**	3.4
Other expenses	**37.9**	35.5
Total trading expenses	**89.1**	88.7
Trading profit	**10.9**	11.3

The performance of the zones is discussed in detail on pages 32 to 38. Other activities achieved an increase in profitability, from CHF 2.01 billion to CHF 2.15 billion, with both pharmaceuticals and Perrier Vittel Group contributing.

The Group's **net profit** increased significantly from CHF 5.76 billion to CHF 6.68 billion, a margin of 7.9% of sales. The main reasons for the improvement were the fall in the tax rate from 33.1% to 27.7% and the reduction in financing costs resulting from lower interest rates and our lower average debt position than in 2000. The **tax charge** was to a large extent reduced by a number of one-off items and is unlikely therefore to remain at this level in 2002.

Basic earnings per share rose from CHF 14.91 (restated for the share split) to CHF 17.25.

Capital expenditure and cash flow

Capital expenditure in 2001 was CHF 3.61 billion, or 4.3% of sales which, in line with our expectation expressed in the 2000 Management Report, is a slight increase from CHF 3.31 billion, or 4.1% of sales, reported for 2000.

Within the Beverage product group, the Coffee business benefited from investment in support of its latest technological improvements that enabled, for example, the relaunch of *Nescafé Original* in the UK. Emerging markets were also a focus of investment for Coffee, Malt beverages and Perrier Vittel Group. Perrier Vittel Group also expanded its PET capacity in Europe and the USA.

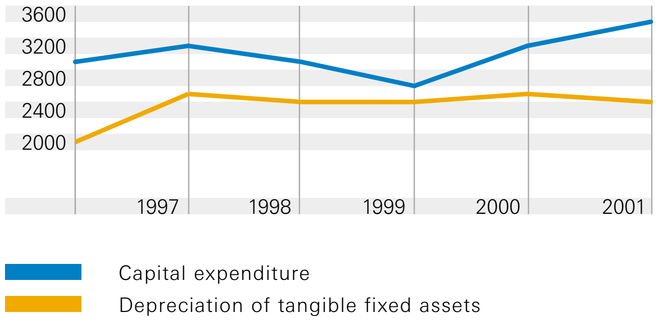
In Milk products, nutrition and ice cream, the majority of the investment went into a new Infant formulae factory in the USA and Breakfast cereals in the UK.

The key projects in Prepared dishes, cooking aids and petcare were in petcare in Mexico and the UK, and in Desserts and *Stouffer's* frozen foods in the USA.

In Chocolate, confectionery and biscuits the investment supported the continued success of *KitKat.*

By management responsibility and geographic area, the biggest beneficiary was Other activities, primarily Perrier Vittel Group. Zone Europe received more investment than the other zones, followed by the Americas and AOA, as is apparent from the zones' relative contributions to the Group's sales, the location of our factories and the product group text above.

Capital expenditure
In millions of CHF



Cash flow Operating cash flow in 2001 remained exceptionally healthy, with CHF 8.61 billion generated during the year, although it did not meet the record level in 2000 of CHF 8.85 billion, itself 8.1% above the previous year. One reason was the CHF 870 million increase in working capital in 2001. Free cash flow reached CHF 4.94 billion, despite the increase in capital expenditure outlined above. This figure demonstrates the robust health of the Group, achieved, as it was, despite the harsher economic conditions prevalent in 2001.

Acquisitions and divestitures

In 2001 Nestlé made significant acquisitions in three strategic categories, Petcare, Ice cream and Water. We also made a number of bolt-on acquisitions and continued the process of divesting non-strategic or poor performing businesses. Total investment in acquisitions, alliances and increased participations amounted to CHF 18.88 billion, whilst divestitures generated CHF 635 million.

Strategic acquisitions and bolt-ons Petcare has been a strategic growth area ever since we acquired Friskies as part of Carnation in 1985. The major acquisition of 2001 was of Ralston Purina, announced in January and completed, following regulatory approvals, in December. Nestlé's petcare business had sales of CHF 6.2 billion in 2001, and Ralston Purina had sales of USD 3 billion, with its North American sales accounting for USD 2.5 billion. The enlarged business is a global leader in the petcare industry. Furthermore we expect to improve operating efficiencies in all areas, with annual savings reaching USD 260 million by 2003. Also, in South Africa, we acquired Pet Products Pty.

Water, in common with Petcare, is one of our fastest growing categories. We continued to build on our leading position in this segment with acquisitions in each of our three Zones. A number of these were in the Home and Office channel, which in many parts of the world, including Europe, is growing even faster than the retail channel. We also increased our portfolio of retail brands.

Ice cream was the third of our strategic segments to benefit from significant acquisitions in 2001. We acquired the half of Ice Cream Partners USA that we did not already own, giving us total control of the Häagen-Dazs Ice Cream brand in the USA and Canada. Also in the USA, we increased our stake in Dreyer's Grand Ice Cream, Inc. to approximately 24%.

In Europe, meanwhile, we announced that we had agreed to acquire Schöller Holding, improving our market share in ice cream and frozen foods in Germany, and giving us access to the exciting direct delivery channel in that country.

Other acquisitions included infant cereals in Iran and chicken stocks in China. Both these acquisitions improve our positions in dynamic product categories in countries with large and growing numbers of active consumers.

Divestitures There were a number of divestitures in 2001, all of relatively small size, which were either in non-strategic areas or non-performing. These included businesses in areas such as snacks, bakery ingredients, ice cream, pet accessories and sugar confectionery. We also announced in January 2002 the disposal of Food Ingredients Specialities, our flavours business.

More information on acquisitions is provided in the Product and brands section on pages 39 to 83.

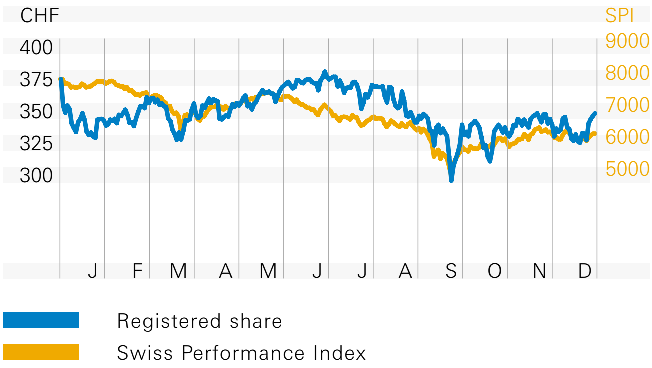
Financial position

The Group's net debt had declined during the year from the position at the end of 2000, when we had net financial debt of CHF 3 billion, but the completion of the acquisitions of Ralston Purina for CHF 16.4 billion and Ice Cream Partners USA for CHF 1.1 billion in December radically changed the situation as at 31st December 2001. As a result, we ended the year with net debt of CHF 19.39 billion. The Group's excellent cash flow generation ensured that it was able, despite these acquisitions, to retain its AAA debt rating.

Equity rose from CHF 29.90 billion to CHF 33.65 billion. These figures are net of Treasury Shares, whose carrying value increased from CHF 2.62 billion to CHF 2.79 billion.

The ratio of net debt to equity rose from 9.9% at the 31st December 2000 to 56.6% at the 31st December 2001.

Evolution of the Nestlé registered share in 2001



Shares, stock exchange 2001 was a highly volatile year for stock markets around the world, and Switzerland was no exception with the SMI falling 21.1% in the year. The broader based Dow Jones Stoxx 600 meanwhile fell 17%.

The Nestlé share price also reflected this market volatility. It started the year at CHF 378 (adjusted for the share split), peaked marginally higher, at CHF 387, and closed the year at CHF 354, a good recovery from its low of CHF 302. Over the year as a whole, the share price declined 6.3% which, although on the surface disappointing, represents an outperformance against the European market of 18.8%, as well as a fourth consecutive year of outperformance against the Swiss market.

The share split took place on 11th June 2001, following shareholder approval at the Ordinary General Meeting in April 2001. The effect was that shareholders received ten registered shares for every one registered share that they held. Also, as a result of the split, four American Depositary Receipts now represent one Nestlé registered share. We hope that this split will facilitate trading in Nestlé shares.

Raw materials and packaging

The overall trend of raw and packaging material prices was favourable in 2001. However, the strength of the US dollar, the dominant trading currency, diluted the positive impact.

World milk production increased again in 2001, following the pattern set in previous years, albeit at a slower pace. Production continued to stagnate in Western Europe, was up in Oceania and Asia, but down in the USA and Eastern Europe, though the latter showed signs of recovery. Demand weakened in the second half of the year in response to a more difficult trading environment and the high milk product prices of the previous eighteen months. This, together with export availability from South America, aggressive selling from New Zealand, and the reintroduction of export refunds and bonuses in the European Union and the USA, drove down milk powder prices by as much as 20% by the year end.

Green coffee prices remained under pressure for much of the year. Recent historical lows were recorded as the surplus supply for the 2000/2001 season weighed on the market. Market sentiment was influenced negatively by a mild southern hemisphere winter, ideal conditions for the development of the 2002 Brazilian crop, as well as persistent selling as the Real weakened against the US dollar. However, a trading range appeared to have been established during the last quarter as the effect of reduced offerings, a reflection of the between-crops situation, arrested the market price erosion.

The cocoa bean market experienced significant price volatility. A strong market rally early in the year was not sustained. During the following 6 months cocoa bean prices declined to establish a base during the summer as market players waited for the seasonal selling pressure from the next West African crop. Sentiment was unsettled by confirmation that the promising early crop development had not been maintained, coupled with delays in announcing the internal commercialisation and export conditions for the 2001/2002 crop season in Côte d'Ivoire. The subsequent price rise was provoked by aggressive fund buying ahead of anticipated coverage action by the chocolate industry.

Raw sugar values declined during the year against a background of improved availability and hesitant offtake, but the price of refined, or white sugar traded in a relatively narrow range.

Prices for packaging materials declined due mainly to the global economic downturn and over capacity in the industry. As a result of tactical purchasing initiatives across all Zones, we have taken advantage of the market conditions, while developing our relationships with key suppliers, as the packaging industry consolidated and capacity tightened in certain sectors. Wood pulp prices have fallen around 35% from the beginning of the year. Consequently, the paper/corrugated board industry reduced prices during 2001. After a significant price rise in 2000, PET has stabilised and the future price outlook will depend on the crude oil market's evolution. Steel and aluminium prices remained on the defensive which, combined with low capacity utilisation by converters, resulted in prices easing. Glass has been subject to price pressure due to increased raw material costs and a reduction in capacity. However, with increased competition from alternative materials, manufacturers were forced to be more competitive.

GLOBE – Global Business Excellence

GLOBE is the most ambitious business process reengineering programme that Nestlé has initiated. We are seeking to improve the performance and operational efficiency of our businesses worldwide. In the process, we will revisit all aspects of our business practices to shape new ways to run Nestlé.

The primary mission of GLOBE is to enable us to leverage our size as a strength, rather than a liability, unite and align the Group internally so that we can be more competitive externally, and to exploit the power of e-technology.

GLOBE will help us to unlock Nestlé's potential in a number of areas. These include our focus on customers, consumers and channels, increasing speed and flexibility, facilitating innovation and improving efficiencies. We have established GLOBE on the basis of six principles: pragmatism, business driven (process oriented), involvement of our operations, speed, communication and best people.

We will standardise best practice business processes so that we have a common, best way for activities such as purchasing, sales forecasting, production planning and customer service. We are standardising the "back end" so that we can focus on and be more flexible at the "front end", where we touch our customers, channels and consumers with our products and brands.

We will establish common coding for items such as our raw and packaging materials, finished goods, vendors and customers. This will allow us to consolidate information (leverage our size as a strength) and to communicate with each other better (by using the same language). This is increasingly important as inter-market supply is becoming prevalent in the Group.

In order to support common best practices and data, we need to have common information systems. Today, our operations have their own hardware, software and network, supported by over 100 data centres. In the future, we will have four data centres in the Nestlé world with common hardware, software and network.

The set-up, development and implementation of GLOBE during the period 2000 to 2005 is expected to cost approximately CHF 3 billion. Of this, CHF 1.5 billion or an average of CHF 250 million per year, is incremental, the rest replacing existing IT and process development spend. We will achieve the majority of the benefits only when common processes, data and systems are implemented across the majority of our operations. By 2006, cumulative benefits are expected to be approximately CHF 3 billion from the following areas: Ensuring Supply, Generating Demand and Support Functions.

While GLOBE is still in its early stages, having been established in July 2000, the programme has so far achieved all of its major milestones. However, we will have a more precise idea of the actual benefits and issues only once we have completed the first implementations.

We are starting these implementations in 2002 with Switzerland, the Andean Region (Chile/Peru/Bolivia) and Malaysia/Singapore. By the end of 2005, most of Nestlé's food and water businesses will be implemented.

If we make the most of the opportunity provided by GLOBE, it will enable us, among other things, to regroup elements of our businesses, to respond faster to global business trends, to drive down operational business costs, to develop and take advantage of customer and consumer insights and to exploit economies of scale.

Sustainable development

Accompanying the *Nestlé Management Report 2001* is *The Nestlé Sustainability Review.* Through this document we report on the implementation of the *Nestlé Corporate Business Principles* as we attempt to describe our impact on the well-being of people and planet. At Nestlé, we define sustainable development as the process of increasing the world's access to higher quality food, while contributing to long term social and economic development, and preserving the environment for future generations. The *Nestlé Corporate Business Principles* and the *Basic Nestlé Management and Leadership Principles* set out the norms of behaviour that Nestlé managers around the world are expected to follow. A revised and expanded version of the *Business Principles* has recently been distributed, which incorporates the nine principles of the UN Global Compact, dealing with Human Rights, Labour Standards, and the Environment. The revised *Nestlé Corporate Business Principles* also includes the recently developed *Nestlé Water Policy* and the *Nestlé Corporate Governance Principles.* It will be translated into over forty languages, and tools are under development to communicate these Principles throughout all levels of the Group.

As the world's leading food and beverage company, we are committed to being a leader in the three pillars of sustainable development – economic, social and environmental – not least because it makes good business sense.

Nestlé's achievements in sustainability were recognised for the second year in a row through inclusion in the Dow Jones Sustainability Index. The index selects the top 10% of sustainability companies from the Dow Jones Global Index.

Examples of Nestlé's approach to sustainability will also be included in an official United Nations Environment Programme (UNEP) report to the upcoming World Summit on Sustainable Development (WSSD) to be held in Johannesburg, South Africa, in September 2002. This report was prepared by the Confederation of Food and Drink Industries of the European Union (CIAA) with Nestlé leadership.

Fundamental social impact. Nestlé's fundamental social contribution is to create productive, long term economic development through sustainable, capital efficient and profitable growth. By successfully meeting the needs of our consumers for quality food products, we create jobs, contribute to economic development and deliver sustainable returns to our shareholders. Nestlé favours long term business development, which generates sustainable economic benefit for all those with a stake in the business as well as to the economies of many countries, over short term gains.

A distinctive feature of Nestlé's approach is to locate higher value aspects of production in the emerging world: 46% of our factories and 48% of our employees are located in such countries even though these countries represent only about a third of our sales.

Thus, in many different ways, including transferring technology, training local employees to international standards and paying taxes that help fund local infrastructure, Nestlé is contributing to sustainable social and economic development around the world. It is estimated that 1 million jobs and 3.4 million workers and family members are sustained worldwide due to Nestlé's economic activity.

Investing in Nestlé people Nestlé has about 230 000 employees from nearly every country in the world collaborating within a unifying corporate culture. We have relatively low employee turnover (approximately 5% annually), and the average length of service of Nestlé employees at retirement in our 20 largest markets is 27 years.

Surveys of business managers in Europe, the United States and other countries have found that Nestlé is one of the most popular companies to work for in the world. We believe that the nature of our relationship with our employees is a principal reason for this.

The Nestlé culture, as expressed in the *Nestlé Corporate Business Principles* and the *Basic Nestlé Management and Leadership Principles* requires that all members of the Group respect the dignity of others.

Our business model is based on transferring knowledge and skills to local nationals in each country where we operate and retaining these employees over the long term. In many developed and developing countries this involved the creation of comprehensive apprenticeship programmes to develop the skills of a wide range of people working in our factories.

Through these apprenticeship programmes and through thousands of internal training courses, including basic literacy classes in some cases (as in Brazil), we invest substantially in improving the capabilities of our employees. Furthermore, our International Training Centre, located near our headquarters in Switzerland, conducted 89 seminars in 2001 for 2107 managers from around the world.

Management is increasingly required to operate as a network of multi-disciplinary teams crossing functional and national borders. Bringing together people from various disciplines and cultures enhances knowledge sharing and the efficiency of the Group. This flexible approach to management is more and more embedded in the way Nestlé organises itself and is leading to improved white-collar productivity.

Employees by geographic area

	2001	2000
Europe*	**40.2%**	40.3%
Americas	**33.4%**	33.1%
Asia, Oceania and Africa	**26.4%**	26.6%

* 6441 employees in Switzerland in 2001.

Employees by activity

	2001	2000
Factories	**130 539**	131 380
Administration and sales	**99 226**	93 161
Total*	**229 765**	224 541

* 2001 excludes Ralston Purina.

Our belief in lifelong learning was reinforced by the creation of the new "Corporate Training" function in 2001, focusing on better alignment of training activities with the Group's policies. It will also help to optimise the use of the best training practices and make these available to the entire Group. Nestlé has also made considerable investments in e-learning, which is proving to be complementary to other training methods.

The increase of the variable portion of compensation and the extension of the Management Stock Option Plan have improved Nestlé's competitive position in the recruitment market, enhancing our ability to attract the best managers and professionals. At the corporate headquarters alone, we receive over 2000 applications per month on our recruitment website.

Consumers Nestlé's business success is dependent on the extent to which we fulfil our consumers' needs and desires. The billions of people who buy our products daily are free to choose our competitor's products over ours.

Nestlé's basic consumer value proposition is that people can trust the quality and safety of the food or drink when they open the wrapper or package. We have one unbending standard of food safety, and the Nestlé Seal of Guarantee can not go on a package of food until newly built or acquired factories can meet a detailed and rigorous set of requirements.

Nestlé lists a telephone number (mostly toll-free) as well as local addresses on each product package, giving access to Nestlé Consumer Services in 80 countries. Their role is to deal with consumer requests, to answer questions and to engage in dialogue. We have around 5 million contacts per year through Nestlé Consumer Services, which allow us to better tailor our services and products to the needs of the consumer.

Business partners Nestlé aims to deal only with reputable industrial suppliers who are willing to apply Nestlé standards. Supplier relationships are benchmarked and evaluated to deliver continued improvement in quality and service. The Company audits major suppliers to ensure that they comply with the *Nestlé Corporate Business Principles,* or are working actively to achieve them. All operational heads have confirmed that the application of our Principles has been discussed with major suppliers. In 2000, some 3151 supplier companies were involved in this kind of discussion, and more than 1000 audits of suppliers' manufacturing facilities were conducted. Whenever instances of non-compliance are discovered during audits or are brought to our attention, Nestlé requires that corrective measures be taken if the supplier relationship is to be maintained.

Social partnerships Nestlé has extensive collaborations with local, national and international organisations in the many countries where we operate. The nature of this commitment varies according to the social and economic needs of the country, but focuses essentially on three areas: nutrition, health and social and economic development. The following are just a few selected examples of on-going projects in over 60 countries:

Africa – AIDS youth education programmes. Nestlé is the primary corporate sponsor of the International Federation of Red Cross/Red Crescent's Africa Health Initiative. Launched in 2001, this programme aims to prevent transmission of HIV through increased AIDS awareness in Africa, starting with the continent's most populous country, Nigeria. Working in 12 states, the programme targets 1.2 million youths through 2640 peer educators. It will provide home care support to 7000 HIV-positive persons with 300 volunteers providing counselling. Nestlé also supports nutrition education in Nigeria through teachers' workshops and the Nestlé Nutrition Duchess Club, an all-female club that shares and disseminates nutrition information.

Russia – Ulitsa Sezam school nutrition curriculum – 170 000 children and 8000 teachers in 2150 schools and 22 regions. The Good Nutrition Programme uses characters from the Russian version of Sesame Street, also sponsored by Nestlé. It was developed by Nestlé together with leading Russian nutritionists and educators, and has the official approval of the Ministry of Education. The programme includes workbooks, a teachers' manual, and an explanatory leaflet for parents, as well as posters and videos. The average Russian diet, although adequate in terms of total calories, is often nutritionally unbalanced. The aim is to teach children the basics of healthy eating using local culinary traditions and locally available food, taking into account the economic realities prevailing for many families.

Canada – National programme to counter increasing youth violence. In 2001, Nestlé Canada partnered with Family Services Canada out of a mutual concern about youth's exposure to violence. The programme aims to help parents understand the ways in which children can be exposed to violence and to enable the children to nurture skills to deal with the problem. This programme grew out of Nestlé Canada's involvement as a founding sponsor of the Kids Help Phone, a 24-hour youth counselling service, which has experienced a significant rise in bullying related phone calls in the last several years.

Philippines – Education and manpower development. Under the Academic Linkage Programme, Nestlé Philippines provides shop-floor and on-site training to students from educational institutions including De La Salle University, Dualtech, Meralco Foundation Institute and the Xavier University in Cagayan de Oro. Nestlé also supports several educational institutions, putting up trust funds and grants for less privileged students. Institutions receiving grants include the University of the Philippines, University of Sto. Tomas, Nutrition Foundation of the Philippines, Ateneo de Manila University and the Philippines Science High School.

Environment

In 2001, Nestlé delivered on its commitment to continuous improvement in environmental performance throughout the supply chain.

Environmental Performance. The Company's globally applicable environmental minimum technical requirements (EMTRs) were updated in 2001. The EMTRs are an essential component of Nestlé's Environmental Management System (NEMS). They set minimum internal environmental performance requirements in areas such as energy and water use efficiency, waste management, waste water treatment and air emissions, to name but a few. In the absence of local legal requirements, or where legal requirements are less strict, the Nestlé EMTRs must be enforced. They are the starting points for the continuous improvement process of NEMS.

As shown in the table of the environmental performance indicators (EPIs), Nestlé continued to track its manufacturing operations environmental performance. The significant progress in reducing emissions of ozone depleting substances was due to the start-up in 2000 of a new refrigeration system in Beauvais, France, using natural refrigerants. Overall reductions per tonne of product have been 97% since the Group's programme to phase out the use of these substances began in 1986.

Nestlé made further advances in this field during 2001. The industrial refrigeration system at the Hayes freeze-dried coffee factory in the United Kingdom was updated. Representing an investment of over GBP 10 million, the new system uses the natural refrigerants ammonia and carbon dioxide. It thus brings many advantages, eliminating HCFC use well before the deadline in the Montreal Protocol and improving safety. The higher efficiency of the refrigeration plant contributes positively to the factory performance and the environment.

Additional information on Nestlé's environmental performance is published in *The Nestlé Sustainability Review.*

In October, Nestlé communicated its Position on Industrial Refrigeration in conjunction with the air-conditioning and refrigeration trade fair (IKK) in Hannover, Germany. Its purpose is to clearly state Nestlé's long standing preference for natural refrigerants and to encourage continued development of technology to allow their wider application.

Sustainable Agriculture Initiative. In 2001, Nestlé, Unilever and Danone Group worked on a Sustainable Agriculture Initiative (SAI). The aim of the initiative is to support actively the development of, and communication about, sustainable agriculture involving different stakeholders. A position paper was developed to promote sustainable agriculture. Other food companies are encouraged to join to strengthen the initiative.

Supporting the Environment Through Education. Nestlé's water division, Perrier Vittel, expanded its support for the Water Education for Teachers (WET) programme in 2001. Successful for many years in the USA, the recent expansion to Mexico has achieved similar results. WET is an international, water science and education programme for classroom teachers and other educators of children aged 5-18. Its goal is to facilitate and promote the awareness, knowledge and stewardship of water resources using classroom ready teaching aids.

Communication on environmental issues was further developed during the year, following the success of the *Environment Progress Report 2000.*

Environmental performance indicators (EPIs) progress summary

The results below cover the period 1997-2000, during which production volume increased 28%.

	1997	1998	1999	2000
Water consumption m^3 per tonne product	11.0	9.37	8.59	8.40
Energy consumption 10^9 Joules (GJ) per tonne product	4.55	3.90	3.65	3.61
Waste water generation m^3 per tonne product	8.86	7.11	6.62	6.30
Greenhouse gases kg CO_2 per tonne product	241	212	197	191
Air acidification potential kg SO_X equiv. per tonne product	1.74	1.34	1.21	1.17
Ozone depleting substances g R-11 equiv. per tonne product	36.0[1]	2.76	2.41	1.17
By-products/waste generation kg per tonne product	103	84.5	78.5	70.4
By-products/waste recovery % Recovery	75.7	74.2	74.9	72.6

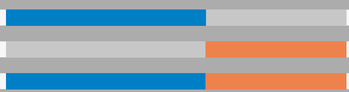
[1] Data is for 1986 when measurement first began.

Zone focus

Zone Europe – Sales

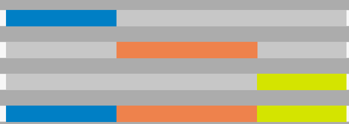
	2001	2000	1999
Western	**24 655**	24 546	25 523
Eastern and Central	**2 087**	1 739	1 575
Total sales	**26 742**	26 285	27 098

Zone Americas – Sales



	2001	2000	1999
United States and Canada	**15 548**	15 035	13 370
Latin America and Caribbean	**11 050**	10 489	8 675
Total sales	**26 598**	25 524	22 045

Zone Asia, Oceania and Africa – Sales



	2001	2000	1999
Oceania and Japan	**4 998**	5 606	4 777
Other Asian markets	**6 380**	5 955	5 137
Africa and Middle East	**4 080**	4 149	3 697
Total sales	**15 458**	15 710	13 611

In millions of CHF

Zone Europe

Zone Europe's sales rose to CHF 26.7 billion in 2001 compared to CHF 26.3 billion in 2000. At comparable structure, excluding acquisitions and divestitures, and at constant exchange rates, sales rose 8.4%, resulting from the following factors:

Selling price adjustments delivered 6.2% growth and these were most evident in meat and milk based products as a result of higher raw material prices due to the BSE and Foot & Mouth (FMD) crises; RIG was 2.1% thanks to a modest growth in Western Europe and a good performance in Eastern and Central Europe, which achieved a RIG of 14.1%.

The performance of Eastern and Central Europe confirmed the positive trend of the preceding year. The main contributor was Russia with a growth of 23.9%, reflecting the reinforcement of our strong positions in Soluble coffee and Chocolate, as well as the positive development of other categories such as Infant nutrition and Culinary products.

Western Europe reached a modest RIG of 1.2%. However, this performance reflects the progression or the preservation of our market share in the majority of our product categories.

Innovation and renovation was a key contributor to RIG. Examples included the launch of a soluble coffee with improved taste and a new jar concept in the UK, which will be extended to other European markets in 2002, and the successful development of *Nestlé* chocolate sticks launched at the end of 2000 in France. We also successfully launched liquid soups in France and introduced a range of chilled pizzas in some markets.

Increasing the availability of our products was also an important contributor to our growth. The vending and coffee shops activities in France, Germany and the UK, the launch of ice cream in the vending channel in Spain and the development of the Nestlé Home Care concept in France are some examples of the innovative routes to market opened during the year.

Almost all Western markets achieved a positive RIG in 2001. Above average growth was achieved in Germany, Spain, Switzerland, Scandinavia, Portugal and Greece. On the other hand we suffered in Italy from the negative evolution in olive oil, dry pasta and ice cream. The growth was also slower than expected in Friskies Europe, mainly due to fierce competition in the UK petcare market.

EBITA was 1.1% higher, at CHF 2.78 billion. Exchange rates had a negative impact of 3.3% reflecting the strength of the Swiss franc against most currencies.

The EBITA margin was 10.4%. There was a significant improvement of 320 basis points to 13.8% in Eastern Europe, where a remarkable progression was recorded particularly in Russia, Poland and the Czech and Slovak Republics.

Western Europe's margin was stable at 10.1% despite challenges of growth, competition and pressure to increase trade support. The BSE and FMD crises also had a negative impact on the profitability of the milk and meat based products, particularly in the UK and France, as well as of our petcare business, Friskies Europe.

Higher operational efficiency was a key factor to generate funds for increased commercial support and improve our financial performance in 2001. Among the important efforts deployed in all sectors of our activities, the following initiatives are highlighted:

Manufacturing: Continuation of the successful MH97 cost improvement programme by adding CHF 265 million savings in 2001. Ongoing optimisation of our industrial structure, particularly in Frozen food and Chilled dairy.

Supply Chain: Creation of coordinated European purchasing teams for an increasing number of raw and packaging materials. We have also started to build a new European operational structure for Chilled dairy. In 2001 the focus was mainly on optimising our manufacturing strategy and performance, the supply chain and our product assortment.

Impact of Euro: Our administrative systems have been adapted in the countries concerned and all our inter-market supplies have been invoiced in Euro since the beginning of 1999. The introduction of the European currency will facilitate cross-border trading, as well as simplify administrative tasks.

The future We are determined to build our position as the leading and most dynamic food and beverage company in Europe through active development of our food categories, as well as improved customer support and channel development. This will enable our overall goal of accelerated growth and profit improvement.

Growth With focused product innovation and marketing support stimulating category development in Western Europe, we intend to increase our market shares by growing faster than the food market. We will further extend our coverage and availability in non-traditional and out of home food channels.

We will also develop the significant potential for long term consistent growth in the main segments of the food market in Eastern Europe.

Profit We aim to increase the EBITA margin by focusing our resources on our high value added categories, and by leveraging our European and international brands. We will also streamline our product portfolio, as well as considerably improving our industrial and administrative efficiencies.

Zone Americas

2001 was a challenging year for the Zone, but RIG reached 3.9%, whilst EBITA was CHF 3.5 billion.

Sales rose to CHF 26.6 billion, an increase of 4.2% over last year. This growth was achieved despite a number of events which had a negative impact on Zone sales: the tragic events of 11th September; the economic slowdown in the USA which was evident by the middle of the year, as well as its ripple effects in Mexico and Canada; the devaluation of key Latin American currencies (in particular those of Brazil and Chile), as well as economic and political difficulties in Argentina and the energy crisis in Brazil. Also, we sold the sizeable US Frozen Potatoes business at the end of 2000.

At comparable structure, excluding acquisitions and divestitures, and at constant exchange rates, sales rose by 9.6%. The main drivers were a RIG of 3.9% and selling price adjustments of 5.7% which offset labour, energy and raw material cost increases. These price adjustments were possible due in part to the strength of our brands and market positions, but also to successful product innovation and marketing initiatives. An example of the latter was our "80 years, 80 houses" promotion in Brazil, in which eighty Nestlé consumers were able to win houses in celebration of Nestlé's 80th anniversary in Brazil. This campaign was successful in increasing market share and volumes.

The EBITA of the Zone was CHF 3.5 billion, a margin of 13.3% of sales. Cost of goods sold declined, and there were good profit performances in particular from Brazil, Canada, Venezuela and Argentina. There was a decline in Mexico, due to less favourable economic conditions, and in Ice Cream Partners USA, due mainly to the loss of distribution rights. Also impacting the result was Friskies' continued marketing spend as it successfully builds critical mass in Latin America and the Caribbean.

Key initiatives and market review The recently closed acquisitions of Ralston Purina and of the additional 50% of Ice Cream Partners USA demonstrate the Group's commitment to building its strategic product categories. 90% of Ralston Purina sales and 95% of its profits are generated in the Zone. Moreover, there is an excellent complement between Friskies' strong positions in wet cat food with those of Ralston Purina in dry dog food. In the USA, this merger gives us the leadership position in this exciting food category.

Friskies Latin America and Caribbean was created during the year to be responsible for the development of our petcare business in that region. This will allow a focused deployment of resources and result in a faster, more efficient achievement of our strategy for the enlarged petcare business.

A memorandum of understanding has been signed to explore the creation of the Dairy Alliance for the Americas with Fonterra, a company resulting from the merger of the major New Zealand milk cooperatives and the New Zealand Dairy Board. With this alliance, the partners will further strengthen their competitive positions in the huge dairy market across the American continent, and better exploit the opportunities in the fast growing dairy chilled and value added milk segments.

A major pan-Zone initiative is to accelerate the realisation of supply chain synergies and increase the benefits from a more centralised procurement. This runs in conjunction with our continuous efforts to concentrate production in a smaller number of focused and highly efficient factories. Those initiatives are reducing the cost of goods sold, while improving our ability to leverage opportunities resulting from the cross-border trade pacts that already exist or are in preparation in the Americas.

In the **USA,** with the exception of FoodServices, most product categories generated strong sales and profit growth. Specifically Petcare further improved its margins through price increases and reductions in production costs. *PowerBar* has shown double digit growth, consistent with the expectations of our acquisition rationale. The *Nestlé Toll House* cookie doughs continue to gain market share and profitability, driven by ongoing innovation. The *Stouffer's* and *Lean Cuisine* frozen retail businesses continue very strong. This success, in the USA and Canada, lead to Nestlé USA's announcement of a fourth frozen food factory in Jonesboro, Arkansas. Moreover, a state of the art factory was commissioned in the USA for the manufacture of Infant nutrition products.

In **Mexico** we continued to grow our sales in a no growth economy. Culinary products and Soluble coffee were at the forefront of the positive evolution. Nestlé Mexico, aware of the difficulties faced by the coffee growers, has contributed to a government plan, as well as directly, to support coffee growers.

Nestlé **Brazil** was able to deliver a substantial RIG despite the currency and economic problems and the energy crisis. In fact, we generated double digit sales growth in important segments such as Dairy chilled, Chocolate and Ice cream.

Nestlé **Canada** achieved strong sales growth in Frozen food, Nutrition, Chocolate confectionery and Ice cream. The key drivers of profit improvement were Frozen food, Ice cream and Petcare.

Nestlé **Argentina,** after important changes in its way of doing business, has achieved the best performance for years, in spite of the political, social and economical crises. The devaluation of the Peso in the first days of 2002 adds a new challenge to anyone doing business in Argentina.

The future Zone Americas aims to capitalise on its competitive advantages to increase its strong market shares and improve its returns. EBITA improvement will be based on:

Efficient manufacturing (fewer plants, but highly efficient and cost competitive ones): leadership in products and channels, an optimal organisation of our businesses with increased inter-market supplies and more cross-border shared services and structures, will increase operational productivity while reducing capital investment.

Growth: based on the strength of our brands, market positions and product innovation, internal growth continues to be a priority in each market and region. Leveraging recent acquisitions and joint ventures should add further opportunities to expand our turnover and gain market share. Above average growth is expected in key segments such as Soluble coffee, Frozen food, Dairy chilled, Infant nutrition and Petcare.

Zone Asia, Oceania and Africa

Total sales reached CHF 15.5 billion, distorted by the strength of the Swiss franc against most currencies in the Zone, which had a negative translation impact of 10.2%, and resulted in an overall decrease in sales of 1.6%. Despite this, 2001 was another successful year for the Zone, with a RIG of 5.6%, well above the Group average, and an EBITA of CHF 2.6 billion.

This performance was achieved in a difficult economic and political context: most Asian economies grew at a significantly slower pace than in 2000, or entered recession, whilst the political situation remained unstable in many areas of the Zone, particularly the Middle East and Africa.

Margins were under pressure from the higher prices of many raw and packaging materials, including milk solids. In this context, we were able to increase selling prices by an average 3.1% across the Zone.

The growth in sales was essentially made possible by our strong market shares, combined with a balanced geographic spread and a widely renowned portfolio of brands. There were outstanding performances in the three most populous markets in the Zone, China, India and Indonesia. Africa also contributed significantly to the Zone RIG.

