Letter to Shareholders

Ladies and Gentlemen,

The year under review is one of the best in our Company's history. Group sales reached CHF 81.4 billion, an increase of 9.1%, and net profit increased 22% to CHF 5763 million. Real internal sales growth (RIG) accelerated from 3.6% in 1999 to 4.4% in 2000, exceeding our annual trend target of 4%. The improvement in our profit margins reflects our sustained efforts to improve operating performance. The trading margin increased from 10.6% to 11.3% of sales, whilst the net margin grew from 6.3% to 7.1% of sales.

This performance is also reflected in the Group's earnings per share, which rose from CHF 122.1 to CHF 149.1 and in the proposed dividend for the year, which increases from CHF 43.– to CHF 55.–.

The business environment and currency developments during 2000 were more favourable than in the preceding year. Growth remained strong in North America and most Far Eastern countries, whilst we enjoyed good recoveries in Central and Eastern Europe and in some economies of Latin America; we even achieved growth in Western Europe and Brazil despite more subdued macroeconomic conditions.

But the main contribution to the overall performance improvement came from the drive and energy of our people who managed to deliver strong results during the current year while pursuing the longer term objectives of the Group's four pillar strategy: operational efficiency, renovation and innovation, product availability (whenever, wherever and however) and, finally, consumer communication. These are the elements that support our quest to deliver shareholder value through sustainable, capital efficient and profitable long term growth.

The year 2000 results demonstrate that our strategy works. Your Board and the Executive Management believe that the figures submitted for your approval reflect a sustainable improvement in performance. We will seek to build on the good levels of growth and profitability in many of our businesses, and continue to improve upon those which do not yet achieve appropriate levels.

We remain focused on delivering annual savings in the region of CHF 600 million through operational efficiencies, on meeting our four percent annual objective for real internal growth, on leading the industry in new product development and on finding suitable opportunities for strengthening our business through selective acquisitions. Today, Nestlé is focused on value added products which can benefit from our expertise in research and development. We are the global leader in many of our product categories and the strong number two player in most others. We have a superb portfolio of brands and a well balanced geographic spread.

Manufacturing standards continue to improve and we can set the pace by sharing best practice across the organisation and by realising the benefits offered by improvements in technology, as well as maintaining rigorous financial controls and targets. The benefits of technology, however, reach beyond manufacturing to touch every part of the business. Marketing, sales, purchasing, finance and administration are just some of the other areas that are facing profound change. In July 2000, we launched a Group-wide initiative, called GLOBE, short for "Global Business Excellence". We want to harmonise and simplify our business process architecture across the Group. The intention is to enable Nestlé to realise the advantages of being a global leader, while minimising the drawbacks of size. Our purpose is to optimise our industrial infrastructure whilst maintaining decentralisation in all those areas where proximity to consumers and clients is a key element of success.

While our priority is the implementation of GLOBE, we are alert to opportunities offered by the creation of industry-owned electronic marketplaces. Both in the US and in Europe, we are among the founding members of these marketplaces, designed to facilitate, accelerate and streamline the purchasing and selling activities of the consumer goods industry. Finally, the Group's broad presence on the Internet gives us the opportunity to establish an even closer relationship with our consumers. We regard the Internet as a vital communication tool, destined to foster familiarity and trust between consumers and our Group.

Overall, Nestlé is putting the "new economy" to work for the benefit of what some people chose to call the "old economy". We will combine speed, imagination and an entrepreneurial mindset with our everyday presence and consumer relevance to build upon our leading position in the food industry.

Nestlé stayed on the sidelines during much of the consolidation that took place in the food industry during 2000 and, although the structure of the industry changed notably during the year, Nestlé's competitive position was, in general, not affected. We focused on internal growth, demonstrating the strength of our brands, the depth of our research and development and our prominent presence in the marketplaces around the world. Acquisitions played a minor part, more than offset by divestments of businesses that were no longer in line with our strategic direction. Thus the Findus brand, with the exception of Switzerland and Italy, and some of the related frozen food assets were sold.

On January 15, 2001, we announced a definitive offer of USD 33.50 per share for a proposed merger of our pet care business with Ralston Purina. This deal, which values Ralston Purina at USD 10.3 billion, will, subject to regulatory and Ralston Purina shareholder approval, make Nestlé a world leader in the pet care industry, one of the fastest growing food categories. Ralston Purina's sales amounted to USD 2763 million for the year ended September 30, 2000.

The economic climate in 2001 may prove less benign than in 2000, but Nestlé is well placed to perform well and to enhance its position as the industry leader. Looking to the future, we have reason to be optimistic. As shareholders, you are owners of a Company that has powerful brands commanding strong market positions around the world. Those brands benefit from significant investment, in terms of both marketing and research and development. They are supported by an unmatched global infrastructure and the highest quality people who have a shared commitment to the future success of the Group. These are formidable assets, which explain why we have confidence in the future success of Nestlé.

The Board of your Company will see a number of changes during 2001. Sadly, at the turn of the year, Mr. David de Pury, member of the Board since 1993, passed away. The Board mourns the loss of a farsighted and courageous colleague whose broad international experience will be deeply missed. At the General Meeting, Mr. Fritz Gerber, member of the Board since 1981 and its Vice-Chairman since 1997, will not stand for re-election, as he has reached the mandatory retirement age. Mr. Gerber brought his exceptionally wide management experience to the Board and contributed, through his wise counsel, to the significant development our Group has seen since the beginning of the Eighties. In your name also, we would like to express to him our profound appreciation. Mr. Reto F. Domeniconi, member of the Board since 1996, will also retire. As Chief Financial Officer of the Company and later as member of our Board, Mr. Domeniconi played an important role in a number of decisions. To him also, we express our sincere gratitude.

2000 was a record year for the Group, and we take particular pleasure in thanking all of our people for the hard work, commitment, loyalty and enthusiasm that they bring to their tasks at Nestlé.

