

NESTLÉ S.A.

2007 FULL YEAR RESULTS LONDON & NEW YORK ROADSHOW TRANSCRIPT

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Roddy Child-Villiers, Nestlé SA ,Head of Investor Relations

Slide 1 - Logo Slide

Good morning, everybody, and welcome. We have some - apart from on the stand - we have some other Nestlé representatives here too. Alastair Sykes, head of Nestlé UK; Steve Phillips, his CFO; Ian his communication guy, and also Paul Grimwood who runs UK Confectionery. So during the Q&A they may help us out on any specific local questions that you have on our fine UK performance.

Peter Brabeck isn't here today, but he did ask me to send you his best wishes, and also to thank you all for a good, interesting, challenging and supportive ten years together. Our objective today is for Jim to take you through what we're doing in Finance really to drive value in the organisation - create shareholder value. Then for Paul to talk a bit about where we've come from which sets the basis for where we're going to; look at some of the opportunities and challenges in 2008; and then also spend a little bit of time looking further forward.

Slide 2 - Disclaimer

And as usual we'll take that as read. Over to Jim.

James Singh, Nestlé SA, Chief Financial Office

Thanks, Roddy, and good morning to you all. It is indeed a pleasure for me to be here with you for the first time in my current capacity. I've been here before; I've had the pleasure of meeting some of you, and I look forward to working with you to build a value added relationship for our mutual benefit, but more importantly for the benefit of our shareholders and the investment community at large.

Slide 3 – 2007 Highlights – All metrics improve

You have seen the figures for 2007, and as I said in the conference call, the performance of the company in 2007 truly makes my job a little easier, at least coming in. The results represent significant milestones achievement, and you'll see here sales, new businesses created last year 9 billion, to take us over the one time ambition of surpassing 100 billion CHF, but more importantly our Food and Beverage business, which is our core driver of value in our company, also exceeded 100 billion CHF in sales.

More importantly however is our operating margin - or EBIT - reached 14%, another milestone performance. Net profit is within striking distance of the 10% number; we ended the year at 9.9% and with significant improvements in cash flows, in return on invested capital, with goodwill 12.2% and without goodwill 22%.

Based on the confidence that we continue to reaffirm and build in our company, also based on consistently delivering outperforming results, we will once again recommend to the General Assembly in April that the dividends, based on 2007 results, be increased to 12.2 CHF per share which represents a 17.3% increase in

our dividend payment to our shareholders. This of course is on top of the 15+% increase that was awarded in 2007, based on 2006 results, and now brings us above the median of our benchmark companies in terms pay-out ratio close to 44%.

Slide 4 – Food and Beverage – All metrics improve

Now very quickly on Food and Beverage, there you see very strong performance. Organic growth of 7.1% of which 4 percentage points related to real internal growth, and also at the same time delivering 40 basis points improvement in EBIT.

Slide 5 – Total Performance Management

Now the question is how is Nestlé able to perform so well consistently, sustainably, over a long period of time in spite of the crises that we experience? And you know during the last decade there have been several. But this is just an example of what we talk about when we raise the concept of total performance management in the company - delivering results and with discipline; growth and the value of growth, because we believe that sustainable prosperity must come from real growth in a company. And the quality of growth reflects the transformational efforts towards a Nutrition, Health and Wellness company, providing our consumers with affordable and relevant nutritional benefits.

The scale benefits of our organisation, a global organisation that is of significant size, if leverage will enable us to act with speed as we do, with discipline and with transparency, give our management in the markets the freedom to act and more importantly provide significant value in the relationship with our trading partners, whether they are trade customers or suppliers.

Operational efficiency: we have talked about this many, many years now. It has now become a part of our business model, based on the mindset of low cost, highly efficient operations.

Channel development: There are myriads of opportunities in current and emerging channels. Our focus is to capture the benefits of those opportunities through customisation and service, to truly differentiate ourselves in a relevant and meaningful way - for example, Nestlé Professional that Paul will talk about.

Using our regional scale and presence, we are able to introduce new products, innovations - meaningful innovations, differentiating our offerings to our consumers in a very, very rapid way. For example, creating a presence for Nespresso in Japan was done in record time, based on the support of our people in the market and the relationships we have there.

And lastly, harnessing the skills and competencies of our people and of our organisation in building brands using local market sensitivity and intelligence to act in a very decisive way, and employing best practices to improve our performance continuously.

Slide 6 – The Nestlé Model

By doing this, and others, we have been able over the last 11, 12 years to consistently deliver the Nestlé model, which I'll talk about a little more. But here you will see for the last 12 years we have delivered an average of 5.9 percentage points of organic growth, significantly influenced by real internal growth. During the last decade we have demonstrated that we can take price increases when and if required, but I'd like to remind you that we do not only depend on price increases to deal with the impact of costs or inflationary costs on our business. So once again, in spite of various crises, the ups and downs that you deal with in everyday business life, we were able to manage to deliver consistently the Nestlé model.

Slide 7 – Growth in emerging & developed markets

Now when you look at the development of the business, I'd like to assure that we continue to grow in developed markets and we grow at a much faster rate in emerging markets, so the halo effect is that overall the company continues to grow and continues to develop the Nestlé model. We are growing not only in different geographies, but we have customised products and service to deal with the different demographics in these different geographies.

Slide 8 – Transforming product portfolio towards healthier nutrition

Now in terms of - how are we transforming the product portfolio? And this is just an example. And you can look at this in terms of two axis: one where we are adding or enhancing elements of our product portfolio, aided by bringing in new innovation or enhancing current products, for example taking an ingredient approach - whole grain versus others; applying branded active ingredients to our basis products to improve the nutrition credentials of the products, and through R&D able to deliver micronutrients in the regular servings of our products.

The other axis is where we're reducing elements to enhance the nutrition credentials of our products: reduction in sodium, reduction in trans fatty acids or fats, reductions in sugar content, and several other measures we're taking very objectively to transform our product portfolio, and to add new ones that lend credibility to our strategy, as a Nutrition, Health and Wellness company.

Here BAB's (Branded Active Benefits) grew last year nearly 24% while nutritionally enhanced products and our main nutrition business on average grew at 8%. And our everyday Food and Beverage business in excess of 6%. And even our occasional food, which is basically Confectionery and Ice Cream, grew about 6%.

Slide 9 – The Nestlé Investment Proposition “ The Nestlé Model”

So the growth of the company is coming on all directions, on all fronts, because we take a very holistic way in driving performance in the organisation. By doing that we have, and as you have seen over the last 10 or 11 years, consistently delivered the Nestlé model which is 5 to 6% organic growth, continued improvement EBITA margin and, by using capital discipline, ensured that the deployment of our capital

will yield higher internal investment. In total we believe the combination of this model, which we define as the Nestlé performance advantage, will in fact lead to industry outperforming long-term shareholder return.

Slide 10 – Focus areas

Now what is the focus of the finance group? I would say it's a continuation with acceleration. Continue to drive discipline in order to achieve sustainable performance; ensure our operational control to safeguard the value we create; leverage skill and scale and make sure that there is organisational alignment of clarity over strategy, to ensure that we continue to drive performance.

Slide 11– Discipline driving performance

Now as examples of discipline, we believe through increased transparency we can facilitate timely action, we talked about being able to forecast the upturn in commodities and taking early action that mitigate the pain some of our competitors feel when taking pricing in the midst of a commodity inflationary environment.

Dealing with underperformers in a very focused and critical way, to make sure that if you're part of the portfolio, you belong there and you're not being taken as a ride for the rest.

And working capital: in spite of the high inflation driven by commodity prices, we have been able to reduce our absolute working capital levels. And this is truly amazing because we did it by employing several measures which I'll refer to.

Our cash conversion cycle has improved from 40 days to 33 days. That will be slightly increased when we add the Nutrition business that we recently acquired from Novartis.

Slide 12 – Discipline driving performance

What were the results? 10% reduction in SKU. You can just imagine a company with 100 billion CHF in revenue reducing its SKU by 10% and delivering 9 billion CHF of new business. So that's a net number. 10% in bad goods, because as you get rid of SKUs, as you manage your working capital, your inventory's lower, you could reduce the cost of goods that have expired or are damaged, etc.

We have also simplified our legal structures. We have got rid of at least 200 legal entities in the Nestlé world and during the last three years we have divested of 700 million CHF of idle or excess real estate assets.

Our focus continues to leverage skill and scale, to reduce working capital and to deal resolutely with underperformance, including SKU rationalisation.

Slide 13 – Leveraging scale

Now in order to make sure that we maintain progress, leveraging scale by deploying

a host of capabilities, these are just examples of the organisational focus, fully resourced with people and with tools to drive performance - either in terms of executing business strategies, optimising buying or accelerating innovation in the marketplace - all enabled by GLOBE, allowing us greater transparency, leverage and best practices so that we can capture the benefits of scale and skill.

Slide 14 – Global Nestlé Business Services

Another example of trying to drive performance is the creation of Global Nestlé Business Services, and essentially what we're doing here we're taking service bundles - for example, leasing, travelling, and several sorts of services - facility management - creating bundles and then centralising them either on a market by market basis, regionally - or even some globally. There is a three-stage process here to create profitable growth. You get in and you harness all the services in order to take the value out of the low hanging fruits, and then whilst you bundle the services, you try and create, establish and implement best practices to get more sustainable results, thereby freeing our commercial people to focus on driving growth and increased profitability.