We were able to keep the EBITA margin virtually unchanged compared to 2000, despite the more difficult environment, due to increased efficiencies.

Market review The **Greater China** market (including Hong Kong and Taiwan) performed very well in 2001, and will continue to provide immense opportunities for growth. Whilst the admission of China into the World Trade Organisation should give added impetus to the market, we are pursuing our own initiatives to drive growth: a joint venture agreement with Haoji, the country's second largest chicken stocks producer, will enable us to reinforce our leadership position in culinary stocks; a new R&D Centre in Shanghai, specialised in the development of dehydrated culinary products and family cereals, should add momentum to those product groups.

India and **Indonesia** registered high sales growth and have strong potential for the future. Our focus in these countries is to improve our market positions, as the markets themselves grow, driven by an increasing proportion of the population being able to afford packaged food. In both these countries, and in Malaysia, we have increased the Group's participation in our local companies, reinforcing our commitment to this part of the world.

Japan remains by far the largest market in the Zone and recorded a satisfactory sales growth in 2001, against a gloomy economic backdrop. The joint venture with Snow Brands Milk Products Co. Ltd., announced in 2000, is moving ahead with the successful launch of a range of chilled products.

Africa performed well during the year, in particular the Central and Western African region which registered a remarkable RIG of 21%. We see Africa as something of a sleeping giant and are positioning ourselves to benefit when the different markets awake and the growth potential becomes achievable.

Key initiatives Our strong brand positioning and the commitment of our people in the **Middle East** enabled us to achieve moderate growth despite the political instability. In line with the Group's strategy of building leading positions, we have obtained an approval for a majority participation in Nestlé Iran where we will manufacture infant cereals and milks, as well as powdered milks, opening a market with a population of over 70 million.

A factory in Uzbekistan started producing bottled water in December 2001 and dairy products early in 2002, to be followed by several other product lines over the coming years. We will thus be providing quality food products to consumers in Central Asia.

A separate Petcare business unit was set up in 2001 to add focus and further enhance our competitiveness in a sector with important growth potential. The unit is headquartered in Sydney, close to the Blayney factory, the major manufacturing source for the Zone. This is one of the four regional Petcare head quarters around the world.

With many countries within the Zone heavily dependent on export trade, increasing globalisation is a reality that cannot be ignored. In this context, Nestlé launched Project AIS (Asian Industrial Study) in 1999 to optimise the industrial structure for tradable products in Asia and Oceania and improve the Zone's asset turn and profitability. This project is now well over three quarters completed, and we are steadily moving from multi-product, decentralised, small scale factories to a flotilla approach that combines focused and regional factories with large and highly efficient ones.

The scope of Project AIS covered 26 of the 146 factories in the Zone in 1999, specifically in the ASEAN region, Japan, Australia, New Zealand and Taiwan. The product categories covered are Milks, Soluble coffee, Other beverages and Infant nutrition.

At the end of 2001, this project had resulted in 6 full factory closures and 9 partial closures. The Zone's asset turn has also been improved by using spare or underperforming capacity for exports, whilst the harmonisation of product recipes, package designs and sizes has enabled us to streamline the sourcing of raw materials.

Furthermore, Project AIS has enabled the deferral of some investments, and significantly lower capital expenditure from 1998. In 2001, total capital expenditure for the Zone was CHF 626 million or 4.1% of sales. Further industrial restructuring, driven by local and regional studies, is a priority.

As an evolution of Project AIS, and in order to ensure the optimisation of inter-market supply, a new structure will focus on tradable products including Milks, Coffees, Infant nutrition and Other beverages and cover the full geography of the Zone. A centralised purchasing organisation has achieved significant cost reductions, and further improvements are planned.

The Zone has shown its ability to recover very quickly from crises, with strong growth rates in 1999 and 2000 after the Asian crisis in 1998, and we are confident that the current environment will not have any major impact on our business going forward.

The future Looking forward, the Zone will consolidate and leverage its world-class supply organisation to achieve efficiencies and savings, while at the same time developing a "best in class" Generating Demand organisation to drive growth from within the business.

Efficiency will be increased in all domains, from raw materials to the consumer, and the Zone expects significant benefits from regionalisation, demographics and growing consumer sophistication.

Zone Asia, Oceania and Africa will build strong market positions, particularly in the more populous countries, to deliver sustainable growth to the Nestlé Group. The Zone will strive to deliver above group-average performance to cover the higher risks inherent in emerging markets.

Products and brands

The strength of Nestlé's brands has given the Group an unparalleled position on a global basis across a wide range of product categories. Six worldwide corporate brands, *Nestlé, Nescafé, Nestea, Maggi, Buitoni* and *Friskies* contribute about 70% of the Group's total sales, with the *Nestlé* brand itself contributing 40%. These brands are the first choice of consumers around the world, whether as stand alone brands or in combination with product brands. Nestlé also owns regional and national brands with which consumers have a close and often longstanding familiarity. These brands enable consumers to express their individuality and to respect their traditions whilst still enjoying the quality and safety of a Nestlé product and, as such, are key elements of the Nestlé portfolio. Nestlé's brands and products are the focus of continual innovation and renovation so that they meet and exceed our consumers' expectations. We seek to achieve a clear-cut quality superiority through a 60/40 consumer preference and to ensure that our products are available whenever, wherever and however our consumers want them.

The brands in italics are registered trademarks of companies of the Nestlé Group.

Sales

		2001	2000	1999
Coffee	37.2%	**8 937**	9 096	8 340
Water	37.0%	**8 887**	7 380	5 269
Other	25.8%	**6 199**	6 568	7 250
Total	100%	**24 023**	23 044	20 859
EBITA		**4 259**	4 318	3 764
Capital expenditure		**1 062**	936	618

In millions of CHF

Beverages

Sales of *Nescafé* have been growing ever since 1938 when Nestlé launched the first commercially successful soluble coffee. *Nescafé,* which today includes ready to drink varieties, is by far the world's most popular brand of coffee. The Group markets traditional roasted coffees in several European countries, as well as espresso coffee in capsules through *Nespresso.* Nestlé is also the global leader in chocolate/malt beverages, with brands such as *Nesquik, Milo* and *Nescau.* Nestlé is present in fruit juices, where its most important brand is *Libby's* in the USA, and in tea-based drinks, particularly soluble and ready to drink *Nestea.* Nestlé is also world leader in bottled water, with a portfolio of over 70 brands, amongst which are the international *Vittel, Contrex, Perrier* and *S.Pellegrino* brands, as well as regional and local brands such as *Levissima, Vera, Panna, Fürst Bismarck* and *Naleczowianka* in Europe, and *Arrowhead, Poland Spring, Zephyrhills, Deer Park* and *Ozarka* in the USA. More recently the Group introduced the *Nestlé* brand to the bottled water category with the introduction of *Nestlé Pure Life* and *Nestlé Aquarel.* Nestlé is also a major global player in the Home and Office channel.

Nescafé global sales continued to demonstrate strong growth in 2001, clearly outpacing the total coffee category. Not only did *Nescafé* sales grow at double digit rates in the emerging markets of South East Asia and Europe, but also at twice the market rate in the industrialised markets of Europe and North America. This enabled *Nescafé* to reinforce its position as the world's leading coffee brand: an estimated 3900 cups are drunk every second, day-in and day-out in more than 120 countries around the world.

With this leading position, one of our key preoccupations is to ensure that coffee remains an interesting and rewarding beverage also to the young adults of today. In 2001 *Nescafé* entered into global partnerships with some of the world's leading youth media. This campaign, which uses the exciting "One thing leads to another" theme, is supported by local campaigns in all key *Nescafé* markets to win new consumers to *Nescafé* around the world.

Major new technological improvements were again made to the product range and these are exemplified in the relaunch of *Nescafé Original* in the UK and the new *Nescafé Cappuccino,* currently being rolled out across Europe. Further share progress was also made in the dynamic *3 in 1* (coffee/creamer/sugar in a single-serve sachet) market in South East Asia, Russia and China.

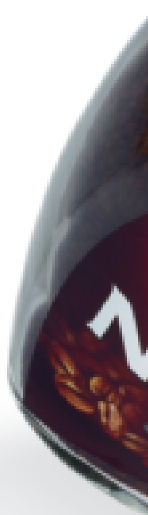
Our success in driving the popularity of coffee as a beverage, and *Nescafé* in particular, is the greatest contribution that we believe we can make to narrowing the gap between supply and demand for green coffee and, therefore, to helping to achieve a level of pricing for that raw material which would ensure that coffee is a sustainable economic option for farmers.

We have soluble coffee factories in many coffee growing countries, many of which export their products. In this way, Nestlé tries to ensure that some of the value-added in the soluble coffee process is retained locally to contribute to that country's economy.

In addition, in some of these markets where we purchase directly from farmers, we offered in 2001 a premium in order to encourage better agricultural practices and to help alleviate the hardships caused to growers by the depressed green coffee prices on the world market.

In the ready to drink coffee and tea category, the successful joint venture with Coca-Cola (Coca-Cola Nestlé Refreshments Co.) celebrated the first ten years of its partnership with important achievements in profitability and growth. Together with our partner, we decided to review and expand our joint venture, renaming it Beverage Partners Worldwide (BPW): Nestlé and Coca-Cola are well positioned to continue to grow and build their global presence.

Nestlé's leading position within the chocolate/malt beverage market was strengthened during 2001 through market share gains. The energy positioning of *Milo* was highlighted by successful introductions of enhanced product offerings whilst *Nesquik* continued to improve its position by making drinking milk among children "irresistibly delicious and fun".



Milo with energy release, Philippines.

Nescafé 1+2, China, and *Nescafé 3 in 1,* Taiwan.

A key product distributed by BPW.

Nescafé 3 in 1, Thailand, and *Nescafé Cappuccino,* Switzerland.

THE NEW *NESCAFÉ* "ONE THING LEADS TO ANOTHER" OVERALL CONSUMER COMMUNICATION PLATFORM PROVIDES AN EXCITING FRAMEWORK FOR THE GLOBAL INTEGRATED YOUTH CAMPAIGN. THE MISSION, THROUGH THE VARIOUS ELEMENTS OF THE YOUTH PROGRAMME, IS TO HAVE YOUNG PEOPLE COME TO THE *NESCAFÉ* BRAND AND WANT TO BE ASSOCIATED WITH IT.

New *Nesquik* packaging, Eastern Europe.

Nescafé Original, new technology and new presentation, UK.

Nespresso had another strong year especially in Switzerland, France, Germany, Austria and the USA, with sales reaching CHF 260 million, an increase of 30% over 2000.

Nespresso's brand and product visibility were further enhanced through its flagship stores in major European cities. The Web site's user-friendliness for on-line ordering was improved and its power in communicating *Nespresso* product information, positioning and new offerings was reinforced. The site accounts for about 20% of sales.

Perrier Vittel Group's sales continued to grow in 2001, with particularly strong growth from our brands in the USA, despite a highly dynamic competitive situation, as well as from our *Nestlé* branded waters in Europe and emerging markets.

Numerous innovations and renovations have helped to build brand awareness and loyalty: the launch of new products, such as *Contrex* drinks, based on natural fruit and flower flavours, and *Levissima Allegra*, a light sparkling water in Italy, have stimulated demand; *Perrier*'s new PET packaging symbolises the relaunch of the brand; a new round *Vittel* bottle for Japanese vending machines was a great success; and many of our American brands are now available in a new one gallon format.

Nestlé Aquarel, our natural spring water which is now available in six European countries, took some big steps forward in 2001. Its standing was significantly enhanced through a major sponsorship of the Tour de France cycling event. This initiative helped develop awareness and sales, and should facilitate the market entries planned for 2002. Our ambition is clear: to make *Nestlé Aquarel* the first pan-European bottled water brand by 2010.

Nestlé Pure Life, our processed and well balanced drinking water, was launched in three new markets in 2001: India, Jordan and Lebanon, and is now available in 10 countries across Asia, the Middle East and Latin America.

We have continued to perform well in the fast growing PET and Home and Office categories in the USA, where we are the market leader and where we have been able to increase our overall market share and profitability despite a highly competitive situation.

Profit EBITA was 17.7% of sales. There was a strong performance from both the key segments within this Product group, although the strength of the Swiss franc had a negative impact on results in translation. Coffee benefited again from further operational efficiencies and good capacity utilisation. The increase in Water's profitability was achieved despite the negative impact of increased PET costs and shows the benefit both of productivity initiatives and of retail price increases.

Acquisitions Perrier Vittel made a number of acquisitions in the Home and Office delivery channel: from our single US business just three years ago, we now have operations in over a dozen countries across five continents. Major acquisitions in 2001 included *Black Mountain* in the USA, *Dar Natury* in Poland (the largest home and office operation in Europe), *Al Manhal* in Saudi Arabia (the leader in the Middle East) and *Aqua Cool,* which reinforced our position in the USA, as well as giving us good positions in the fast growing British and French markets. Other important acquisitions included *Sansu* in Turkey (retail and home and office) and the *Glaciar* retail brand in Argentina.

Contrex peach-orange and pear-vanilla.

New *Perrier* PET packaging.

Nestlé Pure Life now in 10 countries.

INNOVATION IS THE DRIVING FORCE BEHIND THE SUCCESS OF *NESPRESSO*. IN 2001, THE EUROPEAN LAUNCH OF A NEW STYLE OF ESPRESSO MACHINE, THE "CONCEPT MACHINE" BY *NESPRESSO,* AND THE INTRODUCTION OF A LIMITED EDITION EXCLUSIVE COFFEE BLEND, GENERATED SUBSTANTIAL DEMAND AMONGST EXISTING AS WELL AS NEW CUSTOMERS.

Traditional *Fürst Bismarck,* now in PET.

Levissima Allegra, slightly sparkling.

Nestlé Aquarel special edition for the Tour de France.

Sales

		2001	2000	1999
Milk products	56.9%	**13 061**	12 471	10 923
Nutrition	23.0%	**5 278**	4 915	4 183
Ice cream	16.4%	**3 770**	3 807	3 598
Other	3.7%	**844**	781	707
Total	100%	**22 953**	21 974	19 411
EBITA		**2 572**	2 620	2 168
Capital expenditure		**573**	530	366

In millions of CHF

Milk products, nutrition and ice cream

Nestlé has long been a major player in the dairy industry, originally with well known shelf stable brands such as *Nido, Nespray, La Lechera* and *Carnation,* then building a strong international presence in chilled dairy and ice cream under the *Nestlé* brand. Innovation and renovation play a major role in the development of milk based products as well as of breakfast cereals, managed as a joint venture with General Mills. The area of nutrition, with its benefits to health, well-being and fitness, is having a significant impact on the development of our business. A wide range of added value products such as starter and follow-up formulas, growing-up milks, cereals, enteral diets, oral supplements and performance foods are actively developed and brought successfully to market under the *Nestlé* brand.

In the **Shelf stable dairy** category, continuous innovation and renovation of our portfolio contributed to the growth in sales. Improvements in efficiency, meanwhile, enabled us to maintain good profitability levels, despite higher milk prices in most milk producing countries.

Innovative use of our Branded Active Ingredients technology and strong communication of their benefits have been the main growth drivers for our pre-school and school milks, particularly in Asia with the launch of *Nespray 1+, 3+* and *6+* in Malaysia and of *Dancow 1+, 3+* and *6+* in Indonesia.

In the USA, the relaunch of *Coffee-mate* (non-dairy creamer) in a new plastic jar for both powder and liquid forms, supported by a new advertising campaign, has achieved excellent results. This product packaging renovation was the winner of the Nestlé Innovation Award for the Dairy category.

In the UK we added two new products, a custard cream and a rice pudding, to our range of shelf stable desserts under the *Nestlé* brand.

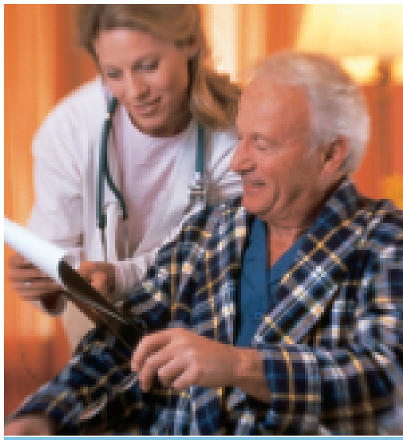
The **Chilled dairy** product category has focused on initiatives to drive growth and improve cost competitiveness. Those focused on growth included entry into the emerging markets of Pakistan and India; introduction of *Chamyto* "ladies" to sell door to door in Brazil and the Philippines; the launch of well-being concepts in Europe under the *Sveltesse* brand and in Mexico under the *LC1* brand; expanding into non-supermarket channels with products developed for fast-food restaurants, airlines and schools; and creating new consumption opportunities by leveraging the Chilled dairy and Cereal brand portfolios.

The key initiative to drive cost competitiveness was the completion of the industrial harmonisation of our European manufacturing assets, with significant improvements in manufacturing costs and reductions in invested capital.

In Japan, our marketing joint venture with Snow Brand produced its first fruits with the launch of *Nescafé* ready to drink cup, *Nescafé* jelly cups and *Nestlé LC1*. Reaching a wide level of distribution through Snow Brand's extensive network, the initial sales of the products are encouraging. The launch of *Nestlé LC1* saw the active involvement of the Nestlé Research Centre to share with the Japanese scientific community the extensive benefits of this leading probiotic yogurt.

New proprietary plastic jar for *Coffee-mate,* USA.

New shelf stable desserts range of custard and rice pudding, UK.



HOME CARE IS AN IMPORTANT COMPONENT OF HEALTH CARE SYSTEM. IT OFFERS DECREASING COSTS WHILST IMPROVING A PATIENT'S QUALITY OF LIFE. IN FRANCE, *NESTLÉ HOME CARE* PROVIDES A FULL SERVICE AT HOME, INCLUDING TRAINING FOR THE PATIENT BY A DIETICIAN, CLINICAL NUTRITION PRODUCT DELIVERY AND ACCESS TO A 24 HOUR-HOT LINE. ITS SUCCESS HAS BEEN DUE TO THE QUALITY OF SERVICE WHICH HAS RESULTED IN A HIGH LEVEL OF CONFIDENCE BOTH FROM THE HOSPITAL PRESCRIBERS AND THE PATIENTS.

Dual-compartment pack with plain yogurt and *Fitness* cereals, Switzerland.

Nestlé plain natural yogurt, India.

New orange flavoured *Chamyto,* Philippines.

Infant nutrition is a truly global Nestlé business and sales grew vigorously in all regions of the world. All product categories contributed, but noteworthy was the rebound of baby food in jars. Nestlé China was the winner of the Group's innovation award, recognising the professionalism and creativity brought to managing Infant nutrition within a regulated context.

Our research into basic nutrition generated products offering superior proprietary benefits, including a more advanced starter infant formula which won universal support from the medical profession. We also put a number of innovations into clinical trials. Several ready to drink varieties were launched into the dynamic growing-up milks category, and we extended our successful modern plastic packaging concept into additional segments of the baby food market.

Nestlé further strengthened its position in **Clinical nutrition,** especially in the non-hospital channels. In Europe, *Clinutren,* a range of good tasting nutritional supplements, gained significant market share in pharmacies. In France, *Nestlé Home Care,* which provides patients with a full range of nutritional products and services, has taken twenty-five percent market share in its first operational year. In Asia and Latin America the distribution of powdered *Nutren* products has been extended to drugstores to build on its success in hospitals. In North America growth was driven by our leading brand *Peptamen,* which is now being expanded outside the USA.

Performance nutrition achieved good growth in 2001. In the field of sports nutrition, the *PowerBar* range, acquired last year, has provided the basis for strong sales development. In the USA, a new range of nutritional cereal-based energy bars under the *Pria* brand was launched in July. The geographical expansion of the *PowerBar* range continues, with major growth in several European markets and Australia, as well as launches in Brazil, Mexico and South Africa.

The strategy of creating Branded Active Ingredients, scientifically proven to have a positive effect on consumers' health and well-being, has continued to add value to our food and beverage brands in more than 30 countries. The impact of pre- and probiotics on consumer acceptance and sales growth has been especially evident in the area of infant and dairy products.

2001 was a year of consolidation for **Ice cream** with continued improvements in distribution and the utilisation of manufacturing assets, together with a strong drive for innovation and renovation to ensure improved performance in the market place.

There was a strong recovery in key markets such as Canada and Brazil, a solid leadership growth in Malaysia, even with an adverse economic situation, and further consolidation of our presence in high potential markets including Russia. Other concrete actions included the transfer of our manufacturing assets in the UK to a third party who will act as our exclusive distributor there and in Ireland.

We underwent our first global ice cream launch with *Frubetto,* which addresses the unexploited market segment of "the right balance between indulgence and refreshment". It has been launched in 12 different countries across the three Zones exploiting the same brand, packaging and communication.

Innovation has been a key driver: creative concepts like *Thumbs Up* in Thailand (5 mini ice cream cones on a special thumb-held platter) which won the Nestlé Innovation Award in the Ice cream category this year, *Epa Black* in Argentina and the *Capriccio* cake in Spain and Switzerland drew new consumers to the *Nestlé* ice cream world.

Intensive use of our blue swimming pool identity worldwide together with creative development of new sales channels, multiplied significantly our consumer impact and increased the availability of the *Nestlé* brand.

2001 was a successful year for Cereal Partners Worldwide (CPW), our joint venture with General Mills for Breakfast cereals outside North America, which now operates in almost 80 countries. We enjoyed strong volume growth in Europe, Latin America and Asia, with particularly good gains in Eastern Europe and South America. Following a successful launch in Mexico and Brazil during 2000, we introduced *La Lechera* cereal into additional South American countries, and we launched *Crunch* cereal in Poland. Both initiatives contributed to the positive overall result. We also extended our powerful breakfast cereal brands into the rapidly growing cereal bar market by launching *Chocapic, Nesquik* and *Golden Grahams* cereal bars in France, Spain and Portugal. CPW's consolidated market share in countries where it operates is now over 21%, giving the company the clear number two position.

Profit EBITA margin was 11.2%. The Dairy business was influenced by the sharp increase in milk solid prices. Infant nutrition performed well, notably in large parts of Zone AOA and in Latin America. Performance nutrition achieved increased profitability, largely due to the successful integration of PowerBar, acquired in 2000. Profitability of Clinical nutrition was impacted by marketing investment. Ice cream increased its profitability as a result of improvements in most Zone Europe and many AOA countries. There were good performances also from a number of Zone Americas countries.

Acquisitions and joint ventures A memorandum of understanding with the Fonterra Cooperative Group has been signed to explore joint ventures in the Americas to manufacture basic milk powders, liquid shelf stable milks and chilled dairy products. A Russian breakfast cereal manufacturer was acquired to support growth in this very important market. We have reached an agreement with Südzucker to acquire the Schöller Group of businesses, comprising their ice cream and frozen food and home delivery units, subject to the necessary regulatory approvals. The business will add some CHF 2 billion of sales to our European operations. We have also acquired the outstanding 50% of Ice Cream Partners USA, giving us control of the Häagen-Dazs brand in the USA and Canada.

Cereal and milk bars using popular cereal brands.

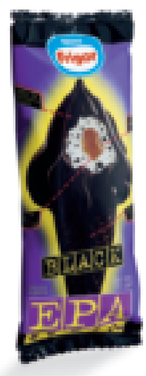
Well balanced growing-up milk.

Refreshing nutritional supplement.

INNOVATION IS KEY TO SUCCESS IN ICE CREAM. CONSUMERS EXPECT TO BE INTRIGUED EVERY YEAR BY NEW PRODUCTS SUCH AS *FRUBETTO,* THE *SMARTIES* POP UP, *FEELING CROCADO* OR THE *CAPPRICCIO* CAKE. INNOVATION ALSO MEANS ENSURING BRAND PRESENCE AROUND THE CLOCK THROUGH INITIATIVES SUCH AS VENDING MACHINES IN SPAIN OR BEING NEAR PERUVIAN AND ASIAN CONSUMERS THROUGH PUSH CARTS.

Frubetto: the first global launch in ice cream.

Tasty nutritional cereal-based energy bars.



Epa Black: a unique product innovation in cones.

Sales

		2001	2000	1999
Frozen and chilled	35.5%	**7 566**	7 336	7 420
Culinary and others	35.3%	**7 527**	7 228	7 232
Petcare	29.2%	**6 231**	6 068	5 533
Total	100%	**21 324**	20 632	20 185
EBITA		**2 026**	1 948	1 850
Capital expenditure		**460**	390	464

In millions of CHF

Prepared dishes, cooking aids and petcare

A diversified range of soups, stocks, sauces and culinary preparations, primarily under the *Maggi* brand, is adapted to local tastes, recipes and ingredients in each country. *Maggi* instant noodles are sold in the Far East-Pacific area, as well as Europe, Africa and Latin America. Nestlé's frozen prepared dishes are marketed mainly under two brands, *Stouffer's* in the USA and *Maggi* in other regions of the world. Nestlé is present in Italian cuisine with *Buitoni* pastas and sauces, both refrigerated and shelf stable. The *Buitoni* range also includes a wide choice of frozen pizzas and recipe dishes. In Europe, a full range of delicatessen products and cold meats is available under the *Herta* brand. The Group also manufactures cold sauces and condiments under various brands such as *Thomy, Crosse & Blackwell* and *Winiary.*

Cooking aids and **Prepared dishes** are the Group's priorities in the Culinary sector. 2001 saw very satisfactory results from both categories, thanks to the progress achieved by dehydrated stocks, soups and sauces and the good performance of frozen and refrigerated products in the USA and Europe.

The increase in sales in stocks was primarily due to the strengthening of our position in China where our 1998 acquisition Totole performed outstandingly and benefited from the launch of several new stock flavours. We also gained additional volumes as our penetration increased in Central and West Africa, the Middle East and Central and Eastern Europe, where many people still cook from scratch. Sales of soups recorded good growth, especially in Brazil and Central America.

We launched Recipe Mixes *Delícias de frango,* a range of easy to prepare tasty chicken dishes, in the Brazilian and Chilean markets.

Our highly efficient factory for dehydrated products in Antigua (Guatemala) has become the production centre for the whole Central American region, enabling Mexico and the Caribbean to reduce fixed costs, whilst we have outsourced the supply of certain lower value added products in Argentina.

Maggi oriental noodles had a good year, especially in India and Malaysia where *Maggi* built on its leading position.

Successful innovations in Europe included *Maggi Sveltesse* ready to heat liquid soup in single portion glass bottles, which profited from the well-known *Sveltesse* concept to extend our offer in the light meal territory in France. In Switzerland, meanwhile, we addressed well-being and health trends with the launch of a mayonnaise without cholesterol under the powerful local brand, *Thomy.*

We targeted more traditional market segments with a home-style stock in Poland under our *Winiary* brand and with one for the traditional and authentic Borsch soup in Russia. In Germany, where *Maggi* enjoys a leading position, we launched a new premium liquid *Maggi Gourmet Bouillon* and an innovative range of instant meat juices in glass jars, *Maggi Feiner Saft*.

Recipe mixes, Brazil and Chile.

New taste for a classic stock, Germany.

Mayonnaise without cholesterol, Switzerland.

Granulated mushroom seasoning
for stir fry cooking, China.

Maggi Sveltesse liquid soup, France.

Buitoni authentic Italian food grew its sales due to a number of initiatives. In Italy chilled and frozen food drove the growth, with several new meal propositions. *Buitoni* frozen pizza developed very well in Europe, enabling us to increase our market share so that we are now the leader in all European markets in which we operate. We have also entered the fast growing category of chilled pizza in France with *Buitoni La Tradizione,* already successful in the frozen pizza category.

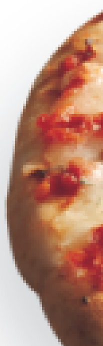
In France, Belgium, Spain and Portugal the brand switch for our core category of frozen prepared dishes to *Maggi*, after the divestment of the Findus commodity business, is progressing as planned. A range of family sized frozen gratin dishes under the *Maggi* brand has been launched in France and Spain.

Following the successful launch of *Stouffer's Oven Sensations* in the USA, we have introduced a range of ultra-convenient recipe dishes in bowls: *Stouffer's Slowfire Classics,* five home-style traditional meals to be reheated in the micro-wave for eating directly in the bowl. Also in the USA we improved our market share with *Stouffer's Lean Cuisine.*

Chilled products also continued to perform well. The sales of our chilled cookie dough under the *Nestlé Toll House* brand in the USA showed encouraging growth and increased considerably its market share. In France and Switzerland, our market position was strengthened by the introduction of an innovative "Liquid Dough" under the *Herta* (France) and *Nestlé Leisi* (Switzerland) brands. This new range allows for the ultra-convenient preparation of "home-made" cakes.

Acquisitions and divestitures Nestlé acquired 60% of Haoji, the leader in Western China in the rapidly growing market for chicken stock. This acquisition is a further milestone in the development of Nestlé's culinary business in Asia.

Profit EBITA margin was 9.5%. Prepared dishes and Cooking aids performed well in most markets. Petcare performed well in North America due to price increases and additional marketing support. Petcare's performance in Europe was impacted by the competitive situation and the FMD and BSE crises.



Traditional recipes now fast and easy, USA.

High convenience for home-made cakes, Switzerland.

TASTY AND EASY TO PREPARE DOUGHS FOR HIGHLY APPRECIATED TRADITIONAL CAKES OFFER THE HOME COOK THE OPPORTUNITY TO PROVIDE FAMILY FAVOURITES ON THE SPUR OF THE MOMENT.

Buitoni: great Italian taste, France.

Petcare

Nestlé entered petcare with the purchase of Carnation in 1985. We became a world leader in 2001 with the acquisition of Ralston Purina, completed in December. Pet owners increasingly seek the very best in food pleasure and nutrition for their cats, dogs, and other pets. This is no surprise when one considers the deep emotional rewards and physical benefits that people derive from pets – studies have indicated, for example, that pets can help us to lower blood pressure, reduce stress, and recover faster from illness. Nestlé is well positioned to satisfy these needs with our extensive human and pet food know-how, as well as our strong array of petcare brands such as *Friskies, Fancy Feast, Mighty Dog, Felix, Gourmet* and *Alpo.* This position was significantly enhanced through the addition of Ralston Purina, the leader in the US petcare market, with brands such as *Purina Dog Chow, Pro Plan* and *ONE.*

In an environment of continued strong competitive activity our Petcare sales improved modestly in 2001. Within this context the continued application of the four pillar strategy remains our major focus.

Wet cat food was the best performer in North America, and we improved our number one market share position with leading brands *Friskies* and *Fancy Feast.* Success here, as in past years, was due to product renovation and innovation supported by strong consumer communication. For *Fancy Feast* traditional media was complemented by a unique relationship marketing programme called "Connoisseur Cat", designed to build brand loyalty among high value consumers, while *Friskies* was extended into the fast growing and highly profitable cat treat sector. Price increases were successfully implemented across our US range to cover increases in cost of supply and help fund brand building.

Sales volumes in Europe were impacted by competitive activity. Nevertheless we increased sales slightly due to effective price and mix management. Innovation remained a key focus: a highly innovative wet dog food packed in cartons was launched in several European markets, offering a new level of quality, freshness, and convenience, whilst a unique dog chew with a meaty centre and crunchy exterior was successfully launched under the *Megabone* brand.

In Latin America we successfully completed the integration of Cargill's pet food operations in Argentina, adding not only leading brands such as *Dogui* and *Gati* but unique expertise in the large and growing non-grocery sales channel which includes pet shops, veterinary clinics and farm supply stores. This expertise, when combined with Nestlé's presence in grocery stores, provides a strong platform to achieve wherever and whenever availability in the fast growing Latin American region.

In Zone AOA sales growth in Australia, South East Asia, and South Africa was offset by lower than anticipated sales in Japan, due in part to overall economic weakness in this market.

Acquisitions In January 2001 we made an agreed offer for Ralston Purina, the premier petcare company in North America, with sales of over USD 3 billion in 2001 (financial year ending September 30). This transaction was completed in December 2001 and, reflecting its strategic importance, we created a new identity for our petcare business, Nestlé Purina PetCare.

The addition of this highly complementary business to our existing petcare portfolio, both in the Americas and internationally, makes Nestlé a world leader in the fast growing and profitable petcare industry. Equally important is that the combination of trusted brand names across key industry sectors, extensive and complementary R&D, low cost product supply networks and extensive access to sales channels positions Nestlé Purina for sustained leadership in petcare for many years to come.

Friskies Cat Treats, the taste cats love, USA.

Innovative wet dog food in cartons, Europe.

Megabone, hard chewy outside, soft meaty inside, UK.

New wet dog food in a pouch, Japan.

Sales

		2001	2000	1999
Chocolate	77.8%	**8 745**	8 427	7 955
Confectionery	12.2%	**1 377**	1 406	1 321
Biscuits	10.0%	**1 122**	1 141	919
Total	100%	**11 244**	10 974	10 195
EBITA		**1 234**	1 166	882
Capital expenditure		**249**	250	280

In millions of CHF

Chocolate, confectionery and biscuits

Chocolate and sugar confectionery is one of the largest food categories, enjoyed the world over, with consumers spending approximately CHF 150 billion per year. The Nestlé portfolio of well known international brands such as *Nestlé, KitKat, Smarties, Crunch* and *Polo,* and well established regional and local brands such as *Cailler, Butterfinger, Rossiya, Orion, Carlos V* and *São Luiz* constitutes a unique global position from which to meet a broad spectrum of consumer needs. With current lifestyle changes, confectionery purchases are becoming ever more impulse driven as consumers indulge their desire for confectionery truly whenever, wherever and however they wish. Nestlé continues therefore to adapt its offer to the consumer through the development of new sales channels and innovative merchandising at the point of purchase.

The performance this year confirmed the improvement achieved in 2000 as our sales growth gained further momentum to reach a RIG of 3.7%, ahead of the industry.

Strong growth continued in Central and Eastern Europe, notably in Russia where further important market share gains were recorded.

We also continued to see strong growth in Asia, China, the ASEAN region, India and Japan.
Our business in the Americas also had a positive year thanks to a solid recovery in Brazil and continuous good progress in Latin America, while Canada had a record year.

Germany achieved a very pleasing strong recovery in spite of the delisting of our products by a major customer. Our operations achieved a turnaround thanks to new products launched under our core brands, notably *Nestlé Choco Crossies* wafer and a successful entry into the seasonal business.

2001 brought confirmation of the success of *Kitkat Chunky,* now sold in all our key markets. Furthermore, new *Kitkat Chunky* variants, adapted to consumption trends, were launched successfully with excellent consumer response. The latest launch, of a white chocolate *KitKat Chunky* in Australia, is already proving to be a great success. We now sell more than 5 billion units of *KitKat* a year around the world.

We also continued to develop our other core strategic brands geographically and into new variants in response to consumer demand. Thus the *Aero, Crunch, Smarties* and *Quality Street* brands were expanded into new variants such as *Aero* Honeycomb*, Quality Street* The Big Purple One and *Crunch* biscuit tablets, whilst *After Eight* biscuits were also successfully rolled out.

Local brands, such as *Rossiya* in Russia, *Orion* in the Czech Republic and *Cailler* in Switzerland benefited from our strategy to refocus our innovation on local brands to gain market share.

Pioneering new sales channels and improvements in consumer communication at point of purchase became a priority for 2001: we increased our efforts worldwide to gain brand visibility whether on shelf, on shop counters or with in-store product displays. All markets, backed by a new dedicated central structure, made significant progress towards achieving greater availability and visibility for our brands in existing and new channels.

Profit EBITA margin was 11.0%. Further margin growth was achieved through an improved product mix, continuous productivity improvement and the divestment of under-performing businesses.

