

The World's leading Nutrition, Health and Wellness Company

Management
Report 2008



Good Food, Good Life



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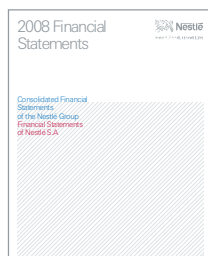
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Accompanying report

Nutritional needs and quality diets – Creating Shared Value Report 2008



The brands in italics are registered trademarks of the Nestlé Group

Key figures (consolidated)

In millions of CHF (except per share data)	2007	2008
Sales	107 552	109 908
EBIT (Group) Earnings Before Interest, Taxes, restructuring and impairments	15 024	15 676
as % of sales	14.0%	14.3%
EBIT (Food and Beverages) Earnings Before Interest, Taxes, restructuring and impairments	12 589	13 103
as % of sales (Food and Beverages)	12.6%	12.8%
Profit for the period attributable to shareholders of the parent Net profit	10 649	18 039
as % of sales	9.9%	16.4%
as % of average equity attributable to shareholders of the parent	20.6%	34.9%
Capital expenditure	4 971	4 869
as % of sales	4.6%	4.4%
Equity attributable to shareholders of the parent before proposed appropriation of profit of Nestlé S.A.	52 627	50 774
Market capitalisation, end December	195 661	150 409
Operating cash flow	13 439	10 763
Free cash flow ^(a)	8 231	5 033
Net financial debt	21 174	14 596
Ratio of net financial debt to equity (gearing)	40.2%	28.7%
Per share ^(b)		
Total earnings per share	CHF 2.78	4.87
Underlying ^(c)	CHF 2.80	2.82
Equity attributable to shareholders of the parent before proposed appropriation of profit of Nestlé S.A.	CHF 13.75	13.71
Dividend as proposed by the Board of Directors of Nestlé S.A.	CHF 1.22	1.40

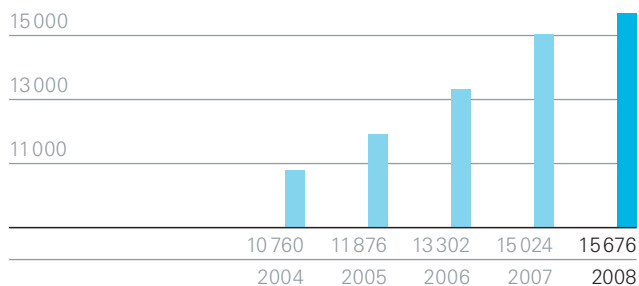
^(a) Operating cash flow less capital expenditure, disposal of tangible assets, purchase and disposal of intangible assets, movement with associates as well as with minority interests.

^(b) 2007 comparatives have been restated following 1-for-10 share split.

