Rainer E. Gut
Chairman of the Board

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

Letter to Shareholders

Dear shareholder,

The volatile trends prevailing in 2002 continued through 2003, with currency crises, economic uncertainty, continued trade disputes and political uncertainty in many parts of the world. 2003 also brought conflicts in Iraq and Côte d'Ivoire, as well as the SARS outbreak in China and other Asian countries.

Nestlé's performance in such an environment underlines the benefit of its geographic spread, leading market positions and strong brands. Earnings before interest, tax and amortisation of goodwill (EBITA) reached CHF 11.0 billion, with margins moving forward from 12.3% to 12.5%. At constant currency, the margin improvement would have been even more marked, with a 2003 margin of 12.9%.

The development of the Group's sales was held back for the second consecutive year by the strength of the Swiss franc. Reported sales, in Swiss francs, were down 1.3%, due mainly to the 7.6% negative currency impact. In US dollars, sales would have increased by an impressive 13.7%. The most important element in the development of sales, organic growth, was 5.1%, consisting of 2.2% real internal growth (RIG) and 2.9% pricing. This strong pricing performance reflects our strategy to protect margins in an environment characterised by higher raw material costs, particularly cocoa, and inflationary environment, particularly in Latin America countries. Such pricing action often results in a temporary slowdown in RIG. The contribution from acquisitions, net of divestitures, was 1.2%.

The Company's net profit and earnings per share performance are not comparable to that of 2002 because of the positive one-time benefits in that year that resulted from the partial IPO of Alcon, our ophthalmic business, and the disposal of Food Ingredients Specialities, as well as the one-time charges taken relating to restructuring and impairments of both goodwill and tangible fixed assets. The net profit for 2003 was CHF 6.2 billion, a margin of 7.1%, whilst earnings per share were CHF 16.05. The underlying net profit, excluding the significant one-time benefits, charges and amortisation, impairments and restructuring costs, was CHF 7.8 billion, whilst the underlying earnings per share increased 7% to CHF 20.23.

The Company's operating cash flow was CHF 10.1 billion, whilst the free cash flow in 2003 was CHF 6.4 billion, or 7.2% of sales, a slight improvement over 2002. Net debt decreased to CHF 14.4 billion, which underlined the AAA credit rating, recognising the Company's financial strength and significant free cash flow generation.

In view of our performance in 2003 and of our positive prospects, the Board proposes a dividend of CHF 7.20, an increase of 2.9% over the CHF 7.– per share paid for 2002.

In the difficult business environment during 2003 a priority for Nestlé was to maintain our trend of improving sustainable profit margins. Key to this achievement were the Group's efficiency initiatives, as well as the GLOBE programme. Target 2004+ delivered cost savings of CHF 930 million from our manufacturing assets. This asset base continued to evolve and, during the year, we acquired or opened 29 factories and sold or closed 26 of our facilities. 2003 was the first year in which Project FitNes realised significant savings from our administrative cost base, with CHF 220 million achieved and reflected in a 20 basis point reduction in administrative costs as a percentage of sales.

GLOBE, standing for Global Business Excellence, is the enabler for many of our savings. This programme remained on course in 2003, with a global roll-out of its business excellence and data standardisation elements, as well as the successful implementation of a common IT platform in countries in each of the three Zones.

In 2003 we made two acquisitions that contributed to our position, built over the last decade, as one of the world market leaders in ice cream. We completed the merger of the Dreyer's Grand Ice Cream Company with our USA ice cream business in June 2003. This important merger gives us leadership in the USA, the world's largest ice cream market. We have moved quickly to begin to integrate the two businesses, and believe that this is a truly transforming deal for Nestlé, both in terms of scale, but also in terms of financial performance for this category. The enlarged Dreyer's is listed on the NASDAQ, which provides a high level of transparency as the two companies realize the opportunities created by the merger. We also completed the acquisition of the Mövenpick ice cream business. The high quality of the *Mövenpick* brand ideally complements our premium brand ice cream portfolio, which includes *Häagen-Dazs* in North America and *Antica Gelateria del Corso* in Italy.

