

# Full Year Results 2002



Conference call, February 2003

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## Agenda

- **Key achievements**
- Financials
- Profit and RIG performance
  - Primary reporting: Zones
  - Secondary reporting: Product groups
- Agenda for roadshow
- Summary

## Key achievements: excellent results

Versus 2001	CHF 2002	Reported results	Illustrative constant currency
Sales	89 bio	+ 5.3%	+ 13%
EBITA	10.9 bio	+ 9.5%	+ 19%
EBITA margin	12.3%	+ 50 bp	+ 60 bp
Net profit	7.6 bio	+ 13.2%	+ 19%
EPS	19.51	+ 13.1%	+ 19%

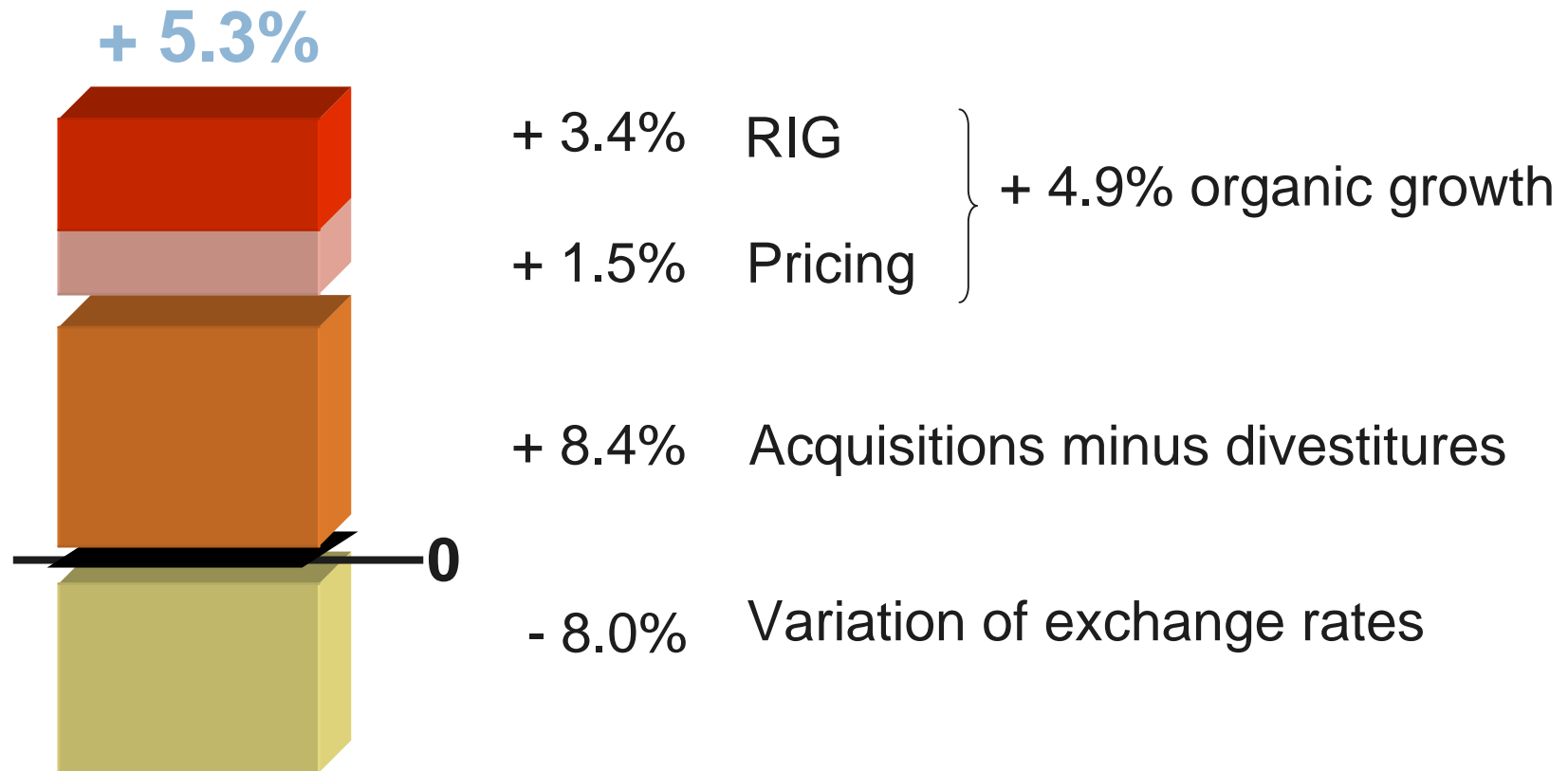
## Key achievements: excellent financials