Divestitures During the year we continued to streamline our confectionery operations and exit low added value areas. Two sugar businesses, Fox in the UK and Kids in Brazil, were sold, as well as David & Sons in the USA. Our industrial restructuring also continued with the closure of Barquisimeto in Venezuela and Peristeri in Greece. In addition we also closed our factories in Pathumthani in Thailand and Oamaru in New Zealand and consolidated our operations in Samara, Russia. This optimisation of our industrial structure and product portfolio will continue.

Vanilla flavoured sandwich biscuit covered in *Nestlé Classic* chocolate, Russia.

Classic *KitKat* and white chocolate *KitKat Chunky.*

AVAILABILITY OF PRODUCTS IS A CRITICAL SUCCESS FACTOR FOR CONFECTIONERY. IN SOUTH AFRICA, THE USE OF VENDORS AND VENDING UNITS AT MAJOR ROAD INTERSECTIONS HAVE PROVED VERY SUCCESSFUL. THEY PROVIDE ANOTHER OPPORTUNITY TO MAKE OUR PRODUCTS AVAILABLE TO OUR CONSUMERS TRULY WHENEVER, WHEREVER AND HOWEVER THEY WANT THEM.

New packaging for *Frigor,* Switzerland.

Modern impactful design, UK.

Round shaped cereal covered in *Galak* chocolate, Brazil.

A premium quality *Nestlé* chocolate tablet, Turkey.

Sales

		2001	2000	1999
Zone Europe	39.4%	**2 601**	2 650	2 720
Zone Americas	30.6%	**2 021**	2 474	2 174
Zone Asia, Oceania and Africa	30.0%	**1 976**	1 727	963
Total	100%	**6 598**	6 851	5 857

In millions of CHF

FoodServices

Nestlé FoodServices is Nestlé's "business-to-business" out-of-home expert, providing professional operators with strong consumer brands as well as specific foodservice products and solutions, suited to their particular segments and channels such as catering, vending, hotels, restaurants or transport. Nestlé FoodServices' global offer of high quality brands, products, technologies and systems, supported by professional expertise and worldwide R&D, makes it the undisputed leading international supplier of the out-of-home industry, with sales of CHF 7 billion. Its main assets are its product diversity and leading brands, its global presence and R&D expertise. These give it the ability to respond to operators' needs, bringing in-depth customer and channel insight. The product portfolio combines specific professional foodservice brands such as *Minor's, Davigel* and *Chef,* with many of the Group's consumer brands including *Nescafé, Nesquik, Nestea, Maggi, Buitoni, KitKat* and *Stouffer's.* The business category is expected to achieve higher than Group average growth and has targeted sales of CHF 12 billion by 2009.


NESCAFÉ
NESCAFÉ
NESCAFÉ

The events of September 2001 and the general economic situation in key markets have had a temporary impact on out-of-home (OOH) consumption, leading to a reduced growth rate this year.

Despite the lower spend in 2001, the general consumer trend is unchanged: reduced time for food preparation and the decline of culinary traditions will increase on-the-go consumption and ready to eat meal solutions. Consumer trends across the world show growth in impulse and immediate consumption, with the OOH channels running at twice that of traditional grocery. Today North American consumers devote half of their food and beverage spending to OOH opportunities. Ethnic food, a constant demand for improved food safety and the desire for convenience drive expansion of availability whenever, wherever and however the consumer wants it.

Nestlé FoodServices continues successfully to focus on customers and channels and on leveraging its product portfolio to achieve category leadership and channel ownership. Its key strategic target is to expand the global presence of *Nescafé,* as well as other hot and cold non carbonated beverages.

A first regional approach was introduced in Latin America: Argentina, Brazil and Chile developed a common formulation for *Nescafé Mokaccino* coffee-mix (chocolate, milk and coffee) which has been launched in Brazil, supported by a strong marketing campaign which will be used also by the other two countries. With its rich chocolate taste, *Nescafé Mokaccino* appeals to consumers who are looking for new coffee specialities, and targets hotels, restaurants and coffee shops.

As taste for coffee is becoming more adventurous and sophisticated, mainly amongst the younger generations, the *Café Nescafé* franchised operation is a fantastic opportunity, offering different varieties of *Nescafé.* In Korea Nestlé achieved an extraordinary success with its master franchisee launch of 25 *Café Nescafé* outlets, and an ambitious plan foresees 200 outlets within the coming 3 years.

Nestlé's major beverage brands such as *Nescafé, Nestea* and *Milo* are also well established with key customers, with co-branded vending machines and coffee corners increasingly popular in impulse channels such as gas stations, convenience stores and in fast-food restaurants.

We offer an enhanced competitive advantage to our customers through channel-dedicated concepts built on the renowned Nestlé consumer brands combined with back-of-the-house (kitchen) solutions under business-to-business brands. These are supported by systems that add value in quality, convenience, consistency and food safety.

Adding value is a broad concept. The coverage of ethnic food requirements (TexMex, Indian, Italian) is one of the key expectations of the consumer, who wants to experience the original taste and appearance of international food.

Branded solutions have also been developed for the front-of-the-house, such as the *Toll House* Cookie "Warm and Serve" concept (pre-baked dough in a specially designed branded warmer) targeting cinemas and coffee shops in the USA. This concept was a big success and the objective to place 1000 warmers in 2001 was met four times over. Also in the USA, 2001 saw the launch of the *Ortega* Chili Bar (a hot chili and hot cheese sauce dispenser) for leisure and convenience stores and the education channels.

We are also active within the institutional segment (hospitals, senior citizen homes, schools) where there is an increasing demand for nutritional services. Through programmes such as Caring in Switzerland and Nutriservices in France, Nestlé FoodServices provides a full range of products and services: these include, for example, food enriched with active ingredients such as proteins, calcium and fibres or adapted texture meal components, and customer assistance (training seminars, telephone assistance, monthly menus, etc.). Nestlé FoodServices leverages the expertise and knowledge of the other Nestlé divisions and the R&D Centres to propose specific solutions to institutional foodservice operators.

Innovation in the foodservice categories focuses on branded dispensing systems and new product forms (concentrates, pastes) adapted to the requirements of each specific channel, developed with and for the customer and offering a high level of convenience. Examples include the *Nescafé* dispenser, specifically developed for in-flight use, and low fat breading solutions for fish for back-of-the-house in the health and education sectors.

OOH will create long term profitable growth for Nestlé whilst presenting opportunities for interactive brand building, as an alternative or complement to traditional marketing initiatives. Branding on delivery systems such as automatic vending machines, beverage dispensers and *Café Nescafé* communicates directly with consumers at the point of consumption and adds visibility to Nestlé's wide range of consumer brands.

AMERICAN FOODSERVICE OPERATORS ARE CONTINUALLY LOOKING FOR OPTIONS TO SERVE SAUCES IN A CONVENIENT FORMAT FOR THE VERY POPULAR NACHOS OR HOT DOGS. THE *ORTEGA* CHILI BAR OFFERS THEM A HIGH QUALITY, LOW-COST, BRANDED DISPENSING SYSTEM AND PRODUCTS.

Specially designed dispenser for leisure outlets, UK.

	2001	2000	1999
Sales	**5 154**	4 798	4 010
EBITA	**1 255**	1 212	1 077
Capital expenditure	**99**	113	91

In millions of CHF

Pharmaceutical products

In 1977, Nestlé diversified into pharmaceuticals by acquiring Alcon Laboratories, Inc., which has grown to become the largest speciality ophthalmic company in the world. Alcon's product lines cover pharmaceutical, surgical and consumer products, including *Patanol, Travatan, TobraDex* and *Ciloxan* in pharmaceuticals, *AcrySof* Intraocular Lens, *Legacy, Accurus, LADARVision, BSS, Viscoat* and *Custom Pak* in surgical, *Opti-Free Express No Rub, Tears Naturale* and *Clerz Plus* in consumer products and *Cipro HC Otic* for the ear. Falcon Pharmaceuticals, Ltd., Alcon's generic company, continues to lead the ophthalmic generic market.

Since its creation in 1989, Galderma's mission has been to provide dermatologists and their patients with products to treat skin conditions and improve quality of life. The Research and Development programme is fully dedicated to the field of dermatology, making it the largest programme of its kind in the world. It is this type of commitment that will continue to help Galderma meet the needs of its partners, the dermatologists, worldwide.

Alcon Alcon once again reported strong growth and an excellent performance in 2001, as it capitalised on its broad portfolio of market leading products across all its ophthalmic markets to enhance its position as the leading company in the field of ophthalmology. Alcon meets virtually all the needs of ophthalmologists and other eye care professionals through the innovative and high-quality products which it develops. Its continued commitment to groundbreaking research and development has brought worldwide recognition in the field.

Highlights for 2001 included the launch in the Americas and the approval in Europe of *Travatan*, a prostaglandin analogue for the treatment of glaucoma, one of the leading causes of blindness in the world. Alcon believes this powerful new glaucoma drug holds excellent promise not just in the USA, but on a global basis as well. The global market for glaucoma products is estimated to be more than CHF 4 billion, with the prostaglandin analogue segment comprising 34% and growing at an estimated 17% in 2001. *Patanol,* the leading ocular allergy product in the USA, continued its vigorous growth, further expanding this market segment due to its therapeutic efficacy and broad acceptance by physicians and patients alike. In addition, Alcon saw continued excellent performance in its other pharmaceuticals, including its products for the treatment of eye infections such as *Ciloxan,* an ocular anti-infective, and *TobraDex,* a combination anti-infective/anti-inflammatory.

Continued market share gains by the *AcrySof* single-piece intraocular lens led to strong performance in the surgical business. Alcon's *DuoVisc* viscoelastic materials also had healthy growth as surgeons performing complex back-of-the-eye procedures increasingly appreciated the convenience of having two viscoelastic materials with different properties in a single package. In Consumer products, Alcon enjoyed strong growth in *Opti-Free Express No Rub* and continued to develop its global family of dry-eye products, led by *Tears Naturale.*

With new products in the research pipeline, the acquisition of new technologies, particularly in the field of refractive surgery, together with increasing market shares throughout the world, Alcon continues its growth, maintaining its global leadership in the ophthalmic industry.

Galderma Galderma, the joint venture of Nestlé and L'Oréal in the field of dermatology, ended the year with sales growth of 8.2% to over CHF 880 million. All its major strategic brands performed well in the 60 countries in which Galderma actively markets its products. This year saw Galderma extend its coverage by establishing new subsidiaries in Poland, Singapore, Taiwan and Peru.

A significant event in the USA was the launch of a new once-a-day topical anti-acne product, *Clindagel,* which consists of a water based original gel formulation of the antibiotic clindamycin.

Differin, Galderma's best-selling product, indicated for the topical treatment of acne, became the number one topical drug in the market of mild to moderate acne and continued to show significant growth. There were several new launches, notably in Russia, Poland and India.

Three years after its acquisition and its relaunch, *Loceryl* lacquer, an antifungal drug specifically indicated for the treatment of nail mycoses, enjoyed strong growth, as did the *Metro/Rozex* products, indicated for the treatment of rosacea.

New launches included *Metrogel* which was launched in Germany, one of the largest markets for rosacea in Europe and *Silkis,* a new topical vitamin D treatment for psoriasis, which was launched in Finland and Poland, following the first successful launches at the end of 2000. *Silkis* also received approval in several additional major European markets: the United Kingdom, Spain, Italy and Portugal.

Tears Naturale: products to help relieve dry eye.

Acquired in 2000, *Capex,* the first corticosteroid available in a shampoo formulation, indicated for the treatment of scalp seborrheic dermatitis, performed very well, almost doubling last year's sales, and the *Cetaphil* range of very mild cleansers and moisturisers recommended by dermatologists continued to enjoy sustained strong growth.

Profit EBITA margin was 24.4%. The increase in trading margin was driven by the growth in sales. This progression was partly offset by increased R&D investment and costs associated with new product launches, as well as the start-up of the new Galderma factory in Canada.

Capital expenditure Capital expenditure for the year 2001 was CHF 99 million.

Major projects for Alcon included capacity expansions of the surgical facility in Sinking Spring, Pennsylvania, the *Custom Pak* components warehouse in Puurs, Belgium, the unit-dose pharmaceutical facility in Kaysersberg, France, and the contact lens care plant in Fort Worth, Texas.

The new production unit for clinical batches and scale-up of Galderma, located in France, started producing its first clinical batches.

Acquisitions In the second half of the year, Galderma acquired a novel fixed combination topical solution from Bristol-Myers Squibb: *Solage*. This solution, which contains tretinoin and mequinol, has been approved in the USA and Canada for solar lentigines, and is under registration in Europe.

Travatan: a powerful new entry in the glaucoma market.

Differin: a topical anti-acne treatment, launched in Russia.

Capex: a treatment for seborrheic dermatitis of the scalp.

Nestlé's share of associated companies	**2001**	2000	1999
Sales	**6 381**	5 519	4 831
Results	**536**	395	339

In millions of CHF

Nestlé holds an interest of at least 20% in these companies but does not exercise management control. Associated companies are included in the financial statements by the equity method. Their net results appear, in proportion to Nestlé's participation, in the Group's consolidated income statement under "Share of results of associates". The Group's share of their net assets is shown in the consolidated balance sheet under "Investments in associates".

Associated companies

L'Oréal, the global leader in the cosmetics industry, is the largest of the associated companies. Nestlé has held an indirect stake in the group since 1974 through the French holding company Gesparal. With a presence in over 150 countries, the L'Oréal group has a portfolio of international brands including L'Oréal, Garnier, Maybelline, Lancôme, Biotherm, Vichy, Matrix, Soft-Sheen-Carson, Redken, Helena Rubinstein, La Roche-Posay and Giorgio Armani, Ralph Lauren and Cacharel fragrances. Backed up by highly advanced research, the group's brands are marketed through all types of distribution channels, and are focused on five sectors with a strong emphasis on technology and added value: colourants, make-up, haircare, skincare and fragrances. The group also operates in the field of dermatology through Galderma, a joint venture with Nestlé.

Other associated companies include Dallmayr, the market leader in Roast & Ground coffee in Germany, and Dreyer's Grand Ice Cream, a major player in the US ice cream market.

L'Oréal The world's number one cosmetics group, L'Oréal is controlled by the French holding company Gesparal, of which 49% is held by Nestlé and 51% by the Bettencourt family. L'Oréal's successful strategy of geographic expansion for its international brands allows the group to continue to achieve strong organic growth and increased margins.
In 2001, the group's consolidated sales amounted to EUR 13.7 billion, up 8.4%. Net profit increased 19.6% to EUR 1229 million. Pre-tax profit of the fully consolidated companies rose 13.6%, which means that double-digit growth was achieved for the seventeenth consecutive year.

The group has continued to perform well in its traditional heartlands of Western Europe and North America. L'Oréal has also made significant breakthroughs in new growth areas, such as China, Korea, Thailand, Russia and Brazil. These reflect the group's policy of systematically rolling-out its strategic brands into new countries. Following significant successes in the United States, Garnier has now been launched in Latin America. The Biotherm and La Roche-Posay brands have also been rolled out more widely.

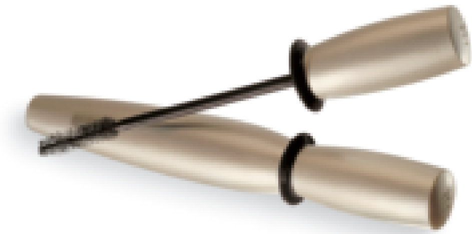
In addition to expansion into new geographic areas of growth, the group is also strengthening its position in high potential markets. By merging the two recently acquired companies, Soft Sheen and Carson, to form Soft-Sheen-Carson, L'Oréal has become the world leader in the ethnic cosmetics market.

To ensure the sustainability of its growth in the long term, L'Oréal has continued to apply its selective acquisition policy with the purchase of two highly targeted companies, Biomedic and Colorama. Biomedic offers positive global development prospects in the highly dynamic new segment of post-plastic surgery care products. Colorama, on the other hand, offers L'Oréal the opportunity to take the leadership position in mass-market make-up in Brazil.

Detailed information about L'Oréal's activities and results is available in the group's annual report and on its Internet site (www.loreal-finance.com).

Lumia by Garnier: brightening colour cream, low in ammonia.

White by Giorgio Armani: 2 new fragrances inspired by the freshness of white cotton.



Crescendo by Helena Rubinstein: lash building mascara, natural to sophisticated.

Age Fitness by Biotherm: active anti-aging care, with pure olive leaf concentrate.

Body Expertise, Plénitude by L'Oréal, an alliance of science and sensuality.

Oléo-Relax by Kérastase: for smoothing and enhancing the hair.

History

First came infant and milk nutrition Innovation and an entrepreneurial spirit have been Nestlé characteristics from the start.

In 1866, while the Page brothers in Cham were building Europe's first condensed milk factory, for the Anglo-Swiss Condensed Milk Co., Henri Nestlé, in Vevey, was developing his infant cereal *"Lactous Farina Nestlé",* launched in 1867. The two companies merged in 1905 to become the "Nestlé & Anglo-Swiss Condensed Milk Co.". The former had developed a successful long-life product from fresh milk, a highly perishable raw material, whilst Henri Nestlé had achieved international acclaim due to the remarkable qualities of his invention. Given the high infant mortality rate, due mainly to the lack of an appropriate breast-milk substitute, his infant cereal responded to a real need. His name and the nest symbol (Nestlé means "little nest" in German) were the guarantee of the consistent quality of his product, the result of painstaking scientific research.


Henri Nestlé (1814-1890)

Then came product diversification Contacts with other leading companies that had innovative ideas led to acquisitions and diversification. The Company expanded in 1929 through the acquisition of the Cailler, Peter and Kohler chocolate companies, followed in 1947 by the Maggi group and its culinary products. Thus, Nestlé became the heir to inventions such as Daniel Peter's milk chocolate (1875) and Julius Maggi's vegetable-based soups (1884) and stock cubes (1908).

Nestlé's accumulated knowledge, as well as the perseverance and competence of scientists like Max Morgenthaler, made possible the huge success of the *Nescafé* launch in 1938.

Subsequent acquisitions opened the doors to new areas, such as preserves (*Crosse & Blackwell,* 1960), frozen foods (*Findus*, 1962), mineral water (*Vittel,* 1969) and petcare (*Carnation,* 1985). Others reinforced the Company's position in established areas, for example, Italian cuisine (*Buitoni,* 1988), chocolate and confectionery (Rowntree, 1988), performance foods (*PowerBar,* 2000) or petcare (Ralston Purina, 2001).

At the same time, research at Nestlé resulted in the development of new products such as *Milo* (1934), *Nestea* (1944), *Nesquik* (1948), *NAN* (1962), *Yes* (1979), *Nespresso* (1986), *LC1* (1994) and *Nestlé Pure Life* (1998). Existing products such as *Nescafé, Maggi* culinary products and the various dairy products have been constantly improved and adapted to current consumer life-styles.

Today and tomorrow a company that cares about consumers all around the globe Today, Nestlé is the world's leading food company. Its international R&D network supports products made in 468 factories in 84 countries. Being a company dedicated from the start to food, Nestlé remains sensitive to culinary and eating habits, and responds to specific nutritional problems, whilst also setting and matching new trends such as growing out-of-home consumption.

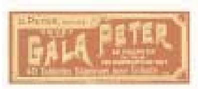
1867 Henri Nestlé's Infant cereal

1867 **Infant cereal**

1905 Anglo-Swiss Condensed Milk Co. (Merger with Nestlé)

1929 Peter, Cailler, Kohler, Chocolats Suisses S.A. (Merger with Nestlé)

1929 **Peter, Cailler**



1938 Development of *Nescafé*

1939 **Nescafé**

1947 Nestlé Alimentana S.A. (New name after merger with Maggi)

1947 **Maggi**
1960 **Crosse & Blackwell**
1962 **Findus**
1969 **Vittel**

1970 **Libby**
1971 **Ursina-Franck**
1973 **Stouffer**
1974 **L'Oréal** (minority interest)

1977 Nestlé S.A.

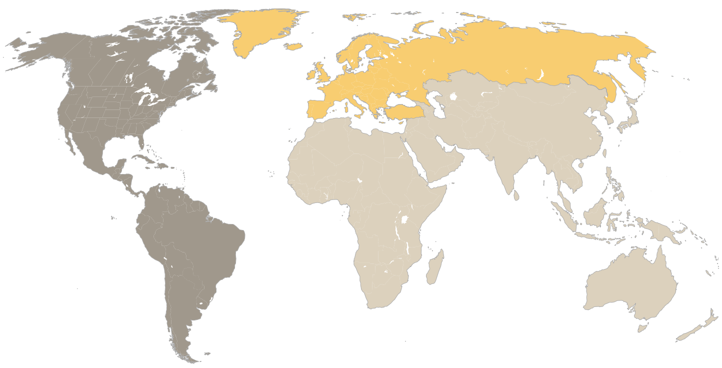
1977 **Alcon**
1978 **Chambourcy**
1985 **Carnation**
1985 **Friskies**

1986 **Herta**
1988 **Buitoni-Perugina**
1988 **Rowntree**
1992 **Perrier**
1993 **Finitalgel**

1994 **Alpo**
1998 **Sanpellegrino**
1998 **Spillers Petfoods**
2000 **PowerBar**
2001 **Ralston Purina**

Manufacture and sale of products

Nestlé has 468 factories in 84 countries around the world. This is a reduction from 479 in 2000. During the year 18 factories were acquired, and the reduction of 29 results from disposals and closures. We are running a Group wide drive to improve the performance of our assets through the sharing of best practice, improved technology and communication, more sophisticated supply chain management and shared resources. We are also refocusing our manufacturing base to meet the demands of today's more liberated international marketplace, whilst seeking to realise the benefits of our scale to achieve high flexibility at low cost.



Number of factories (2001 figures exclude Ralston Purina)

	2001	2000
Europe	**194**	198
Americas	**142**	151
Asia, Oceania and Africa	**132**	130
Total	**468**	479

Europe

Country	Factories	Beverages	Milk products, nutrition and ice cream	Prepared dishes, cooking aids and petcare	Chocolate, confectionery and biscuits	Pharmaceutical products
Austria	**1**	● ■	■	● ■	■	■
Belgium	**3**	● ■	● ■	● ■	■	● ■
Bulgaria	**1**	■	■	■	● ■	■
Czech Republic	**3**	● ■	■	■	● ■	■
Denmark	**1**	■	● ■	■	■	■
Finland	**1**	■	● ■	■	■	■
France	**39**	● ■	● ■	● ■	● ■	● ■
Germany	**24**	● ■	● ■	● ■	● ■	■
Greece	**4**	● ■	● ■	● ■	■	■
Hungary	**4**	● ■	■	● ■	● ■	■
Italy	**24**	● ■	● ■	● ■	● ■	■
Netherlands	**7**	■	● ■	● ■	● ■	■
Norway	**1**	● ■	● ■	● ■	■	■
Poland	**6**	● ■	● ■	● ■	● ■	■
Portugal	**5**	● ■	● ■	■	■	■
Republic of Ireland	**3**	■	■	● ■	● ■	● ■
Romania	**2**	● ■	■	■	● ■	■
Russia	**6**	● ■	● ■	● ■	● ■	■
Slovakia	**1**	■	■	● ■	■	■
Spain	**19**	● ■	● ■	● ■	● ■	● ■
Sweden	**2**	● ■		■	■	■
Switzerland	**9**	● ■	● ■	● ■	● ■	● ■
Turkey	**4**	● ■	● ■	●	●	■
Ukraine	**1**	■	■	■	● ■	■
United Kingdom	**23**	● ■	● ■	● ■	● ■	■

The figure in bold after the country denotes the number of factories.

Local production (may represent production in several factories) ●

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

- Beverages
- Milk products, nutrition and ice cream
- Prepared dishes, cooking aids and petcare
- Chocolate, confectionery and biscuits
- Pharmaceutical products

Americas

Argentina	8	●	■	●		●	■		■		■
Brazil	21	●	■	●		●		●		●	■
Canada	11	●	■	●	■	●	■	●	■	●	■
Chile	7	●	■	●		●	■	●			■
Colombia	3	●	■	●	■	●	■	●	■		■
Costa Rica	1		■		■		■	●			■
Cuba	2	●	■		■		■				■
Dominican Republic	3	●	■	●	■	●	■		■		■
Ecuador	3	●	■	●	■	●	■	●	■		■
El Salvador	1	●			■		■		■		■
Guatemala	1		■	●	■	●					■
Jamaica	1	●	■	●	■		■		■		■
Mexico	14	●	■	●		●	■	●	■	●	■
Nicaragua	1		■	●	■		■				■
Panama	2	●	■	●	■	●	■		■		■
Peru	1		■	●	■	●	■	●	■		■
Puerto Rico	1		■	●	■		■		■		■
Trinidad and Tobago	1	●	■	●	■	●	■		■		■
United States	57	●	■	●	■	●	■	●	■	●	■
Uruguay	1	●	■		■		■		■		■
Venezuela	2	●	■	●	■	●	■	●	■		■

Asia, Oceania and Africa

Australia	12	●	■	●		●	■	●	■		■
Bangladesh	1	●	■	●	■		■				■
Cambodia	1		■	●	■		■		■		■
Cameroon	1	●	■	●	■	●					■
Côte d'Ivoire	2	●	■	●	■	●					■
Egypt	4	●	■	●	■	●		●	■		■
Fiji	1		■		■	●	■	●	■		■
Ghana	1	●	■	●	■	●	■		■		■
Guinea	1		■		■	●	■		■		■
India	6	●	■	●		●		●			■
Indonesia	4	●	■	●	■	●	■	●	■		■
Iran	1			●							■
Israel	12	●	■	●	■	●		●	■		■
Japan	3	●	■	●	■	●	■	●	■		■
Jordan	1	●	■		■		■		■		■
Kazakhstan	1		■	●			■		■		■
Kenya	1	●	■	●	■	●	■		■		■
Lebanon	1	●	■		■		■		■		■
Malaysia	7	●	■	●	■	●	■	●	■		■
Morocco	1	●	■	●	■	●	■		■		■
New Caledonia	1	●	■	●	■		■	●	■		■
New Zealand	3	●	■	●		●	■	●	■		■
Nigeria	1	●	■	●	■	●					■
Pakistan	5	●	■	●	■	●		●	■		■
Papua New Guinea	1	●	■		■	●	■		■		■
People's Rep. of China	18	●	■	●	■	●	■	●	■	●	■
Philippines	7	●	■	●	■	●	■	●	■		■
Republic of Korea	1	●	■	●		●	■		■		■
Saudi Arabia	2		■	●	■	●	■		■		■
Senegal	1		■	●	■	●	■				■
Singapore	1	●	■		■	●	■		■		■
South Africa	13	●	■	●	■	●	■	●			■
Sri Lanka	2	●	■	●	■	●					■
Syria	1	●	■	●	■	●	■				■
Thailand	7	●	■	●	■	●	■	●	■		■
Tunisia	1	●	■	●	■		■		■		■
Uzbekistan	1	●	■		■		■		■		■
Vietnam	3	●	■	●	■		■				■
Zimbabwe	1	●	■	●	■	●	■		■		■

General information

Agenda for the 135th Ordinary General Meeting of Nestlé S.A.

Thursday 11th April 2002
at 3.00 p.m. at the "Palais de Beaulieu", Lausanne

1 **Annual report, report of the auditors**
1a 2001 annual report and accounts of Nestlé S.A.; report of the auditors
1b 2001 consolidated accounts of the Nestlé Group; report of the Nestlé Group auditors

2 **Release of the Board of Directors and of the Management**

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

4 **Elections to the Board of Directors**
Peter Brabeck-Letmathe
(term of office for 5 years)
Vreni Spoerry
(term of office for 2 years)
Prof. Vernon R. Young
(term of office for 5 years)

5 **Election of the auditors**
(annual accounts of Nestlé S.A. and consolidated accounts of the Nestlé Group):
KPMG Klynveld Peat Marwick Goerdeler S.A., London and Zurich
(term of office for 3 years)

Elections to the Board of Directors At the General Meeting of 11th April 2002, the terms as directors of Mr. Peter Brabeck-Letmathe and Mrs. Vreni Spoerry will expire. Both directors are eligible for re-election for a new term of five years. Mr. Peter Brabeck-Letmathe is standing for a new term of five years, whereas Mrs. Vreni Spoerry has expressed the wish to stand for a new term of only two years.

Furthermore, the Board of Directors is recommending that the General Meeting elect as new director, also for a five-year term, Prof. Vernon R. Young, of British and American nationalities, Professor of Nutritional Biochemistry at the Massachusetts Institute of Technology (MIT) in Boston/Cambridge, USA.

Next Ordinary General Meeting:
Thursday 3rd April 2003
at the "Palais de Beaulieu", Lausanne

Important dates

11th April 2002 Announcement of first quarter 2002 sales figures

11th April 2002 135th Ordinary General Meeting, “Palais de Beaulieu”, Lausanne

17th April 2002 Payment of the dividend

21st August 2002 Publication of the half-yearly report January/June 2002

24th October 2002 Announcement of first nine months 2002 sales figures; Autumn press conference (Vevey)

27th February 2003 Announcement of 2002 sales figures and results; Spring press conference (Vevey)

3rd April 2003 136th Ordinary General Meeting, “Palais de Beaulieu”, Lausanne

16th April 2003 Announcement of first quarter 2003 sales figures

Shareholder information

Stock exchange listings As of 31st December 2001, the registered shares of Nestlé S.A. were listed on the following stock exchanges: SWX Swiss Exchange, Frankfurt, London and Paris.

American Depositary Receipts (ADRs) representing Nestlé S.A. shares are offered in the USA by JPMorgan Chase Bank.

Registered Offices Nestlé S.A., avenue Nestlé 55, CH-1800 Vevey (Switzerland), tel. 021 924 21 11.

Nestlé S.A. (Share Transfer Office), Zugerstrasse 8, CH-6330 Cham (Switzerland), tel. 041 785 20 20.

Further information For any additional information about the management report, please contact Nestlé S.A., Investor Relations, avenue Nestlé 55, CH-1800 Vevey (Switzerland), tel. 021 924 27 42, fax 021 924 28 13.
E-mail: investor.relations@nestle.com or visit the investor relations web site www.ir.nestle.com

As to information concerning the share register (registrations, transfers, address changes, dividends, etc.), please contact Nestlé S.A., Share Transfer Office, Zugerstrasse 8, CH-6330 Cham (Switzerland), tel. 041 785 20 20, fax 041 785 20 24.

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

Nestlé URL: http://www.nestle.com

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2001 Financial statements

Consolidated accounts of the Nestlé Group

Annual report of Nestlé S.A.

Consolidated accounts of the Nestlé Group

135th Annual report of Nestlé S.A.

Consolidated income statement for the year ended 31st December 2001

In millions of CHF	Notes	**2001**	2000
Sales to customers	1	**84 698**	81 422
Cost of goods sold		**(37 756)**	(38 121)
Distribution expenses		**(6 421)**	(5 884)
Marketing and administration expenses		**(29 372)**	(26 467)
Research and development costs		**(1 162)**	(1 038)
Restructuring costs		**(275)**	(312)
Amortisation of goodwill		**(494)**	(414)
Trading profit	1	**9 218**	9 186
Net financing cost	2	**(407)**	(746)
Net non-trading items	3	**(44)**	(99)
Profit before taxes	4	**8 767**	8 341
Taxes	5	**(2 429)**	(2 761)
Net profit of consolidated companies		**6 338**	5 580
Share of profit attributable to minority interests		**(192)**	(212)
Share of results of associates	6	**535**	395
Net profit		**6 681**	5 763
As percentages of sales			
Trading profit		**10.9%**	11.3%
Net profit		**7.9%**	7.1%
Earnings per share			[a]
(in CHF)			
Basic earnings per share	7	**17.25**	14.91
Fully diluted earnings per share	7	**17.14**	14.78

[a] Restated following share split.

Consolidated balance sheet as at 31st December 2001

before appropriations

In millions of CHF	Notes	2001	2001	2000	2000
Assets					
Current assets					
Liquid assets	8				
Cash and cash equivalents		**7 617**		5 451	
Other liquid assets		**8 425**		4 680	
			16 042		10 131
Trade and other receivables	9		**14 074**		12 685
Inventories	10		**7 691**		7 168
Derivative assets	11		**609**		(a)
Prepayments and accrued income			**629**		763
Total current assets			**39 045**		30 747
Non-current assets					
Property, plant and equipment	12				
Gross value		**45 093**		43 519	
Accumulated depreciation		**(25 195)**		(24 894)	
			19 898		18 625
Investments in associates	13		**2 497**		2 173
Deferred tax assets	23		**1 918**		2 569
Financial assets	14		**2 885**		2 386
Employee benefit assets	21		**1 392**		306
Goodwill	15		**25 253**		7 902
Intangible assets	16		**898**		816
Total non-current assets			**54 741**		34 777
Total assets			**93 786**		65 524

[a] 2000 figures were not prepared in accordance with IAS 39. When carried to the balance sheet, derivatives were included under accrued assets and liabilities.

In millions of CHF	Notes		2001		2000
Liabilities, minority interests and equity					
Current liabilities					
Trade and other payables	17		**10 504**		10 001
Financial liabilities	18		**25 486**		8 376
Tax payable			**854**		1 035
Derivative liabilities	19		**383**		(a)
Accruals and deferred income			**4 265**		3 762
Total current liabilities			**41 492**		23 174
Non-current liabilities					
Financial liabilities	20		**9 946**		4 768
Employee benefit liabilities	21		**3 786**		2 860
Deferred tax liabilities	23		**1 301**		1 550
Tax payable			**40**		53
Other payables			**497**		402
Provisions	24		**2 495**		2 204
Total non-current liabilities			**18 065**		11 837
Total liabilities			**59 557**		35 011
Minority interests			**576**		609
Equity					
Share capital	25		**404**		404
Share premium and reserves					
Share premium		**5 926**		5 926	
Reserve for treasury shares		**2 588**		2 232	
Translation reserve		**12**		571	
Retained earnings		**27 517**		23 388	
			36 043		32 117
			36 447		32 521
Less:					
Treasury shares	26		**(2 794)**		(2 617)
Total equity			**33 653**		29 904
Total liabilities, minority interests and equity			**93 786**		65 524

[a] 2000 figures were not prepared in accordance with IAS 39. When carried to the balance sheet, derivatives were included under accrued assets and liabilities.

Consolidated cash flow statement for the year ended 31st December 2001

In millions of CHF	Notes	2001	2000
Operating activities			
Net profit of consolidated companies		6 338	5 580
Depreciation of property, plant and equipment	12	2 581	2 737
Impairment of property, plant and equipment	12	222	223
Amortisation of goodwill	15	494	414
Depreciation of intangible assets	16	150	179
Impairment of goodwill	15	184	230
Increase/(decrease) in provisions and deferred taxes		(92)	(4)
Decrease/(increase) in working capital	27	(870)	(368)
Other movements		(393)	(140)
Operating cash flow [a]		**8 614**	8 851
Investing activities			
Capital expenditure	12	(3 611)	(3 305)
Expenditure on intangible assets	16	(288)	(188)
Sale of property, plant and equipment		263	355
Acquisitions	28	(18 766)	(2 846)
Disposals	29	484	780
Income from associates		133	107
Other movements		143	39
Cash flow from investing activities		**(21 642)**	(5 058)

[a] Taxes paid amount to CHF 2782 million (2000: CHF 2714 million). Interest received/paid does not differ materially from interest shown under note 2 “Net financing cost”.

