Management Report 2006

Nestlé

Good Food, Good Life

Driving sustainable profitable growth

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The brands in italics are registered trademarks of the Nestlé Group

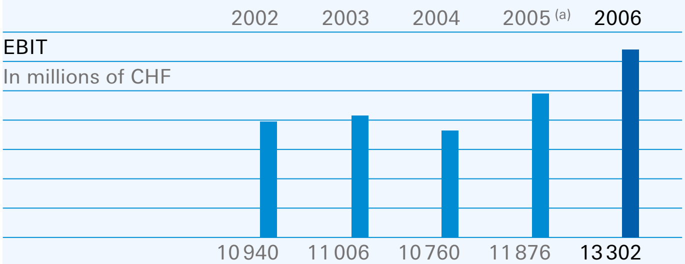
Key figures (consolidated)

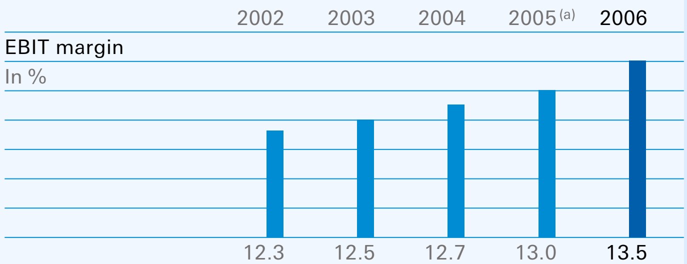
In millions of CHF (except per share data)

		2005 [a]	2006
Sales		91 115	98 458
EBIT (Group) Earnings Before Interest, Taxes, restructuring and impairments		11 876	13 302
as % of sales		13.0%	13.5%
EBIT (Food and Beverages) Earnings Before Interest, Taxes, restructuring and impairments		10 043	11 166
as % of sales (Food and Beverages)		11.8%	12.2%
Profit for the period attributable to shareholders of the parent Net profit		8 081	9 197
as % of sales		8.9%	9.3%
as % of average equity attributable to shareholders of the parent		18.6%	18.7%
Capital expenditure		3 375	4 200
as % of sales		3.7%	4.3%
Equity attributable to shareholders of the parent before proposed appropriation of profit of Nestlé S.A.		47 498	50 991
Market capitalisation, end December		152 576	166 152
Operating cash flow		10 205	11 676
Free cash flow [b]		6 557	7 018
Net debt		9 724	10 971
Ratio of net debt to equity (gearing)		20.5%	21.5%
Per share			
Total earnings per share	CHF	20.78	23.90
Underlying [c]	CHF	21.49	24.12
Equity attributable to shareholders of the parent before proposed appropriation of profit of Nestlé S.A.	CHF	122.16	132.51
Dividend as proposed by the Board of Directors of Nestlé S.A.	CHF	9.00	10.40

[a] 2005 comparatives have been restated. See Consolidated Financial Statements
[b] Operating cash flow less capital expenditure, disposal of tangible assets, purchase and disposal of intangible assets, movement with associates as well as with minority interests
[c] Profit for the period attributable to shareholders of the parent from continuing operations before impairments, restructuring costs, results on disposals and significant one-off items. The tax impact from the adjusted items is also adjusted for.

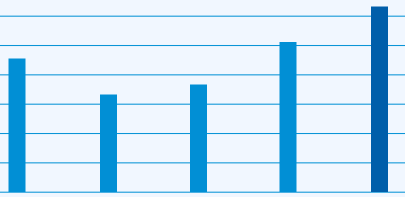
Profitability





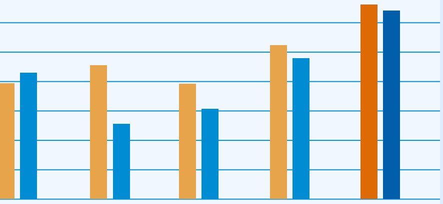
Net profit

	2002	2003	2004	2005 [a]	2006
Net profit [d] In millions of CHF	7 564	6 213	6 621	8 081	9 197



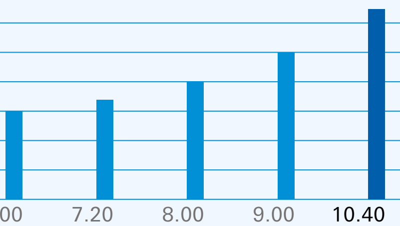
[d] Profit for the period attributable to shareholders of the parent

	2002	2003	2004	2005 [a]	2006
Total earnings per share In CHF	19.51	16.05	17.04	20.78	23.90
Underlying	18.90	20.23	18.82	21.49	24.12

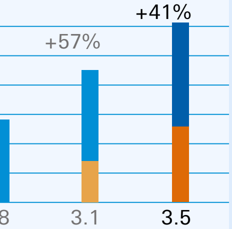


Shareholder returns

	2002	2003	2004	2005	2006
Dividend per share In CHF	7.00	7.20	8.00	9.00	10.40

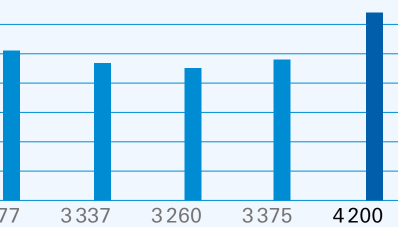


Total cash returned to shareholders In billions of CHF	2004	2005	2006
		+57%	+41%
Dividend	2.8	3.1	3.5
Share buy-back		1.3	2.7

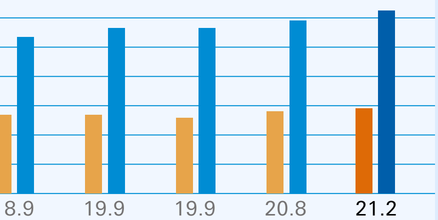


Capital expenditure/return on invested capital

	2002	2003	2004	2005	2006
Capital expenditure In millions of CHF	3 577	3 337	3 260	3 375	4 200



Return on invested capital* In %	2002	2003	2004	2005 [a]	2006
Excluding goodwill	18.9	19.9	19.9	20.8	21.2
Including goodwill	11.0	11.0	10.8	11.4	11.7



* based on segment reporting

Highlights 2006

Strategic and organisational transformations accelerate

- >Acquisitions announced of Uncle Tobys, Jenny Craig and Novartis Medical Nutrition
- >Nutrition, Health and Wellness at heart of strong Food and Beverages performance
- >GLOBE implementation now across 80% of the Food and Beverages business

Strong growth and another year of delivery of the Nestlé Model

- >Sales increased 8.1%, or CHF 7.3 billion, to CHF 98.5 billion
- >EBIT increased 12%, or CHF 1.4 billion, to CHF 13.3 billion
- >Net profit increased 13.8%, or CHF 1.1 billion, to CHF 9.2 billion
- >Food and Beverages was the key driver of growth and profitability
- >A strong performance from Alcon and the other health and beauty investments

Strong cash flow and increased return of funds to shareholders

- >Operating cash flow increased 14.4%, or CHF 1.5 billion, to CHF 11.7 billion
- >Total working capital reduced from 7.7% of sales to 6.7%
- >ROIC excluding goodwill improved by 40 bps to 21.2%
- >ROIC including goodwill improved by 30 bps to 11.7%
- >CHF 3 billion share buy back programme completed
- >Proposed dividend of CHF 10.40 per share, an increase of 15.6%

2007: organic growth target of 5-6% and further improvement in EBIT margin

- >Continued transformation to Nutrition, Health and Wellness
- >Another year of delivery of the Nestlé Model

Letter to our shareholders

Fellow shareholders,

In this our 140th anniversary year, I am delighted to report to you on another record year for Nestlé, and the 11th in a row in which we have delivered the Nestlé Model. This is defined as the achievement of a high level of organic growth together with a sustainable improvement in profit margins. In 2006 organic growth reached 6.2% of sales. This was above our on-going target and contributed to an increase of CHF 7.3 billion in our reported sales to CHF 98.5 billion. Our EBIT increased by CHF 1.4 billion to CHF 13.3 billion, giving a margin of 13.5%, a 50 basis points improvement over 2005. We also improved both our working capital management and our return on invested capital (ROIC), which improved from 11.4% to 11.7% including goodwill, and from 20.8% to 21.2% excluding goodwill. This was a good performance in a year characterized by volatile raw material costs, as well as political and economic uncertainty in many parts of the world. Our Food and Beverages business was the main contributor to these key drivers of shareholder value, sales (profit and ROIC), but there was also a strong performance from Alcon.

The Group delivered this improvement in performance while at the same time making progress in its strategic and organisational transformations.

The strategic transformation seeks to make Nestlé the world's leading Nutrition, Health and Wellness company. "Nutrition, health and wellness" seem to have been the catchwords of 2006, making the headlines in the newspapers, claiming the attention of governments and influencing the purchase decisions of consumers all around the world, but this ambition is not new to Nestlé. The inspiration came in the Nineteenth Century, when the infant mortality rate was high in Switzerland, and Henri Nestlé created our first ever product, designed to save babies' lives.

Our "Nutrition, Health and Wellness" strategy encompasses all our Food and Beverages businesses. It enables us both to anticipate and respond to consumer trends and needs, and brings a change in product mix to more differentiated, increasingly scientifically-driven products with the potential for higher growth and profitability. We further enhanced the nutritional credentials of our Food and Beverages business in 2006 through the announcement of three acquisitions, Jenny Craig in Weight Management mainly in North America and Australia, the global Novartis Medical Nutrition business, and Uncle Tobys in Australia with activities covering breakfast cereals, nutritious snacks and instant soups.

Our Corporate Wellness Unit is today setting the "Nutrition, Health and Wellness" direction for our business, with the help of about 300 Wellness Champions around the world. We have been doing the obvious, reducing sensitive nutrients and increasing those that are considered positive for health, and we have been enhancing products with additional nutritional benefits. We have continued to use our 60/40+ test, which combines a blind-taste test and a nutritional comparison against competitor products, to create a compelling consumer proposition: a better tasting product that is better for consumers. We have also rolled-out an innovative and transparent on-pack communication tool, the *Nestlé Nutritional Compass,* to help consumers more easily understand the nutritional content of their purchases.

But, more than that, we have been designing specific products affordable for those on lower incomes, opening specific distribution networks to reach those consumers and even building factories closer to them. We have a responsibility to provide consumers with high quality, highly nutritious products regardless of where we are

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

"We have a responsibility to provide consumers with high quality, highly nutritious products regardless of where we are selling our products, and regardless of the price point at which we are selling them. We believe that those on lower incomes have as much right to high quality, highly nutritious food as those on higher incomes and, in fact, have an even greater need: their food spend is often not discretionary; it is often all they can afford."

selling our products, and regardless of the price point at which we are selling them. We believe that those on lower incomes have as much right to high quality, highly nutritious food as those on higher incomes and, in fact, have an even greater need: their food spend is often not discretionary; it is often all they can afford. We have also been active in products for children, again by enhancing recipes, but also by creating compelling and enjoyable alternatives to higher calorific products.

Our stand-alone global Nutrition division, Nestlé Nutrition, where we address the needs of consumers who require specific nutrition solutions, reached some significant milestones in 2006.

We entered the Weight Management market through the acquisition of Jenny Craig. With USD 400 million of sales, Jenny Craig offers consumers personalised weight management programmes, tailored to their specific needs, and a range of branded nutritional products and services in the USA, Canada, Australia and New Zealand. We announced the acquisition of Novartis Medical Nutrition, which we expect to be completed in 2007. This acquisition, with USD 950 million of sales, will transform our Healthcare Nutrition business into the global number two, with the broadest global reach in that market. Our products here address specific nutritional needs related to a range of illnesses, such as diabetes, and other critical and geriatric conditions. We achieved strong share gains in our Infant Nutrition business, the global market leader, as a result of the international roll-out of a premium infant formula product, *Nestlé NAN HA.*

Together, these businesses, along with Performance Nutrition, are a formidable force in the area of nutrition for specific human needs, and make Nestlé the leading player in food-related research and development. This R&D leadership is a competitive advantage which we can exploit further, and we have therefore realigned responsibilities on the Executive Board to reflect more closely our nutrition, health and wellness priorities. Werner Bauer, previously Head of Corporate Technical, Production, and R&D, became Chief Technology Officer in February 2007 with responsibility for overseeing all the elements necessary to form a best-in-class, open R&D and innovation organisation.

I will turn now to our organisational transformation, which is seeking to create the necessary flexibility within Nestlé to transform our scale into a competitive advantage.

The many different product categories within our Food, Beverages and Nutrition business have different characteristics and, therefore, require different business models to ensure their success. We are creating the right balance between locally managed, regionally and globally managed structures, all sustained by a highly efficient support structure, enabled by the GLOBE programme. This flexible business model allows us to be closer to our consumers and to optimize our demand generation initiatives whilst, at the same time, leveraging scale for speed and efficiency.

The various initiatives that are driving our organisational transformation all share one objective, to improve our ability to generate profitable growth by making us even better at anticipating and responding to consumer trends. Our progress in this area was fundamental to our ability to achieve improved results in 2006, and I have mentioned some highlights in the next paragraphs.

Our GLOBE roll-out accelerated significantly in 2006, ending the year covering about 80% of our Food and Beverages sales. We are now starting to concentrate on leveraging the benefits of GLOBE: its investment phase is coming to an end, and we should start to see more tangible financial benefits.

We launched our Global Nestlé Business Services (GNBS) initiative, which is one way to exploit the benefits of GLOBE, with the objective of accelerating and scaling up our shared services at best-in-class cost. This initiative will increase the amount of time that our people spend on consumer-relevant projects by reducing their involvement in projects that have no consumer impact.

Our efficiency programme, Operation EXCELLENCE 2007, has delivered its targeted savings through efficiencies in our factories and supply chain. Whilst we have saved billions of Swiss francs over the years, the benefits of our factory efficiency programmes are not only financial; they have also reduced our environmental impact. Just one example is energy: our production volumes have increased by about 90% since 1997, but we are using the same amount of energy in manufacturing as we did back then. Operations and Supply Chain remain an area of opportunity for us to improve our performance. We have, therefore, appointed José Lopez to our Executive Board as head of our new Operations Organisation, with responsibility for Sourcing, Manufacturing and Supply Chain, as well as Quality Management, Safety, Health and Environment, Engineering and Operations Performance.

Two businesses with a specific customer focus enjoyed successful first years as new structures: Nestlé Nutrition as a global stand-alone business and reporting unit, which announced two significant acquisitions, and FoodServices, as a separate division, which is now better able to focus on its professional customers and out-of-home eating occasions.

We have also successfully integrated the Business Executive Manager concept into our business, which has allowed us to push profit responsibility for our categories down to each category manager in each market, thereby further aligning our people's objectives with their direct financial responsibilities.