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

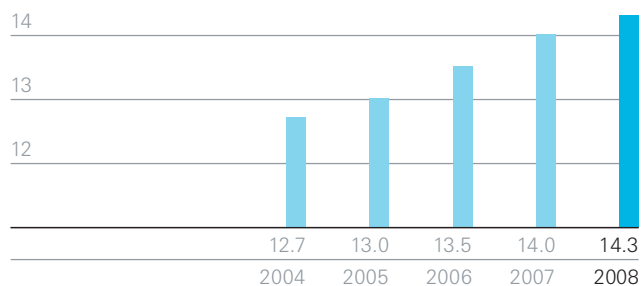
EBIT

In millions of CHF



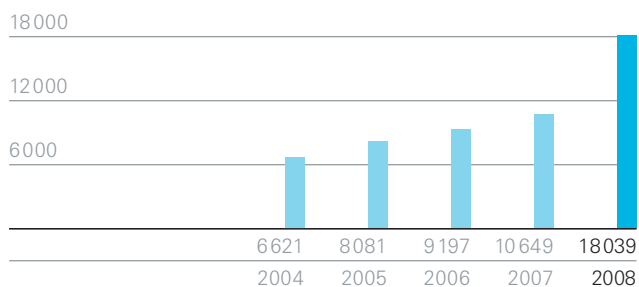
EBIT margin

In %



Net profit*

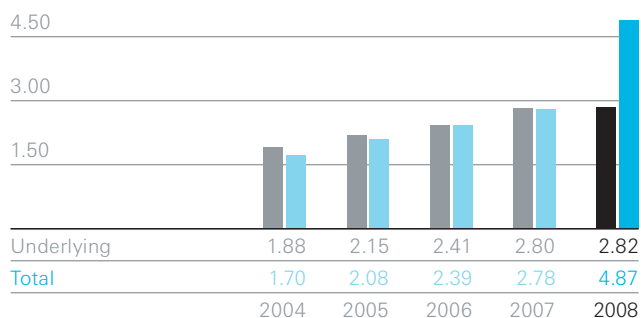
In millions of CHF



* Profit for the period attributable to shareholders of the parent

Earnings per share ^(a)

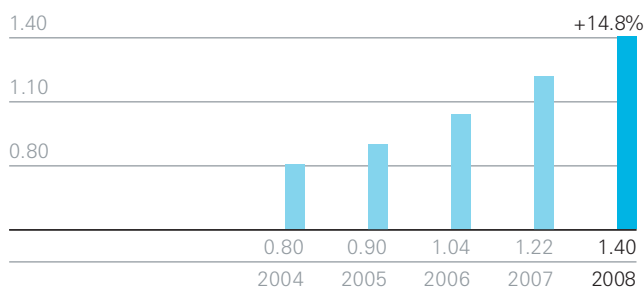
In CHF



^(a) restated following 1-for-10 share split

Dividend per share ^(a)

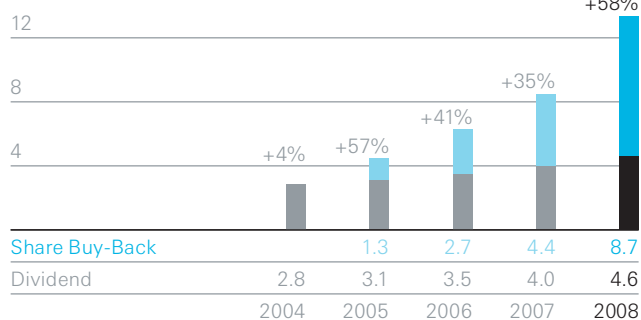
In CHF



^(a) restated following 1-for-10 share split

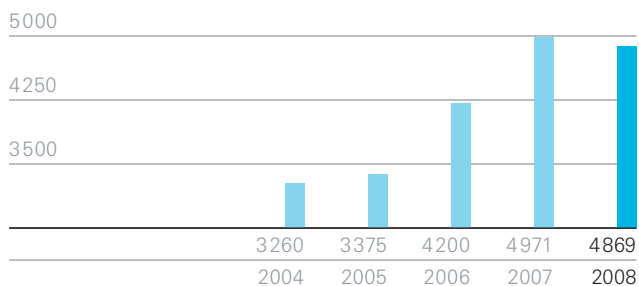
Total cash returned to shareholders

In billions of CHF



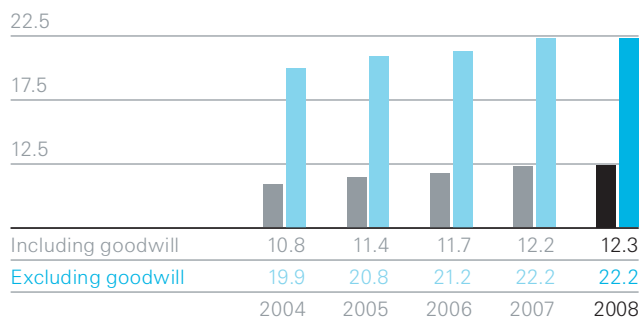
Capital expenditure

In millions of CHF



Return on invested capital ^(based on segment reporting)