- Operating cash flow up 19% to CHF 10.2 billion
- Free cash flow up 27.1% to CHF 6.3 billion
- Cash conversion cycle improves by 6 days
- Total working capital decreased by CHF 0.8 bio
- Significant reduction in net debt to CHF 15 bio
- Financing cost falls faster than interest rates

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## Organic growth increases over Q3 to 4.9%



**January - December 2002 : CHF 89.2 billion**

## Currencies: Swiss Franc dominant in 2002

CHF per	Jan-Dec 2001	Jan-Dec 2002	% change
U.S. dollar (1)	1.68	1.55	- 8.0%
Euro (1)	1.51	1.47	- 2.8%
£ sterling (1)	2.43	2.33	- 3.9%
Real (100)	72.21	54.20	- 24.9%
Mex. Peso (100)	18.09	16.16	- 10.7%
Yen (100)	1.39	1.24	- 10.4%

**EBITA margin shrugs off impact of currencies**

# Changes in P&L

## PREVIOUS P&L

Sales to customers
Cost of goods sold
Distribution expenses
Mktg & admin expenses
R&D costs
<b>Restructuring costs</b>
<b>Amortisation of goodwill</b>
<b>Trading profit</b>
Net financing costs
<b>Net non-trading items</b>
Profit before taxes
Taxes
Net profit of consol. comp.
Minority
Associated
Net profit

goes in Net other income (expense)  
goes in Amort. & impairm. goodwill  
**this line is taken out**

gets split in :  

- Impairment goodwill
- Net non trad. items excluding impairment goodwill

## NEW PRESENTATION P&L

Sales to customers
Cost of goods sold
Distribution expenses
Mktg & admin expenses
R&D costs
<b>EBITA</b>
<b>Net other income (expense)</b>
<b>Amort. &amp; impairm. goodwill</b>
<b>Profit before interest &amp; taxes</b>
Net financing costs
Profit before taxes
Taxes
Net profit of consol. comp.
Minority
Associated
Net profit

In NEW P&L EBITA and EBITDA are before Restructuring Costs

## Reworking past figures into new P&L format

<b>PREVIOUS REPORTING :</b>	<b>FY 2001</b>	<b>H1 2002</b>
Restructuring costs (above EBITA)	- 275	- 85
Amortisation of goodwill	- 494	- 721
Net non trading items	- 44	2612
<i><u>Split of Net non trading items in :</u></i>		
• Impairment of goodwill	- 184	- 633
• Net non trad. items EXCL. impairment of goodwill	140	3245
<b>HOW TO GET TO NEW REPORTING :</b>	<b>FY 2001</b>	<b>H1 2002</b>
Restructuring costs (above EBITA in previous reporting)	- 275	- 85
+ Net non trad. items EXCL. impairment of goodwill	140	3245
<b>= Other income (expense)</b>	<b>- 135</b>	<b>3160</b>
Amortisation of goodwill	- 494	- 721
+ Impairment of goodwill	- 184	- 633
<b>= Amortisation &amp; impairment of goodwill</b>	<b>- 678</b>	<b>- 1354</b>

## Efficiency improvement drives EBITA margin

(% of sales)	2001	2002	Diff. basis points
Sales (CHF million)	84'698	<b>89'160</b>	
	100	<b>100</b>	
Cost of goods sold	(44.5)	<b>(43.2)</b>	<b>130</b>
Distribution	(7.6)	<b>(8.0)</b>	<b>(40)</b>
Marketing and admin.	(34.7)	<b>(35.2)</b>	<b>(50)</b>
R&D	(1.4)	<b>(1.3)</b>	<b>10</b>
EBITA	11.8	<b>12.3</b>	<b>50</b>
EBITDA	15.0	<b>15.3</b>	<b>30</b>

*Calculations based on non-rounded figures*

## Cost evolution

- Efficiencies drive down COGS:
  - Target 2004+ brings savings of CHF1.2 bio
  - Milk/coffee cost benefit balanced by cocoa/tin plate cost increases
- Distribution costs up due to Schöller
- Depreciation decreased as percentage of sales due in part to 2002 impairments