Rainer E. Gut
Chairman of the Board

Peter Brabeck-Letmathe
Chief Executive Officer

Directors and Officers

Helmut O. Maucher*
Honorary Chairman

Board of Directors of Nestlé S.A.

	Term expires[1]
Rainer E. Gut[2, 4] Chairman	2001
Fritz Gerber[2, 3, 4] Vice-Chairman	2001
Peter Brabeck-Letmathe[2, 4] Chief Executive Officer	2002
Vreni Spoerry[2]	2002

Group Management as of 31st December 2000

Chief Executive Officer

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

Executive Vice Presidents

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

Frank Cella
Strategic Business Units, Marketing

	Term expires[1]
Stephan Schmidheiny	2003
Jean-Pierre Meyers	2001
Peter Böckli[3]	2003
† David de Pury[3]	2003
Arthur Dunkel	2004
Reto F. Domeniconi	2001
George Simpson	2004

Independent auditors

	Term expires[1]
KPMG Klynveld Peat Marwick Goerdeler SA London and Zurich	2002

Secretary to the Board

Bernard Daniel
Secretary general

* Chairman of the Board until 25th May 2000
1 On the date of the General Meeting of Shareholders
2 Member of the Committee to the Board
3 Member of the Audit Committee
4 Member of the Remuneration Committee
† 26th December 2000


Rupert Gasser Mario A. Corti Francisco Castañer Carlos E. Represas

Mario A. Corti
Finance, Control, Legal, Tax, Information Systems and Logistics, Purchasing, Export

Michael W. O. Garrett
Asia, Oceania, Africa, Middle East

Rupert Gasser
Technical, Production, Environment, Research and Development

Robert Raeber
Europe

Carlos E. Represas
United States of America, Canada, Latin America

Chris Johnson
Deputy Executive Vice President
GLOBE Programme

Group performance

Nestlé's strategic priorities are focused on delivering shareholder value through the achievement of sustainable, capital efficient and profitable long term growth. The Group's performance in 2000, with the achievement of a 22% increase in net profit to CHF 5763 million, gives us confidence that we will be able to build on our position as the world's leading food company. Improvements in profitability will be achieved while respecting quality and safety standards at all times. They will be built on the continued strengthening of our brand portfolio, in which the Group continues to invest heavily.

Key figures (consolidated)

In millions of CHF (except per share data)

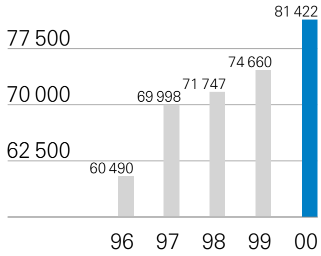
		2000	1999
Sales		81 422	74 660
EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation)		12 516	10 987
as % of sales		15.4%	14.7%
EBITA (Earnings Before Interest, Taxes and Amortisation)		9 600	8 298
as % of sales		11.8%	11.1%
Trading profit		9 186	7 914
as % of sales		11.3%	10.6%
Net profit		5 763	4 724
as % of sales		7.1%	6.3%
as % of average equity		21.2%	20.0%
Expenditure on tangible fixed assets		3 305	2 806
as % of sales		4.1%	3.8%
Equity before proposed appropriation of profit of Nestlé S.A.		29 904	24 453
Market capitalisation, end December		146 864	112 032
Per share			
Net profit	CHF	149.1	122.1
Equity before proposed appropriation of profit of Nestlé S.A.	CHF	774	632
Dividend as proposed by the Board of Directors of Nestlé S.A.	CHF	55.0	43.0
Personnel	Number at year end	224 541	230 929
Factories	Number at year end	479	509

Principal key figures in USD

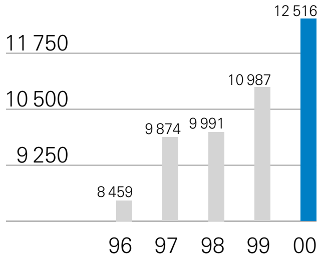
In millions of USD (except per share data). Figures translated at the year end rate

		2000	1999
Sales		49 648	46 663
EBITDA		7 632	6 867
EBITA		5 854	5 186
Trading profit		5 601	4 946
Net profit		3 514	2 953
Equity before proposed appropriation of profit of Nestlé S.A.		18 234	15 283
Market capitalisation, end December		89 551	70 020
Per share			
Net profit	USD	90.9	76.3
Equity before proposed appropriation of profit of Nestlé S.A.	USD	472	395