We believe that the greatest opportunity for value creation at Nestlé lies within our Food, Beverages and Nutrition businesses, and that a flexible business model, which allows us to be close to our consumers, to leverage scale for efficiency and to be disciplined in execution, is the surest way for us to deliver that value. In 2006, these initiatives, and others, drove the improvement in those businesses' profit margins. We will continue to focus on this opportunity in 2007, seeking to leverage our scale as a competitive advantage, in areas such as purchasing, R&D and shared services; to reduce complexity in areas such as our product offering, legal structures and reporting; to tackle underperforming businesses, as we did in 2006 with the Perrier glass making operation, the Lactalis/Nestlé venture in European chilled dairy, the vending operation in Japan, some shelf stable dairy brands in parts of Asia, and so on; and to improve our discipline and execution.

It is how we execute that will really distinguish us: that we are faster in innovation, more relevant in our communication, better in the quality, taste and nutritional content of our products, and safer – both for our products and for our people. And that is why discipline is so important – to enable us to deliver winning execution. Winning execution is also at the heart of our ability to win the competition for investors' capital... and to deliver good returns to you.

Nestlé's Food and Beverages business ended 2006 with strong growth in both top and bottom lines and, notwithstanding continued volatility in raw materials and some currencies, we expect that momentum to continue into 2007. The same was true of our Food and Beverages joint ventures, Cereal Partners Worldwide and Beverage Partners Worldwide (BPW). For BPW both partners are in the process of re-defining the business to further improve effectiveness. Alcon enjoyed another successful year and so did our JV's, Galderma and Laboratoires inneov as well as our other investments in health and beauty.

There are no Board changes this year, and just two re-elections to the Board to be proposed to shareholders, Lord George and myself. It is my intention, as I announced at last year's shareholder meeting, to step down as Chief Executive Officer (Administrateur Délégué) following the 2008 Annual General Meeting. The Board will appoint my successor as Chief Executive Officer in due time, and this will be announced well ahead of that meeting.

Your Board proposed to shareholders at the 2006 Annual General Meeting an amendment that would allow a modernisation of the Articles, which previously for certain provisions was practicably impossible. The Board's proposal won the support of 98% of the shares represented. But the shareholders' decision, not unexpectedly, received a legal challenge by one shareholder. To respect minority rights and minimize any legal uncertainties, the Board will await completion of the legal process before submitting new Articles to the shareholders for approval. Your Board continues to believe that the modernisation of the Articles is in the best interests of the Company to create long-term, sustainable shareholder value.

Nestlé's internal code of behavior is laid down in its Corporate Business Principles and its Management and Leadership Principles. These documents, shared throughout the organisation, are the standards of behavior by which our people and, therefore, the Company live. Our achievements, and our continued success, are in very great part a result of the efforts and enthusiasm of our people and their behavior. They may be spread all around the world, but they share the same values and commitment, as well as the same passion for our brands, which I hope you will feel as you read this report. My thanks go to all of them.

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

Corporate governance

Board of Directors of Nestlé S.A.

at 31 December 2006

Helmut O. Maucher
Honorary Chairman

Board of Directors of Nestlé S.A.

	Term expires[1]
Peter Brabeck-Letmathe [2]	
Chairman and Chief Executive Officer	2007
Andreas Koopmann [2, 3]	
1st Vice Chairman	
> CEO, Bobst Group SA	2008
Rolf Hänggi [2, 4, 5]	
2nd Vice Chairman	2008
> Chairman, Rüd, Blass & Cie AG, Bankers	
Edward George (Lord George) [2, 3, 5]	
> Former Governor of the Bank of England	2007
Kaspar Villiger [2, 4, 5]	
> Former Swiss government minister	2009
Jean-Pierre Meyers [4]	
> Vice Chairman, L'Oréal S.A.	2011
Peter Böckli [3]	
> Attorney-at-law	2008
André Kudelski [4]	
> Chairman and CEO, Kudelski Group	2011
Daniel Borel [3]	
> Co-founder and Chairman, Logitech International S.A.	2009
Carolina Müller-Möhl	
> President, Müller-Möhl Group	2009
Günter Blobel	
> Professor, The Rockefeller University	2009
Jean-René Fourtou	
> Chairman of the Supervisory Board, Vivendi Universal	2011
Steven G. Hoch	
> Founder and Senior Partner, Highmount Capital	2011
Naïna Lal Kidwai	
> CEO, HSBC India and Country Head of HSBC Group Companies in India	2011

Secretary to the Board
Bernard Daniel
Secretary General

Independent auditors
KPMG Klynveld Peat Marwick Goerdeler SA
London and Zurich 2008

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

Board of Directors

Peter Brabeck-Letmathe
Kaspar Villiger
Daniel Borel
Steven G. Hoch
Andreas Koopmann
Jean-Pierre Meyers
Carolina Müller-Möhl
Naïna Lal Kidwai
Rolf Hänggi
Peter Böckli
Günter Blobel
Edward George
André Kudelski
Jean-René Fourtou

Secretary to the Board

Bernard Daniel

For further information on the Board of Directors please refer to the Corporate Governance Report 2006, enclosed

Executive Board of Nestlé S.A.

at 31 December 2006

Peter Brabeck-Letmathe
Chairman and Chief Executive Officer

Executive Vice Presidents

Francisco Castañer
Pharmaceutical and Cosmetic Products, Liaison with L'Oréal, Human Resources, Corporate Affairs
Lars Olofsson
Strategic Business Units and Marketing
Werner Bauer
Technical, Production, Environment, Research and Development
Frits van Dijk
Asia, Oceania, Africa, Middle East
Paul Bulcke
United States of America, Canada, Latin America, Caribbean
Carlo Donati
Nestlé Waters
Luis Cantarell
Europe
Paul Polman
Finance and Control, Global Nestlé Business Services, Legal, Intellectual Property, Tax, Purchasing

Deputy Executive Vice Presidents

Chris Johnson
GLOBE, Information Systems/Information Technology, Strategic Supply Chain
Richard T. Laube
Nestlé Nutrition
Marc Caira
FoodServices Strategic Business Division

Senior Vice President

David P. Frick
Corporate Governance and Compliance

For further information on the Executive Board, please refer to the Corporate Governance Report 2006, enclosed

Executive Board Meeting at the Nestlé Research Center

Executive Board (from left to right):
David P. Frick, Luis Cantarell, Paul Bulcke, Carlo Donati,
Paul Polman, Frits van Dijk, Peter Brabeck-Letmathe,
Lars Olofsson, Francisco Castañer, Werner Bauer,
Chris Johnson, Richard T. Laube, Marc Caira

Corporate Governance and Compliance

Corporate Governance

With respect to Corporate Governance, Nestlé pursues a strategy of being in line with proven best practice. An important project in this regard is the revision of the Articles of Association. The objective is a set of Articles which are balanced, in line with the changed legal and corporate governance environment and in the best interest of the Company and its shareholders to create long-term, sustainable shareholder value.

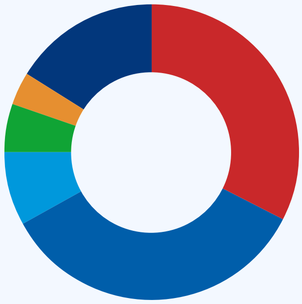
At the General Meeting 2005, we started the process of reviewing our Corporate Governance and Articles of Association. Thereafter, a large number of our shareholders responded to our opinion survey about our Articles and gave us valuable input. While the survey showed that there are different views among two distinct groups of shareholders on specific issues, there was a broad consensus in favour of a modernisation of the Articles. Issues under review include the voting limitations, which found support among private shareholders, while a majority of the institutional shareholders rejected them. The rule requiring that two thirds of the share capital be present or represented to make certain changes to the Articles was rejected by a clear majority of the shares, including a three quarter majority of the institutions. There was also solid support for a reduction of the terms of office of the members of the Board of Directors.

Certain changes to the Articles could only be made with an attendance quorum of two thirds of the total share capital and a supermajority of three quarters of the shares represented. Other decisions required the presence of one half of the share capital. In 1989, when the relevant provisions were introduced, the Nestlé shareholder base was predominantly Swiss, and shareholders' meetings were attended by a large number of shareholders. Today, even if all shareholders with voting rights were to attend a meeting, it would factually not be possible to achieve such an attendance quorum, because shareholders accounting for more than one third of the outstanding share capital have chosen not to be recorded in the share register and are therefore not able to attend or vote at the meeting.

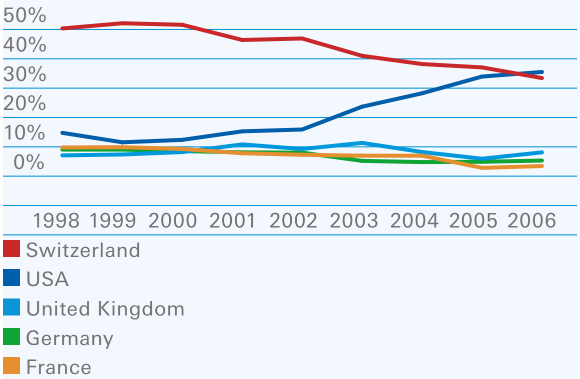
The Board of Directors, therefore, proposed a resolution to its shareholders at the 2006 Annual General Meeting in order to enable shareholders to update the Articles of Association. The Board's proposal won the support of 98% of the shares represented. Accordingly, the Articles were amended by a new Article 36, which mandates the Board to draft a proposal for a complete revision of the Articles and clarifies that the shareholders' resolution on such revision will be adopted with a majority of two thirds of the votes represented at that meeting.

Not unexpectedly, this decision of the shareholders at the 2006 Annual General Meeting was legally challenged thereafter by one shareholder. In order to respect the minority rights and to minimize the legal uncertainties around the new Articles, the Board will let the legal process take place and submit the new Articles to the shareholders for approval when the courts have taken their decisions. The Board does, however, continue to believe that the modernisation of the Articles is in the best interests of all shareholders. As previously stated, the goal is a balanced set of Articles which take into account the interests of the various distinct groups of shareholders with different priorities, reflect the changed legal and corporate governance environment and, most importantly, are in the best interests of the Company and its shareholders to create long term, sustainable shareholder value.

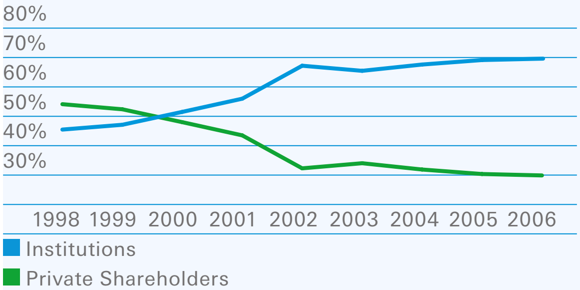
Shareholders by geography*



Distribution of Share Capital by geography*



Share Capital by Investor Type*



* Percentage devised from total number of registered shares. Registered shares represent 62.8% of the total share capital. Statistics are rounded, as at 31.12.2006.

Compliance

With respect to Compliance, the Company pursues a zero tolerance strategy. A number of functions help ensure that the Company and its employees comply with laws and regulations as well as our Corporate Business Principles and internal directives ("Compliance"). To further integrate and strengthen these efforts, the Company has adopted a cross-functional set up of Compliance in line with peers, as it maximizes the leverage of existing Compliance activities and provides a framework for integrated risk management. While responsibility and accountability for compliance remain assigned to the markets as per the Company's Custodian Concept, a corporate Compliance function and a cross-functional Group Compliance Committee set the tone, provide know-how and support a stronger coordination and functional leadership in the relevant support functions. Various Group compliance initiatives are driven by the corporate Compliance function. In addition, the Company has established a Compliance network in the major markets and is replicating the Committee structure where appropriate.

Nestlé's Corporate Business Principles are our non-negotiable minimum standards which we observe in addition to complying with locally applicable legislation. They were first published as a single document in 1998. Since then, we have added to them, among other topics, the ten principles of the UN Global Compact. While the Corporate Business Principles will continue to evolve and adapt to a changing world, they contain our basic foundation unchanged from the time of the origins of our Company and reflect the basic ideas of fairness, honesty and a general concern for people. Additional areas have since been developed as reflected in the Nestlé Management and Leadership Principles, the Nestlé Consumer Communication Principles, and many other policies. Project CARE is Nestlé's audit program to verify, through independent auditors, that our operations comply with the Corporate Business Principles in the areas of human resources, safety, health and environment.

Our principles of doing business

The Nestlé Corporate Business Principles and the Nestlé Management and Leadership Principles govern our policies and strategies, explain the Nestlé way of doing business, affect all our 265 000 employees and impact everyone with whom we work. They include sections on Infant Health and Nutrition, Human Rights, Child Labour, the Protection of the Environment, the International WHO Code of Marketing of Breast-milk substitutes, and a set of Consumer Communication Principles.

Nestlé Corporate Business Principles

The Nestlé Corporate Business Principles are built on key beliefs:

> Nestlé's objective is to manufacture and market its products in a way that creates sustainable value for shareholders, employees, consumers, business partners and the national economies in which it operates.

> Nestlé does not favour short-term profit at the expense of successful long-term business development.

> Nestlé recognises that its consumers have a sincere and legitimate interest in the behaviour, beliefs and actions of the Company behind the brands in which they place their trust.

> Nestlé embraces cultural and social diversity and does not discriminate on the basis of origin, nationality, religion, race, gender or age.

The United Nations Global Compact

The UN Global Compact's 10 Principles on human rights, labour, the environment and corruption, are specifically incorporated in the Nestlé Corporate Business Principles, and are fundamental in guiding our business actions. We are committed to all 10 Principles in all our business activities. In summary, they are:

Human Rights

1. Support and respect protection of internationally proclaimed human rights
2. Non-complicit in human rights abuses

Labour

3. Uphold freedom of association and collective bargaining
4. Eliminate forced and compulsory labour
5. Effective abolition of child labour
6. Elimination of discrimination

Environment

7. Support a precautionary approach
8. Undertake environmental initiatives
9. Encourage environmentally friendly technologies

Anti-Corruption

10. Work against all forms of corruption, including extortion and bribery

In the following pages are examples of initiatives, supported with facts and figures, that illustrate our compliance and support for these Principles, and our respect for human rights, labour and the environment. In the case of anti-corruption, we have a zero tolerance policy. We insist on honesty, integrity and fairness in all aspects of our business. We expect the same in our relationships with business partners and suppliers.

Shared Value Creation

At Nestlé, Shared Value Creation combines our ambition to meet the needs of consumers and shareholders with our commitment to respect people and the environment. Shared Value Creation is the keystone of our corporate social responsibility and sustainability. We believe that to create value for our shareholders over the long term, we must also bring long-term value to society. Our investments must be good both for our shareholders and the people of the countries where we operate, as well as good for the Company. This is particularly true in developing countries where, to operate successfully, we often need to improve business conditions, increase farmers' capabilities, create skilled work-forces and develop better standards. Thus, Nestlé's future success is inextricably linked to the future of the people in the many countries where we operate.