Slide 15 – Update on GLOBE

GLOBE: virtually fully implemented and applied across the Nestlé business, moving from “Best in Nestlé” to “Best in Class” via sterner benchmarking and rigorously applying improvements to achieve this objective. Moving from managing by budgets and going back to more dynamic planning, so that we can anticipate the changes that are impacting or influencing the direction of our business. What this does is enable us to act fast with good information and with good results.

Slide 16 – Operational control

Operational control: it's a very broad concept here - how do we use the high quality of our balance sheet? Even after giving up the AAA rating, we are raising credit at costs that are no less favourable than we were experiencing when we had an AAA.

Improving controls so that we can devolve more authority and freedom to act in the local markets, but at the same time have appropriate controls and focus in place in the terms of the deployment of our funds; make sure that investment reaches return hurdles and managing the overall risk in the organisation. GLOBE brings us the transparency and the management of our people in the market to help us deliver the whole concept of improving controls in the organisation.

So as we go forward leveraging best in class and capturing the benefits of skill and scale in a controlled environment, we believe we can continuously improve.

Slide 17 – The Role of Finance

The focus of finance therefore, in summary, is to ensure that our activities, system and our day-to-day efforts are geared toward value creation, to protect the value that we have created and to focus on long-term shareholder returns.

Slide 18 – Differentiating strategies

Therefore when we talk about a performance management cycle, we talk about the implementation of differentiating strategies, implemented in a way that's benchmarked, reflecting best practices. Improve, measure and track, and make sure that there is clear accountability and responsibility for actions and results.

So that's our focus with a very brief review from where we have come. We therefore have the confidence going forward that we can continue to deliver the Nestlé model, the Nestlé performance advantage. Thank you.

Paul Bulcke, Nestlé SA, Chief Executive Officer designate,

Slide 19 & 20 – Logo slide & Introduction

Good morning, ladies and gentlemen. It's a real pleasure to be here for the first time but for many times to come, I hope.

Slide 21 – Agenda

I want to go through with you a very simple and straightforward agenda. I want to recap on the last ten years, a decade - call it the Peter Brabeck era, where we have laid the foundation for what's going to give us nice years to come. Second part I want to go to 2008 specifically and then see how we feel confident in delivering the Nestlé model again. And then go a little time beyond 2008 to see how we identify many, many opportunities for the years to come.

Slide 22 – Nestlé – The Last Ten Years

But first, over the last ten years Nestlé management has been dedicating itself to different dimensions, shaping the company. It has created a unique differentiated company in the industry; that the first thing. Secondly it has transformed the organisation - the way we go about things, quite profoundly. But at the same time it has delivered, year after year, quite strong results, and 2007 is testimony to that again. And by doing so, we have been rewarding the shareholders quite handsomely.

Slide 23 – The transformational opportunity

The transformation of the company is linked to two questions How? and What? First, we defined very clearly what we want to be as a company; and secondly, we identified and structured ourselves for 'how' we wanted to get to this, 'how' we wanted to organise this so that we could deliver the 'what' in a very efficient way. The 'what' is linked with the strategic transformation from an agriculture-driven Food and Beverage company to create the pre-eminent global leader in Nutrition, Health and Wellness.

Slide 24 – Creating....

That is linked with the programmes that have been commented on over the years: the WellNes programme of Nestlé, linked with the tool of 60/40+, which is the soul, the core of our strategy. That is the tool and the mindset that we want to create in the company that is going to deliver us over the whole product portfolio of Nestlé, the broader product portfolio of Nestlé - this vision of Nutrition, Health and Wellness. This is the tool that gives us the preference in our products in taste, flavour, enjoyment - it gives also the plus of an additional nutritional benefit versus competition. By doing that consistently over the whole product portfolio, year after year we have to get to the spot of Nutrition, Health and Wellness.

Nestlé Nutrition as a global managed business, set up over the years and now one year fully operational - is spearheading that strategy, working on these different platforms - Infant Nutrition, Performance Nutrition, Healthcare Nutrition and Weight Management - and as such is leading in science Nestlé towards this vision.

Slide 25 – Transforming

Third part of the transformational strategy was the definition of how we want to go about things in an efficient way. How are we going to leverage our scales and yet maintain our focus and be agile in driving demand? And that is the famous going from the super tanker to this agile fleet of businesses. It is moving from the classical multi-national, that by its size is starting to be dragged backwards, to a group of agile businesses. It is linked to the concept of frontline - backline. The frontline really being focused first and flexible so that it can adapt to the changing world outside, can adapt to competitive action, and yet without losing the benefit of the big scale of Nestlé. And that's how we then link up the front line, thanks to GLOBE, thanks to the Global Business Services, thanks to gluing up the whole organisation, the backline where we can leverage our skills and our scale.

Slide 26 – Delivering ...(The Nestlé Model)

There was a lot of energy going there. These are profound transformations. They needed a lot of resources, management time to think; and yet at the same time we maintained focus and the short-term results, and that led us to be able to deliver the last years the organic growth, year after year, over 5.9% average. That's allowed us to deliver, year after year, EBIT margin improvement of 35 basis points. And it has enabled us to deliver 36 billion CHF cash return to shareholders

Slide 27 – Rewarding

As such, total shareholder return over the last 12 years was over 400%, and I'm proud to say that I see this as quite best in the industry.

Slide 28 – Creating...Transforming...Delivering...Rewarding

We were able to do that, I believe, because we have a very strong, clear strategy, and we have been looking and performing on a higher level. It is now our objective

and our mission to maintain this drive, to continue driving or surfing this wave, to combine the long-term vision and yet with short-term performance. And we want to do that and try to be working towards making Nestlé the reference for the Nutrition, Health and Wellness concept - to stand for that pre-eminently - and the reference for financial performance.

Slide 29– Agenda

Now that's the objective. Each journey starts with the first year. 2008 is the first year, and it has started with quite nice challenges, and some turbulence.

Slide 30 – 2008 Achieving the Nestlé Model despite tough market conditions

And we see the newspapers again full of articles about raw material price increases. Strange to see that in the last few weeks they talk so much about raw material price increases yet it actually started already two or three years ago.

And Nestlé was quite early to identify that. As early as 2005, we were talking about the raw material increases at a much higher level than in the past. We were then able to react and act upon these anticipated raw material cost increases quite early on. Higher impact of energy costs, talk about recession - specifically in the United States, the fall out from the sub prime issue. Lots of turbulence. The one nice thing about it is that it is all equal for all competitors. And I believe that we anticipated quite well, we have plans. Raw material prices are there; we cannot change them. But I believe we have quite strong answers again, so that I can with confidence say that we're going to deliver again in 2008 the Nestlé model expressed in 5 to 6% organic growth, margin increase and capital efficiency.

Slide 31 – 2008 Achieving the Nestlé Model despite tough market conditions

We're going to do that by maintaining our focus on delivering the strategy. We're going to deliver the strategy again - Nutrition, Health and Wellness, I'm going to go into more detail on the billionaire brands. And considering the turbulences at the beginning of this year, execution is going to be key. We're going to have to get there in an accelerated way - very well aligned, behind common operational objectives, and increasing the speed with which we implement our action plans.

Slide 32 – F & B “Billionaire Brands”

Now on the brands, we have about 30 billionaire brands of which you'll see the majority is growing at higher rates than the average of the company. That shows the strength of the brands, that they really can give us higher growth. That also allows us higher margins. On average these brands do have higher margins than the lesser brands, and they have allowed to a certain extent our pricing, in combination with other actions, to neutralise the raw material cost increases.

Slide 33 – 2008 Achieving the Nestlé Model despite tough market conditions

As I said, the key to the whole thing is going to be to be best in execution. I believe we have the right strategies; and success is built upon having the right strategy -

that's 10% of the equation - and the remaining 90% is having very fast and efficient aligned execution behind it. Execution is going to give us the response towards our goals in the short term. If we want to be the reference in financial performance, we have to drive in a much more disciplined way our performance and our execution.

Slide 34 –Speed and Discipline driving financial performance

This is what worked in Zone Americas when I was responsible for it. What we did there was to focus all the best resources behind the businesses that were doing well. What is doing well has to be cared for so that you can drive it to higher performance. At the same time you have to ask the question - what business is underperforming? We then set up a plan with timetables, yardsticks, milestones, to get back on performance. We gave that time but with a lot of discipline - and we weeded out what didn't work. Same thing on SKUs. SKUs - the 80:20 rule goes for SKUs too. 20% on the SKUs is driving 80% of the value. Now everybody knows you have to drive the discipline to check the SKUs again and weed them out. Jim mentioned that last year we weeded out 10% of the SKUs globally, and I believe there are still a few SKUs that we can take out. The complexity of inactive or no-value SKUs is exponential in a company like ours. So driving out these 'dragers' from the company is helping us to stay lean and fit, and to create higher growth for the businesses that work.