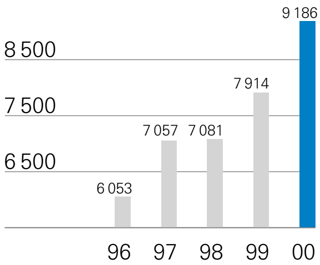
Sales
In millions of CHF



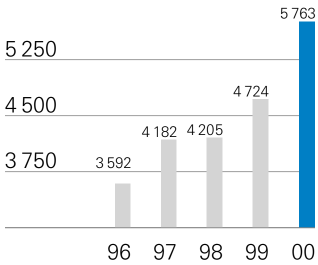
EBITDA
In millions of CHF



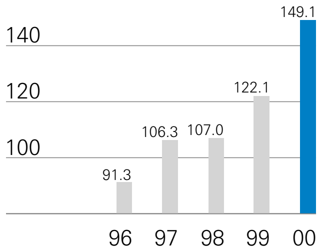
Trading profit
In millions of CHF



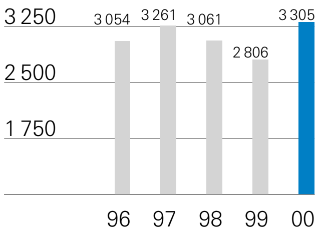
Net profit
In millions of CHF



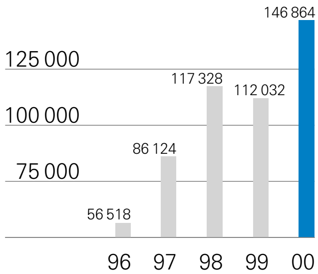
Earnings per share
In CHF



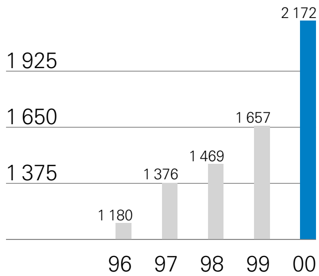
Capital expenditure
In millions of CHF



Market capitalisation
In millions of CHF



Dividends paid
In millions of CHF



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

		2000	1999
Sales		**53 567**	46 373
EBITDA		**8 234**	6 824
EBITA		**6 316**	5 154
Trading profit		**6 043**	4 916
Net profit		**3 792**	2 934
Equity before proposed appropriation of profit of Nestlé S.A.		**19 674**	15 188
Market capitalisation, end December		**96 621**	69 585
Per share			
Net profit	EUR	**98.1**	75.9
Equity before proposed appropriation of profit of Nestlé S.A.	EUR	**509**	393

Key figures by management responsibility and geographic area

Sales

In millions of CHF

		2000	1999	1998
Zone Europe	32.3%	**26 285**	27 098	26 798
Zone Americas	31.3%	**25 524**	22 045	22 563
Zone Asia, Oceania and Africa	19.3%	**15 710**	13 611	12 429
Other activities [a]	17.1%	**13 903**	11 906	9 957
	100.0%	**81 422**	74 660	71 747

Results

In millions of CHF

		2000	1999	1998
Zone Europe	25.2%	**2 753**	2 671	2 452
Zone Americas	32.0%	**3 503**	2 799	2 963
Zone Asia, Oceania and Africa	24.4%	**2 673**	2 185	1 618
Other activities [a]	18.4%	**2 015**	1 675	1 343
	100.0%	**10 944**	9 330	8 376
Unallocated items [b]		**(1 758)**	(1 416)	(1 295)
Trading profit		**9 186**	7 914	7 081

Capital expenditure

In millions of CHF

		2000	1999	1998
Zone Europe	29.4%	**946**	923	1 026
Zone Americas	23.9%	**766**	718	827
Zone Asia, Oceania and Africa	17.1%	**550**	381	457
Other activities [a]	29.6%	**949**	665	629
	100.0%	**3 211**	2 687	2 939
Unallocated items [c]		**94**	119	122
		3 305	2 806	3 061

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

Key figures by product group

Sales

In millions of CHF

		2000	1999	1998
Beverages	28.3%	**23 044**	20 859	19 879
Milk products, nutrition and ice cream	27.0%	**21 974**	19 411	19 175
Prepared dishes, cooking aids and pet care	25.3%	**20 632**	20 185	18 765
Chocolate, confectionery and biscuits	13.5%	**10 974**	10 195	10 485
Pharmaceutical products	5.9%	**4 798**	4 010	3 443
	100.0%	**81 422**	74 660	71 747

Results

In millions of CHF

		2000	1999	1998
Beverages	38.3%	**4 318**	3 764	3 253
Milk products, nutrition and ice cream	23.3%	**2 620**	2 168	1 837
Prepared dishes, cooking aids and pet care	17.3%	**1 948**	1 850	1 617
Chocolate, confectionery and biscuits	10.3%	**1 166**	882	976
Pharmaceutical products	10.8%	**1 212**	1 077	915
	100.0%	**11 264**	9 741	8 598
Unallocated items [d]		**(2 078)**	(1 827)	(1 517)
Trading profit		**9 186**	7 914	7 081

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

Capital expenditure

In millions of CHF

		2000	1999	1998
Beverages	28.3%	**936**	618	593
Milk products, nutrition and ice cream	16.0%	**530**	366	576
Prepared dishes, cooking aids and pet care	11.8%	**390**	464	442
Chocolate, confectionery and biscuits	7.6%	**250**	280	388
Pharmaceutical products	3.4%	**113**	91	81
	67.1%	**2 219**	1 819	2 080
Administration, distribution, research and development	32.9%	**1 086**	987	981
	100.0%	**3 305**	2 806	3 061

General comments

2000 was another year of record profits, measured at all levels, not only in absolute terms but also when expressed as a percentage of sales. This significant achievement was made possible both by the delivery of real internal growth of 4.4% and by our continued focus on improving operational efficiency.

The Group's return on average equity showed a tangible improvement, rising from 20% in 1999 to 21.2%, the best performance ever. This was achieved despite a 22.3% increase in the equity base. The Group's operating cash flow also remained strong, rising 8.1% to CHF 8851 million from CHF 8187 million in 1999.

The Group's net indebtedness fell from CHF 6202 million at the end of 1999 to CHF 3013 million at the end of 2000, reflecting the Group's healthy cash flow generation and tight control of working capital.

Whilst 2000 was, demonstrably, a good year for the Group, we are committed to achieving sustainable, capital efficient and profitable long term growth. We believe that our four pillar strategy of **operational efficiency, product innovation and renovation, product availability** and **consumer communication** is the right path to reach that objective.

Operational efficiency Our drive for operational efficiency within our factories has been led by a cost improvement initiative launched in 1997 and known as MH97, which is based on a systematic cost driver analysis. Internal benchmarking highlighted large gaps to be closed and enabled us to set the objective to improve our production costs by CHF 3 billion over five years through the implementation of "best practices". With a target-oriented continuous improvement programme in our factories, we have achieved a 2% annual cost reduction since 1997, representing more than CHF 600 million per year.