Supporting UN Global Compact Environmental Principles: Conversion from coal to gas at Nestlé's Graneros plant in Chile

Shared Value Creation: dairy farmers in India receive free advice from Nestlé

Our specialist team of agronomists has pioneered the development of sustainable local fresh milk and coffee production. For example, coffee farmers in the Yunan Province of China are improving yields and quality as a direct result of our advisers' expertise, as are farmers in Indonesia, Mexico, the Philippines and Thailand. Similarly, hundreds of thousands of milk farmers are benefiting from Nestlé's animal husbandry assistance and milk collection initiatives in countries as far afield as Chile, India, Mexico and Pakistan.

Our activities at each step of the supply chain create shared value – both for Nestlé and society. Purchasing raw materials generates high quality supplies for us, but also helps to raise incomes and living standards for hundreds of thousands of small farmers. Throughout our operations, we create jobs and train our people. Our Research and Development produces products that meet consumers' needs for nutrition, health and wellness. We work assiduously to improve our social and environmental performance.

Two top Harvard academics have recognised us for our Shared Value Creation business approach, in place already for many decades. Professors Michael Porter and Mark Kramer summed it up as putting "Nestlé in the front rank of companies who create real shared value for themselves and society at every step of their business process." Porter and Kramer argue that our approach has stood the test of time, and will continue to do so because there are winners all along the value chain.

Professor Porter went on to say in March 2006 that "Nestlé has for a very long time been a leader in corporate social responsibility. The shared value concept which Nestlé practiced without the nomenclature many years ago was that a business operator benefits both business and society."

Examples of Shared Value Creation throughout Nestlé's value chain are shown on the following pages.

Working with farmers

We source our agricultural raw materials, such as milk, coffee, cocoa, cereals, vegetables, fruit, herbs, sugar and spices, either through trade channels or directly from farmers. Although we don't control the farms, our team of over 800 agronomists, technical advisers and field technicians encourages sustainability in the supply of

Coffee farmers worldwide, like this one in Thailand, benefit from Nestlé's agricultural support agricultural raw materials and promotes agricultural best practices. On a daily basis they provide free technical assistance to over 400 000 farmers through over 500 projects in as many as 40 countries including China, Pakistan, Ethiopia and Colombia.

Nestlé recognises that it cannot work alone, and is building partnerships such as the Sustainable Agriculture Initiative (SAI) that it co-founded in 2002. Twenty food-related companies have joined the SAI Platform, working together to improve sustainable agriculture (http://www.saiplatform.org/).

We are a major supporter of the World Cocoa Foundation's projects to improve cocoa farming, and a founding member of the International Cocoa Initiative to eliminate unacceptable child labour practices.

In September 2006, the United Nations Development Programme, Nestlé Pakistan and Engro Foods launched a programme to empower female members of rural communities in Pakistan. The programme aims to train 5000 female agricultural workers in 500 villages, directly impacting poverty alleviation, gender development and small enterprise development for rural women. The project will bring economic prosperity through livestock development and also improve the participants' lives through better awareness of domestic health and hygiene, and development initiatives such as clean drinking water.

Job creation

As Nestlé develops around the world, local economies benefit, not only because we buy raw and packaging materials, but also because we create jobs in our factories, offices and sales forces. Nearly half of Nestlé's factories and of its 250 000 employees are in developing countries. Two thirds of employees undergo training each year, from basic literacy through apprenticeships to management training.

In South Africa, Nestlé joined with the Umsobomvu Youth Fund, created by the Government to help unemployed young people find jobs. This organisation contributes to their basic training, including driving lessons, life-style skills, such as how to open bank accounts, and elementary business skills. As a result, by mid-year 2007 we plan to have 2000 new Nestlé ice-cream vendors on local streets, and 5000 by the end of 2008. Job creation such as this makes a significant contribution to the growth of our business and also helps to reduce unemployment.

New vending jobs created through a partnership supported by Nestlé South Africa

In Brazil our door-to-door selling operation will employ 15 000 women part-time by the end of 2007, bringing additional funds to low-income groups. Our new factory in Feira de Santana not only creates new jobs at Nestlé but, for every Nestlé job, also creates five indirect jobs amongst distributors, brokers, suppliers, etc.

Health and safety at work

Nestlé places the highest priority on protecting its people at work, and strives to create a safe and healthy working environment for all. In 2006, we further strengthened our health and safety management practices and improved our safety performance. The number of work-place injuries incurring lost time has decreased over the last five years from 12.2 to 4.8 injuries per million hours worked. 115 factories and 88 distribution centres have worked for a full year without a single lost time injury. However, in 2006, three employees died in road accidents and five contractors lost their lives during construction work. To minimise the risk of such tragic events, we are further expanding our safe-driver programmes and monitoring contractor companies to ensure that they apply the same high standards of occupational safety.

Our Dong Nai factory in Vietnam has worked for 8.5 million hours without a lost-time injury. Our Lipa factory in the Philippines has had no lost-time injuries for more than eight years. An increasing number of external bodies recognize the safety excellence in our operations. For example, our Navanakorn factory in Thailand received the National Safety Award for the third consecutive year and Nestlé Indonesia was named Indonesia’s Most Caring Consumer Goods Company.

Nutrition, Health and Wellness in the work-place

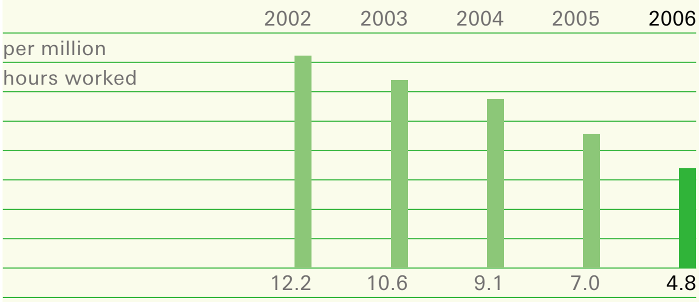
Across the world, we run Wellness Programmes which are not only beneficial for our employees, but also help to reduce absenteeism and improve productivity. Individual programmes vary from country to country but include practical and theoretical advice on issues such as nutrition and energy, fatigue and stress, and the importance of exercise, as well as physical check-ups, massage, and seminars on topics such as healthy cooking. Staff canteens ensure that healthy meals are readily available. Nutritional training is continuous so that Nutrition, Health and Wellness are embedded in our culture throughout the Company.

Ensuring food quality and safety

For every bite or sip of a Nestlé product, we have to ensure the highest levels of quality and safety. This responsibility affects the entire supply chain – from raw materials via manufacturing, packaging and distribution, to the point of consumption.

All our factories have a laboratory that systematically analyses raw materials and ingredients. Nestlé products are checked on the production line and in their finished state to ensure that they meet our standards, as well as national and international regulations.

Number of lost time injuries



The health and safety of our employees continue to be a major priority.

Work-place safety: a worker at Ocotlán, Mexico, wears a safety harness to inspect and clean a milk tanker

Several outstanding achievements have been recognised through official awards in 2006, including the Environmental "Tableau d'Honneur" for a new refrigeration plant at our factory in Lisieux (France) that replaced ozone depleting HCFC refrigerants; "The Environmental Guardian Award" in Manila (Philippines) for their water conservation programme; "Thailand and ASEAN Energy Award" in Chachoengsao (Thailand) for using coffee grounds as a renewable energy source to produce steam; "New South Wales Energy and Water Green Globe Awards" in Blayney (Australia) for their energy-smart business programme; and the "Most Environment Friendly Industry of the Year Award" in Agbara (Nigeria) for Nestlé's sustainable use of water resources through its wastewater treatment plant, the first of its kind in the area.

Environmental stewardship

We are committed to environmentally sound business practices. In line with our Corporate Business Principles and the United Nations Global Compact, we support a precautionary approach to environmental challenges, undertake initiatives to promote greater environmental responsibility and encourage the development and diffusion of environmentally friendly technologies.
In 2006, we again reduced water and energy consumption and greenhouse gas emissions. The process of tracking performance indicators has been reviewed and validated by an independent verification company, Intertek.

2006 marked the tenth anniversary of the Nestlé Environmental Management System (NEMS) which has served as a solid basis for continuously improving our environmental performance. We have reinforced our leadership position by seeking independent certification of all our factories to the internationally recognised standards. Currently, 49 factories hold an ISO 14001 (environment) certificate and 22 are OHSAS 18001 (occupational health and safety) certified.

We have initiated a programme called CARE, through which independent auditors verify the application of the company's standards in the area of human resources, work-place health and safety and environmental practices throughout our global manufacturing network. 180 Nestlé factories were audited during 2006. While the auditors did not find any significant issues, the programme has reinforced the systematic application of our high standards and led to hundreds of enhancements as part of our continuous improvement approach.

Chachoengsao factory, Thailand

Nestlé Nigeria's Agbara waste water treatment plant has won widespread acclaim

Water
Nestlé is achieving consistent, measurable reductions in its use of water, notably in manufacturing. We have initiated new efforts in the area of agriculture, the largest user of water. Water is now a priority in our farming assistance programmes. Initiatives range from new coffee processing technology in Ethiopia that's led to a 96% reduction in water use, to improving coffee irrigation in Vietnam that's estimated to generate water savings of 60%. You can read in detail about Nestlé and Water in the booklet accompanying this report.

Improved environmental performance in manufacturing
Nestlé's environmental performance indicators confirm our continuous improvement. The data show an impressive decoupling of volume growth from resource consumption and environmental impact. While our production volume increased by about 90% during the past decade, we reduced the amount of water and energy needed in the production process by 29% and 6%, respectively. Latest performance indicators are available at www.environment.nestle.com.

These improvements are a result of continuous significant investments of around CHF 100 million per year in cleaner and more efficient technologies, combined with voluntary programmes in our factories that generate enthusiasm and responsibility among our employees all over the world.

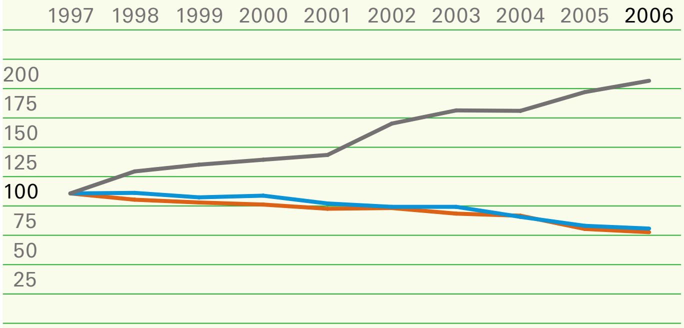
Packaging eco-design
We have persistently pursued our packaging source reduction programme. Without compromising product quality, packaging material savings from 1991 to 2006 amounted to 315 000 tonnes and a saving of CHF 560 million on a worldwide basis.

Our developments in innovative retail packaging use 30% less material and have a higher compressive strength, even under monsoon conditions. The new tray and cover for *Milo* pouches received the Malaysia Star Packaging Award from FMM Packaging Council of Malaysia for higher production efficiency, lower cost and less waste.

Food fortification
In all product categories, as you will see in this report, we are improving nutrition and health benefits by for example reducing salt, fat and sugar or including prebiotics and probiotics, additional vitamins, and calcium. One example is in South East Asia: Nestlé R&D developed a new process for malt extraction for *Milo* that enabled less sucrose and more complex carbohydrates. The new product, launched in Malaysia in July 2006, is being rolled out across Asia this year.

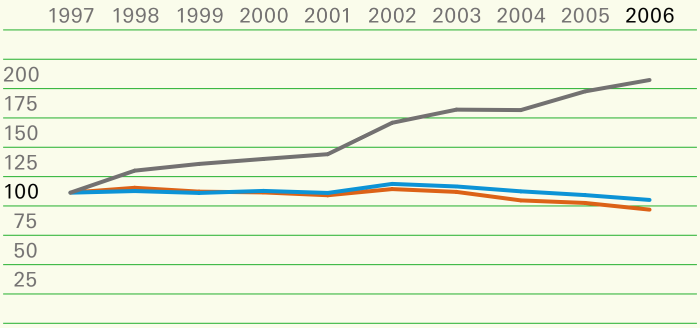
Our priority on nutrition, health and wellness isn't limited to mature markets but applies across the world, especially in developing markets where low incomes are prevalent. 62% of today's population live on USD 1500 or less a year. By providing good nutrition at the lowest price point, without compromising on taste or quality, our "Popularly Positioned Products" enable those with limited spending power to benefit from low-cost, nutritionally beneficial products.
In West African countries, for example, our affordable nutritious products have accumulated profitable sales of over a billion Swiss francs.

Water consumption and waste water generation



>Production volume >Water consumption >Waste water generation

Energy consumption and greenhouse gases



>Production volume >Energy consumption >Greenhouse gases

Our water consumption, waste water generation, energy consumption and creation of greenhouse gases have fallen over the last decade despite a near 90% increase in production volumes.

Tackling obesity

The World Health Organisation estimates that by 2015 some 1.5 billion people will be obese or overweight, a 50% increase versus 2005. Brands like *Stouffer's Lean Cuisine* and *Jenny Craig* are specifically targeted at weight management. Both brands offer calorie and portion-controlled meals but also give information, advice and guidance on achieving a balanced diet and balanced life-style with appropriate exercise.

One of our most impressive success stories has been an anti-obesity programme called "Together Let's Prevent Childhood Obesity". It started as a pilot project 14 years ago in northern France, sponsored by Nestlé, but due to its success in stopping the increase in childhood obesity, is now spreading across Europe, including Nestlé sponsorship in Spain.

Malaysia has one of Asia's highest rates of childhood obesity due to poor diet, insufficient physical exercise and, in particular, a result of low participation in sport. In this context, *Milo* has created the "Grow with Sports" public service initiative to promote a healthier lifestyle, and fight against childhood obesity, by informing parents about the values that sport can inculcate in children. The campaign includes over 200 grass-roots, youth-oriented sports events sponsored by *Milo.*

We investigate renewable resources, and our leadership has been widely recognised: the *Dairy Box* biodegradable tray made from renewable resources won the Silver Star and "Best in Category" as "Best Packaging Innovation leading to a significant reduction in household waste" by the British Institute of Packaging, and first place in the "Environmental" category of the UK Packaging Awards 2006.

Dairy Box: innovative eco-friendly packaging solution in the UK

Maggi Sopa Crecimiento is an affordable soup, fortified with calcium and vitamins A and D, sold in Central America and Brazil

The Nestlé Nutrition Council

The Nestlé Nutrition Council was founded 29 years ago, in 1978. Its purpose is to review current and developing nutritional issues related to our business and to determine their impact on our policies and strategy. For example, the Council reviewed issues such as obesity in 1995, diabetes in 1997, childhood obesity in 1998 and personalising food for health in 2003. The council is composed of ten internationally renowned nutritional scientists with a spread of nationalities and specialities. One of their key roles is to review Nestlé policies prior to their approval by the Nestlé Board. These policies then become mandatory. Since 2000, policies have been implemented on the levels of trans fatty acids, sodium (salt) and sugar in foods, as well as iron fortification in foods and nutrient fortification.