## Cost evolution

- Marketing costs up to 27.1% of sales (CHF 24.1 bio)
  - Performance trade spend increased: more effective spend
  - Tough market conditions, eg Japan, UK, Nestlé Waters USA
- Administrative costs slightly up to 8.1% of sales (CHF 7.3 bio)
  - Increase in GLOBE costs

## Gains on disposals benefit net profit

(% of sales)	2001	2002	Diff. basis point
EBITA	11.8	<b>12.3</b>	<b>50</b>
Net other income/(expenses)	(0.2)	<b>1.9</b>	<b>210</b>
Amortisation & impairment of goodwill	(0.8)	<b>(2.6)</b>	<b>(180)</b>
Net financing cost	(0.5)	<b>(0.7)</b>	<b>(20)</b>
Taxes	(2.9)	<b>(2.6)</b>	<b>30</b>
Minority interests	(0.2)	<b>(0.4)</b>	<b>(20)</b>
Associated companies	0.7	<b>0.6</b>	<b>(10)</b>
Net profit	7.9	<b>8.5</b>	<b>60</b>
Tax as % of pre-tax profit	27.7	<b>23.7</b>	<b>400</b>

*Calculations based on non-rounded figures*

## Other income (expenses): the numbers

- Total income: CHF 4.9 billion
- Alcon (IPO of 25%) : CHF 3.9 billion
- FIS : CHF 0.6 billion