In millions of CHF	Notes		2001		2000
Financing activities					
Dividend for the previous year		(2 127)		(1 657)	
Purchase of treasury shares		(1 133)		(765)	
Sale of treasury shares and options		880		1 837	
Premium on warrants issued		209		81	
Movements with minority interests		(172)		(221)	
Bonds issued		3 338		1 016	
Bonds repaid		(380)		(1 143)	
Increase/(decrease) in other medium/ long term financial liabilities		(71)		(155)	
Increase/(decrease) in short term financial liabilities		16 754		921	
Decrease/(increase) in marketable securities and other liquid assets		(2 330)		(2 788)	
Decrease/(increase) in short term investments		216		1 452	
Cash flow from financing activities			15 184		(1 422)
Translation differences on flows			60		(175)
Increase/(decrease) in cash and cash equivalents			2 216		2 196
Cash and cash equivalents at beginning of year		5 451		3 322	
Effects of exchange rate changes on opening balance		(29)		(67)	
Cash and cash equivalents retranslated at beginning of year			5 422		3 255
Fair-value adjustment on cash and cash equivalents			(21)		—
Cash and cash equivalents at end of year	8		7 617		5 451

Consolidated statement of changes in equity

In millions of CHF	Share premium	Reserve for treasury shares	Translation reserve	Retained earnings	**Total reserves**	Share capital	Less: Treasury shares	**Total equity**
Equity as at								
31st December 1999	5 926	2 873	839	17 439	**27 077**	404	(3 028)	**24 453**
Adjustment for the introduction								
of IAS 37								
– Provisions				132	**132**			**132**
– Related deferred taxes				(21)	**(21)**			**(21)**
Equity restated as at								
31st December 1999	5 926	2 873	839	17 550	**27 188**	404	(3 028)	**24 564**
Gains and losses								
Net profit				5 763	**5 763**			**5 763**
Currency retranslation			(268)		**(268)**			**(268)**
Recovery of goodwill on								
disposals charged to equity								
prior to 1st January 1995				51	**51**			**51**
Distributions to and								
transactions with shareholders								
Dividend for the previous year				(1 657)	**(1 657)**			**(1 657)**
Movement of treasury shares (net)		(641)		641	**–**		641	**641**
Result on options and treasury								
shares held for trading purposes				959	**959**		(230)	**729**
Premium on warrants issued				81	**81**			**81**
Equity as at								
31st December 2000	5 926	2 232	571	23 388	**32 117**	404	(2 617)	**29 904**
Adjustment for the introduction								
of IAS 39								
– Financial instruments				(55)	**(55)**			**(55)**
– Related deferred taxes				6	**6**			**6**
Adjustment of accounting policies								
of associates				(161)	**(161)**			**(161)**
Equity restated as at								
31st december 2000	5 926	2 232	571	23 178	**31 907**	404	(2 617)	**29 694**

In millions of CHF	Share premium	Reserve for treasury shares	Translation reserve	Retained earnings	**Total reserves**	Share capital	Less: Treasury shares	**Total equity**
Equity restated as at								
31st december 2000	5 926	2 232	571	23 178	**31 907**	404	(2 617)	**29 694**
Gains and losses								
Net profit				6 681	**6 681**			**6 681**
Currency retranslation			(559)		**(559)**			**(559)**
Taxes on equity items				(3)	**(3)**			**(3)**
Fair value adjustments of available-for-sale financial instruments and of cash flow hedges								
– Unrealised results				55	**55**			**55**
– Recognition of realised results in the income statement				(44)	**(44)**			**(44)**
Distributions to and transactions with shareholders								
Dividend for the previous year				(2 127)	**(2 127)**			**(2 127)**
Movement of treasury shares (net)		356		(356)	—		(356)	**(356)**
Result on options and treasury shares held for trading purposes				(76)	**(76)**		179	**103**
Premium on warrants issued				209	**209**			**209**
Equity as at 31st December 2001	5 926	2 588	12	27 517	**36 043**	404	(2 794)	**33 653**

Annex

Accounting policies

Accounting convention and accounting standards

The Consolidated accounts comply with International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB) and with the Standing Interpretations issued by the Standing Interpretations Committee of the IASB (SIC).

The accounts have been prepared on an accrual basis and under the historical cost convention, except that the following assets and liabilities are stated at their fair value: derivative financial instruments, held for trading investments, available-for-sale investments, recognised assets and liabilities subject to fair value hedges. All significant consolidated companies have a 31st December accounting year end. All disclosures required by the 4th and 7th European Union company law directives are provided.

Scope of consolidation

The Consolidated accounts comprise those of Nestlé S.A. and of its affiliated companies, including joint ventures, and associates (the Group). The list of the principal companies is provided in section "Companies of the Nestlé Group".

Consolidated companies

Companies in which the Group has a participation, usually a majority, and where it exercises control, are fully consolidated. This applies irrespective of the percentage of the participation in the share capital. Control refers to the power to govern the financial and operating policies of an affiliated company so as to obtain the benefits from its activities. Minority interests are shown as a separate category apart from equity and liabilities in the balance sheet and the share of the profit attributable to minority interests is shown as a separate line in the income statement.

Proportional consolidation is applied for companies over which the Group exercises joint control with partners. The individual assets, liabilities, income and expenditure are consolidated in proportion to the Nestlé participation in the equity (usually 50%).

Newly acquired companies are consolidated from the effective date of acquisition, using the purchase method.

Associates

Companies where the Group has a participation of 20% or more and a significant influence but does not exercise management control are accounted for by the equity method. The net assets and results are recognised on the basis of the associates' own accounting policies, where it is impractical to make adjustments with the Group's accounting policies.

Foreign currencies

In individual companies, transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at year end rates. Any resulting exchange differences are taken to the income statement.

On consolidation, assets and liabilities of Group companies denominated in foreign currencies are translated into Swiss francs at year end rates. Income and expense items are translated into Swiss francs at the annual average rates of exchange or, where known or determinable, at the rate on the date of the transaction for significant items.

Differences arising from the retranslation of opening net assets of Group companies, together with differences arising from the restatement of the net results for the year of Group companies from average or actual rates to year end rates, are taken to equity.

The balance sheet and net results of Group companies operating in hyperinflationary economies are restated for the changes in the general purchasing power of the local currency, using official indices at the balance sheet date, before translation into Swiss francs at year end rates.

Derivative financial instruments

Derivative financial instruments are mainly used to manage operational exposures to foreign exchange, interest rate and commodity price risks. Some derivatives are also acquired with the aim of generating short term profit. All derivatives are entered into with high credit quality financial institutions, consistent with specific approval, limit and monitoring procedures.

All derivative financial instruments are carried at fair value, being the market value for listed instruments or valuation based on mathematical models, such as option pricing models and discounted cash flow calculations for unlisted instruments.

The instruments consist mainly of currency forwards and options, commodity futures and options, interest forwards and options, interest rate swaps as well as interest rate and currency swaps.

Hedge accounting is applied to derivative financial instruments that are effective in offsetting the changes in fair value or in cash flows of the hedged items. The effectiveness of such hedges is verified at regular intervals but at least on a quarterly basis.

Fair value hedges are derivative financial instruments that hedge the currency risk of balance sheet assets and liabilities or the interest price risk on financial liabilities. The changes in fair value of fair value hedges are recognised in the income statement. The hedged item also is stated at fair value in respect of the risk being hedged, with any gain or loss being recognised in the income statement.

Cash flow hedges are derivative financial instruments that hedge the currency risks of anticipated future export sales, cash flow risks of anticipated future purchases of industrial equipment, the currency and/or commodity risk of future purchases of raw materials as well as the interest cash flow risk. The effective part of the changes in fair value of cash flow hedges are recognised in equity, while any ineffective part is recognised immediately in the income statement. When the hedged item results in an asset or in a liability, the gains and losses previously recognised in equity are included in the measurement cost of the asset or of the liability. Otherwise the gains and losses previously recognised in equity are removed from equity and recognised in the income statement at the same time as the hedged transaction.

Hedges of the net investment in a foreign entity are currency derivative financial instruments that hedge the currency exposure on the net investment in affiliated companies. The changes in fair value of such derivatives are recognised in equity until the net investment is sold or otherwise disposed of.

Trading derivatives are those financial instruments that are ineffective as hedging instruments or that are acquired with the aim of achieving benchmark objectives of investment portfolios.

Segmental information

Segmental information is based on two segment formats: the primary format reflects the Group's management structure, whereas the secondary format is product oriented.

The primary segment format – by management responsibility and geographic area – represents the Group's management structure. The principal activity of the Group is the food business, which is managed through three geographic zones. The other activities, mainly pharmaceutical products and water, are managed on a worldwide basis. The secondary segment format representing products is divided into five categories (segments).

Segment results represent the contribution of the different segments to central overheads, research and development costs and the profit of the Group. Unallocated items comprise mainly corporate expenses, research and development costs, amortisation of goodwill and, for the product segments, restructuring and other costs. Specific corporate and research and development expenses are allocated to the corresponding segments.

Segment assets comprise property, plant and equipment, trade and other receivables, inventories and prepayments and accrued income. Unallocated items represent mainly corporate and research and development assets, including goodwill. Liabilities comprise trade and other payables, accruals and deferred income. Eliminations represent inter-company balances between the different segments.

Segment assets and liabilities by management responsibilities and geographic area represent the situation at the end of the year. Assets by product group represent the annual average as this provides a better indication of the level of invested capital for management purposes.

Valuation methods and definitions

Sales to customers

Sales to customers represent the sales of products and services rendered to third parties, net of general price reductions and sales taxes. Sales are recognised in the income statement at the moment the significant risks and rewards of ownership of the goods have been transferred to the buyer.

Net financing cost

This item includes the interest expense on borrowings from third parties as well as the interest income earned on funds invested outside the Group. Exchange differences on financial assets and liabilities and the results on interest hedging instruments that are recognised in the income statement are also presented in net financing cost.

Taxes

This heading includes current taxes on profit and other taxes such as taxes on capital. Also included are actual or potential withholding taxes on current and expected transfers of income from Group companies and tax adjustments relating to prior years. Income tax is recognised in the income statement, except to the extent that it relates to items directly taken to equity, in which case it is recognised in equity.

Deferred taxation is the tax attributable to the temporary differences that appear when taxation authorities recognise and measure assets and liabilities with rules that differ from those of the consolidated accounts.

Deferred taxes are calculated under the liability method at the rates of tax expected to prevail when the temporary differences reverse. Any changes of the tax rates are recognised to the income statement. Deferred tax liabilities are recognised on all taxable temporary differences excluding non-deductible goodwill. Deferred tax assets are recognised on all deductible temporary differences provided that it is probable that future taxable income will be available.

Current financial assets

Current financial assets include liquid assets and receivables. Receivables are classified under IAS 39 as originated by the enterprise and measured at cost less appropriate bad debt allowances.

Liquid assets encompass cash at bank and in hand, cash equivalents, marketable securities, other liquid funds and current investments. Cash equivalents consist of bank deposits and fixed term investments whose maturities are three months or less from the date of acquisition. Current investments consist of bank deposits and fixed term investments whose maturities are higher than three months from the date of acquisition. Liquid assets are generally classified as available-for-sale. Liquid assets are stated at fair value with all unrealised gains and losses recognised in equity until the disposal of the investment and, at such time, gains and losses previously carried to equity are recognised in the income statement.

Some marketable securities portfolios that are managed with the aim of generating short term profit are classified as trading. They are carried at fair value and all their gains and losses, realised and unrealised, are recognised in the income statement.

Financial assets that are acquired in market places that require the delivery within a time frame established by a convention are accounted for in accordance with the settlement date.

Fair value is determined on the basis of market prices at the balance sheet date for listed instruments and on the basis of discounted cash flow techniques for the other financial instruments.

Inventories
Raw materials and purchased finished goods are valued at purchase cost. Work in progress and manufactured finished goods are valued at production cost. Production cost includes direct production costs and an appropriate proportion of production overheads and factory depreciation.

Movements in raw materials inventories and purchased finished goods are accounted for using the FIFO (first in, first out) method. The weighted average cost method is used for other inventories.

A provision is established when the net realisable value of any inventory item is lower than the value calculated above.

Prepayments and accrued income
Prepayments and accrued income comprise payments made in advance relating to the following year, and income relating to the current year which will not be received until after the balance sheet date.

Property, plant and equipment
Property, plant and equipment are shown in the balance sheet at their historical cost. Depreciation is provided on the straight line method so as to depreciate the initial cost over the estimated useful lives, which are as follows:

Buildings	25–50 years
Machinery and equipment	10–15 years
Tools, furniture, information technology and sundry equipment	3–8 years
Vehicles	5 years

Financing costs incurred during the course of construction are expensed. Land is not depreciated. Premiums capitalised for leasehold land or buildings are amortised over the length of the lease.

Depreciation of property, plant and equipment is allocated to the appropriate headings of expenses by function in the income statement.

Leased assets
Assets acquired under long term finance leases are capitalised and depreciated in accordance with the Group's policy on property, plant and equipment. The associated obligations are included in financial liabilities.

Rentals payable under operating leases are charged to the income statement as incurred.

Non-current financial assets
Non-current financial assets include notes receivables and other financial instruments such as investments in companies where the Group exercises neither management control nor a significant influence. Non interest-bearing notes receivables are discounted to their present value using the rate at the date of inception. Most non-current financial assets are classified as available-for-sale and measured at fair value with unrealised gains and losses recognised in equity until the disposal of the financial asset and, at such time, gains and losses previously carried to equity are recognised to the income statement.

Fair value is determined on the basis of market prices at the balance sheet date for listed instruments and on the basis of discounted cash flow techniques for the other financial instruments.

Notes receivables and other debt instruments the resale of which is prohibited in accordance with the clauses of their agreements are classified as held-to-maturity and recognised at amortised cost less impairment losses.

Impairment losses are recognised where there is objective evidence of uncollectability.

Goodwill
As from 1st January 1995, the excess of the cost of an acquisition over the fair value of the net identifiable assets is capitalised. Previously these amounts had been written off through equity. This value also includes those intangible assets acquired that are not separately identifiable, in particular trademarks and industrial property rights.

Gains on the disposal of businesses acquired prior to 1st January 1995 are taken to equity to the extent of the goodwill previously written off. Any excess is taken to the income statement.

Goodwill is amortised on a straight line basis over its anticipated useful life. The majority of goodwill is amortised over 20 years. Where a period in excess of 20 years is used this is separately disclosed for each element of goodwill together with the principle factors determining that useful life. The recoverable amount, as well as amortisation period and amortisation method are reviewed annually.

Goodwill is usually recorded in the currency of the acquiring entity.

Intangible assets

This heading includes separately purchased intangible assets such as management information systems, intellectual property rights and rights to carry on an activity (i.e. exclusive rights to sell products or to perform a supply activity). Intangible assets are depreciated on a straight line basis, management information systems over a period ranging between three to five years, other intangible assets over five to twenty years. Where a period in excess of twenty years is used, this is separately disclosed for each element of intangible asset together with the principle factors determining that useful life. The recoverable amount, as well as depreciation period and depreciation method are reviewed annually. The depreciation is allocated to the relevant headings in the income statement.

Internally generated intangible assets are recognised only under rare circumstances, provided that a given project and its cost are well identified. They consist mainly of management information systems.

Research and development

Research and development costs are charged to the income statement in the year in which they are incurred.

Development costs related to new products are not capitalised because the availability of future economic benefits is evident only once the products are on the market place.

Impairment of assets

Consideration is given at each balance sheet date to determine whether there is any indication of impairment of the carrying amounts of the Group’s assets. If any indication exists, an asset’s recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value based on the average borrowing rate of the country where the assets are located, adjusted for risks specific to the asset.

Current and non-current liabilities

Interest-bearing current and non-current liabilities are stated at amortised cost with any difference between the cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest rate basis.

Current liabilities include current or renewable liabilities due within a maximum period of one year.

Provisions

These include liabilities of uncertain timing or amounts that arise from restructuring, environment, litigation and other risks. Provisions are recognised when there exists a legal or constructive obligation stemming from a past event and when the future cash outflows can be reliably estimated. Obligations arising from restructuring plans are recognised only upon their announcement.

Employee benefits

Post-employment benefits

The liabilities of the Group arising from defined benefit obligations, and the related current service cost, are determined using the projected unit credit method. Valuations are carried out annually for the largest plans and on a regular basis for other plans. Actuarial advice is provided both by external consultants and by actuaries employed by the Group. The actuarial assumptions used to calculate the benefit obligations vary according to the economic conditions of the country in which the plan is located.

Such plans are either externally funded, with the assets of the schemes held separately from those of the Group in independently administered funds, or unfunded with the related liabilities carried in the balance sheet.

For the funded defined benefit plans, the deficit or excess of the fair value of plan assets over the present value of the defined benefit obligation is recognised as a liability or an asset in the balance sheet, taking into account any unrecognised actuarial gains or losses and past service cost. However, an excess of assets is recognised only to the extent that it represents a future economic benefit which is actually available to the Group, for example in the form of refunds from the plan or reductions in future contributions to the plan. When such an excess is not available or does not represent a future economic benefit, it is not recognised but is disclosed in the notes.

Actuarial gains and losses arise mainly from changes in actuarial assumptions and differences between actuarial assumptions and what has actually occurred. They are recognised in the income statement, over the remaining working lives of the employees, only to the extent that their net cumulative amount exceeds 10% of the greater of the present value of the obligation or of the fair value of plan assets. Unrecognised actuarial gains and losses are reflected in the balance sheet.

For defined benefit plans the actuarial cost charged to the income statement consists of current service cost, interest cost, expected return on plan assets and past service cost as well as actuarial gains or losses to the extent that they are recognised. The past service cost for the enhancement of pension benefits is accounted for when such benefits vest or become a constructive obligation.

Some benefits are also provided by defined contribution plans; contributions to such plans are charged to the income statement as incurred.

Pensions and retirement benefits
The majority of Group employees are eligible for retirement benefits under defined benefit schemes based on pensionable remuneration and length of service, consisting mainly of final salary plans.

Post-retirement health care and other employee benefits
Group companies, principally in North America, maintain health care benefit plans which cover eligible retired employees.

The obligations for other employee benefits consist mainly of end of service indemnities, which do not have the character of pensions.

Equity compensation plans

Members of the Group's Management
Members of the Group's Management are entitled to participate each year in a share option plan without payment. The benefits consist of the right to buy Nestlé shares at a pre-determined fixed price.

As from 1st January 1999, this plan has a rolling seven year duration and the rights are vested after three years (previously five years and two years respectively).

In order to hedge the related exposure, the Group buys – or transfers from existing treasury shares portfolios – the number of shares necessary to satisfy all potential outstanding obligations under the plan when the benefit is awarded and holds them until the maturity of the plan or the exercise of the rights. No additional shares are issued as a result of the equity compensation plan. When the options are exercised, equity is increased by the amount of the proceeds received.

The Group is not exposed to any additional cost and there is no dilution of the rights of the shareholders.

Board of Directors
The annual remuneration of the Members of the Board of Directors is partly paid in kind through the delivery to them of Nestlé shares. These shares are subject to a 2-year blocking period.

The Group is not exposed to any additional cost and there is no dilution of the rights of the shareholders.

Accruals and deferred income

Accruals and deferred income comprise expenses relating to the current year which will not be paid until after the balance sheet date and income received in advance, relating to the following year.

Dividends

In accordance with Swiss law and the Company's Articles of Association, dividends are treated as an appropriation of profit in the year in which they are ratified at the Annual General Meeting and subsequently paid, rather than as an appropriation of the profit in the year to which they relate.

Contingent assets and liabilities
Contingent assets and liabilities arise from conditions or situations, the outcome of which depends on future events. They are disclosed in the notes to the accounts.

Events occurring after the balance sheet date
The values of assets and liabilities at the balance sheet date are adjusted if there is evidence that subsequent adjusting events warrant a modification of these values.

These adjustments are made up to the date of approval of the accounts by the Board of Directors.

Other non-adjusting events are disclosed in the notes.

Changes in accounting policies and modification of the scope of consolidation

Changes in accounting policies
The Group has implemented the following standard as from 1st January 2001:

- IAS 39 Financial Instruments: Recognition and Measurement. The impact of the implementation of this standard is disclosed on the consolidated statement of changes in equity.

Modification of the scope of consolidation
The scope of consolidation has been affected by the acquisitions and disposals made in 2001. The principal businesses are detailed below.

Fully consolidated
Newly included:
Ralston Purina, USA, petcare, 100% (December)
Ice Cream Partners, USA, acquisition of the 50% Pillsbury stake (December); this business was proportionally consolidated until December 2001
Aquacool, USA, UK and France, home and office water delivery business, 100% (December)

Disposals:
David & Sons, USA, snacks (December)
Gebr. Jung, Germany, bakery ingredients (June)

Equity accounted
Increase in participation:
Dreyer's, USA, ice cream, from 21.8% to 24% (August)

Disposal:
Mineralbrunnen Überkingen-Teinach, Germany, mineral water (August)

Notes

1. Segmental information

By management responsibility and geographic area

In millions of CHF	2001	2000	2001	2000
	Sales		Results	
Zone Europe	26 742	26 285	2 783	2 753
Zone Americas	26 598	25 524	3 531	3 503
Zone Asia, Oceania and Africa	15 458	15 710	2 598	2 673
Other activities [a]	15 900	13 903	2 149	2 015
	84 698	81 422	11 061	10 944
Unallocated items [b]			(1 843)	(1 758)
Trading profit			9 218	9 186

The analysis of sales by geographic area is stated by customer destination. Intersegment sales are not significant.

In millions of CHF	2001	2000	2001	2000
	Assets		Liabilities	
Zone Europe	12 508	12 913	5 384	5 279
Zone Americas	10 991	10 503	3 675	3 460
Zone Asia, Oceania and Africa	6 895	6 897	2 453	2 591
Other activities [a]	8 749	7 860	3 216	2 896
	39 143	38 173	14 728	14 226
Unallocated items [c]	30 419	10 635	1 160	386
Eliminations	(1 119)	(849)	(1 119)	(849)
	68 443	47 959	14 769	13 763

In millions of CHF	2001	2000	2001	2000
	Capital expenditure		Depreciation of property, plant and equipment	
Zone Europe	954	946	806	890
Zone Americas	747	766	695	767
Zone Asia, Oceania and Africa	626	550	438	481
Other activities [a]	1 169	949	558	519
	3 496	3 211	2 497	2 657
Unallocated items [d]	115	94	84	80
	3 611	3 305	2 581	2 737

[a] Mainly Pharmaceutical products and Water, managed on a worldwide basis.

[b] Mainly corporate expenses, research and development costs as well as amortisation of goodwill.

[c] Corporate and research and development assets/liabilities, including goodwill plus, in 2001, assets/liabilities of Ralston Purina.

[d] Corporate and research and development fixed assets.

By product group

In millions of CHF	2001	2000	2001	2000
	Sales		Results	
Beverages	**24 023**	23 044	**4 259**	4 318
Milk products, nutrition and ice cream	**22 953**	21 974	**2 572**	2 620
Prepared dishes, cooking aids and petcare	**21 324**	20 632	**2 026**	1 948
Chocolate, confectionery and biscuits	**11 244**	10 974	**1 234**	1 166
Pharmaceutical products	**5 154**	4 798	**1 255**	1 212
	84 698	81 422	**11 346**	11 264
Unallocated items [a]			**(2 128)**	(2 078)
Trading profit			**9 218**	9 186

[a] Mainly corporate expenses, research and development costs, amortisation of goodwill as well as restructuring costs.

[b] Without assets of Ralston Purina.

In millions of CHF	2001 [b]	2000
	Assets	
Beverages	**11 086**	10 654
Milk products, nutrition and ice cream	**11 127**	11 215
Prepared dishes, cooking aids and petcare	**8 620**	8 980
Chocolate, confectionery and biscuits	**6 347**	6 685
Pharmaceutical products	**2 859**	2 589
	40 039	40 123

In millions of CHF	2001	2000
	Capital expenditure	
Beverages	**1 062**	936
Milk products, nutrition and ice cream	**573**	530
Prepared dishes, cooking aids and petcare	**460**	390
Chocolate, confectionery and biscuits	**249**	250
Pharmaceutical products	**99**	113
	2 443	2 219
Administration, distribution, research and development	**1 168**	1 086
	3 611	3 305

2. Net financing cost

In millions of CHF	2001	2000
Interest income	890	614
Interest expense	(1 297)	(1 360)
	(407)	(746)

Interest income includes CHF 41 million (2000: CHF 31 million) of gains arising on securities held for trading purposes.

3. Net non-trading items

In millions of CHF	2001	2000
Non-trading expenses		
Loss on disposal of property, plant and equipment	(31)	(19)
Loss on disposal of activities	(25)	(32)
Provisions for litigation and other risks	(59)	(205)
Impairment of property, plant and equipment	(222)	(223)
Impairment of goodwill	(184)	(230)
Other	(235)	(450)
	(756)	(1 159)
Non-trading income		
Profit on disposal of property, plant and equipment	26	57
Profit on disposal of activities	343	546
Release of provisions for litigation and other risks	34	73
Other	309	384
	712	1 060
Net non-trading items	(44)	(99)

4. Expenses by nature

The following items are allocated to the appropriate headings of expenses by function in the income statement:

In millions of CHF	2001	2000
Depreciation of property, plant and equipment	2 581	2 737
Salaries and welfare expenses	13 081	12 774
Auditors' remuneration	28	26
Operating lease charges	450	362
Exchange differences	61	(55)

5. Taxes

In millions of CHF	2001	2000
Components of tax expense		
Current tax	**2 167**	2 395
Deferred tax	**(100)**	(44)
Transfers (from)/to unrecognised tax assets	**15**	2
Changes in deferred tax rates	**12**	(13)
Prior years' tax	**(79)**	18
Taxes on equity items	**(3)**	—
Other tax [a]	**417**	403
	2 429	2 761
Deferred tax by types		
Property, plant and equipment	**9**	20
Goodwill and intangible assets	**38**	33
Employee benefits liabilities	**(51)**	(68)
Inventories, receivables, payables and provisions	**(126)**	(148)
Unused tax losses and tax credits	**(56)**	44
Other	**86**	75
	(100)	(44)
Reconciliation of tax expense		
Tax at the theoretical domestic rates applicable to profits of taxable entities in the countries concerned	**2 235**	2 390
Tax effect on non-deductible amortisation of goodwill	**183**	165
Tax effect on non-deductible or non-taxable items	**(299)**	(168)
Transfers (from)/to unrecognised tax assets	**15**	2
Difference in tax rates	**(43)**	(49)
Other tax [a]	**338**	421
	2 429	2 761

[a] Includes withholding tax levied on transfer of income.

6. Share of results of associated companies

In millions of CHF	2001	2000
Share of profit before taxes	**763**	605
Less share of taxes	**(228)**	(210)
Share of profit after taxes	**535**	395

7. Earnings per share

	2001	2000 [a]
Basic earnings per share in CHF	**17.25**	14.91
Net profit per income statement (in millions of CHF)	**6 681**	5 763
Weighted average number of shares outstanding	**387 369 846**	386 527 830
Fully diluted earnings per share in CHF	**17.14**	14.78
Theoretical net profit assuming the exercise of all outstanding options and sale of all treasury shares (in millions of CHF)	**6 918**	5 963
Number of shares	**403 520 000**	403 520 000

[a] Restated following share split.

8. Liquid assets

In millions of CHF	2001	2000
Cash and cash equivalents		
Cash at bank and in hand	**2 094**	1 778
Cash equivalents	**5 523**	3 673
	7 617	5 451
Other liquid assets		
Current investments	**106**	326
Marketable securities and other	**8 319**	4 354
	8 425	4 680
Liquid assets	**16 042**	10 131

Liquid assets are mainly denominated in following currencies:

In millions of CHF	2001	2000
USD	**7 028**	3 307
EUR	**2 898**	2 779
CHF	**4 471**	2 756
Other	**1 645**	1 289
	16 042	10 131

Interest rates are as follows:

In millions of CHF	2001	2000
on USD	**3.2%**	6.7%
on EUR	**3.9%**	4.8%
on CHF	**2.8%**	2.8%

All liquid assets have maturities of less than one year.

Liquid assets are classified as follows:

In millions of CHF	2001	2000
		(a)
Available-for-sale	**15 382**	
Trading	**660**	
	16 042	

(a) Information not available.

9. Trade and other receivables

In millions of CHF	2001	2000
Trade receivables	11 011	10 361
Other receivables	3 063	2 324
	14 074	12 685
After deduction of allowances for doubtful receivables of	514	515
Amounts included above which are due after more than one year	37	85

10. Inventories

In millions of CHF	2001	2000
Raw materials, work in progress and sundry supplies	2 965	2 806
Finished goods	4 909	4 556
Provisions	(183)	(194)
	7 691	7 168

Inventories amounting to CHF 74 million (2000: CHF 73 million) are pledged as security for financial liabilities.

11. Derivative assets

In millions of CHF	2001		2000[a]	
	Fair values	Contractual or notional amounts	Fair values	Contractual or notional amounts
Fair value hedges				
Currency forwards, futures and swaps	**41**	**2 256**	175	8 100
Interest rate swaps	**34**	**677**	80	1 852
Interest rate and currency swaps	**293**	**2 548**	157	1 972
Cash flow hedges				
Currency forwards, futures and swaps	**70**	**926**	31	921
Currency options	**1**	**40**	2	192
Interest rate swaps	**11**	**644**	—	—
Interest rate and currency swaps	**3**	**294**	—	—
Interest forwards and futures	**—**	**—**	1	45
Interest options	**1**	**37**	—	—
Commodity futures	**47**	**286**	3	126
Commodity options	**3**	**66**	—	—
Hedges of the net investment in a foreign entity (loans)	**33**	**172**	—	—
Trading				
Currency derivatives	**28**	**642**	5	2 001
Interest derivatives	**42**	**2 246**	—	—
Commodity derivatives	**2**	**64**	—	—
	609	**10 898**	454	15 209

[a] 2000 figures are not restated in accordance with IAS 39. Fair value hedges were generally carried to the balance sheet whereas cash flow hedges were disclosed off balance sheet.

Derivative assets are denominated in the following currencies:

In millions of CHF	**2001**	2000
		[a]
USD	**162**	
EUR	**56**	
GBP	**99**	
JPY	**88**	
AUD	**92**	
Other	**112**	
	609	

[a] Information not available.

Derivative assets related to cash flow hedges have the following maturities:

In millions of CHF	**2001**	2000
		[a]
Within one year	**66**	
In the second year	**9**	
In the third to the fifth year inclusive	**56**	
After the fifth year	**5**	
	136	

Other derivative assets have the following maturities:

In millions of CHF	**2001**	2000
		[a]
Within one year	**104**	
In the second year	**91**	
In the third to the fifth year inclusive	**275**	
After the fifth year	**3**	
	473	

12. Property, plant and equipment

In millions of CHF					2001	2000
	Land and buildings	Machinery and equipment	Tools, furniture and other equipment	Vehicles	Total	Total
Gross value						
At 1st January	11 977	24 261	6 471	810	**43 519**	44 014
Currency retranslation and inflation adjustment	(406)	(899)	(241)	(33)	**(1 579)**	(1 346)
Expenditure	754	1 913	826	118	**3 611**	3 305
Disposals	(248)	(940)	(474)	(127)	**(1 789)**	(1 962)
Modification of the scope of consolidation	413	787	84	47	**1 331**	(492)
At 31st December	12 490	25 122	6 666	815	**45 093**	43 519
Accumulated depreciation						
At 1st January	(4 292)	(15 558)	(4 503)	(541)	**(24 894)**	(24 796)
Currency retranslation and inflation adjustment	173	642	184	26	**1 025**	885
Depreciation	(354)	(1 449)	(683)	(95)	**(2 581)**	(2 737)
Impairment	(94)	(120)	(8)	—	**(222)**	(223)
Disposals	77	835	445	108	**1 465**	1 556
Modification of the scope of consolidation	(10)	43	3	(24)	**12**	421
At 31st December	(4 500)	(15 607)	(4 562)	(526)	**(25 195)**	(24 894)
Net at 31st December	7 990	9 515	2 104	289	**19 898**	18 625

At 31st December 2001, property, plant and equipment include CHF 297 million (2000: CHF 158 million) of assets under construction. Net property, plant and equipment held under finance leases at 31st December 2001 amount to CHF 313 million (2000: CHF 255 million). Net property, plant and equipment of CHF 120 million (2000: CHF 147 million) are pledged as security for financial liabilities.
The fire risks, reasonably estimated, are insured in accordance with domestic requirements.

13. Investments in associated companies

This item primarily includes the Group's indirect (26.3%) participation in the equity of L'Oréal, Paris, for CHF 2136 million (2000: CHF 1986 million). Its market value at 31st December 2001 amounts to CHF 21 275 million (2000: CHF 24 689 million).

14. Non-current financial assets

In millions of CHF	**2001**	2000
		(a)
Available-for-sale	**2 642**	
Held-to-maturity	**243**	
	2 885	2 386

Non-current financial assets are denominated in the following currencies:

In millions of CHF	**2001**	2000
		(a)
USD	**2 312**	
EUR	**80**	
CHF	**355**	
Other	**138**	
	2 885	2 386

Non-current financial assets have the following maturities:

In millions of CHF	**2001**	2000
		(a)
In the second year	**353**	
In the third to the fifth year inclusive	**193**	
After the fifth year	**862**	
Equity instruments	**1 477**	
	2 885	2 386

[a] Information not available.

15. Goodwill

In millions of CHF	**2001**	2000
Gross value		
At 1st January	**9 674**	6 472
Currency retranslation	**(73)**	(126)
Goodwill from acquisitions	**18 193**	3 395
Disposals	**(116)**	—
Other	**(45)**	(67)
At 31st December	**27 633**	9 674
Accumulated amortisation		
At 1st January	**(1 772)**	(1 214)
Currency retranslation	**25**	19
Amortisation	**(494)**	(414)
Impairment	**(184)**	(230)
Other	**45**	67
At 31st December	**(2 380)**	(1 772)
Net at 31st December	**25 253**	7 902

16. Intangible assets

In millions of CHF

				2001	2000
	Intellectual property rights	Operating rights and others	Management information systems	Total	Total
Gross value					
At 1st January	107	809	389	**1 305**	1 066
Currency retranslation	5	—	(1)	**4**	(6)
Expenditure	95	7	186	**288**	188
Disposals	(7)	(54)	(11)	**(72)**	(2)
Modification of the scope of consolidation	(12)	2	1	**(9)**	59
Other	195	(160)	4	**39**	–
At 31st December	383	604	568	**1 555**	1 305
Accumulated depreciation					
At 1st January	(20)	(259)	(210)	**(489)**	(324)
Currency retranslation	(1)	(4)	2	**(3)**	(17)
Depreciation	(23)	(63)	(64)	**(150)**	(179)
Disposals	1	13	8	**22**	—
Modification of the scope of consolidation	—	—	—	**—**	31
Other	(33)	—	(4)	**(37)**	—
At 31st December	(76)	(313)	(268)	**(657)**	(489)
Net at 31st December	307	291	300	**898**	816

17. Trade and other payables

In millions of CHF	2001	2000
Trade payables	6 667	6 170
Other payables	3 837	3 831
	10 504	10 001

18. Current financial liabilities

In millions of CHF	2001	2000
Commercial paper	19 861	3 106
Line of credit facilities	1 270	1 751
Other current financial liabilities	3 888	2 821
	25 019	7 678
Current portion of medium and long term financial liabilities	467	698
	25 486	8 376

The above financial liabilities are denominated in the following currencies:

In millions of CHF	2001	2000
USD	19 572	2 848
EUR	1 024	1 759
GBP	436	419
Other	4 454	3 350
	25 486	8 376

Interest rates are as follows:

	2001	2000
on USD	4.1%	6.5%
on EUR	4.5%	5.0%
on GBP	4.9%	5.9%

The fair values of current financial liabilities are not materially different from their carrying amounts.