The MH97 cost improvement target has been met, and overachieved, through a company-wide effort, requiring the contribution of many functions in the factories and at the Corporate Centre. Critical to the success of this initiative has been a systematic and disciplined approach to communication, the use of common tools, the introduction of new improvement methodologies, regular reporting and clear accountabilities, as well as the cross-fertilisation of two thousand seven hundred MH97 projects between all factories.

MH97 has created a culture of continuous improvement in our factories. Therefore, we expect annual savings to continue at a similar level beyond 2001.

But, if operating efficiency is key within factories, economies of scale and capacity utilisation are the most critical factors in improving the return on invested capital for the Group as a whole. Our network of factories is the result, in part, of what was necessary yesterday, and, in part, of the many acquisitions made by the Group.

Today, falling trade barriers and changes in the relative importance of transport and other operational costs, outsourcing and improvements in technology, especially IT, have created a new manufacturing environment.

We are responding to these challenges and opportunities by redesigning our manufacturing base: some factories that previously had a national focus will now serve a region or the world; some that were previously multi-product will become single product factories; some will be flexible with smaller volumes, shorter runs and faster changeover times, whilst others will serve geographic markets with high barriers to entry. Our manufacturing and technology platforms will enable us to be highly flexible and cost efficient, but also to be able to grow efficiently through shared knowledge, co-ordinated international supply chains and an improved ability to react rapidly to technology improvements.

The objective behind continually redesigning our asset base is to find the balance between being the most efficient, the best located and the most responsive food manufacturer.

Innovation and renovation Product innovation and renovation ensures that our portfolio of products is continually refreshed through new technologies and creative ideas, be they wholly new products and brands, derivatives of existing products, brand extensions or packaging innovations. Innovation and renovation is an important dynamic in our relationship with the major international retailers who value the throughput generated by consumers who are excited by new product offerings which stand apart from the competition. As such, innovation and renovation is a key contributor both to the improvement in real internal growth and to the increase in selling prices that we are able to achieve.

Product availability Product availability, which we call "whenever, wherever, however", is the natural partner to innovation and renovation because the best products deserve the best distribution. Our objective is simply that consumers should have access to our products when, where and how they want them. Increasing the availability of our products is therefore also an important contributor to real internal growth.

Consumer communication The fourth pillar is communication with our consumers, and we are intent upon bringing creativity to new media to establish interactive relationships with our consumers as a complement to the more traditional communication opportunities. The focus of all our communication is to ensure that our brands appeal to today's consumers, thereby building brand loyalty.

If the four pillars are the route to achieving sustainable profitable growth, the building blocks are internal cross-fertilisation of information, understanding of the Group strategy and clarity of financial objectives. Two key elements have been the introduction throughout the Group of measuring managerial performance based on Economic Profit (Trading Profit after tax less the weighted cost of capital employed) and the broadening of the Share Option scheme. Both initiatives foster a closer relationship between the interests of Nestlé managers and those of Nestlé shareholders.

Nestlé has begun 2001 as the world's leading food company. Our performance in 2000, our financial position, the commitment of our people, the quality of our brands and our investment in research and development provide a sound foundation for us to build on that position in the years ahead.

Sales

In 2000, Nestlé's sales rose 9.1% to CHF 81.4 billion. On a like for like basis, excluding acquisitions and divestitures, and at constant exchange rates, sales would have risen 5.4%.

Real internal growth (RIG) was strong during the year and reached 4.4%, compared with 3.6% in 1999. Our Group trend target for annual real internal growth is 4%. This was, therefore, an excellent performance. The improvement was driven by good achievements in many of the markets within Zone Asia, Oceania and Africa, by Eastern Europe and Latin America, by Perrier Vittel, Alcon and the joint ventures.

Selling prices and residual items contributed 1%, compared with 0.2% in 1999. The increase resulted mainly from price adjustments in our joint ventures and Perrier Vittel, as well as in a number of emerging markets.

External growth (the contribution of acquisitions, net of divestitures), was negative by 1.3%, as a result of the divestiture of Findus and the Roast and Ground coffee business in the United States.

Exchange rate movements contributed 5% to the increase in sales, reflecting in particular the strength of the US dollar and the yen. The Euro weakened by 2.7% against the Swiss franc.

Eastern Europe achieved real internal growth of 18%, mainly due to Russia, whilst **Western Europe** grew 1.6%. Overall, real internal growth in **Zone Europe** was 2.5%, reflecting the importance of Western Europe.

Zone Americas achieved real internal growth of 4.4%. **North America** saw growth in the US of 4%, but the sales performance in Canada was impacted by our decision to move out of lower value ice cream products. The markets of **Latin America,** in general, remained vibrant with growth of 5.8%: Mexico was the outstanding performer, whilst Brazil staged a slow recovery from the depressed conditions of 1999.

2000 Sales [a]

In millions of CHF	Differences 2000/1999 in CHF	in local currency	
By principal market			
USA	+15.3%	+ 3.0%	**18 975**
France	+ 0.4%	+ 3.3%	**7 327**
Germany	– 3.7%	– 1.0%	**6 594**
United Kingdom	+ 2.8%	– 2.5%	**5 077**
Japan	+28.9%	+10.0%	**4 362**
Italy	– 1.9%	+ 1.3%	**3 941**
Mexico	+33.5%	+18.6%	**3 472**
Brazil	+20.8%	+ 8.5%	**3 386**
Spain	– 4.2%	– 1.5%	**2 292**
Australia	– 0.8%	– 1.5%	**1 748**
Canada	+ 6.1%	– 5.1%	**1 665**
Philippines	+ 5.0%	+ 5.8%	**1 536**
Switzerland	+ 1.7%	+ 1.7%	**1 181**
Other markets	+10.6%	(b)	**19 866**
By continent			
Europe	– 0.6%	(b)	**32 827**
Africa	+ 0.5%	(b)	**2 011**
Asia	+22.6%	(b)	**12 867**
Oceania	– 0.8%	(b)	**1 947**
USA + Canada	+14.5%	(b)	**20 640**
Latin America + Caribbean	+21.7%	(b)	**11 130**
Total Group	+ 9.1%	(b)	**81 422**

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

Zone Asia, Oceania and Africa continued to perform well, with particularly strong performances from China and Hong Kong, Indochina, Malaysia, Singapore and other emerging markets of Asia. The Zone as a whole achieved a 6% rate of real internal growth.