Another dimension is overheads. We have good growth, so we can make our structure comparatively leaner. We have to go after costs that don't deliver, and there are lots of things to do; you're going to see how we're going to go about this too. Capital efficiency definitely, so that we can generate the funds to fuel the future for profits and growth. Through putting the money behind the big brands, fuel our R&D and fuel our objectives of margin improvement. The key word here is acceleration. I believe that speed is a competitive advantage. I believe that we have the right mindset, we have the right structures, we have the right vision and direction. The difference is going to be how fast we go and grab the opportunities.

Slide 35 –Building a competitive platform from which to achieve margin improvement

What helped us over the years to get leaner, faster, more focused was a programme of centre-driven cost initiatives; MH97, Target 2004 and. Operational Excellence was the latest one. These were time temporary mode projects. We want to move them into a continuous permanent mode. We want to drive this concept of lean thinking through the whole organisation so that all levels, down to the lowest levels, can own the mindset of going after waste, so that we have a structure that is deeply efficient and not only driven by projects where you chase - like pushing water and the water comes back whenever you turn your shoulder.

This is a new approach; it is linked with culture and we call it the Nestlé Continuous Excellence.

Slide 36 –From centre-driven initiatives

You see the projects we had in the past which I have already mentioned. We went

from operations, factory specific; we opened up with best practices driven also by GLOBE; we used KPIs in the second stage. We went and opened that up to supply chain in the last three years, grabbing an average of 1 billion plus savings a year..

Slide 37 – ...to a sustainable, attitude-inspired drive for excellence

That is a very complex programme. It's not a one-year programme. Now we want to have, not a project, but the start of a platform of permanent, Continuous Nestlé Excellence

Slide 38 –Speed and Discipline driving financial performance

Quite a lot of work has already begun up front and it is led by José Lopez, our general manager for operations. It is focused on three Cs to make it simple to retain. It has to build competitive advantages. The whole concept is not any more just to go for filling gaps; first against the best in Nestlé and then against the best in the world. It is creating gaps, creating with this system permanent, continuous competitive advantages.

So it delivers firstly a competitive advantage. Secondly, it is driven by the consumer. We turned the whole system 180° from a push system, pushing through raw materials production, stocks and products towards the consumer and try to balance it out. We go from the consumer demand and plan backwards. It is a totally different mindset and it is linked with the consumer - the second C.

The third C is compliance. Compliance is key because it is linked with trust - trust from the consumer, trust from our stakeholders. And this is a non-negotiable dimension. The whole programme has to consider the third C, the compliance. And that in a sustainable way and not driven by top down project management style, but by people owning it.

We want to achieve this with focus in two specific blocks, the first one being the Performance Improvement, specifically going for savings, performance increases and efficiencies. The second block, the yellow one on the slide, is culture. This is how we want to structure our organisation, how we're going to structure our shop floor in the factories, and also how do we - as we want to push this down the organisation - go for the leadership to drive this? We need a very strong and a very low-level leadership in this company to drive that on a permanent base. That is linked with skill building, capability building and specifically values and culture.

Slide 39 – Continuous Excellence across the whole value chain

The first block was the performance improvement. You see here two dimensions – horizontally, through the Value Stream Optimisation (VSO) you want really to focus on the consumer and optimise the flow from supplier to consumer. This is linked with - how we are going to organise with our suppliers; supplier efficiencies, but also - how we are going to increase our relationship with the trade and how we are going to anticipate better the demand and understanding of the consumer. This is a very integrated, open supply chain optimisation programme. We feel suppliers,

customers, they're open to that, so it is now the right time to do that.

And then vertically, where we have been working already in the past, in the previous projects, is the Total Performance Management (TPM) But you see we're moving from best in Nestlé or best in the world to zero. The yardstick is not - how do we do versus the best one? The yardstick is - how far are we from optimum? And that's going to drive quite a lot of different thinking - call it lean thinking. That's where we declare the war against waste.

Slide 40 – Pilot results show scale of opportunity

We have done several pilots; we have prepared; we have been building with some specific leaders in specific factories and operations in different countries, the different elements of the system. And it's amazing - and this is just a few examples - that when you talk about zero as a yardstick - zero waste - it's amazing when you set that mindset, the savings you can generate. And this is just a few examples, in a few of these pilots, of the possible reductions that you can get. If you translate that into the whole structure of Nestlé, we can talk about nice percentages of efficiency improvements.

Slide 41 – Operational efficiencies provide a competitive base for margin improvement.

So we have been proving that we can drive project driven efficiencies. Now we have to bring it to a new level, combining all which we have at our disposal - the best practices that we have identified, driving the learnings of the pilots, integrating the supply chain, that we have to do still. And GLOBE is an enabler that allows us to do this.

Slide 42 – Discipline enhanced by GLOBE

It is thanks to GLOBE that we have this enhanced demand focused structure where we can have the real time monitoring of all possible indicators in our company. We have the transparency now and we have the flexibility to organise differently around different issues

Another point is the mentality. I mentioned already a few words - the attitude and the responsibility that we have to create, push down, as much as possible, the responsibility of the business towards the people who are close to the reality and who can act more meaningfully on their environment. This is linked with culture; this is linked also with a certain sense of urgency that we have to cultivate - or increase in our company. This has to do with speed; this has to do with acceleration.

Slide 43 – 2008 Achieving the Nestlé Model despite tough market conditions

By doing all these things we focus still on driving the business.

Slide 44 – 2008 Management priorities - Driving financial performance

This is in parallel, and as I mentioned before, we will focus on the same Nestlé

model for 2008 - an organic growth of 5 to 6%, an increase in EBIT margin on constant currency, a reduced working capital and in general more improved capital efficiency. Some specific priorities for the year: I believe the generating demand I mentioned is something that we have to have high on all operational agendas. Improve also the return on trade spend. Where we can build in some efficiencies. The operational Nestlé continuous programme is clearly on our operational list to start in 2008, and also the war against waste and structural costs; in other words to reduce our overheads.

Slide 45– 2008 Agenda

Now that is for 2008. Many things to do; many opportunities; many challenges; many competitive advantages. And yet again the promise to deliver the Nestlé model.

Slide 46 – Beyond 2008: Nestlé is opportunity rich

Beyond 2008, there is one key word - opportunities. I see the opportunities because I see four very strong competitive advantages in Nestlé. There are four growth areas that we have identified and that we're going to focus on, to work specifically in more depth. And I confirm again all these initiatives to get alignment operationally in an organisation like ours, that has its complexity, we're going to continue working with the famous four pillar model that helps to bundle all these activities and makes that crystal clear to the whole organisation - in other words it gets you clear alignment of action.

Slide 47– Beyond 2008: Four competitive advantages

Then we go first to the competitive advantages. They're very simple and yet very strong. Nestlé has a unique product and brand portfolio that can bring us to the Nestlé vision of Nutrition, Health and Wellness. Nestlé is the only company that has a portfolio with strong brands of products being part of people's life from the morning to the evening, from birth to death. No other company can really claim to have that spread of products.

The second one - Nestlé has a leading R&D platform - a leading R&D capability - and I'm going to go in slightly more detail there - a very strong base to create a future. The third one is all geographic spread. Nestlé is truly a multinational. It's many, many years that we are in developing countries, that we have over time constructed an industrial platform, commercial relations and infrastructures, etc., etc., that with experience now can reap the opportunities that I believe are now presenting themselves in the developing world. The developing world is developing faster than we may think, and is getting more affluent. We have the structure - and more importantly we have the management with understanding. We have prepared local management over the years, with an understanding of the consumer and the opportunities, to be in a position to reap the benefits of the huge increase in purchasing power in these countries.

And then we have the third one, and I think the most important one - people. We have a culture which is quite unique, that is linked with pragmatism, authenticity,

hard work, simplicity, quality - that is going to help us to drive through all these opportunities in the future. That's our pride that our people are loyal and motivated to work, and love to hear about the opportunities.

Slide 48 – Consumer Benefit Areas

I want to go into more detail about the R&D - just two charts. R&D is a very complex area. There's creativity in there and there's complexity. We have to link better all that we have there with what is meaningful to consumers, and we are realigning all the energy, all the initiatives, all the thinking behind eight specific consumer benefits. You see them there (on the slide); I don't want to go through them. But you have the protection, you have the performance. These are perceived, understandable consumer benefits where we're going to put all the R&D efforts behind so that we have again alignment. Alignment means efficiency means effectiveness, so that we can increase our return on R&D investment.

Slide 49 – Benefits of open innovation platform plus CHF 1.9 billion R&D spend

You see for that we have a very open platform - thousands of people working in R&D dimension. If we extend it to the technology centres, it's even more. We have a very fuelled bi-plane of new products, and ideas. It is increasingly science driven - science driven with meaningful consumer proposals and propositions means more value-added, means more margin. And we are starting also in a much more pronounced way with an open, a bespoke model so that we can benefit and also stay tuned with what is open and happening there in the world.

Slide 50 – Unmatched geographic presence

I mentioned also that a geographical spread has one very strong competitive advantage. We have a strong and deep presence and you see here the developing world for Nestlé is 34% of our sales. I believe that can go up in the next 10 years to 44%, increase by 10% , because the population is growing faster there. The developing world is developing, is getting more affluent. That's for the four competitive advantages.