19. Derivative liabilities

In millions of CHF	2001		2000[a]	
	Fair values	Contractual or notional amounts	Fair values	Contractual or notional amounts
Fair value hedges				
Currency forwards, futures and swaps	27	1 752	85	2 814
Currency options	—	42	6	1 712
Interest rate swaps	44	851	123	5 161
Interest rate and currency swaps	80	459	228	1 402
Cash flow hedges				
Currency forwards, futures and swaps	46	1 105	14	795
Currency options	—	1	1	70
Interest rate swaps	56	3 762	—	—
Interest rate and currency swaps	1	—	—	—
Interest forwards and futures	2	635	2	1 769
Interest options	4	217	1	227
Commodity futures	44	210	13	186
Commodity options	5	29	1	19
Hedges of the net investment in a foreign entity (loans)	36	1 673	—	—
Trading				
Currency derivatives	12	1 331	2	183
Interest derivatives	21	1 942	2	402
Commodity derivatives	5	30	1	21
	383	14 039	479	14 761

[a] 2000 figures are not restated in accordance with IAS 39. Fair value hedges were generally carried to the balance sheet whereas cash flow hedges were disclosed off balance sheet.

[a] Information not available.

Derivative liabilities are denominated in the following currencies:

In millions of CHF	2001	2000
		[a]
USD	**185**	
EUR	**51**	
GBP	**15**	
Other	**132**	
	383	

Derivative liabilities related to cash flow hedges have the following maturities:

In millions of CHF	2001	2000
		[a]
Within one year	**84**	
In the second year	**12**	
In the third to the fifth year inclusive	**62**	
	158	

Other derivative liabilities have the following maturities:

In millions of CHF	2001	2000
		[a]
Within one year	**163**	
In the second year	**—**	
In the third to the fifth year inclusive	**55**	
After the fifth year	**7**	
	225	

20. Non-current financial liabilities

In millions of CHF	2001	2000
Loans from financial institutions	**1 315**	1 442
Bonds	**8 783**	3 783
Obligations under finance leases	**315**	241
	10 413	5 466
Current portion	**(467)**	(698)
	9 946	4 768

The above non-current financial liabilities are repayable as follows:

In millions of CHF	2001	2000
In the second year	**900**	575
In the third to the fifth year inclusive	**5 432**	4 080
After the fifth year	**3 614**	113
	9 946	4 768

The above financial liabilities are denominated in the following currencies:

In millions of CHF	2001	2000
USD	**7 917**	3 045
EUR	**1 523**	778
CHF	**15**	364
GBP	**—**	303
Other	**491**	278
	9 946	4 768

Interest rates are as follows:

	2001	2000
on USD	**3.8%**	7.0%
on EUR	**4.8%**	4.5%
on GBP	**5.0%**	5.9%

The fair value of non-current financial liabilities amounts to CHF 9970 million. The effective interest rate of bonds is disclosed below. The effective interest rate of other non-current financial liabilities is not materially different from their nominal interest rates.

Bond issues subject to fair value hedges are carried at fair value, while those that are not hedged are carried at cost.

Face value in millions	Interest rates Nominal	Effective	Year of issue/ maturity	In millions of CHF	2001	2000
Bond Issues of Nestlé Holdings, Inc., USA						
CHF 300	6.75%	6.62%	1992–2002	Subject to interest rate and currency swaps that create a USD liability at floating rates.	304	374
USD 250	7.38%	7.38%	1995–2005		419	409
DEM 500	5.13%	—	1996–2001	Was subject to interest rate and currency swaps that created a USD liability at floating rates.	—	543
USD 250	5.63%	5.64%	1998–2003	Subject to an interest rate swap that creates a liability at floating rates.	433	410
USD 300	3.00%	7.48%	2000–2005	Stock Warrants and Applicable Note Securities (SWANS). The issue has attached warrants which give the right to acquire Nestlé S.A. shares. The debt component (issue of the notes) was recognised under bonds for USD 249 million at inception, while the equity component (premium on warrants issued) was recognised under equity for USD 51 million.	439	412
USD 700	0.00%	6.15%	2001–2008	Turbo Zero Equity-Link issue with warrants on Nestlé S.A. shares. The debt component (issue of the notes) is recognised under bonds for USD 451 million at inception, while the equity component (premium on warrants issued) is recognised under equity for USD 123 million. The investors have the option to put the notes to Nestlé Holdings, Inc. and the warrants to Nestlé S.A. against their accreted value at the end of 2003 and 2006.	796	–
USD 650	3.50%	3.79%	2001–2005	Partially subject to an interest rate swap that creates a liability at floating rates.	1 055	–
USD 300	5.13%	5.19%	2001–2007		501	–

Face value in millions	Interest rates Nominal	Effective	Year of issue/ maturity	In millions of CHF	2001	2000
Bond Issues of Nestlé Purina PetCare Company, USA (Face values are shown after partial repayments.)						
USD 128	9.25%	9.50%	1989–2009		263	—
USD 170	7.75%	7.84%	1995–2015		326	—
USD 141	9.30%	9.42%	1991–2021		315	—
USD 208	8.63%	8.72%	1992–2022		439	—
USD 147	8.13%	8.27%	1993–2023		298	—
USD 196	7.88%	8.05%	1995–2025		388	—
Bond Issues of Nestlé Finance-France S.A., France						
ZAR 100	12.50%	13.07%	2000–2005	Subject to an interest rate swap that creates a liability at floating rates. The proceeds have been re-lent to a South African affiliated company.	14	25
ZAR 100	11.00%	11.52%	2001–2006	Subject to an interest rate swap that creates a liability at floating rates. The proceeds have been re-lent to a South African affiliated company.	14	—
Bond Issues of Nestlé Holdings (U.K.) PLC, United Kingdom						
USD 250	5.00%	5.07%	1998–2003	Subject to an interest rate and currency swap that creates a GBP liability at floating rates.	431	367
EUR 300	4.75%	4.75%	2001–2005	Subject to an interest rate and currency swap that creates a GBP liability at floating rates.	462	—
USD 300	5.25%	5.35%	2001–2006	Subject to an interest rate and currency swap that creates a GBP liability at floating rates.	518	—

In millions of CHF					2001	2000
Face value in millions	Interest rates		Year of issue/ maturity			
	Nominal	Effective				
Bond Issue of Nestlé Australia Ltd., Australia						
USD 250	1.25%	6.07%	1998–2005	Convertible into Nestlé S.A. shares, but subject to an equity and interest rate and currency swap that hedges the issuer against its equity and currency exposures and creates a straight AUD liability at floating rates.	415	342
Bond Issue of Nestlé Capital Canada Ltd., Canada						
USD 200	5.50%	5.47%	1999–2004	Subject to an interest rate and currency swap that creates a CAD liability at floating rates.	346	325
Bond Issue of Nestlé Japan Ltd., Japan						
EUR 350	5.25%	5.31%	2000–2004	Subject to an interest rate and currency swap that creates a JPY liability at floating rates.	537	505
Other bonds					70	71
Total					8 783	3 783
Due within one year					(323)	(545)
Due after one year					8 460	3 238

Bonds subject to fair value hedges are carried at fair value for CHF 4529 million and the related derivatives are carried to derivative assets for CHF 318 million and to derivative liabilities for CHF 110 million.

21. Employee benefits

Reconciliation of assets and liabilities recognised in the balance sheet

In millions of CHF			2001	2000
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Total
Present value of funded obligations	18 547	849	**19 396**	16 725
Fair value of plan assets	(19 507)	(166)	**(19 673)**	(19 201)
Excess of liabilities/(assets) of funded obligations	(960)	683	**(277)**	(2 476)
Present value of unfunded obligations	1 254	743	**1 997**	1 785
Unrecognised past service cost of non-vested benefits	—	(7)	**(7)**	(7)
Net unrecognised actuarial gains/(losses)	(1 338)	(28)	**(1 366)**	65
Unrecognised assets	1 198	—	**1 198**	2 566
Defined benefits net liabilities	154	1 391	**1 545**	1 933
Liabilities from defined contribution plans			**849**	621
Net liabilities			**2 394**	2 554
Reflected in the balance sheet as follows:				
Employee benefits assets			**(1 392)**	(306)
Employee benefits liabilities			**3 786**	2 860
Net liabilities			**2 394**	2 554

The plan assets include property occupied by affiliated companies with a fair value of CHF 32 million (2000: CHF 20 million). At the end of 2000, plan assets included Nestlé shares for an amount of CHF 6 million.

The decrease of the excess of assets is mainly due to the lower effective return on assets.

Expenses recognised in the income statement

In millions of CHF			2001	2000
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Total
Current service cost	585	52	**637**	692
Employees' contributions	(101)	—	**(101)**	(111)
Interest cost	969	63	**1 032**	1 025
Expected return on plan assets	(1 421)	(15)	**(1 436)**	(1 507)
Net actuarial gains/(losses) recognised in year	3	—	**3**	(1)
Early retirements, curtailments, settlements	(12)	—	**(12)**	(5)
Past service cost	34	6	**40**	21
Transfer (from)/to unrecognised assets	336	—	**336**	322
Total defined benefit expenses	393	106	**499**	436
Total defined contribution expenses			**310**	281

The expenses for defined benefit and defined contribution plans are allocated to the appropriate headings of expenses by function.

Transfer to unrecognised assets represents excess of return of overfunded defined benefit plans that cannot be recognised as assets as well as contributions paid to such plans in excess of their annual cost.

Actual gain/(loss) on plan assets	**(1 448)**	134

Movement of defined benefits net liabilities recognised in the balance sheet

In millions of CHF	2001			2000
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Total
At 1st January	1 206	727	**1 933**	2 143
Currency retranslation	(72)	2	**(70)**	(83)
Expense recognised in the income statement	393	106	**499**	436
Contributions	(387)	—	**(387)**	(308)
Benefits paid	(93)	(44)	**(137)**	(195)
Modification of the scope of consolidation	(912)	595	**(317)**	35
Transfer from/(to) defined contribution plans	19	5	**24**	(95)
At 31st December	154	1 391	**1 545**	1 933

Principal actuarial assumptions

At 31st December	**2001**	2000
Discount rates		
Europe	**4–6%**	4–6.25%
Americas	**3–15.5%**	7–18.5%
Asia, Oceania and Africa	**3–15%**	3–14%
Expected long term rates of return on plan assets		
Europe	**6–7.25%**	5.3–8%
Americas	**6–13%**	8–13.5%
Asia, Oceania and Africa	**4–14%**	4–14%
Expected rates of salary increases		
Europe	**2–4%**	2–4.5%
Americas	**1–12%**	3.5–13%
Asia, Oceania and Africa	**1–13%**	0.5–11%
Expected rates of pension adjustments		
Europe	**1.25–2.5%**	1.25–3.5%
Americas	**1–12%**	1–13%
Asia, Oceania and Africa	**0.5–9%**	0.5–9%
Medical cost trend rates		
Americas	**5–10%**	4–5%
Average remaining working life of employees (in years)		
Europe	**11–22**	11–23
Americas	**9–30**	9–26
Asia, Oceania and Africa	**11–27**	11–27

22. Equity compensation plan and remuneration of the Board of Directors and of the Executive Management

Equity compensation plan

Following are the movements and expiry dates of the options held by members of the Group's Management (including Executive Management):

Movement of options

(a) Before share split.

In millions of CHF	2001		2000[a]	
	Number of options	Value of shares	Number of options	Value of shares
Outstanding at 1st January	**939 310**	**243**	93 009	178
of which vested	**179 220**		47 478	
New rights	**1 338 806**	**459**	43 150	122
Rights exercised [b]	**(79 930)**	**(13)**	(41 403)	(55)
Rights expired	**(6 720)**	**(2)**	(825)	(2)
Outstanding at 31st December	**2 191 466**	**687**	93 931	243
of which vested	**427 260**		17 922	

(b) Average exercise price: CHF 165.65 (2000: CHF 1323.62).

The rights are exercised throughout the year in accordance with the rules of the plan. Increase of new rights granted in 2001 results from the extension of the beneficiaries of the plan (from 199 to 879 participants).

Expiry dates of options

	2001		2000[a]	
	Number	Exercise price	Number	Exercise price
One year	**8 640**	**CHF 149.80**	70	CHF 1 261
Two years	**90 650**	**CHF 230.30**	7 193	CHF 1 498
Three years	**—**	**—**	10 659	CHF 2 303
Four years	**327 970**	**CHF 260.90**	—	—
Five years	**425 400**	**CHF 281.90**	—	—
Six years	**—**	**—**	33 019	CHF 2 609
Seven years	**1 338 806**	**CHF 343.20**	42 990	CHF 2 819
Total	**2 191 466**		93 931	

The exercise price corresponds to the average price of the last 10 trading days of January of the year of allocation.

Remuneration of the Board of Directors and of the Executive Management

	2001		2000	
	Number	CHF millions	Number	CHF millions
Board of Directors				
Remuneration		4		5
Warrants		—	1 341 500 [a]	2
Shares	5 842	2	—	—
Options	—		95 590 [b]	
Executive Management				
Remuneration		9		8
Bonus		7		4
Options	91 370		61 240 [b]	
Total		**22**		19

[a] Equivalent to 26 830 shares at an exercise price of CHF 360.– [b]

[b] After share split.

Board of Directors
Members of the Board of Directors receive an annual remuneration of CHF 263 000 each, members of the Committee of the Board receive an additional CHF 200 000 each. Members of the Audit Committee receive an additional CHF 25 000 each. Directors also receive an annual expense allowance of CHF 15 000 each. The Chairman is also entitled to a salary and a bonus.
50% of the remuneration of the members of the Board of Directors and the total additional remuneration of the members of the Committee of the Board are paid through the granting of Nestlé S.A. shares at the ex-dividend closing price of the day of payment of the dividend. These shares are subject to a 2-year blocking period.

Executive Management
The total annual compensation of each member of the Executive Management comprises a salary, a bonus (based on the individual's performance and the achievement of the Group's objectives) and share options.

23. Deferred taxes

In millions of CHF	2001	2000
Tax assets by types of temporary differences		
Property, plant and equipment	**154**	40
Intangible assets	**157**	190
Employee benefits	**1 044**	957
Inventories, receivables, payables and provisions	**1 433**	894
Unused tax losses and unused tax credits	**89**	71
Other	**596**	300
	3 473	2 452

In millions of CHF	**2001**	2000
Tax liabilities by types of temporary differences		
Property, plant and equipment	**1 068**	907
Intangible assets	**94**	44
Employee benefits	**499**	105
Inventories, receivables, payables and provisions	**110**	130
Other	**1 085**	247
	2 856	1 433
Net assets	**617**	1 019
Reflected in the balance sheet as follows:		
Deferred tax assets	**1 918**	2 569
Deferred tax liabilities	**1 301**	1 550
Net assets	**617**	1 019
Temporary differences for which no deferred tax is recognised:		
on investments in affiliated companies (taxable temporary difference)	**7 357**	5 815
on unused tax losses, tax credits and other items	**1 467**	1 118

Unused tax losses expire mainly within 2 to 5 years.

24. Provisions

In millions of CHF	Restructuring	Environment	Litigation	Other	**2001** Total	2000 Total
At 1st January					**2 204**	2 289
Introduction of IAS 37					**—**	(132)
Restated figures at 1st January	194	70	1 797	143	**2 204**	2 157
Currency retranslation	—	2	28	(6)	**24**	(1)
Provisions made in the period	129	3	75	78	**285**	445
Modification of the scope of consolidation	346	—	(8)	—	**338**	168
Amounts used	(104)	(3)	(173)	(38)	**(318)**	(456)
Unused amounts reversed	(11)	(1)	(19)	(7)	**(38)**	(109)
At 31st December	554	71	1 700	170	**2 495**	2 204

25. Share capital of Nestlé S.A.

	2001	2000
Number of registered shares of nominal value CHF 1.– each (2000: CHF 10.–)	**403 520 000**	40 352 000
In millions of CHF	**404**	404

On 11th June 2001, the registered shares were split in a ten-for-one relationship.
Additional information is given in the annex to the annual accounts of Nestlé S.A., note 18.
The share capital includes the nominal value of treasury shares (see note 26).

26. Treasury shares

This item represents the treasury shares held in Nestlé S.A.:

Number of shares	2001	2000 [a]
Purpose of holding		
Freely available shares	**6 513 814**	785 262
Management option rights	**2 191 466**	93 931
Warrants on SWANS and Turbo bond issues of Nestlé Holdings Inc., USA	**3 527 680**	129 419
Trading	**3 631 494**	490 415
Total at 31st December	**15 864 454**	1 499 027

[a] Before share split.

In millions of CHF	2001	2000
Book value at 31st December	**2 794**	2 617
Market value at 31st December	**5 616**	5 666

The movement of these shares is described in the annex to the annual accounts of Nestlé S.A., note 20.

27. Decrease/(increase) in working capital

Disregarding exchange differences and effect of acquisitions and disposals.

In millions of CHF	2001	2000
Inventories	(448)	(165)
Trade receivables	(540)	(604)
Trade payables	274	544
Other payables	202	(270)
Net accruals and deferrals	64	40
Other	(422)	87
	(870)	(368)

28. Acquisitions

In millions of CHF	2001	2000
Fair value of net assets acquired		
Property, plant and equipment	1 431	359
Financial assets	834	93
Intangible assets	4	93
Minority interests	(17)	(19)
Purchase of minority interests in existing participations	33	49
Net working capital	246	(76)
Financial liabilities	(2 785)	(210)
Employee benefits, deferred taxes and provisions	(846)	(179)
Liquid assets	1 787	37
	687	147
Goodwill	18 193	3 395
Total acquisition cost	18 880	3 542
less		
Cash and cash equivalents acquired	(92)	(37)
Own shares remitted	—	(298)
Consideration payable	(22)	(361)
Cash outflow on acquisitions	18 766	2 846

The fair values of the identifiable assets and liabilities acquired with Ralston Purina have been determined on a provisional basis, due to the timing of the acquisition. These will be subject to adjustment in 2002.

29. Disposals

In millions of CHF	2001	2000
Net assets disposed of		
Property, plant and equipment	**88**	430
Goodwill and intangible assets	**129**	3
Minority interests	**(29)**	7
Net working capital	**154**	247
Financial liabilities	**(46)**	(147)
Employee benefits, deferred tax and provisions	**14**	(78)
Liquid assets	**7**	5
	317	467
Recovery of goodwill on disposals charged to equity prior to 1st January 1995	**—**	51
Profit/(loss) on disposals	**318**	513
Total sale consideration	**635**	1 031
Less:		
Cash and cash equivalents disposed of	**(7)**	(5)
Consideration receivable	**(144)**	(246)
Cash inflow on disposals	**484**	780

30. Dividends

Dividends payable are not accounted for until they have been ratified at the Annual General Meeting. At the meeting on 11th April 2002, the following dividend in respect of 2001 will be proposed:

Dividend per share	CHF	6.40
Resulting in a total dividend of [a]	CHF	2 529 548 672.–

[a] Number of shares with right to dividend: see Annual report of Nestlé S.A.

The accounts for the year ended 31st December 2001 do not reflect this proposed distribution, which will be treated as an appropriation of profit in the year ending 31st December 2002.

31. Guarantees

In the normal course of business, the Group has granted guarantees to third parties, totalling CHF 357 million (2000: CHF 436 million) on 31st December 2001.

32. Commitments for expenditure on property, plant and equipment

At 31st December 2001, the Group was committed to expenditure amounting to CHF 130 million (2000: CHF 180 million).

33. Lease commitments

The following charges arise from these commitments:

Operating leases

In millions of CHF	2001	2000
	Minimum lease payments	
	Future value	
Within one year	**390**	346
In the second year	**348**	291
In the third to the fifth year inclusive	**746**	648
After the fifth year	**1 278**	1 196
	2 762	2 481

Finance leases

In millions of CHF	2001		2000	
	Minimum lease payments			
	Present value	Future value	Present value	Future value
Within one year	**63**	**78**	22	24
In the second year	**59**	**75**	29	33
In the third to the fifth year inclusive	**82**	**113**	157	177
After the fifth year	**111**	**149**	33	43
	315	**415**	241	277

The difference between the future value of the minimum lease payments and their present value represents the discount on the lease obligations.

34. Contingent assets and liabilities

The Group is exposed to contingent liabilities amounting to about CHF 440 million (2000: CHF 400 million) representing various potential litigation. An amount of about CHF 220 million (2000: CHF 280 million) could result in liabilities.

Contingent assets for litigation claims in favour of the Group amount to about CHF 230 million (2000: CHF 260 million).

35. Events after the balance sheet date

Schöller Holding

The negotiations initiated with the shareholders of the Schöller Group in June 2001 have been successfully completed. Nestlé will acquire 100% of the Schöller Group comprising their ice cream and frozen food business. The European Commission announced its approval of the purchase on 25th February 2002.

Alcon

On 22nd February 2002, Alcon, Inc., the wholly owned eye care business of Nestlé S.A., announced that it had filed a registration statement with the United States Securities and Exchange Commission with respect to an initial public offering of newly issued Alcon common shares representing approximately 25% of Alcon's common shares, including an over-allotment option to be granted to the underwriters. Nestlé expects this offering to be completed at the end of the first quarter of 2002, and Alcon has applied to list its common shares on the New York Stock Exchange under the ticker symbol "ACL". It is estimated that the initial public offering price will be between USD 31.00 and USD 35.00 per common share.

Alcon intends to use the net proceeds from this offering (other than proceeds of the over-allotment option) to redeem shares of non-voting preferred stock of Alcon owned by Nestlé S.A. and to use the net proceeds from an exercise of the over-allotment option, if any, to repay short-term indebtedness.

FIS

On 18th January 2002, Nestlé announced that it had reached an agreement with Givaudan S.A. on the sale of Food Ingredients Specialities S.A. (FIS). Nestlé will take an equity interest in Givaudan S.A. The transaction, valued at CHF 750 million, and subject to the usual regulatory approvals, will be paid in Givaudan shares and cash.

Other subsequent events

At 27th February 2002, date of the approval of the consolidated accounts by the Board of Directors, the Group had no subsequent adjusting events that warrant a modification of the values of assets and liabilities.

36. Transactions with related parties

The Group has not entered into any material transaction with related parties. Furthermore, throughout 2001, no director had a personal interest in any transaction of significance for the business of the Group.

37. Nestlé Group Companies

The list of companies appears in the section "Companies of the Nestlé Group".

Principal exchange rates

CHF per		2001	2000	2001	2000
		Year end rates		Average annual rates	
1 US Dollar	USD	**1.68**	1.64	**1.68**	1.69
1 Euro	EUR	**1.48**	1.52	**1.51**	1.56
1 Pound Sterling	GBP	**2.43**	2.44	**2.43**	2.56
100 Brazilian Reais	BRL	**71.90**	83.90	**72.21**	92.40
100 Japanese Yen	JPY	**1.28**	1.43	**1.39**	1.57
100 Mexican Pesos	MXN	**18.30**	17.10	**18.09**	17.90
1 Canadian Dollar	CAD	**1.05**	1.09	**1.09**	1.14
1 Australian Dollar	AUD	**0.86**	0.91	**0.87**	0.98
100 Philippine Pesos	PHP	**3.24**	3.27	**3.30**	3.82

Report of the Group auditors

to the General Meeting of Nestlé S.A.

As Group auditors we have audited the Consolidated accounts (balance sheet, income statement, cash flow statement, statement of changes in equity and annex) of the Nestlé Group for the year ended 31st December 2001.

These Consolidated accounts are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these Consolidated accounts based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, and with International Standards on Auditing issued by the International Federation of Accountants (IFAC), which require that an audit be planned and performed to obtain reasonable assurance about whether the Consolidated accounts are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the Consolidated accounts. We have also assessed the accounting principles used, significant estimates made and the overall Consolidated accounts presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Consolidated accounts give a true and fair view of the financial position, the net profit and cash flows and comply in all respects with International Accounting Standards (IAS) and Swiss law.

We recommend that the Consolidated accounts submitted to you be approved.

KPMG Klynveld Peat Marwick Goerdeler SA

S.R. Cormack
Chartered accountant

B.A. Mathers
Chartered accountant

Auditors in charge
London and Zurich, 27th February 2002

Financial information – ten year review

In millions of CHF (except for per share data)	2001	2000[e]	1999[f]
Results			
Consolidated sales	84 698	81 422	74 660
Trading profit	9 218	9 186	7 914
as % of sales	10.9%	11.3%	10.6%
Taxes	2 429	2 761	2 314
Consolidated net profit	6 681	5 763	4 724
as % of sales	7.9%	7.1%	6.3%
as % of average equity	21.0%	21.2%	20.0%
Total amount of dividend	2 530 [a]	2 127	1 657
Depreciation of property, plant and equipment	2 581	2 737	2 597
as % of sales	3.0%	3.4%	3.5%
Amortisation of goodwill	494	414	384
Balance sheet			
Current assets	39 045	30 747	27 169
of which liquid assets	*16 042*	*10 131*	*6 670*
Non-current assets	54 741	34 777	31 770
Total assets	93 786	65 524	58 939
Current liabilities	41 492	23 174	22 182
Non-current liabilities and minority interests	18 641	12 446	12 304
Equity	33 653	29 904	24 453
Capital expenditure	3 611	3 305	2 806
as % of sales	4.3%	4.1%	3.8%
Data per share			
Weighted average number of shares outstanding	387 369 846	386 527 830	386 772 130
Consolidated net profit [b]	17.25	14.91	12.21
Equity [b]	86.88	77.40	63.20
Dividend [b]	6.40[d]	5.50	4.30
Pay-out ratio	37.1%[d]	36.9%	35.2%
Stock exchange prices (high/low) [b]	386.5/289.0	389.3/254.0	310.7/250.8
Yield [c]	1.7/2.2[d]	1.4/2.2	1.4/1.7
Number of personnel	229 765[j]	224 541	230 929

[a] As proposed by the Board of Directors of Nestlé S.A. This amount includes dividends payable in respect of shares with right to dividend at the balance sheet date (CHF 2481 million) as well as those potentially payable on the shares covering options and shares held for trading purposes (CHF 49 million).

[b] Figures prior to 2001 adjusted in order to make comparable the data per share, following the ten-for-one 2001 split. Figures prior to 1993 also adjusted in order to make comparable the data per share, following a rights issue in June 1993.

[c] Calculated on the basis of the dividend for the year concerned but which is paid out in the following year.

[d] As proposed by the Board of Directors of Nestlé S.A..

[e] Figures prior to 2001 have not been restated following the first application of IAS 39 “Financial Instruments”.

1998	1997[g]	1996[h]	1995	1994[i]	1993	1992
71 747	69 998	60 490	56 484	56 894	57 486	54 500
7 081	7 057	6 053	5 658	5 628	5 591	5 384
9.9%	10.1%	10.0%	10.0%	9.9%	9.7%	9.9%
2 000	1 842	1 552	1 561	1 647	1 669	1 745
4 205	4 182	3 592	3 078	3 250	2 887	2 698
5.9%	6.0%	5.9%	5.4%	5.7%	5.0%	5.0%
19.5%	21.9%	22.9%	23.3%	19.9%	19.5%	18.4%
1 469	1 376	1 180	1 043	1 040	972	870
2 609	2 677	2 305	2 103	2 321	2 283	2 038
3.6%	3.8%	3.8%	3.7%	4.1%	4.0%	3.7%
301	140	102	42	–	–	–
26 467	25 671	23 070	20 927	21 420	20 982	20 670
7 963	*8 102*	*5 860*	*5 124*	*5 132*	*5 084*	*4 688*
30 236	25 910	23 605	19 189	23 807	24 178	23 803
56 703	51 581	46 675	40 116	45 227	45 160	44 473
22 567	20 985	19 859	17 410	17 297	18 166	20 019
11 321	9 990	9 239	8 862	10 986	11 334	10 524
22 815	20 606	17 577	13 844	16 944	15 660	13 930
3 061	3 261	3 054	3 056	3 029	3 093	3 191
4.3%	4.7%	5.0%	5.4%	5.3%	5.4%	5.9%
392 936 650	393 311 260	393 636 370	392 207 560	388 383 760	377 598 260	369 383 740
10.70	10.63	9.13	7.85	8.37	7.65	7.22
58.10	52.40	55.70	45.90	43.60	41.50	37.30
3.80	3.50	3.00	2.65	2.65	2.50	2.32
35.5%	32.9%	32.9%	33.8%	31.7%	32.7%	32.2%
349.8/212.2	219.2/142.1	148.7/125.0	129.8/109.0	143.7/106.3	129.4/101.5	116.2/85.7
1.1/1.8	1.6/2.5	2.0/2.4	2.0/2.4	1.8/2.5	1.9/2.5	2.0/2.7
231 881	225 808	221 144	220 172	212 687	209 755	218 005

[f] Figures prior to 2000 have not been restated following the first application of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".
[g] Figures prior to 1998 have not been restated following the first application of IAS 19 (revised 1998) "Employee Benefits".
[h] Figures prior to 1997 have not been restated following the first application of IAS 12 (revised 1996) "Income tax".
[i] Figures prior to 1995 have not been restated to reflect the change from net replacement values of property, plant and equipment to historical cost accounting.
[j] 2001 excludes Ralston Purina.

Companies of the Nestlé Group

Operating companies
Principal affiliated companies which operate in the food and water sectors, with the exception of those marked with an asterisk (*) which are engaged in the pharmaceutical sector.

Countries within the continents are listed according to the alphabetical order of the French names.

1. Affiliated companies for which full consolidation treatment is applied (see “Scope of consolidation”).

Europe
Germany Nestlé Deutschland AG *Frankfurt* 97.34% • Blaue Quellen Mineral- und Heilbrunnen AG *Rhens am Rhein* 96.8% • Trinks GmbH *Goslar* 96.8% • San Pellegrino Deutschland GmbH *Mainz* 100% • Nespresso Deutschland GmbH *Düsseldorf* 100% • Powerbar Europe GmbH *München* 100% • Alcon Pharma GmbH* *Freiburg/Breisgau* 100% • **Austria** Nestlé Österreich GmbH *Wien* 100% • **Belgium** Nestlé Belgilux S.A. *Bruxelles* 100% • Perrier Vittel Belgilux S.A. *Etalle* 100% • Nespresso Belgilux N.V. *Bruxelles* 100% • Alcon-Couvreur S.A.* *Puurs* 100% • S.A. Friskies Belgilux N.V. *Bruxelles* 100% • **Bulgaria** Nestlé Sofia A.D. *Sofia* 99.86% • **Denmark** Nestlé Danmark A/S *Copenhagen* 100% • Friskies Danmark A/S *Copenhagen* 100% • **Spain** Nestlé España S.A. *Barcelona* 100% • Productos del Café S.A. *Reus* 100% • Davigel España S.A. *Palma de Mallorca* 100% • La Cocinera Alimentación S.A. *Barcelona* 100% • Aquarel Iberica S.A. *Barcelona* 100% • EYCAM Perrier S.A. *Barcelona* 100% • Alcon-Cusi S.A.* *Barcelona* 100% • Helados Miko S.A. *Vitoria* 100% • Compañía Avidesa S.A. *Alzira* 100% • Friskies España S.A. *Barcelona* 100% • **Finland** Suomen Nestlé Oy *Helsinki* 100% • Friskies Finland Oy *Helsinki* 100% • **France** Nestlé France S.A. *Noisiel* 100% • Nestlé Grand Froid S.A. *Noisiel* 100% • Nestlé Clinical Nutrition S.A. *Noisiel* 100% • Nestlé Produits Laitiers Frais *Noisiel* 99.9% • Herta S.A. *Noisiel* 100% • Davigel S.A. *Martin-Eglise* 100% • Food Ingredients Specialities France S.A. *Noisiel* 100% • Perrier Vittel France *Paris* 100% • S.A. des Eaux Minérales de Ribeauvillé *Ribeauvillé* 99.5% • Aquarel France *Issy-les-Moulineaux* 100% • Eau Minérale Naturelle de Plancoët “Source Sassay” S.A. *Plancoët* 100% • Nespresso France S.A. *Paris* 100% • Laboratoires Alcon S.A.* *Rueil-Malmaison* 100% • Friskies France *Rueil-Malmaison* 100% • **Greece** Nestlé Hellas S.A. *Maroussi* 100% • Alcon Laboratories Hellas Commercial and Industrial S.A.* *Maroussi* 100% • **Italy** Nestlé Italiana S.p.A. *Milano* 100% • San Pellegrino S.p.A. *Milano* 100% • Alcon Italia S.p.A.* *Milano* 100% • Friskies Italia S.p.A. *Castiglione delle Stiviere* 100% • **Hungary** Nestlé Hungaria Kft *Budapest* 100% • Kekkuti Asvanyviz Rt. *Kekkut* 87% • **Lithuania** UAB Nestlé Baltics *Vilnius* 100% • **Norway** A/S Nestlé Norge *Sandvika* 100% • Alcon Norge A.S.* *Splependen* 100% • **Netherlands** Nestlé Nederland B.V. *Amsterdam* 100% • Alcon Nederland B.V.* *Gorinchem* 100% • Friskies Netherlands B.V. *Amsterdam* 100% • Nespresso Nederland B.V. *Amsterdam* 100% • **Poland** Nestlé Polska S.A. *Warsaw* 99.2% • Naleczowianka Spolka z.o.o. *Naleczov* 33.3% • ESI Distribution N.V. *Warsaw* 50% • **Portugal** Nestlé Portugal S.A. *Linda-a-Velha* 100% • Longa Vida S.A. *Matosinhos* 100% • Sociedade das Aguas de Pisoes Moura S.A. *Lisboa* 100% • Alcon Portugal Produtos e Equipamentos Oftalmologicos, Ltda.* *Paço d’Arco* 100% • **Republic of Ireland** Nestlé (Ireland) Ltd *Tallaght-Dublin* 100% • Friskies Petcare (Ireland) Ltd *Dublin* 100% • **Czech Republic** Nestlé Cesko s.r.o. *Prague* 100% • **Romania** Nestlé Romania SRL *Bucarest* 100% • **United Kingdom** Nestlé UK Ltd *Croydon* 100% • Perrier Vittel UK Ltd *Rickmansworth* 100% • Buxton Mineral Water Company Ltd *Rickmansworth* 100% • Alcon Laboratories (UK) Ltd* *Herts* 100% • Friskies Petcare (UK) Ltd New *Malden* 100% • **Russia** JSC Confectionery Union Rossiya *Samara* 99.7% • Nestlé Zhukovsky Ice Cream LLC *Zhukovsky* 87.5% • Nestlé Food LLC *Moscow* 100% • OJSC Confectionery Firm Altai *Barnaul* 94.3% • OJSC Kamskaya *Perm* 86.5% • JSC Khladoproduct *Timashevsk* 93.2% • **Slovakia** Nestlé Slovensko s.r.o. *Prievidza* 100% • **Sweden** Nestlé Sverige AB *Helsingborg* 100% • Zoegas Kaffe AB *Helsingborg* 100% • Jede AB *Mariestad* 100% • Alcon Sverige AB* *Bromma* 100% • Friskies Sverige AB *Malmö* 100% • **Switzerland** Société des Produits Nestlé S.A. *Vevey* 100% • Nestlé Suisse S.A. *Vevey* 100% • Perrier Vittel Suisse S.A. *Gland* 100% • Alcon Pharmaceuticals Ltd* *Hünenberg* 100% • Nestlé World Trade Corporation *La Tour-de-Peilz* 100% • Food Ingredients Specialities S.A. *Villars-sur-Glâne* 100% • Nestlé Nespresso S.A. *Paudex* 100% • Nestlé International Travel Retail S.A. *Châtel-St-Denis* 100% • **Turkey** Nestlé Gida Sanayi A.S. *Istanbul* 100% • Alcon Laboratuvarlari Tic. A.S.* *Istanbul* 100% • Sansu

Gida Ve Mesrubat Sanayi Ticaret A.S. *Gaziantep* 50% • **Ukraine** JSC Lviv Confectionery Firm Svitoch *Lviv* 93%.