Nutritional education

Good food habits start at an early age, and much of the focus of our education is in schools. In Russia we've reached well over a million school children since 1989 with a nutritional education programme based on characters from the popular children's television series, "Sesame Street". In Brazil, our "Nutrir" programme has covered 800 000 children and involves 1500 Nestlé employee volunteers. In Thailand we've covered 2000 primary schools. Similar programmes are running in countries across all five continents. For a complete review of our nutrition education programmes, see our website: www.community.nestle.com.

Nestlé in the community

Reaching out beyond our business, Nestlé has over 400 community projects running in 90 countries. They include the many research programmes of the Nestlé Foundation for the Study of Problems of Nutrition in the World.

Another important example of a community project is in Sri Lanka, where only one in ten households has tap water. To provide rural communities with access to drinking water, Nestlé is financing clean drinking water facilities in villages located near its manufacturing operations. Examples include the Sandalanka District Hospital and 3000 pupil Pannala National School, which are in the vicinity of the Nestlé Lanka Kurunegala factory. The hygienic facilities are built by drilling deep bore wells and installing water tanks to store the clean water.

You can read about our activities in our report "Nestlé, the Community, and the UN Millennium Development Goals". This outlines over 150 projects in 66 countries that support the UN goals aimed at addressing the most pressing needs of people, particularly in developing countries. They focus on poverty reduction, education, health for women and children, and impacting pandemics like HIV/AIDS and malaria.

Corporate donations and emergency relief

Over half the corporate donations made by Nestlé are directed to the nutrition, health and well-being of children and youth. Other donations are directed at education and skills-building in developing countries as well as humanitarian relief, especially following natural disasters. We encourage voluntary involvement by our staff.

Helping to combat obesity, *Milo*-sponsored youth-oriented sports events promote physical activity

This Nestlé-sponsored "Sesame Street" nutrition education programme has reached over a million Russian schoolchildren

Recognition

Nestlé improved its score in the SAM assessment on all dimensions (economic, environment and social) for the Dow Jones Sustainability Indexes, and is ranked in the top group of all food companies in the world. We have been recognised for consistently improving on transparency and reporting on sustainability issues. SAM, one of the leading independent groups specialised in sustainability investments, identifies companies that meet sustainability criteria and thus should lead their peers in shareholder value creation.

Nestlé has received high marks from the One World Trust in its 2006 Global Accountability Report. Nestlé received the 3rd highest overall score out of the ten major companies evaluated, including the highest score of any company on transparency and second highest on having systems that evaluate social and environmental impact and use them in future planning. The One World Trust is an NGO having official status with the Economic and Social Council of the United Nations and was founded in 1951 in the UK by the All-Party Parliamentary Group on World Government.

In Infant Nutrition, an independent body (GES Institute in Scandinavia) placed Nestlé at the top of all manufacturers regarding WHO Code compliance for Infant Formula – with no claims for violating the code.

Nestlé has signed a new partnership agreement with the International Federation of Red Cross and Red Crescent Societies to provide funding totalling CHF 1 500 000 over three years, mostly for projects related to the International Federation's Global Water and Sanitation Initiative (GWSI). Initial projects supported by Nestlé will include ensuring safe and sustainable water supply to villages in sub-Saharan Africa as well as community training and hygiene promotion. Nestlé's support for the Federation's water initiative is an integral part of its commitment to the UN Millennium Development Goals, four of which have significant water components. The first wells to provide clean drinking water in Mozambique were inaugurated in 2006.

Dow Jones Sustainability Indexes

Nestlé – a company built on strong brands

Strong brands build strong relationships with consumers. Strong brands inspire innovation. Strong brands have a natural momentum for faster growth. Strong brands achieve higher profitability and create longer-term shareholder value. Nestlé is built on a foundation of very strong brands. Some are global, some regional, some local. Most have category leadership, globally or locally, and are an integral part of people's lives. For example, over 4000 cups of *Nescafé* are drunk every second. Whether the brands are over 100 years old, like *S.Pellegrino* or *Nestlé Moça*, or much younger, like *Nespresso*, their dynamism and relevance to consumers ensure that they continue to grow dynamically.

Our billionaire brands

The brands below have sales in excess of CHF 1 billion.

Beverages

Milk products

Water

Nutrition

Prepared dishes and cooking aids

Chocolate, confectionery and biscuits

Ice cream

PetCare

Pharma

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

Leadership in Nutrition, Health and Wellness

Ever since 1867, when Henri Nestlé invented the first infant food, nutrition has been in our DNA. Today our emphasis on nutrition is mirrored by more and more consumers, as they realise that food choices affect their health and quality of life.

We have a responsibility to make available to everyone everywhere the best quality, highly nutritious food – whether in a trendy part of London, or a remote village in Madagascar. This is good for the consumer, but it’s also good for us: as we add a superior nutrition, health and wellness dimension to our products, so we move Nestlé to faster growing, more profitable segments of the food industry.

Leadership in Nutrition, Health and Wellness

…in key categories

> Infant nutrition, Medical nutrition, Performance nutrition, Weight management, Water, Powdered Beverages, Dairy, Culinary, Cereals…

…in Nutrition, Health and Wellness Science

> The largest private research organisation in the world entirely dedicated to basic research in food and nutrition; total R&D expenditure in 2006 of CHF 1.7 billion

> Product innovation and renovation is driven by a unique programme (60/40+) for both taste preference and nutritional superiority

Leadership in Consumer Communication

> The *Nutritional Compass* appears on 80% of Nestlé packaging worldwide

> Nestlé Consumer Services receive 10 million calls a year

> School and consumer education programmes initiated by Nestlé on all continents

Leadership in Social Engagement

> Supporting the UN Global Compact

> Partnering to address today's biggest challenges – from malnutrition to obesity

> Helping hundreds of thousands of farmers to have sustainable livelihoods

> Providing free, safe drinking water in schools and communities

> A Foundation to support research into nutrition in developing countries

Sahne-Nuss chocolate bar, Chile: 100% flavour with 0% added sugar

60/40+ is our unique system of rigorous product testing

Driven by consumer-focused, science-based Research & Development

Around 3800 people from more than 50 countries work in Nestlé's worldwide network of research, development and product testing centres. The focus of our R&D is on products that provide specific health and nutritional benefits. Examples include *Nesquik* with *Calci-N* for stronger bones in growing children, and *Nesvita* with *Lactofibras* to help digestion or with *ActiCol* to lower cholesterol.

Nestlé Corporate Wellness Unit

The Corporate Wellness Unit is responsible for driving the nutrition, health and wellness orientation across Nestlé's Food and Beverages business. A wellness network of about 300 people around the world is responsible for implementation.

Products with nutritional benefits

60/40+ is our unique system of rigorous product testing that combines a scientific nutritional assessment with a taste preference versus competitor brands. It results in compelling, consumer-relevant products which are differentiated from our branded competitors and private label, and are supported by meaningful, credible and relevant communication. Above all, 60/40+ improves the brand's value proposition, its growth, market shares, and profitability.

We are reviewing the nutrition content of our products and have reduced sensitive nutrients – such as sodium (salt), sugar and trans fatty acids – and increased others that are considered as "positive" for health – such as calcium, whole grain and fibre. We are also adding additional health benefits to products in the form of Branded Active Benefits (BABs). These include *Prebio*[1] for digestive comfort, *Actigen-E* to help release energy from food, *BL* for immunity and protection and *NutriActive-B* to help growth of children. In 2006 products with BABs achieved sales of CHF 3.8 billion, an increase of more than 20% over 2005.

The consumer's nutritional partner

We would like to increase people's understanding of nutrition and to become the consumer's "nutritional partner". We believe that good communication forms a bridge between our products and our consumers to help them enjoy a more balanced diet and bring to life our belief, *Good Food, Good Life.* The most practical manifestation of this is our *Nutritional Compass,* an innovative nutrition labeling system which is now on packaging representing over 80% of our sales.

The *Nutritional Compass* comprises three elements: "Good to know" gives nutritional facts; "Good to remember" gives tips for healthy lifestyles, cooking and diet; "Good to talk" invites the consumer to call our Consumer Services teams or log onto a website. 96 Consumer Services teams around the world employ about a thousand people, including nutritionists. In 2006, we received around 10 million calls.

Strengthening leadership in specialised nutrition

Nestlé Nutrition is an autonomous unit within Nestlé, focused on Infant Nutrition, Healthcare Nutrition, Performance Nutrition and Weight management. Nestlé Nutrition develops science-based nutrition products and services that enhance the quality of life for people with specific nutritional needs. For this reason, the product's nutritional functional benefit is the key priority. Nestlé Nutrition's products are sold through hospitals, clinics and licensed pharmacies. Over 2500 medical representatives call on GPs and paediatricians.

The following pages show some of the innovations that are fast making Nestlé the world leader in Nutrition, Health and Wellness.

Jenny Craig and Uncle Tobys were acquired in 2006. The acquisition of Novartis Medical Nutrition was announced in 2006 and should be completed in 2007. These acquisitions advance our leadership in Nutrition, Health and Wellness. Jenny Craig and Novartis Medical Nutrition will both be part of our Nutrition Division, whilst Uncle Tobys, a major food company in Australia, active in healthy snacks, soups and cereals, will form part of our broader Food and Beverages activities.

Jenny Craig®

UNCLE TOBYS®

The *Nutritional Compass,* an innovative and transparent nutrition labelling system

The *Nutritional Compass* comprises three elements: "Good to know" gives nutritional facts; "Good to remember" gives tips for healthy lifestyles, cooking and diet; "Good to talk" invites the consumer to call our Consumer Services teams or log onto a website.

Nutrition solutions for early stages of life

Nestlé NAN, a premium infant food with probiotics, launched in Mexico in 2005, will be in 60 countries by the end of this year.

Nestlé NAN and *Nestlé NAN HA* Breast-feeding is best for feeding an infant at the initial stage of life. However, for mothers who cannot or who decide not to breast-feed, Nestlé uses cutting-edge research to offer optimal nutritional solutions for infant feeding in the first year. Infant formula has to provide all the nutrients that babies need. Our infant formulas address a wide range of nutritional needs including specialities for premature babies and babies with digestive problems. *Nestlé NAN* with *Protect Start* and *Protect Plus* is the first nutrient system that has been clinically proven to enhance a baby's immune defences. *Nestlé NAN HA,* a hypoallergenic infant formula, reduces the risk of allergies by 50% in infants.

One-on-one advice on nutrition, weight management and exercise

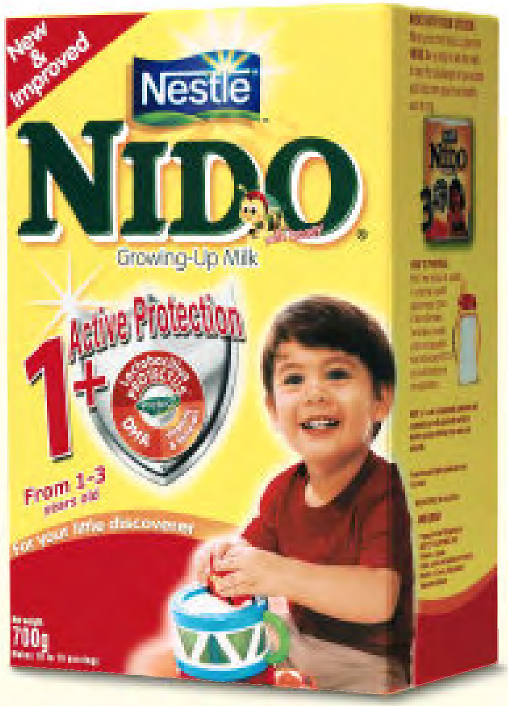
Jenny Craig

Jenny Craig was acquired in 2006, adding the fast-growing Weight Management sector to Nestlé Nutrition's portfolio. The Jenny Craig programme is an example of Nestlé's move to more personalised nutrition, helping individuals to counter obesity and to manage their weight. There are over 600 Jenny Craig centres operating in the USA, Canada, Puerto Rico, Australia and New Zealand where consumers receive one-on-one advice on nutrition, weight management and exercise. Personalised menus, made up of calorie controlled, nutritionally balanced *Jenny Craig* branded foods, are an integral part of the programme. This business is enjoying double digit growth, as well as good profitability.

Milo is an immensely strong brand.
For example, it has over 90% market share in Malaysia.

Nestlé NIDO Nutrition System, which has achieved sales of CHF 1 billion in just five years, lays the foundation for healthy growth and development at each stage of childhood, starting from one year old. It now incorporates Lactobacillus *PROTECTUS* to help strengthen the defence system against harmful germs and bad bacteria. *NIDO 1+* with Lactobacillus *PROTECTUS* and *Prebio*[1] is a growing-up milk for 1-3 year old children that strengthens their immune defences (protection); *NIDO 3+* with Lactobacillus *PROTECTUS* and *Prebio*[3] is a pre-school milk for 3-5 year old children that delivers protection together with the ingredients for good development; *NIDO 5+* with Lactobacillus *PROTECTUS* and *Calci-N* is for children from 5 years onwards and delivers protection and calcium for their continuing healthy growth.

Making strong, healthy brands even stronger and healthier



Nestlé NIDO, invented over 60 years ago, is the world's top-selling children's milk powder, with sales of over CHF 3 billion in Latin America, Asia and Africa.

Nestlé Milo is the world's top-selling chocolate malt drink and an important contributor to nutrition, health and wellness, particularly for growing children. Children love its taste and parents like it because it sets their children up nutritionally for the day. *Milo* is made with natural, nutritious ingredients – malt extract, milk solids, sugar and cocoa, fortified with vitamins and minerals. It contains several natural micronutrients with strong nutritional benefits – eg: polyphenols from cocoa and malt; vitamin B from malt; and iron, zinc and calcium from milk and cocoa. Invented over 70 years ago in Australia, today *Milo* is sold in more than 30 countries, mainly in Asia and Africa. Sales last year topped a billion Swiss francs.

The “Nestlé Ernährungsstudio” website attracts over 300 000 visits per month, with an average five minutes duration. The “Nestlé Ernährungsstudio” website provides solutions for balanced nutrition that fit individual life-styles. It includes individual health checks, and online coaching for tailor-made diet/nutrition plans.

Stouffer's Lean Cuisine helps consumers to eat well, but also provides tools that help them live a healthy lifestyle. The wide selection of delicious and convenient, portion and calorie-controlled meals helps consumers to balance great taste with good nutrition. *Lean Cuisine* also guides and encourages lifestyle changes that can be maintained for life. *Lean Cuisine* is brand leader in the Nutritional Meals segment within Frozen Food in the USA, Canada and Australia. Its sales in 2006 made it one of Nestlé's billion Swiss franc brands.

Promoting a lifetime of healthier living

LeanCuisine.com attracts 50 000 visits every day. The site gives personalised nutritional assessments and helps with calorie-controlled meal planning.

"Nestlé Ernährungsstudio" (Nestlé Nutrition Centre) At Nestlé we believe that it is not sufficient just to launch new products and renovate the existing portfolio with increased nutritional benefits. We have a responsibility also to be proactive in providing clear information and sound nutritional advice. The "Nestlé Ernährungsstudio" in Germany is a good example, helping to add value to our brands, and positioning us as the consumers' preferred nutritional partner. It offers pragmatic nutritional information and advice to bring greater nutrition, health and wellness to individuals and their families. It works holistically, communicating one-to-one, on the internet, on the pack and in shops.