Slide 51 – Beyond 2008 – The Four growth areas

Four growth areas where we want to focus on. It is clear that if you have a vision like Nutrition Health and Wellness it is going to be one of the focus areas. I mentioned that already, linked it to 60/40+, the Wellness programme. And more specifically the Nestlé Nutrition business division That is driving growth also for our global company, that is the commitment of Richard Laube, with 10% growth aiming to get as soon as possible to the 20% bottom line. That is a commitment and it is visible, so we can really monitor that to see if we stay on track. Very strong growth coming out of there, and value.

The second one emerging markets, it is very clear after what I told you about the developing markets. We call it our Popular Positioned Products system. It is an integrated system and I want to spend some time on that later.

Our leadership in “out of home”, more and more money, more and more nutritional value is created outside the homes. North America is a very clear example. A huge opportunity, very complex, a very diversified market, you have to find a focussed, aligned way to go about the few very strong potential pockets of that, what's what we want to do with Nestlé Professional that is now really in the making. And then premiumisation, equals growth, equals margin.

Slide 52– Demographics: A \$240 billion opportunity

This chart is very complex but it contains it all. In this chart you see on the horizontal line, the walk of the consumer towards more affluence, more disposal income. On the left hand corner that is where it all starts. That's where we focus our PPP (Popularly Positioned Products) programme and we identified, just to have a figure there, over 70 billion of opportunity over time.

In the middle we have the core of the business 60/40 Plus, it is driving Nutrition towards our core business, the broader sense of what we are. And when you go then higher up people start to have more premiumisation, they have more money, they spend more on Nestlé Nutrition and other valued products and they go out and eat more out of home, Nestlé Professional. We consider that, in the categories we are operating in, as a 170 billion opportunity.

Slide 53 –Grow in emerging markets

Now, the first one is the growing emerging markets. I mentioned already our strength in these markets. We are talking about quite big opportunities. You see in the ten emerging markets that we have considered there a CHF1.3 trillion are spent on food. The Nestlé Nutrition, the PPP initiative is linked with a totally integrated business model. It is not about cheap products, it is about affordable nutritional products. .

Slide 54– Emerging markets and PPP – A \$70 billion opportunity

So it is a definition specifically to these kinds of the populations, where the emerging consumer starts to fade in, to have the right products linked with their specific nutritional needs. To have the right production set up so that we can build in flexibility and also be close to the consumer. It has to be a built up with a distribution system, then it is adapted to the distribution and to the points of sales where these consumers are buying their products. And it has to do with setting up a specific marketing programme because these consumers react on other impulses to those we are used to seeing in the developed world.

So there is a total business model, that if you can do that efficiently you really build in competitive advantage long term.

In these countries we have already a very strong image. Nestlé is very, very well presented and felt in the minds of the consumers in these countries. That is a competitive advantage that we have to leverage.

Slide 55 – Moving up on the escalator: World population by income bracket – 1995-2005-2015

Now going up you see here how the moves are projected to go from the different incomes classes and spending power classes. You see that the higher incomes, in general you take it from the 5000 to 13,000 equivalent purchasing power, upwards are growing the fastest.

Slide 56 – Premiumisation

And that's why we believe Premiumisation, the added value and the double added value products have a very bright future. And that is where we work with our premiumisation or luxury. We have very nice examples and the best one we have and are very proud of is Nespresso. It's a really luxurious, totally integrated business proposal that gives high growth and high margin.

But we have other examples closer to our core business like the Mövenpick initiative that is delivering a nice growth in Europe. We have the Beneful concept, which is a super premium product and a total pet food offering, creating lots of growth. This brand didn't exist five or six years ago, it is now a 500 million brand and super premium. So all examples showing that there is traction behind premiumisation but you have to have a special mindset and a special organisation to go about that.

Slide 57 – Beyond 2008: The Four Pillar Strategy

The two other growth platforms are linked with our operational four pillars. I recall them - the four pillars are how we want to organise ourselves internally so that we get alignment and we see through all the different initiatives we have. We align them behind four pillars that are supporting our targets, call it the Nestlé Model. That is to have focus on Operational Efficiency, that is to - and I think the most important one, to maintain the drive of Innovation and Renovation, it is to Communicate very efficiently with the consumer and it is Whenever, Wherever, However, in other words make sure that our products are where the consumers is looking for them.

Slide 58 – Out of home (OOH) A growing trend & a \$400 billion market

And with this last pillar - are linked two growth platforms we're going to focus on in the future. I mentioned already food service, food service due to the shifts in spending from in home to out of home, consumers are getting more affluent, that fact that in the US, and partly in Europe, consumption of the food spend is more or less 30 to 50% out of home. The biggest part of value creation on top of raw material is in out of home. There we think there are huge opportunities.

With our 6 billion of turnover in that field specifically we are already the biggest player. And yet if we define the two pillars we want to work on, Beverage and Food, where our potential is, this is a 400 billion potential. It is a very itemised world out there and yet we are seeing growing global operators looking for partners to work with on a worldwide basis. We believe that we are an idea partner to do this and to

reap these opportunities.

These partners also, are increasingly focussed on Nutrition, Health and Wellness, yet another reason for building Nestlé into their system.

Slide 59 – Nestlé Professional

We want to focus as I mentioned on two parts, The first one is to be the global leader in branded hot and cold non-carbonated beverages. We have the brands, beverages and solutions. We have the brands and we have now also the blocks of machine product propositions to go much more efficiently to the food service operators.

The other one is regional and local food solutions, customised, we can do that because of the flexibility we have built in our system. So Marc Cairra is working on setting that up, this year he has operational responsibility already. As from next year he has the total full P&L responsibility of that. It is a five to six billion business. And the objective there is to more than double that in the next years.

Slide 60 – Grow with our Top 10 Customers

Another huge opportunity is how we link up with the customers, the modern trade. The modern trade has increased over the last years 41%, in the last five to six years. We with them have increased slightly above that with 44%.

Slide 61 – Top 10 forecast their growth to be 57% between '06 and '12

If we go on what they project as a growth of 57% in the next five years or six years, if we just go along with that growth, that is for us ten billion sales additionally.

Slide 62 – Top 10 forecast their growth to be 57% between '06 and '12

Now, if we do better with them and I believe there is a huge opportunity in developing much better, in a much stronger collaborative way our relationship with these modern trade customers. Then we can reap much more than that. And it goes through customer development, it goes through collaborative planning, it goes through category management. And we have nice examples in different parts of the world where we see that, with good working together, we can reap much more value creation with much more benefit.

We feel, specifically in Europe, the atmosphere is much more positive to do that. And it is one of our key objectives to get it done.

Slide 63– Summary

So in summary, as I mentioned at the beginning we want to be the reference, we want to be the Nutrition, Health and Wellness company, not by saying it ourselves but in the minds of the consumer and all stakeholders. We want to be the reference also for financial performance.

Slide 64 – Beyond 2008: Building on momentum to drive performance

It is our winning strategy towards Nutrition Health and Wellness, science driven, value added driven, business platforms.

It is linked with how we want to get there, the transformation; how we link up efficient front lines where people are focussed, understanding their business and very agile in adapting it and reaping the opportunities, and yet scaling up in the back line so that we can take also the benefits out of our scale that we have.

We have GLOBE cementing and allowing all these different angles to organise ourselves behind the businesses, its a formidable amazing platform, flexible, transparent. And we want to do that with a mindset that is linked with a sense of urgency. In other words speed is of the essence and acceleration is what we're going to do. So in other words we're here to commit ourselves to deliver again the Nestlé Model, which is very simple top line, bottom line growth and capital efficiency.

Slide 65– The Nestlé Investment Proposition “The Nestlé Model”

So with that my last chart, with a promise. I thank you for your attention and now we are open for all questions and answers.

Questions from London Roadshow, February 26, 2008.

**Questions on; Attitudes of top ten customers to private label with rising input costs
Developments in emerging markets**

Chris Wickham, Main First

Just two questions, one I was wondering if you could comment on the attitude of your top ten customers towards private label and generics in the light of rapidly rising input costs? And whether there is any extent to which they're eschewing that side in favour of their more trusted brand providers? And I was wondering perhaps on the subject of emerging markets whether there has just been a little bit of a wobble in investor confidence - what you can say to us about purchasing power, about economic resilience in those developing and emerging markets? Or whether there is likely to be any problem that you'll encounter or any head winds from the economy and rising food costs in those markets?

Paul Bulcke

The first question, the top ten customers, rising food costs of private label. Private labels are there. When raw material cost increases private label normally have less of buffer for these raw materials than we have. As we are moving in the mix towards more margin enhancing products - the incidence of raw material in our pricing is lower than in private label. In other words the raw material increases for private label

is clear, one to one than for us. Yet you have a point though that people are sensitive to price increases, and so the lower price products becomes more of an attraction to a certain extent. So that one goes against the other.

I don't believe there's going to be a major shift towards private label per se because of raw material increases if we don't overdo it by increasing our brands too much. So with raw material price increases if we say we have strong brands which allow us to increase prices it has to be combined with other actions.

We saw raw material increases, already two or three years ago, we started to increase prices early on, so that you can smooth this out, you can fight it out over time and you don't have to do it in a reactive form. That's one thing. Second, you start then also to manage your raw material purchasing and suppliers - call it hedging, you start to plan that with the hypothesis you have of how these raw material prices are going to behave in the future. This is always quite speculative.