In %



Highlights 2008

Strong operating performance – Nestlé Model delivered

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

Currency volatility impacts transparency of operating performance

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

Strong financial position

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

Significant commitment to shareholder value creation

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

2009 – Volatile business environment

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

Letter to our shareholders

Fellow shareholders,

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

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

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

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

Despite the very different challenges in 2008, we have once again not only achieved, but even outperformed the Nestlé Model, with organic growth at 8.3%, combined with an improvement in the EBIT margin, of 30 basis points to 14.3%. In constant currencies, the EBIT margin increased by 50 basis points. Our return on invested capital

was 12.3%, including goodwill or 22.2% excluding goodwill. This performance reflects the benefit of having identified the challenges we faced early, of adapting our plans and of being agile and fast-moving in the many different countries where we are present.

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

Nestlé's portfolio is rich with opportunity, which is one reason why there were no significant acquisitions in 2008. We invested CHF 4.9 billion in capital expenditure, whilst our expenditure on research and development reached CHF 2 billion, and we further increased our brand marketing

support. We also accelerated the pace of our share buy-back, buying 183 609 000 shares for CHF 8.7 billion during the course of 2008. Our ability to invest so significantly in our business, despite the credit crunch, reflects the strength both of our business model and of our "industry gold standard" balance sheet, as well as confidence in our ability to continue to drive organic profitable growth. This confidence is also reflected in the proposed 14.8% increase in the dividend from CHF 1.22 to CHF 1.40 per share.

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

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

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

Peter Brabeck-Letmathe
Chairman of the Board

Paul Bulcke
Chief Executive Officer

Board of Directors of Nestlé S.A.

at 31 December 2008

Helmut O. Maucher
Honorary Chairman

Board of Directors of Nestlé S.A.

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

¹ On the date of the Annual General Meeting

² Chairman's and Corporate Governance Committee

³ Compensation Committee

⁴ Nomination Committee

⁵ Audit Committee

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



Peter Brabeck-Letmathe



Paul Bulcke



Andreas Koopmann



Rolf Hänggi



Edward George (Lord George)



Kaspar Villiger



Daniel Borel



Jean-Pierre Meyers



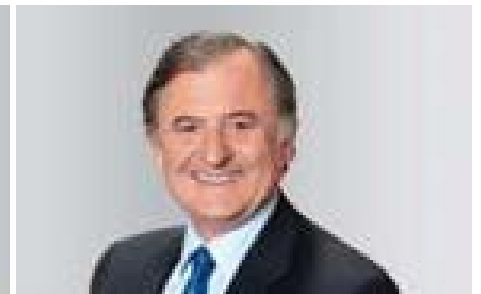
André Kudelski



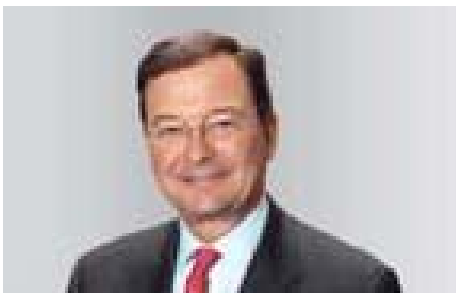
Carolina Müller-Möhl



Günter Blobel



Jean-René Fourtou



Steven G. Hoch



Naina Lal Kidwai



Beat Hess

Executive Board of Nestlé S.A.

at 31 December 2008

Paul Bulcke
Chief Executive Officer

Members Executive Board

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

Werner Bauer
EVP, Innovation, Technology, Research and Development
ad interim:
Strategic Business Units, Marketing and Sales

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

Luis Cantarell
EVP, United States of America, Canada,
Latin America, Caribbean

José Lopez
EVP, Operations, GLOBE

John J. Harris
EVP, Nestlé Waters

Richard T. Laube
EVP, Nestlé Nutrition

James Singh
EVP, Finance and Control, Global Nestlé Business Services,
Legal, Intellectual Property, Tax

