OVERVIEW OF 2005 & OUTLOOK FOR 2006

POSTING STRONG GROWTH RATES, ABOVE THE MARKET, NESTLE WATERS CONSOLIDATES ITS LEADERSHIP IN THE BOTTLED WATER SECTOR IN 2005

• Increase in worldwide market share in terms of value, reaching 18%, and return to leadership position in terms of volume

• Excellent performance by the Nestlé brands, which are becoming Nestlé Waters’ primary driver for growth

Paris, Tuesday 7th March 2006

Nestlé Waters presented today an analysis of its annual sales for 2005.

2005 was marked by strong growth. Overall sales increased by +9.3%, reaching 8.8 billion Swiss francs (approximately 5.7 billion euros). The exchange rate impact was positive (+0.7%). Acquisitions/disinvestments had no impact.

On a like-for-like basis with a constant exchange rate, sales rose by +8.6%. This progression takes account of strong real internal growth of +9.5% and a negative price effect of -0.9%.

Nestlé Waters has once again consolidated its position as the leading player on the worldwide bottled water market, recording growth levels above that of the market in 2005 (+5.5% in value terms), thus gaining a market share of 18% in terms of value and recovering an indisputable leadership position in terms of volume.

In terms of operating margin, Nestlé Waters’ EBITA for 2005 rose to 709 million Swiss francs, representing 8.1% of sales. This performance was achieved in a difficult context, marked by a steep rise in the price of PET resin, secondary packaging and energy, and by intense pressure on prices due to lively competition in North America. In spite of this unfavourable context, Nestlé Waters successfully increased its margin by +6.1% compared with 2004 – a result obtained by means of improvements in operational efficiency.
Sales analysis by region

North America was the main contributor to Nestlé Waters’ growth, which was also supported by very good performances in emerging countries. Europe, for its part, is posting flat growth, as a direct consequence of changes in consumption habits.

North America:
North America saw excellent performances. Nestlé Waters is once again recording double-digit growth for its activities (+16.5% on a like-for-like basis), which is higher than that of the market (+12.2% in value terms), in a region that now accounts for almost half of its worldwide sales (48%). As a result of this good performance, Nestlé Waters has increased its market share in the region by over 100 basis points, reaching 37.6%. Nestlé Pure Life has made a significant contribution to this performance, posting exceptional organic growth of over +50%. The only brakes to this upturn are the pressure from competitors, which has led to price reductions, and sluggish growth registered in the Home & Office Delivery (HOD) sector.

In Canada, Nestlé Waters’ market share in the retail sector saw a remarkable increase, gaining +3.5% to reach 21.8% in 2005. Mention should also be made of the success of the flavoured range from Nestlé Pure Life, designated product of the year for 2005. Nestlé Pure Life is now the leading brand of water on the market, having gained a market share of 70% in the flavoured water segment in less than six months.

Europe:
The situation in Europe remains difficult, with flat growth on a like-for-like basis (-0.2%). It is based on very unbalanced performances according to the markets. The development of own-label brands, low-cost brands and the increasingly important role played by the hard discount channel, have tangibly affected consumption. However, Nestlé Waters has been able to maintain its positions thanks to an active policy of innovation and renovation of its international brands, the development of Nestlé Aquarel, and by striving to offer solutions adapted to the specific nature of each distribution channel. Thus, in the hard discount channel, Nestlé Waters currently accounts for over 15% of the Nestlé group’s sales. In terms of HOD, sales have been hindered by strong competition with regard to prices.

In Italy, Nestlé Vera’s new price positioning – “The right price, every day” has significantly lowered the price per litre, but has contributed to major growth in sales in volume terms in the south of the country.
In France, Nestlé Waters has successfully maintained its position in a market in decline, notably due to the strong performance of Nestlé Aquarel and to innovations concerning the international brands, at the forefront of which is found Vittel with its range of flavoured water and its format specially designed for children, Vitalitos. This innovation, which was launched in early 2005, has exceeded its targets with 5.5% market share in value terms in less than eight months. It was selected product of the year in France and Belgium.

Most of the other European markets reached double-digit levels of organic growth, thanks in part to the success of Nestlé Aquarel.

The rest of the world:
The three remaining regions achieved strong double-digit growth rates and represent an important potential for Nestlé Waters’ future developments.

In Africa/Middle East, organic growth of +20.9% was recorded, with major contributions being made by Turkey, South Africa and Saudi Arabia. The rapid development of Nestlé Pure Life in both retail and HOD channels combined with the geographic expansion of activities in the region (Nigeria and Algeria), should ensure that sustained growth is maintained over the years to come. In a region recording double-digit market growth (+11%), Nestlé Waters remains the clear leader with a market share of 11.4%.