## Other income (expenses): the numbers

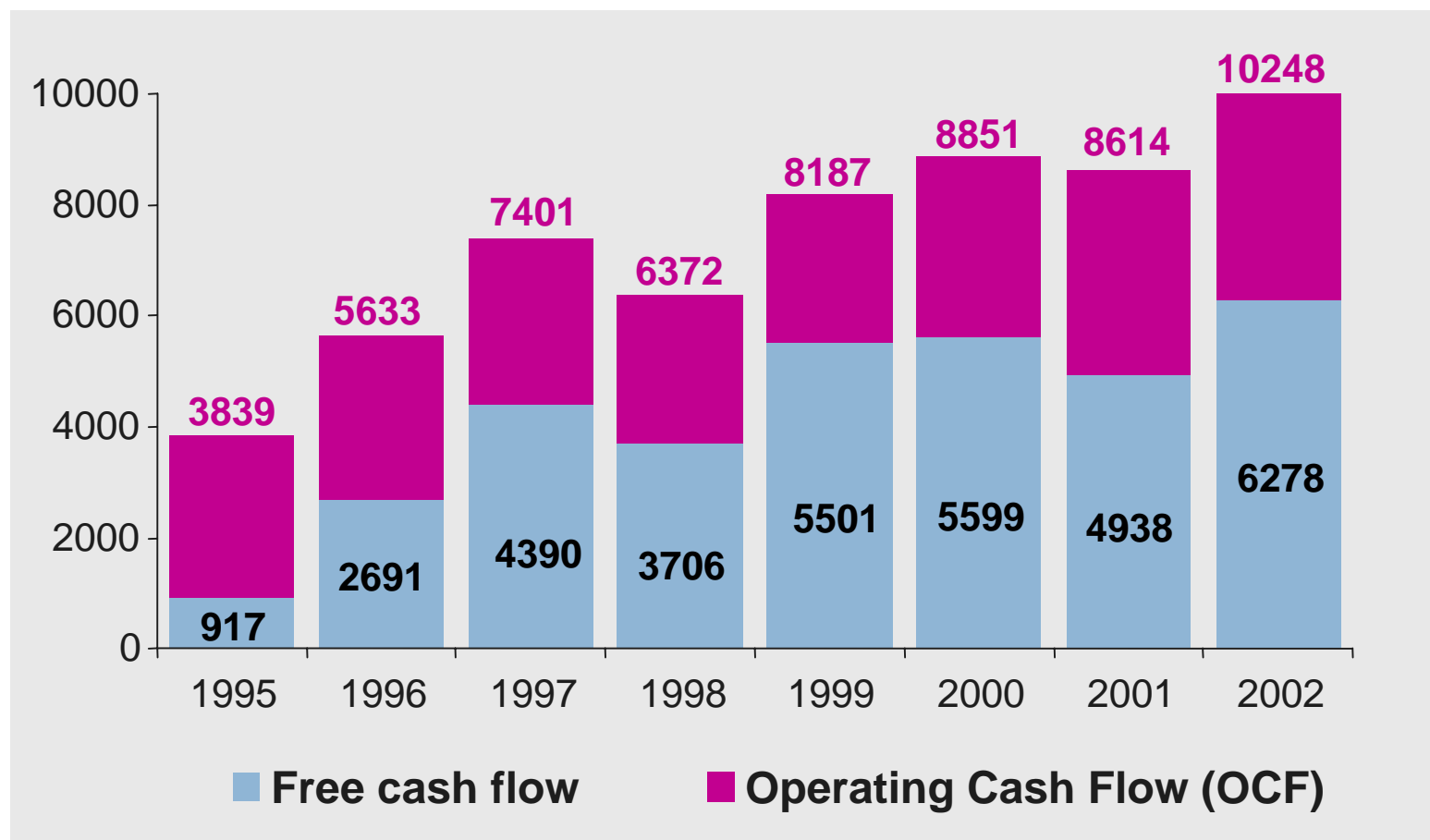
Total expenses: CHF 3.3 billion

- Impairment of property, p&e: CHF 1.3 billion
