Good Food, Good Life

Management Report 2002

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
Vice Chairman of the Board
and Chief Executive Officer

Rainer E. Gut
Chairman of the Board

Key figures by management responsibility and geographic area

Sales

In millions of CHF

		2002	2001	2000
Zone Europe	32.2%	**28 678**	26 742	26 285
Zone Americas	32.8%	**29 293**	26 598	25 524
Zone Asia, Oceania and Africa	16.7%	**14 880**	15 458	15 710
Nestlé Waters	8.7%	**7 720**	7 418	5 947
Other activities [a]	9.6%	**8 589**	8 482	7 956
	100%	**89 160**	84 698	81 422

EBITA (Earnings Before Interest, Taxes and Amortisation of goodwill)

In millions of CHF

		2002	2001	2000
Zone Europe	27.7%	**3 438**	2 942	2 869
Zone Americas	33.8%	**4 189**	3 593	3 538
Zone Asia, Oceania and Africa	20.7%	**2 564**	2 653	2 827
Nestlé Waters	5.6%	**696**	622	570
Other activities [a]	12.2%	**1 521**	1 536	1 447
	100%	**12 408**	11 346	11 251
Unallocated items [b]		**(1 468)**	(1 359)	(1 340)
EBITA		**10 940**	9 987	9 911

Capital expenditure (property, plant and equipment)

In millions of CHF

		2002	2001	2000
Zone Europe	25.5%	**880**	954	946
Zone Americas	26.2%	**904**	747	766
Zone Asia, Oceania and Africa	17.0%	**584**	626	550
Nestlé Waters	22.3%	**769**	839	668
Other activities [a]	9.0%	**310**	330	281
	100%	**3 447**	3 496	3 211
Unallocated items [c]		**130**	115	94
		3 577	3 611	3 305

[a] Mainly Pharmaceutical products, joint ventures and "Trinks" (Germany)
[b] Mainly corporate expenses as well as research and development costs
[c] Corporate and research and development fixed assets

Key figures by product group

Sales

In millions of CHF

		2002	2001	2000
Beverages	26.2%	**23 325**	24 023	23 044
Milk products, Nutrition and Ice cream	26.2%	**23 376**	23 041	22 048
Prepared dishes and cooking aids	17.7%	**15 834**	15 092	14 564
Chocolate, confectionery and biscuits	12.1%	**10 774**	11 244	10 974
PetCare	12.0%	**10 719**	6 232	6 068
Pharmaceutical products	5.8%	**5 132**	5 066	4 724
	100%	**89 160**	84 698	81 422

EBITA (Earnings Before Interest, Taxes and Amortisation of goodwill)

In millions of CHF

		2002	2001	2000
Beverages	32.9%	**4 075**	4 259	4 317
Milk products, Nutrition and Ice cream	22.2%	**2 756**	2 578	2 626
Prepared dishes and cooking aids	13.8%	**1 712**	1 573	1 517
Chocolate, confectionery and biscuits	9.5%	**1 180**	1 234	1 155
PetCare	11.4%	**1 418**	453	430
Pharmaceutical products	10.2%	**1 267**	1 249	1 206
	100%	**12 408**	11 346	11 251
Unallocated items [d]		**(1 468)**	(1 359)	(1 340)
EBITA		**10 940**	9 987	9 911

Capital expenditure (property, plant and equipment)

In millions of CHF

		2002	2001	2000
Beverages	28.1%	**1 004**	1 062	936
Milk products, Nutrition and Ice cream	13.8%	**495**	573	530
Prepared dishes and cooking aids	8.5%	**304**	267	245
Chocolate, confectionery and biscuits	8.0%	**285**	249	250
PetCare	7.9%	**284**	193	145
Pharmaceutical products	2.8%	**101**	99	113
	69.1%	**2 473**	2 443	2 219
Administration, distribution, research and development	30.9%	**1 104**	1 168	1 086
	100%	**3 577**	3 611	3 305

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

Letter to Shareholders

Dear shareholder,

2002 was a year of uncertainty around the globe, with currency crises, economic downturns, continued trade disputes and political uncertainty in many parts of the world. It was therefore perhaps a good test of Nestlé's strategy to be the most global of food companies. In this context, we are pleased to be able to report that in 2002 we have grown earnings before interest, tax and amortisation of goodwill (EBITA) by 9.5%, bringing the margins to 12.3% from 11.8% in 2001, on sales increased 5.3% to CHF 89.2 billion, in spite of the impact of currencies. At constant exchange rates, sales grew by 13%.

One of the most important measures of our sales performance is the organic growth which reached 4.9%. This demonstrates the health of our brands and the success of our programmes of brand and channel innovation and our ongoing renovation of our existing portfolio. The two elements of organic growth are real internal growth (RIG) and pricing, which increased 3.4% and 1.5% respectively.

The other elements of our sales growth are the impacts of our acquisitions and divestitures and of foreign exchange. The major positive influence was the acquisition of Ralston Purina, completed in December 2001, whilst the major negative influence on our sales was the strength of the Swiss franc which, because we have to translate our international sales from their domestic currencies into Swiss francs, reduced our reported sales. Overall, acquisitions, net of divestitures, added 8.4% to our sales, whilst the currency impact reduced reported sales by 8%.

Our EBITA increased 9.5% to CHF 10.9 billion. The improved EBITA margin, of 12.3%, demonstrates not only the ability of our organisation to adjust to changing market conditions whilst remaining focused on the drivers of profitability, but also the resilience of our margins even to dramatic movements in exchange rates.

Our net profit improved 13.2% from CHF 6.7 billion to CHF 7.6 billion, with the net profit margin increasing from 7.9% to 8.5%. Our earnings per share, meanwhile, improved 13.1% from CHF 17.25 to CHF 19.51. These figures were influenced by a number of one-off events that took place during the year, including the gains from the partial IPO of Alcon, our ophthalmic business, and from the disposal of Food Ingredients Specialities, our flavours business, and also including charges relating to restructuring and impairments of both goodwill and tangible fixed assets. The net profit and earnings per share are, therefore, a less accurate reflection than the improved EBITA margin of the like for like performance of the business in 2002 compared to 2001.

The Group's free cash flow increased to a record level of CHF 6.3 billion, or 7% of sales. This is a clear demonstration of the financial health of Nestlé. This cash flow is part of the reason for our retention of our AAA credit rating, even despite our assumption of USD 10.3 billion of debt when we acquired Ralston Purina. This best possible rating recognises that Nestlé is amongst the most financially secure companies in the world.

In view of the performance in 2002 and of our positive prospects, the Board proposes a dividend of CHF 7.00 per share, an increase of 9.4% over the CHF 6.40 per share paid for 2001.

The priority for Nestlé management in 2002 was to lay the foundations for continued improvements in business efficiency and EBITA margins. To that end, we have continued to drive forward the GLOBE programme, with the first market implementations successfully completed in 2002. We have also, in the first year of Project FitNes, established a set of tools to enable improved white collar efficiency. These are important steps which, together with the ongoing Target 2004+ manufacturing efficiency programme, ensure that Nestlé will be able to continue to improve margins. Also, although we acquired 65 new factories during the year, we sold or closed 25 of our facilities.

One of the key management challenges in 2002 was the integration of Ralston Purina with our existing pet care operations. We are able to report that the integration is running ahead of plan, that the management team has increased its expectation for the level of cost synergies and that, most important of all, the enlarged business has continued to perform well in the marketplace. This demonstrates the value of one of our acquisition criteria: that the cultural mix, shared know-how, business fit and, of course, the commitment of the management team should create a high degree of certainty in the successful integration of an acquisition. It is interesting to note a benefit of the weak dollar in 2002: that due to its weakness, falling interest rates and careful debt management, our interest bill for the Ralston Purina acquisition was USD 200 million less than we had budgeted, a first year saving that is not far off the total cost synergies that we expect to achieve by merging Ralston Purina into our pet care business.

Perhaps the defining feature of 2002 for Nestlé was rumoured and actual acquisitions. There were two significant acquisition opportunities during the year that made all the news headlines, but that came to nothing for Nestlé. The first was Hershey, which was put up for sale and then withdrawn from the marketplace. The second was Adams, which is now in the process of being sold to a third party. In both cases Nestlé was the rumoured most likely buyer, but in neither case was Nestlé motivated to acquire the total business. In short, Nestlé has strict acquisition criteria, and these acquisitions, as offered by the vendors, did not meet those criteria.

Acquisitions that did meet our criteria were Dreyer's Grand Ice Cream and Chef America. Dreyer's is another step in a series of recent moves in the ice cream sector, following the Häagen Dazs and Schöller transactions. Dreyer's sales in 2002 were USD 1.3 billion. We are waiting for FTC and Dreyer's shareholder approvals. Meanwhile, in January 2003, we announced the acquisition of the Mövenpick ice cream business.

Chef America, with high growth and high margins, is the leading US manufacturer and marketer of frozen hand-held food products under the *Hot Pockets, Lean Pockets* and *Croissant Pockets* brands: it is the ideal complement to our own frozen food activities in the USA, which include Stouffer's and Lean Cuisine. This acquisition gives us leadership in two out of the three principal categories in the world's largest frozen food market. There were acquisitions also in Water and Chocolate, as well as divestitures in a number of categories.

A major event in March 2002 was the partial IPO on the New York Stock Exchange of about 25% of Alcon. The shares started trading at a premium to the USD 33 offer price and continued to perform well, finishing the year at USD 39.45. This performance would seem to justify our opinion that we needed to take this step to enable the investment community to appreciate fully the value of Alcon. It is pleasing also to be able to report that Alcon has published a very strong set of results in its first year as a public company, justifying its year end market capitalisation of USD 12 billion.

The progress made by Nestlé in 2002 is testament to its ability to deliver strong results even in difficult market conditions. 2003 will certainly be another testing year for currencies, economies and for Nestlé. It is likely that our sales growth and reported earnings per share will come under pressure from exchange rates, although it is worth noting that in 2002 a 17% fall in the dollar against the Swiss franc as well as weakness across our other key currencies, led to only an 8% impact on reported sales and impacted margins only slightly. That said, we will continue to deliver industry leading organic growth, the true measure of the health of our business. Nestlé has a stated trend target of 4% RIG, and our run-rate for the last three years is above that level. We would hope to be able to achieve this target in 2003 but, as in 2002, we will not sacrifice our profit margins to do so. We will continue to focus on improving our margins and cash flows and would expect to be able to report further positive news on this front at the end of the year.

The two related issues that have dominated the business news headlines in 2002 have been corporate governance and corporate scandals. Our opinion on this issue is clear: that increasing the legal and reporting burdens for companies is not the answer. Nor is there one model today, be it the European or the US one, that should be followed slavishly by all. No number of laws and lawyers will prevent those who wish to break the law from doing so. What is needed is for each business to have a sound set of business principles, and internal checks and balances to ensure that those principles are followed. For Nestlé, governance goes beyond the financial world: it is about the way we treat the environment, our approach to sustainability, the way we behave in those communities that we touch around the world and the way we develop our people. Our business principles, available on our web site, www.nestle.com, cover these areas and more too. This year the SWX Swiss Exchange has issued directives on corporate governance, to which we have adhered fully through the publication of the 2002 Corporate Governance Report, distributed with the 2002 Management Report.

The Board of Directors will see a change in 2003. Mr. Stephan Schmidheiny has chosen to retire from the Board after 15 years of service. His courageous and original thinking and his broad international experience have proved very valuable to the Board. Mr. Andreas Koopmann, Member of the Board of Directors and Chief Executive Officer of Bobst Group S.A., is being proposed as a new Director.

There have been changes too on the Executive Board. Mr. Rupert Gasser, Head of Technical, Production, Environment, Research and Development, retired in April 2002 after 40 years with the Group. Mr. Gasser was instrumental to many important worldwide initiatives, and in particular will be remembered for establishing a culture of continuous improvement within Nestlé's factories. He has been replaced by Mr. Werner Bauer, who joined Nestlé in 1990 from one of the world's foremost research institutions, the Fraunhofer Institute. Mr. Bauer began his Nestlé career by leading the Nestlé Research Center, then taking charge of Nestlé Research and Development worldwide, before being appointed Technical Manager and then Market Head of the South and Eastern African Region. In November 2002, the Board appointed Mr. Frits van Dijk as Executive Vice President, in recognition of his achievements at Nestlé Waters. Also, Mr. Luis Cantarell, the Head of the Nutrition Strategic Business Division, has been appointed Deputy Executive Vice President as from 1st January 2003.

A company's success is not achieved by the few at the top, but by the efforts of all its people. In our case that means the teamwork and commitment, the mutual respect and tolerance, of over 250 000 people of all races and creeds from all over the world. We would like to remind our people that they are what lies behind the success of Nestlé around the world and to thank them once again for their continued loyalty and enthusiasm.

Rainer E. Gut
Chairman of the Board

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

Directors and Officers

Helmut O. Maucher
Honorary Chairman

	Term expires[1]
Board of Directors of Nestlé S.A.	
Rainer E. Gut [2, 4]	2005
Chairman	
Peter Brabeck-Letmathe [2]	2007
Vice Chairman	
Chief Executive Officer	
Vreni Spoerry [2, 3, 4]	2004
Member of Swiss Parliament	
George Simpson [2, 4]	2004
Industrialist	
Stephan Schmidheiny	2003
Industrialist	
Jean-Pierre Meyers [3]	2006
Vice Chairman L'Oréal	
Peter Böckli [3]	2003
Attorney-at-law	
Arthur Dunkel	2004
Consultant, Professor	
Nobuyuki Idei	2006
Chairman & CEO Sony Corporation	
André Kudelski	2006
Chairman & CEO Kudelski Group	
Vernon R. Young	2007
Professor of nutritional biochemistry	

Secretary of the Board
Bernard Daniel
Secretary general

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

For further information on the Board of Directors and the Executive Board, please refer to the Corporate Governance Report 2002, attached.

Executive Board
as of 31st December 2002

Chief Executive Officer
Peter Brabeck-Letmathe
Direct report:
Nutrition Strategic Business Division

Executive Vice Presidents
Michael W. O. Garrett
Asia, Oceania, Africa, Middle East
Carlos E. Represas
United States of America, Canada, Latin America, Caribbean
Francisco Castañer
Pharmaceutical and Cosmetic Products, Liaison with L'Oréal, Human Resources, Corporate Affairs
Frank Cella
Strategic Business Units, Marketing
Wolfgang H. Reichenberger
Finance, Control, Legal, Tax, Purchasing, Export
Lars Olofsson
Europe
Werner Bauer [5]
Technical, Production, Environment, Research and Development
Chris Johnson
Deputy Executive Vice President
GLOBE Programme, Information Systems, Logistics, eNestlé
Frits van Dijk [6]
Deputy Executive Vice President
Nestlé Waters

1 On the date of the General Meeting of Shareholders
2 Member of the Committee of the Board
3 Member of the Audit Committee
4 Member of the Remuneration Committee
5 Rupert Gasser retired on 30th April 2002
6 Executive Vice President as of 1st January 2003

Luis Cantarell was nominated Deputy Executive Vice President for the Nutrition Strategic Business Division as of 1st January 2003.

Executive Board (from left to right):
Chris Johnson, Wolfgang H. Reichenberger,
Francisco Castañer, Michael W.O. Garrett,
Peter Brabeck-Letmathe, Carlos E. Represas,
Lars Olofsson, Frank Cella,
Werner Bauer, Frits van Dijk

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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 sales and profitability will be achieved while respecting quality and safety standards at all times.
Sales growth will be delivered through the continued strengthening of our brand portfolio and market positions.**

Good Food, Good Life
The Nestlé promise to its consumers

General comments
Managing complexity... delivering operational efficiencies... driving growth... and creating winning environments

Managing complexity...
Nestlé's breadth of products and geographic reach, its focus on local brands, on local taste and local consumer communication are the almost 140-year-old foundations on which the Group is built. As with any structure that goes back so far, its foundations need to be tested and restored, modernised even, to be able to support the Group for many years to come.

That process of testing has revealed a certain complexity in Nestlé's geographic structure, its systems, its supply chain and in the way it identifies all the many elements of its day to day activity: its raw materials, suppliers, finished products, brands and customers. Complexity has often been associated with inefficiency, and, if unaddressed, could turn Nestlé's greatest strength into a weakness.

Our objective, therefore, is to combine our multi-focal approach with a high level of efficiency. Already, we have identified CHF 5.5 billion of efficiency improvements to be realised by 2006 from within our food and beverage businesses, and without damaging that great strength that Nestlé has: consumer intimacy all over the world.

...delivering operational efficiencies...
Those efficiencies will be generated through sharing best practices across all functions. A great benefit of having many factories around the world is that they are home to a wealth of expertise, of creativity and of excellence. By sharing best practices we will be leveraging that intellectual capital on a global basis to ensure that Nestlé will truly know the sum of what Nestlé knows: the harvesting of this expertise is a significant competitive advantage that will be increasingly exploited in the marketplace.

Target 2004+ – Those food and beverage factories are home to Target 2004+, a rigorous, measurable efficiency improvement programme. It is built on a repository of best practice. We are committed to achieving savings of at least CHF 500 million each year until 2004. Already, in 2002, we have exceeded our annual target, with CHF 1.2 billion of savings.

Whilst efficiencies within our factories will make a significant contribution to improving our performance, economies of scale and asset utilisation are the two most critical factors in improving the return on invested capital for the Group. In association with the Target 2004+ programme and other Group wide initiatives we have established charges relating to the impairment of property, plant and equipment. This results from our commitment to optimise manufacturing performance on a regional and global basis. The main focus will be in Europe, where 40% of the Group's factories are located. The series of closures with which these write-downs are associated is an investment in our future performance. As with any investment, it will be closely monitored to ensure that its returns meet our expectations, both financial and temporal. When detailed formal plans have been established, and when there is a valid expectation that such plans will be carried out, the related restructuring costs have also been provided.

Certain components of the Group's acquired goodwill have also been impaired, resulting largely from changes in consumer trends for pet care in Europe and from a review of the Group's ice cream and frozen food businesses, primarily in Europe and the Far East.

Project FitNes – Our offices around the world are host to Project FitNes. This targets a reduction in administrative costs of 1% of our food and beverage sales by 2005. This year was the start-up year for this project, focused on preparing the tools to enable those savings and their measurement. Nonetheless we have already realised some savings during 2002.

GLOBE – Global Business Excellence – This project remains on track to reach its objective of enabling benefits of CHF 3 billion by 2006. GLOBE is discussed in more detail on page 20.

…driving growth…
Reducing costs is one part of our strategy for improving financial performance, but it is not allowed to interfere with the other: to increase the growth rate of our food and beverage business.

Over recent years we have accelerated our growth: from 1992 to 1996 our RIG averaged 2.7%, whilst from 1997 to 2001 it averaged 3.8%. We expect in the future to be able to maintain an average RIG of 4%, as we have over the last three years including 2002. This places us among the pace-setters in the food industry.