In Asia, sales have also increased on a like-for-like basis by +20.9%. The majority of markets played a role in this progression. These results were obtained essentially thanks to Japan, where the partnership agreement with Suntory is giving good sales results for the international brands, and due to strong contributions from Nestlé Pure Life in Pakistan and Thailand.

Finally, Latin America is not being left behind, with average organic growth of +16.8% thanks to excellent performances recorded in Argentina, Brazil and Cuba.

The Nestlé brand: Nestlé Waters’ primary driver for growth

The Nestlé brand, present in 35 countries, with sales of over 1 billion Swiss francs, now accounts for 12% of Nestlé Waters’ sales. Nestlé Pure Life and Nestlé Aquarel posted very strong organic growth in 2005, confirming the brand’s ambition to become the leading worldwide bottled water brand within the next few years.

Nestlé Pure Life, already Nestlé Waters’ leading brand in volume terms, was introduced onto three new markets in 2005: Indonesia, Nigeria and Qatar. The brand now holds a solid position as number 1 in Pakistan, Lebanon, Canada and Uzbekistan and on the HOD segment in Russia.
In early 2006, Nestlé Pure Life adopted a new, more modern, visual identity that provides it with greater visibility on the shelves and brings it closer to the consumer. Nestlé Pure Life is also one of the first of Nestlé Waters’ brands to adopt the Nestlé “Nutrition Compass” on the back label of its packaging.

For its part, the Nestlé Aquarel brand is now present in 14 countries and posts organic growth of over 50%. This performance confirms the success of the price repositioning strategy implemented in Europe at the beginning of 2005.

**Outlook for 2006**

In 2006, several new products have already been launched as part of Nestlé Waters’ innovation and renovation strategy.

On the international brands front, Vittel has modernised its style by adopting both a new visual identity and a new design for its packaging. This approach aims to modernise the original square bottle by giving it a more dynamic rounded shape. The new design, pre-tested on the French and German markets, has received a unanimous welcome. On the other hand, Contrex has introduced two innovative, dessert varieties to its flavoured water range: Lemon Meringue and Strawberry Melba. In line with the positioning of the Contrex brand, these new products naturally remain calorie free.

In the United States, a spring water with fluoride has recently been launched with a new child-safe twist cap. This innovative cap twists open, without lifting off, thus avoiding spills, thanks to its cap design. The product is being offered under Nestlé Waters’ regional brands, in particular Poland Spring, Deer Park and Arrowhead. In parallel, Aquapod has also been launched under the regional brands. This new little round bottle (33 cl) of spring water in the shape of a bubble was designed to make it simpler and more fun for children to drink water.

In the area of industrial developments, the two-year modernisation programme, concerning the Contrex and Vittel sites in France, continues with the aim of improving productivity by merging the plants to form a single production site that will make it the largest bottling site in the world. The plants are now capable of producing the two brands of natural mineral water according to format and no longer merely according to brand.

The implementation of the GLOBE project is continuing. The aim of this project is to optimise the synergies between the different markets, contributing to the improvement of Nestlé Waters’ industrial and operational efficiency.
In terms of changes within Nestlé Waters’ executive committee, late 2005 saw the retirement of Mr Jeff Caso and the arrival in early 2006 of his replacement, Mr César de los Rios, to the post of Senior Vice-President Marketing, Sales & Communication. Aged 53 years old and of Columbian origin, César de los Rios has 36 years of international experience within Nestlé.

Remarks by Mr Carlo Donati, Nestlé Waters’ Chairman and Chief Executive Officer, on the results for 2005 and outlook for 2006:

“Within a challenging economic climate, marked in 2005 by a steep rise in the costs of PET, intense competition in North America and strong pressure on prices, Nestlé Waters has done more than defend its position, by successfully maintaining a rhythm of sustained growth, higher than that of the market. This performance enables Nestlé Waters to consolidate its leadership and to contribute fully to the growth of the Nestlé group. As for the initial outlook for 2006, I am confident in our ability to maintain this rhythm of growth, while continuing our efforts to optimise our industrial efficiency, in order to improve our operating margin and reduce the gap with the Nestlé Group level.”

Nestlé Waters accounts for almost 10% of the Nestlé Group’s consolidated sales, manages a portfolio of 75 brands, bottled at 103 production sites, and employs a workforce of 30,000 people.

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