Africa

South Africa Nestlé (South Africa) (Pty) Ltd *Randburg-Johannesburg* 100% • Friskies Petcare (Pty) Ltd *Pretoria* 100% • Valvita (Pty) Ltd *Randburg* 100% • Dairymaid-Nestlé (Pty) Ltd *Johannesburg* 100% • Alcon Laboratories (South Africa) Pty Ltd* *Randburg* 100% • **Cameroon** Nestlé Cameroun *Douala* 99.8% • **Côte d'Ivoire** Nestlé Côte d'Ivoire *Abidjan* 85.8% • **Egypt** Nestlé Egypt S.A.E. *Cairo* 100% • Dolce S.A.E. *Cairo* 100% • Société des eaux minérales Vittor S.A.E. *Cairo* 98.6% • **Gabon** Nestlé Gabon *Libreville* 90% • **Ghana** Nestlé Ghana Ltd *Tema-Accra* 51% • **Guinea** Nestlé Guinée *Conakry* 99% • **Kenya** Nestlé Foods Kenya Ltd *Nairobi* 100% • **Mauritius** Nestlé's Products (Mauritius) Ltd *Port Louis* 100% • **Morocco** Nestlé Maroc S.A. *El Jadida* 94.5% • **Nigeria** Nestlé Nigeria PLC *Ilupeju-Lagos* 61.6% • **Senegal** Nestlé Sénégal *Dakar* 100% • **Tunisia** Nestlé Tunisie *Tunis* 59.2% • **Zimbabwe** Nestlé Zimbabwe (Pvt) Ltd *Harare* 100%.

Americas

Argentina Nestlé Argentina S.A. *Buenos Aires* 100% • Eco de Los Andes S.A. *Buenos Aires* 50.9% • Alcon Laboratorios Argentina S.A.* *Buenos Aires* 100% • **Bolivia** Nestlé Bolivia S.r.l. *La Paz* 100% • **Brazil** Nestlé Brasil Ltda. *São Paulo* 100% • Industrias Alimenticias Itacolomy S/A *Montes Claros* 100% • Companhia Produtora de Alimentos *Itabuna* 100% • Perrier Vittel do Brasil Ltda. *Rio de Janeiro* 100% • Alcon Laboratorios do Brasil Ltda.* *São Paulo* 100% • **Canada** Nestlé Canada, Inc. *North York-Toronto (Ontario)* 100% • Midwest Food Products, Inc. *Toronto (Ontario)* 50% • Alcon Canada, Inc.* *Mississauga (Ontario)* 100% • **Chile** Nestlé Chile S.A. *Santiago de Chile* 99.5% • Alcon Laboratorios Chile Limitada* *Santiago* 100% • **Colombia** Nestlé de Colombia S.A. *Bogotá* 100% • Cicolac Ltda. *Bogotá* 100% • Laboratorios Alcon de Colombia S.A.* *Santafé de Bogotá* 100% • **Costa Rica** Nestlé Costa Rica S.A. *San José* 100% • **Cuba** Los Portales S.A. *Guane* 50% • **El Salvador** Nestlé El Salvador S.A. *San Salvador* 100% • **Ecuador** Nestlé Ecuador S.A. *Quito* 85% • Neslandina S.A. *Quito* 74.7% • **United States** Nestlé USA, Inc. *Los Angeles (California)* 100% • Nestlé USA – Prepared Foods Division, Inc. *Solon (Ohio)* 100% • Nestlé USA – Beverage Division, Inc. *Los Angeles (California)* 100% • Nestlé Purina PetCare Company *St. Louis (Missouri)* 100% • FIS – North America, Inc. *Wilmington (Delaware)* 100% • The Perrier Group of America, Inc. *Greenwich (Connecticut)* 100% • Great Spring Waters of America, Inc. *Wilmington (Delaware)* 100% • PowerBar, Inc. *New Jersey* 100% • Ice Cream Partners USA, LLC *Wilmington (Delaware)* 100% • Nestlé Puerto Rico, Inc. *San Juan (Puerto Rico)* 100% • Alcon Laboratories, Inc.* *Fort Worth (Texas)* 100% • Alcon (Puerto Rico), Inc.* *San Juan (Puerto Rico)* 100% • **Guatemala** Nestlé Guatemala S.A. *Guatemala* 100% • **Honduras** Nestlé Hondureña S.A. *Tegucigalpa* 100% • **Jamaica** Nestlé-JMP Jamaica Ltd *Kingston* 100% • Cremo Ltd *Kingston* 100% • **Mexico** Nestlé México S.A. de C.V. *México* 100% • Manantiales La Asunción, S.A. de C.V. *México* 100% • Alcon Laboratorios S.A. de C.V.* *México* 100% • **Nicaragua** Productos Nestlé (Nicaragua) S.A. *Managua* 100% • **Panama** Nestlé Panamá S.A. *Panamá City* 100% • Nestlé Caribbean, Inc. *Panamá City* 100% • **Paraguay** Nestlé Paraguay S.A. *Asunción* 100% • **Peru** Nestlé Perú S.A. *Lima* 93.1% • **Dominican Republic** Nestlé Dominicana S.A. *Santo Domingo* 97% • **Trinidad and Tobago** Nestlé Trinidad and Tobago Ltd *Port of Spain* 100% • **Uruguay** Nestlé del Uruguay S.A. *Montevideo* 100% • **Venezuela** Nestlé Venezuela S.A. *Caracas* 100% • Alcon Venezuela S.R.L.* *Caracas* 100%.

Asia

Saudi Arabia Saudi Food Industries Co. Ltd *Jeddah* 51% • Al Manhal Water Factory Co. Ltd *Riyadh* 51% • Société pour l'exportation des produits Nestlé *Jeddah* 100% • **Bangladesh** Nestlé Bangladesh Ltd *Dhaka* 100% • **Cambodia** Nestlé Dairy (Cambodia) Ltd *Phnom Penh* 80% • **United Arab Emirates** Nestlé Middle East FZE *Dubai* 100% • Société pour l'exportation des produits Nestlé *Dubai* 100% • **India** Nestlé India Ltd *New Delhi* 54% • **Indonesia** P.T. Nestlé Indonesia *Jakarta* 90.2% • **Israel** OSEM Investments Ltd *Petach-Tikva* 50.1% • **Japan** Nestlé Japan Ltd *Kobe* 100% • Nestlé Japan Holding Ltd *Ibaragi* 100% • Nestlé International Foods K.K. *Kobe* 100% • Nestlé Confectionery K.K. *Kobe* 100% • Friskies K.K. *Kobe* 100% • FIS Japan K.K. *Tokyo* 100% • Nestlé Beverage K.K. *Kobe* 100% • Nestlé Snow K.K. *Tokyo* 50% • Nestlé Japan Administration Ltd *Kobe* 100% • Alcon Japan Ltd* *Tokyo* 100% • **Jordan** Nestlé Jordan Trading Co. Ltd

Amman 49% • **Kuwait** Nestlé Kuwait General Trading Co. W.L.L. *Kuwait* 49% • **Lebanon** Société pour l'Exportation des Produits Nestlé S.A. *Beyrouth* 100% • Société des Eaux Minérales Libanaises S.A.L. *Hazmieh* 100% • SOHAT Distribution S.A.L. *Hazmieh* 49% • **Malaysia** Nestlé (Malaysia) Bhd. *Petaling Jaya* 60.7% • Nestlé Foods (Malaysia) Sdn. Bhd. *Petaling Jaya* 60.7% • Nestlé Products Sdn. Bhd. *Petaling Jaya* 60.7% • Nestlé Asean (Malaysia) Sdn. Bhd. *Petaling Jaya* 57.7% • Nestlé Cold Storage (Malaysia) Sdn. Bhd. *Petaling Jaya* 60.7% • **Pakistan** Nestlé Milkpak Ltd *Lahore* 59.1% • **Philippines** Nestlé Philippines, Inc. *Cabuyao* 100% • Goya, Inc. *Manila* 99.8% • Hidden Springs & Perrier, Inc. *Makati City* 100% • Alcon Laboratories (Philippines) Inc.* *Manila* 100% • **Republic of Korea** Nestlé Korea Ltd *Cheongju* 100% • Alcon Korea Ltd* *Seoul* 100% • FIS Korea Ltd *Seoul* 100% • **People's Republic of China** Nestlé Shuangcheng Ltd *Shuangcheng* 97% • Nestlé Dongguan Ltd *Dongguan* 100% • International Food Corporation Ltd *Guangzhou* 100% • Nestlé Tianjin Ltd *Tianjin* 100% • Nestlé Qingdao Ltd *Qingdao* 100% • Nestlé Shanghai Ltd *Shanghai* 95% • Nestlé Dairy Farm Tianjin Ltd *Tianjin* 100% • Nestlé Dairy Farm Qingdao Ltd *Qingdao* 100% • Nestlé Dairy Farm Guangzhou Ltd *Guangzhou* 95% • Guangzhou Refrigerated Foods Ltd *Guangzhou* 90% • Shanghai Fuller Foods Co. Ltd *Shanghai* 100% • Shanghai Nestlé Product Services Ltd *Shanghai* 97% • Shanghai Totole Flavouring Food Co. Ltd *Shanghai* 80% • Shanghai Jiale Flavouring Food Sales Co. Ltd *Shanghai* 80% • Nestlé Source Shanghai Ltd *Shanghai* 100% • Nestlé Hong Kong Ltd *Hong Kong* 100% • Nestlé Distributors Ltd *Hong Kong* 100% • Alcon (China) Ophthalmic Product Co., Ltd* *Beijing* 100% • Alcon Hong Kong Ltd* *Hong Kong* 100% • **Singapore** Nestlé Singapore (Pte) Ltd *Singapore* 100% • FIS Asia Pacific Services (Pte) Ltd *Singapore* 100% • Alcon Pte. Ltd* *Singapore* 100% • **Sri Lanka** Nestlé Lanka Ltd *Colombo* 90.2% • **Syria** Nestlé Syria S.A. *Damas* 100% • Société pour l'exportation des produits Nestlé S.A. *Damas* 100% • **Taiwan** Nestlé Taiwan Ltd *Taipei* 100% • Alcon Pharmaceuticals Ltd* *Taipei* 100% • **Thailand** Nestlé Products (Thailand), Inc. *Bangkok (Branch)* 100% • Quality Coffee Products Ltd *Bangkok* 49% • Nestlé Foods (Thailand) Ltd *Bangkok* 100% • Nestlé Trading (Thailand) Ltd *Bangkok* 49% • Nestlé Manufacturing (Thailand) Ltd *Bangkok* 100% • Nestlé (Thai) Ltd *Bangkok* 100% • Nestlé Dairy (Thailand) Ltd *Bangkok* 100% • Perrier Vittel (Thailand) Ltd *Bangkok* 100% • Alcon Laboratories (Thailand) Ltd* *Bangkok* 100% • **Vietnam** Nestlé Vietnam Ltd *Bien Hoa* 100% • La Vie Joint Venture Company *Long An* 65%.

Oceania

Australia Nestlé Australia Ltd *Sydney* 100% • Petersville Australia Ltd *Melbourne* 100% • Nestlé Echuca Pty Ltd *Melbourne* 100% • FIS Australia Pty Ltd *Sydney* 100% • Alcon Laboratories (Australia) Pty Ltd* *Frenchs Forest (NSW)* 100% • **Fiji** Nestlé (Fiji) Ltd *Ba* 74% • **New Caledonia** Nestlé Nouvelle-Calédonie S.A. *Nouméa* 100% • **New Zealand** Nestlé New Zealand Ltd *Auckland* 100% • **Papua-New Guinea** Nestlé (PNG) Ltd *Lae* 100% • **French Polynesia** Nestlé Polynesia S.A. *Papeete* 100%.

2. Affiliated companies for which the method of proportionate consolidation is used (see "Scope of consolidation").

Europe

Germany C.P.D. Cereal Partners Deutschland GmbH & Co. OHG *Frankfurt* 50% • Galderma Laboratorium GmbH* *Freiburg/Breisgau* 50% • **Spain** Cereal Partners España AEIE *Esplugas de Llobregat* 50% • Laboratorios Galderma S.A.* *Madrid* 50% • **France** Cereal Partners France SNC *Noisiel* 50% • Laboratoires Galderma S.A.* *La Défense* 50% • **Italy** Galderma Italia S.p.A.* *Milano* 50% • **Poland** Torun-Pacific Cereal Partners Poland Sp. z.o.o. *Torun* 50% • **Portugal** Cereal Associados Portugal AEIE *Oeiras* 50% • **Sweden** Galderma Nordic AB* *Bromma* 50% • **United Kingdom** Cereal Partners UK *Welwyn Garden City* 50% • Galderma (U.K.) Ltd* *Amersham* 50% • **Switzerland** CCNR Europe S.A. *Brüttisellen* 50%.

Americas

Argentina Galderma Argentina S.A.* *Buenos Aires* 50% • **Brazil** Galderma Brasil Ltda* *São Paulo* 50% • **Canada** Galderma Canada Inc.* *Markham* 50% • **Chile** Cereales CPW Chile Ltda *Santiago de Chile* 50% • **United States** Coca-Cola Nestlé Refreshments Company, USA *Atlanta (Georgia)* 50% • Galderma Laboratories, Inc.* *Fort Worth (Texas)* 50% • **Mexico** CPW México S. de R.L. de C.V. *México* 50% • Galderma México S.A. de C.V.* *México* 50%.

Asia
People's Republic of China Coca-Cola Nestlé Refreshments Pacific *Hong Kong* 50% • **Republic of Korea** Coca-Cola Nestlé Refreshments Korea *Seoul* 50% • **Thailand** Coca-Cola Nestlé Beverages Thailand Ltd *Bangkok* 33.7% .

Principal associated companies which operate in the food and water sectors, with the exception of those marked with an asterisk (*) which are engaged in the cosmetics and dermatology sectors.
For which the equity method is used – see "Scope of consolidation".

Europe
Germany Alois Dallmayr Kaffee OHG *München* 50% • **France** L'Oréal S.A.* *Paris* 26.3% • Houdebine S.A. *Noyal-Pontivy* 50% • S.B.E.C.M. Société de Bouchages Emballages Conditionnement Moderne S.à.r.l. *Lavardac* 50%.

Americas
United States Floridian Groves, Inc. *Tampa (Florida)* 40% • Dreyer's Grand Ice Cream, Inc. *Wilmington (Delaware)* 24%.

Asia
Malaysia Premier Milk (Malaysia) Sdn. Bhd. *Kuala Lumpur* 25%.

Sub-holding, financial and property companies
Germany Nestlé Unternehmungen Deutschland GmbH *Frankfurt* 100% • **Bahamas** Nestlé's Holdings Ltd *Nassau* 100% • Food Products (Holdings) Ltd *Nassau* 100% • **Belgium** Centre de Coordination Nestlé S.A. *Bruxelles* 100% • **United States** Nestlé Holdings, Inc. *Norwalk (Connecticut*) 100% • Nestlé Capital Corporation *Norwalk (Connecticut)* 100% • Alcon Holdings, Inc.* *Wilmington (Delaware)* 100% • **France** Nestlé Entreprises S.A. *Noisiel* 100% • Nestlé Finance-France S.A. *Noisiel* 100% • Perrier Vittel S.A. *Paris* 100% • Société Immobilière de Noisiel *Noisiel* 100% • **Panama** Unilac, Inc. *Panamá City* 100% • **Portugal** Nestlé Portugal SGPS, Lda. *Linda-a-Velha* 100% • **United Kingdom** Nestlé Holdings (U.K.) PLC *Croydon* 100% • Friskies Holding (UK) Ltd *Croydon* 100% • **Switzerland** Entreprises Maggi S.A. *Kemptthal* 100% • Nestlé Finance S.A. *Cham* 100% • Rive-Reine S.A. *La Tour-de-Peilz* 100% • S.I. En Bergère Vevey S.A. *Vevey* 100% • Alcon Inc.* *Hünenberg* 100% • Galderma Pharma S.A.* *Lausanne* 50%.

Technical assistance, research and development companies
Nestec Ltd., Vevey (Switzerland)
Technical, scientific, commercial and business assistance company whose units, specialised in all areas of the business, supply permanent know-how and assistance to operating companies in the Group within the framework of licence and equivalent contracts. It is also responsible for all scientific research and technological development, which it undertakes itself or has done on its behalf by its subsidiary companies. The companies and units involved are:

Research centres
France Nestlé Research Centre Plant Science *Tours* • **Switzerland** Nestlé Research Center *Lausanne*.

Product Technology Centres and Research & Development centres
Germany Nestlé R&D Center Lebensmittelforschung GmbH *Weiding* • **Côte d'Ivoire** Centre R&D Nestlé *Abidjan* • **People's Republic of China** Nestlé R&D Center Shanghai Ltd *Shanghai* • **United States** Nestlé Product Technology Center *New Milford (Connecticut)* • Nestlé R&D Center, Inc. *Marysville (Ohio)* • Nestlé R&D Center, Inc. *Solon (Ohio)* • Friskies Product Technology Center *St. Joseph (Missouri)* • Alcon Research Ltd* *Forth Worth (Texas)* • Galderma R&D Inc.* *City of Dover (New Jersey)* • **France** Nestlé Product Technology Centre *Beauvais* • Nestlé Product Technology Centre *Lisieux* • Centre R&D Friskies *Amiens* • Galderma R&D S.n.c.* *Sophia Antipolis* • **United Kingdom** Nestlé Product Technology Centre *York* • **Singapore** Nestlé R&D Center (Pte) Ltd *Singapore* • **Switzerland** Nestlé Product Technology Centre *Kemptthal* • Nestlé Product Technology Centre *Konolfingen* • Nestlé Product Technology Centre *Orbe*.

135th Annual report of Nestlé S.A.

Income statement for the year 2001

In millions of CHF	Notes	2001	2000
Income			
Income from Group companies	1	**3 815**	4 761
Interest income	2	**765**	550
Profit on disposal of fixed assets	3	**837**	1 460
Other income		**21**	22
Total income		**5 438**	6 793
Expenses			
Investment write downs	4	**791**	887
Administration and other expenses	5	**157**	135
Interest expense	6	**44**	26
Total expenses before taxes		**992**	1 048
Profit before taxes		**4 446**	5 745
Taxes	7	**298**	380
Profit for the year	19	**4 148**	5 365

Balance sheet as at 31st December 2001

before appropriations

In millions of CHF	Notes	2001	2000
Assets			
Current assets			
Liquid assets	8	**5 519**	2 523
Receivables	9	**489**	405
Prepayments and accrued income		**45**	66
Total current assets		**6 053**	2 994
Fixed assets			
Financial assets	10	**18 520**	19 258
Intangible assets	13	**—**	—
Tangible fixed assets	14	**—**	—
Total fixed assets		**18 520**	19 258
Total assets		**24 573**	22 252
Liabilities and equity			
Liabilities			
Short term payables	15	**654**	213
Accruals and deferred income		**177**	233
Long term payables	16	**255**	256
Provisions	17	**789**	873
Total liabilities		**1 875**	1 575
Equity			
Share capital	18/19	**404**	404
Legal reserves	19	**6 392**	6 392
Special reserve	19	**11 752**	8 512
Retained earnings	19	**4 150**	5 369
Total equity		**22 698**	20 677
Total liabilities and equity		**24 573**	22 252

Annex to the annual accounts of Nestlé S.A.

Accounting policies

General

Nestlé S.A. (the Company) is the ultimate holding company of the Nestlé Group which comprises subsidiaries, associated companies and joint ventures throughout the world. The accounts are prepared in accordance with accounting principles required by Swiss law. They are also prepared under the historical cost convention and on the accruals basis. As from 1st January 2001, all loans advanced to Group companies are considered as long term investments and are presented in Financial assets. The comparative figures for 2000 have been restated.

Foreign currency translation

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward contract. Assets and liabilities in foreign currencies are translated at year end rates. Any resulting exchange differences are included in the respective income statement captions depending upon the nature of the underlying transactions. The aggregate unrealised exchange difference is calculated by reference to original transaction date exchange rates and includes hedging transactions. Where this gives rise to a net loss, it is charged to the income statement whilst a net gain is deferred.

Hedging

The Company uses forward foreign exchange contracts, options, financial futures and currency swaps to hedge foreign currency flows and positions. Unrealised foreign exchange differences on hedging instruments are matched and accounted for with those on the underlying asset or liability. Long term loans, in foreign currencies, used to finance investments in participations are generally not hedged.

The Company also uses interest rate swaps to manage interest rate risk. The swaps are accounted for at fair value at each balance sheet date and changes in the market value are recorded in the income statement.

Income statement

Income due at the balance sheet date, but not currently transferable is recognised only upon receipt. Dividends paid out of pre-acquisition profits are not included under income from Group companies; instead they are credited against the carrying value of the participation.

In accordance with Swiss law and the Company's articles of association, dividends are treated as an appropriation of profit in the year in which they are ratified at the Annual General Meeting and subsequently paid, rather than as an appropriation of profit in the year to which they relate.

Taxes

This caption includes taxes on profit, capital and withholding taxes on transfers from Group companies.

Financial assets

The carrying value of participations and loans comprises the cost of investment, excluding the incidental costs of acquisition, less any write downs.

Participations located in countries where the political, economic or monetary situation might be considered to carry a greater than normal level of risk are carried at a nominal value of one franc.

Participations and loans are written down on a conservative basis, taking into account the profitability of the company concerned.

Marketable securities are valued at the lower of cost and market value.

Own shares held to cover option rights in favour of members of the Group's Management are carried at exercise price if lower than cost. Own shares held for trading purposes are carried at cost as are own shares earmarked to cover warrants attached to a bond issue of an affiliated company.

Intangible assets

Trademarks and other industrial property rights are written off on acquisition or exceptionally over a longer period. In the consolidated accounts of the Group this item has a different treatment.

Tangible fixed assets

The Company owns land and buildings which have been depreciated in the past to one franc. Office furniture and equipment is fully depreciated on acquisition.

Provisions

Provisions recognise contingencies which may arise and which have been prudently provided. A provision for uninsured risks is constituted to cover general risks not insured with third parties, such as consequential loss. Provision for Swiss taxes is made on the basis of the Company's taxable capital, reserves and profit for the year. A general provision is maintained to cover possible foreign taxes liabilities.

Employee benefits

Employees are eligible for retirement benefits under a defined benefit plan provided through separate funds.

Prepayments and accrued income

Prepayments and accrued income comprise payments made in advance relating to the following year, and income relating to the current year which will not be received until after the balance sheet date (such as interest receivable on loans or deposits). Revaluation gains on open forward exchange contracts at year end rates, as well as the result of the valuation of interest rate swaps, are also included in this caption.

Accruals and deferred income

Accruals and deferred income comprise expenses relating to the current year which will not be paid until after the balance sheet date and income received in advance, relating to the following year. Revaluation losses on open forward exchange contracts at year end rates, as well as the result of the valuation of interest rate swaps, are also included in this caption.

Notes to the annual accounts

1. Income from Group companies

This represents dividends of the current and prior years and other net income from Group companies.

2. Interest income

In millions of CHF	**2001**	2000
Net result on loans to Group companies	**634**	456
Other	**131**	94
	765	550

The improvement is mainly due to the favourable evolution of foreign exchange hedge instruments as compared with last year. Income received in 2001, both on the loans and on investments, has also increased.

3. Profit on disposal of fixed assets

This represents mainly the net gains realised on the sale of participations to Group companies as part of reorganisation programmes, as well as on the sale of trademarks and other industrial property rights previously written down.

4. Investment write downs

In millions of CHF	**2001**	2000
Participations and loans	**389**	664
Trademarks and other industrial property rights	**402**	223
	791	887

The write downs of participations and loans in 2001 derive from a conservative policy of valuation, based on the political, economic and monetary situation of the countries where the participations are located, as well as on the profitability of the companies concerned. The write downs of trademarks and other industrial property rights in 2001 refer mainly to trademarks acquired from Group companies.

5. Administration and other expenses

In millions of CHF	2001	2000
Salaries and welfare expenses	**53**	41
Other expenses	**104**	94
	157	135

6. Interest expense

In millions of CHF	2001	2000
Interest on long term debenture	**15**	17
Other interest	**29**	9
	44	26

7. Taxes

Includes withholding taxes on income from foreign sources, as well as Swiss taxes for which adequate provisions have been established.

8. Liquid assets

In millions of CHF	2001	2000
Cash and cash equivalents	**3 350**	1 331
Short term investments	**155**	—
Marketable securities	**2 014**	1 192
	5 519	2 523

9. Receivables

In millions of CHF	2001	2000
Amounts owed by Group companies		
Current accounts	**396**	374
Provision for amounts not currently transferable	**—**	—
	396	374
Other receivables (including withholding tax)	**93**	31
	489	405

The amount owed to the Company in respect of Swiss withholding tax was received after the year-end.

10. Financial assets

In millions of CHF	2001	2000
Participations in Group companies (see note 11)	**10 848**	10 900
Loans to Group companies (see note 12)	**6 343**	7 114
Own shares	**1 014**	1 029
Other investments	**315**	215
	18 520	19 258

Own shares of the Company are:

- held in order to allow the exercise of option rights by members of the Group's Management (852 660 options were outstanding at the close of 2001, of which 427 260 may be exercised in the year 2002);
- earmarked to cover warrants attached to a bond issue of an affiliated company (1 294 190 shares);
- acquired for trading purposes (1 306 988 shares).

Other investments include the subscription of CHF 100 million to the capital of Crossair AG, of which 30% have been paid-up in 2001. The balance of CHF 70 million is shown under Short term payables and will be paid by the end of March 2002.

11. Participations in Group companies

In millions of CHF	2001	2000
At 1st January	10 900	7 373
Increase	325	4 191
Write downs	(377)	(664)
At 31st December	10 848	10 900

The increase in participations represents in particular:
- additional funding, through capital increases, of a number of Group companies mainly in Turkey and People's Republic of China;
- the purchase, on the stock exchange or from third parties, of shares of some of our affiliated companies, to increase the participations already held, mainly in Indonesia, India, Thailand and Malaysia;
- the purchase from affiliated companies of certain existing participations.

The carrying value of participations continues to represent a conservative valuation having regard to both the income received by the Company and the net assets of the Group companies concerned.
A list of the most important companies held, either directly by Nestlé S.A. or indirectly through other Group companies, with the percentage of the capital controlled, is given in the section "Consolidated accounts of the Nestlé Group".
A Canadian affiliate has been granted options to purchase shares in certain Group companies situated outside Continental Europe.

12. Loans to Group companies

In millions of CHF	2001	2000
At 1st January	7 114	7 854
New loans	1 799	1 920
Repayments and write downs	(2 575)	(2 434)
Realised exchange differences	57	28
Unrealised exchange differences	(52)	(254)
At 31st December	6 343	7 114

As from 1st January 2001, all loans advanced to Group companies are considered as long term investments and are presented in Financial assets. The comparative figures for 2000 have been restated for the reclassification of items previously presented as short term loans to Group companies (CHF 2832 million).

13. Intangible assets
All intangible assets have been fully written off.

14. Tangible fixed assets
These are principally the land and buildings at Cham and at La Tour-de-Peilz. Nestlé Suisse S.A., the principal operating company in the Swiss market, is the tenant of the building at La Tour-de-Peilz. The "En Bergère" head office building in Vevey is held by a property company, which is wholly owned by Nestlé S.A.
The fire insurance value of buildings, furniture and office equipment amounted to CHF 22 million at 31st December 2001 and 2000.

15. Short term payables

In millions of CHF	**2001**	2000
Amounts owed to Group companies	**559**	183
Other payables	**95**	30
	654	213

16. Long term payables

In millions of CHF	**2001**	2000
Amounts owed to Group companies	**255**	256
Other payables	**—**	—
	255	256

Amounts owed to Group companies represent a long-term bond issued in 1989, whose carrying value decreased by CHF 1 million to CHF 255 million as a result of an unrealised exchange difference arising in 2001.

17. Provisions

In millions of CHF	**2001**	2000
Provision for uninsured risks	**475**	475
Provision for exchange risks	**53**	162
Provision for Swiss and foreign taxes	**229**	203
Other provisions	**32**	33
	789	873

In the consolidated accounts of the Group the provisions are recognised in accordance with International Accounting Standards (IAS).
The provision for exchange risks includes the unrealised net exchange gains on the revaluation of foreign exchange positions and any associated forward cover at the year-end.

18. Share capital

	2001	2000
On 11th June 2001, the registered shares were split in a ten-for-one relationship. As a result, the share capital of Nestlé S.A. is now structured as follows:		
Number of registered shares of nominal value CHF 1 each (CHF 10 in 2000)	**403 520 000**	40 352 000
In millions of CHF	**404**	404

According to article 6 of the Company's articles of association, no natural person or legal entity can be registered as a shareholder with voting rights for shares held directly or indirectly for more than 3% of the share capital. In addition, article 14 provides that, on exercising the voting rights, no shareholder, through shares owned or represented, may aggregate, directly or indirectly, more than 3% of the total share capital.
At 31st December 2001, the Share Register showed 176 631 registered shareholders. If unprocessed applications for registration and the indirect holders of shares under American depositary receipts are also taken into account, the total number of shareholders probably exceeds 250 000. The Company was not aware of any shareholder holding, directly or indirectly, 3% or more of the share capital.

Conditional increase in share capital

According to the articles of association, the share capital can be increased, by the exercise of conversion or option rights, by a maximum of CHF 10 000 000 through the issue of a maximum of 10 000 000 registered shares with a nominal value of CHF 1 each, fully paid-up. Thus the Board of Directors has at its disposal a flexible instrument enabling it, if necessary, to finance the activities of the Company through convertible or option loans.

19. Changes in equity

In millions of CHF

	Share capital	General reserve [(a)]	Reserve for own shares [(a)(b)]	Special reserve	Retained earnings	Total
At 1st January 2001	404	4 160	2 232	8 512	5 369	**20 677**
Appropriation of profit to special reserve				3 195	(3 195)	
Profit for the year					4 148	**4 148**
Dividend for 2000					(2 127)	**(2 127)**
Movement of own shares		(356)	356			
Dividend on own shares held on the payment date of 2000 dividend				37	(37)	
Dividend on own shares in respect of which the corresponding option rights were not exercised by the payment date of 2000 dividend				8	(8)	
At 31st December 2001	404	3 804	2 588	11 752	4 150	**22 698**

[(a)] The general reserve and the reserve for own shares constitute the legal reserves.

[(b)] See note 20

20. Reserve for own shares

At 31st December 2000, the reserve for own shares amounting to CHF 2 232 million, represented the cost of 7 852 620 freely available shares acquired by a Group company, as well as 939 310 shares reserved to cover option rights in favour of members of the Group's Management, 1 294 190 shares earmarked to cover warrants attached to a bond issue of an affiliated company and 4 904 150 shares held for trading purposes.

On 11th June 2001, the registered shares were split in a ten-for-one relationship. The number of own shares, up to this date, has been restated.

During the year, a total of 3 299 300 shares have been acquired at a cost of CHF 1133 million (of which 2 233 490 shares are to cover warrants attached to a new bond issue of an affiliated company) and 2 425 116 shares have been sold for a total amount of CHF 875 million (of which 79 930 shares related to options exercised during the year).

At 31st December 2001, the shareholding of a Group company was unchanged (7 852 620 shares at an acquisition cost of CHF 31.7 million). The Board of Directors has decided that these shares will be used to cover option rights in favour of the Group's Management from 2001 (1 338 806 options have been granted in 2001). As long as these shares are held by the Group company, they will be recorded in the Share Register as being without voting rights and will not rank for dividends. In addition, 3 631 494 shares were held for trading purposes, 852 660 shares were reserved to cover option rights granted in previous years and 3 527 680 shares were earmarked to cover warrants attached to bond issues of an affiliated company. As long as the options and warrants are not exercised, or the shares sold, these shares are also recorded in the Share Register as being without voting rights and do not rank for dividends.

The total of 15 864 454 own shares held at 31st December 2001 represents 3.9% of Nestlé S.A. share capital.

21. Contingencies

At 31st December 2001 and 2000, the total of the guarantees for credit facilities granted to Group companies, together with the buy-back agreements relating to notes issued, amounted to CHF 6 444 million and CHF 5 031 million, respectively.

Proposed appropriation of profit

In CHF	2001	2000
Retained earnings		
Balance brought forward	2 358 697	4 188 706
Profit for the year	4 148 374 076	5 365 160 086
	4 150 732 773	5 369 348 792
We propose the following appropriations:		
Allocation to the special reserve	1 620 000 000	3 195 000 000
Dividend for 2001, CHF 6.40 per share on 387 655 546 shares (2000: CHF 55.– on 38 852 973 shares)	2 480 995 494	2 136 913 515
Dividend for 2001, CHF 6.40 per share on 427 260 shares reserved for the option rights which may be exercised in the year 2002, on 3 527 680 shares to cover warrants attached to bond issues and on 3 631 494 shares held for trading purposes [a] (2000: CHF 55.– on 637 756 shares)	48 553 178	35 076 580[b]
	4 149 548 672	5 366 990 095
Balance to be carried forward	1 184 101	2 358 697

[a] The dividends on those shares for which the option rights will not have been exercised by the date of the dividend payment will be transferred to the special reserve. Dividends on shares held for trading purposes and to cover warrants issued, and which are still held at the date of the dividend payment will also be transferred to the special reserve.

[b] Of the total of CHF 35 076 580, CHF 31 680 were actually paid as dividends, whilst the balance of CHF 35 044 900 has been transferred to the special reserve.

If you accept this proposal, the gross dividend will amount to CHF 6.40 per share. After deduction of the federal withholding tax of 35%, a net amount of CHF 4.16 per share will be payable as from Wednesday, 17th April 2002, by bank transfer to the shareholder's account or by cheque, in accordance with instructions received from the shareholder.

Cham and Vevey, 27th February 2002
The Board of Directors

Report of the statutory auditors

to the General Meeting of Nestlé S.A.

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and annex) of Nestlé S.A. for the year ended 31st December 2001.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records, financial statements and the proposed appropriation of retained earnings comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

KPMG Klynveld Peat Marwick Goerdeler SA

S.R. Cormack
Chartered accountant

B.A. Mathers
Chartered accountant

Auditors in charge
London and Zurich, 27th February 2002

Agenda for the
135th Ordinary General Meeting of Nestlé S.A.

Thursday 11th April 2002
at 3.00 p.m. at the “Palais de Beaulieu”, Lausanne

1 Annual report, report of the auditors

1a 2001 annual report and accounts of Nestlé S.A.; report of the auditors

1b 2001 consolidated accounts of the Nestlé Group; report of the Nestlé Group auditors

2 Release of the Board of Directors and of the Management

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

4 Elections to the Board of Directors
Peter Brabeck-Letmathe (term of office for 5 years)
Vreni Spoerry (term of office for 2 years)
Prof. Vernon R. Young (term of office for 5 years)

5 Election of the auditors
(annual accounts of Nestlé S.A. and consolidated accounts of the Nestlé Group):
KPMG Klynveld Peat Marwick Goerdeler S.A., London and Zurich (term of office for 3 years)

Elections to the Board of Directors

At the General Meeting of 11th April 2002, the terms as directors of Mr. Peter Brabeck-Letmathe and Mrs. Vreni Spoerry will expire. Both directors are eligible for re-election for a new term of five years.
Mr. Peter Brabeck-Letmathe is standing for a new term of five years, whereas Mrs. Vreni Spoerry has expressed the wish to stand for a new term of only two years.
Furthermore, the Board of Directors is recommending that the General Meeting elect as new director, also for a five-year term, Prof. Vernon R. Young, of British and American nationalities, Professor of Nutritional Bio-chemistry at the Massachusetts Institute of Technology (MIT) in Boston/Cambridge, USA.