We have had three longstanding strategies for accelerating our internal growth, all of which remain valid: innovation and renovation of our products and brands, as well as of our routes to market, product availability and consumer communication. To these we added a fourth in 2001, increasing customer and channel contributions.

Increasing customer and channel contributions – The objective is to benchmark our performance at comparable retail customers and then work on improving the less performing ones. The intention is to increase our return by improving both our sales momentum and the marginal contribution from those sales.

…and creating winning environments
A further route to growth is portfolio change. Our recent and proposed acquisitions, Ralston Purina, Chef America and Dreyer's Grand Ice Cream, are growing faster than the Group average and have current or potential levels of profitability above the Group average. Our divestments, meanwhile, are characterised by a lower growth potential.

These and other potential acquisitions need to meet our acquisition criteria. These require that the acquisition should help us to achieve a number one leadership position, or a strong number two, as well as bringing strong brands. There must be a high likelihood of successful integration in terms of business fit, but also in know-how, management commitment and culture. Our financial criteria are clear too: that the acquired business will enhance RIG, cash flow and profitability and that it will be value creating in the foreseeable future. We walk away from any acquisition that does not meet our criteria, as we have proven during 2002.

Once an acquisition is completed, we put the best team available in charge of the enlarged business, regardless of whether that team comes from Nestlé or from the acquired business, and give them clear, measurable objectives for integration, growth, profitability and market performance. Our recent acquisitions are, therefore, excluded from initiatives such as Target 2004+, Project FitNes and GLOBE until such time that their management teams feel that they are able to give those initiatives the commitment they need.

But there is more to winning environments than just acquisitions: we have established a venture capital fund to nurture food innovation; we are pursuing joint ventures internationally in cereals and beverages and in dairy in Latin America.

Another example of creating a winning environment was the partial flotation of Alcon. This has achieved two significant objectives: it has enabled investors to benchmark Alcon against its peer group and value it appropriately; and it has enabled investors to benchmark Nestlé's food and beverage business against its competitors. This greater transparency enables investors to measure both the achievement of our CHF 5.5 billion of cost savings and our potential for future growth. This should facilitate an appropriate valuation for our food and beverage business.

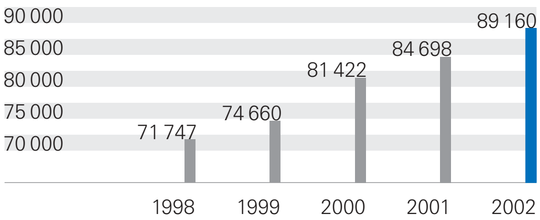
As stated in last year's report, we are seeking to deliver returns from Nestlé commensurate with its position as the world's leading food company. 2002 saw some solid steps along that path, and we expect to make further progress in the years ahead.

Key figures (consolidated)

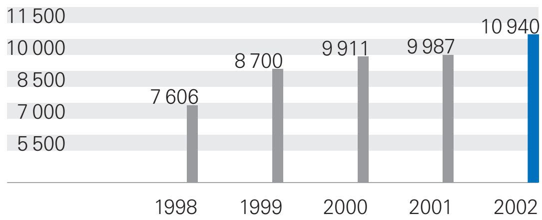
In millions of CHF (except per share data)

		2002	2001
Sales		**89 160**	84 698
EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation of goodwill)		**13 671**	12 718
as % of sales		**15.3%**	15.0%
EBITA (Earnings Before Interest, Taxes and Amortisation of goodwill)		**10 940**	9 987
as % of sales		**12.3%**	11.8%
Net profit		**7 564**	6 681
as % of sales		**8.5%**	7.9%
as % of average equity		**22.1%**	21.0%
Expenditure on tangible fixed assets		**3 577**	3 611
as % of sales		**4.0%**	4.3%
Equity before proposed appropriation of profit of Nestlé S.A.		**34 819**	33 653
Market capitalisation, end December		**113 368**	137 230
Free cash flow (Operating cash flow less capital expenditure, disposal of tangible assets as well as purchase and disposal of intangible assets)		**6 278**	4 938
Per share			
Net profit	CHF	**19.51**	17.25
Equity before proposed appropriation of profit of Nestlé S.A.	CHF	**89.82**	86.88
Dividend as proposed by the Board of Directors of Nestlé S.A.	CHF	**7.00**	6.40
Personnel (2001 excludes 6 964 of Ralston Purina)	Number at year end	**254 199**	229 765
Factories (2001 excludes 29 of Ralston Purina)	Number at year end	**508**	468

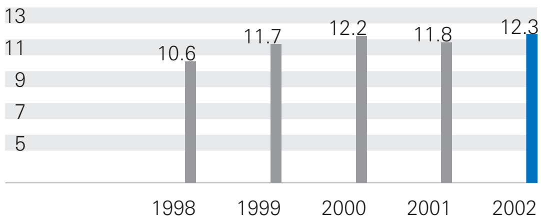
Sales
In millions of CHF



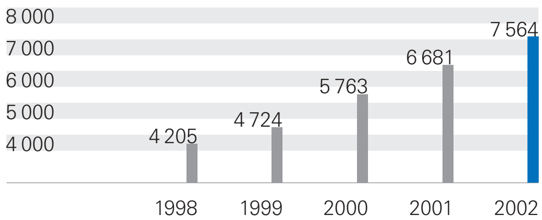
EBITA
In millions of CHF



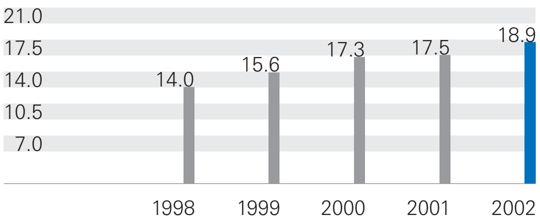
EBITA margin
In %



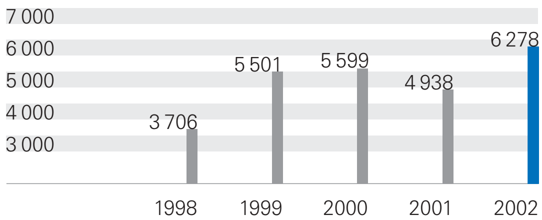
Net profit
In millions of CHF



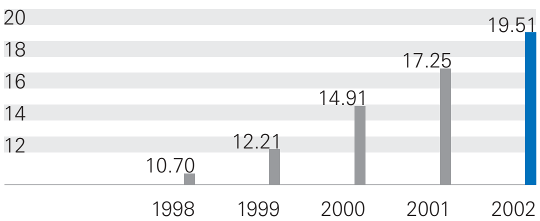
Return on invested capital*
In %



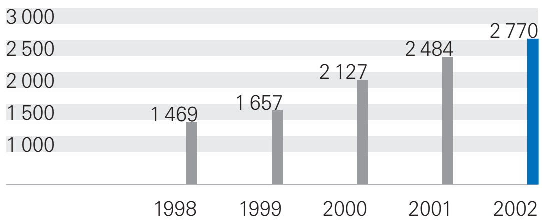
Free cash flow
In millions of CHF



Earnings per share
In CHF



Dividends paid
In millions of CHF



* based on segment reporting

Principal key figures in USD (illustrative)

In millions of USD (except per share data).
Income statement figures translated at average rate; Balance sheet figures at year end rate

		2002	2001
Sales		**57 560**	50 325
EBITDA		**8 826**	7 557
EBITA		**7 063**	5 934
Net profit		**4 883**	3 970
Equity before proposed appropriation of profit of Nestlé S.A.		**25 049**	20 032
Market capitalisation, end December		**81 560**	81 685
Per share			
Net profit	USD	**12.60**	10.25
Equity before proposed appropriation of profit of Nestlé S.A.	USD	**64.62**	51.71

Principal key figures in EUR (illustrative)

In millions of EUR (except per share data).
Income statement figures translated at average rate; Balance sheet figures at year end rate

		2002	2001
Sales		**60 777**	56 091
EBITDA		**9 319**	8 423
EBITA		**7 458**	6 614
Net profit		**5 156**	4 425
Equity before proposed appropriation of profit of Nestlé S.A.		**23 848**	22 739
Market capitalisation, end December		**77 649**	92 723
Per share			
Net profit	EUR	**13.30**	11.42
Equity before proposed appropriation of profit of Nestlé S.A.	EUR	**61.52**	58.70

Sales
Acquisitions fuel growth

In 2002, Nestlé's sales rose 5.3% to CHF 89.2 billion.

Real internal growth (RIG) was 3.4%. This was below our trend target of 4%, primarily due to the difficult economic environments in Latin America and Japan. Following, as it does, two strong years in which we achieved 4.4% RIG, this year's performance leaves the Group's average growth since 2000 above its 4% target. RIG measures the like for like volume growth achieved by our Group from one year to the next. It excludes the impact of selling price increases.

Selling prices and residual items increased sales by 1.5%. As expected, price movements were modest in industrialised markets, where there is generally low inflation. They were somewhat more pronounced elsewhere, particularly in Latin America, where it was necessary to compensate for currency devaluations.

Organic growth, which excludes acquisitions and divestitures and is measured at constant exchange rates, was 4.9%. This measurement is the most popular among companies for reporting their sales performance. By this measure, Nestlé is one of the fastest growing major food and beverage groups in the world.

Acquisitions, net of divestitures, contributed 8.4% to sales, with acquisitions adding 9.9% and divestitures taking 1.5%. The biggest impact on sales in 2002, as well as on profitability, was the acquisition of Ralston Purina, which was completed in December 2001. More detail on the progress of this acquisition is available in the PetCare section, starting on page 72, whilst the portfolio changes made during 2002 are discussed on page 18.

Exchange rate movements, in a year of strength for the Swiss franc, reduced sales on translation into Swiss francs by 8%. Exchange rates were particularly weak in Latin America, but the US dollar, euro, sterling and yen also weakened against the Swiss franc.

2002 Sales[a]

In millions of CHF

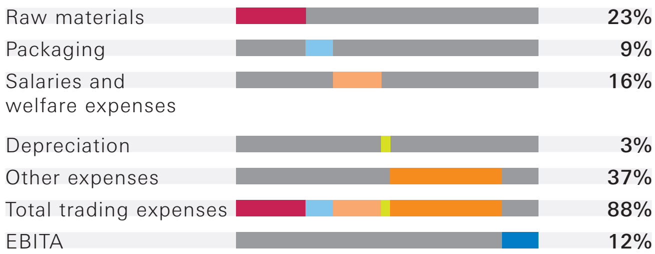
	Differences 2002/2001 in CHF	in local currency	
By principal market			
USA	+18.4%	+28.6%	**24 142**
France	+3.5%	+6.5%	**8 189**
Germany	+15.7%	+19.1%	**7 694**
United Kingdom	–0.6%	+3.4%	**4 726**
Italy	+2.3%	+5.3%	**4 190**
Japan	–14.2%	–4.2%	**3 329**
Brazil	–4.9%	+26.7%	**3 313**
Mexico	–12.7%	–2.2%	**3 279**
Spain	+1.4%	+4.4%	**2 505**
Canada	+23.2%	+36.3%	**2 153**
Australia	+6.0%	+9.3%	**1 548**
Philippines	–1.9%	+7.6%	**1 503**
Switzerland	+7.3%	+7.3%	**1 399**
Russia	+15.1%	+34.8%	**1 094**
China	+14.5%	+24.2%	**999**
Other markets	–1.7%	(b)	**19 097**
By continent			
Europe	+6.8%	(b)	**36 375**
USA + Canada	+18.7%	(b)	**26 296**
Asia	–6.2%	(b)	**12 072**
Latin America + Caribbean	–11.3%	(b)	**10 436**
Africa	+1.1%	(b)	**2 106**
Oceania	+5.6%	(b)	**1 876**
Total Group	+5.3%	(b)	**89 160**

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

The RIG performance by management responsibility and product group is discussed in detail on pages 31 to 44. In brief, Zone Europe produced a RIG of 1.7% and Zone Americas 2.3%, whilst Zone Asia, Oceania and Africa reached 3.6%. Nestlé Waters achieved a RIG of 9.9% and our Other activities 7.1%.

Profitability
Operational efficiencies drive margin improvement

Cost structure of the Group (illustrative)



Earnings before Interest, Taxes and Amortisation of goodwill (EBITA) rose 9.5% to CHF 10.9 billion in 2002, from CHF 10.0 billion in 2001. The EBITA margin also rose, from 11.8% to 12.3%.

Profit before interest and taxes rose 12.8% to CHF 10.3 billion from CHF 9.2 billion, whilst higher financing costs in 2002 held the rise in profit before taxes back to 10.5%, to CHF 9.7 billion from CHF 8.8 billion in 2001.

Net profit, meanwhile, increased 13.2% to CHF 7.6 billion in 2002 from CHF 6.7 billion in 2001. The net profit margin also rose, from 7.9% to 8.5%. Earnings per share increased from CHF 17.25 to CHF 19.51.

It is pleasing to be able to report that, despite the difficult trading conditions in 2002, we improved our margins in Zone Europe and Zone Americas, as well as at Nestlé Waters, whilst the high margin contributors, Zone Asia, Oceania and Africa and Other activities continued to perform at an excellent level.

The key cost items showed mixed progress. Our efficiency programmes enabled us to deliver an improvement as a percentage of sales in the cost of good sold, despite the impact of increases in the costs of some of our key raw materials. Distribution costs, however, again increased, reflecting the increasing weight in our portfolio of some distribution intensive operations such as Water, Frozen food and Ice cream. It is interesting to note, however, that each of these businesses improved its profitability in 2002. We also saw an increase in marketing expenses.

Our net financing costs also increased, but by rather less than might have been expected, bearing in mind the increased debt. This good performance is due to our decision to keep much of our debt in US dollars, to our active management of that debt and to the lower interest rate environment in 2002, compared to 2001.

We have taken impairments on property, plant and equipment of CHF 1.3 billion and restructuring charges of CHF 1.1 billion. These reflect our improved knowledge of current and potential future productivity throughout our factories and offices. We have also made goodwill impairments of CHF 0.8 billion to reflect rationalisations of brands and other intangible assets. These exceptional adjustments have laid the foundations for a more competitive resource and asset structure.

The effective tax rate for the year end was 23.7%. The Group's underlying tax rate is higher, but we have benefited from the favourable treatment of our more significant capital gains, partly offset by non fiscally deductible charges for goodwill.

The actual reported rate in any one year can be influenced by, among other things, the impact of exchange rate fluctuations on our overseas earnings when reported in Swiss francs.

Return on invested capital, capital expenditure and cash flow

Improvement in all areas

Return on invested capital
Nestlé's return on invested capital excluding goodwill increased in 2002 from 17.5% to 18.9%. Including goodwill, it decreased from 13.8% to 11%, mainly reflecting the goodwill resulting from the acquisition of Ralston Purina.

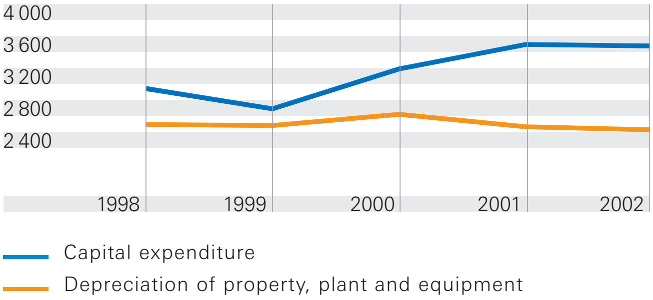
Capital expenditure
Capital expenditure in 2002 was CHF 3.58 billion, or 4.0% of sales, compared to CHF 3.61 billion, or 4.3% of sales, in 2001.

The split by Zone favoured Europe and the Americas, where we have a greater proportion of our manufacturing assets and sales.

By product group, approximately CHF 1 billion was invested in Beverages. We continued to support the growth of Nestlé Waters, particularly in North America. We opened The Product Technology Centre – Waters, our worldwide water research centre, in Vittel, France. For *Nescafé,* we installed our latest technology and increased capacity in Zones Europe and AOA. We also completed the first phase of the *Nespresso* factory in Orbe, Switzerland.

In Milk products, Nutrition and Ice cream, we invested behind increased capacity in milk and nutrition, primarily in Zone AOA, in countries as diverse as Thailand, Australia, China, Indonesia, Malaysia and Uzbekistan.

Capital expenditure
In millions of CHF



In Prepared dishes and cooking aids, we added capacity in the USA, as well as in France.

In Chocolate, confectionery and biscuits, the two key investments were for rationalisation and modernisation in the US and for capacity in Russia. In PetCare, we added targeted capacity in Europe and the Americas.

Cash flow
Operating cash flow increased in 2002 over 2001 both in absolute terms, from CHF 8.6 billion to CHF 10.2 billion, and as a percentage of sales, from 10.2% to 11.5%. Free cash flow, meanwhile, increased from CHF 4.9 billion to CHF 6.3 billion in 2002. These figures demonstrate once again the robust health of the Group. That said, we will continue to seek to improve our performance in this area in 2003 and beyond.

Acquisitions and divestitures
Creating winning environments

During 2002 Nestlé announced strategic acquisitions in four categories, Ice cream, Water, Prepared dishes and Chocolate. Total investment in acquisitions was CHF 5.5 billion, whilst divestitures generated CHF 5.2 billion.

Strategic acquisitions and bolt-ons
The biggest acquisition in 2002, for USD 2.6 billion, was that of Chef America, announced in August. Chef America is the pre-eminent manufacturer of frozen hand-held food products, sold under the *Hot Pockets, Lean Pockets* and *Croissant Pockets* brands. It has achieved a compound annual sales growth of above 10% from 1996 to 2001 and grew in excess of 15% in 2002. Combined with our Stouffer's business, it gives us clear leadership in two of the three main frozen food categories in the USA, the world's largest market for these products.

The acquisition of Schöller, completed in March, took us to a strong number two position in Ice cream in Germany and gave us access to some interesting markets in Central Europe. Also in Ice cream, we announced the merger of our US Ice cream business into Dreyer's Grand Ice Cream, a transaction that will result in Nestlé obtaining control of the enlarged company. We expect to receive FTC and Dreyer's shareholder approval early in 2003.

We made a number of acquisitions in Water, including Aqua Cool, which is active in Europe, delivering water to homes and offices.

The acquisition of Garoto, also substantially completed in March, gives us leadership in the important chocolate market in Brazil, whilst that of Eden Vale in the UK reinforced our position in Chilled dairy in that market.

There were further bolt-on acquisitions in the Ice cream, FoodServices and Nutrition areas, all of which offer the potential for rapid integration into our existing businesses.