Consumers are delighted to be able to enjoy the great taste of an indulgent food while benefiting from reduced calories and fat.

Dreyer's Slow Churned light ice cream was the first to benefit from our proprietary Low Temperature Freezing (LTF) technology to simulate creaminess without using fat. It enabled us to create ice-cream that had the same, or even better taste than regular ice-cream, but with half the fat and as much as a third fewer calories. The LTF technology is now working its magic on other *Nestlé* ice cream brands such as *Häagen-Dazs* in the USA, *La Laitière* in France and *Mövenpick* in Germany.

Innovative technology creates lower fat, great tasting ice cream brands

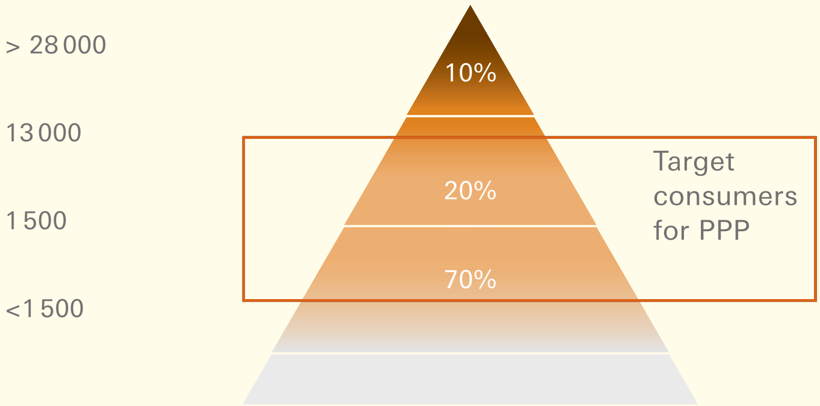
Real Dairy ice cream in Canada is a great example of how 60/40+ drives growth. Its nutritional profile meets the criteria for all public health sensitive nutrients, which means that mums feel happy watching their children enjoy ice-cream... and it has a 68% taste preference. *Real Dairy* took market leadership within two years. It has also paved the way for a range of "good for you" ice-creams that include *Real Dairy* with Omega 3, and 98% fat free *Real Dairy* with no sugar added.

Nestlé Ideal is fortified with iron, calcium and vitamins A and D to provide a nutritious product at an affordable price to lower income families.

Nestlé's "Popularly Positioned Products" Almost 55% of the world's population live in 10 countries, including China, India, Indonesia and Brazil, where many have limited spending power. We recognise that the spend on food of these lower income groups, even in Europe, is not discretionary, and that our responsibility is to use our know-how to create products that meet these consumers' needs, whilst also providing an appropriate financial return. We are addressing this market through our "popularly positioned products", which are locally made to combine an affordable price point with a high level of nutritional value and great taste.

Popularly Positioned Products

Annual per capita income (USD)



Nestlé is committed to providing food with a high level of nutritional value to consumers, regardless of their income.

Affordability and availability Getting our products to local communities in vast countries with widespread populations can be quite a challenge. Our response, which has led to greater market penetration, has sometimes been to handle retail deliveries ourselves. Our Direct Store Delivery (DSD) initiative goes direct to the street outlet. This has benefited us by increasing our product availability, as demonstrated by impressive shares of traditional trade outlets. In China, Brazil and Mexico, we have products in around 50% of outlets; in Indonesia it's as much as 70%, and in India almost 90%. DSD has also helped us to improve our control over our products' in-shop visibility and has enabled us to capture more of the value chain.

Driving profitable growth

Innovations are a key contributor to achieving our 5% to 6% growth target, as well as improved profitability – the Nestlé Model. Our strategy for innovation is based on bigger opportunities, better execution, and bolder initiatives. Innovation projects must be differentiated from the competition, be consistent with nutrition, health and wellness and must deliver sufficient scale and returns.

Bigger opportunities, better execution and bolder initiatives.

Bigger opportunities means focusing on fewer, but bigger opportunities, especially those related to expanding the geographic spread of our big brands. One example is *Hot Pockets.* These frozen snacks are the market leader in the USA, where in 2006 they notched up about CHF 1 billion in sales. In 2005 *Maggi Hot Pockets* was launched in Europe, giving us 5% brand share of the total European snack market, and sales of over CHF 40 million. The success of *Hot Pockets* is built on proprietary technology that creates a uniquely delicious fresh-baked taste straight from the microwave.

Better execution of our innovation projects is being achieved as a result of two highly successful initiatives. "Cluster Management" brings together brand managers in different countries that share similar opportunities and challenges, and who can work together on innovations that can then be quickly rolled-out in their countries.

Our "Innovation Acceleration Teams" drive faster, more efficient deployment of winning initiatives. For example, *Nestlé Tea Time,* our successful tea enhancer brand in India and Pakistan, was launched in under eight months in Egypt, Malaysia, the Middle East and South Africa. The result? Incremental sales of over CHF 40 million.

Bolder initiatives are about big ideas that make big leaps – like our low fat, low calorie ice-creams and the examples of other innovations shown in the next four pages.

Beneful Prepared Meals: nutritious, appetising and appealing…
and it looks just like human food.

Beneful Prepared Meals Our Consumer Insight research uncovered a need that hadn't yet been addressed: a dog food that went beyond keeping dogs healthy and active. The owners wanted it to be nutritious, appetising and appealing... and to look like human food. Extending our proprietary know-how, we were able to give *Beneful* Prepared Meals a real meat appearance to go with its wholesome ingredients and high nutritional content. Launched in the USA, we have captured 6% market share in the launch area and are enjoying strong repeat sales and continued growth.

Fun alternative to sweetened carbonated soft drinks

Poland Spring Aquapod

Poland Spring Aquapod is the USA's first water brand specifically for children. It addresses parents' desire for products that can help prevent juvenile obesity, and is based on an egg-shaped bottle that combines practicality with novelty. Our proprietary "PLOC" (PET Light Ovoid Container) technology is able to use far less material than regular bottles – with bottle walls of only 0.05 mm compared with 0.2 mm for standard bottles, consistent with our commitment to reduce our environmental impact. The benefits of lightweight packaging can be passed on to the consumer, as is the case in Nigeria where PLOC provides safe, good quality water, at an affordable price.

Nescafé Dolce Gusto: a new level of convenience and quality

Nescafé Dolce Gusto is an attractively priced, top class coffee system aimed at the mass market. It delivers high quality coffee in a very convenient form, creating a quick, delicious cup of speciality coffee in the comfort of your home. *Dolce Gusto* was launched in 2006 in Switzerland, UK and Germany, with more markets to follow. It functions incredibly quickly and conveniently. Only two finger movements are necessary to make an Espresso, Cappuccino, Caffè Lungo or Latte Macchiato just like in the best Italian coffee houses. The combination of our fresh coffee in capsules and our patented, variable extraction pressure technology achieves 60/40 taste preference against the competition for each of the varieties.

Nespresso, meanwhile, celebrated its 20th birthday by exceeding CHF 1 billion in sales for the first time in 2006.

Leveraging R&D expertise to launch big brands

Maggi Dal Atta Instant Noodles are enhanced to deliver desired nutrition benefits, yet still provide consumers with the full taste they enjoy so much.

Maggi Instant Noodles Whole wheat flour or atta is an important part of Indian cuisine used to prepare favourite snacks and bread. Its high dietary fibre content helps digestion and is perceived to contribute positively to health. *Maggi* Instant Noodles, one of the most popular snacks in India, launched a healthy noodle made from whole wheat flour (atta) with added real vegetables. *Maggi* Vegetable Atta Noodles provides good taste and unique health benefits such as dietary fibre, protein, energy and calcium equivalent to three Indian breads, whilst the salt content has been reduced. All this has combined to achieve 60/40+ taste and nutritional superiority over the competition. The launch was followed by *Maggi* Dal Atta Noodles, combining the goodness of whole wheat flour and pulses.

Leveraging our scale and structure to enable profitable growth

We are leveraging our scale to drive bigger innovations more broadly around the world… faster. We are also leveraging our scale and structure to improve our operational efficiency, to further speed up our organisational transformation and to enable our markets to be more focused on opportunities for growth with their customers and consumers.

Foam booster is a proprietary technology for nutritionally superior products used in three product categories.

Faster, more profitable innovation

Our consumer-centric, science and technology-driven R&D model is, year by year, leading to faster, more profitable innovations. Our focus on fewer bigger projects has led to a threefold increase in market commitment, a doubling of resources for breakthrough innovations, and significant improvements in consumer preference as measured by 60/40+.

To combine global scale and local relevance, our R&D structure cascades from our research centre into the countries. The Nestlé Research Center in Switzerland focuses on global science and technologies and basic research in nutrition, food science and food safety. It hosts the annual International Nutrition Symposium and in 2006 it published 250 scientific publications. Our 18 Product Technology and R&D centres around the world are experts in specific product categories and technologies, and are linked to our 280 Application Groups in the markets, which work primarily on local adaptations.

The power of collective knowledge

Four expert networks link our R&D units on aspects of science and technology that are common to every Nestlé product. They are: the Quality and Safety Network, the Nutrition Network, the Sensory Network and the Food Technology Network.

Networking internally means that we make the most of what we've got. But external partnering in key benefit areas brings fresh ideas and enables us to increase our R&D output without increasing the number of people we employ. Having trebled our partnerships in five years, we now have around 300 contracts with universities and other partners for basic research. We also have co-development partnerships helping us extend and accelerate our innovations.

Applying science and technology to nutrition, health and wellness

We are applying science and technology to make products that contribute to nutrition, health and wellness across all our categories.

We were first to use Low Temperature Freezing (LTF) technology for ice-cream to simulate creaminess without fat. We were first to use probiotics – beneficial bacteria that strengthen the immune system – back in the early 1990s.

Our fermentation specialists have found a probiotic bacterium that has a long survival time and can benefit products in countries like Brazil, where the supply chain from factory to a small shop can be extensive.

Our extrusion expertise network has crossed knowledge transfer from hot extrusion (for infant and breakfast cereals) via co-extrusion (for filled bars and snacks) to cold extrusion (for ice-cream and chocolate).

We've developed technologies that use natural vegetable oils instead of partially hydrogenated fats, in bouillon cubes and seasonings for *Maggi*.

Even our foam booster technology that produces the creamy head for *Nescafé* Cappuccino has nutritional benefits by reducing the fat content. This technology has also been applied to *CoffeeMate,* as well as to *Maggi* culinary sauces and soups, producing the same foamy creaminess but with less fat.

Improving operational efficiency

In 1997, we embarked on a journey of cost optimisation that is continuing with the "Operation EXCELLENCE 2007" initiative. This journey has contributed to a reduction in cost of goods sold from 51.8% of sales in 1996 to 41.3% in 2006.

A key contributor to those savings has been our major initiative, GLOBE (Global Business Excellence), which was set up in 2000 to leverage our size as a strength and to enable us to manage our complexity (products, channels and geographic spread) with operational efficiency. It involved the implementation of harmonised Nestlé best practices, data standards and data management, and standardised information systems and technology.

Today, with the GLOBE sytems near to full implementation, the emphasis is on creating an agile fleet of businesses with a focused, fast and flexible "front-line" to generate profitable growth with our customers and consumers, and a slim, cost-efficient and service driven "back-line" to ensure supply.

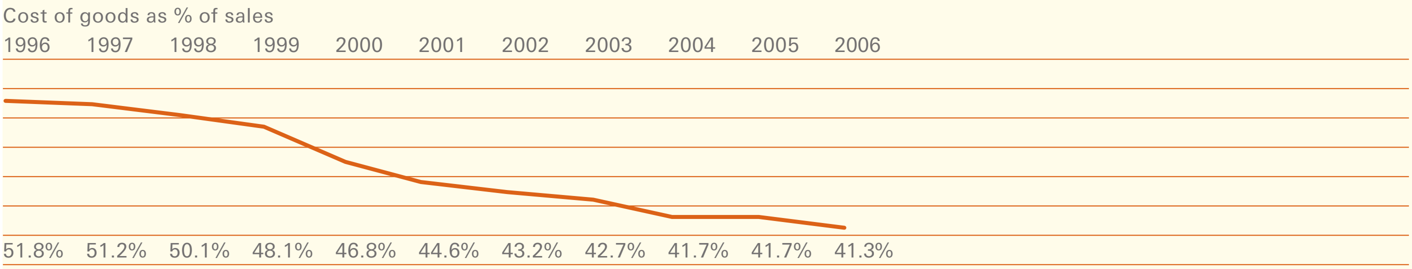
There are hundreds, indeed thousands of examples of how GLOBE is benefiting Nestlé. We have implemented over a thousand best practices from all over our business. Over 300 global data standards and data management standards have been adopted by all our businesses and markets. Before GLOBE we had over a hundred disconnected data centres. We now have four. In Europe, before GLOBE, we had many different Income Statements. Now we've harmonised them into one, reducing complexity and improving benchmarking and decision-making.

We now have the GLOBE systems operating in over 60 countries, representing about 80% of our Food and Beverages business. We have over 100 000 users operating GLOBE's processes, data and systems, in over 500 factories, including co-packers, over 400 distribution centres and over 300 sales offices.

Two specific examples show how GLOBE works at grass-roots level. In Israel, new channel pricing and promotional policies for *Nescafé* contributed to its market share increasing from 37% to 41% in 18 months, and its total trade spend reducing by 4%. In Chile, GLOBE identified 342 different channels for selling our products. One of them, cruise ships which carry thousands of passengers, has now become a lucrative source of incremental growth.

GLOBE permeates the whole of Nestlé, increasing employees' job satisfaction. Mushtaq Ahmed, a forklift operator in our Kabirwalla factory in Pakistan, described his job before GLOBE as "very routine and frustrating, spending most of the time searching the warehouse for stock and dealing with mountains of paperwork." When he heard about GLOBE, he considered quitting as he'd never used a computer or radio frequency scanner. But today Mushtaq works with GLOBE every day. He's avoiding the paperwork by entering information directly into the system. He can find stock quickly. He's working more efficiently. What's more, Mushtaq is going to teach his six children computer skills. "Thanks to GLOBE, I enjoy my work."

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



MH'97
> Continuous Improvements

Target 2004+
> Functional Targets
> Best Practice
> Restructuring the Industrial Network

Operation EXCELLENCE 2007
> Aligned targets across the Supply Chain
> Integrated Distribution and Industrial Networks
> Continuous Improvement culture

Global Nestlé Business Services (GNBS)

GLOBE enables GNBS to support our front-line by providing shared services for selected back-line activities. GNBS is essentially about allowing our front-line people to concentrate on profitable demand generation.