Secondly, you start to drive faster your saving programmes. So there you take out the waste. It's quite a strong motivation to align your organisation, when the raw material price is going up, it is clear that things have to be done and that is linked with our projects that we had. There are also possibly reformulations that you can do, although raw materials overall are increasing. And then on top of that you have to secure your margin and you increase your prices, but not one to one on the raw material prices because of the other steps you have taken before. So in that sense I believe we have more reaction power towards raw materials than private label. So that would be my answer there.

I believe that by our strategy, moving towards more added value products etc, etc, our portfolio today is less exposed to private label than it was ten years ago through; our innovation renovation and added value products. Just think about the increased part of our Nestlé Nutrition in our company, there are not so many private labels there.

So that is the first. The emerging market - well they're going to suffer too, you say they are emerging, there is a recession looming, there is also the raw material price increases it's hurting also the lower, possibly even more so, the lower income. Though on the other side the lower incomes in these markets are pretty much linked also with these raw material prices. So there is more possible income in these countries for the coffee, grain or milk farmers, or the grain farmers. We have a very substantial fresh milk intake in these countries, if the milk prices go up, these people have higher incomes.

I believe also that the acceleration of these markets and development is getting more and more traction. So there is going to be a little bit of head wind with these raw material costs and pricing for their disposable income. But in these countries such as China or Africa, in Africa we have very interesting growth. These countries were so low and yet with globalisation have such a potential despite these raw materials - that we sense here in the West much more and we talk much more and we're pushing them to higher levels much more through our bio fuel thinking. They live much more simply and they don't have as many problems as we have in these areas. So I'm very happy for the emerging markets, they're going to grow further.

You have seen also the numbers, so they are going to grow in number and they are going to grow in purchasing power.

James Singh

The data we have on emerging markets is that the food consumption will remain very high relative to the developed markets. The BRIC countries for example, food consumption was about 8 to 9% last year and the most recent surveys indicate that it will be within that same band in 2008. So we don't see any material risks developing with the emerging markets, or related to the emerging markets.

Questions on Gross margin indications for 2008 KitKat brand in the US
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James Edwards-Jones, Execution,

Two questions again if I may. First, your gross margin was down about 120 basis points in the second half last year, is that a reasonable indication for the first half of 2008? And secondly there has been another burst of speculation about Cadbury and Hershey getting together. Can you confirm the circumstances under which KitKat in the US would revert to Nestlé and at what price that would happen?

James Singh:

If you look at the line by line item, yes the gross margin was lower in the second half than in the first half, which we has said in the first half results that there were some benefits from the head winds. The benefits of taking price increase in a timely way relative to the emergence of the commodity costs. But during the course of the last half we continued to take price increases gradually including the month of December, so this year coming in we're going to have the benefit of higher pricing to deal with the raw material cost that emerged, or reached a peak in the second half.

So relative to the first half performance last year I would say that our margins in the first half of 2008 will be slightly lower than our margins in the first half of 2007. However, I think what you have to look at is how we're managing the company, because we do not only depend on pricing to deal with cost pressures. We look at all areas of the operation, especially leveraging the scale benefits from growth rates that we have experienced last year to be able to deliver improvement to the bottom line.

On the Cadbury Hershey situation I can't speak for what's happening there. But we have always made it very clear that whatever happens to Hershey our ambition is to get back our KitKat brand.

Roddy Child-Villiers:

Just to clarify, the margin comment - gross margin. Okay, gross margin not EBIT margin.

Questions on; Returns on trade spend Cash conversion cycle

Michael Steib, Morgan Stanley,

I have two questions also. The first is you mentioned that in 2008 one of your priorities would be to improve your returns on trade spend. Could you please give us a bit more detail on that? Could you give us some examples perhaps of what your initiatives are? And then secondly on the cash conversion cycle, you had a big improvement in '07, do you see further opportunities to take that lower?

Paul Bulcke

On the return on trade spend, it is not just sitting there with the customers saying we're going to spend less with you, it is a return on trade spend. It means we want to get more money or return, to enjoy more the money we spend with the trade. Now that's easy said you know that. I want to use a few examples of what we have been doing - what I know very well in the zone Americas where we have reduced, on sales, the percentage of trade spend.

There are several things that you can do there. First of all - I call it Open Book trade terms. You have many trade terms that are in the total - that are totally rational, call it centralised warehousing, deliveries, transport, these things you can measure. You take them out; this is not the year end arm-twisting discussion we should have there. This is people sitting together doing mathematics.

So it's easy said, but you can really go to that. You isolate out of a commercial discussion the elements of the trade spend that are not really commercial and are more cost or supply chain cost linked.

Secondly - and that we have done in the United States, we were looking after each promotion we do and seeing what is efficient and what is not, efficient for the two parties. So you have to have a collaborative mindset to go about this. You look in every promotion what did it deliver? How much stock was idle, when promotion was on and when not, that's promotional towards the consumer. If you do that with a lot of discipline and an open mindset you can drive out a dramatic dimension of trade spend. And they allow you to do it because your efficiency of the promotion - also for the customer, is going up dramatically.

Then you have other dimensions in the sense of when you go into an added value mode of innovation renovation you can build then sound trade spend practices in different business models. Like if you have - and I don't know specifically in the UK, but you have new businesses like Dolce Gusto and you try to build then upfront good practice. Second, another dimension is when you have up front for everybody, 5% trade spend, and that happens. You adjust it down - it's very hard but you sit down will all the customers and say this is totally irrelevant, give it to everybody. That is what we have done in the time that I was in the Czech Republic, we really went to all customers and we took out 5% because everybody got them, we are not differential. And they were disturbing a lot of kinds of actions.

So these are the things that we are doing to control our trade spend better, to leverage them in the sense that they are more meaningful.

In Latin America we have in general, for example less trade spend. We are much more geared towards the traditional trade, traditional trade doesn't have these high trade spends. Now a good thing is not to lower them but to not make them high in the first place. So we are trying to have and maintain good practice, open book policies in these parts of the world where we have them low and we don't have the virus of them going up - and totally irrelevant going up because you give it to all of them.

So then another dimension is DSD, direct store delivery. If you have more of that in your own hands you can maintain good best practice there too.

So when I speak about collaborative action with the customers and the modern trade that normally tends to have lower non-productive trade spend.

On the cash conversion cycle?

James Singh:

We presented to you a reduction in the cash conversion cycle from 40 days to 34 days/33 days, without the recent acquisition of Gerber and the Novartis Medical Nutrition. If you add the impact of that business, because they are different channels they have different terms, then the reduction is reduced from about 6 to 7 days to about 3 days.

So when you analyse that you're likely to see the cash conversion cycle go up a little next year. But I believe that it will not be the entire 3 or 4 days, it will be less because we continue to drive working capital down and be a lot more active in collecting our receivables.

<p>Questions on; Working capital improvement Nespresso in North America</p>
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Simon Marshall-Lockyer, Bear Stearns:

On the working capital run rate to sales you showed a ten basis point improvement last year, which was maybe a bit less than you'd been showing actually the previous years, certainly in the trend. If you adjusted for a normalised input price trend how much would you say that working capital run rate would have improved? Can you give us some sense of that? How much of that working capital improvement would have been bettered had you not had the input price head wind, can you give us a sense of that?

James Singh:

Well what you see in the published accounts are end to end points. So I don't think it would be helpful for us to get into the layers of analysis. Our focus is reducing the working capital relative to the sales. And that's the focus. So one would have

imagined with the high cost of commodities, your raw material inventory will go up, your finished goods inventory will go up, your receivables will go up. But in 2007 the absolute came down. So I think that is where we want to focus. We want to give our people in the market the ability to balance the elements of working capital, but in the end drive it down and improve the cash conversions.

Simon Marshall-Lockyer:

Can I have just a follow up question on Nespresso? You had 40% growth last year; most of the business is still European driven despite the significant platforms you're putting in place in North America and the UK. Can you give us a sense of how the development particularly of the North American market is going and what your ambitions are there for Nespresso? Thank you.

Paul Bulcke:

Well our ambition, we have a big ambition with Nespresso. And there is one condition though, this is a model that has to be maintained and cared about as a model. That is luxury, luxury is not a mass distribution product. So when you go into a market and we have been going and we go more to cities than to countries. We went into Sao Paulo, you have to have people in place who went through let's call it the Nespresso University, they really understand and maintain the whole model.

So it's not a matter of going fast and growing, we could grow faster short term and by doing so we kill the system. We kill the quality; we kill the personality of the system. So you have to go very, very cautiously about this. And yet to in spite of that we have quite interesting growth.

So you have to prepare people, you have to prepare the system, you have to have the distribution, you have to have the production capability too and we are investing in a new factory to have the production capability of this product and the capsules.

You have different attitudes, it is true that luxury has always to live a little bit on frustration. You go and we travel a lot and every city where you go they say "Why is it that we don't have Nespresso here?" And it's frustrating because you feel there is an opportunity and yet this is part of the model. It is quite exclusive. So once again in summary we have to have the system, the culture, the quality, the delivering system in place and then you do that step by step.

If you go to North America and in North America people behave differently. We calculate always and where we go we calculate what is the potential of machine placement, or purchasing, and what is the dimension of capsules per day per machine. And in North America you have to look city by city and you do have very different behaviours per city. In certain cities they are very good at buying machines and they never use them. So you have to watch out, that is not our model.