Divestitures
The highlight amongst our divestitures was the partial IPO on the New York Stock Exchange of Alcon, which raised CHF 4.1 billion. The IPO was a great success, and the Alcon shares finished the year at a good premium to the Offer price.

The other sizable disposal was that of Food Ingredients Specialities (FIS) which was sold to Givaudan, a flavours specialist, in May. This transaction should enable FIS, which remains of strategic interest to Nestlé, to flourish as part of one of the world's leading flavours specialists, and we shall continue to share in its success through our shareholding in Givaudan.

There were smaller divestitures across a number of product categories, including Chocolate and confectionery, Culinary and PetCare.

Creating winning environments
Whether an acquisition or a divestment, each of these transactions was driven by our strategy of creating winning environments for our businesses: in the last couple of years we have put Nestlé within touch of global leadership in both Ice cream and PetCare, business areas which are relatively new to the Group, and have consolidated our value leadership in Water.

We have also continued to move the Group away from early stage, commodity food processes upstream towards the consumer and the added value areas of the food industry. The benefits of our increasingly dynamic portfolio will be clear to see as we confirm our position as the fastest growing major food group, able also to deliver improved profitability from our food and beverage business.

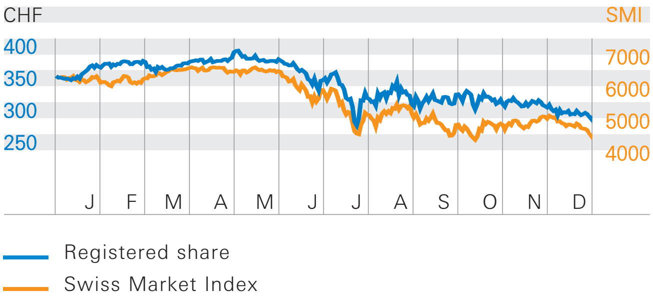
Financial position
AAA underlines financial strength

The Group's net debt declined from CHF 19.4 billion at the end of 2001 to CHF 15 billion at the end of 2002. It is interesting to note that our net financing cost rose only from CHF 407 million in 2001 to CHF 665 million in 2002, despite our average net debt for the year rising by CHF 12 billion in 2002. This reflects our decision to keep the majority of our debt in US dollars and the active duration management of our debt, as well as the lower interest rate environment in 2002. Nestlé's percentage financing cost has declined much faster than interest rates over the last 2 years, confirming the value creation of our active management of our debt and liquidities.

Equity rose from CHF 33.7 billion to CHF 34.8 billion. These figures are net of treasury shares, whose carrying value decreased from CHF 2.8 billion to CHF 2.6 billion.

The ratio of net debt to equity fell from 56.6% at the 31st December 2001 to 42% at the 31st December 2002.

Evolution of the Nestlé registered share in 2002



Shares, stock exchange

2002 continued the market trends seen in the previous year: high volatility and sharp declines in financial markets. Switzerland was no exception, with the SMI falling 27% in the year. The broader based Dow Jones Stoxx 600 meanwhile fell 32%. The Nestlé share price also reflected these market conditions although, importantly, it was the least volatile share in its sector, relative to the market.

The Nestlé share started the year at CHF 354, and traded for much of the year above CHF 300 before closing the year at CHF 293. Over the year as a whole the share price therefore declined 17%. This is disappointing in absolute terms, but represents an out-performance against the European market of over 17% for the second consecutive year, as well as a fifth successive year of out-performance against the Swiss market.

GLOBE – Global Business Excellence
First successful market implementations

GLOBE is designed to improve the performance and operational efficiency of our businesses worldwide and is making good progress with its three objectives: to establish best practice in business processes; to align data standards and data management and to use common information systems and infrastructure. Established in July 2000, GLOBE continues to be on track for timing, on budget for costs and on target for benefits.

During 2002, all Nestlé markets began activities related to the first two objectives, outlined above, which are at the heart of GLOBE. The successful implementation of these two areas, which will result in best practices (or business excellence) being shared across the Group and the implementation of data standards and management, are key to achieving the GLOBE benefits.

Business excellence
Nestlé established a Best Practice Library in April 2002. It is based on work done last year by more than 400 Nestlé employees from over 40 countries, who documented the best ways that Nestlé does business today. Over 700 best practice processes have been consolidated into 18 “solution sets” which include benefits and objectives, a menu of relevant best practices and a step-by-step approach for implementation. Each Zone and Nestlé Waters are using this library to work with the markets to establish priorities, begin self-assessment and put best practices into place.

Data standards
The second objective of standardised data and management consists of three parts: first to establish definitions for data standards; last year, GLOBE established, for the first time, over 180 global standards (such as a batch number structure, which is critical for product traceability); second, data conversion, which includes cleansing, converting, comparing and loading; and, third, data management, which includes the implementation of new processes, organisations and tools.

All markets now have data managers and have begun the process of data cleansing and implementing proper management processes. There are significant benefits to be achieved from improving Nestlé’s data quality: duplicate and obsolete data not only clogs up the Group’s information systems; it can also negatively impact customer service.

Also, a better global understanding of our purchasing data has allowed us to identify on a global basis what we buy from which supplier. We surveyed thirteen markets and four businesses, which cover 72% of the Group’s total turnover. After cleansing over 600 000 supplier records and 11 million line items, we discovered, for most materials, that markets within a region are individually buying the same materials, even including globally and regionally traded items, from the same suppliers. We also learned that we spend approximately CHF 22 billion annually on services and indirect materials: it is clear that we have not been using our size as a strength and that we will be able to realise substantial savings from this initiative.

Implementation of the GLOBE solution
When GLOBE was launched, we set an ambitious target: to implement new best practices, new data standards and management, supported by new information systems applications and infrastructure in three fairly large, complex Nestlé markets in three different Zones by the end of 2002.

In 2002, all three pilot markets (Malaysia/Singapore, Switzerland and the Andean Region) successfully implemented the first phases of the GLOBE solution, without negatively impacting our customers or consumers.

In October, Nestlé Malaysia was the first to go live, covering all product categories, all functions and all types of customer. This included the Head Office, sales branches, distribution centres and one factory. All the factories, meanwhile, implemented production receipt and finished goods materials handling.

In Nestlé Switzerland, the Chilled Division, including three factories, one distribution centre, sales and marketing, exports, human resources and some finance processes, started with the GLOBE solution on 28th October. Nestlé Switzerland was also the first market to introduce the GLOBE mobile sales solution. Chilled is a very demanding business, but manufacturing continued to plan, even in the Wangen factory, running at full capacity 24 hours a day, seven days a week. More than 450 users took part in this launch.

In the Andean Region, the GLOBE solution was implemented simultaneously in all business areas in both Peru and Bolivia. Two headquarters, two factories, six distribution centres, the sales forces, plus human resources in Chile all moved to the GLOBE solution on 4th November. This implementation presented different challenges including significant geographic distances, large data volumes and working with three different cultures, but was also achieved without any significant problems.

We are pleased with the results from the pilots, which reflect the fantastic commitment of our people. But not everything was perfect, and the next wave of implementations will benefit from the many lessons that we have learnt from those markets.

In 2002, over two thousand people, spread across the Nestlé world, were dedicated to GLOBE: there are GLOBE managers and data managers based in every country and people in the GLOBE Competence Centre and Central Support Centre (based in Vevey), in the Remote Design and Construction Centres (in Croydon, England, and Greenwich, USA), in the three GLOBE Centres (in Frankfurt, São Paulo and Sydney), and in implementation teams in the pilot and next wave markets.

Costs and benefits

GLOBE has clearly defined budget targets. The EBITA impact of GLOBE, informations systems and information technology expenditures are not to exceed 1.9% of relevant sales. This represents approximately a 30 basis point increase versus our "pre-GLOBE" 1999 IS/IT spend of 1.6% of sales, or an incremental cost of about CHF 1.5 billion, or about CHF 250 million per year until 2005.

On the other hand, GLOBE is projected to enable benefits of around CHF 3 billion by 2006.

Prospects

2002 was a key year for GLOBE. It was the year that would tell us whether or not all the preparation and planning had created a foundation for success. The results from the pilots are tangible evidence that we are on track to achieve a successful roll-out of the SAP software, but just as important is that we have already confirmed through the Business excellence and Data standards initiatives that the benefits potential is real.

2003 will see an acceleration of the number of markets that prepare to go live, continued work on the other two initiatives and, importantly, the first tangible financial benefits from the project.

Raw materials and packaging
Producer incomes and prospects improved as the year progressed

Although still depressed at the beginning of 2002, raw material markets firmed as the year progressed, providing much needed relief to those producers who were able to take advantage of the rising prices.

With increases in the USA, Asia, as well as Eastern and Central Europe, world milk production rose again in 2002. Australia, however, was adversely affected by the worst drought for a 100 years. In parts of the state of Victoria, which accounts for two thirds of Australian production, fresh milk intake was as much as 25% down compared to previous years. The rate of growth in New Zealand slowed as a result of less than satisfactory climatic conditions, and production declined in some countries in South America. International prices for dairy product recovered during the latter part of the year from their dramatic falls in the first few months as a consequence of the limited production growth which manifested itself in reduced export availability. As world prices increased, export subsidies in the EU and the USA were reduced, lending support to the underlying steadier market. Although demand for internationally traded product improved globally, the poor economic conditions in certain regions slowed the growth.

January 2002 saw green coffee prices still trading close to recent historical lows but by late February prices turned upwards, setting a trend for the remainder of the year. Arabica prices gained some 40%, and the value of robustas doubled, reflecting the market's ongoing concern for both quality and quantity in the short term. However, even with this improvement green coffee prices remain depressed. Indeed, with forecasters expecting production for the 2002/2003 season in Vietnam to be at least 15% down on last year, and the 2003 Brazilian harvest to be impacted by both lower yields, as the trees rest after this year's huge crop, and a reduction in farm inputs, it is hardly surprising that the coffee market is reverting to a better equilibrium between supply and demand.

Cocoa prices firmed in volatile conditions. A second consecutive year in which demand exceeded supply and the prospect that the 2002/2003 season would result in an unprecedented third draw-down of stocks, combined with an aggressive speculative market play during the summer, as well as the situation in Ivory Coast, drove prices to highs not seen for 17 years. A sustained breakdown of law and order in Ivory Coast, which produces more than 40% of the world's cocoa, would be a significant concern to the chocolate industry.

Raw sugar prices traded sideways in a narrow range, whilst grain prices were steady as harvests failed to improve world stock levels.

With the exception of tinplate, for which prices increased as South Korean and Japanese mills controlled supplies, packaging materials' prices were stable or lower. The weak crude oil price at the end of 2001 and early 2002, as well as new capacity coming on stream in Asia, resulted in a 6-8% decline in PET prices. The price of flexible packaging, which incorporates crude oil based components, was also lower, helped by flat demand. For paper and paper products, as well as glass and aluminum, prices were stable.

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 136-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.

Nestlé's achievements in social, economic and environmental sustainability have been well recognised, including being a constituent of the Dow Jones Sustainability Index for the third consecutive year. The index selects the top 10% "best practice" companies from the overall Dow Jones Global Index. Examples of Nestlé's approach to sustainability were also included in an official United Nations Environment Programme (UNEP) report to the World Summit on Sustainable Development (WSSD) held in Johannesburg, South Africa, in September 2002. This report, entitled "Industry as a partner for sustainable development – Food and Drink", was prepared by the Confederation of Food and Drink Industries of the European Union (CIAA), with Nestlé leadership.

In addition to participating at the WSSD, Nestlé executives also took part in many European and international conferences and panels with governmental and non-governmental organisations promoting sustainability and corporate social responsibility. Presentations and discussions were centred around the "Nestlé Sustainability Review", published with the 2001 Management Report. The Nestlé CEO has personally become involved in these discussions, including public support at United Nations-sponsored meetings regarding the UN Secretary General's Global Compact with Business. Mr. Brabeck-Letmathe also serves as the Deputy Chairman of the Prince of Wales International Business Leaders Forum, an organisation dedicated to fostering the positive contribution of business to society.

Nestlé's basic social contribution and corporate business principles

Nestlé's fundamental social impact is improved standards of living among millions of people through the creation of productive, sustainable economic development. With nearly half our factories and employees in developing countries, we are actively involved in industrialising the developing world, and in the process making a substantial impact on poverty reduction, improving the living standards of farmers and workers in those countries. It is estimated that more than 1 million jobs and 3.4 million workers and family members are sustained worldwide due to Nestlé's economic activity.

The principles our managers are expected to follow in running our businesses and creating sustainable economic development are contained in the "Nestlé Corporate Business Principles".

These principles, revised and updated in 2002, cover such topics as advertising, human rights, child labour, the environment and corporate governance. They include the nine Principles of the UN Global Compact and relevant International Labour Organisation (ILO) and World Health Organization (WHO) recommendations. Adherence to the principles is monitored through procedures applied by our corporate internal auditors. As the basis for expectations of not only Nestlé employees, but also our suppliers, they have been translated into over 40 languages. They are available on our corporate internet site (www.nestle.com).

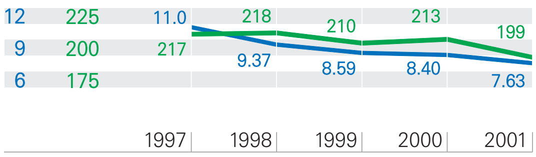
At the Nestlé International Training and Conference Centre Rive-Reine, Switzerland

For over 30 years, Nestlé's managers from around the world have visited Vevey to learn from each other and from external trainers

Progress in environmental performance

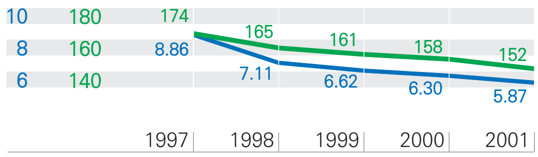
During the period 1997-2001, Nestlé increased its production volume by 32%, whilst achieving an improvement of its environmental performance indicators.

Water consumption



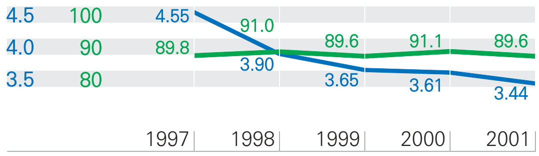
m³ per t product 1997-2001: –31%
million m³ per year 1997-2001: –8%

Waste water generation



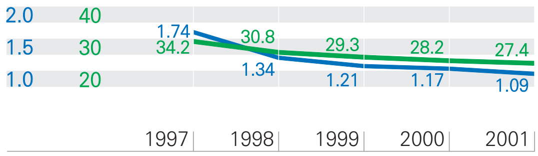
m³ per t product 1997-2001: –34%
million m³ per year 1997-2001: –12%

Energy consumption



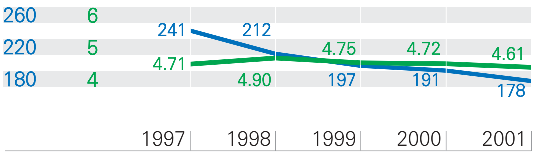
gigajoules per t product 1997-2001: –24%
million gigajoules per year 1997-2001: 0%

Air acidification potential



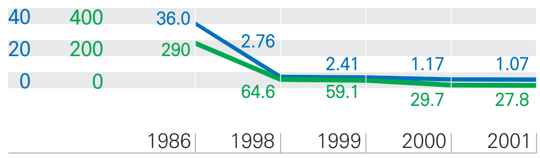
kg SO_X equiv. per t product 1997-2001: –37%
1000 t SO_X equiv. per year 1997-2001: –20%

Greenhouse gases



kg CO_2 per t product 1997-2001: –26%
million t CO_2 per year 1997-2001: –2%

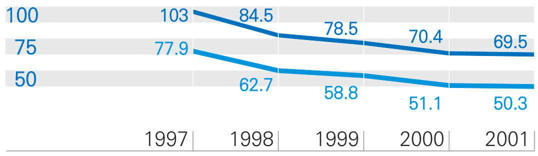
Ozone depleting substances



g R-11 equiv. per t product 1986-2001: –97%
t R-11 equiv. per year 1986-2001: –90%

By-products/waste generation

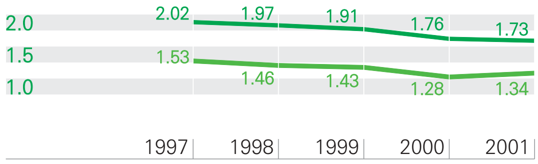
kg per tonne product



total 1997-2001: –33%
recovered 1997-2001: –35%

By-products/waste generation

million tonnes per year



total 1997-2001: –14%
recovered 1997-2001: –12%

Environment

During 2002, Nestlé continued to deliver improved environmental performance throughout the supply chain. The environmental performance indicators opposite demonstrate our commitment to sustainable manufacturing practices. They show significant progress in eco-efficiency, i.e. the ability to manufacture more products with less resources and waste. This progress was achieved through the active participation of Nestlé employees in water and energy conservation and waste minimisation programmes throughout the Group.

In the area of packaging, we continued to develop solutions that contribute to a better environment, while at the same time pursuing our packaging source reduction programmes. Packaging material savings from 1991 to 2002 amounted to 224 000 tonnes and CHF 406 million.

These programmes, supported by training and education, form an integral part of the Nestlé Environmental Management System (NEMS).

During 2002, Nestlé continued its active involvement in the Sustainable Agriculture Initiative of the food industry (SAI). Nestlé further developed and improved sustainable farming practices for its main agricultural raw materials in collaboration with universities and agricultural research stations in different countries, including China, Ivory Coast, Pakistan and Mexico.

The objective of these initiatives is to ensure the long-term supply of high quality agricultural raw materials at competitive prices to farmers, producers and to Nestlé.

Nestlé rated "Best in Class" in social survey

Storebrand, a leading Scandinavian financial services company focused on socially responsible investment, awarded Nestlé "Best in Class" status for its leading environmental and social performance in the food and beverage industry. The industry overview was based on an analysis of 56 companies conducted between April and June 2002.

Investing in Nestlé people

2002 saw an update of our human resource policies in order to strengthen the implementation of clear corporate policies throughout the Group. The immediate tangible evidence of this review is a number of documents that outline our objectives of enhancing the wellbeing and efficiency of our employees.

"The Nestlé Human Resources Policy" is a new policy that encompasses all those guidelines that constitute a sound basis for efficient and effective human resource management in the Group. People development is the driving force of the policy. It includes clear principles on non-discrimination, the right of collective bargaining as well as the prohibition of any form of harassment. It deals with recruitment, remuneration, training and development matters and proposes guidelines, the spirit of which should be respected under all circumstances. Individual responsibility and strong leadership are also emphasised in this policy. It focuses also on life-long learning and finding an appropriate work/life balance.