In our **other activities,** water RIG increased by 5.7% over the previous year. Our wholly owned pharmaceutical business, Alcon, achieved a real internal growth of 7.1%, whilst Galderma, our joint venture with L'Oréal, also continued to expand rapidly. CPW, our joint venture with General Mills in breakfast cereals outside North America, also registered good growth and increased its market share.

Profitability

Trading profit rose 16.1% in 2000 to a record CHF 9186 million. This represents a significant improvement in trading margin to 11.3%, compared with 10.6% in 1999.

The EBITDA margin rose from 14.7% to 15.4%, while the EBITA margin increased from 11.1% to 11.8%.

The improvement in trading margins reflects the significant emphasis that we have placed on improving manufacturing efficiencies and reducing the cost of goods sold. The latter fell as a percentage of sales from 48.1% to 46.8%. Some of the savings in the cost of goods sold were offset by higher marketing expenditure.

All Zones achieved an improvement in trading margin. Zone Europe increased from 9.9% to 10.5%; Zone Americas from 12.7% to 13.7% and Zone Asia, Oceania and Africa from 16.1% to 17%. The other activities also increased their trading margins from 14.1% to 14.5%.

Cost structure of the Group

In percent

	2000	1999
Raw materials	**24.2**	26.7
Packaging	**9.9**	9.9
Salaries and welfare expenses	**15.7**	16.4
Depreciation of tangible fixed assets	**3.4**	3.5
Other expenses	**35.5**	33.0
Total trading expenses	**88.7**	89.4
Trading profit	**11.3**	10.6

The Group **net profit** rose 22% in 2000 to CHF 5763 million. The net margin increased from 6.3% to 7.1%.

Net financing cost fell 25%, due primarily to lower average debt levels, but also as a result of improved liquidity management which largely offset the negative impact of the higher interest rate environment.

The **tax charge** was marginally lower as a percentage of pre-tax profit.

The **share of profit attributable to minority interests** and the **share of results of associated companies** both increased, reflecting the good performance of those businesses.

Basic earnings per share rose 22.1% from CHF 122.1 to CHF 149.1.

Capital expenditure

Capital expenditure in 2000 was CHF 3305 million, compared to CHF 2806 million. This was a modest increase on the low of 1999 and we would expect to see a further marginal increase in 2001. Expressed as a percentage of sales, capital expenditure rose from 3.8% to 4.1%.

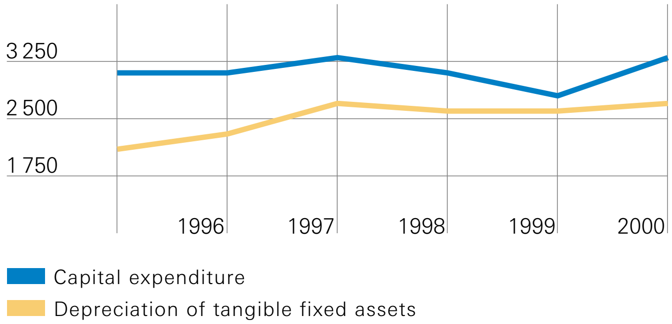
The increase in capital expenditure in our food businesses in Europe and the Americas was minimal. The main item in the US was the increased capacity requirement resulting from the success of the *Stouffer's* brand of prepared dishes.

In Zone Asia, Oceania and Africa we have been reorganising our manufacturing set-up. The other major project in this Zone was the new extraction and aromatisation process for *Nescafé Gold Blend* in Japan.

We have continued to invest behind our Water business including PET capacity increases, a new factory for *Poland Spring,* our leading US water, and the roll-out of *Nestlé Pure Life* into Mexico, Thailand and China.

Capital expenditure

In millions of CHF



479 factories in 81 countries The total number of our factories fell by 30 in 2000 as a result, in part, of our focus on rationalising our asset base and moving to a more regional manufacturing structure. It also reflects the divestiture of a number of factories, including 14 in the Findus sale.

Within the total are 77 water bottling plants and 18 factories for pharmaceutical and dermatological products.

Raw materials and packaging

In 2000, the prices for raw materials were generally either stable or in certain cases lower than in 1999 as a result of a good agricultural year. The exception was milk products destined for export. For packaging, the rise in crude oil prices impacted all plastic based complexes and other packing materials for which energy is an important component in the total cost structure.

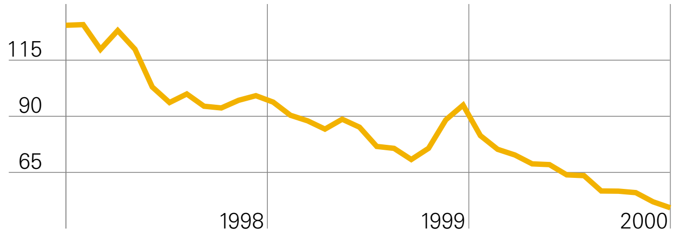
Green coffee prices declined. The value of Robusta coffees dropped to US¢ 26 per lb, a 30-year low, and Arabicas traded at US¢ 66 per lb, a level last witnessed in 1993. The first sizeable supply surplus for many years, which resulted in a steady build up of green coffee stocks in consuming countries, and the favourable production outlook in Brazil for the current season, all combined to affect sentiment negatively. Isolated frost damage in Brazil during July and an attempt by producers to implement a coffee retention plan temporarily firmed prices, but failed to arrest the markets' downward trend. Coffee is traded in US dollars; in many markets the strength of this currency largely offset the lower green coffee cost when converted into local selling prices.