- Restructuring costs: CHF 1.1 billion

Total goodwill impairments: CHF 0.8 billion

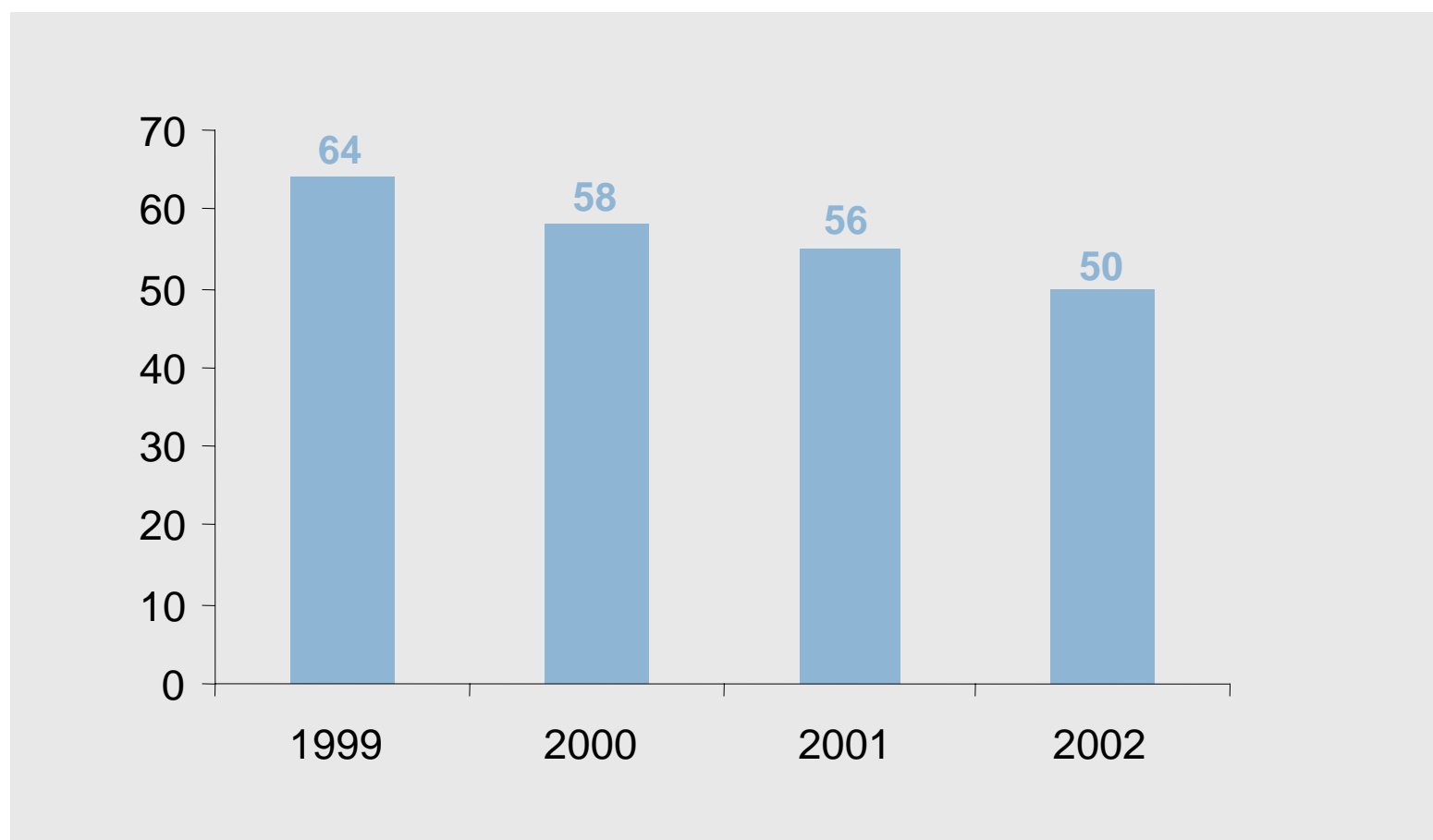
**Future restructuring costs to be  
around 0.5% of sales per year**