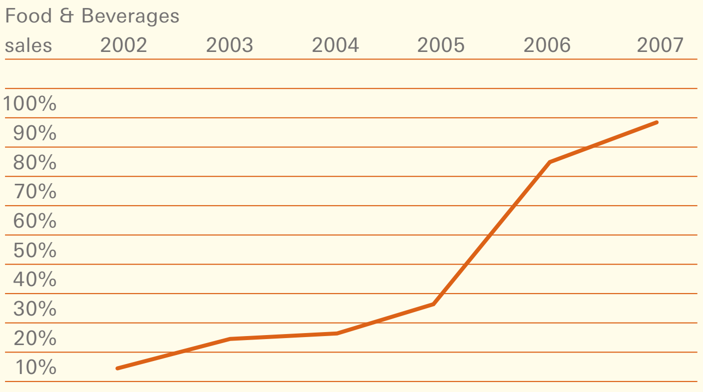
GNBS aims to deliver the most effective back-office support at best-in-class cost in four different "bundles": Employee Services, Facility Services, IS/IT Services and Financial Services.

Our experience with internally sourced and outsourced services is encouraging. For example, we have achieved a 40% productivity improvement in North America by outsourcing selected financial activities to off-shore centres. Similar productivity gains are being made in our Shared Services Centre in Brazil which caters for 21 countries in the region. In Oceania our Shared Services has improved efficiency by about 30%.

Overall, our GLOBE and GNBS initiatives are enabling our businesses and markets to focus their energies on driving profitable growth by freeing them of non-value added activities, whilst also reducing costs and improving efficiencies. As such, they are key contributors to the Nestlé Model of good growth and a consistent, year after year improvement in profitability.

GLOBE has over 100 000 users operating GLOBE's processes, data and systems, in over 500 factories, including co-packers, over 400 distribution centres and over 300 sales offices.

GLOBE system implementation Plan



Products for vision, health and beauty

Pharmaceutical and Cosmetics activities

Nestlé owns about 76% of the pharmaceutical company Alcon, and about 29% of L'Oréal with whom it has two joint ventures: Galderma and Laboratoires innéov. All four companies in their individual ways contribute to Nestlé's overall strategy of leadership in nutrition, health and wellness.

Alcon – In 2006, Alcon's global sales grew 12.3% to CHF 6.12 billion, while EBIT grew 16.6% to CHF 2.04 billion. Heavy investment in research and development is helping to discover drugs and technologies and launch further innovative products such as *DuoTrav* and *Travatan Z* ophthalmic solutions in Europe and in the USA. Sales were particularly enhanced by new launches including the *AcrySof ReSTOR* multifocal lens and *OPTI-FREE RepleniSH* multi-purpose disinfecting solution, as well as *Opatanol* ophthalmic solution in Europe. For further information, see Alcon's annual report or www.alconinc.com

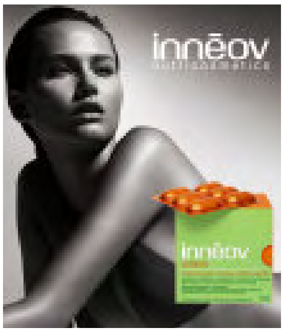
Galderma – For our 50/50% joint venture with L'Oréal, 2006 sales grew 9.9% to CHF 1.08 billion, in part due to the launch of several new products, including *Clobex* Spray, a novel super high potency corticosteroid for psoriasis, *Metvix PDT* photodynamic therapy introduced in Brazil and *Curanail,* a lacquer treatment for fungal nail infections introduced in the UK. For further information, see www.galderma.com

L'Oréal – Consolidated sales grew 8.7% in 2006 (5.8% like-for-like) to EUR 15.79 billion. Net profit grew to EUR 2.06 billion, and net profit per share by 14.6% to EUR 2.98. The Garnier Fructis product line pursued its international expansion while the Dermo-Expertise product range of L'Oréal Paris won significant market share. In 2006, The Body Shop, selling naturally inspired beauty products, joined the brand portfolio with sales through a network of 2200 dedicated retail outlets in over 50 countries. For further information, see the L'Oréal annual report or www.loreal-finance.com

Laboratoires innéov – A joint venture between Nestlé and L'Oréal – specialises in cosmetic nutritional supplements. Its market share has grown to 13% in the 14 European countries where it operates. For further information, see www.inneov.com

After seven years' research on skin ageing, L'Oréal has developed a completely new active ingredient: Pro-Xylane.

Alcon's business is helping people to see the world more clearly



The innéov Sun range strengthens the cellular defences of the skin through its natural active *Skin Probiotic* ingredient.

In Sophia-Antipolis (France), Galderma has recently opened the world's largest dermatology research and development centre.

Group performance
Financial review

Strong sales and profit performances – the Nestlé Model

>Sales up 8.1%, or CHF 7.3 billion, to CHF 98.5 billion
>Organic growth of 6.2%, above 5-6% target – Food & Beverages the key driver
>EBIT up 12%, or CHF 1.4 billion, to CHF 13.3 billion
>EBIT margin up 50 bps to 13.5%
>Food & Beverages contributed 40 bps to the 50 bps Group margin improvement
>A strong performance from Alcon and the other health and beauty investments
>Net profit up 13.8%, or CHF 1.1 billion, to CHF 9.2 billion
>Net profit margin up 40 bps to 9.3%

Strong cash flow and increased return of funds to shareholders

>Operating cash flow increased 14.4%, or CHF 1.5 billion, to CHF 11.7 billion
>Operating cash flow increased by 70 bps to 11.9% of sales
>Capital expenditure increased by CHF 0.8 billion to CHF 4.2 billion
>Capital expenditure increased by 60 bps to 4.3% of sales
>Working capital reduced from 7.7% of sales to 6.7%
>ROIC excluding goodwill improved by 40 bps to 21.2%
>ROIC including goodwill improved by 30 bps to 11.7%
>CHF 3 billion share buy-back programme completed
>Proposed dividend of CHF 10.40 per share, an increase of 15.6%

Principal key figures (illustrative)

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

In millions of CHF (except per share data)

		2005 [a]	2006
Sales		91 115	98 458
EBIT (Group) Earnings Before Interest, Taxes, restructuring and impairments		11 876	13 302
EBIT (Food and Beverages) Earnings Before Interest, Taxes, restructuring and impairments		10 043	11 166
Profit for the period attributable to shareholders of the parent Net profit		8 081	9 197
Equity attributable to shareholders of the parent before proposed appropriation of profit of Nestlé S.A.		47 498	50 991
Market capitalisation, end December		152 576	166 152
Per share			
Total earnings per share	CHF	20.78	23.90
Equity attributable to shareholders of the parent before proposed appropriation of profit of Nestlé S.A.	CHF	122.16	132.51

In millions of USD (except per share data)

		2005 [a]	2006
Sales		73 009	78 742
EBIT (Group) Earnings Before Interest, Taxes, restructuring and impairments		9 516	10 638
EBIT (Food and Beverages) Earnings Before Interest, Taxes, restructuring and impairments		8 048	8 930
Profit for the period attributable to shareholders of the parent Net profit		6 475	7 355
Equity attributable to shareholders of the parent before proposed appropriation of profit of Nestlé S.A.		36 258	41 727
Market capitalisation, end December		116 470	135 967
Per share			
Total earnings per share	USD	16.65	19.11
Equity attributable to shareholders of the parent before proposed appropriation of profit of Nestlé S.A.	USD	93.25	108.44

In millions of EUR (except per share data)

		2005 [a]	2006
Sales		58 822	62 543
EBIT (Group) Earnings Before Interest, Taxes, restructuring and impairments		7 667	8 450
EBIT (Food and Beverages) Earnings Before Interest, Taxes, restructuring and impairments		6 484	7 093
Profit for the period attributable to shareholders of the parent Net profit		5 217	5 842
Equity attributable to shareholders of the parent before proposed appropriation of profit of Nestlé S.A.		30 448	31 691
Market capitalisation, end December		97 805	103 264
Per share			
Total earnings per share	EUR	13.42	15.18
Equity attributable to shareholders of the parent before proposed appropriation of profit of Nestlé S.A.	EUR	78.31	82.36

[a] 2005 comparatives have been restated. See Consolidated Financial Statements

Financial Review

Overview

The Group's sales rose 8.1% from CHF 91.11 billion to CHF 98.45 billion in 2006. The EBIT (Earnings before Interest, Taxes, restructuring and impairments) margin increased by 50 basis points from 13% to 13.5%, and the net profit by 40 basis points to 9.3%. In Swiss francs, the Group generated in 2006 an additional CHF 7.3 billion of sales, an additional CHF 1.4 billion of EBIT, an additional CHF 1.1 billion of net profit, and an additional CHF 1.5 billion of operating cash flow. The Board is proposing to shareholders a dividend of CHF 10.40 per share, representing an increase of 15.6% over the CHF 9.– paid in 2006.

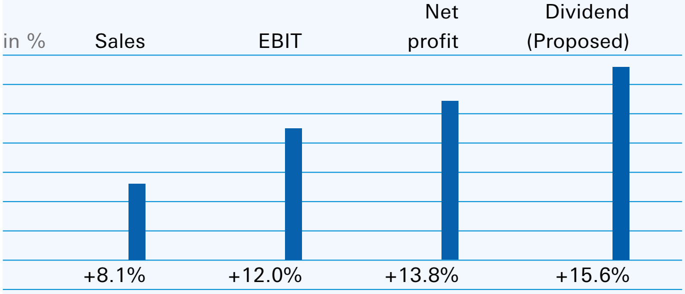
Sales

Sales were driven by real internal growth (RIG) of 4.7% and pricing of 1.5% which, together, created an organic growth of 6.2%. There was a net positive contribution from acquisitions and disposals of 0.3% and a positive contribution from foreign exchange of 1.6%.

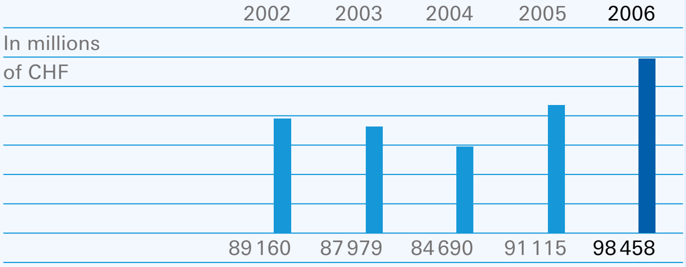
The Food and Beverages business was, as always, the main contributor to the growth, contributing 7.8% out of the 8.1%, as its sales rose by CHF 6.6 billion to CHF 91.8 billion. Its organic growth was 5.9%, of which RIG contributed 4.2%. This performance reflects an out-performance in many markets and share gains across most categories.

The benefit to growth of our strategic transformation to Nutrition, Health and Wellness is evident, and the success of many of our brands is a direct result of their strong nutritional credentials, which are

2006 Highlights



Sales



well recognised by consumers. Other brands, such as *Nescafé, Dreyer's* and *Kit Kat,* have benefited from strong performances of health-focused extensions. We have also continued to enjoy considerable success with our strategy of adding additional health benefits to products in the form of Branded Active Benefits (BABs). The organic growth of products incorporating a BAB was over 20% in 2006, and the sales of those products reached close to CHF 4 billion.

The engine for growth at Nestlé is its brands. These are fuelled by consumer-centric innovation, are market-tested through our stringent 60/40+ process, and have their benefits clearly communicated through the *Nestlé Nutritional Compass,* which is now on 80% of our products globally (60/40+ and the *Compass* are explained on page 26).

The strong Food and Beverages growth reflects good performances across most product categories, with 8% organic growth in Beverages, 7.1% in PetCare, 5.3% in Milk Products, Nutrition and Ice cream, 4.8% in Prepared dishes and cooking aids, and 2.6% in Chocolate, confectionery and biscuits.

Each of these product categories has one or more constituent from our portfolio of "billionaire brands", with sales in excess of CHF 1 billion (shown on page 55).

The strongest performer among them was *Nespresso,* which had sales in excess of CHF 1 billion for the first time in 2006 and grew over 40%. Nespresso is a high-quality roast and ground portioned coffee system. Positioned as a super premium brand, with a strong sales heritage primarily in Europe, it demonstrates that the right innovation can deliver strong growth even in "mature markets." It is growing rapidly as it is introduced in new markets around the world. The second fastest was *Nestlé* in the Water category which grew at about 30%. This brand is present in emerging markets and North America as *Nestlé Pure Life* and in Europe as *Nestlé Aquarel.*

There was double digit growth also in Beverages in *Milo,* as well as in Frozen Food in North America with *Stouffer's Lean Cuisine.* A number of brands achieved mid to high single digit growth, including *Nescafé* and *Kit Kat,* and *Nestlé* and *Nido/Ninho* in Shelf Stable Dairy, *Dreyer's/Edy's* in Ice cream, and *Purina* in PetCare. Most of the other "billionaire brands" achieved growth above 3%.

The composition of sales

In %	Group	Food and Beverages
Organic growth	6.2	5.9
RIG	4.7	4.2
Pricing	1.5	1.7
Acquisitions net of divestitures	0.3	0.3
Exchange rates	1.6	1.6

Turning to our performance by geography: Zone Asia, Oceania and Africa achieved organic growth of 7.9%, whilst our total Food and Beverages business achieved 8% in that region; Zone Americas reported 6.1% organic growth, with the total business in that region at 7.2%; and Zone Europe reached 2.3%, including a double-digit contribution from Eastern Europe, with the total European Food and Beverages business reaching 3.3%. In each of these three regions, we performed well relative to the GDP.

The difference between the 5.9% organic growth achieved by our Food and Beverages business and the 6.2% achieved by the Group reflects an equally strong performance by our Pharmaceutical activities. Comprising our investments in the areas of vision, health and beauty, Alcon, Galderma and Laboratoires innéov, it had sales of CHF 6.7 billion and achieved organic growth of 11.6%.

Profitability

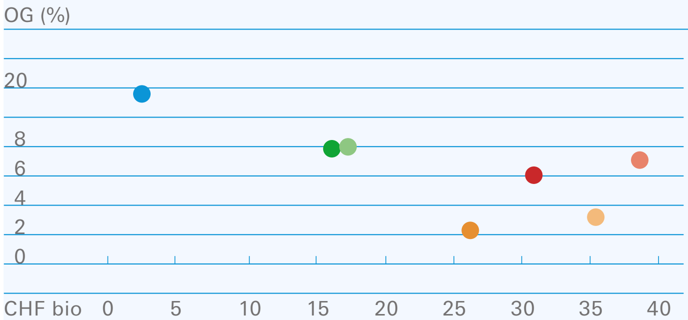
The Group's EBIT increased by 50 basis points from 13% to 13.5%, and by CHF 1.4 billion, or 12%, to CHF 13.3 billion. Nestlé's Food and Beverages business accounted for 40 basis points of that 50 basis points improvement in the Group's margin. The Group's net profit was CHF 9.2 billion, an increase of 40 basis points to 9.3% of sales.

We believe that the greatest opportunity for value creation at Nestlé lies in our potential to improve further the performance of the Food and Beverages business. Our transformation to Nutrition, Health and Wellness promises a longer-term structural shift in profit margins as the business continues to migrate to more differentiated, more value-added products. Simultaneous to this transformation, we are driving a number of initiatives to improve profitability in the shorter term.