Our intention to become a flexible network organisation has been recognised by a working document called "Nestlé on the Move to Flat and Flexible Organisations". It includes concrete, pragmatic proposals for implementing flat and flexible structures, inspiring management and more dynamic compensation. Together with the Project FitNes initiative, such practices will have a strong impact on white-collar productivity, a domain in which Nestlé can still make progress.

During 2002, Nestlé also issued a new corporate policy on Health and Safety. It confirms Nestlé's strategy on health and safety that respects, and often goes beyond, local legislation. All staff members are invited to contribute actively and to commit themselves to improving the Group's performance in this area.

Education and training
Accompanying this 2002 Management Report is the "Nestlé People Development Review", a new Nestlé report that describes how transfer of knowledge is a fundamental part of the basic Nestlé business strategy, comprised of three primary elements.

The first is formal educational activities, achieved through a mixture of classroom and on-the-job training. In some countries this starts with elementary-level education. More generally it ranges from apprenticeships, through specialist technical or commercial training, up to a series of advanced management programmes.

A training survey in 59 countries revealed that more than half of Nestlé employees participated in a training programme during 2002 and that 65% of them were production employees, sales people and first line supervisors. This demonstrates the extent to which training is deployed at all levels of the organisation. Training courses are not only dedicated to enhancing professional skills: in fact, almost 30% of training activities contribute to personal development of our staff.

Employees by geographic area

	2002	2001
Europe*	**40.9%**	40.2%
Americas	**34.2%**	33.4%
Asia, Oceania and Africa	**24.9%**	26.4%

* 6 600 employees in Switzerland in 2002

Employees by activity

	2002	2001
Factories	**138 830**	130 539
Administration and sales	**115 369**	99 226
Total*	**254 199**	229 765

* 2001 excludes Ralston Purina

Secondly, we develop our people through the transfer of technological know-how. As we upgrade plant and equipment, the people who work with them automatically upgrade their competences. We also help to introduce better practices outside the Company, for example to local farmers who supply our raw materials. The benefits of technology transfer at all levels are reinforced by a steady flow of scientists and technicians to and from our R&D centres in Switzerland and other parts of the world.

The third dimension of human development relates to the wider community. We provide training and practical support to many of the communities in which we operate, and we encourage our employees to expand their interests outside the factory, the laboratory, or the office. We believe this helps them to broaden their horizons and realise their full potential, while benefiting the community.

Participation in the community
Nestlé collaborates extensively with local, national and international organisations in the many countries where it operates. 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. For comprehensive information on these initiatives, please consult the following website: www.community.nestle.com

HIV/AIDS prevention education, Nigeria

Nestlé is the Founding Corporate Sponsor of the International Federation of Red Cross and Red Crescent Societies' Africa Health Initiative

Africa – HIV/AIDS youth education programmes. Nestlé is the Founding Corporate Sponsor of the International Federation of Red Cross and Red Crescent Societies' Africa Health Initiative (ARCHI 2010). This programme was launched in late 2001. It aims to prevent the transmission of HIV through increased AIDS awareness in Africa. The programme started in Nigeria, the continent's most populous country. Working in 12 states, 2000 peer educators are providing training and advice to around 1.2 million youths. They also provide home care support to 7000 HIV-positive people. Over time the programme will be extended to other countries in the African continent, with work already begun in Kenya.

United Kingdom – creating clubs for teenagers. The recently created Nestlé Trust in the United Kingdom has provided essential support to Make Space for Young People, an initiative that will create clubs for 11-18 year-olds. Research carried out by the Nestlé Family Monitor found that six out of ten teenagers and eight out of ten parents think that there is not enough activity for teenagers, outside school hours. The Make Space concept aims to create dynamic places that offer social opportunities, activities and development for young people in a safe environment. These will comprise active and quiet spaces as well as sports facilities to cater to specific teenage group needs. Professional staff will be on hand to provide advice on personal relationships, social and health issues. The goal is to create 2500 teenage clubs by 2010.

Malaysia – fostering healthy eating and lifestyle habits among primary schoolchildren. In 2002 Nestlé Malaysia and the National University of Malaysia carried out an in-depth survey of 12 000 primary schoolchildren. The objective was to determine the nutritional status, the dietary habits, and the level of nutritional awareness of primary schoolchildren in the country. The survey prompted the creation of the Nestlé Good Food, Good Life, Healthy School Campaign, patterned after the WHO's Global School Health Initiative. The campaign aims to increase awareness among parents, teachers and relevant authorities to foster healthier eating and lifestyle habits among primary schoolchildren. Nestlé will play a "train the trainer" and facilitator role and will support a series of pilot schools in their efforts to implement healthy school activities.

Brazil – educating children at risk and their families on nutrition – Over 32 million people in Brazil suffer from malnutrition. To help fight this, Nestlé Brazil created the Programa Nutrir aimed at correcting the lack of nutritional knowledge and poor eating habits. The programme uses a range of innovative learning modules comprising games, toys and other fun activities. Alongside staff of the non-governmental organisation, International Medical Services for Health (INMED), Nestlé employees run workshops in schools on a weekly basis in poor communities. In its first year, Programa Nutrir reached 50 000 youngsters, helping to ensure a healthier future for Brazil's children. Over half of Nestlé Brazil employees contribute to this programme, either as volunteer teachers or through financial support.

Management responsibilities: Food and beverage

Nestlé is focused on improving the performance of its food and beverage businesses.

This section discusses the improvements achieved in 2002, as well as plans for the future.

In 2002, as a further enhancement of reporting transparency, we are providing separate reporting for Nestlé Waters, as well as a sales breakdown for each Zone by Product group.

Management responsibilities: Food and beverage*

Zone Europe

In millions of CHF

		2002	2001	2000
Western	92.1%	**26 424**	24 655	24 546
Eastern and Central	7.9%	**2 254**	2 087	1 739
Total sales	100%	**28 678**	26 742	26 285
Beverages	16.1%	**4 623**		
Milk products, Nutrition and Ice cream	26.6%	**7 639**		
Prepared dishes and cooking aids	28.6%	**8 206**		
Chocolate, confectionery and biscuits	17.8%	**5 102**		
PetCare	10.9%	**3 108**		
Total sales	100%	**28 678**		
EBITA	12%	**3 438**		

Zone Americas

In millions of CHF

		2002	2001	2000
United States and Canada	66.3%	**19 425**	15 548	15 035
Latin America and Caribbean	33.7%	**9 868**	11 050	10 489
Total sales	100%	**29 293**	26 598	25 524
Beverages	12.5%	**3 646**		
Milk products, Nutrition and Ice cream	29.7%	**8 690**		
Prepared dishes and cooking aids	19.5%	**5 725**		
Chocolate, confectionery and biscuits	14.2%	**4 164**		
PetCare	24.1%	**7 068**		
Total sales	100%	**29 293**		
EBITA	14.3%	**4 189**		

* Excludes Other activities

Zone Asia, Oceania and Africa

In millions of CHF

		2002	2001	2000
Oceania and Japan	32.0%	**4 757**	4 998	5 606
Other Asian markets	41.9%	**6 234**	6 380	5 955
Africa and Middle East	26.1%	**3 889**	4 080	4 149
Total sales	100%	**14 880**	15 458	15 710
Beverages	34.3%	**5 110**		
Milk products, Nutrition and Ice cream	40.3%	**5 995**		
Prepared dishes and cooking aids	12.0%	**1 791**		
Chocolate, confectionery and biscuits	9.7%	**1 441**		
PetCare	3.7%	**543**		
Total sales	100%	**14 880**		
EBITA	17.2%	**2 564**		

Nestlé Waters

In millions of CHF

		2002
Europe	45.4%	**3 504**
United States and Canada	48.4%	**3 739**
Other regions	6.2%	**477**
Total sales	100%	**7 720**
EBITA	9.0%	**696**
Retail	82.7%	**6 384**
Home and Office Delivery (HOD)	17.3%	**1 336**
Total sales	100%	**7 720**

Zone Europe (EUR)

Sales
Sales rose to CHF 28.7 billion, an increase of 7.2% over last year, despite the –3.2% reduction which resulted from the strength of the Swiss franc against the other European currencies. Acquisitions, primarily Schöller and Ralston Purina, contributed 7.3% to sales, net of divestitures.

RIG was 1.7% which, together with pricing of 1.4%, contributed to the organic growth of 3.1%. Our success in either improving or maintaining our shares in the majority of our product categories suggests that this was a satisfactory performance, considering the economic situation and the pressure on selling prices. This success also underlines the strength of our strategic brands.

Innovation and renovation were the most important contributors to our growth and market share gains. Among many successful initiatives, the following should be highlighted: the launch of the *Nestlé Double Cream* chocolate bar in the UK; the introduction of a new *Nestlé* baby food range in Italy; new *Herta* and *Buitoni* dough and snack products in Chilled culinary; new *Maggi Sveltesse* soups and *Maggi* single portion frozen prepared dishes in France and Switzerland; the geographic roll-outs of *Nestlé* growing-up milk with cereals, *KitKat Chunky* chocolate bar and of the improved *Nescafé Cappuccino;* as well as the re-launch of *LC1* and the extension of the *Nestlé Sveltesse* desserts range in Chilled dairy.

Western Europe achieved a modest RIG of 0.8%. However, a positive evolution was recorded in almost all markets. The main contributors were France, Spain, Scandinavia, Portugal and Greece. The lower RIG, compared to 2001, was essentially due to the retail market for branded food products in Germany being affected by the aggressive price policy of hard discounters, consumption decline of certain retail food market segments in Switzerland and the UK, and continued intense competition in the UK pet food market, coupled with our decision to eliminate low margin and private label products.

Eastern and Central Europe achieved a RIG of 11.9%. This good performance confirmed the positive trend of the preceding years, with Russia again the main contributor with growth of 22%. Most Central and Eastern European markets also achieved their ambitious sales objectives.

Profitability
The EBITA of the Zone was CHF 3.4 billion, a margin of 12% of sales. This strong improvement of 100 basis points over 2001 was achieved despite the margin dilution from Schöller, consolidated from 1st March 2002, higher implementation costs of the GLOBE project and higher pension costs than in 2001.

It was particularly encouraging that the majority of our markets improved their EBITA margins as a result of their determined efforts to drive profitable growth through focused resources and higher operational efficiency.

Highlights among our many initiatives to improve operational efficiency included a strong focus within marketing on strategic brands and products with potential for higher growth and profitability; increased customer and channel margins, achieved through efficiencies in our customer and trade cooperation; CHF 300 million in savings through productivity and structural cost improvements; and improved "white-collar" efficiencies in many markets, achieved through specific rationalisations and efficiency programmes.

Key events

The main external event of the year was the introduction of the euro, which has made it easier for retailers and consumer organisations to compare prices across different countries. Nestlé has in recent years had price corridors in place in Europe for identical products and was therefore not impacted by the change.

Within the Zone, the highlight was the continuous good performance of the Russian market. Nestlé Russia achieved the CHF 1 billion sales landmark in 2002 for the first time, whilst also improving its EBITA margin by 210 basis points. The rapid growth of our *Nescafé* coffee range and our strong position in confectionery, built on popular local brands as well as our international brands, are the key factors behind our success in Russia. Local production of ice cream and nurturing of sectors such as Infant nutrition and Culinary products also contributed to further manifest Nestlé Russia's leadership in the food industry.

RIG	– 0 +
Western	+0.8%
Eastern and Central	+11.9%
Zone Europe	+1.7%

Organic growth	
Western	+2.1%
Eastern and Central	+15.2%
Zone Europe	+3.1%

Change in the average value of key currencies versus CHF	
EUR	–2.8%
GBP	–3.9%

The other key event, both for the Zone and for the Group as a whole, was the successful implementation of GLOBE in Switzerland.

Management initiatives

Dedicated European management teams have been put in place for the Chilled dairy, Culinary chilled, Ice cream and Frozen food businesses, similar to the structure already in place for PetCare. This is in line with our objective both to make the most of opportunities within individual markets and to achieve the best possible performance and synergies across the Zone within a given business category.

We were also active on the acquisition front, integrating Ralston Purina, which was acquired in December 2001, and beginning the integration of Schöller. We reinforced our position in Chilled dairy in the UK through the acquisition of the number two in this market. We also broadened our offer in fast growing Performance nutrition with the acquisition of Sporting in Germany, a business complementary to our *PowerBar* range.

We recognise that acquisitions are only one part of the process of optimising a product portfolio, and we continued in 2002 to divest slow growth, low profit activities and brands. We sold the ambient food business in the UK, and the cold sauce, olive oil and frozen vegetables businesses in Italy. We also announced the divestment of the French canned prepared dishes and canned dessert businesses.

Focusing also on our core business segments, we began restructuring initiatives to increase our asset utilisation, particularly in PetCare, Ice cream, Milk and Chocolate. We have therefore established charges relating to the impairment of plant, property and equipment. These impairments are an investment to improve our future performance. As such, we shall be monitoring closely our return on that investment. We are also targeting a further improvement in "white collar" efficiency in all major markets through Project FitNes. Nestlé Purina PetCare Europe has implemented a Shared Service Centre, which will support all pet care businesses with improved processes and efficiencies.

Outlook

Our key objective in 2003 is to accelerate growth, whilst continuing to achieve a firm improvement in profitability. We will put increased and focused resources behind the strategic brands and into innovation and renovation to drive above-category growth in Western Europe. Meanwhile, we expect continued double digit growth in Central and Eastern Europe.

The Zone's EBITA margin should improve both as a result of our sales growth and of the continuation of organisational efficiency improvements and the cost reduction initiatives in the industrial and administrative structures. It should benefit also from the portfolio optimisation that has now been initiated. We will continue to pursue product portfolio optimisation in order to concentrate on the higher growth and value categories.

These objectives are in line with our long-term strategy to outperform competition through accelerated growth and profit improvement and to assure our position as the leading and most dynamic food and beverage group in Europe.

Zone Americas (AMS)

Sales

Sales for 2002 amounted to CHF 29.3 billion, an increase of 10.1% over 2001. This was a strong performance considering the economic environment and particularly the impact of exchange rates, which reduced sales by 12.4%. The positive evolution in sales was due in part to a RIG of 2.3% and price adjustments of 2.5%, to give an organic growth of 4.8%. We also benefited from the substantial 17.7% contribution from acquisitions, net of divestitures.

The severe crises suffered by Latin American countries have had a negative impact in most industry segments during 2002, including packaged food. Thus, 2002's RIG in Latin America was well below the level achieved in past years and, at –1.2%, it diluted the good RIG, 4.3%, generated by the USA and Canada. Our continued investment behind our key brands and a stream of new product launches were the foundation for the RIG performance in 2002: noteworthy among the launches were *Lean Cuisine Bowls* and *Nestlé Toll House* Cookie Dough in the USA, the *Moça* chocolate bar in Brazil and the *Nido/Ninho* life stage nutrition system in Latin America.

Profitability

The Zone's EBITA increased to CHF 4.2 billion, outperforming the growth in sales and thus improving the margin from 13.5% of sales to 14.3%. Whilst the acquisition of Ralston Purina had a positive impact on margins, the improvement came also from operational efficiencies, in particular in the costs of goods sold, across the other businesses within the Zone. Efficiency programmes enabled the EBITA margin for Latin America to remain unchanged from last year, despite the difficulties in those countries. The improvement of the Zone EBITA margin was therefore wholly due to the improved margin achieved in the north of the continent.

Key events

In general, the business environment was poor in the Zone: the American economic climate remained weak for most of the year, whilst Latin America suffered from continuing economic malaise, sharp devaluations of currencies and various political crises.

In spite of this unfavourable environment most of our businesses in the region and most of our markets have achieved growth, both in sales and in profit margins. The notable exception was Ice cream in the USA. This business suffered due to competitive pressure and the loss of certain distribution arrangements with competitors' brands. Despite this, the USA has delivered solid growth in sales and profits driven by continued strong performances in Frozen food *(Lean Cuisine),* Baking products *(Toll House* Refrigerated Cookies)*,* Performance nutrition *(PowerBar)* and a good recovery in FoodServices.

Nestlé Canada delivered a strong overall performance, enhancing our positions in many categories. This resulted in significant sales and margin improvements. Highlights were a major turnaround in the Ice cream division and strong growth in Confectionery and Frozen food.

Management initiatives

The acquisitions in the USA of Ralston Purina, Chef America and the additional 50% of Ice cream Partners, as well as of Garoto in Brazil, improved our positions in several key markets.

The high growth, high margin Chef America hand-held meals business is the perfect strategic complement to our successful *Stouffer's* meals business. It also gives us leadership in two out of the three key frozen ready meal segments in the USA.

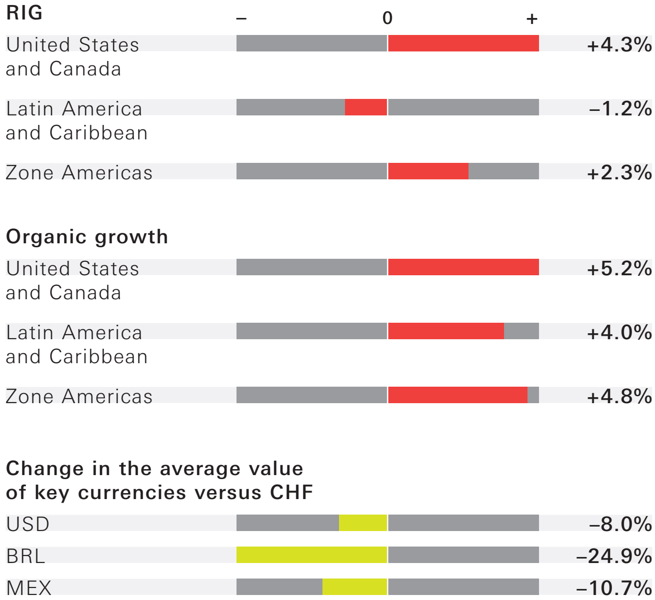
We have successfully integrated the North American pet care businesses. They are now taking advantage of their shared best practices and best business models. They are on track to exceed their sizable synergy target, announced in 2001, as well as to deliver sales growth above the category. The pet care integration has also been completed in Latin America and the Caribbean.

We are increasing productivity by creating new management and organisational structures such as Nestlé Purina PetCare Company (NPPC) Latin America, the new Austral-America Region, comprising Chile, Argentina, Peru, Bolivia, Paraguay and Uruguay, and also by consolidating and reducing the number of factories: four closures in 2002.

We also continue to optimise our business portfolio, by divesting non-strategic businesses such as Kathryn Beich and Peters in the USA, and the Parma meat business in Mexico.

Dairy Partners America (DPA), the Nestlé alliance with New Zealand's Fonterra Co-operative Group, is moving to the operational phase with signed contracts for first-level joint ventures in Argentina, Brazil and Venezuela. The management team for DPA was put in place in the last quarter of 2002 and should enable a good start for the joint operations in the first days of 2003. Nestlé has also acquired, effective January 2003, Fonterra's Milk Powder businesses in Latin America (Venezuela, Central America, Dominican Republic, Caribbean and Peru).