## Healthy cash flow

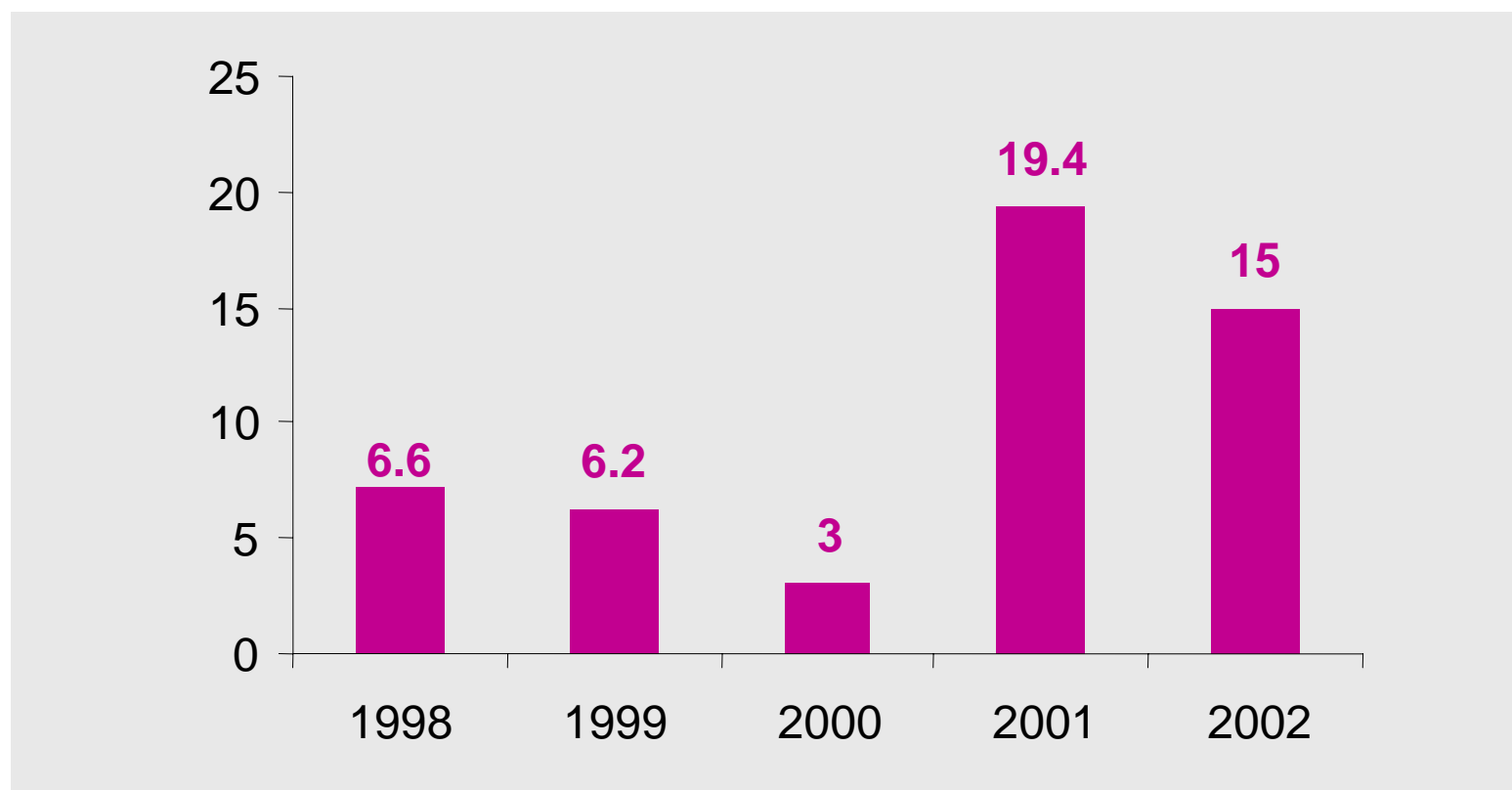


**Good improvement in working capital**

## Cash conversion cycle



## Net indebtedness\* down sharply "AAA" maintained



\* Total financial liabilities minus liquid assets.  
Liquid assets do not include the carrying value of treasury shares  
(CHF 2.6 bio. at year-end 2002)

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## Profitability by management responsibilities and geographic area

CHF bio.	2001		2002		Basis point margin improve.
	EBITA	Margin*	EBITA	Margin*	
Europe	2.9	11.0%	3.4	12.0%	100
Americas	3.6	13.5%	4.2	14.3%	80
AOA	2.7	17.2%	2.6	17.2%	-
Nestlé Waters	0.6	8.4%	0.7	9.0%	60
Other	1.5	18.1%	1.5	17.7%	(40)

**F&B EBITA up 11%, up 19% in constant currencies**

\* calculation based on non-rounded figures for sales

## RIG by management responsibilities and geographic area

2002 % cumulative	Q1	H1	9 months	FY	FY organic growth
<b>Zones</b>					
Europe	1.8	0.7	1.3	<b>1.7</b>	<b>3.1</b>
Americas	2.1	3.6	2.4	<b>2.3</b>	<b>4.8</b>
AOA	2.6	3.8	3.7	<b>3.6</b>	<b>5.0</b>
Nestlé Waters	10.8	8.7	9.3	<b>9.9</b>	<b>9.6</b>
Other activities	7.9	6.7	7.1	<b>7.1</b>	-

## RIG in Europe (Food): Key markets - Trend of improvement continued through 2002

2002	Q1	H1	9 months	FY
% cumulative				
Western Europe	0.8	- 0.2	0.5	<b>0.8</b>
France	1.7	1.5	3.1	<b>3.2</b>
Germany	- 0.2	- 1.5	- 0.4	<b>- 0.3</b>
GB Region	- 1.8	- 3.3	- 2.1	<b>- 0.6</b>
Petcare Europe	- 0.2	- 1.9	- 1.7	<b>- 0.8</b>
Eastern Europe	14.6	11.0	11.6	<b>11.9</b>
Russia	23.7	24.0	23.3	<b>22.0</b>

**Market share gains achieved in most markets**  
**Positive organic growth achieved in all markets**

## Zone Europe (1)

- Good RIG performance: outperformed market growth, market share growth in many countries
- Strong EBITA improvement: 100 basis points  
- all markets in Western Europe improved margins (excluding impact of Schöller)
- Strengthened business focus with creation of dedicated management teams for Petcare, Chilled dairy, Chilled culinary, Ice cream and Frozen food

## Zone Europe (2)

- Improved business base for Ice cream & Chilled dairy with integration of Schöller (Germany and Central & Eastern markets) and SKI (U.K.)
- Determined portfolio optimisation with divestments in UK (Food), Italy (Vegetables, Oil), France (Desserts, Canned Food)
- Successful GLOBE implementation in Switzerland

## Zone Europe 2003

- Above category growth
- Industrial, administrative and portfolio optimisation
- Improved financial performance

## RIG in the Americas (Food): Key markets - US, Canada & Brazil drive top line

2002	Q1	H1	9 months	FY
% cumulative				
United States & Canada	1.9	5.2	3.8	<b>4.3</b>
United States	1.2	4.3	3.7	<b>3.5</b>
Canada	10.9	9.5	8.9	<b>6.2</b>
Latin America & Carib.	2.3	0.9	0.0	<b>- 1.2</b>
Brazil	4.4	4.0	2.3	<b>6.0</b>
Mexico	1.3	- 0.8	- 2.2	<b>- 8.5</b>

**Mexico RIG impacted by plan to improve stock management**

## Zone Americas (1)

- Excellent RIG and EBITA performance in Brazil, US and Canada, even excluding NPP
- Objective of margin protection in Latin America achieved, with market shares maintained or improved
- Nestlé-Purina (NPP) exceeded acquisition synergy and growth targets