Cocoa bean prices moved essentially sideways, reflecting a relatively balanced supply-demand situation with market highs being reached during the period May to July and lows coinciding, as was the case last year, with West African origin selling pressure in the last two months of the year. Cocoa powder, which is the key ingredient in many chocolate compound products, reached price levels not seen for 15 years. On the other hand, with overall chocolate consumption only marginally improving, cocoa butter stocks increased and prices for this by-product moved lower.

Following the trend already set in previous years, world milk production expanded. Oceania led the way, with increases also being registered in Asia and the Americas. Improved economic conditions in South-East Asia and Latin America resulted in strong demand for all milk powders and, to a lesser extent, cheese.

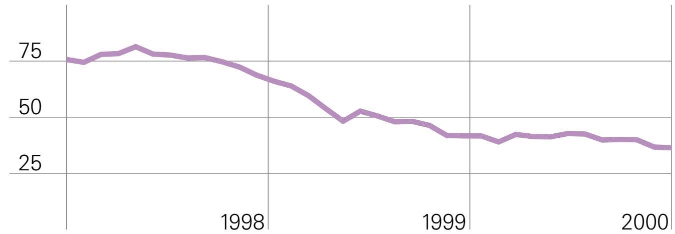
Green coffee prices

Average monthly prices in US¢ per lb



Cocoa prices

Average monthly prices in US¢ per lb



Export prices for milk powders increased by a minimum 60%. Butter prices on the other hand remained stable and were influenced essentially by fluctuating Russian demand.

Satisfactory harvesting conditions for cereals, soya beans and sugar resulted in all these markets remaining close to the previous year's lows.

For packaging materials, the price of tinplate and aluminium, as well as glass, remained relatively stable. However, paper/corrugated board and polymers increased by as much as 40%, the former as a result of a reduction in production capacity following mergers and acquisitions within the industry and the latter as a consequence of the crude oil price hike. Benefiting from arrangements with preferred suppliers, our packaging costs did not increase by the same percentage. However, and as an example, our utilisation cost of PET increased some 29% over the previous year. This translates, for a 1.5 litre bottle of water, to an increase of 6% in the ex factory cost.

Nestlé in the e-world

Nestlé, a company operating in virtually every country in the world, sees the rapid development of the Internet and the associated technologies as a significant opportunity.

Our improvement priorities are clear: first the internal opportunities; second, business to business (B2B); and third, business to consumer (B2C).

During the last three years, Intranets (Nestlé's internal Internet applications) have contributed to the improvement in our performance, with projects such as the "Intranet for purchasing". The worldwide deployment of our Intranets is well advanced as a modern support tool to internal communications. More than 70 000 employees are linked through their workstations.

The Global Business Excellence Programme (GLOBE) is the most important project under way to prepare Nestlé for the e-world: it seeks to improve the performance and operational efficiency of our businesses around the world. This project will revisit all aspects of our business practices with the goal not only to harmonise and standardise them but also to shape new ways to manage Nestlé in order to be more focused on customers, channels and consumers. GLOBE will create a common business process architecture and standardise internal and external master data as well as the information systems infrastructure in order to leverage the size of Nestlé, unite and align Nestlé internally to be more competitive externally and unlock the benefits of harnessing the power of the e-world through increased speed and flexibility. This project will be completed by the end of 2005 and will cost around CHF 3 billion, with benefits realised from 2003. In part, the spending will replace ongoing IT expenditures. The investment in the programme is projected to yield a significant positive net present value.

GLOBE will be supported by mySAP.com® software which will link the various parts of our business into a seamless electronic community to reduce complexity, duplication and waste, to improve efficiency and responsiveness and to facilitate innovation.

GLOBE is driven by a pragmatic approach to find solutions that work today but are sufficiently flexible to be adjusted to tomorrow's requirements. GLOBE will ultimately enable us to do business better.

We have also been active in exploring the potential of electronic business to business marketplaces. We were one of the initiators of the US based Transora.com, which connects more than 50 packaged goods companies with their vendors and customers. We have focused on three key areas of our business: procurement, supply chain and retail services. Pilots are in progress and we expect to launch service offerings in 2001.

In Europe, CPGmarket.com was created in March 2000, with Nestlé a founding member, as an electronic marketplace for the Consumer Packaged Goods (CPG) suppliers in Europe for procurement and supply chain processes. CPGmarket.com is focused on four key areas: sourcing, requisitioning through catalogues, supply chain cooperation and business intelligence. These will be joined in 2001 by a fifth, fulfilment, which covers logistics and payment functionalities.

In the area of business to consumer, we will be taking advantage of the significant learning and experience that we have from the numerous brand web sites within the Group, and our important initiatives with customers, to develop innovative web based relationships and communication with consumers.

Acquisitions and divestitures

2000 was the second consecutive year to be characterised by bolt-on acquisitions and a continued pruning of the portfolio. The total investment in acquisitions was CHF 3542 million, whilst proceeds from divestitures reached CHF 1031 million.

The strategy behind the divestitures remained to divest those businesses where we do not believe that the Nestlé research and development capability can bring added value to what would otherwise be commodity products or services. The most significant divestiture was that of the Findus brand, with the exception of Switzerland and Italy, and some of the related frozen food assets, which represented around CHF 900 million in annualised sales.

In the Americas, our major divestitures included our frozen potato business in the USA. In Europe, in addition to Findus, we sold a processed meat business and a cocoa processing factory, amongst others.

The acquisitions during 2000 either added to the Group's product portfolio or expanded its geographic reach. These acquisitions were, and those in the years ahead will be, in areas characterised by the potential for added value consumer benefits and competitive differentiation. They will be able to benefit from the growth of our proprietary knowledge and technologies or take us into new technologies or new markets. Future acquisitions in food must be compatible with our concept of healthy and tasty nutrition and support our strategy of focusing on the notion of well-being.