Next Ordinary General Meeting:
Thursday 3rd April 2003
at the “Palais de Beaulieu”, Lausanne

Important dates

11th April 2002	Announcement of first quarter 2002 sales figures
11th April 2002	135th Ordinary General Meeting, "Palais de Beaulieu", Lausanne
17th April 2002	Payment of the dividend
21st August 2002	Publication of the half-yearly report January/June 2002
24th October 2002	Announcement of first nine months 2002 sales figures; Autumn press conference (Vevey)
27th February 2003	Announcement of 2002 sales figures and results; Spring press conference (Vevey)
3rd April 2003	136th Ordinary General Meeting, "Palais de Beaulieu", Lausanne
16th April 2003	Announcement of first quarter 2003 sales figures

Shareholder information

Stock exchange listings

As of 31st December 2001, the registered shares of Nestlé S.A. were listed on the following stock exchanges: SWX Swiss Exchange, Frankfurt, London and Paris.
American Depositary Receipts (ADRs) representing Nestlé S.A. shares are offered in the USA by JPMorgan Chase Bank.

Registered Offices

Nestlé S.A., avenue Nestlé 55, CH-1800 Vevey (Switzerland), tel. 021 924 21 11.

Nestlé S.A. (Share Transfer Office), Zugerstrasse 8, CH-6330 Cham (Switzerland), tel. 041 785 20 20.

Further information

For any additional information about the management report, please contact
Nestlé S.A., Investor Relations, avenue Nestlé 55, CH-1800 Vevey (Switzerland), tel. 021 924 27 42, fax 021 924 28 13;

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

As to information concerning the share register (registrations, transfers, address changes, dividends, etc.), please contact Nestlé S.A., Share Transfer Office, Zugerstrasse 8, CH-6330 Cham (Switzerland), tel. 041 785 20 20, fax 041 785 20 24.

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

Nestlé URL: http://www.nestle.com

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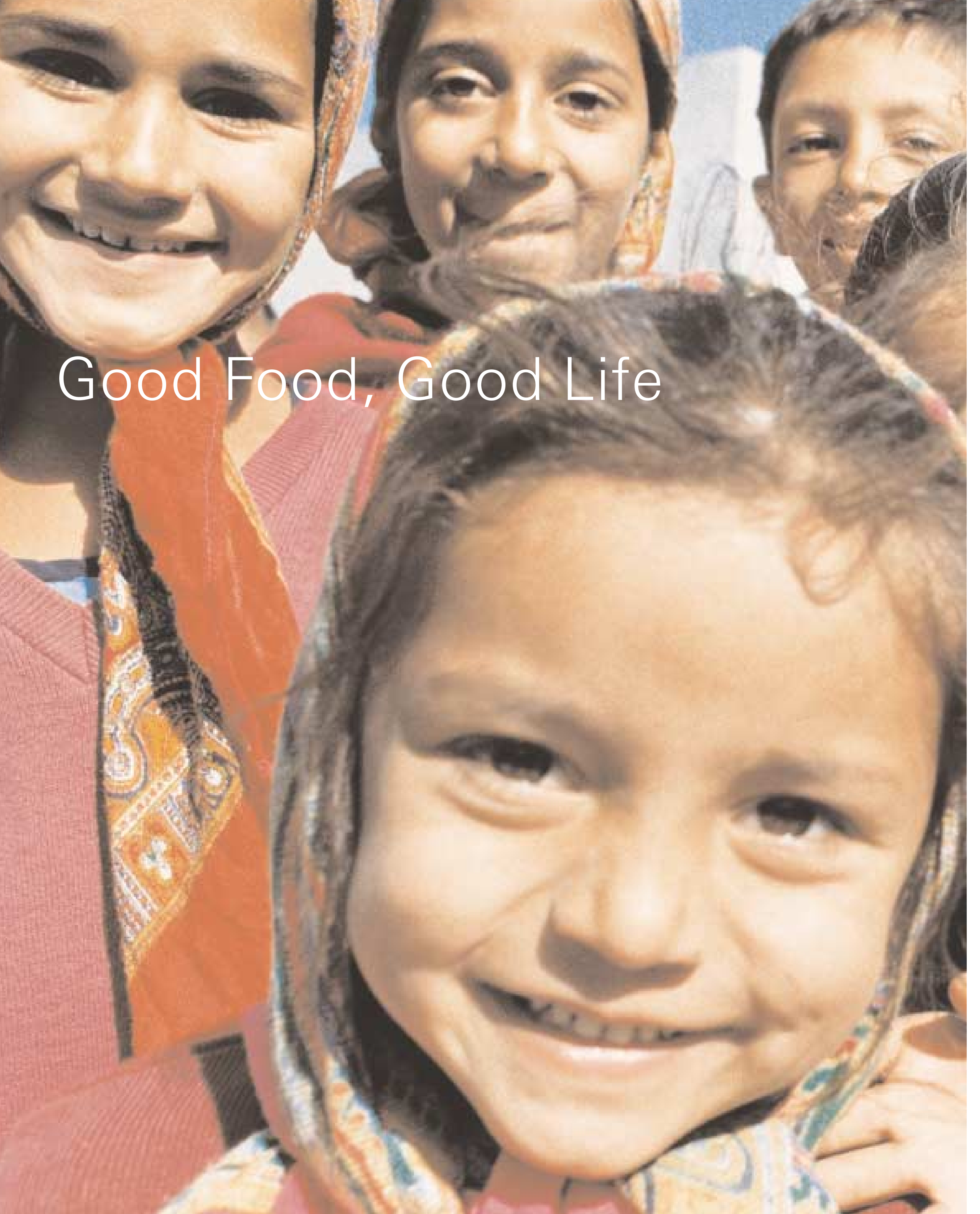
Good Food, Good Life

The Nestlé Sustainability Review


Good Food, Good Life

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Quality Food Products and Sustainable Development

At Nestlé, we define sustainable development as the process of increasing the world's access to higher quality food, while contributing to long term social and economic development, and preserving the environment for future generations.

In the 135-year life of Nestlé, our fundamental approach to business has been the creation of long term sustainable value for our consumers, customers, employees, shareholders, and society as a whole. The *Nestlé Corporate Business Principles* state openly that we favour long term business development over short term profit. While we are committed to making a healthy profit, we instruct managers not to do so at the expense of long term, sustainable development.

As we move ahead in the 21st century, we believe that a business strategy based on high-quality food and beverage products can only be maintained by business practices based on the principles of long term sustainable development.

In this report we attempt to describe how we practice and implement the principles of sustainable development where we have direct influence and impact on economies, societies and environments.

For everyone in our company, our responsibilities and values are reflected in our commitment to the *Nestlé Corporate Business Principles*. These set out the basic rules we follow to make sure we maintain the highest standards of conduct. This report presents some key performance measures and figures, and shows how we endeavour to put our Principles into practice.

In meeting our commitment to be a leader in sustainable development, we build on two of the essential pillars of our long term strategy: innovation-renovation and operational efficiency. We innovate in new products and technologies to meet the present and future needs of our consumers in an increasingly sustainable manner, and we improve or renovate existing products and technologies for the same reasons. We are dedicated to continuous improvement in the efficient use of resources, resulting not only in lower operating costs, but also in a lower impact on the environment. Managing our activities in accordance with the principles of sustainable development makes good business sense.

Given the company's focus on high quality, food safety, nutritional value, and consumer appeal, Nestlé needs to purchase high-quality agricultural goods produced in a sustainable way. Even though we own no agricultural land, our approach has been, through technical assistance, to improve the farming methods and standard of living of millions of farmers.

This is Nestlé's initial effort to report on sustainable development, attempting to describe our impact on the well-being of people and the planet. As such, it is a step on a journey, as opposed to an end point in itself. In addition, we have produced more detailed reports, entitled *Environment Progress Report 2000* and *Nestlé in the Community,* and our annual *Management Report* provides details on financial performance. You will find information on these and other publications at the end of this report.

We are committed to being open and transparent, and to listening to the views of others as we move forward in sustainable development. For this reason, we invite you to use the enclosed card or to write to us (www.nestle.com) with any comments and suggestions you may have after reading this report.

Peter Brabeck-Letmathe
Chief Executive Officer

Our Principles, Values and Culture

Our values and principles are elaborated in the *Nestlé Corporate Business Principles*. These were issued in 1998 and updated in 2002 in order to integrate all existing business principles at Nestlé into one single document, now incorporating our Corporate Governance Principles. The updated version includes all nine principles of the UN Secretary General's **Global Compact**, regarding labour standards, human rights, and the environment.

The Nestlé Corporate Business Principles

Some of the basic Nestlé values and principles are:

— Favouring long term development over short term profit;
— Long term commitments and relationships;
— Respect for and integration with diverse cultures;
— Proper conduct and ethical values as basic requirements for our management and employees;
— Recognition that consumers deserve information about the products they buy and the company behind the brand.

These Principles have been translated into over forty languages and all Nestlé managers are required to know and abide by them. They are incorporated into our ongoing training programmes, particularly for new employees.

Topics covered in the *Nestlé Corporate Business Principles* include: national legislation and international recommendations; consumers; children as consumers; infant health and nutrition; human rights; human resources and the workplace; child labour; business partners; conflicts of interest; relationships with suppliers; competition; external relations; protection of the environment; water policy; agricultural raw materials; and compliance.

The Nestlé Corporate Governance Principles

The Principles incorporate our official Nestlé Corporate Governance Principles, which cover four essential areas: the rights and responsibilities of shareholders; the equitable treatment of shareholders; the duties and responsibilities of the Board of Directors; and disclosure and transparency.

Members of the Nestlé Board of Directors are nominated and carry out their duties according to Swiss law. The Board has a high degree of independence, as all are non-executive members, with the exception of the "administrateur délégué" (CEO), the Board member delegated to actively manage the company.

Regarding public disclosure, the *Financial Statements* of the Nestlé *Management Report 2001* include more detailed information on the remuneration of members of the Nestlé Board of Directors and the Nestlé Executive Management Group.

The Board is also ultimately responsible for overseeing and implementing all the *Nestlé Corporate Business Principles*. It is worth noting that Mr Stephan Schmidheiny, one of the members of the Nestlé Board, is also one of the founders of the **World Business Council for Sustainable Development**, a leading organisation in environmental matters.

Nestlé is registered in Switzerland and governed under Swiss company law. While shareholders of Swiss companies have to meet greater requirements for introducing shareholder resolutions than in some other countries, Nestlé shareholders exercise a number of additional rights in comparison with shareholders of companies registered in many other countries. For example:

— Shareholders decide on the appropriation of profits resulting from the balance sheet of Nestlé S.A. and, in particular, they determine the amount of the dividend;
— Shareholders adopt and amend the Articles of Association;
— Shareholders can place items on the agenda and ask questions at General Meetings in accordance with the Articles of Association.

Nestlé applies the principle of "one share – one vote" up to a maximum of 3% of the total shares (at the time of the publication of this review, no one shareholder owned more than 3% of the total amount of Nestlé shares). This helps to protect the large number of small Nestlé shareholders against potential pressure coming from a small number of large shareholders.

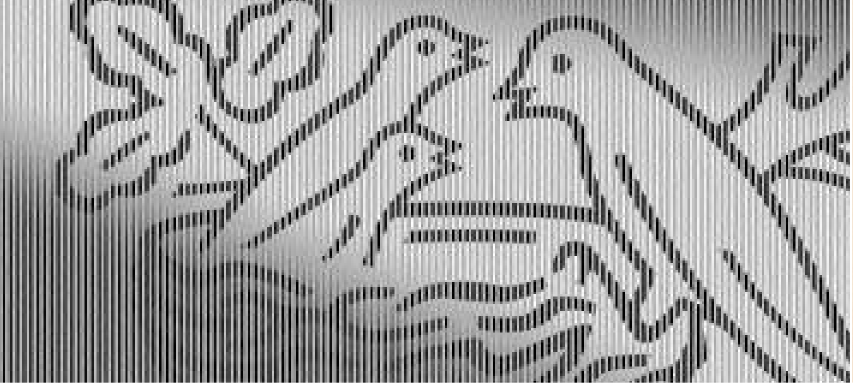
It also helps avoid hostile take-overs of the company, thereby maintaining and safeguarding a system of social values built up by our company over decades of business activity.

The Basic Nestlé Management and Leadership Principles

A companion document to the Principles is *The Basic Nestlé Management and Leadership Principles* document. Developed in 1997, this important document lays out the fundamental guiding principles for management behaviour, selection and promotion. This document summarises the essential basic elements of Nestlé culture.

Dow Jones Sustainability Index

Nestlé S.A. is included in the **Dow Jones Sustainability Index**. This Index includes about 200 companies that represent the top 10% of the leading sustainability companies in 64 industry groups from 33 countries. The companies are selected by a systematic assessment of corporate sustainability practices. Companies included in the index actively lead their industries and set industry-wide best practices in: Strategy, Innovation, Governance, and relationships with shareholders, employees and other stakeholders.



Auditing Adherence to the Nestlé Corporate Business Principles

With some 200 local internal auditors in the markets, and a team of 25 corporate auditors reporting to the Head of Auditing at our international headquarters, we have a system in place which allows us to continuously monitor that the *Nestlé Corporate Business Principles* are being implemented in all the countries where we operate. The Principles are published on the Nestlé Intranet site so that all employees can read and understand the criteria used.

The corporate auditors travel continuously from country to country and visit all Nestlé factories, local head offices, distribution centres and sales offices on a systematic basis. Audit findings are reported to the Head of Corporate Auditing and the CEO of Nestlé S.A., as well as the person responsible for the Nestlé market or the respective country manager. The Audit Committee of the Nestlé Board of Directors is informed of all significant findings.

These internal auditing procedures for the Principles have been verified by our external auditors, KPMG.

NESTLÉ CARRIES OUT ITS GLOBAL RESPONSIBILITY BY TAKING A LONG TERM APPROACH TO STRATEGIC DECISION-MAKING THAT RECOGNISES THE INTERESTS OF OUR CONSUMERS, SHAREHOLDERS, BUSINESS PARTNERS, AND THE WORLD-WIDE ECONOMIES IN WHICH IT OPERATES.

Extract from the *Nestlé Corporate Business Principles*

Sustainable Economic Performance and Development

A key feature of Nestlé's approach is to locate aspects of production in the developing world, rather than to simply source raw materials there. 45% of our factories are situated in such countries, and 48% of our employees are located in developing countries, even though these countries represent less than a third of our sales. Nestlé has publicly stated that a fundamental principle of its economic investments is that they should be "good for the country and good for the company". In this way Nestlé seeks to be a true partner in sustainable development.

Nestlé's fundamental purpose is to meet the needs of its customers and consumers for quality food products that offer value for money. By doing this successfully, we generate long term, sustainable economic results and development for all those with a stake in the business. With factories located in more than 80 countries, and with Nestlé companies in virtually every country in the world, the effects of our business development are felt by economies around the globe.

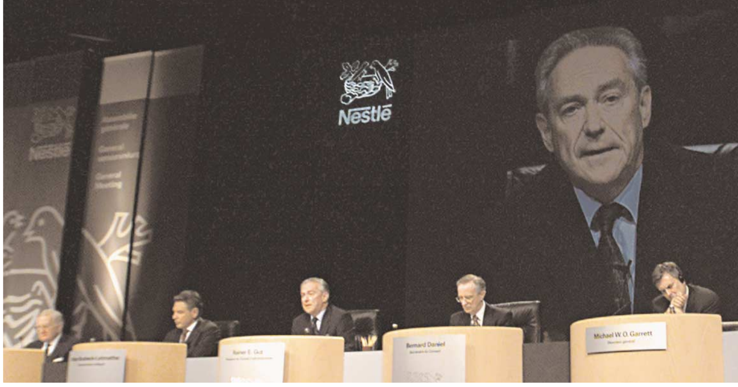
This occurs in different ways. For example, through technology transfer, through apprentice programmes and training local employees to international standards, as well as by paying taxes which help fund local infrastructure construction, Nestlé is contributing to sustainable economic development around the world and at the same time improving the quality of foods that are locally available.

Nestlé ranked in world's top 15 companies in the Wealth Added Index*

According to **Stern Stewart's Wealth Added Index** (WAI), Nestlé is among the top 15 companies worldwide in creating shareholder wealth in a ranking of the 5069 largest quoted companies. **Stern Stewart** calculates that between June 1996 and June 2001 Nestlé's wealth added to shareholders amounted to USD 43.8 billion.

Central to the WAI rankings is the idea that companies create value for shareholders only if their returns to investors – from share price rises and dividends – exceed that of their "cost of equity", defined as the minimum return that investors require for putting their money in shares of stock, rather than in minimum-risk alternatives such as government bonds.

* For additional information see *The Economist*, December 1, 2001



Long Term Reliable Returns for Shareholders

At Nestlé, we are committed to the sustainable increase in the value of our shares, and our share price has experienced an eighteen-fold increase over the last 20 years. From 1970 to 2000 Nestlé shares outperformed the **Morgan Stanley Capital Index** of Swiss blue chip stock companies by over 250% and the **Morgan Stanley World Blue Chip Stock Index** in USD terms by 25%.

For decades, Nestlé has had consistent, stable and accelerated growth in overall turnover. In terms of current performance, the year 2001 was once again a record year for sales, net profits and dividends to shareholders, with CHF 84.7 billion in sales, CHF 6681 million in net profit and 4.4 % real internal growth. Nestlé has had a remarkable record in that it has shown steady profits with no large, unstable swings. There has also been a noteworthy increase in profits in recent years due to a range of factors: effective brand management, streamlining the organisation and moving more quickly, in spite of the size of the company.

Nestlé shareholder ownership profile 2001

Private investors	44%
Institutional investors	56%
Total number of shareholders	>250 000
Shares held in Switzerland	45.2%

Company profile 2001

Sales	CHF 84 698 million
Net profit	CHF 6 681 million
Personnel*	229 765
Factories*	468

* Excludes Ralston Purina

Nestlé reinvestment – 2001

Reinvestment	[62.9%] of net profit
Dividend	[37.1%] of net profit

Nestlé factories, 2001

Industrialised countries	253
Emerging countries	215
Total	468

Investor Relations

Nestlé manages an on-going investor relations programme to ensure that all investors and potential investors are able to keep in touch with developments within the Nestlé Group of Companies. Communications tools include presentations of key financial indicators, one-on-one meetings, an Investor Relations website and the annual Nestlé *Management Report*. Most important, however, is that anyone, regardless of their shareholding size, is able to telephone or e-mail the Investor Relations department for an immediate response to their enquiry.

***Financial Times* selects Nestlé as world's most respected food & beverage company**

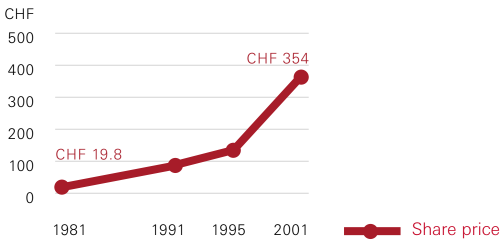
In a survey to name the companies "most respected" by CEOs, published in the *Financial Times* in December, 2001, Nestlé took first place in its industry category, was classified third among European companies (after **Nokia** and **Daimler-Chrysler**), and 17th overall worldwide. The ranking was based on responses received from 914 CEOs from 65 countries and was carried out by the consultant firm **PriceWaterhouseCoopers**.

Impact on Food Production and National Economies

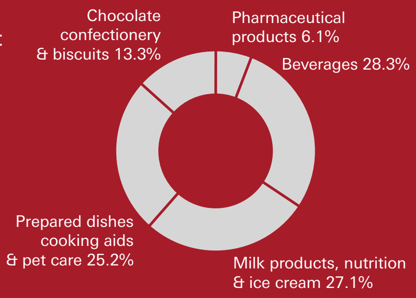
By the 1920s, Nestlé had production facilities in the majority of European countries and in 1921 the company built its first in a developing country, Brazil. Here, a model was created which has been replicated in countries throughout the developing world. Of the 468 Nestlé factories today, 215 are located in emerging markets. As indicated above, while about 30% of our business are in the developing world, over 45% of our factories are located in these regions, an indication of our commitment to local or regional production. This enables developing countries to move from being producers of raw materials to being producers of finished products. National governments across the world seek Nestlé investments, and we are continually investing in new operational facilities and evaluating new opportunities.

In some countries it has taken many years for Nestlé to receive a full return on investment, but we are committed to supporting our investments over the long term and under adverse local economic conditions. For example, in contrast to many companies, we sustained our operations in Russia during the domestic crisis in 1998 and continued to invest.

Share price evolution



Sales by product group 2001

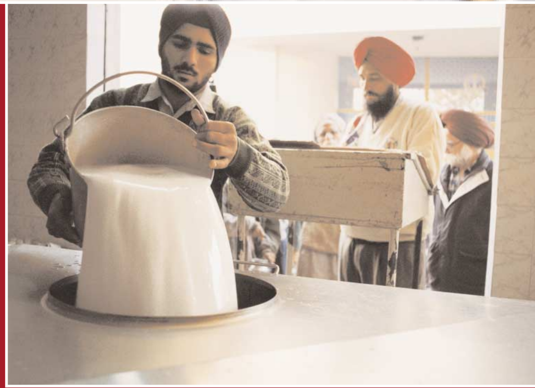


Investment combined with the transfer of know-how and expertise has a significant impact on job creation, both through direct employment, and through the multiplier effect of creating jobs in the food production and distribution chain. It is estimated that in 2001, more than one million jobs were sustained by the business activities of the Nestlé Group of Companies. As a result, over 3.4 million workers and their family members are sustained by incomes generated as the result of Nestlé business activities.

Investment and Safety

In late 2001, the *International Herald Tribune* published an article entitled: "When Safety is Key, Some Companies are in a Class by Themselves".

This article listed the 12 companies in the world, including Nestlé, which possess an AAA debt rating from both **Moody's Investment Service** and **Standard's & Poors Corp**. – the two largest international credit-rating agencies. The article stated: "We expected to find companies with pristine balance sheets whose stocks offered modest appreciation potential with virtually no chance that the issuer would find itself in the bankruptcy court. We found the latter element but were surprised that the shares performed well over the past decade, beating the market average."



Assisting dairy farmers in India

Over 30 years ago in Moga, in northern India, support started with Nestlé providing loans at favourable rates to enable farmers to build their herds of cattle. We also worked with the local community to build confidence in the milk trade, without compromising religious considerations. A professional milk agent was established, along with well-equipped milk collection centres. Farmers are advised on good breeding and feeding practices, and on the health of dairy herds. Through this assistance Nestlé has helped raise the quality, hygiene and value of the milk produced by some 85 000 farmers in this district, helping in turn to improve people's health, lifestyles and the region's economy.

Nestlé is also helping with the construction of facilities for drinking water and lavatories in village schools in the Moga factory milk district. This is a partnership with the schools, parent associations and village administrations. Another project involves funding medicines for a local tuberculosis clinic.


ਨਿਸ਼ਾਨੀਆਂ

Food Business and Agricultural Development: Investment in Human Capacity

Nestlé typically starts operations in developing countries with dairy products and, as a result, operates as a kind of development agency to enable local farmers to create a modern dairy industry.

With over 800 agronomists and field technicians, Nestlé Agricultural Services has a key world-wide responsibility to develop and protect the source of the raw materials to meet our production needs. While its main activity is providing agricultural extension services to farmers, Nestlé Agricultural Services also maintains ongoing dialogue at international, national and local levels. Collaboration with partners in the food chain ranges from agricultural R&D to plant and animal breeding. We work with agricultural policy-makers and trade organisations, as well as with farmers and farmers' organisations with the aim of improving agricultural production.

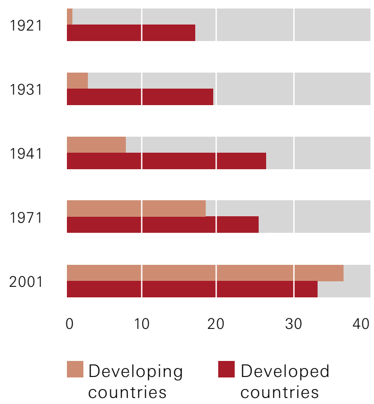
Sustainability in the supply of agricultural raw materials depends on many ecological, economic and social factors. Wherever possible, Nestlé supports activities that contribute to sustainability in the production of agricultural raw materials, including integrated farming techniques and the use of all technologies that may contribute to sustainability.

Beginning with Brazil in 1921, entire regions have been brought out of poverty in this way, and today we estimate we have given assistance to millions of farmers over the past century and presently advise and assist some 315 000 farmers. These farmers, however, are not in any way obliged to sell their milk to Nestlé. There are strictly no conditions attached to the technical assistance Nestlé gives to dairy farmers.

Assisting dairy farmers in Pakistan

In Pakistan sales of milk per farmer have doubled in the last three years as a result of support from Nestlé Agricultural Services provided to more than 115 000 farmers. This led the Minister of **Industry and Agriculture** to cite Nestlé as an example of a successful development partner for Pakistan.

Nestlé dairy projects: 1921-2001



Assisting dairy farmers in Brazil

Eighty years after building its first dairy product factory in 1921, Nestlé Brazil now has eight. They manufacture dairy products based on fresh milk from milk-producing regions that have been developed with the help of Nestlé Agricultural Services. These regions cover an area approximately six times the size of Switzerland. Beginning with a small number of dairy farmers struggling to make a living, assistance and advice have been given to enable Brazilian dairy farmers to improve milk yields through efficient pasture usage and soil-conservation techniques. Systematic vaccination and prophylactic campaigns have led to significant improvements in the health of the livestock. Nestlé also provides loans for farmers to purchase cattle and farm machinery. The infrastructure for collecting the milk down to the community level has been created, with 90 local receiving and cooling stations, and corresponding transportation and road systems. The result is that entire regions have been brought out of poverty with the creation of a strong dairy industry.

Nestlé milk collection point in China.

Purchase of Agricultural Raw Materials

Each year, Nestlé buys CHF 8 billion of agricultural raw materials in emerging economies – around two-thirds of Nestlé's total expenditure for agricultural raw materials.

Consumers throughout the world are increasingly demanding assurance that food and beverage products are made from quality ingredients, produced through agricultural best practices. The most important ingredients for Nestlé are milk, coffee, sugar and cocoa. Together these account for some 40% of our total raw material expenditure.

While the price of coffee on the international market is out of Nestlé's control, Nestlé works extensively with coffee farmers to raise the income they receive, through training and technical assistance to increase the quality of their coffee. This is actually the most effective way for a farmer to increase the prices he is paid. We are also the world's largest direct purchaser of coffee from farmers.

A current concern shared by Nestlé is the low price of green coffee on the international market. Nestlé strongly supports long term stability in commodity prices that give an adequate return to the farmer, as low commodity prices inevitably lead to price volatility and high prices in the future. Although the price of coffee beans is a small part of the price of a jar of *Nescafé*, price swings penalise both the farmer and coffee product manufacturers.

Coffee development projects

Coffee is the world's second-largest traded commodity (after oil) and the world's most valuable agricultural commodity. Nestlé works closely with governments, coffee research institutes and other agencies to support growers, and has established a collection of 250 high-quality coffee varieties for plant-improvement programmes. The best varieties for their climate are supplied to farmers, encouraging efficient coffee cultivation in new areas, or improving the yield in existing growing regions.

China

As a result of expanding promotion and consumption of coffee in China, in 1992 Nestlé opened a *Nescafé* factory in Dongguan in the southern Guandong Province. There were then virtually no locally grown Arabica coffee beans. Some were grown in the southwestern Yunnan Province, but on a very small scale. Nestlé Agricultural Services provided technical assistance to growers, and suitable varieties were introduced, together with a training centre, demonstration farm, and nursery to provide young coffee plants. The company also established a buying station to provide the growers with the opportunity to sell their crops. As one result, in 1999 Nestlé purchased some 2000 tonnes of green coffee beans from thousands of small coffee growers in Yunnan Province.

Philippines

In the Philippines, new strains and improved farm management techniques are leading to higher-quality coffee, improving the price that growers can receive.

Direct coffee-purchasing in Mexico

Nestlé installed a direct coffee-purchasing scheme in Chiapas State, Mexico, over 20 years ago. All direct purchases are governed by formal contracts set up between Nestlé Mexico and each individual post-harvest treatment plant. The contract is different depending on whether the plant is run by a farmer co-operative or by private owners who buy all or part of the coffee they treat from small farmers. For the private owners, a clause states that the price they pay to the small farmers must be the same as they receive from Nestlé. This helps maximise the revenue earned by the small farmer and farmers' co-operatives. Improvements in quality are also rewarded with improvements in price paid.

Nestlé provides on-site training and equipment to allow coffee farmers to better evaluate the quality of their crop, including roasting, grinding and tasting techniques. Nestlé agronomists also supply coffee seeds and seedlings as well as advice on cultivation techniques.


Diploma

Sustainable Environmental Practices

Nestlé transforms perishable goods into safe, high-quality food products that meet the needs of consumers. In this process we take into account environmental considerations throughout the supply chain, from raw materials to the consumer.
Water usage is a key environmental priority. Systematic management of our environmental performance is an essential factor in Nestlé's sustainable development strategy.

Environment Progress Report 2000

We published in 2001 a comprehensive *Environment Progress Report 2000*. A summary of the major points on Nestlé and the Environment are described below in this review.

Integrated Approach Throughout the Supply Chain

Raw materials Agricultural raw materials provide the basis of Nestlé’s finished products. They also represent a significant investment. It is important that the environment from which they come is safe and protected in a sustainable manner. Even though we do not own or operate farms, we support and encourage sustainable agricultural practices.

Manufacturing processes For Nestlé, manufacturing is an extremely important part of the supply chain. It is here that we have the highest potential to maximise eco-efficiency – that is, to maximise the production of goods while, at the same time, minimising consumption of resources and reducing waste and emissions.

There are many ways to improve eco-efficiency such as through conservation programmes, by improving capacity utilisation of factories and through other investments. Nestlé invests an average of CHF 100 million per year for the protection of the environment, amounting to 3% of total capital expenditure. This figure does not include regular capital-investment projects that incorporate environmental components, nor factory environmental operating costs.

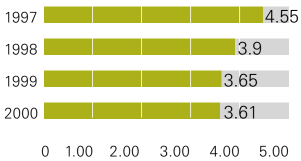
Nestlé UK – an innovative application of natural refrigerants replaces HCFCs

Hayes coffee factory in the United Kingdom produces spray-dried and freeze-dried soluble coffees.
The production of freeze-dried coffee requires temperatures below –50°C in order to achieve a high-quality and consistent finished product. The refrigeration needed to reach the low temperatures required was being achieved using HCFC – an ozone-depleting substance due for phase-out by 2015 under the **Montreal Protocol**.
Long before the phase-out date, it was decided to seek a more environmentally benign alternative.
The chosen solution uses a cascade- refrigeration cycle with two natural refrigerants, ammonia and carbon dioxide. This type of two-phase refrigeration allows the use of a minimal amount of ammonia and isolates it from the process areas, thus greatly reducing the risk of an accident. Using CO_2 in the production areas is better, as it is non-toxic, non-flammable and has little impact, should a leak occur from the closed system.
This innovative system represents an investment of over GBP 10 million and is now being adopted in other Nestlé refrigeration applications worldwide.

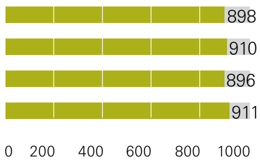
Measurement Beginning in 1997, Nestlé developed a series of environmental performance indicators (EPIs) on a consolidated basis covering manufacturing operations. More information on the methodology and indicator definitions is presented in the Nestlé *Environment Progress Report 2000*. As part of the EPI system, both process inputs and outputs were measured, in line with ISO 14031. The results that follow cover the period 1997-2000 during which production volume increased by 28%.

— Energy consumption: Global energy consumption per tonne of product was reduced and energy use efficiency improved by 21%. Even with the significant increase in manufacturing production, the total energy use company-wide remained stable.

Energy consumption
10^9 Joules (GJ) per tonne product

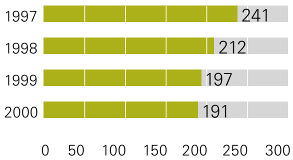


Energy consumption
10^{15} Joules (PJ) per year

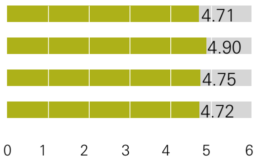


— Greenhouse gases: Emissions of CO_2 per tonne of product were reduced and eco-efficiency improved by 21%, while total emissions remained stable.

Greenhouse gases
kg CO_2 per tonne product

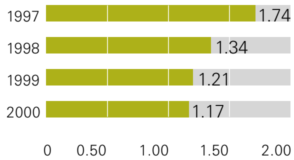


Greenhouse gases
10^6 tonnes CO_2 per year

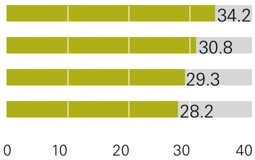


— Air acidification potential: Air acidification potential per tonne of product was reduced and its eco-efficiency improved by 33%. Total emissions were reduced by 18%.

Air acidification potential
kg SO_x equivalents per tonne product

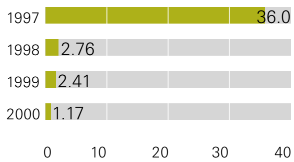


Air acidification potential
10^3 tonnes SO_x equivalents per year

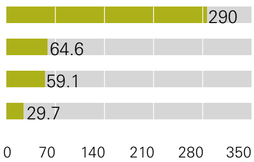


— Ozone-depleting substances: From 1986, when measurement began, to 2000, ozone-depleting substance emissions per tonne of product were reduced and eco-efficiency improved by 97%. Total emissions were reduced by 90%.

Ozone depleting substances
g R-11 equivalents per tonne product

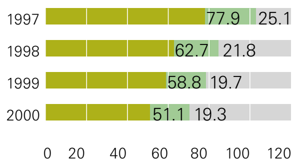


Ozone depleting substances
tonnes R-11 equivalents per year

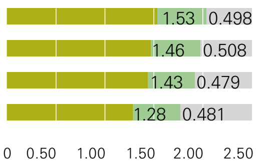


— By-products/waste generation: By-products/waste generation per tonne of product was reduced and eco-efficiency improved by 32%. Against a background of overall production increase, the total amount of by-products/waste was reduced by 13%. The overall rate of recovery was 72.6 %.

By-products/waste generation
kg per tonne product



By-products/waste generation
10^6 tonnes per year



Recovered   Disposed

Forest cover of the Poland Spring mineral water source, USA.

Packaging Packaging is essential both for Nestlé and for the consumer. It ensures the safety and quality of products – from manufacture through to storage, distribution and consumption. In addition, packaging contributes to product appeal, provides convenience and communicates information, e.g., on nutrition and serving instructions. In many cases, packaging includes tamper-evidence features. Packaging also helps prevent or reduce product waste.

Nestlé supports an integrated approach that favours source reduction, re-use, recycling and energy recovery to minimise the impact of packaging on the environment.

Environmental considerations are an important criterion in Nestlé's renovation and innovation of packages and packaging materials. Reducing the amount of packaging material needed for a product, while safeguarding safety and quality, is a continuing key objective and priority.