## Zone Americas (2)

- Good performance by Chef America - integration on plan
- Successful GLOBE implementation in Peru and Bolivia
- **2003**
  - Maintain good US / Canada momentum
  - Return to growth mode in Latin America despite political / economic uncertainty
  - Defend strong market positions

## RIG in AOA (Food): Key markets - Emerging markets deliver strong growth

2002	Q1	H1	9 months	FY
% cumulative				
Oceania and Japan	- 1.6	0.5	- 0.6	<b>0.2</b>
Japan	- 5.8	- 1.0	- 3.6	<b>- 1.5</b>
Other Asian markets	4.6	5.9	6.1	<b>5.3</b>
Philippines	2.9	6.3	6.8	<b>6.0</b>
Greater China	12.0	8.6	9.7	<b>11.0</b>
Africa	8.2	7.4	7.6	<b>7.6</b>
Middle East	1.4	2.7	3.4	<b>3.3</b>

**Japan improves in Q4 as expected**

## Zone Asia, Oceania, Africa

- Maintained high level of EBITA margin
- Asian Industrial Structure and central purchasing projects delivered expected benefits: more to come
- Excellent results from China, India & parts of Africa underline the potential within the Zone
- Successful GLOBE roll out in Malaysia
- **2003**
  - Focus on improving margins and RIG

## RIG in Nestlé Waters - Double digit growth in Emerging markets and North America

2002	Q1	H1	9 months	FY
% cumulative				
North America	13.9	13.7	15.1	<b>16.0</b>
Europe	8.2	3.3	2.8	<b>3.0</b>
Asia	20.4	20.6	24.8	<b>22.8</b>
Nestlé Waters total	10.8	8.7	9.3	<b>9.9</b>

**Market share gains continue in North America**

## RIG in Alcon and JVs - Strong performances across the board

2002 % cumulative	Q1	H1	9 months	FY
Alcon	9.2	8.0	8.1	<b>8.6</b>
Joint Ventures, pharma				
Galderma	15.6	9.1	8.8	<b>8.3</b>
Joint Ventures, food				
CPW	8.1	9.0	8.5	<b>8.0</b>
Other activities total	7.9	6.7	7.1	<b>7.1</b>

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## Profitability by product group

CHF bio.	2001		2002		Basis point margin improv.
	EBITA	Margin*	EBITA	Margin*	
Beverages	4.26	17.7%	<b>4.07</b>	<b>17.5%</b>	<b>(20)</b>
Milk products, nutrition & ice cream	2.58	11.2%	<b>2.76</b>	<b>11.8%</b>	<b>60</b>
Prepared dishes & cooking aids	1.57	10.4%	<b>1.71</b>	<b>10.8%</b>	<b>40</b>
Chocolate, confectionery & biscuits	1.23	11.0%	<b>1.18</b>	<b>11.0%</b>	-
Petcare	0.45	7.3%	<b>1.42</b>	<b>13.2%</b>	<b>590</b>
Pharma	1.25	24.7%	<b>1.27</b>	<b>24.7%</b>	-

\* calculation based on non-rounded figures for sales

## RIG in Beverages - Continued recovery in Soluble Coffee

2002	Q1	H1	9 months	FY
Soluble coffee	1.1	1.0	1.6	<b>2.0</b>
Nestlé Waters	10.8	8.7	9.3	<b>9.9</b>
Beverages total	4.7	4.4	4.6	<b>4.6</b>

**Soluble coffee continued to improve in Q4**

## Beverages

- RIG of 4.6%, EBITA margin of 17.5%
- Soluble coffee and other beverages maintained margin: 6% volume or "cup" growth in Nescafé
- Coffee in Russia and Nespresso RIG exceed 30%
- New foaming technology successful in Europe, US and Japan (60/40 and double digit RIG)

## Beverages: 2003

- Green coffee price upward trend - a positive for soluble against roast & ground, but needs careful management in the markets
- An exciting year for launches and relaunches, slightly weighted to H2
- Soluble coffee to improve RIG

## RIG in Milk products, Nutrition and Ice cream - Ice cream positive and improving

2002	Q1	H1	9 months	FY
Milk products	3.4	3.5	3.3	<b>2.2</b>
Nutrition	1.7	1.5	1.4	<b>1.7</b>
Ice cream	- 2.4	- 0.1	0.1	<b>0.5</b>
Milk products, nutrition and ice cream total	2.4	2.5	2.4	<b>2.0</b>