We are starting to benefit from the GLOBE implementations: we have begun to leverage our scale as a competitive advantage in areas such as purchasing and R&D, and through shared services with the GNBS initiative; we are reducing complexity in our product offering, legal structures and reporting; we are tackling underperforming businesses; and we have exceeded the targeted cost savings in our factories and supply chain from our efficiency programme, Operation EXCELLENCE 2007. Our progress in these areas was fundamental to our ability to achieve improved results in Food and Beverages in 2006, and will continue to be so in 2007.

The Group's efficiency programme, Operation EXCELLENCE 2007, enabled us to compensate for the increased pressure from input costs in manufacturing and distribution. We invested an additional CHF 2 billion in marketing and

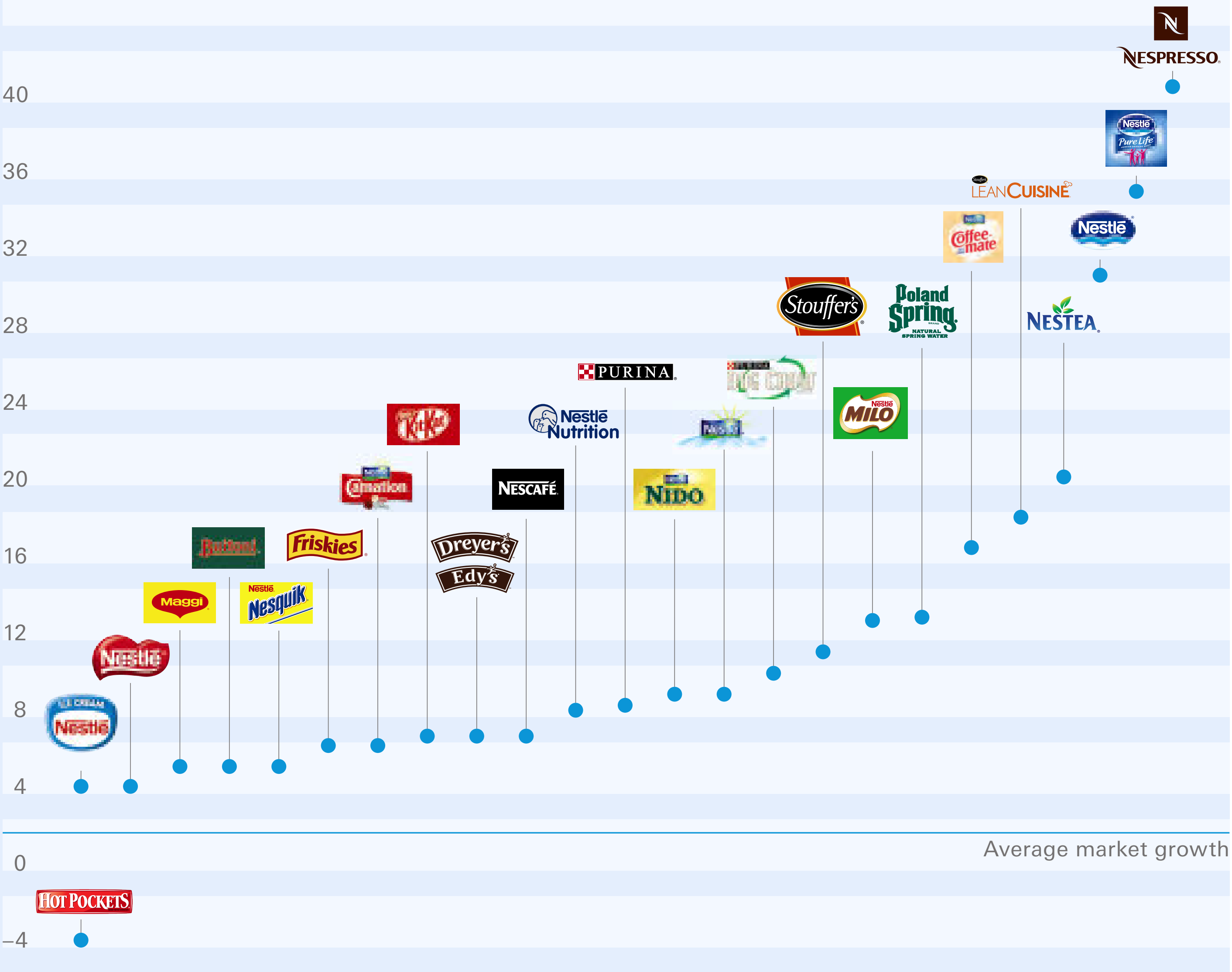
Geographic Food and Beverages sales and organic growth (OG)



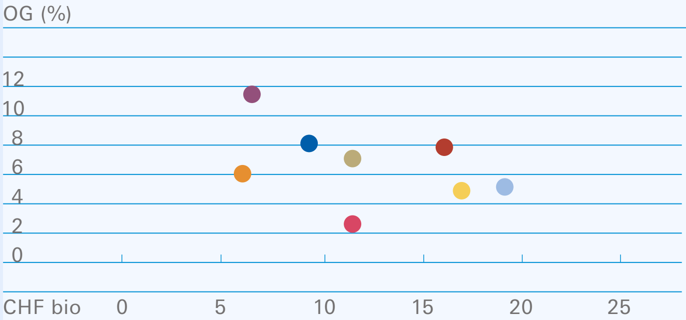
In billions of CHF	Sales	OG (%)
Zone Europe	26.7	2.3
Europe*	35.1	3.3
Zone Americas	31.3	6.1
Americas*	38.8	7.2
Zone Asia, Oceania and Africa	15.4	7.9
Asia, Oceania and Africa*	17.7	8.0
Other Food and Beverages	2.8	19.1

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

Key brands deliver growth above market



Product group sales and organic growth (OG)



In billions of CHF	Sales	OG (%)
Powdered & liquid beverages	16.3	7.9
Nestlé Waters	9.6	8.2
Milk products and Ice Cream	19.5	5.1
Nestlé Nutrition	6.0	6.1
Prepared dishes and cooking aids	17.6	4.8
Chocolate, confectionery and biscuits	11.4	2.6
PetCare	11.4	7.1
Pharmaceutical products	6.7	11.6

administration expenses, or 6%, as we continued to support our major brands and innovations. This spend on Marketing and Administration actually fell by 60 basis points as a percentage of sales due to our strong sales growth of 8.1%, as well as efficiencies in Administration and trade spend. We also increased our investment in R&D by about 16%. In conclusion, therefore, the Group's 12% increase in EBIT was achieved in a tough input cost environment, whilst continuing to invest in the sustainable growth of our brands and categories.

Zone and Product Group Performance

There were improvements in EBIT margins in Zone Americas, by 70 basis points, and Zone Asia, Oceania and Africa, by 40 basis points, as well as Nestlé Waters, by 60 basis points. Zone Europe and Nestlé Nutrition reported lower margins, by 40 and 80 basis points respectively. There was a balanced performance across the Food and Beverages product groups with all of them either improving their margins or being about flat. Our pharmaceutical activities improved their margins due to strong performances from our investments in health and beauty, including Alcon.

Cash flow and capital expenditure

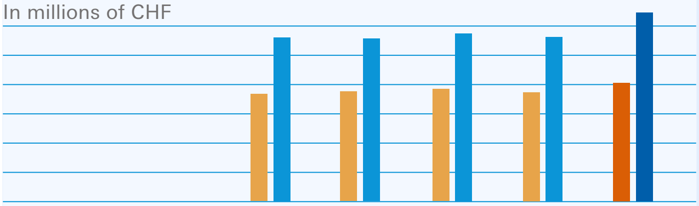
The good operating performance of the Group in 2006 has been successfully translated into a strong cash flow performance. The Group's operating cash flow increased by 14.4% to CHF 11.7 billion. Our free cash flow generation increased by CHF 0.5 billion to CHF 7.0 billion. The difference between our operating and free cash flow is explained by our capital expenditure. Our dynamic growth over the last few years and strong innovation pipeline have made significant demands on the Group's operational capacities. We have always had a policy of investing capital in the business on a strict need-basis and with demanding criteria for financial returns. The level of capital expenditure increased in 2006 from 3.7% of sales in 2005 to 4.3% of sales, by CHF 0.8 billion to CHF 4.2 billion.

One of our priorities in 2006 was to improve the management of our working capital. We were able to do so across each of the key areas of operating working capital, raw materials, finished goods, customers and suppliers. Overall our working capital reduced from 7.7% of sales to 6.7% of sales.

Return on invested capital

The Group's return on invested capital increased during 2006. Including goodwill, it increased from 11.4% to 11.7%; excluding goodwill, it increased from 20.8% to 21.2%.

Cash flow



In millions of CHF	2002	2003	2004	2005	2006
Free cash flow	6 278	6 361	6 640	6 557	7 018
Operating cash flow	10 248	10 125	10 412	10 205	11 676

Financial position

The Group's net debt increased during 2006 from CHF 9.7 billion to CHF 11.0 billion. Apart from the increase in capital expenditure, the Group's cash flows were invested in completing the CHF 3 billion share buy-back programme announced in November 2005, acquisitions such as Uncle Tobys and Jenny Craig, and acquiring the remaining publicly owned shares of Dreyer's Grand Ice Cream. The Group continues to have a AAA debt rating. The net financing cost increased slightly from CHF 0.6 billion to CHF 0.7 billion.

Equity attributable to shareholders of the parent rose from CHF 47.5 billion to CHF 51.0 billion, representing 50% of total assets, net of treasury shares, the carrying value of which was CHF 4.6 billion. The ratio of net debt to equity moved from 20.5% at 31 December 2005 to 21.5% at 31 December 2006.

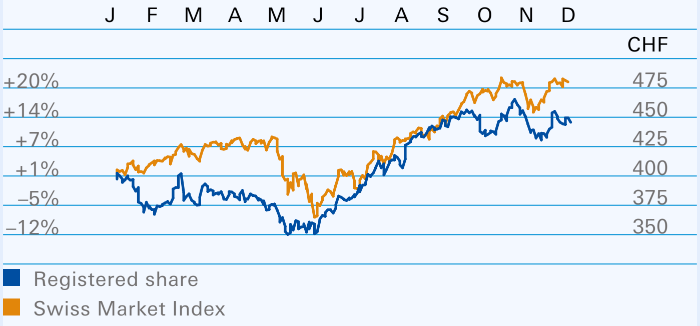
Shares, stock exchange

The Nestlé share price started the year at CHF 393.– and ended at CHF 433.–, an increase of 10.2%, which compares to a 15.9% increase in the Swiss Market and a 15% increase in the Dow Jones Stoxx Food and Beverage.

Total shareholders return

The Group is proposing to shareholders a dividend of CHF 10.40 per share, an increase of 15.6% over the CHF 9.– paid in respect of 2005. The 2005 dividend, paid in 2006, contributed to a total return to shareholders of 13% in 2006, on top of the 35% return in 2005.

Evolution of the Nestlé registered share in 2006



Management responsibilities
Food and Beverages

In millions of CHF

Zone Europe	2004 [a]	2005 [b]	2006		RIG (%)	OG (%)
Western	23 672	22 726	23 337	87.4%	0.3	0.9
Eastern and Central	2 812	2 873	3 361	12.6%	9.9	13.0
Beverages	4 980	5 286	5 567	20.9%		
Milk products and Ice cream	5 229	3 295	3 525	13.2%		
Prepared dishes and cooking aids	8 038	8 631	8 858	33.2%		
Chocolate, confectionery and biscuits	5 050	5 025	5 162	19.3%		
PetCare	3 187	3 362	3 586	13.4%		
Total sales	26 484	25 599	26 698	100%	1.4	2.3
EBIT	3 395	3 082	3 110	11.6%		
Capital expenditure	890	797	812	3.0%		

Zone Americas	2004 [a]	2005 [b]	2006		RIG (%)	OG (%)
USA and Canada	19 047	19 412	20 603	65.9%	2.9	5.4
Latin America and Caribbean	8 729	9 544	10 683	34.1%	5.6	7.6
Beverages	3 111	3 505	3 770	12.0%		
Milk products and Ice cream	9 240	8 787	9 469	30.3%		
Prepared dishes and cooking aids	5 565	5 916	6 395	20.5%		
Chocolate, confectionery and biscuits	3 691	4 117	4 420	14.1%		
PetCare	6 169	6 631	7 232	23.1%		
Total sales	27 776	28 956	31 286	100%	3.8	6.1
EBIT	4 142	4 364	4 946	15.8%		
Capital expenditure	813	908	1 125	3.6%		

[a] In 2004 comparatives, Nestlé Nutrition figures are included in Zones, as well as in Milk products and Ice cream.
[b] 2005 comparatives have been restated. See Consolidated Financial Statements

Zone Asia, Oceania and Africa

	2004 [a]	2005 [b]	2006		RIG (%)	OG (%)
Oceania and Japan	4 553	4 676	4 621	29.9%	1.6	2.0
Other Asian markets	5 926	5 626	6 365	41.2%	5.9	8.4
Africa and Middle East	4 194	3 994	4 453	28.9%	11.2	13.9
Beverages	4 812	5 168	5 437	35.2%		
Milk products and Ice cream	5 938	4 854	5 285	34.2%		
Prepared dishes and cooking aids	1 889	2 112	2 371	15.4%		
Chocolate, confectionery and biscuits	1 456	1 586	1 744	11.3%		
PetCare	578	576	602	3.9%		
Total sales	14 673	14 296	15 439	100%	6.0	7.9
EBIT	2 538	2 334	2 583	16.7%		
Capital expenditure	587	546	588	3.8%		

Nestlé Waters

	2004	2005	2006		RIG (%)	OG (%)
Europe	3 910	3 959	4 179	43.4%		
USA and Canada	3 610	4 222	4 805	50.0%		
Other regions	519	606	632	6.6%		
Total sales	8 039	8 787	9 616	100%	9.1	8.2
EBIT	666	709	834	8.7%		
Capital expenditure	558	601	923	9.6%		

Nestlé Nutrition

	2004	2005	2006		RIG (%)	OG (%)
Europe		2 063	2 208	37.0%		
Americas		1 800	2 237	37.6%		
Asia, Oceania and Africa		1 407	1 510	25.4%		
Total sales		5 270	5 955	100%	2.2	6.1
EBIT		932	1 005	16.9%		
Capital expenditure		134	194	3.3%		

Leading positions in dynamic categories

In millions of CHF

Beverages	2004	2005[a]	2006		RIG (%)	OG (%)
Soluble coffee	8079	8783	9477	36.6%		
Nestlé Waters	8039	8787	9616	37.2%		
Other	5675	6272	6789	26.2%		
Total sales	21793	23842	25882	100%	6.9	8.0
EBIT	3852	4131	4475	17.3%		
Capital expenditure	806	752	1105			

Milk products, Nutrition and Ice cream						
Milk products	8712	9881	10820	42.5%		
Nestlé Nutrition	5223	5270	5955	23.4%		
Ice cream	6557	7023	7424	29.2%		
Other	1011	1101	1236	4.9%		
Total sales	21503	23275	25435	100%	3.2	5.3
EBIT	2593	2598	3003	11.8%		
Capital expenditure	541	689	702			

Prepared dishes and cooking aids						
Frozen and chilled	9212	9656	10307	58.4%		
Culinary and other	6666	7017	7328	41.6%		
Total sales	15878	16673	17635	100%	4.2	4.8
EBIT	1916	2176	2323	13.2%		
Capital expenditure	250	261	272			

Chocolate, confectionery and biscuits						
Chocolate	8181	8640	9103	79.8%		
Confectionery	1205	1207	1204	10.6%		
Biscuits	872	947	1092	9.6%		
Total sales	10258	10794	11399	100%	0.5	2.6
EBIT	1148	1257	1309	11.5%		
Capital expenditure	201	194	258			

[a] 2005 comparatives have been restated. See Consolidated Financial Statements

PetCare	2004	2005 [a]	2006		RIG (%)	OG (%)
USA and Canada	5 661	6 088	6 602	57.8%		
Europe	3 187	3 362	3 586	31.4%		
Other regions	1 086	1 119	1 232	10.8%		
Total sales	9 934	10 569	11 420	100%	4.3	7.1
EBIT	1 443	1 532	1 730			
Capital expenditure	276	274	345			

Nestlé FoodServices (Out-of-Home)*						
Zone Europe	3 003	3 136	3 487	50.4%		
Zone Americas	1 798	1 669	1 784	25.8%		
Zone Asia, Oceania and Africa	1 212	1 327	1 642	23.8%		
Total sales	6 013	6 132	6 913	100%	2.6	5.1

Alcon						
Sales	4 857	5 452	6 123		11.5	11.7
EBIT	1 382	1 751	2 038			
Capital expenditure	171	195	267			

Health and beauty joint ventures			
Nestlé's share of sales	467	510	564

Associated companies			
Nestlé's share of results	1 588	896	963

* Nestlé FoodServices' sales and results are also included in the relevant product groups. The scope was redefined; comparatives have been restated accordingly.