GLOBE was successfully implemented in Peru and Bolivia in the final quarter of 2002, while Nestlé USA went live with SAP in its large frozen meals and chilled businesses.



Another highlight of the year was Nestlé Brazil's exciting consumer promotion, "Nestlé e Você no show do Milhão", which generated approximately 78 million letters from consumers and over half a billion proofs of purchase. This promotion was a key element in the substantial growth achieved by our products, 6.0% RIG, even despite the difficult conditions in Brazil.

Outlook

Actions taken in our Ice cream business should lead to a rapid improvement in its performance, even before the considerable benefits from the announced deal with Dreyer's Grand Ice Cream.

The Dreyer's transaction, together with the fast and positive way our Zone has integrated Purina and Chef America, demonstrate our focus on building profitable Number One brands and pursuing portfolio optimisation. These are factors that will enable the Zone to continue to achieve improving returns in the future.

In Latin America, meanwhile, we merged into one reporting unit the existing Caribbean and Dominican regions, effective 1st January 2003.

We are blessed with a long and successful experience of managing our businesses under challenging economic and political conditions. That experience, and the outstanding team of managers and committed people, should enable the Zone further to expand its sales across the continent as well as to improve the returns in 2003 and beyond.

Continued efforts behind three key Group initiatives, Target 2004+, IC^3 and Project FitNes, combined with synergies from recent acquisitions, should improve operational efficiency and deliver higher margins. Moreover, the experience gained in the initial implementation of GLOBE is being rapidly transferred to other markets, enabling best business practices to be identified and shared across the region. This, too, should drive performance improvement in each market.

Zone Asia, Oceania and Africa (AOA)

Sales
Sales reached CHF 14.9 billion. The strengthening of the CHF against the major currencies of the Zone had a negative translation impact of 9.2%, but the Zone maintained momentum through the year with a strong RIG of 3.6% and pricing of 1.4% to give organic growth of 5.0%. Acquisitions, net of divestitures, had only a marginal 0.4% impact on sales.

Profitability
Zone AOA achieved satisfactory results for the year in spite of the challenging economic situation with an EBITA of CHF 2.6 billion. In percentage terms the EBITA remained unchanged at 17.2%.

The achievement of a satisfactory result both in RIG and in profitability was possible, despite the political and economic situation around the globe and particularly in the Middle East, Africa and other Asian countries, primarily because of our broad geographic spread and strong brands, as well as the commitment of our people. Also, our experience in managing difficult economic situations in the past, for instance the ASEAN crisis of 1997 and 1998, has proved very helpful.

Key events
Oceania (including New Zealand and the Pacific Islands), one of the key markets for the Zone, achieved excellent results with a RIG of 5.2%, benefiting from our efforts to improve our positions. Oceania is currently undertaking a number of large-scale operational initiatives: particularly encouraging, among others, is the good progress that has been made with centralising corporate purchasing.

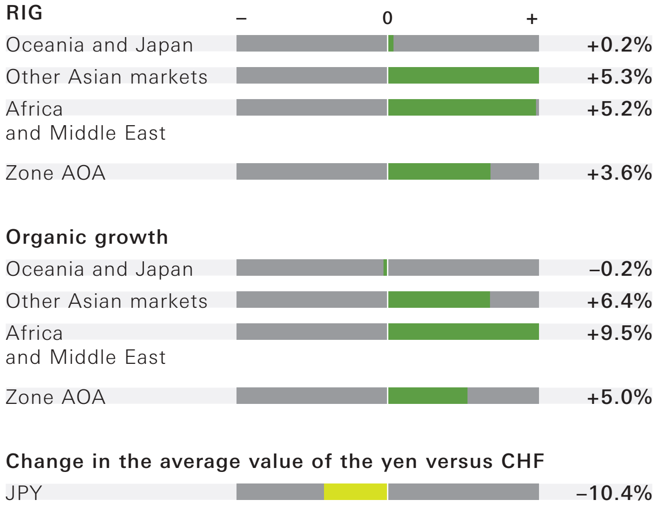
In a difficult economic context and under deflationary pressure, Japan recorded a RIG of –1.5%. Our strong positions will help us to manage through this situation and ensure that we will be well placed to achieve reasonable growth as conditions improve.

The Greater China region (including Hong Kong and Taiwan) has again recorded a very good performance in 2002. We are ideally placed to capture the immense opportunities offered by this region, which continues to be a growth engine for the Zone, driven by internal growth and the successful integration of recent acquisitions in the Culinary area. In Culinary, we have quickly achieved, through strong volume growth, market leadership in Chicken Bouillon. The market's initiative to streamline its legal structure is well on track, and the subsequent operational cost savings, coupled with sustainable high growth, have enabled the market to establish a solid bedrock which supports future profitable growth.

India and Africa are both areas that offer excellent potential for growth. India recorded very good results as we continued to improve our position. We will be able to generate strong internal growth there as the economy improves and the number of people who can afford packaged food grows. Our strategy is to maintain strong leadership positions in our existing key categories while we develop new businesses and innovative products.

The improving economies and higher oil income of the Central and West Africa region are fuelling growth, and we were able to register a remarkable RIG of 15.9%. We are well positioned to benefit as the different economies of Africa develop.

In the Middle East, meanwhile, we succeeded in achieving moderate growth, despite the continuing instability in that region.



Nestlé Malaysia was the first country to roll out GLOBE. The new systems are functioning well, and it has been "business as usual" from the very beginning. The integrated system is expected to result in improved efficiency and cost savings.

Management initiatives

The Asian Industrial Structures (AIS) project launched in 1999 to optimise the industrial structure in Asia and Oceania for tradable products, such as Milk, Coffee, Infant nutrition and *Milo,* was successfully concluded with the completion of the remaining core factories, liquid milk in Indonesia and infant cereals in Malaysia. The project is yielding the desired results with improving asset turns and decreasing manufacturing costs. We have also succeeded in managing the subsequent increase of inter-country supply from the newly created core manufacturing facilities.

The AOA PetCare business unit, which was set up at the end of 2001, is now fully operational and integrated with the former Purina operation. This unit will draw on the strength and expertise within the newly integrated business to prioritise and focus efforts and resources on further enhancing our positions in established countries, as well as on start-up operations in new markets.

The centralisation of purchasing processes has continued. We have developed an organisation of lead buyers reporting to the zone purchasing unit. The Formalised Regional Purchasing Networks will implement best practices across geographies and will support further training and development of purchasing professionals.

Outlook

The demographic developments in the countries covered by the Zone offer a high potential for convenient, tasty, nutritious and value added products. Nestlé's balanced geographic coverage of the Zone, meanwhile, helps to smooth economic downturns in any particular region.

We are confident both that the current environment will not have any major impact on our business and that our excellent product portfolio will enable us to convert those opportunities provided by the demographics into sustainable, profitable growth.

In the meantime we will continue to drive towards operational excellence and cost savings, whilst focusing also on achieving growth, so that we can consolidate Nestlé's position as the Food, Nutrition and Wellness company in the many countries covered by the Zone.

Nestlé Waters

Sales
Nestlé Waters' sales increased 4.1%, to CHF 7.7 billion in 2002. Exchange rates had an adverse effect on sales of 7.5%, whereas we achieved a RIG of 9.9% which, with pricing of –0.3%, gives organic growth of 9.6%.

The RIG performance was excellent, primarily driven by outstanding results in North America, but also by remarkable progress in Asia, the Middle East and some European countries including Germany, the UK, Poland and Hungary.

The evolution of our selling prices reflects the stability during the year of packaging materials, particularly PET, as well as price pressure in the USA.

Our acquisition programme increased sales by 2%. It was focused mainly in the USA, Europe (UK, France and Russia) and the Middle East, especially in the Arabian peninsula.

During 2002, Nestlé Waters continued expanding the *Nestlé* brands, which registered strong growth rates. Combined *Nestlé* brand volume in 2002 was almost 700 million litres.

Profitability
EBITA improved over 2001 by 11.9% to CHF 696 million, with the EBITA margin progressing by 60 basis points to 9.0% of sales. Organic growth, productivity programmes and the control of fixed expenses were the main reasons for the positive profit progression.

We continue to implement savings initiatives in the production area, as part of Target 2004+, in the supply chain and in general expenses in order to continue to increase our profitability.

United States and Canada
The bottled water market in North America continued to show impressive growth rates, especially sales of bottled water at retail. In this environment, Nestlé Waters improved its position in the region, despite the intense competition, with the best performance of the major players. The organic growth of 13.2% was the result of a clearly defined strategy with three objectives: to achieve complete geographic coverage and to commit incremental spending to improve our presence, while improving the operating margin through reduced costs.

This incremental spend on media, selling coverage and merchandising was completely funded by productivity and efficiency improvements, as we established a low cost manufacturer and distributor model. As a result, the region's US dollar EBITA increased by 20%, faster even than the organic growth.

The *Nestlé Pure Life* brand became available in North America at the end of 2002. We are converting the *Aberfoyle* brand into *Nestlé Pure Life,* a transition that will last 18 months. *Nestlé Pure Life/Aberfoyle* represented over 500 million litres of volume in 2002, with national coverage in the USA and Canada.

The acquisition of Chicago based Sparkling Spring contributed to improving our coverage in the Midwest region.

Europe
Sales rose to CHF 3.5 billion, mainly due to solid 4.7% organic growth.

Western and Eastern Europe reached 5% and 21% organic growth respectively in a strong competitive environment. A number of West European countries already have highly developed markets for bottled water, so this performance is all the more impressive.

Particularly impressive in Western Europe were Germany, where we achieved a leading position, and the UK. In Eastern Europe, both Hungary, where *Nestlé Aquarel* was an outstanding success, and Poland achieved remarkable growth rates.

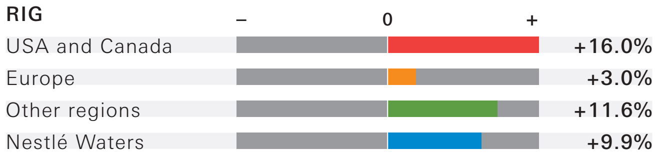
Nestlé Aquarel, our pan-European spring water, extended its activities to two new countries, Hungary and Finland. It was adopted as the main brand for the expansion of our sales direct to homes and offices in Europe, especially in big countries such as France, Italy and Germany. As a multi-source brand, it exploits existing spring and filling capacity and offers logistical benefits and a better use of invested capital. Three production sites were added in 2002 in France, Spain and Hungary, bringing the total to seven.

The success of *Perrier* launches such as the *FLUO* beverage line, and the extension of the PET range into the take home segment, demonstrated the brand's ability to renew its offer.

Sales of water delivered to homes and offices in Europe are still low, but are growing at above 25% per year. Following the strategy started in 2001, we increased our water deliveries to homes and offices, both through internal growth and acquisitions. As a consequence, sales tripled. We hold a strong position mainly in the UK, France and Poland, as well as in Russia. In February 2003, we announced the acquisition of the Powwow Company to increase our pan-European presence in this area of the water market.

EBITA in Europe continued to improve as a result of on-going productivity efforts, mainly in the manufacturing process and supply chain.

The acquisitions in the region were in France and the UK. We also established a subsidiary in the important Russian market with the acquisition of Saint Springs.



Other regions

Our activities progressed well in Asia, the Middle East and Africa, with organic growth rates generally above 20%. The poor economic environment in Latin America, especially in Brazil and Argentina, had an adverse effect on our sales, but had only a low impact on Nestlé Waters' overall performance.

Nestlé Pure Life, our worldwide brand, continued its expansion in 2002, being launched in Turkey, Egypt and Uzbekistan, where the sparkling line was introduced. The brand is now available in 13 countries.

Profitability in these other regions of the world improved significantly in 2002. This was the result in part of our strategy to give priority to markets or regions delivering margin opportunity over volume expansion.

Outlook

The high growth trend in the bottled water business is set to continue in 2003. Nestlé Waters expects to continue to develop its share of PET sales in North America, which continue to increase, whilst also further strengthening its global penetration of deliveries to homes and offices, especially in Europe.

Operating margins should also improve due to organic growth and further implementation of savings initiatives.

Perrier Fluo

A new range of products targeted at young adults: the key market for the *Perrier* brand

Innovation and renovation

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 *Purina* contribute about 70% of the Group's total sales, with the *Nestlé* brand itself contributing about 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. As such, they 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 clear-cut quality superiority through a 60/40 consumer preference for our brands 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.

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 also markets traditional roasted coffees in several European countries, as well as espresso coffee in capsules through *Nespresso.* Nestlé is also a 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 Bismark* 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.

Sales		**2002**	2001	2000
Soluble coffee	35.5%	**8 287**	8 937	9 096
Nestlé Waters	33.1%	**7 720**	7 418	5 947
Other	31.4%	**7 318**	7 668	8 001
Total	100%	**23 325**	24 023	23 044
EBITA		**4 075**	4 259	4 317
Capital expenditure		**1 004**	1 062	936

In millions of CHF

Nescafé Cappuccino (Firenze jar), Europe

These new foaming mix products, competing in the fastest growing sector of the coffee market, are aimed at attracting young people to the *Nescafé* brand

Innovation and renovation

Sales Split*

Zone Europe	4 623
Zone Americas	3 646
Zone AOA	5 110

* excludes Nestlé Waters and sales within Other activities

RIG

Soluble coffee	+2.0%
Nestlé Waters	+9.9%
Total product group	+4.6%

Sales and profitability

Overall RIG for the product group reached 4.6%, with Nestlé Waters the outstanding performer. Growth in Soluble coffee and the other major categories was subdued compared to 2001, but the EBITA margin remained relatively constant.

Soluble coffee

During 2002 the low green coffee prices created a very price focused competitive situation within the retail coffee business, particularly in large countries such as the UK and Japan. In this environment, the strength of *Nescafé* as a premium priced brand, focused on bringing continuous quality improvements to the consumer, had less impact. As a result, we estimate that *Nescafé* grew only in line with the soluble coffee market in 2002.

We have accelerated our drive to bring young adults into the world of coffee and, in particular, of *Nescafé.* The younger consumer is seeking a different coffee experience from our traditional consumers. As well as the coffee component, we need to offer creaminess, foam, flavours and sweetness through products such as cappuccinos, lattes, cafés con leche and complete coffee mixes. Many of our markets have launched or re-launched improved products in this fast growing category: the most notable are the European re-launch of the *Nescafé Cappuccino* range, the US national roll-out of the *Nescafé Frothé* range and, in Asia, the continuous development of the *Nescafé 3 in 1* range, which includes milk and sugar. We expect this category to continue to achieve double-digit growth.

We have continued to invest in implementing new technologies in our factories in China, Japan, Korea, the USA and Spain to enhance our product performance, particularly in the area of coffee aromas, and to ensure that we maintain a clear 60/40 blind test preference for *Nescafé.* We also increased our capacities in Thailand.

One often overlooked aspect of Nestlé's success in reinvigorating the soluble coffee industry and in driving up the industry growth rate is the benefit that the resulting increased demand should bring to coffee producers. We are concerned about the plight of the many coffee farmers affected by the depressed green coffee prices on the world market and we do favour a higher and more stable green coffee price environment. That environment would ensure a long term, good quality coffee supply. Furthermore, we are active principally in the soluble coffee business, which involves high fixed costs, and we therefore find ourselves at a greater competitive advantage over roast-and-ground coffee manufacturers when green coffee prices are higher.

During 2002, we held extensive discussions with an NGO, which focused on the issue of green coffee prices through an international campaign launched in September. In agreement with this NGO, we are willing to support initiatives aimed at better managing supply, in order to reduce the volatility of coffee prices.

We operate 27 *Nescafé* factories of which 14 are in developing countries, including 11 in coffee-growing countries. 55% of all *Nescafé* is produced in the developing world: much of the value of coffee processing remains in developing countries.

Nespresso

Nespresso continued to perform well especially in Switzerland, France, Germany, Austria, the United Kingdom and Italy, with sales rising towards CHF 350 million, an increase of 31% over 2001.

Nespresso

Enjoying a *Nespresso* in the new *Nespresso* Shop in Zurich

Nespresso reached an active customer base of 1 million consumers partly due to the significant success of its Concept Machine, which was launched at the end of 2001 and won two international design awards for innovation in 2002. The continually renovated website, communicating new product offerings and information and providing easy on-line ordering, now accounts for more than 35% of total capsule sales. Current yearly growth of 30% prompted the construction of a new, dedicated, high-performance factory in Orbe, Switzerland. This facility will enable *Nespresso* to quadruple its production capacity by 2007, allowing it to meet demand as it doubles its business every three years and doubles its customer acquisition base every two years.

Other beverages

We reinforced our position in chocolate and malt beverages with an active innovation and renovation programme. Most of the key countries of Latin America showed strong growth, in spite of a tough economic environment, and double-digit growth was again recorded in Africa, Indonesia and Vietnam. Among industrialised markets, sales in Canada, Italy and the UK showed outstanding progress.

We further reinforced the energy positioning of *Milo* with the introduction of *Actigen-E,* one of our proprietary branded ingredients, in the ASEAN region as well as in Chile. At the same time, new packaging and advertising were launched to reflect more contemporary values.

For *Nesquik* in Europe, we have seen a coordinated approach in the development of consumer marketing activities including advertising, promotions and website. In its most important country, the United States, successful extensions were added in both powder and ready to drink formats. In Brazil, *Nescau* was successfully re-launched using a stronger nutritional platform, and the UK saw the expansion of the *Nesquik* franchise in the out-of-home channel. *Nesquik* syrup will also be re-launched across Europe in early 2003. On the cost side, we have further enhanced our competitiveness in our industrial structure, especially in Asia.

Beverage Partners Worldwide (BPW)

This joint venture enables Nestlé to combine its R&D competence and know-how in tea and coffee with The Coca-Cola Company’s marketing and distribution expertise. Under its new organisational structure, the joint venture gained in strength and had a promising first year. The *Nestea* brand was rejuvenated, which led to accelerated growth in a number of countries around the world. It was also launched in eleven new countries during 2002. BPW also developed several new propositions in the ready to drink tea and coffee categories that consumers will experience in the near future and which should help 2003 to be another successful year.

Nestlé Waters

Nestlé Waters is discussed on pages 42 to 44.

Outlook

In Soluble coffee, we expect that initiatives put in place in 2002 will generate a return to an above market growth level in 2003.

Most of the future growth in chocolate and malt beverages will come from the developing markets of Asia, Latin America and Africa, where we already have strong market positions. The favourable demographic outlook will drive our growth, but so will brands like *Milo* that meet the consumers’ need for nutrition and good taste.