**Ice cream moves into positive RIG**

## Milk products, nutrition and ice cream

- RIG of 2.0%, EBITA margin of 11.8%
- Chilled & Shelf stable dairy improved margins
- Nutrition margin maintained and market share increased, despite lower RIG
- Sales of products with BAI's pass CHF 1 billion

## Milk products, nutrition and ice cream

- Ice cream improved margin and RIG
- CPW grew strongly at improved margin
- 2003: RIG improvement as a result of an aggressive innovation/renovation programme to drive overall performance

## RIG in Prepared dishes and cooking aids - A good all-round performance

2002	Q1	H1	9 months	FY
Frozen and chilled	0.8	4.7	6.0	<b>5.6</b>
Culinary and others	4.0	3.5	3.9	<b>3.3</b>
Prepared dishes and cooking aids total	2.4	4.1	4.9	<b>4.5</b>

**A good performance, also, from Chef America**

## Prepared dishes and cooking aids

- RIG of 4.5%, EBITA margin of 10.8%
- Chilled products had excellent growth: cookie-dough in USA and Buitoni and Herta in Europe
- Stouffer's and Chef America performed well from dominant leadership positions in frozen food USA
- Maggi and other culinary brands performed well, especially in emerging markets, e.g. China and Africa
- Disposals of non core products
- 2003: continued growth in frozen food USA, chilled products Europe and USA, culinary products in emerging markets

## RIG in Chocolate, Confectionery and Biscuits- Positive RIG in Chocolate despite rising prices

2002	Q1	H1	9 months	FY
Chocolate	2.1	0.1	0.9	<b>0.9</b>
Confectionery	- 4.7	- 2.4	- 1.5	<b>- 0.7</b>
Biscuits	7.7	1.5	3.8	<b>2.6</b>
Chocolate, confectionery and biscuits total	1.8	- 0.1	0.8	<b>0.8</b>

**Pricing in chocolate impacted RIG**

## Chocolate, confectionery and biscuits

- RIG of 0.8%, EBITA margin of 11%
- Strong growth & market share gains in the US
- Double digit growth in emerging markets, incl. Russia, China, India, Turkey
- KitKat continued successful global expansion: entries to Russia, Bulgaria and Hungary
- Functional sugar confectionery ranges introduced in India, China and Japan
- Streamlining continued: 5 factories closed, 3 businesses sold

## Chocolate, confectionery and biscuits: 2003

- Cocoa bean price to remain volatile
- Chocolate price increases of 5-7%
- KitKat to continue its geographical expansion
- Increased momentum in productivity gains and cost reductions

## RIG in Petcare - Strong growth in US Petcare as Europe focused on margin improvement

2002	Q1	H1	9 months	FY
Europe	- 0.2	- 1.9	- 1.7	- <b>0.8</b>
North America	3.7	8.1	2.9	<b>5.3</b>
Petcare total	2.0	3.7	0.7	<b>2.5</b>

**NPPC North America recovered in Q4, as expected**

## PetCare

- RIG of 2.5%, EBITA margin of 13.2%
- Europe sales performance impacted by portfolio focusing; margin boost to follow
- Global Purina integration ahead of schedule with 2002 synergies greater than expected
  - all Friskies dried food moved to Purina plants
- US RIG more than 5%, & above 3% in all product sectors

## PetCare: 2003

- 2003 US RIG growth will slow temporarily due to standardising promotions and moving the former Friskies business to the Purina distribution system
- Global SBU now in St. Louis:
  - Global brands to drive growth
- Synergies, efficiencies and portfolio focus to benefit margin

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## Agenda for roadshow

- The financials; key topics, including
  - currencies
  - pensions
  - underlying tax and earnings
- Impairments: future benefits
- Efficiency programmes
- Judgment on 2002 objectives
- Business review
- 2003 objectives

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## Summary: excellent results

- EBITA increased 9.5% to CHF 10.9 billion
- Net profit increased 13.2% to CHF 7.6 billion
- EPS increased 13.1% to CHF 19.51
- Operating cash flow up 19% to CHF 10.2 billion
- Free cash flow up 27.1% to CHF 6.3 billion
- Total working capital decreased by CHF 0.8 bio
- Significant reduction in net debt to CHF 15 billion
- Financing cost falls faster than interest rates

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