Geographic data: people and factories

Nestlé has 481 factories in 87 countries around the world. This is a reduction from 487 in 2005. During the year, 16 factories were acquired or opened and 18 were closed or divested. Moreover, 6 European chilled dairy factories were transferred to our venture with Lactalis and two production sites were reclassified as factories in the Nestlé Group.

Factories by geographic area

	2005	2006
Europe	185 [a]	180
Americas	165	162
Asia, Oceania and Africa	137	139
Total	487	481

Employees by geographic area

	2005	2006
Europe*	37.9% [a]	35.8%
Americas	36.0%	37.2%
Asia, Oceania and Africa	26.1%	27.0%

* 8 121 employees in Switzerland in 2006

By activity

In thousands		
Factories	133 [a]	137
Administration and sales	120 [a]	128
Total	253	265

[a] Includes factories and about 3000 employees related to the discontinued operation resulting from the announcement made in December 2005 for the Chilled dairy activities in Europe.

Europe

Austria	1	● ■	■	● ■	■	■	■
Belgium	3	● ■	■	● ■	■	■	● ■
Bulgaria	2	■	● ■	■	● ■	■	■
Czech Republic	2	■	■	■	● ■	■	■
Denmark	1	■	● ■	■	■	■	■
Finland	2	■	● ■	■	■	■	■
France	33	● ■	● ■	● ■	● ■	● ■	● ■
Germany	24	● ■	● ■	● ■	● ■	● ■	■
Greece	4	● ■	● ■	■	■	■	■
Hungary	4	● ■	● ■	■	● ■	● ■	■
Italy	22	● ■	● ■	● ■	● ■	● ■	■
Netherlands	4	■	● ■	● ■	● ■	● ■	■
Norway	1	■	● ■	■	■	■	■
Poland	8	● ■	● ■	● ■	● ■	■	■
Portugal	6	● ■	● ■	■	■	■	■
Republic of Ireland	1	■	■	■	■	■	● ■
Romania	2	● ■	● ■	■	● ■	■	■
Russia	9	● ■	● ■	● ■	● ■	■	■
Serbia	1	■	● ■	■	■	■	■
Slovak Republic	1	■	■	● ■	■	■	■
Spain	16	● ■	● ■	● ■	● ■	● ■	● ■
Sweden	2	● ■	■	■	■	■	■
Switzerland	8	● ■	● ■	● ■	● ■	■	● ■
Turkey	5	● ■	■	●	●	■	■
Ukraine	2	■	■	● ■	● ■	■	■
United Kingdom	16	● ■	■	■	● ■	● ■	■

Americas

Argentina	9	● ■	● ■	● ■	■	●	■
Brazil	22	● ■	● ■	●	●	● ■	● ■
Canada	13	● ■	● ■	● ■	● ■	● ■	● ■
Chile	6	● ■	● ■	● ■	● ■	■	■
Colombia	4	● ■	● ■	● ■	● ■	● ■	■
Cuba	3	● ■	● ■	■	■		■
Dominican Republic	3	■	● ■	● ■	■	■	■
Ecuador	2	● ■	● ■	● ■	● ■	■	■
El Salvador	1	■	● ■	■	■	■	■
Guatemala	1	■	■	● ■	■	■	■
Jamaica	1	● ■	● ■	■	■	■	■
Mexico	12	● ■	● ■	● ■	● ■	● ■	● ■
Nicaragua	1	■	● ■	■	■	■	■
Panama	1	■	● ■	● ■	■	■	■
Peru	1	■	● ■	● ■	● ■	■	■
Trinidad and Tobago	1	● ■	● ■	■	■	■	■
United States	74	● ■	● ■	● ■	● ■	● ■	● ■
Uruguay	1	● ■	■	■	■	■	■
Venezuela	6	● ■	● ■	● ■	● ■	● ■	■

Asia, Oceania and Africa

Algeria	1	● ■	■	■	■		■
Australia	13	● ■	● ■	● ■	● ■	● ■	■
Bahrain	1	● ■	■	■	■		■
Bangladesh	1	● ■	● ■	● ■			■
Cameroon	1	● ■	● ■	●			■
Côte d'Ivoire	2	● ■	● ■	●			■
Egypt	4	● ■	● ■	●	■		■
Fiji	1	■	■	● ■	● ■		■
Ghana	1	● ■	● ■	■	■		■
Greater China Region	20	● ■	● ■	● ■	● ■	■	● ■
Guinea	1	■	■	● ■	■		■
India	7	● ■	●	●	●		■
Indonesia	9	● ■	● ■	● ■	● ■	■	■
Iran	2	■	●		■		■
Israel	8	● ■	● ■	●	● ■	■	■
Japan	3	● ■	● ■	● ■	● ■	■	■
Jordan	1	● ■	■	■	■		■
Kenya	1	● ■	● ■	● ■	■		■
Lebanon	1	● ■	■	■	■		■
Malaysia	6	● ■	● ■	● ■	● ■	■	■
Morocco	1	● ■	● ■	● ■	■		■
New Caledonia	1	● ■	● ■	■	● ■		■
New Zealand	2	■	■	● ■	● ■	● ■	■
Nigeria	1	● ■	● ■	●			■
Pakistan	5	● ■	● ■	●	■		■
Papua New Guinea	1	● ■	■	● ■	■		■
Philippines	5	● ■	● ■	■	■	■	■
Qatar	1	● ■	■	■	■		■
Republic of Korea	2	● ■	●	● ■	■	■	■
Saudi Arabia	4	● ■	● ■	● ■	■		■
Senegal	1	■	● ■	● ■			■
Singapore	1	● ■	■	■	■	■	■
South Africa	12	● ■	● ■	● ■	● ■	● ■	■
Sri Lanka	2	● ■	● ■	●			■
Syria	1	● ■	● ■	● ■			■
Thailand	7	● ■	● ■	● ■	■	■	■
Tunisia	1	● ■	● ■	■	■		■
United Arab Emirates	1	● ■	■	■	■		■
Uzbekistan	1	● ■	● ■	■	■		■
Vietnam	4	● ■	● ■	● ■			■
Zimbabwe	1	● ■	● ■	● ■	■		■

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

● Local production (may represent production in several factories)
■ Imports (may, in a few particular cases, represent purchases from third parties in the market concerned)
■ Beverages
■ Milk products, Nutrition and Ice cream
■ Prepared dishes and cooking aids
■ Chocolate, confectionery and biscuits
■ PetCare
■ Pharmaceutical products

General information

The Nestlé story – 140 years of growth

140 years ago, the founders of Anglo-Swiss Condensed Milk Co. in Cham (Canton Zug, Switzerland) decided to produce the first condensed milk in Europe on an industrial scale to satisfy the need for pure, long-life milk. One year later in Vevey, Henri Nestlé developed a baby formula that offered a safe and more nutritious alternative to other existing breast-milk substitutes for mothers who were unable to provide breast milk. Both companies were challenged with bringing their products to a wider audience and driving their geographic expansion forwards. In 1905, they decided to merge. The new Company "Nestlé & Anglo-Swiss Condensed Milk Co." thus had a total of 20 factories, of which 13 were abroad, as well as 10 foreign subsidiaries, making it a strongly global company even then.

The same year also saw the launch of the first *Nestlé* branded chocolate, which following years of collaboration ultimately led to Nestlé's takeover of the long-established Swiss chocolate manufacturers Peter, Cailler and Kohler in 1929. Having previously been active exclusively in the dairy industry, Nestlé now also had a foothold in confectionery.

The boom years leading up to and during the First World War came to an abrupt end once peace came, with overcapacities, devaluation and currency turbulence combined with a cumbersome administrative structure meaning that, in 1921, Nestlé reported the first and only loss in its history. Drastic restructuring measures allied with the streamlining of the organisational structure were necessary in order to make the Company competitive again. With its new-found strength, Nestlé survived the stock market crash of 1929 and the subsequent global economic crisis.

Nestlé also strengthened its internal growth by focusing closely on developing new products. The research department was completely reorganised in the 1930s to this end, allowing for the considerable expansion of the existing range of milk products and baby foods with *Nestogen* in 1930, *Sinlac* in 1932, *Nescao* in 1932, *Pelargon* in 1934, *Milo Tonic* in 1934, and the first, initially somewhat tentative foray (together with Roche) into the pharmaceutical sector with *Nestrovit* in 1936, as well as a much more decisive one into the coffee business with *Nescafé* in 1938.

The launch of *Nescafé,* which had been planned in great detail and had already begun, was interrupted in continental Europe in particular by the Second World War, while overseas it continued. The challenges faced once the war was over included integrating the company Maggi, acquired in 1947, modernising production facilities and introducing *Nescafé* in additional countries. These were the areas in which the fastest growth rates were being seen.

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

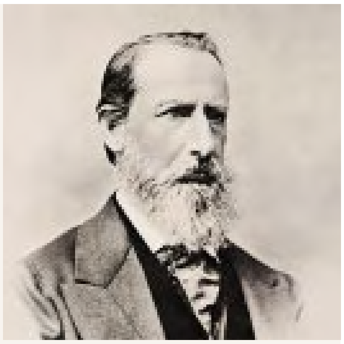
The 1970s saw Nestlé's first foray into the hospitality and winemaking industries (Eurest and Cahills 1970, Beringer 1971, Stouffer 1973) – areas that were later resold – and the purchase of Ursina-Franck (1971) rounded out the traditional business. Economic turbulence (oil crises, high inflation, strong currency fluctuations) had an impact on the growth of the Group, and for the first time significant moves were made to diversify outside the food industry. The purchase of a minority stake (currently stands at about 29%) in the world's largest cosmetics company L'Oréal (1974) was followed by the acquisition of the ophthalmology firm Alcon Laboratories (1977), also world leader in its area, of which a proportion of around 25% was floated highly successfully on the stock exchange in 2002.

Following a period of consolidation at the beginning of the 1980s in which the product portfolio was streamlined, unprofitable areas of the business sold and the financial basis of the Group improved, Nestlé's task was to develop a greater geographical presence and to be the No. 1 with its products in all areas of activity. In order to strengthen its market share in the USA, in 1985 Nestlé acquired Carnation, which was active in the dairy industry, pet food production and the catering trade. In order to improve its position in chocolate and confectionery, as well as in the culinary sector, Nestlé bought Rowntree and Buitoni-Perugina in 1988.

Following the fall of the Berlin Wall and the opening of previously inaccessible markets in Eastern Europe and Asia, Nestlé's task in the 1990s was to gain a stronger foothold in these highly promising countries. The focus has also been increasingly on ensuring internal growth and strengthening specific growth areas such as water (Perrier 1992, Sanpellegrino 1998), pet food (Spillers 1998, Ralston Purina 2001) and ice cream (Finitalgel 1993, Schöller 2002, Mövenpick and Dreyer's Grand Ice Cream 2003, Valio 2004, Delta Ice Cream 2005). The Group's strategy today is to build the world's leading nutrition, health and wellness company. In 1997 Nestlé created a separate division that in 2005 became an independent entity within the Group called "Nestlé Nutrition" with global responsibility for the areas of infant nutrition, healthcare nutrition and performance nutrition. This business has been reinforced by a series of strategic acquisitions, including PowerBar in 2000, Sporting Sportlernahrung GmbH in 2002, Musashi Pty and ESD SA, the owner of Protéika, in 2005, and Jenny Craig in 2006. This last acquisition added a new business area, weight management, to Nestlé Nutrition's activities. The Group's nutrition credentials were further enhanced in 2006 with the acquisition of Uncle Tobys in Australia. While there have been a number of acquisitions, the Group's structure has been influenced also by disposals of activities that no longer fit with the strategic direction as a nutrition, health and wellness company.

Nestlé has changed considerably over the years, but has been consistent in delivering a strong organic growth and improvements in profit margin each year, as well as a level of total shareholder returns over the last ten years above that which has been achieved by its peer group.

More information about Nestlé's history can be found at www.nestle.com



Henri Nestlé, 1814-1890

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

Shareholder information

Stock exchange listings
At 31 December 2006, Nestlé S.A. shares were listed on the SWX Swiss Exchange (ISIN code: CH0012056047). American Depositary Receipts (ADRs) (ISIN code: US6410694060) representing Nestlé S.A. shares are offered in the USA by Citibank.

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

As to information concerning the share register (registrations, transfers, address changes, dividends, etc.), please contact
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The Company offers the possibility of depositing, free of charge, Nestlé S.A. shares traded on the SWX Swiss Exchange at its Share Transfer Office in Cham.

Nestlé URL: www.nestle.com

Important dates

19 April 2007
140th Annual General Meeting, “Palais de Beaulieu”, Lausanne

23 April 2007
Announcement of first quarter 2006 sales figures

25 April 2007
Payment of the dividend

15 August 2007
Publication of the Half-yearly Report January/June 2007

18 October 2007
Announcement of first nine months 2007 sales figures; Autumn press conference

21 February 2008
2007 Full Year Results; Press Conference

10 April 2008
Annual General Meeting
“Palais de Beaulieu”, Lausanne

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

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

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