Milo with *Actigen-E,* Indonesia

Milo was launched with the addition of one of our proprietary branded ingredients to further reinforce its position as the energy food drink

Innovation and renovation

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 and wellbeing, is having a significant impact on the development of our business. A wide range of proven, science based solutions 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.

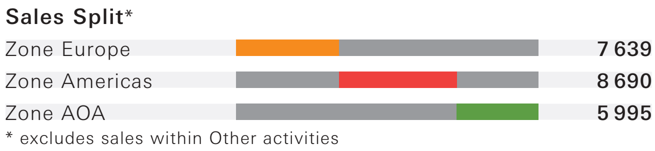
Sales		**2002**	2001	2000
Milk products	52.8%	**12 339**	13 061	12 471
Nutrition	22.0%	**5 143**	5 366	4 989
Ice cream	21.4%	**5 010**	3 770	3 807
Other	3.8%	**884**	844	781
Total	100%	**23 376**	23 041	22 048
EBITA		**2 756**	2 578	2 626
Capital expenditure		**495**	573	530

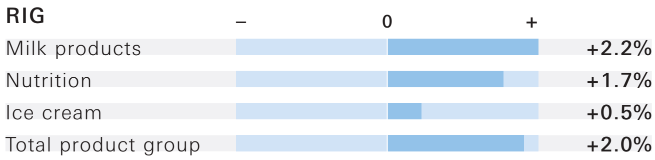
In millions of CHF

Nespray 1+, 3+, 6+

Range of milks for children with branded active ingredients

Innovation and renovation





Sales and profitability
Sales increased in absolute terms, despite the impact of currencies. The RIG of 2% was below 2001, but masked some improved performances. Profitability also increased, helped by improved performances by Chilled dairy and Ice cream. Efforts on cost efficiency have also contributed to an improved profitability of the Shelf stable dairy category.

Shelf stable dairy
In 2002, Shelf stable dairy accelerated its growth in both Asia and Latin America, its main regions of activity.

This was achieved through strong growth in our children's milk brands such as *Nido, Ninho, Bear Brand* and *Dancow* with a very successful segmentation which offers products for each of the three categories: the 1-year old, the 3-year old and children of 6 years and above. These products were scientifically supported with *Nestlé* branded active ingredients and communication campaigns explaining the concept to mothers.

Our coffee creamer brand *Coffee-mate* has also grown strongly, especially in the USA and Thailand, our two most important countries. Strong, well supported innovation, including new flavours in the USA and *Coffee-mate* stick packs in Thailand, were behind the growth.

Chilled dairy
The focus for Chilled dairy in 2002 was on establishing business models for future profitable business development and on driving growth through innovation and renovation. We created a central European organisation to facilitate growth by having a common business approach across Europe, and undertook a number of acquisitions and joint ventures which will be fully operative by the beginning of 2003.

We focused major innovations in Europe on the "wellbeing" segment through a range of low fat desserts under the *Sveltesse* brand in France, and the re-launch in several countries of *LC1*, with a new positioning and a new multi-fruit variety. We also re-launched *LC1* in Japan with encouraging results. We used the Chilled dairy and Beverages brand portfolios in Asia with a number of launches such as *Milo* pudding and pasteurised *Coffee-mate* in Thailand. In Brazil, meanwhile, we launched *Molico Beauty* as a new concept with beauty benefits, in addition to the existing nutritional benefits.

In India and Pakistan, markets entered with these products in 2001, our priorities were geographic expansion and innovation, which included convenient yoghurts in a pouch and fruit yoghurts.

Infant nutrition
Sales in Infant nutrition were affected by less favourable market conditions, but grew strongly in Asia, Africa and in the Middle East, as well as in Europe. We extended sales of baby foods to Italy and opened up the Group's first factory in Iran, allowing us to meet local needs for infant cereals.

We pursued our science-based strategy for infant formula, relying on product innovation and medical detailing while strictly adhering to the International Code of Marketing of Breast-milk Substitutes.
We developed a new innovation and communication framework in support of our weaning foods, which has been well accepted by the medical nutritional community and by consumers.

HealthCare nutrition
HealthCare nutrition achieved above Group average growth in 2002, driven by expansion in new markets, including Indonesia and the Middle East, as well as by the continued progress of *Clinutren* in Europe and *Peptamen* in the USA. In Latin America and Asia, we consolidated the position of *Nutren* in hospitals as well as in non-hospital channels, and launched new products. We introduced *Nutren Mageu,* which combines the traditional local taste and texture with the nutritious qualities of *Nutren,* to treatment centres for chronic diseases in South Africa. *Nutren Activ* was successfully launched in the retail channels in Brazil, making it directly available to consumers for the first time.

Clinutren, our European range of good tasting nutritional supplements, continues to gain market share in pharmacies. Nestlé Home Care, a new channel for HealthCare nutrition in France which provides nutritional products and services to patients at home, helped to improve our position in that market.

Performance nutrition
Performance nutrition achieved good growth in 2002 with further improvement in profitability. In sports nutrition, the *PowerBar* range enjoyed double-digit sales increases, driven by improvement of our position in North America and geographic expansion to Japan and ASEAN markets. The *Pria* range of cereal based nutritional bars for women, launched in summer 2001 in the USA, achieved strong acceptance and wide distribution.

The strategy of adding nutritional functionality to established Nestlé food brands through the incorporation of Branded Active Ingredients (BAI) continued to develop successfully. The strategy, which is based on ingredients with scientifically proven benefits for consumer Health and Wellbeing, are increasingly present across a wide range of product categories in many markets. Sales of the carrier product brands containing BAIs exceeded CHF 1 billion in 2002, boosted by the introduction of *Actigen-E* in the *Milo* brand in Asia.

The Nutrition Strategic Business Division
The Nutrition Strategic Business Division is a major contributor to the Group's performance through its Infant, HealthCare and Performance nutrition businesses, described above. In addition, it is the key element in enabling the Group to realise its vision as a "Nutrition, Health and Wellbeing Company" through its development of "Wellbeing" strategies that support and influence the other food and beverage categories and through its ability also to take advantage of new business opportunities in that area.

As the world's population grows older and the economic situation improves, societies are moving from a concept of "adequate nutrition" to one of "optimal nutrition" – from a former emphasis on food for survival (the past), to one which now promotes a state of Health and Wellbeing (the future). Nutrition plays a pivotal role in this development and Nestlé is very capable of responding to it – both to the specific nutritional needs of certain consumer groups, as well as to a more holistic, lifestyle approach for improving mental and physical performance.

Ice cream
Our ice cream business has continued the good progress of recent years. We achieved strong growth performances and market share and profitability improvements in key countries such as Australia, Canada and France and the continued development of important ice cream businesses in Chile, Russia and Brazil. The main factors for this positive development are the entrepreneurial skills and team work of our local management teams, and their implementation of innovative business approaches across products, sales, technical and distribution systems.

There have been significant changes also to the structure and scale of our Ice cream business in Europe. We have created a European Ice cream operations unit which will be responsible for accelerating the growth and increasing the profitability of that Zone. The increased scale comes from our acquisition of Schöller, discussed below.

On the innovation front, 2002 saw some very successful product launches, including *Drumstick Royale* in Australia, *La Laitière* bulk in France, *Chupate el Dedo* in Chile, *Spiderman* in South Africa, *Extrême Mini Mini* in Switzerland, and the *Sundae* range of transparent bulks in Canada. These innovations illustrate our expertise in developing new ideas locally, adapted to different age targets and needs.

Efforts have also been made to bring our brand closer to consumers in Brazil through the *Nestlé Casquinha Express* and in France, Germany and Spain through ice cream instantly prepared at the point of purchase.

We have further improved our consumer communication with the implementation of our "call-to-action" strategy aimed at triggering the consumer's desire in conjunction with the powerful "swimming pool" point-of-sale identity.

Cereal Partners Worldwide (CPW)
Nestlé's joint venture with General Mills enjoyed another successful year, with RIG of 8% and sales increasing to CHF 1.7 billion. EBITA again improved, supported by continued strong volume growth and supply chain productivity. Important new products included *Lion* cereal, which capitalises on the powerful *Nestlé* brand equity, *Chocolate Clusters,* which extends this important adult franchise, and *Cookie Crisp,* which brings a very successful General Mills brand to the UK.

Acquisitions and joint ventures
In Milk products, Nestlé and the Fonterra Co-operative Group signed an alliance to create a number of joint ventures in the Americas with the objective of developing businesses in this field. In the UK, Nestlé acquired the *Ski* and *Munch Bunch* brands as well as a factory from Northern Foods.

In Performance nutrition, we acquired Sporting, a German company specialised in the distribution of sports nutrition food and drinks in the important Fitness Club channel. This will increase the penetration of the *PowerBar* range in this fast growing area.

Drumstick Royale, Australia

The first all chocolate cone, using a Nestlé proprietary technology, providing extra chocolate indulgence for ice cream lovers

There were significant steps also in Ice cream. The Schöller acquisition brought critical mass to reinforce our position on the strategically important German market and access to other ice cream markets in Northern and Central Europe, as well as openings on new business opportunities such as home delivery. In the USA, two major events took place to increase significantly our presence. After the acquisition of the remaining 50% stake in the Häagen Dazs business, Nestlé signed an innovative deal with Dreyer's Grand Ice Cream which, subject to FTC, SEC and Dreyer's shareholder approval, will allow us to grow our presence significantly in that key ice cream market.

CPW successfully integrated the Perm Dry Cereals Company which it acquired in 2001. This important acquisition has given CPW a strong local manufacturing base in Russia and will enable the company to become a leading player in this fast growing country.

Outlook

In Shelf stable dairy we are expecting strong growth of children's milk due to a systematic geographic roll-out of the three age group specific products. A specific effort on *Coffee-mate* will also push this product category forward with geographic extensions into all markets where there is potential for coffee creaming. Chilled dairy should continue to grow in 2003 as a result of our redesigned business models and continuing innovation and renovation.

In Infant nutrition, new product concepts, confirmed in clinical trials in 2002 and to be launched globally from 2003, represent a solid base for future growth. We also have in place several initiatives to further enhance cost competitiveness and profitability. These should show benefits in 2003. In HealthCare nutrition, we expect solid double digit growth, fuelled by the geographic expansion during the last three years and by the launch of *Clinutren* and *Peptamen* in Europe and North America. Further future growth is expected from our branded active ingredients as our nutritional scientific research programmes support this strategy with further innovation.

We expect to see continued good progress in Ice cream in 2003, resulting both from our continuing focus on innovation and renovation and from the acquisitions and efficiency programmes announced in 2002.

CPW will continue to benefit from the low penetration of cereals in many markets, including in Eastern Europe, Asia and South America, whilst its recent entry into China will also contribute to continued strong growth in the future.

Ice cream

A focus on availability ensures
that consumers enjoy ice cream wherever
and whenever they want

Prepared dishes and cooking aids

An extensive range of bouillons, seasonings, soups, sauces and mixes is sold worldwide, adapted to local tastes, recipes and ingredients. The key brand for this range of products is *Maggi,* one of Nestlé's global strategic brands.

Frozen prepared dishes are marketed mainly under three brands: *Stouffer's* in the USA and Canada and *Maggi* and *Buitoni* in other regions of the world. *Stouffer's* is a strong leader in frozen dinners and entrées, the biggest segment of the frozen food business in North America.

With the acquisition of Chef America, Nestlé is now also the leader of the most dynamic segment of the frozen food business in the USA: that of hand-held snacks. Nestlé is present in Italian cuisine with *Buitoni* pastas and sauces, both refrigerated and shelf-stable, and with a wide range 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 markets cold sauces, such as mayonnaise, under brands such as *Thomy, Crosse & Blackwell* and *Winiary.*

Sales		**2002**	2001	2000
Frozen and chilled	55.0%	**8 711**	7 566	7 336
Culinary and others	45.0%	**7 123**	7 526	7 228
Total	100%	**15 834**	15 092	14 564
EBITA		**1 712**	1 573	1 517
Capital expenditure		**304**	267	245

In millions of CHF

Chef America, acquired in September 2002

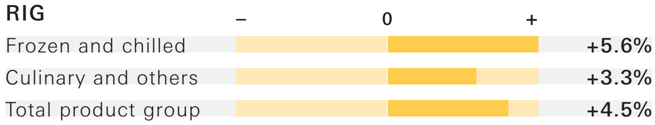
Hot Pockets: microwavable, portable filled sandwiches

Innovation and renovation

Sales Split*

* excludes sales within Other activities

RIG



This product group continued to demonstrate good growth in 2002, both in sales and profitability.

Our important frozen food business in North America once again achieved excellent progress. The *Stouffer's* brand improved its share of the industry through fine-tuning the product to specific consumer target groups and consumption occasions, focusing on product superiority, and highly effective marketing support. The ultra convenient recipe dishes in bowls under the *Slowfire Classics* and *Lean Cuisine* concepts contributed strongly to the growth of the business.

The launch of the bowl concept was part of the *Lean Cuisine* re-launch in Australia that delivered excellent business growth. It was also introduced in France and Switzerland as prime mover countries in Europe at the end of 2002.

Chilled products had an excellent year, both in sales and profit performance.

Chilled cookie dough under the *Nestlé Toll House* brand in the USA was again a star performer. The launch of special cookies around events like Halloween and Christmas strengthened our image as the most innovative brand in the sector and fuelled further market share growth.

Liquid dough that allows for the ultra-convenient preparation of "home-made" cakes was introduced in Italy following its launch in 2001 in France and Switzerland. The results of the first full year of this product concept are very promising.

Buitoni branded products accelerated their growth rate, especially in Europe, where chilled pasta and pasta sauces and chilled pizza and pizza dough participate in fast growing categories.

The chilled meat and delicatessen products in Europe under the *Herta* brand achieved good progress in sales and profitability.

Ambient culinary products, mainly under the *Maggi* brand, also continued to develop well in terms of sales and profits. An important priority is to roll out and build leading positions for our proven, successful and profitable products in developing and dynamic countries. This strategy is delivering good results with, for example, excellent growth in bouillons, soups and noodles in China, India, Russia and Brazil. The launch of new products in these categories combined with strong marketing and sales support has led to increased market shares. In Central and West Africa, meanwhile, the good growth in our bouillon business necessitated an increase in our installed local production capacity.

Buitoni Bella Napoli Sharing the Italian love of food

A new seasoning concept "Secret of taste" was launched in seven countries in Central and Eastern Europe, whilst a new bouillon concept with a pasty heart of encapsulated flavours and fresh herbs was launched in France and Switzerland.

The successful recipe mix concept *Delícias de Frango* was rolled out to five other countries in Latin America, whilst recipe mixes were also successfully introduced in France and Russia.

Acquisitions and divestitures
We acquired Chef America, with sales of over USD 700 million, in 2002. This acquisition strengthened our position in the strategic frozen food business in North America. With our *Stouffer's* brand we are the strong leader of the frozen dinner and entrée segment. With Chef America we have now also obtained a strong leadership position in the fast growing segment of microwavable hand-held snacks, which allows us to profit from trends like "grazing", snacking and food-on-the-go. Chef America lived up to expectations in its first few months of Nestlé ownership.

In May 2002, the ambient food business in the UK and Republic of Ireland was divested. This business consisted of a portfolio of basically local brands and products such as *Crosse & Blackwell, Branston, Sarson's, Waistline, Gale's* and *Sun-Pat.*

Outlook
We will be seeking to build on last year's successes around the world, as well as to continue to benefit from our programme of innovations. We will also focus on realising the opportunities presented by the acquisition of Chef America. 2003 should be another successful year for the product group.

Bowl concept *Stouffer's Lean Cuisine,* USA

Microwavable meals, ready to eat in a bowl, ideal for lunch in the office

Innovation and renovation

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* and *Carlos V,* meets 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.

Sales		**2002**	2001	2000
Chocolate	78.8%	**8 493**	8 745	8 427
Confectionery	12.1%	**1 306**	1 377	1 406
Biscuits	9.1%	**975**	1 122	1 141
Total	100%	**10 774**	11 244	10 974
EBITA		**1 180**	1 234	1 164
Capital expenditure		**285**	249	250

In millions of CHF

Nestlé Acti-V, China

Sugar-free functional confectionery sold under the *Nestlé* brand with a branded active ingredient and a unique release system

Innovation and renovation

Sales Split*

Zone Europe	5 102
Zone Americas	4 164
Zone AOA	1 441

* excludes sales within Other activities

RIG

Chocolate	+0.9%
Confectionery	–0.7%
Biscuits	+2.6%
Total product group	+0.8%

The RIG of 0.8% reflected the challenging business environment we faced this year with the slowdown of consumption in Western Europe and Latin America. While our core brands continued to grow at an above industry average, our reported sales were impacted by the disposal of non-core businesses, primarily in the low margin sugar confectionery and industrial chocolate areas. The RIG performance will benefit in 2003 from the exclusion of these businesses.

Geographically, we achieved strong growth once again in Central and Eastern Europe, notably in Russia, Poland and Ukraine where further significant share gains were recorded. Our business continued to develop at a fast pace also in Asia, where China, India, Turkey and Japan recorded double-digit growth rates as well as market share gains. After several years of fast growth, however, our business in the Middle East had a year of consolidation.

In the Americas, the USA had another good year and Canada recorded a strong sales performance, achieving the number one position with the *KitKat* brand. Despite short-term operational issues in Mexico, we improved our position in Latin America: we gained share in Brazil and implemented an active innovation programme throughout the continent.

Our flagship *KitKat* brand had another record year. The strategy to expand the brand both geographically and into new formats to meet consumers' changing lifestyles continued to deliver growth: *KitKat* has been successfully introduced in Russia, Hungary and Bulgaria where it is already among the bestsellers after only a few months on the market. New *KitKat* variants, adapted to local taste preferences such as *KitKat* Pineapple in Japan and new formats with *KitKat Chunky Minis* in the UK, met with excellent consumer response.

This profitable expansion of *KitKat* will be pursued aggressively over the next few years with the objective to make it the largest selling and most profitable chocolate product brand in the world.

We also ran intense innovation and renovation activities for our other core strategic brands. Thus, *Aero, Crunch, Smarties, Quality Street* and *After Eight* were expanded into new variants.

Other notable innovations included India's success with *Nestlé Chocstick,* a product specifically designed for hot climatic conditions that is now being rolled out across Asia and Latin America. In the UK, meanwhile, we launched *Nestlé Double Cream,* a mainstream milk chocolate bar made with double cream and fine Ecuadorian cocoa beans.

On the sugar side, a new range of functional sugar under the *Nestlé Acti-V* brand was introduced in India, China and Japan. These products, based on a proprietary technology, are in line with our strategy to move our sugar business into high value added concepts, using sugar confectionery as a carrier of wellbeing functionality.