So 40% growth is not bad and it's stretching our capabilities of preparing people for the whole thing. If we have to have a trade off we go for the quality and the model versus the growth.

Questions on; Mergers and Acquisitions
Business logic of acquiring KitKat brand in US
Options for cash, should Alcon or L'Oréal be monetised

Participant

Three quick questions if I may. Firstly on M&A, do you - both of you or either of you believe there are sort of any major, or transformational, above ten billion deals, to be done for Nestlé in the future? The second question is what is the business logic of getting hold of KitKat again in the US, rather than an issue of pride? And the third question is if one day which Nestlé have said is a possibility, you were to monetise either of your stakes what are the options for the cash?

Paul Bulcke:

Well major ten billion deals; actually Jim can talk about these things. But that is a strategic question. What we have said is that the first priority is growth out of what we have. We have now 100 plus in Food and Beverage business, that's quite a good platform, quite a lot of categories that we're in. We are well set up, we have leadership positions, strong brands, make them grow, our first priority by far.

There is always opportunities that's why conceptually we are still open, when we see the opportunities. We have two billion per year for bolt-on acquisitions, that's how we set it up. So in other words on your question, do we have a ten billion acquisition in sight? I would say no. But we're open always, but no.

The second, the business logic about KitKat, there is quite a strong business logic. It is our brand, it is our brand worldwide, it's the biggest individual brand in the Confectionary business worldwide. There is one spot in the world where we have, through licensing, this brand managed by somebody else. Now, at the other end we know that we have a business in the United States that is linked with 10% of market share. We're the third player there, two big ones, and that's quite heavy to work with. So if we could have KitKat that would help us along the way.

So we have something which is principle, it's our brand; we want to care for it worldwide. Is there something of pride in it? Yes. But on the other side it makes a very, very strong business logic to have it, so that we can leverage our scale also in the United States in the Confectionary.

And then about the stakes and what we're going to do and all, I'm going to be very blunt there. I think there is quite a lot of talking and turbulence about this all. I think Peter has said what he had to say, it was very clear. So this is a board decision, it's not my decision or Peter's decision. This is a board decision. And whatever we're going to do is going to be in the interest of all stakeholders and I would leave it there.

Question on; Guidance for Input cost inflation

David Hayes, Lehman Brothers.

Can I just clarify the guidance for the input cost inflation? I think Mr Brabeck

suggested that in the second half of the year at current level there is potentially the opportunity of deflation in input costs. And I think in the other conference call, Jim I think you said that the guidance is very similar in absolute terms about CHF 2.4 billion are those comments connected, should we assume the phasing is that much skewed towards the first half that in fact it could be flat to potentially slightly down on the input cost side in the second half? Thanks very much.

James Singh:

I think you're right, the phasing - because remember we said last year that two thirds of the cost pressure will face us in the second half. And we see that actually happened. If you look at the Nestlé commodity basket the Dairy and Dairy ingredients represent around 40 to 45% of the total basket. And therefore most of the impact in 2007 really related to the Dairy cost and that will continue at least in the first half of 2008.

The other part of the basket related to commodities, we have been managing spikes over the last many, many years. We know how to deal with you know frost in Brazil and issues surrounding that. We know how to manage with cocoa costs, because of problems in Africa. So the Dairy was more or less a phenomena cost increase which we have been able to manage, I would say, reasonably well in 2007 and we intend to do that again in 2008.

Now I'd like to say if you go back to the Nestlé basket of commodities and you rebase to 1998, which is usually what the agricultural economists have done recently. The Nestlé basket of commodities, the cost did not get back to the 1998 level until the first half of 2006. So yes we're seeing a massive spike now, but really we have had the benefits, not only us, the industry has had the benefits of low commodity costs for a long time. And I think we're well positioned, based on our knowledge of what's happening with respect to the harvest, the availability of products in a normal course I think we have put in place the necessary purchasing actions to manage the situation.

So what we said in the conference call is right but it's more heavily weighted towards the first half. It is going to taper down, we believe, in the second half.

David Hayes, Lehman Brothers

So potentially flat in the second half, I mean obviously there are lots of things that can change in the meantime, but that wouldn't be unrealistic to assume that?

James Singh:

Well you know we wouldn't say flat, we would say that the impact would be more in the first half than the second half.

Roddy Child-Villiers:

Peter was talking about the trend of the basket; Jim was talking about the impact on the P&L. So I mean one is the market trend and one is the P&L impact.

<p>Questions on; Hard discounters Nestlé Real Estate Coffee and Confectionary in the UK</p>
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Warren Ackerman, Dresdner Kleinwort

Three questions, the first one is about hard discounters, I remember a couple of years ago sat here you told us that hard discounters were a big opportunity, especially in Europe. I was wondering whether you can clarify how big hard discounters are for you? How you're performing with those hard discounters? And whether or not you can get margins applicable to other multiple retailers with the hard discounters?

And the second one is on the real estate. I think you said in the presentation that you'd unlocked CHF 700 million of value from that. Can you clarify whether that's still something that could be a value creator going forward? And then just finally, I think Roddy that you said we had the UK management team here, I was wondering if they could perhaps comment on the key trends in the UK on Coffee and Confectionary? Thanks.

Paul Bulcke:

On the first question the hard discounters. We're not going to disclose details about margins specifically with customers and all that. But the fact is I was responsible for Nestlé in Germany so I have crossed with them sometimes.

Previously we excluded the hard discounters, with their bidding mentality, from our landscape, thinking if we don't see them they don't hurt. Now if they start to be 30/40% of the whole retail, by doing this you just exclude 30% of your landscape, and say I am going to go for the 60%, I am happy with that. And that is a little bit stupid if you can find the right way to go for products with the hard discounters. There are hard discounters like Lidl's, they are working with brands. So you don't produce private label for them, that's something that we in principle don't do. But you try to be with them through the leading brands, normally what they do is to have the brand leader and then they have their own - so by focussing on big brands also you create more potential to work with hard discounters. And the hard discounters also felt that by moving out of Germany and into other countries, they have to establish their brand, they use your brand to get established. But that is an opportunity for you.

So all these combinations, all this thinking has led us to in the last year to re-engage much more dramatically with the hard discounters. And I must say it was a good move, if you have a strong brand and if you have good margins on top of a very efficient cost structure, and that is a condition. Sometimes in the branded business, people think that because of the brand they can cover every inefficiency in the price. Now that you cannot do. So what you have to do is to set up a very, very, efficient production system, take out all the additional costs that you don't need and really go very lean with these kinds of products, and that is the product you sell there. And you can have a higher margin because you have a brand. So it is working, not easy

though, but it is working and these are quite interesting volumes.

What you do have with hard discounters too is because they are hard discounters they drive out all possible costs out of their upstream value chain. You are also part of this and so that helps your margin too. There is no high/low, that is always driven by promotions, there are full load trucks, etc. So you can drive out costs.

Discounters, hard discounters re-engaged a few years ago, doing well for us, nice growth, and good margins.

Now the real estate, if you can take that Jim and then Alastair you are going to talk about the UK?

James Singh:

On the real estate over the last three and a half years or so, I don't know if Warren you can remember, Wolfgang making a commitment that we were going to focus on getting rid of idle real estate assets. And at that time we did set the objective of CHF 700 million, well we have achieved that over the years by going through the markets all over the world, getting rid of excess real estate that we had. And you know in some areas of the world we have a factory - we went and we bought all the land around the factory that you can see. But today it is more trying to bring some capital discipline to how we use our assets and we were able to do that.

Now I think it's opportune because quite a few of the real estate transaction we did right here in the UK. I think Paul may want to tell you but one we did a couple of days ago right?

Paul Bulcke:

So Alastair Sykes please?

Alastair Sykes, Nestlé UK, Chairman and Chief Executive Officer

Maybe I'll start by talking a little bit about Coffee and then hand over to my Confectionary expert on my right to talk about the Confectionary business.

Within the Coffee business in the UK our Nescafe business we're very, strong. We have a share of the market which moves between 58.5/59%. The Coffee market itself is growing in value, in cups it's marginally declining. But there are huge changes going on within the market. A very pronounced move to speciality coffees like cappuccinos, lattes where we're very strong indeed and getting stronger. And also in areas like decaff and half-caff as people become conscious of not wanting to take too much caffeine in during the day. And our Coffee business basically gets stronger and stronger, we're very pleased with the progress, not just last year but over the last five years.

We also introduced last year our own machine into the market, the Dolce Gusto system and in the space of 12 months we managed to achieve number two in the market place. And that system is going very well.

It's a little tougher for us in the UK than it is in other Western European markets because trying to move the British consumer away from the kettle is quite a challenge for us. But that's the marketing challenge and we seem to be winning.

I should also say that within the UK market there are huge opportunities in the out of home market for Coffee. Our share of catering coffee is now somewhere over 80%. But we still have huge opportunities with machines, and vending which we're taking advantage of. So Coffee overall looking extremely strong. Confectionary Paul?

Paul Grimwood, Nestlé UK, Head of Confectionary

Thanks Alastair, the overall Confectionary market actually grew probably for the first time in a long time. It's a fairly mature market place, fairly flat over the past ten years. We saw however due to the appalling summer that we had here it was absolutely brilliant for us, we saw a market growth of about 5.5%.