Laurent Freixe
EVP, Europe

Marc Caira
Deputy EVP, Nestlé Professional

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

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

Yves Philippe Bloch
Corporate Secretary

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

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



Corporate Governance and Compliance

Corporate Governance

Nestlé pursues a strategy of best practice of corporate governance. In 2008, the Annual General Meeting approved a complete revision of the Company's Articles of Association. 99% of the votes represented at the meeting were cast in favour of the revision. This brought to a close a process that started with a shareholder survey in 2005 and the decision of our shareholders to mandate the Board with a complete revision of the Articles. The survey, as well as our subsequent dialogue with many investors, revealed that opinions were divided on these issues, with our significant group of (largely Swiss) private investors in one camp and the (often foreign) institutional investors in the other. The new Articles take into account the interests and concerns of both groups, reflect the changed composition of our shareholders as shown on page 11 and consider developments in the legislative and corporate governance environment. Above all, they are in the best interests of the Company to aim for long-term, sustainable value creation, a statement which was expressly added to the new Articles.

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

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

Our governance strategy includes a continued engagement with our investors and also adaptation of our governance documentation in line with the evolving legal

and governance environment. We also take an active role in shaping these developments in particular in our home market in Switzerland.

Compliance

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

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

The roll-out of the new Code of Business Conduct marked a major milestone of the Group's Corporate Compliance Programme in 2008, which also included the adoption of the Group's Supplier Code and the implementation of various focussed compliance initiatives, including the launch of a corporate compliance e-learning tool, an antitrust learning tool, our anti-fraud programme, as well as a new self-assessment of the Group's internal control system and an annual risk assessment, both as required by the new Swiss company

law. The Group Compliance function selects such initiatives on an ongoing basis to support the efforts at market level. It sets the tone, provides a framework and know-how and supports the coordination and functional leadership by the various relevant functions, all as needed to create trust and to protect our reputation in a changed legal and regulatory environment.

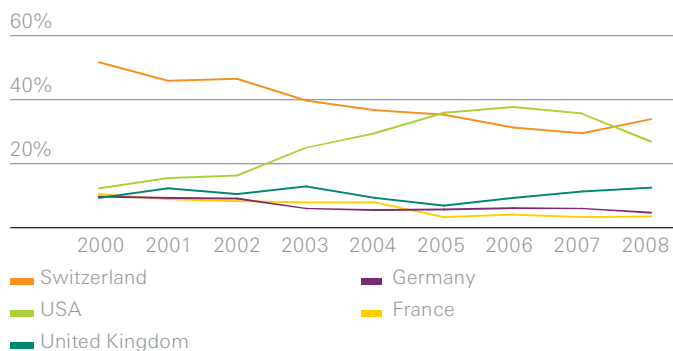
CARE (Compliance Assessment of Human Resources, Safety & Health, Environment and Business Integrity) is Nestlé's audit programme to verify that our operations comply with the Corporate Business Principles. In 2008 a new module was added covering business integrity.

Shareholders by geography*

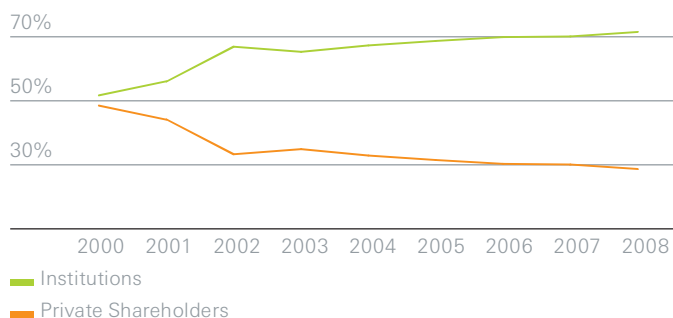
- 35.3% Switzerland
- 24.5% USA
- 10.9% United Kingdom
- 4.2% Germany
- 3.2% France
- 21.9% Others



Distribution of Share Capital by geography*



Share Capital by Investor Type*



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