KitKat Chunky

Continuing our geographic expansions,
KitKat Chunky is now enjoyed by Russian consumers

We continued to devote substantial human and financial resources to the improvement of our "go to market" capabilities. We increased our focus worldwide on improving availability and visibility for our brands, not only in supermarkets but also in petrol stations, hawker stands and recreation resorts. We made excellent distribution gains through the use of direct store delivery in Chile for single consumption chocolate and biscuits, and started a test in Mexico, which will now be rolled out across the country.

Nestlé International Travel Retail received the prestigious Frontier Magazine Star Product of the Year award for its *Smarties* Winnie the Pooh and Friends figurines, an exclusive travel retail pack sold only through the Duty Free trade channel.

We continued during the year to seek communication synergies by reinforcing visually the *Nestlé* brand on all products: as an example, our biscuit business in Latin America, which was previously marketed under local brands, has been successfully re-branded under *Nestlé.* Similarly, the *Nestlé* brand is now more prominently featured on our flagship *KitKat* brand.

Acquisitions and divestitures

The Garoto acquisition in Brazil was completed, subject to approvals from anti-trust authorities. Its product range includes a broad assortment of speciality chocolates.

We continued to streamline our operations and exit non-strategic businesses. Our Irish and Brazilian sugar confectionery businesses were sold, and the restructuring of our sugar operation was finalised in Oceania and the Czech Republic with the announced closures of Waiuku and Marysa. 2002 also saw the disposal of the Peter's industrial chocolate operation in the USA. The closure of two major chocolate factories in Fulton, USA, and Berlin was also announced. In Poland, the competitiveness of our sugar confectionery business was enhanced by the closure of the Leszno factory and consolidation of production into one facility.

Outlook

The effort to review and adapt our industrial structures will be pursued worldwide to continue improving our competitiveness.

We intend to compensate for the impact of sharp increases in cocoa prices by further productivity gains and cost reduction, resulting in only moderate price increases to the consumer.

2003 will also see an acceleration of new product introductions under our key strategic brands, providing a solid base for future growth. At the same time we will continue to penetrate new countries with products designed to meet changing consumer preferences.

Nestlé Smarties Cookies, Germany

Leveraging the strategic *Smarties* brand into the growing indulgent biscuit category for children

Innovation and renovation

PetCare

2002 marked an exciting and significant new beginning for our pet care business: it was the year in which we merged our existing Friskies business with Ralston Purina, which we acquired in December 2001, to form the Nestlé Purina PetCare Company and create a new global leader in this large and growing sector.

The Nestlé Purina PetCare Company owns many of the world's favourite brands such as *Purina, Friskies, Fancy Feast, Felix, Pro Plan, ONE, Gourmet* and *Alpo.* It also has a leading pet food research and development facility which, together with our understanding of pet owner needs, enables the creation of exciting new products and brands, such as *Beneful,* which are well suited to today's requirements for tasty, wholesome and healthier foods for our pets.

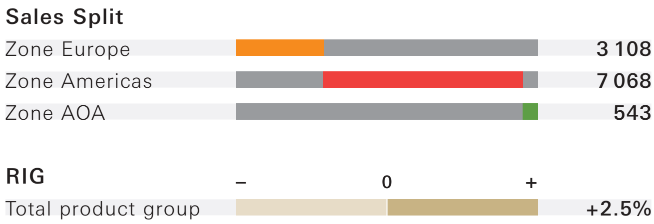
	2002	2001	2000
Sales	**10 719**	6 232	6 068
EBITA	**1 418**	453	430
Capital expenditure	**284**	193	145

In millions of CHF

Beneful Dry Dog Food, USA

Recently launched: abundant nutrition for your dog's health and happiness

Innovation and renovation



Sales and profitability increased significantly over 2001, due to the acquisition of Ralston Purina. The product group's RIG was 2.5%, impacted in Europe by the decision to focus on fewer, more profitable product lines.

The year 2002 was marked by a very significant and positive change in our pet care business. After receiving approval from antitrust authorities in relevant markets, Nestlé acquired Ralston Purina Company in December 2001 and merged it with the Friskies PetCare business to create Nestlé Purina PetCare Company, giving Nestlé a leadership position in this large and growing sector worldwide.

While integration has been challenging due to the size and operational complexity of both businesses, our operating teams have managed it effectively and ahead of schedule whilst delivering solid business results. Effective integration is key to establishing a firm foundation from which to deliver long-term sustainable and profitable growth.

Innovation and renovation have been at the top of the Nestlé Purina North America agenda: in the USA we re-launched the *ONE* and *Pro Plan* ranges of dog and cat food with good sales results; the *Beneful* dog food brand was launched with exceptional trade and consumer acceptance and continues gaining share; and formulas were introduced with improved palatability in some of our dry cat foods to increase the satisfaction of our feline consumers.

In wet cat food we improved our number one position with leading brands *Fancy Feast* and *Friskies.* In pet treats, we re-launched *Whisker Lickin's* and *Beggin' Strips* and introduced new *Chew-rific* dog treats in July. In addition, we rolled out new and unique large package sizes for treats in the mass merchandise channel. All of these initiatives have been well received, with strong sales results. Finally in the USA, our cat litter business, primarily sold under the *Tidy Cats* brand, performed very well, consolidating on its number one position through innovative packaging and new product concepts.

Our Latin American and Caribbean business was impacted by the economic slowdowns and currency weakness in Argentina, Brazil and Venezuela. Despite this, we continued to achieve volume growth in several strategic brands and markets, while making considerable progress in optimising our brand portfolio.

Understanding the “secret love” between pets and their owners – the secret of our success

Our European business has been stable amidst continued heavy competitive pressure. We launched renovated dog and cat foods under the *Friskies Vitality Plus* brand. In addition, our super premium brand *Gourmet Gold* increased market share across the region. *Pro Plan* in France performed extremely well, gaining distribution as well as share. Finally in Europe, and in a very competitive Italian market, our *ONE* brand grew ahead of competition.

In Zone AOA, sales in Oceania and South East Asia were above expectations. Performance in Japan was negatively impacted by general weakness in the economy and on-going deflationary pressures. Nevertheless, *Pro Plan* was launched there to provide pet lovers with a strong selection of leading edge nutritional products.

Outlook

We expect aggressive competition next year, particularly in the premium and super premium sectors. Nevertheless, Nestlé Purina PetCare Company will continue expanding its strategic brands and products around the world.

Product innovation and renovation combined with relevant and well targeted communication have proven to be key factors in gaining the approval of our customers. Nestlé Purina PetCare Company is committed to continuing to serve them with nutritious, great tasting foods and other high quality pet care products.

We are confident that we have the right strategies and necessary resources to continue to grow our sales and profitability.

Fancy Feast

"Good taste is easy to recognize"™
Perfectly grilled beef, chicken or turkey lavishly basted in its own savory juices

Innovation and renovation

Out-of-Home (Nestlé FoodServices)

Impulse purchasing and immediate consumption continue to grow in Out-of-Home (OOH) channels at a faster rate than traditional grocery. Consumers want more convenience, wider choice, high quality, food safety and the "feel-good" factor.

Nestlé is developing its OOH business opportunities in the ice cream, confectionery, water and foodservice markets. The latter area is globally managed by the professional experts of Nestlé FoodServices who are focused on the challenge for food and beverage manufacturers to provide products and solutions to the foodservice operators for the consumers.

The restrained OOH spending in 2001/2002 had a significant but temporary effect on the foodservice industry in general. The longer term trend of faster growth than the retail channel will continue, driven by consumers increasingly wanting to be able to consume out of home, whenever, wherever and however the fancy takes them.

The particular attraction of the OOH market is its high growth potential and the ability to provide products and brands throughout the consumer's day-to-day life. Nestlé FoodServices builds its competitive advantage on the added-value innovation and renovation of products, systems and go-to-market execution. This competitive advantage is founded on deep consumer, customer and channel insight and is realised through fast and flexible implementation of that insight.

Sales		**2002**	2001	2000
Zone Europe	43.1%	**2 849**	2 633	2 650
Zone Americas	29.9%	**1 971**	2 130	2 474
Zone Asia, Oceania and Africa	27.0%	**1 786**	1 970	1 727
Total	100%	**6 606**	6 733	6 851

In millions of CHF

Nescafé Allora – Coffee and beverage solution

Closed capsule office coffee system that delivers quality and choice to the consumer every time

Innovation and renovation

RIG

Zone Europe	+3.9%
Zone Americas	+4.0%
Zone AOA	–0.8%
Total	+2.6%

Sales of CHF 6.6 billion were achieved in 2002 due in part to recoveries by France and the USA, as well as double-digit growth in the emerging markets. This was despite the difficulties created by economic conditions in Japan and some other economies. Within the business, the success factors were channel focus, a strong performance from our Beverages business and our strategy to increase the added-value element of the Food business. Several divestments of non-strategic businesses in the last few years, as well as the events in 2001, have pulled back the level of sales.

Nestlé's commitment to OOH is illustrated by its FoodServices structure, which now includes all key countries. The internal and external communication network accelerates exchange of information, sharing of best practices and relationship management.

The key success factor for us to remain the number one international foodservice supplier is channel insight. This, together with geographic and demographic research, provides us with the requisite consumer and customer insight to attain the channel "ownership" and category leadership that will enable us to grow the business profitably.

Nestlé's excellence in research and development and food safety and hygiene provides the backbone of our foodservice offer. Our dedicated FoodServices product technology centre (PTC) is focused on products, systems and technologies which offer unique solutions for multi-market foodservice implementation. The Nestlé R&D and FoodServices PTC provide the foundation of our competitive edge. Their support, from analysis to implementation, is essential for the introduction of any innovation.

The Beverage segment is our branded added-value priority. Coffee consumers are changing their consumption patterns, whilst the younger generation has become an important consumer group whose preferences differ out-of-home from traditional in home. Hot and cold *Nestea, Milo* and *Nescafé* varieties, many of them milk-based, are now available in different locations, i.e. branded vending machines, university coffee corners, petrol stations, convenience stores and fast-food restaurants. We are responding to this consumer demand by launching and test-marketing several major projects with key customers using new product variations and unique systems.

In the UK we launched our first closed system with soluble beverages using individual capsules. This provides a choice of six products and high convenience in channels ranging from offices to pubs. Route to market was key to the development of this opportunity: we had to identify different options which took into account the sales and delivery of the product and equipment. Many other markets are interested in launching the system in 2003.

In France we have integrated our OOH Ice cream business into Davigel, our frozen and chilled FoodServices business, which has a direct sales and distribution network. We are thus exposing and promoting business-to-consumer (B2C) brands by using them through a leading business-to-business (B2B) brand. We have entered the impulse channel in France with a focused structure, creating opportunities in all our major categories.

In the Food segment, we emphasised key growth categories with customer and consumer brand applications. We provide customers with healthy, balanced, nutritious, safe, appealing and tasty food. The range includes sweet and savoury impulse snacks and added-value ingredients, and is offered in different forms, tailor-made for key channels and customers (e.g. Nutriservice for healthcare in France). The recent acquisition of Chef America has strengthened our "snack" offer, providing high-quality, hand-held tasty food. This complements our existing front-of-the-house *Ortega* Cheese and Chilli Bars, yoghurt dispensers and *Nestlé Toll House* Cookies in "Warm and Serve" ovens which we have launched with key customers.

Quick- and full-service restaurants, hotels, the travel industry, contract catering, convenience stores, leisure, education, business and industry are all opportunities for Nestlé to offer its portfolio of products and brands. We are establishing trust, built on close relationships between our well trained staff and our partners in the OOH industry.

Outlook

We expect to see continued and improved growth in 2003 with further turnarounds in our markets implementing the transition to added-value, customer-focused business approaches. Our 1999 strategic growth target to double the business by 2010 remains unchanged. In 2003, we will launch more closed systems for office coffee service, small OOH operations and other channel-dedicated beverage innovations (e.g. the travel industry and quick-service restaurants).

In Europe we will expand the cross-border business initiatives with common food manufacturing, packaging and product development. Our regional focus in North America will accelerate the growth of the selected key food categories (savoury and sweet impulse snacks, culinary flavours and sauces and premium meal components) and continue to drive the *Nescafé* expansion, as well as dedicated channel solutions. In ASEAN, Japan, Greater China and Latin America the strategic focus will be on added-value beverages and the categories that are successful locally. In Oceania and the South East Asia Region our OOH beverages and dedicated FoodServices food portfolio are both expected to improve their performance.

Our focus on channels and growth categories, based on and driven by our insight into consumer demand, will further improve the global implementation of our Nestlé FoodServices business strategy. This will accelerate its execution at the regional level and will generate synergies, driving speed, flexibility and reliability, cornerstones of our success.

Alcon

Nestlé entered the pharmaceutical business in 1977 through its acquisition of Alcon Laboratories, Inc., a speciality ophthalmic company. In March 2002, Nestlé completed a successful partial Initial Public Offering (IPO) of about 25% of Alcon Inc. on the New York Stock Exchange.

With a rich research pipeline and global capacities in marketing, sales, manufacturing and distribution, Alcon has become the world's leading full-service provider of ophthalmic pharmaceuticals, surgical devices and soft contact lens care solutions.

The current product lines include *Patanol, Travatan, Ciloxan* and *TobraDex* in pharmaceuticals, *AcrySof* intraocular lenses, *Legacy 20000, Accurus, LADARVision CustomCornea, BSS+, Viscoat* and *Custom Pak* in surgical, *Opti-Free Express No Rub* Formula, *Tears Naturale* and *Clerz Plus* in consumer eye care.

	2002	2001	2000
Sales	**4 661**	4 624	4 316
EBITA	**1 188**	1 166	1 129
Capital expenditure	**168**	211	175

In millions of CHF

LADARWave

LADARWave is designed to help get superior results in LASIK surgery by customising the corneal ablation

Innovation and renovation

Alcon delivered another very strong performance in 2002, as sales increased 0.8% to CHF 4661 million. By capitalising on its established global infrastructure, Alcon grew EBITA 1.9%, more than twice the growth rate for sales, to reach CHF 1.2 billion. These excellent results, combined with an unmatched breadth of high-quality products and a robust research and development pipeline, confirmed Alcon's position as the global leader in ophthalmic pharmaceuticals, surgical and consumer products.

The highlight of Alcon's year was its IPO in March, which was the largest healthcare IPO in the history of the New York Stock Exchange (NYSE). Alcon sold 76.7 million shares in the partial offering at USD 33 per share, raising over USD 2.54 billion and valuing the entire company at almost USD 10 billion. After listing, its market capitalisation rose to USD 12 billion by the end of the year, validating the belief of Nestlé management that the true value of Alcon would not be understood without giving visibility to the business through the partial IPO.

Alcon, listed on the NYSE under the symbol "ACL", reports its full year results in its annual report, which can be accessed on the Internet at www.alconinc.com from mid-April.

The company entered the public realm with an impressive array of competitive strengths in the ophthalmic industry. It had the most experienced management team in the industry, leading market positions in virtually every product category within ophthalmology and eye care, the richest research pipeline in its history, an unmatched global scope and exceptional financial strength. The markets in which it competes exceed USD 11 billion today and could approach USD 20 billion in the next few years due to the aging population, novel therapies in eye care and the expansion of modern technologies around the world.

The key component of Alcon's performance in 2002 was the rapid growth of its speciality pharmaceutical products, led by its newest glaucoma treatment, *Travatan* ophthalmic solution, sales of which increased more than four-fold. *Patanol* ophthalmic solution for the treatment of ocular allergies also had a strong year, as sales rose more than 25% and it gained EU approval under the trade name *Opatanol.* It will be launched in the EU in spring 2003 at the start of the allergy season.

In Alcon's other businesses, the *AcrySof* intraocular lens for cataract surgery widened its lead as the number one implant, as surgeons around the world converted to the new single-piece version. Alcon also became the first company to receive US FDA approval of a system that performs customised LASIK refractive surgery, sold under the tradename *CustomCornea.* It also received FDA approval to add the important new claim of "Lasting Comfort" to its *Opti-Free Express No Rub* label, making it the only company in the USA with this claim. It has already begun to take advantage of this fact with consumer advertising that is expected to energise the brand and result in market share gains.

Outlook

With the expected launch of several exciting new products in 2003 and the continued improvement of the positions of its core products, Alcon anticipates continued dynamic growth.

Opti-Free Express

Lens wearers now have lasting comfort without the rubbing step with *Opti-Free Express No Rub*

Associated companies and pharmaceutical and cosmetic joint ventures

With a presence in over 130 countries, L'Oréal has a portfolio of international brands including L'Oréal Paris, Garnier, Maybelline, Soft Sheen•Carson, L'Oréal Professionnel, Matrix, Redken, Vichy, La Roche-Posay, Lancôme, Biotherm, Helena Rubinstein, Kiehl's, Shu Uemura, and Giorgio Armani, Ralph Lauren and Cacharel fragrances. Backed up by extremely advanced scientific research, the brands have a very high technology profile and are marketed through all types of distribution channels. They are focused on five high added value cosmetics sectors: colourants and haircare, make-up, skincare and fragrances.

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 R&D programme is the largest in the world solely dedicated to the field of dermatology. This commitment will continue to help Galderma meet the needs of its partners, the dermatologists, worldwide.

In June 2002, Nestlé and L'Oréal launched a new joint venture, Laboratoires Innéov. The objective is to develop a global market for nutricosmetics, which will enhance the beauty of skin, hair and nails by capitalising on the R&D synergies between both groups.

L'Oréal is the largest of Nestlé's associated companies. 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.

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".

Galderma and Laboratoires Innéov are both 50/50 joint ventures between Nestlé and L'Oréal and are included in the financial statements by the proportional method.

Nestlé's share of associated companies	**2002**	2001	2000
Results	**504**	535	395
Nestlé's share of pharmaceutical and cosmetic joint ventures			
Sales	**471**	440	408

In millions of CHF

Innéov Firmness

Innéov's first nutricosmetic product firms and improves the density of the skin. It will be launched in five European countries in March 2003

Innovation and renovation

L'Oréal
The group is controlled by the French holding company Gesparal, of which 49% is held by Nestlé and 51% by the Bettencourt family. Thanks to the launch of new products developed through its research efforts and its ability to innovate, and the continuing geographic expansion of its brands, L'Oréal once again in 2002 achieved strong organic growth and was able to continue improving margins, despite the less favourable economic climate. In 2002 consolidated sales increased by 8.9% on a like-for-like basis, to EUR 14.3 billion. Pre-tax profit of the fully consolidated companies rose 13.1%. Net profit increased 18.5% to EUR 1456 million.

Growth was strong in Western Europe. Bearing in mind the difficult economic climate, performance in North America was good. Strong breakthroughs were achieved in new growth driver countries such as China, Korea, Thailand, Brazil and Russia. L'Oréal is continuing to roll out its strategic brands in high potential countries. Following the USA, Europe and Asia, Maybelline has achieved spectacular success in Brazil. Lancôme, Biotherm and now Shu Uemura have continued to expand in the luxury sector, particularly in Asia.