We are at Nestlé Rowntree going through a three year Fit for the Future programme. We've just concluded our second year. And I'm please to say that we've made - we actually held our share last year, which actually is a performance that we're delighted with on the basis that we did it with only 40% of the range that we had two years ago. So we're actually getting a better rate of sale per SKU that we actually stock and therefore that's improving factory efficiencies and also the efficiencies within our organisation.

So we've been able to make good profit progress in year one and year two. As Jim was reminding me we're now in line with Food and Beverage margins and hopefully the Fit for the Future programme and restructuring which we - we have just basically signed provisional contracts for the redevelopment of our site, will add even more financial benefit to our business in 2008 and 2009.

One other thing that I would say with the new York restructuring, it's very significant restructuring but it's not just about buildings. We concluded last week full renegotiation of terms and conditions with all of our sites, with the help of our union colleagues. And so we really feel that we've now put the base back in Nestlé Rowntree and hopefully we'll deliver the results that we promised to the business two years ago.

Questions on: Underperformers and scope of profitability improvement

Julian Hardwick, ABN AMRO.

I think Jim mentioned progress that you'd achieved in terms of improving the profitability of the under performers in the portfolio. Could you just give us an update of what proportion of your sales you would regard as being represented by under performers and perhaps just give us a little bit of a talk through the progress you're making with the key ones and how you expect that to - the sort of scope there is to drive profitability in that area?

James Singh:

Last year we sold businesses that have revenues in excess of CHF 1.2 billion. We took out 10% of our SKUs and this year we continue to focus on those businesses which have experienced lower than expected performance over the last three or four years, to either make them better or to exit. As Paul said in his presentation if you're going to be part of the portfolio you must deliver results. And you know we're a very long term oriented company, so we will set performance milestones and hurdle rates to make sure that we bring a more focussed approach in managing businesses or SKUs that don't perform.

Julian Hardwick, ABN AMRO:

What proportion of your total do you regard as under performing?

James Singh:

I think we're doing fairly well, last year you saw a 7.4% organic growth, overall improvement in EBIT margins. So we're managing the business in a total performance approach which includes tackling under performers. I don't want to get into the details. But you know there are a couple of businesses where we think we can do better and we are.

Paul Bulcke:

Under performers, they have to do a little bit with the whole mentality of people. In the sense - when you under perform - it's like when you have a long walk to do you have to be fit and all and you don't want to have a lot of stones in your backpack. And that's a little bit like what we say, you have to earn the right to belong, in the sense that we are a long term thinking company so we can invest up front in products like Dolce Gusto, that is going to be a two to three years up front investment before it really reaps the margin that is identified, but you have up front costs and all. That has to be clear, so you set up a time line with milestones, with performance checks and then you have to walk that line. That is a promise, somebody has set up that plan, believes in it, sold it, we approved it, you deliver.

So under performers are only linked with people who are under performing somewhere, if it is continued and it's under the line he set. So that's linked with what you say is what you do. You are there and the resources that we want to pull in are to fill the gaps. So the energy should not go into explaining why I have not delivered what I promised, it should be linked with well I'm going to deliver what I promised and all my energy goes into delivering it.

So the same thing with under performing businesses and it is easily said here .but this is how we want to go about it. And under performer has to be an investment, not a stone in our backpack, because it's not fair to oblige the others to over-compensate for something that only drags on and has no final light at the end of tunnel. So it's a mindset how we go about it, and that is why we have sold off quite a significant part of our business and that's how we have to drive possible under performers.

It's amazing the energy, with a mindset like that, that you create in an organisation to get businesses fixed. But we are a long term thinking company, so we're going to do what we have to do to prepare the future and we have to do some upfront investments and we're doing them. But it has to be with the light at the end of the tunnel.

Question on; Distribution cost inflation

David Hayes, Lehman Brothers

Just a quick question on the distribution cost inflation that we saw in '07 that has moved to the more fragmented channel base. Is there any kind of measure that you've got that shows what the move is? Did you measure the percentage of sales going through what you'd classify as small and medium sized channel outlets? And then again on that basis can you give us an idea of how long that model continues for? Should we assume that kind of inflation rate for the ongoing next three or four years? I'm just trying to get a feel for how that model is developing, thanks.

James Singh:

Well the distribution cost impact of ten basis points last year was primarily related to the change in the business mix, which distribution as an element of cost is highly valued. Jenny Craig for example is a business where it is a consumer contact business. There is a fair amount of cost to manage the contacts and to get the products to the consumer.

Nespresso is a distribution model, supporting a luxury product, Dreyers DSD is a distribution model that drives products in the alternative channels and supports the super premium product Häagen-Dazs which we have the licence to in North America.

PPP is a distribution model, so as we move to these models, you will continue to see slight increases in distribution. Having said that though, we're trying to bring best practices in order to reduce the cost and to further improve the operating performance of those businesses. Now PPP last year was about CHF 6 billion. So these are not marginal businesses, these are large businesses. Nespresso if it continues to grow at a rate have experienced over the last two years will be a CHF 2 billion.

So these are large businesses and they appear fragmented but what appears fragmented is really the way that we deliver value to the consumer in terms of price point management. So as the businesses change and the mix changes it has an impact on TPP, it has an impact on distribution, but overall our margins - they are important movers or growth drivers in our margin structure.

Paul Bulcke:

There is a link between the higher the distribution cost linked with DSD also compensates with lower TTS, total trade spend. So there is a little bit of a trade off there on different lines on the P&L.

Question on; Internal performance objectives

Jeff Stein, Citibank.

You have kept your external guidance unchanged, but I was just wondering in light of your performance over the last three years whether there has been any change in your internal performance objectives?

Paul Bulcke:

Internally we try always to maintain the objectives towards achieving the external objectives. What you do have though is make it meaningful - you don't just give an instruction to your organisation saying well we have altogether to deliver a 5 to 6%. It doesn't mean anything to somebody sitting in Peru. So what you do there is you split these objectives up into meaningful targets for the different parts of the organisation.

What we have increased is what I mentioned before, is the mindset to deliver and we call it the Dynamic Forecast. So we have driven more discipline in the system so that we can anticipate now where we have gaps and then fill them up. So that gives the consistency of the system. We have in other words, driven the consistency of delivering and to ensure that we don't get into a mode of management by surprise. And I would say in that sense we have been creating a different mindset towards goals and gap filling rather than gap explaining.

I believe that in certain areas we are going to push harder than in other areas, because through GLOBE we have a much higher visibility of where the problems and the opportunities lie and we can monitor that much more on a real time basis than in the past. So in other words what we do feel is a little bit of a harder reality fact based management of the business.

Question on; Environmental impact of bottled water

Eddie Hargreaves Tisbury Capital.

There has been quite a bit of publicity recently in some developed markets and perhaps you could almost say, consumer disquiet in some parts as well about the environmental impact of bottled water. Do you have any comment on that? Are you concerned about bottled water trends in the light of that?

Paul Bulcke:

It is true that in the last month all the voices came up about bottled water and really focussing on the bottled water issue as being the drink of all evil. And yet H₂O is one of the most noble drinks that there is in the world. So it's a little bit of a pity that everybody is putting the attention on this. If you see it in the broader honest context of a very balanced discussion, I think it has to move into that. Now it's a bit emotional, one that's bottled water against tap water, it's like the big war. First of all bottled water is not against tap water. I hope bottled water is growing and that's what we were aiming it – against, the other alternatives to soft drinks and others that

are also in the sphere of Health and Wellness, they are always more calorifically charged than bottled water.

So what we think and we're going to work on this, that this discussion gets into the proportion again that I feel it should have and gets back into context.

On the same thing we are convinced that if you want to save water - drink water. So we have also to make the facts about this more visible, so that people can really discuss rationally and make their own opinion. This is work that we're going to have to do, not only Nestlé but others. To get one litre of bottled water on your desk, the water usage you have is 1.5 -1.7 litres for one litre of bottled water. If you have that in tap water it's more or less the same because of losses. and sometimes we have higher upfront investments than they do - but I don't want to compare it with tap water.

If you compare it with soft drinks you have a water usage of four or five litres for one litre of soft drink. You go to beer it's more, you go to wine it's even more, I'm not going to talk about whiskey in the UK.

So you see this is a discussion that has to have balance and it should be more fact based and less emotional. Yet on the other side you have the environmental footprint, you speak about the bottle, the PET bottle. From my experience when living in Germany, I can tell you the German the waste recycling system is working well and the PET bottles were recovered in at a high rate. So there is a certain obligation also of government to put their systems in place. And we can help there.

But in the meantime what we can do, we're trying to do, is reduce usage and we have reduced already 25/35% the usage of plastic in these bottles. We have actually in the developing world a project, we call it the PLOC, PLOC is using a compound and a quantity of plastic which is so low, that once it is empty the bottle doesn't even stand up any more . So there are many ways of trying to reduce meaningfully and in a sustainable way also the impact on that.

We take this very seriously, we believe this discussion should be balanced and put into context and we're going to help and be part of that.