Our performance nutrition business was boosted through the acquisition in the United States of PowerBar, the leading product in its market, focused on athletes and people with active lifestyles.

Our beverage business continued to develop its position in the ready to drink market in Japan through the acquisition of the vending part of UCC Ueshima Coffee Co. Ltd. which has improved consumers' direct access to our products.

Perrier Vittel, the leading global mineral water group, made a number of acquisitions, primarily in the Americas, but also in Europe and South Africa. These newly acquired brands expand the geographic reach of the water business.

We also added to our growing presence in the pet care market through, in particular, the acquisition of Cargill's pet food business in Argentina.

Our pharmaceutical business, already the world leader in eye care, benefited from the acquisition of Summit Autonomous, the leading manufacturer of laser machinery for refractive eye surgery. This is one of the fastest growing areas of surgery and provides a significant additional opportunity for the successful Alcon business.

In January 2001, we made an agreed offer of USD 33.50 cash per share for Ralston Purina, the premier pet care company in North America. This deal, which is subject to Ralston Purina shareholder approval and the customary regulatory approvals, is highly complementary to our existing business and will make Nestlé a world leader in the fast growing pet care industry.

More information on acquisitions is provided in the Products and brands section on pages 27 to 66.

Financial position

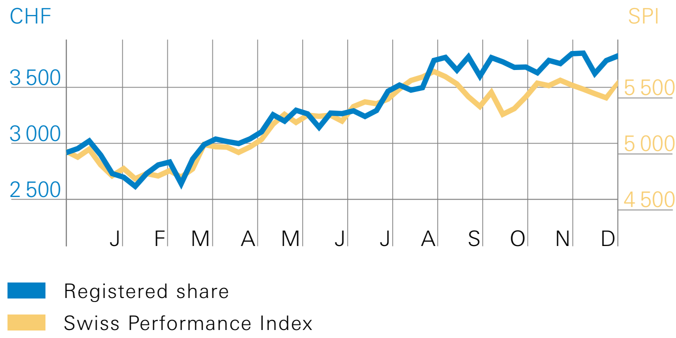
Operating cash flow rose 8.1% in 2000 to CHF 8.9 billion.

The Group's net financial debt (short, medium and long term financial debt, net of liquid assets) declined from CHF 6.2 billion at the end of 1999 to CHF 3 billion at the end of 2000. This decline demonstrates the Group's strong cash flow generation which resulted in a net surplus despite net acquisition activity which totalled CHF 2.1 billion. The main positive contributors were higher net profit and favourable working capital management.

Equity rose from CHF 24 453 million to CHF 29 904 million. These figures are net of Treasury Shares, whose carrying value decreased from CHF 3028 million to CHF 2617 million.

The ratio of net debt to equity (including minority interests) fell to 9.9% from 24.7% at 31st December 1999.

Evolution of the Nestlé registered share in 2000



Shares, stock exchange Equity markets in 2000 began the year much as they had ended 1999, with technology stocks remaining in favour until Spring whilst the Swiss market was somewhat neglected. Then they experienced significant volatility, as the "tech bubble" burst and concerns were raised about a US economic slowdown, exacerbated by a number of high profile earnings warnings. Investors sought more defensive stocks and markets, a benefit to both the Swiss market and Nestlé.

The Nestlé share price reached a peak of CHF 3893 before closing the year at CHF 3780, an increase over the year of 29.6%. The Swiss Performance Index, meanwhile, rose 7.5%. This is the third consecutive year of relative out-performance by the Nestlé share.

The global food manufacturing sector was characterised by significant consolidation during the year; deals announced had a combined value of over USD 100 billion. Share prices were buoyed by this activity, as well as the move by investors to the safer harbours of defensive sectors. The Nestlé share price outperformed the Dow Jones Stoxx Food and Beverage Index by 4.8%, expressed in Swiss Francs.

Nestlé Corporate Business Principles

The "Nestlé Corporate Business Principles", issued in 1998, lay out the basic rules we follow in order to make sure that the highest standards of conduct are maintained. Areas covered include consumers, the environment and the manner in which employees are to be treated. These principles have been translated into over forty languages and are distributed to and discussed with all Nestlé managers.

Nestlé supports the principles of the UN Global Compact, launched by UN Secretary General Kofi Annan in January 1999. We also benchmark our Corporate Business Principles against other international recommendations.

Our employees

Staff Evolution The number of staff decreased from 230 929 at the end of 1999 to 224 541 at 31st December 2000. This 2.8% decline is the result of decreases particularly due to business divestitures, partly offset by increases stemming from our sales growth.

Leadership and Development The "Basic Nestlé Management and Leadership Principles" describe our culture. The document emphasises that respect for the individual is a non-negotiable requirement in all dealings with people. It, therefore, sets the tone of mutual respect that flows throughout the organisation.

Nestlé believes that its culture, which contributes to a stimulating working environment, is a catalyst for strong individual performance. This capacity to enhance human energy is an essential component to ensure the long term competitiveness of the Company. The leadership style and the dynamic approach to our objectives ensure that there is no room at Nestlé for complacency.

As important as an individual's contribution are identification with the company's objectives and the benefits that we can all enjoy from a shared distribution of knowledge. The flat structures which are being implemented across the company and the creation of common business processes will speed up the sharing of the know-how and intellectual capital across the Group.

The Workplace Nestlé has always attached great importance to working and employment conditions in all countries where it operates. Health and safety at the work place are, therefore, a prime requirement and a responsibility of each individual, everywhere in the world. Independent surveys have shown Nestlé to be regarded as a preferred employer, and we have outlined our position in respect of the various employment issues in our "Corporate Business Principles".

Employees by geographic area

	2000	1999
Europe*	**40.3%**	41.8%
Americas	**33.1%**	33.0%
Asia, Oceania and Africa	**26.6%**	25.2%

* 6429 employees in Switzerland in 2000.