L'Oréal has continued to apply its selective acquisition policy with the purchase of the American company ARTec Systems Group, Inc., which markets salon haircare and colourant products. This reflects the strengthening of L'Oréal's commitment to hairdressers.

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

Galderma
Galderma, the joint venture between Nestlé and L'Oréal in the field of dermatology, reported sales of CHF 942 million in 2002, an increase of 6.7% over 2001. The strategic brands, representing over 80% of total sales, all performed well.

Galderma's top-selling product, *Differin,* the number one topical drug for acne (derived from Galderma's R&D discovery programme), achieved strong growth. This was partly due to significant promotional efforts in Europe. *Loceryl,* a topical antifungal drug, in the form of a lacquer for nail mycoses, and in cream form for skin mycoses, progressed strongly with double digit growth. The *Metro/Rozex* line for the treatment of rosacea, and the *Cetaphil* range of cleansers and moisturisers for sensitive and intolerant skin, recommended by dermatologists, continued to grow significantly.

The main new product in 2002, *Tri-Luma,* a cream containing a triple association of active ingredients for the treatment of melasma, a pigmentation condition of the face, was launched in April in the USA. Also new in 2002 was the launch in Japan of commercial activities for Galderma with a co-marketing agreement with Kyorin for *Pekiron,* the local name of *Loceryl* cream.

Laboratoires Innéov
Innéov's products are intended to improve the quality of skin, hair and nails by supplying nutrients essential to their physiology. The joint venture marries L'Oréal's expertise in dermatology and cosmetics with Nestlé's leading position in nutritional sciences, food safety and toxicology. The new company was presented to dermatologists for the first time at the European Academy of Dermatology and Venerology, held in Prague in October 2002. The first product, *Firmness,* will be launched in March 2003 in five European countries and in a further four countries in Europe later in the year.

Water Shine Diamonds, Maybelline, Shanghai

Launch of Water Shine Diamonds, Maybelline

Manufacture and sale of products

Nestlé has 508 factories in 85 countries around the world. This is an increase from 468 in 2001. During the year, 65 factories were acquired. The reduction of 25 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.

In association with the Target 2004+ programme and other Group wide initiatives we have established charges relating to the impairment of property, plant and equipment. This results from our commitment to optimise manufacturing performance on a regional and global basis. The main focus will be in Europe, where 40% of the Group's factories are located. The series of closures with which these write-downs are associated is an investment in our future performance. As with any investment, it will be closely monitored to ensure that its returns meet our expectations, both financial and temporal. Where our plans are sufficiently advanced, the related restructuring costs have also been provided.

Europe

		Beverages		Milk products, Nutrition and Ice cream		Prepared dishes and cooking aids		Chocolate, confectionery and biscuits		PetCare		Pharmaceutical products	
Austria	**1**	●	■		■	●	■		■		■		■
Belgium	**4**		■	●	■	●	■		■		■	●	■
Bulgaria	**1**		■		■		■	●	■		■		■
Czech Republic	**3**		■		■		■	●	■		■		■
Denmark	**2**		■	●	■		■		■		■		■
Finland	**1**		■	●	■		■		■		■		■
France	**39**	●	■	●	■	●	■	●	■	●	■	●	■
Germany	**30**	●	■	●	■	●	■	●	■	●	■		■
Greece	**5**	●	■	●	■	●	■		■		■		■
Hungary	**6**	●	■	●	■	●	■	●	■	●	■		■
Italy	**24**	●	■	●	■	●	■	●	■	●	■		■
Netherlands	**8**		■	●	■	●	■	●	■		■		■
Norway	**1**	●	■	●	■		■		■		■		■
Poland	**7**	●	■	●	■	●	■	●	■		■		■
Portugal	**5**	●	■	●	■		■		■		■		■
Republic of Ireland	**2**		■		■		■	●	■		■	●	■
Romania	**2**	●	■		■		■	●	■		■		■
Russia	**8**	●	■	●	■	●	■	●	■		■		■
Slovak Republic	**1**		■		■	●	■		■		■		■
Spain	**18**	●	■	●	■	●	■	●	■	●	■	●	■
Sweden	**4**	●	■	●		●	■		■		■		■
Switzerland	**9**	●	■	●	■	●	■	●	■		■	●	■
Turkey	**5**	●	■	●	■	●		●			■		■
Ukraine	**1**		■		■		■	●	■		■		■
United Kingdom	**21**	●	■	●	■		■	●	■	●	■		■

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 and cooking aids

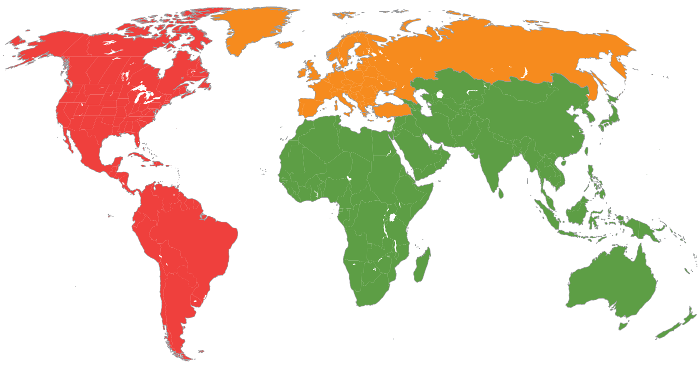
Chocolate, confectionery and biscuits

PetCare

Pharmaceutical products

Americas

Argentina	10	●	■	●		●	■		■	●	■		■
Brazil	24	●	■	●		●		●		●	■	●	■
Canada	14	●	■	●	■	●	■	●	■	●	■	●	■
Chile	7	●	■	●		●	■	●			■		■
Colombia	4	●	■	●	■	●	■	●	■	●	■		■
Costa Rica	1		■		■		■	●			■		■
Cuba	2	●	■		■		■				■		■
Dominican Republic	3	●	■	●	■	●	■		■		■		■
Ecuador	3	●	■	●	■	●	■	●	■		■		■
El Salvador	1	●			■		■		■		■		■
Guatemala	1		■	●	■	●					■		■
Jamaica	1	●	■	●	■		■		■		■		■
Mexico	13	●	■	●		●	■	●	■	●	■	●	■
Nicaragua	1		■	●	■		■				■		■
Panama	2	●	■	●	■	●	■		■		■		■
Peru	1		■	●	■	●	■	●	■		■		■
Puerto Rico	1		■	●	■		■		■		■		■
Trinidad and Tobago	1	●	■	●	■		■		■		■		■
United States	71	●	■	●	■	●	■	●	■	●	■	●	■
Uruguay	1	●	■		■		■		■		■		■
Venezuela	3	●	■	●	■	●	■	●	■	●	■		■



Number of factories (2001 figures exclude Ralston Purina)

		2002	2001
Europe		208	194
Americas		165	142
Asia, Oceania and Africa		135	132
Total		508	468

Asia, Oceania and Africa

Australia	13	●	■	●		●	■	●	■	●	■		■
Bahrein	1	●											
Bangladesh	1	●	■	●	■		■						■
Cameroon	1	●	■	●	■	●							■
Egypt	4	●	■	●	■	●		●	■				■
Fiji	1		■		■	●	■	●	■				■
Ghana	1	●	■	●	■	●	■		■				■
Guinea	1		■		■	●	■		■				■
India	6	●	■	●		●		●					■
Indonesia	3	●	■	●	■	●	■	●	■		■		■
Iran	1			●									■
Israel	12	●	■	●	■	●		●	■		■		■
Ivory Coast	2	●	■	●	■	●							■
Japan	3	●	■	●	■	●	■	●	■		■		■
Jordan	1	●	■		■		■		■				■
Kazakhstan	1		■	●	■		■		■				■
Kenya	1	●	■	●	■	●	■		■				■
Lebanon	1	●	■		■		■		■				■
Malaysia	6	●	■	●	■	●	■	●	■		■		■
Morocco	1	●	■	●	■	●	■		■				■
New Caledonia	1	●	■	●	■		■	●	■				■
New Zealand	3		■			●	■	●	■	●	■		■
Nigeria	1	●	■	●	■	●							■
Pakistan	5	●	■	●	■	●		●	■				■
Papua New Guinea	1	●	■		■	●	■		■				■
People's Republic of China	21	●	■	●	■	●	■	●	■			●	■
Philippines	7	●	■	●	■	●	■	●	■		■		■
Qatar	1	●											
Republic of Korea	1	●	■	●		●	■		■		■		■
Saudi Arabia	3		■	●	■	●	■		■				■
Senegal	1		■	●	■	●	■						■
Singapore	1	●	■		■		■		■		■		■
South Africa	12	●	■	●	■	●	■	●		●	■		■
Sri Lanka	2	●	■	●	■	●							■
Syria	1	●	■	●	■	●	■						■
Thailand	6	●	■	●	■	●	■	●	■		■		■
Tunisia	1	●	■	●	■		■		■				■
Uzbekistan	1	●	■	●	■		■		■				■
Vietnam	4	●	■	●	■	●	■						■
Zimbabwe	1	●	■	●	■	●	■		■				■

The story of Nestlé

Nestlé was founded in Switzerland in 1866, with the implementation of a technique for processing a typical Swiss resource: milk.

It was clear from the beginning that Europe's first condensed milk factory and an innovative infant formula were assets for which there was a significant opportunity for rapid expansion beyond Nestlé's relatively small domestic market. Over the next years Nestlé was a pioneering entrant to new markets and geographies around the world. (See the map opposite for the geographic expansion achieved by 1875.) Today, Nestlé is the longest established overseas group in many of the markets in which it operates, and is often perceived by its local consumers to be a local company.

But the focus has not been just on geographic expansion: product diversification within food was key too. Dairy and dietetic products were followed by chocolate, coffee and other beverages, culinary products, frozen food and ice cream and by mineral water and pet food. Pharmaceuticals, and an interest in the cosmetics sector, today complete a portfolio, which contributes to the wellbeing of consumers.

Nestlé has a long and rich experience in processing agricultural and raw materials and an unparalleled worldwide network of R&D centres, as well as a close collaboration with suppliers and business partners. These are the cornerstones of levels of quality and product safety that have engendered consumer trust in Nestlé's products and brands.

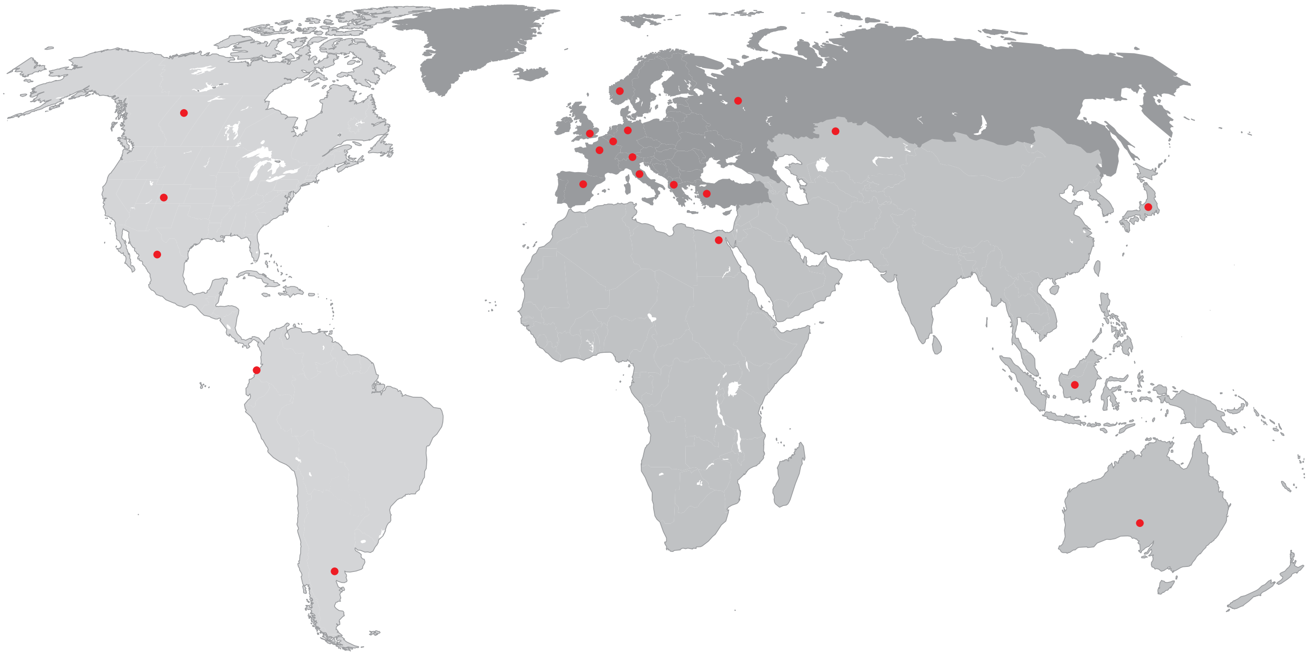
This trust has been earned over more than a century of delivering on consumer expectations, and Nestlé continues to place product quality and food safety at the forefront of everything that it does.

Henri Nestlé (1814-1890)

The satisfaction of ever changing consumer expectations through the innovation and renovation of our products and brands, as well as through acquisitions, has been a key motivation for the past 136 years. Nestlé has also moved closer to the consumer by focusing on those areas of the food industry which present opportunities for adding value in a finished food product. Conversely it has moved away from the more basic upstream activities within food manufacturing.

Although Nestlé's approach to its products and brands is to be innovative and responsive and to move with consumer trends, its approach to its business remains as it has always been: to commit for the long term, whether to our markets and the communities in which we operate, to our consumers and our own people, or to our shareholders.

Commercial expansion in the early years
Geographic coverage of infant cereal exports
(1868-1875)



Date of first industrial production

Europe	1975 Greece	1938 Panama	**Asia,**	1971 Thailand	1992 Guinea
1866 Switzerland	1989 Finland	1940 Jamaica	**Oceania, Africa**	1971 Ghana	1992 Cameroon
1874 UK	1992 Hungary	1942 Peru	1908 Australia	1971 Swaziland	1992 Morocco
1874 Germany	1994 Poland	1944 Venezuela	1926 New Zealand	1972 Indonesia	1994 Bangladesh
1883 Austria	1994 Bulgaria	1946 Colombia	1927 South Africa	1974 Senegal	1995 Vietnam
1896 Norway	1995 Russia	1962 Trinidad	1933 Japan	1980 Egypt	1996 Dubai
1905 Spain	1999 Ukraine	& Tobago	1936 China	1981 Sri Lanka	1996 Lebanon
1912 Netherlands	2000 Romania	1965 Guatemala	1960 Zimbabwe	1981 Republic	1996 Syria
1916 France		1967 Puerto Rico	1961 India	of Korea	1996 Israel
1916 Sweden	**Americas**	1969 Nicaragua	1962 Malaysia	1982 Saudi Arabia	1997 Cambodia
1924 Belgium	1882 USA	1970 Ecuador	1962 Ivory Coast	1984 Fiji	1998 Jordan
1925 Italy	1918 Canada	1971 Dominican	1963 Philippines	1984 Taiwan	2000 Kazakhstan
1933 Portugal	1921 Brazil	Republic	1966 Nigeria	1987 Papa	2001 Uzbekistan
1935 Denmark	1930 Argentina	1976 Uruguay	1967 Kenya	New Guinea	2002 Iran
1935 Yugoslavia	1930 Cuba	1995 El Salvador	1968 Tunisia	1990 Pakistan	2002 Bahrain
1936 Czechoslovakia	1933 Chile	1995 Costa Rica	1968 Singapore	1991 New	2002 Qatar
1952 Ireland	1935 Mexico		1970 Tanzania	Caledonia	

Historical development

1867 Henri Nestlé's Infant cereal
Infant cereal

1866 Anglo-Swiss Condensed Milk Co.
Condensed milk

1875 Farine Lactée Henri Nestlé S.A.
1905 Nestlé and Anglo-Swiss Condensed Milk Co. (New name after merger)
1929 Peter, Cailler, Kohler, Chocolats Suisses S.A. (Merger with Nestlé and Anglo-Swiss Condensed Milk Co.)

1938 Development of *Nescafé*

1947 Nestlé Alimentana Company (Sté An) (New name after merger with Maggi)

1947
Maggi

1960
Crosse & Blackwell

1969
Vittel

1971
Ursina-Franck

1973
Stouffer

1974
L'Oréal (Minority interest)

1977 Nestlé S.A.

1977
Alcon

1985
Carnation

1985
Friskies

1986
Herta

1988
Buitoni-Perugina

1988
Rowntree

1992
Perrier

1993
Finitalgel

1994
Alpo

1998
Sanpellegrino

1998
Spillers Petfoods

2000
PowerBar

2001
Ralston Purina

2002
Schöller

2002
Chef America

General information
Agenda for the 136th Ordinary General Meeting of Nestlé S.A.

Thursday 3rd April 2003
at 3.00 p.m. at the "Palais de Beaulieu", Lausanne

1 **Annual report; accounts of Nestlé S.A. and of the Nestlé Group; report of the auditors**
1a 2002 annual report and accounts of Nestlé S.A.; report of the auditors
1b 2002 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 Böckli
(term of office for 5 years)
Andreas Koopmann
(term of office for 5 years)

Next Ordinary General Meeting:
Thursday 22nd April 2004 at the "Palais de Beaulieu", Lausanne

Elections to the Board of Directors
At the General Meeting of 3rd April 2003, the terms as directors of Messrs Stephan Schmidheiny and Peter Böckli will expire. Mr. S. Schmidheiny has expressed the wish to leave the Board. Mr. P. Böckli is eligible for re-election and is standing for a new five-year term.

Furthermore, the Board of Directors is recommending that the General Meeting elect as a new director, also for a five-year term, Mr. Andreas Koopmann, Member of the Board of Directors and Chief Executive Officer of Bobst Group S.A., Lausanne, Switzerland.

Important dates 2003

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

9th April 2003
Payment of the dividend

23rd April 2003
Announcement of first quarter 2003 sales figures

20th August 2003
Publication of the half-yearly report January/June 2003

23rd October 2003
Announcement of first nine months 2003 sales figures; Autumn press conference

Shareholder information

Stock exchange listings
As of 31st December 2002, 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. +41 (0)21 924 21 11.
Nestlé S.A. (Share Transfer Office), Zugerstrasse 8, CH-6330 Cham (Switzerland), tel. +41 (0)41 785 20 20.

Further information
For any additional information or ordering additional copies of this document, please contact Nestlé S.A., Investor Relations, avenue Nestlé 55, CH-1800 Vevey (Switzerland),
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The Nestlé Management Report, the Financial statements and the Corporate Governance Report are available on-line as a PDF file at http://www.ir.nestle.com in English, French and German. The Financial statements are also available in HTML.

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

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

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