The biggest acquisition of 2002, Chef America, performed well in its first full year under Nestlé ownership. Its brands, including *Hot Pockets, Lean Pockets* and *Croissant Pockets,* delivered outstanding growth and strong profitability.

Nestlé's strategy to develop into the leading food, nutrition, health and wellness company took some constructive steps forward in 2003. Aside from the many product launches that offered some particular nutritional benefit, notable events included the study and test-market of a possible oral care joint venture with the Colgate-Palmolive Company and the highly successful launch of the first product by Innéov, our recent joint venture with L'Oréal in nutricosmetics. We established a global team of Nestlé Nutrition Champions, who work with our businesses to help them deliver effective nutrition strategies. Life Ventures, a venture capital fund established in 2002 to provide access to new science and technology relating to food and nutrition, made its first eight investments during 2003. These were in the fields of naturally derived bioactives, phyto-nutraceuticals and healthcare nutrition, amongst others. The investments are in companies in Germany, the Netherlands and the USA and were selected from some 500 opportunities.

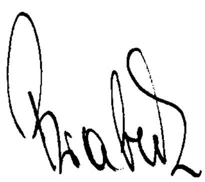
There are some changes to the Board of Directors in 2003/2004. Mrs. Vreni Spoerry, Lord Simpson and Mr. Arthur Dunkel, whose terms expire, will not stand for re-election. Each has provided strong leadership and made an important contribution to Nestlé whilst, together, they enabled the Company to benefit from a wealth of knowledge and broad experience. Sir Edward George, the former Governor of the Bank of England, Mr. Kaspar Villiger, former member of the Federal Council and President of the Swiss Confederation, Mr. Rolf Hänggi, Vice Chairman of the Board of Directors of Roche Holding Ltd., Mr. Daniel Borel, Co-founder and Chairman of the Board of Directors of Logitech International S.A., and Mrs. Carolina Müller, Chairman of the Board of Directors of the Müller-Möhl Group, are being proposed as new Directors.

There was one departure from the Executive Board at the end of 2003. Mr. Frank Cella, Head of the Strategic Business Units and Marketing, retired after 40 years with the Company. Mr. Cella made a significant contribution in the areas of consumer insight and consumer communication, as well as innovation, and was a strong advocate of the Nestlé Management and Leadership Principles. His successor is Mr. Ed Marra, who joined Nestlé Canada in 1981. He spent ten years in various senior positions in Canada before moving to the USA as Senior Vice President of marketing for Stouffer's Frozen Foods. He was appointed President of the US Beverages division in 1996 before returning to Canada as Market Head in 2000. Mr. Paul Bulcke joined the Executive Board in October 2003 and has taken responsibility from January 2004 for our Latin American and Caribbean markets, with the exception of Mexico. He will assume responsibility for the rest of Zone Americas in July on the retirement of Mr. Carlos Represas. Mr. Bulcke joined Nestlé in 1979 and has worked in Europe and the Americas. He was Market Head successively of Portugal, of the Czech and Slovak Republics and, from 2000 to 2003, of Germany. Finally, and as stated in last year's Management Report, Mr. Luis Cantarell, the Head of Nutrition Strategic Business Division, was appointed Deputy Executive Vice President as from 1st January 2003.

We would like to take this opportunity to thank all Nestlé people for their great enthusiasm during 2003: approximately 253 000 people from over 100 countries, and more than 100 nationalities, have contributed directly to our success. More than a million others including suppliers, such as farmers in developing countries, have also been dedicated supporters of Nestlé. In a year marked by so many difficulties, we would particularly like to highlight the commitment of so many of our people who have found themselves at the forefront of one of the challenges mentioned at the start of this letter, be it civil unrest, a health scare or difficult economic conditions. We have committed long term to the countries where we are present, but it is only through the great efforts of our people in those places that we are able to do this. We thank all of them for their loyalty and enthusiastic commitment.

Looking forward, we know that we can continue to rely on the dedication of our people as we take our next steps towards building the world's leading food, nutrition, health and wellness company. Market conditions are likely to remain challenging. We will continue to focus on delivering a good level of growth, as well as improved profitability and cash flows, and would expect to be able to report positive news in the Half-yearly Report.

Rainer E. Gut
Chairman of the Board



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