Between 1991 and 2000 packaging materials savings amounted to 189 000 tonnes and CHF 340 million. As well as source reduction efforts, Nestlé also uses recyclable packaging materials wherever possible. In addition to packaging reduction and recyclability it is also necessary to have systems for the collection, separation and recovery of used packaging. Nestlé has participated actively in the establishment and management of national packaging waste recovery schemes in different countries.

Water as a Key Priority

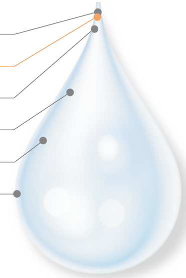
Nestlé recognises that the responsible management of world-wide water resources is an absolute necessity. Preserving both the quantity and the quality of water is not only an environmental challenge, but also one that spans economic, political, social, cultural and emotional fields.

Nestlé's world-wide operations utilise just 0.006% per year of the total estimated fresh water withdrawal. Perrier Vittel, Nestlé's bottled water division, uses only 10% of this amount, i.e. 0.0006%.

Nestlé's long term commitment to the responsible management of water resources was confirmed in *The Nestlé Water Policy*, published in early 2000.

World-wide fresh water use

Perrier Vittel	0.0006%
Nestlé	0.006%
Food and drinks industry	0.18%
Domestic	9%
Total industry	20%
Agriculture and reservoirs	71%



Total fresh water used worldwide:
3800 trillion litres/year = 100%

Protecting natural mineral water sources through balanced eco-systems

To ensure the long term quality of our natural mineral water sources in Vittel and Contrexéville, France, we encourage zero use of pesticides and chemical fertilisers by farmers who cultivate the land above the sources. Nestlé created a separate organisation, Agrivair, to manage the preservation of both natural ecosystems and cultivation practices that are positive to the environment. Following advice from Agrivair experts, farmers generally grow Lucerne grass, rather than corn maize, to feed their dairy cattle. Lucerne contains nitrogen, essential for healthy cow growth and rich milk production. Agrivair provides services which include the regular "turning" of manure at the farm, naturally heating the bio-mass to around 80 degrees celsius. This stops the germinating capacity of weed seeds inside this natural fertiliser. Agrivair also provides financing for constructions to house natural fertiliser.

Ladybirds, a natural predator of crop pests, are bred in Agrivair laboratories and released into nature at strategic times during the year. Agrivair personnel work with farmers to encourage the healthy maintenance of hedgerows to keep a balanced population of foxes and birds of prey, natural predators of field mice that ravage crops.

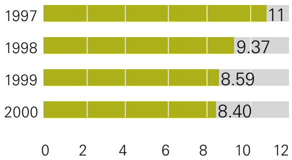
Agrivair's forest management programme maintains a balance of trees to maximise nitrate take-up from the ground. This means cutting and cropping to allow younger trees to develop. In addition, both river water and mineral water from the sources are tested daily, all year round, to check that the natural eco-system is correctly balanced and that the long term viability of the source is guaranteed.

Nestlé waste water treatment plant in Shuangcheng, China.

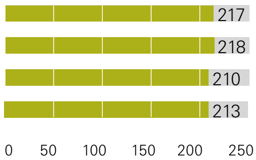
One of the objectives of *The Nestlé Water Policy* is to achieve optimal performance in manufacturing activities, including water management. The following highlights the progress in reducing water consumption and waste water generation.

— Water consumption: Between 1997 and 2000, total water consumption per tonne of product was reduced and water use efficiency improved by 24%. Even with very good growth in our bottled water business, overall water consumption was reduced by 2%.

Water consumption
m^3 per tonne product



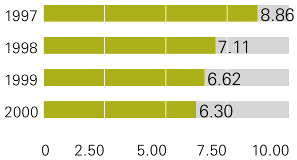
Water consumption
10^6 m^3 per year



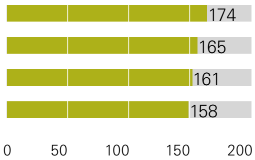
We have put in place many innovative methods to reduce the use of water in manufacturing. Part of these efforts included finding ways to re-use water wherever possible, thus reducing the reliance on fresh water supplies. When water cannot be re-used we have a long history of providing waste water treatment systems.

— Waste water generation: Waste water discharge per tonne of product was reduced and eco-efficiency (the ability to manufacture more products with less waste water) improved by 29%. The overall waste water volume was reduced by 9%.

Waste water generation
m^3 per tonne product



Waste water generation
10^6 m^3 per year



From 1993 to 1999 Nestlé built 38 new waste water treatment plants, and 120 waste water plants were upgraded. In addition, in many parts of the world, Nestlé has invested not only in its own infrastructure, but also in that of the community. The company also sponsors water education programmes for children and teachers and supports community initiatives to enable the development of sustainable and safe water supplies.

Systematic Management of Environmental Performance

From Switzerland to China – pioneering efforts around the world

In 1932, Switzerland's first biological waste water treatment plant was built at the Maggi factory in Kemptthal, near Zurich. Today, Nestlé continues to be a pioneer in waste water management. The story of our first factory in China is an example of our on-going and innovative efforts in this field.

Meeting the many challenges encountered in developing the Shuangcheng milk products factory in 1987 required careful navigation through political, cultural and technical issues.

Among the most significant challenges was the weather. The factory is located in one of the harshest regions of northeast China. During the deep winter, which lasts from the end of November to early March, temperatures can reach as low as -40° C. In the summer, the heat is extreme, with temperatures consistently above 30° C. Weather was therefore a key factor that had to be addressed in ensuring the factory's milk supply and in treating its wastewater.

To build a wastewater treatment plant that would function under the extreme conditions found at Shuangcheng, Nestlé engineers decided to locate the waste water clarifier entirely indoors. By heating the building, sufficient temperature consistency could be maintained to ensure effective year-round waste water treatment.

The Shuangcheng factory opened its doors in 1990 and has successfully operated since that time. Nestlé now operates factories at 18 different locations in China, all with state-of-the-art waste water treatment facilities.

The Chinese authorities have recognised Nestlé factories as "Advanced Enterprises in Environmental Protection".

In 1996 the Nestlé Environmental Management System (NEMS) was created to pull together all in-company environmental activities and measures. NEMS has since been implemented throughout the company.

The starting points for the NEMS continuous improvement process include the Nestlé Environmental Minimum Technical Requirements (EMTR). The EMTR, updated in 2001, set internal company environmental performance requirements in areas such as energy and water use efficiency, waste management, waste water treatment and air emissions to name but a few.

NEMS has led to:

- A systematic approach that ensures respect for company policy and legal requirements;
- The continuous improvement of environmental performance;
- The achievement of compatibility with international standards for environmental management systems such as ISO 14001 and the Eco-Management and Audit Scheme (EMAS) of the European Union;
- An expansion of mutual trust with consumers, government authorities, and business partners through open communication and an ongoing record of environmental improvements.

AS WE HAVE GROWN FROM HUMBLE BEGINNINGS INTO THE WORLD'S LARGEST FOOD COMPANY, WE HAVE ATTEMPTED TO TAKE THE FUNDAMENTAL CULTURAL VALUES OF ENVIRONMENTAL PRESERVATION AND CLEANLINESS INTO EVERY COUNTRY WHERE WE OPERATE.

Peter Brabeck-Letmathe, CEO, Nestlé S.A.,
Nestlé *Environment Progress Report 2000*

Sustainable Social Development

Nestlé's existence and future development is completely dependent on successfully serving consumers' needs. To accomplish this, we create companies in each country that can be close to the consumer and develop bonds of trust over many decades. Fundamental to this way of doing business is investing in the skills of people in each country, creating long term relationships of trust with employees, suppliers, business partners, governments, and society as a whole. The *Nestlé Corporate Business Principles* lay out for each Nestlé employee the guidelines to follow in successfully implementing this long term approach to business.

Relationships with our Employees

Long term relationships Worldwide, Nestlé has over 220 000 employees from nearly every country collaborating within a unifying corporate culture. We have relatively low employee turnover (approximately 5% annually), and the average length of service of Nestlé employees at retirement is 27 years in the 20 largest markets, representing over 80% of our business.

Employees by geographic area – 2001

Europe	40.2%
Americas	33.4%
Asia, Oceania and Africa	26.4%

Employees by activity – 2001

Factories	130 539
Administration and sales	99 226
Total	229 765

Training, transfer of technology and accumulated know-how Long before "globalisation" became a topic of attention, Nestlé built factories and invested in training and development at the local level around the world. Our business model is based on transferring knowledge and skills to local nationals in each country where we operate, and retaining these employees over the long term. In both developed and developing countries this involves the creation of comprehensive apprenticeship programmes to develop the skills of a wide range of people working in our factories.

Through these apprenticeship programmes and through thousands of internal training courses, including basic literacy classes in some cases (as in Brazil), we invest substantially in improving the capabilities of our employees. Our International Training Centre, located near our global headquarters in Switzerland, conducted 85 seminars in the year 2001, with more than 1700 managers from around the world participating. The faculty of the International Training Centre is the senior management of Nestlé itself, which devotes hundreds of hours to imparting knowledge to our global management force, comprised of over 100 nationalities.

Using information technology, more and more Nestlé companies have appointed corporate training specialists in "distance e-learning", allowing staff to tailor their learning to their specific needs and time constraints.

Technology transfer is also key to the Nestlé business model of developing production and marketing capabilities at the local level. Each Nestlé company

develops Nestlé brands using exclusive access to the technological expertise necessary for their manufacture, be it in vitamin-enriched noodles, milk products with immune-system enhancing ingredients, or *Nesquik* chocolate drinks. The technology to produce *Nescafé*, for example, is in constant evolution. Nestlé brands are therefore vehicles for the transfer of technology and know-how across our companies and across national boundaries in both developing and developed countries.

Safe work environments We emphasise the need for safe working environments, and regularly audit the safety of our work conditions, which must meet Nestlé corporate standards. Our companies' Safety and Health Committees typically meet at least once a month to develop and maintain a safe working environment. The company's global policy is detailed in the document *Nestlé Policy on Health and Safety at Work*. As part of this, the following elements are mandatory on all Nestlé sites.

What Job Seekers Think

For three consecutive years in the United States, Nestlé has been rated the Number One food company to work for in a reader survey of *Fortune* magazine.

In 2001 a European survey of recent business school graduates conducted by **Universum Communications** ranked Nestlé number 13 in a list of the most desirable companies to work for. **L'Oréal,** partly owned by Nestlé, ranked 9th in the same survey. All other companies in the top 13 were either accounting/consulting or financial services firms.

Four largest Nestlé markets: women in middle and senior management

	% women in middle management	% women in senior management	% women of total workforce
USA	29.9	21.6	43.4
France	29.1	15.5	31.5
Germany	22.2	16.8	35.4
United Kingdom	25.1	12.9	37.5

- Strict compliance with local laws or internationally recognised standards;
- Clear accountability and active management leadership to promote a safe working environment and the professional management of hazards on our sites;
- Communication and participation of all stakeholders with an interest in the safety of the site, including outside authorities and the community;
- Behaviour-based safety management, including target setting, education and positive reinforcement by recognising progress and correct behaviour;
- Site safety organisation focuses on the promotion of safety measures and preventive practices to avoid problems before they can occur;
- Appropriate systematic hazard assessment to reduce to a manageable level the potential impact of hazards on human safety;
- Technical standards for design, construction, operation and maintenance;
- Emergency and contingency planning to minimise the impact of incidents;
- Security management to protect products, assets and intellectual property;
- Continuous improvement in managing operational health and safety.

Nestlé labour and employment practices *The Nestlé Basic Management and Leadership Principles* emphasise that respect for the individual is non-negotiable. The aim is to apply a number of common rules, adapted as needed to suit local customs and traditions. Promotion is based on merit, irrespective of origin, religion, gender, nationality or physical attributes. In terms of diversity, Nestlé is one of the most international companies in the world, with nationals from over 100 countries working for the company worldwide. This diversity is also reflected by the fact that the nine-person Executive Committee at Nestlé headquarters in Switzerland contains seven different nationalities, and over 60 nationalities work at this centre.

While the percentage of female managers is generally in line with national norms, some Nestlé companies are well above the national average. For instance, in Nestlé Italy, more than 50% of middle management in Marketing, Human Resources and Finance and Control are women. The percentage of women in management is increasing each year at Nestlé.

In Nestlé USA, diversity initiatives include recruiting through such forums as the National Black MBAs and National Society of Hispanic MBAs. Nestlé Japan provides working mother programmes, such as shorter working hours, subsidies for childcare, and a system for future re-employment. Nestlé Brazil has signed an agreement with the main Brazilian institution for the disabled, AACD, to assist people with disabilities in finding successful employment.

Regarding wages and benefits, statistics on average salaries are meaningless in a business that operates factories in more than 80 countries. However, one reason that our employee- retention rate is high is that we pay highly competitive wages. For instance,

in the Philippines, our starting hourly wage is 2½ times the legal minimum. Where our auditors find that lower than average wages are being paid, or overtime limits are exceeded, corrective actions are taken.

We also make sure that working hours and overtime pay complies with local laws and conditions. We provide a wide range of additional benefits for employees, as appropriate for each country. In Mexico, for example, we support programmes to help our employees complete their basic and secondary studies. In Chile, we provide financial assistance to help workers acquire their own housing.

Right to association Nestlé subscribes to the United Nations Global Compact, including the Guiding Principles on Labour. The *Nestlé Human Resources Management Guidelines* outlines employees' rights within the Nestlé Group of Companies worldwide. The Industrial Relations chapter states that Nestlé respects the rights of its employees to form representative organisations and to join – or not to join – trade unions, provided this right is freely exercised. Through our relationships with unions we wish to sustain the long term development of our company by maintaining a level of competitiveness adapted to our economic environment.

In 2000 we dealt with 155 trade unions throughout the world, holding 748 consultations with trade unions in our major markets. In addition, since 1990, representatives of management and unions have held regular discussions at European level. In 1996 we signed an agreement with the IUF (International Union of Food and Related Associations) to form the Nestlé European Council for Information and Consultation (NECIC), which meets annually with all the European trade union representatives. This consultation process was initiated by Nestlé in 1990, four years before Article 13 of the Council Directive (European Union) 94/45/EC made it mandatory.

Safeguarding employment during restructuring Business restructuring is an evolving and sometimes painful process, and during 2000 restructuring activities took place in all 20 of our major markets. Nestlé takes a long term, rather than short term approach, and endeavours to avoid adverse impacts on employees. Wherever operations no longer fit our business strategy, we prefer not to close factories but to sell them as going concerns, which is usually more complex and time-consuming than closure, but gives a more positive final result. In the United States, for example, Nestlé divested its roast and ground coffee business without any loss of employment.

When we must close factories, we do all we can for our employees. We offer them the opportunity to transfer, we help them find new jobs, and we provide severance pay and early-retirement packages. In Canada, for example, when our Alexandria plant was closed, an action centre was set up off-site and equipped with computers, telephones and fax machines, and employees were provided with specialist counselling and training. In Mexico, we closed our Durango factory during 2000 to concentrate production at our Lagos de Moreno factory. We offered as many people as possible the option to transfer, and severance terms to others that were significantly better than the legal requirements.

Child labour Nestlé is against all forms of exploitation of children. The company does not provide employment to young people before they would have completed their compulsory education and expects its business partners and industrial suppliers to apply the same standards. In all countries where we operate, the Head of Human Resources has confirmed that our practices comply with our Principles on human resources and the workplace and child labour. Nestlé abides by national laws in all countries where it operates, and Nestlé complies with the United Nations Convention on the Rights of the Child as well as ILO Conventions 138 and 182.

Even though we do not own agricultural land, and raw materials are primarily bought from processors or traders, we are currently working with the UK, US and Côte d'Ivoire governments, NGOs, process traders and other chocolate manufacturers to assess and eliminate forced child labour in cocoa farming where it may exist.

Nestlé offers its co-operation with the relevant United Nations agencies, governments and the business community in their efforts to deal with the problem of child labour. These efforts include the encouragement of universal primary education and all aspects of development.

Relationships with our Suppliers and Business Partners

Audits of industrial suppliers Nestlé aims to deal only with reputable industrial suppliers that are willing to apply Nestlé standards. Supplier relationships are benchmarked and evaluated to deliver continuous improvement in quality and service. The company audits major suppliers to ensure that they comply with the *Nestlé Corporate Business Principles*, or are working actively to achieve them, and all company market heads have confirmed that the application of our Principles has been discussed with major suppliers. In 2000, over 3000 supplier companies were involved in this kind of discussion, and more than 1000 audits of suppliers' manufacturing facilities were conducted. Whenever instances of non-compliance are discovered during audits, or are brought to our attention, Nestlé requires that corrective measures be taken if the supplier relationship is to be maintained. For example:

— In Nestlé Philippines, all our suppliers have been provided with copies of our Principles and these are now included in all new contracts;
— In Nestlé Brazil, our employees check for possible failures to meet our Principles during visits to suppliers, which has led to corrective action in specific cases.

This auditing also extends across national borders. For Nestlé France, regular audits are carried out by the ACTS company on suppliers in southeast Asia to ensure the application of our Principles, mainly with non-food suppliers.

Anti-corruption measures Nestlé insists on honesty, integrity and fairness in all relationships with business partners. Sanctions are applied in the event of misconduct or abuse of established ethical standards and guidelines. The company requires its management and employees to avoid personal activities and financial interests that could conflict, or appear to conflict, with their commitment to their jobs.

NESTLÉ REQUIRES ITS MANAGEMENT AND EMPLOYEES TO AVOID PERSONAL ACTIVITIES AND FINANCIAL INTERESTS WHICH COULD CONFLICT, OR APPEAR TO CONFLICT, WITH THEIR COMMITMENT TO THEIR JOBS.

Extract from the *Nestlé Corporate Business Principles*

Relationships with Consumers and Society

Quality, safety and nutritional value Our business success is totally dependent on the extent to which we fulfil our consumer's needs and requirements. The billions of people who buy our products daily are free to choose our competitors' products over ours, and quality is our basic approach to the consumer.

Nestlé's basic consumer value proposition is that people can trust the quality and safety of the food or drink when they open the wrapper or package. We have one unbending standard of food safety, and the *Nestlé Seal of Guarantee* cannot go on the package of food produced until newly built or acquired factories meet a standardised, detailed and very rigorous set of requirements. These are laid out in extensive, formalised procedures and standards that must be verified, and they typically exceed the legal requirements, as well as the prevailing practices, in the countries where we operate.

An essential part of continuous improvement involves learning from problems when they arise. Internal product recalls may occur where errors are identified in the factory before goods are distributed, and these are measured as part of the production process. Public recalls of goods, because of a mistake or a problem, are very small in number. There were 14 instances of product recalls worldwide in 2000, all non-critical, out of a total production volume running to millions of batches. Every public recall is reported centrally and all appropriate actions are taken to ensure consumer safety. We are not satisfied with any occurrence of product recall, and take each one seriously so as to learn and constantly improve.

We produce an annual *Quality Management Review*, for use within the business. This enables senior executives in Nestlé to be aware of trends and to consider potential future issues.

Developing foods and drinks for senior citizens

As people grow older, appetite generally diminishes and taste and mouth-feel requirements change. Nestlé has therefore developed special, dedicated food and drink products to cater to these needs.

Clinutren, for example, is a line of products that includes milk-based flavoured drinks, soups, and prepared meals that are nutritiously balanced to suit the needs of senior citizens. We develop and adapt *Clinutren* by working side-by-side with a panel of tasters and with chefs and residents of retirement homes.

A team of scientists and sensorial experts from the Nestlé Research Centre analyse both the nutritional balance of these products and the effects on body systems.

Nestlé also develops and produces liquid-based foods for bed-ridden and terminally ill patients.


Clinutren
1.5
Clinutren
FRUIT

The Nestlé Research Centre located near Lausanne, Switzerland.

Research and innovation for food safety, quality, and enhanced well-being Nestlé operates the world's largest food and nutrition research organisation through a network of 17 research facilities. We invest over EUR 400 million per year in fundamental and applied research.

At the central Nestlé Research Centre near Lausanne, Switzerland, about 150 of its 600 staff work in quality and safety assurance alone. Our laboratories (accredited by many external bodies) operate to the highest international standards, and our scientists have developed specific tests for a great number of products and processes. A number of Nestlé's procedures are officially recognised by governments, and our expertise in microbiological and toxicological food safety is recognised by the US Food and Drug Administration.

NESTLÉ RECOGNISES THAT CONSUMERS HAVE A LEGITIMATE INTEREST IN THE COMPANY BEHIND THE NESTLÉ BRANDS, AND IN THE WAY IN WHICH THE NESTLÉ COMPANY OPERATES.

Extract from the *Nestlé Corporate Business Principles*

Funding new research and development: the Nestlé Corporate Venture Capital Fund

In 2001 Nestlé launched a new Corporate Venture Capital Fund of up to CHF 200 million to further capitalise on innovative science and technology. The fund is run by an independent management team and specialises in areas related to food and life sciences as well as packaging and other commercial applications. The fund broadens Nestlé's R&D potential and facilitates access to, and co-operation with, highly motivated and creative founders of start-up companies. The fund will finance acquisitions as well as investments in minority stakes, licensing agreements and joint ventures.

Listening to consumers Nestlé lists a telephone number (mostly toll-free) as well as local addresses on each product package, giving phone access to Nestlé Consumer Service in 80 markets. Their role is to deal with consumer requests, to answer questions and to engage in dialogue.

The Nestlé Consumer Services Worldwide Survey in 1998/1999 showed a trend of increasing dialogue, with some 5 million contacts from customers. Of these, 18% were asking for assistance with problems but the vast majority of requests (82%) were for information, such as nutritional advice or recipes.

Nestlé's position on gene technology

All genetically enhanced ingredients used by Nestlé have been deemed safe for human consumption by the **US Food and Drug Administration**, as well as by our own laboratories. These are primarily soya-based products. We will not put any ingredient in our foods which does not meet rigorous standards of food safety. Nestlé agrees with the position of the **United Nations Development Programme** on the careful use of genetically modified foods:

"If the development community turns its back on the explosion of technological innovation in food, medicine and information, it risks marginalising itself and denying developing countries opportunities that, if harnessed effectively, could transform the lives of poor people and offer breakthrough development opportunities to poor countries."

Mark Malloch Brown, Administrator, **United Nations Development Programme** – *UNDP Human Development Report 2001*

Responding to consumer desires – a Canadian case study

In April 2001, a study carried out by Nestlé Canada resulted in a decision, for economic reasons, that its Nestlé *Smarties, Aero, Kit Kat, Coffee Crisp* and *Mirage* products would no longer be manufactured in a peanut/nut-free environment. The measure was to be effective as from January 2002, and Nestlé initiated an allergy alert campaign targeted at consumers of these products to warn them of the change.

However, when consumers voiced concern about the planned change, Nestlé Canada listened to their views and reversed the decision. One of the thousands of letters sent to the company stated: "As the parents of a six-year old girl with a peanut allergy, we cannot begin to tell you what this means to us and our daughter, Kristen. You have truly set a standard that will be difficult for any of your competitors to match."

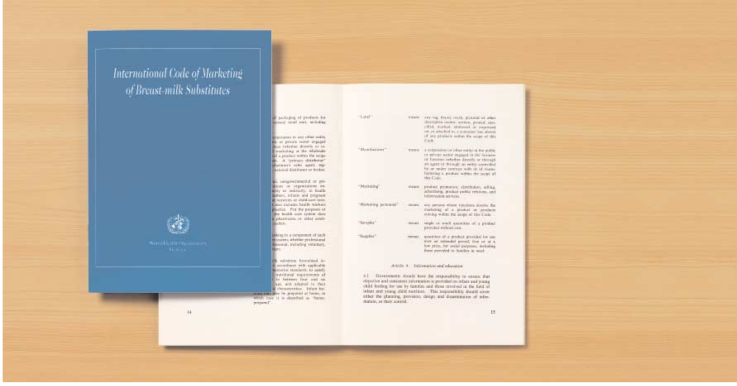

PEANUT/NUT FREE
GUARANTEE
Safe to Share
À partager en toute sécurité
GARANTI SANS
ARACHIDES/NOIX


Welcome to Nestlé
Sterling Road
This is a NUT FREE Facility.
PLEASE!!
Do Not bring NUTS or
foods containing NUTS
into our Factory.
Thank You for your co-operation

Advertising to consumers and children Nestlé makes a determined effort to advertise in a responsible way, not misleading consumers regarding the benefits of a product, and not encouraging dangerous or irresponsible consumption. We also monitor to ensure that our advertising does not contain objectionable content and does not depict discriminating or offensive attitudes to religious, political, ethnic, cultural or social groups. Equally important, we avoid advertising on programmes that include such content.

Nestlé has firm principles on advertising to children, including events and sponsorships. Advertising should not be disguised as programming or editorial, and should not undermine the authority, responsibility or judgement of parents or care providers.
In addition, advertising should not portray children in unsafe situations nor encourage them to accept invitations from people that they do not know.

Our guidelines on advertising have been distributed to marketing staff and advertising agencies globally, and all campaigns are reviewed and comply with our principles. Adhering to these internal standards inevitably results in higher advertising costs.
For instance, in two markets (Germany and the USA) our total advertising expenditure in 2000 was an estimated USD 13 million higher as a result of avoiding programmes with objectionable content.



Marketing of breast-milk substitutes

In 1981, the World Health Organisation (WHO) adopted the International Code of Marketing of Breast-milk Substitutes as a recommendation to all its member governments.

In all countries, Nestlé ensures that its marketing conforms to each country's implementation of the International Code as applied in legislation, regulations or other measures. In addition, in all developing countries (over 150), whether or not governments have taken action to implement the International Code, Nestlé voluntarily applies it in its entirety.

Infant formula marketing audits In addition to the internal control measures in each country, Nestlé regularly audits its companies around the world on a range of business practices and procedures. Acting independently from line management, our international auditors verify adherence to the International Code by each company in all developing countries where we have operations. All negative findings are brought to the personal attention of the CEO of Nestlé S.A. In 2000, four cases resulted in disciplinary measures being taken against the managers who violated our instructions. These standard measures include freezing of salary, withholding of bonuses, change of position, and termination. In addition, Nestlé is instituting a new ombudsman system that allows any employee to draw attention to potential violations of the International Code by the company, outside the chain of command of line management.

Infant formula marketing audit in Argentina

Nestlé Corporate Internal Auditors visit all developing countries where Nestlé sells infant formula to check that the marketing of the product strictly complies to the International Code of Marketing of Breast-milk Substitutes.

In Argentina, for example, auditors visit medical clinics and hospitals to discuss with doctors; they check retail outlets and warehouse stocks; and they audit Nestlé infant formula marketing practices directly with sales and marketing personnel.

Auditors check that:

- infant formula is not advertised to the public;
- There is no direct contact with mothers;
- No incentives are based on infant formula sales;
- No free samples are distributed;
- Exclusive breast-feeding is supported in printed feeding instructions and in all educational material to mothers;
- A warning on the consequences of incorrect use is printed on all infant formula labels;
- Sustained breastfeeding is recommended on cereal food labels;
- No baby pictures are shown on infant formula labels;
- infant formula labels are printed in appropriate language(s);
- A maximum of two cans of infant formula are given to health professionals for evaluation when a new product is launched;
- No financial or material incentives are given to health professionals;
- If agreed, support for scientific activities are confirmed in writing by the responsible officer of the association/institution;
- Complementary (weaning) foods are not marketed as breast-milk substitutes;
- Educational materials on the use of infant formula are not displayed publicly in clinics;
- All personnel responsible for infant formula marketing are familiar with the International Code and its implementation;
- Free infant formula donated over the past 12 months was only for social welfare cases.


Nestlé


ALIMENTO BEBE
NAN
NIDO


Nestlé


2039

Programa Nutrir – Brazil.

Kid's Club – United Kingdom.

Zakoura Foundation – Morocco.

Involvement in Communities

An important part of the way we do business is to be fully integrated into the communities in which we operate, on a long term basis.

We have published a separate report *Nestlé in the Community* that demonstrates our commitment to the health and well-being of these communities.

The nature of our commitment varies according to the needs of the country, but focuses on three areas: Nutrition, Health, and Socio-Economic Development. *Nestlé in the Community* gives brief descriptions of a large number of projects in 65 countries. Examples include:

— South Africa: a non-governmental organisation called **EcoLink** has been supported by Nestlé from its inception. Organisational development, communications, and funding, have helped to enable 150 000 people in local communities to establish sources of clean drinking water and improve their diet with vegetable gardens;

— Nestlé Australia supports a wide range of community activities through its Nestlé Community Fund, including the **Australian Theatre for Young People** and the **New Children's Hospital** in Sydney;

— Nestlé Bangladesh donates products to support the **Prime Minister's Relief Fund** that helps victims of floods and other natural disasters, and contributes to the **Floating Hospital Project** that provides medical assistance for the poorest people in this country;

— Nestlé Brazil has created a long term **Programa Nutrir** programme in which Nestlé employee volunteers use games and activities to teach good nutrition to marginalised families. The goal is to reach 500 000 children;

— Nestlé Russia has developed a programme, recommended by the **Russian Ministry of Education** and the **Russian Institute of Nutrition** for inclusion in the primary school curriculum, to teach young children the basics of good nutrition. Currently 100 000 children are enrolled;

— Nestlé UK has been a principal sponsor of **Kids' Clubs** network since 1996. This national charity provides safe, affordable "out-of-school" care for children while their parents are at work;

— Nestlé USA supports **Reading is Fundamental,** the USA's largest non-profit organisation committed to literacy, and ALCON Laboratories have provided free eye-surgery supplies for over 37 years in the **Medical Mission** programme around the world.

EcoLink – South Africa.

EcoLink – South Africa.

Polio drops – India.

Red Cross/Red Crescent Africa Health Initiative

In 2000, Nestlé provided technical assistance in communications and financial support for the launch of the continent-wide **Africa Health Initiative** of the **International Federation of the Red Cross/Red Crescent Societies.** Today, Nestlé is the primary corporate sponsor of the **Red Cross/Red Crescent Africa Health Initiative,** whose primarily aim is to prevent the spread of HIV/AIDS. In Nigeria, a programme of 2640 peer counsellors has been started which will extend on a nation-wide basis to 1.2 million youths, with 800 volunteers providing home health care to 7000 people suffering from AIDS.

NESTLÉ MAKES AN EFFORT TO INTEGRATE ITSELF AS MUCH AS POSSIBLE INTO THE CULTURES AND TRADITIONS OF THE DIFFERENT COUNTRIES WHERE IT OPERATES. FURTHERMORE, NESTLÉ BELIEVES THAT ITS ACTIVITIES CAN ONLY BE OF LONG TERM BENEFIT TO THE COMPANY IF THESE ARE, AT THE SAME TIME, BENEFICIAL FOR THE COUNTRY IN QUESTION.

Extract from *The Basic Nestlé Management and Leadership Principles*

The Future

While we have developed a strong corporate culture and firm set of business principles during the 135 years of our company's existence, we are not complacent regarding our current performance, but are dedicated to continuous improvement in sustainability.

Also, as this is our first Sustainability Review, we aim to learn from the experience of this review in planning future efforts.

Developing measures of social sustainability As this is our first effort in reporting on combined economic, environmental, and social sustainability, we are in the early stages of devising more quantitative measures of social sustainability to fit our own company. Creating valid, meaningful and comparable social measures across the many varying countries where we operate is not an easy task. Also, such measures are obviously much less precise than they are in economic or environmental areas, but we will address this measurement issue more fully as we prepare for future sustainability reporting.

Implementing the Nestlé Corporate Business Principles at all levels of management A major goal moving forward is to communicate the newly revised Principles to all levels of management, so that they understand how to implement them in a way that is specific to their own job or function. A series of educational tools are being developed, including modular teaching materials, question-and-answer documents, articles for internal publications and e-mail based information. These are intended for use in ongoing management communication and training programmes with existing and new managers.

Processes to monitor adherence to the Nestlé Corporate Business Principles We believe that we have a robust internal monitoring of our Principles through our corporate auditors' processes. However, our quality assurance systems for areas such as food safety and the environment are naturally far more developed. While microbiological and environmental measures are much more quantitative in nature, we are examining ways to further strengthen internal processes to monitor implementation of our Principles, based on our learning from quality assurance processes in other areas.

Sustainable Agriculture Initiative Together with two other major food companies, Danone and Unilever, Nestlé recently founded the Sustainable Agriculture Initiative (SAI) to promote sustainable agriculture in a comprehensive way.

Within the framework of SAI, Nestlé has worked with farmers to elaborate best practices in the areas of milk production and coffee and cocoa growing. We will expand these activities to all main raw materials.

The main objectives for SAI are to manage:
— Quality and safety problems in the food supply chain that may affect consumer confidence in everyday food products;
— The growing demand for quality food that will arise from population growth, increases in expendable income and expected changes in diet;
— Possible adverse effects and pressure of agriculture on natural resources and environment that may affect agricultural productivity.

Our hope is that SAI will act on a world-wide scale as a platform for industry collaboration in the development and implementation of sustainability in agriculture. It will also offer a platform for development in areas of public concern such as the quality and safety of produce, the well-being of rural communities, animal welfare, and soil, water, air, energy and biodiversity aspects.

Consultation with external parties As indicated previously in this report, Nestlé has been an early leader in holding consultations with labour organisations, and continues these consultations. We have also taken part in recent UN-sponsored consultations on various topics.

Currently, Nestlé is participating in a process to examine potential problems of forced child labour on cocoa farms in West Africa. This is being done on an industry-wide basis, in consultation with governments, labour organisations, and NGOs, as well as other members of the cocoa and chocolate industry. We strictly monitor that no child labour is used in Nestlé facilities, reject industrial suppliers who do so. We hope that the constructive dialogue that has been started on this issue will continue, and that these discussions will result in pragmatic approaches to doing what is best for workers in Western Africa. If successful, this effort may lead to collaborative processes that can be used with other issues.

In the area of infant formula marketing, we have carried on a dialogue with major international organisations and we are in favour of such dialogue at both the country level, and at the level of the World Health Organisation, including both food producers and NGOs as well as governments. We have also met with major environmental organisations and discussed progress on several topics including the elimination of ozone-depleting refrigerants from our operations.

We do not, of course, always agree with what is being said by dialogue partners, and do not abrogate business decision-making to others. But we are interested in communicating with external parties on topics of concern to hear different points of view and to search for practical solutions to problems where they may exist. Nestlé intends to increase focus on such external communication, while at the same time managing our own business and reporting on adherence to the Principles that we have so very consciously established.

Other publications and how to contact Nestlé

The following publications are also available from Nestlé S.A. in Vevey, Switzerland. Should you wish to receive a copy of any of these or have any questions or comments arising from *The Nestlé Sustainability Review* please write to us at the following address:

Nestlé S.A.
Public Affairs
Avenue Nestlé 55
CH – 1800 Vevey
Switzerland
www.nestle.com

— Nestlé Management Report to Shareholders
— Nestlé Half-yearly Report
— Nestlé Corporate Business Principles
— The Basic Nestlé Management and Leadership Principles
— Environment – Progress Report 2000
— The Nestlé Water Policy
— Nestlé in the Community
— Nestlé Research and Development at the dawn of the 21st Century
— Nestlé in China, Nestlé Technical Assistance in Agriculture and the Development of Coffee Growing
— Nestlé in India 1962-1992
— Nestlé – Hundred and Twenty Five Years

Data source
The main quantitative and qualitative information in the report is based on answers to questionnaires that were sent to the heads of our 20 most important markets. These represent over 80% of total sales for the Nestlé Group of Companies. Unless stated otherwise, figures given relate to the year 2000.

Additional information was based on interviews with heads of various departments at the Nestlé headquarters in Human Resources, Environment, Public Affairs, Quality Management, Agricultural Services, Consumer Services, and on consolidated information where available.

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