Employees by activity

	2000	1999
Factories	**131 380**	138 191
Administration and sales	**93 161**	92 738
Total	**224 541**	230 929

Remuneration Nestlé has reinforced considerably the variable part of management remuneration to ensure competitiveness and to maintain and develop state-of-the-art compensation practices. This variable element will become a significant part of total remuneration for the Group's executives. Management at lower levels will also benefit from incentive schemes that increase their income in line with the Group's performance. At the same time, it has been decided to extend the Management Stock Option Plan to an increased number of managers in the Group. Both these steps will boost total compensation and will allow us to reward strong managers, as well as to attract the best people.

The above developments are driven by Nestlé's conviction that the overall quality of people management, whether in terms of leadership, the quality of the workplace or employment conditions in general, will enhance the long term growth of the Company.

Nestlé in the Community

Nestlé's basic social contribution Nestlé's principal contribution to the many communities in which it operates is the improvement of the country's food supply through long term investment of capital, transfer of technical know-how, job training and development of infrastructure. The end product is a better food supply in terms of quality, quantity, and safety. We have the largest private nutrition research capability in the world, and develop food products with a well researched nutritional content and worldwide standards for food safety.

Because of the long term perspective we take in developing our business, the second principal social contribution is sustainable long term economic development. This leads to improvements in the standard of living of many people involved in the food sector in each country, including our employees, the employees of our suppliers, and many thousands of farmers. We make long term commitments to the economies of the countries we enter, and we invest in people so that our business develops along with the skill levels of the people and the national economy.

We also have extensive collaborations with local, national and international organisations whose aim is to improve basic social conditions in the many countries where we operate. The following are just a few examples.

Village water tank in South Africa community development.

Nutrition education in Brazil.

British Red Cross and Kosovo refugees.

Nescafé Humanitarian Assistance (UK).

Primary Health Care in South Africa Nestlé supports the development of a model rural health care and promotion system, under the auspices of The Valley Trust in South Africa. The Valley Trust is developing a National Reference and Training Centre for Comprehensive Primary Health Care including a strong component of prevention of HIV/AIDS transmission.

Better Child Nutrition in Brazil Through the NUTRIR Programme, recently created by Nestlé Brazil, employee volunteers teach children better eating habits, using hands-on activities, including consuming more fruit and vegetables. This is a major commitment, aimed at reaching hundreds of thousands of children, funded by the company and company-matched employee contributions.

Disaster Food Relief and the Red Cross The International Federation of Red Cross/Red Crescent Societies and the Nestlé Research Centre in Lausanne have developed a "food-basket" computer programme to be used in food relief operations. The software aims to optimise the nutritional composition of food rations by combining internationally donated foods with those available locally in order to achieve the best nutritional combinations together with the most efficient use of resources. The programme is currently undergoing field testing and will be available for use by Headquarters, Regional Delegations and National Red Cross/Red Crescent Societies early in 2001.

Improving Education of Children in the United States In communities throughout the United States, Nestlé USA operates an "Adopt a School" programme, where Nestlé employees volunteer to help to improve the quality of education in local schools. Nestlé USA also supports "Reading is Fundamental", the USA's largest non-profit organisation committed to literacy. This is funded through company grants and company-matched employee contributions.

***Nescafé* Humanitarian Assistance in the United Kingdom** In 1999, Nestlé UK launched the campaign, "*Nescafé:* Getting Together to Help", a GBP 1 million partnership with four leading charities, the British Red Cross, Kids' Clubs Network, Shelter and Macmillan Cancer Relief.

The British Red Cross' "Linking Lives" programme is a vital service which helps restore contact between family members who have been separated by conflicts or natural disasters, including the recent Bosnia and Kosovo conflicts.

Kids' Clubs. Nestlé helps support approximately 5000 "Kids' Clubs", which offer after-school activities for children to learn and play in safe and fun surroundings.

Shelter. "Street Solutions", run with Shelter, the UK's largest charity for homeless and poorly housed people, aims to reduce the number of people living in the street, and works to involve young people in this cause.

Macmillan Cancer Relief's "World's Biggest Coffee Morning" was supported in 2000 by Nestlé becoming the official coffee supplier. The event was held on 29 September and raised GBP 2.5 million for Macmillan's work with people suffering from cancer and their families.

These are a just a few examples of the scores of projects supported by our Group and employees around the world.

Environment

During 2000, Nestlé continued to strengthen its commitment to environmentally sound business practices. Major priorities were the sustainability of global water resources and the improvement in measuring environmental performance in areas including water, energy and packaging. We also continued to foster environmental awareness and responsibility across the Group.

Creating Awareness of Global Water Issues Water is a key priority for Nestlé – for manufacturing Nestlé's food products, for their preparation by consumers and for bottled waters. This is fully reflected in "The Nestlé Water Policy" which was published in Spring 2000, complementing "The Nestlé Policy on the Environment".

In support of the sustainable use of water, Nestlé participated in the second World Water Forum in The Hague. The Forum brought together representatives from governments, non-governmental organisations and industry, as well as water experts. Its purpose was to heighten awareness of global water problems and to help ensure a sustainable supply of clean water worldwide by 2025.

Reinforcing the Internal Environmental Network Nestlé conducted during 2000, at its headquarters in Vevey, a successful environment conference. This provided an opportunity for Nestlé's environmental officers from around the world to share their experiences, review performance and reinforce the application of the Nestlé Environmental Management System (NEMS). Current strategies were reviewed and concrete action plans developed.

Making Environmental Progress To share our progress on environmental issues since we published "Nestlé and the Environment" in 1995, this Management Report is accompanied by the "Environment – Progress Report 2000 – Highlights", also available on the Nestlé Internet site at www.nestle.com. The full Report can be obtained from the Environmental Affairs department.