Roddy Child-Villiers:

The UK is a relatively small water market for us. But in the US which is obviously a much bigger market for us, our biggest market we have done quite a lot of consumer research on this, because also in the US the water issue has been above the parapet. And our research shows absolutely no indication whatsoever of consumers moving away from bottled water. So at least in the US the woolly jumper approach is not impacting consumers.

Question on; Levels of cost savings in the future
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John Parker, Deutsche Bank.

I'm a bit surprised that you're not giving us an indication of higher levels of cost

savings in the future than you've had in the past. You talk about the average savings at CHF one billion historically. You know there are a number of reasons why one would expect that figure to be bigger in the future. You've got the benefits of the huge GLOBE investment which you've been talking about for a long time. In your presentation this morning the Continuous Excellence programme is obviously something you're putting a lot of effort into and just in turnover terms Nestlé is obviously bigger than it was over the period when you were making those savings of CHF one billion on average. So I guess I'm assuming the future savings are going to be materially higher than that running rate you've had in the past. Why are you not wanting to give us any sort of indication of order of magnitude there? Or am I wrong to assume that the level of savings will actually be higher in the future?

Paul Bulcke:

You are right to assume, I commit toward margins improvements and actually these are steps to get there. Committing to every step to get there is very difficult to really be meaningful. Now you're totally right if we are able to deliver one billion a year in the past, well we're ambitious, and we want to at least see that as a minimum. Now I'm not going to commit further on that. What we commit to is margin improvements and you get it through all different angles. It's creating value, higher margin products, more efficient mix, you can drive costs out of a system.

There is an important point though; that through the continuous improvement you get something that is not going to allow you to have the same savings in the future. I'll explain myself, doing cost cutting projects and I'm very open on this, in an organisation as complex as Nestlé and in many other organisations it's pushing water to a certain extent. You push costs back, but a system as complex as ours tends to disorder - you have to always put discipline, then you can always drive out costs permanently. What we want to do is to hold on to them. And that is why you have to push that from a central based project towards a mindset that is held by all stakeholders, by everybody who is playing in the value chain in Nestlé. That is 270,000 people, so that you turn a project with a temporary mindset into a permanent mindset so that you hold on.

So in other words a dollar saved today is also saved in ten years time because it stands and it holds. And this a little bit of what we want to do. That's why we don't talk about delivering this for so many years, because I see a mindset that is going to lock in permanently, so you cannot save it twice.

James Singh:

I think the way we look at this is the fact that by growing 9% last year, in 2006 we had an EBIT margin of 13.5%, 2007 the margins improved 50 basis points, 60 basis points current currency. Now when you look at the gearing effect, the leveraging of the growth and the gearing effect of the entire organisation to deliver a 50 basis point improvement you have to see the results of the work that needs to be achieved has to be significantly greater than your rate of growth.

So that is where it is cost savings, it's best practices, it is transparency, making decisions on time. It's a combination of efforts; we sort of classify this in terms of a

total performance approach to constantly drive the margins to higher levels. And it will require a combination of efforts. So to talk about cost savings as the only reason for driving the margin improvement I don't think it's - first of all it's not fair, it's not really true, it's not relevant.

Roddy Child-Villiers:

Also I think the sales growth is slightly misleading in terms of our ability to take costs out of the business. In 2006, we acquired 24 factories, but also, and this again relates to the under performers, in 2006 we also sold 24 factories. Actually we sold or closed 25 factories, so we had nine billion more sales in 2007 and one less factory. So when you look at the opportunity for efficiencies at least in the factory, even going beyond the factories, but at least in the factories, just because we're growing the business it doesn't make it easier necessarily to take the costs out of the business other than the leverage. So the asset base is pretty much the same as it was, all be it obviously of a higher quality.

Thank you very much for all your questions. I think our summary would be that for us it's about speed, acceleration, and it's about being not just the reference for Nutrition, Health and Wellness but also the reference for financial performance, Thank you very much for your questions.

Questions from New York Roadshow, February 28, 2008.

Questions on: Water consumption and shortages Hedging strategies and commodity prices
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Alex Magid, Royce Hamilton Trust:

I would be interested to hear what do you see happening in growing water consumption and obviously the shortages of water? And do you feel the water becoming a commodity play? And also on the hedging strategies, commodity prices and currency fluctuations? Thank you.

Paul Bulcke:

Water consumption, it is true that the last years and especially in the last year there is quite an emotional discussion about the water consumption. And we being the biggest player in bottled water are sometimes in the middle of some criticism. But I believe that all discussions over time will return to rationality. We have to put this in context, this water discussion. You know that Nestlé with its bottled water - it's 0.0009% of water consumption in the world. So you can criticise but this is a minor, minor amount of water. At the other side it is criticised that water versus tap water, our competition is not against tap water. Our competition is against other, in our eyes, not-as-healthy-as-water alternatives, which is the carbonated soft drinks and there proportionally water is still small so it has a lot to grow. There is nothing healthier and we believe in our mission as Nutrition, Health and Wellness there is nothing healthier than drinking water.

There is nothing more water efficient than drinking water because for one litre of water on the table you need more or less 1.6 litres of water in total, including cleaning, factories and all that, 1.6/1.7 litres of water. This is more or less the same for tap water, because you know the systems, the city systems, there is a certain dimension of waste there so it is more or less the same amount of water.

If you compare that then with soft drinks this is of 4 to 5 litre per litre of soft drinks because of the process. You go to beer, even worse, you go to wine, although we're not going to exclude that in our lives but 40 litres, 50 litres for a litre of wine. So these are the rationalities that we want and we are going to use and have that on the table to discuss these matters.

Now you say then that the water business is linked with a packaging that is not so environmentally friendly and it is true. But then again you have to see what is the relative environmental footprint of this bottle, versus the alternatives? Now that in the sense of comparing that with soft drinks this is much less. And we have actually now introduced the 30% less plastic bottle that is possible with water and not so easy for others. So these are all the discussions and I feel we have to be part of, we are a very responsible company in this sense, so we want to be part of this discussion. We can help and we have resources to give solutions to this and I believe over time all of these discussions go to that rational more balanced discussion.

On the commodity prices, I mentioned that before, we were lucky - we are so close to - our strategic raw materials that we have been able to identify, very early on, the increase that was foreseen or that was coming of some raw materials. One of them, very important to us, was milk. And that has allowed us to do quite different actions so that we can buffer or neutralise in part the impact.

First of all you can - when you identify that, you can increase price quite early on. And that means that when do that you proactively and you don't do it reactively there is no over reaction. You don't need to price as much; you just spread it over time.

Secondly you can calculate - you start then to hedge to a certain extent wherever that is possible and is in our interest. But you do other things, you can revise, very limited but you can revise your formulation of certain products and say we deliver the same product but you have different ways of getting there, different raw materials that you can use. This is always limited because we - as I mentioned before we go for consumer preference and we don't touch quality.

Now there are several actions and you can combine them because you have been anticipating what is coming. You can do that in a more relaxed way and you don't have to overreact then afterward because you are running behind to cover and you increase too much because you lost time already.

Now overall - I also mentioned that raw material increases actually play and make us go more forcefully into our vision which is Nutrition, Health and Wellness added value products. The whole idea was to move from a raw material based Food and Beverage company towards a more value added, science driven Nutrition, Health and Wellness company. So when raw materials was for Nestlé one to one, you increased raw materials you had to increase one to one, now the proportion of raw materials is

much less in our cost of goods sold than before.

It doesn't mean you're immune it's still a part of it. But it has a much smaller impact directly into your needs for cost price increases. And that is just confirming what have also been doing last year. Last year we have been selling off 1.2 billion equivalent in business that was linked specifically with more commoditised products.

So you have different ways of answering, but I see the strategic move to Nutrition, Health and Wellness, added value, science driven is the long term answer to these raw materials.

James Singh:

I just want to put a little more flavour to the question. I think if you go back in terms of the Nestlé basket of commodities, I think that's what we need to focus on. Going back to 1998 when the agricultural economists set the base for our basket at 100, so they indexed that at 100. It was not until the middle of 2006 that the average cost of that basket came back to the 1998 level. And it was around that time that we started to talk to our trade partners about the likely significant increase in commodity costs.

So in spite of where commodity costs are today, driven primarily by Dairy, when you look over time I think this is the time when the costs have spiralled; over the last seven or eight months. So when you look in terms of the context of the increase yes it seems massive but over the last seven or eight years commodity costs have been below where they were almost ten years ago.

Within the Nestlé basket about 50% of our agricultural commodities is Dairy or Dairy based products. Last year, in the last half of the year we saw the highest price point for milk. And today if you look at the markets as a matter of fact coming toward the end of last year, the Dairy prices have started to abate, actually came down, went up a little but they are more or less stabilised with a tendency for a decline. So we feel relatively comfortable with where we are on Dairy. On the other products like coffee and cocoa and sugar and so on, I think we have demonstrated over the years that we can manage volatility of these commodity prices with a combination of options including pricing as one. So we feel very comfortable with where we are relative to the current prices and we are very close in terms of what is likely to happen over the next six months, over the next 12 months to manage the external environment with respect to commodities.

Roddy Child-Villiers:

I think also I mean the question was about water scarcity and water scarcity goes beyond our water business. This time last year Nestlé published a report on the subject of water scarcity. For the last 12 months Peter Brabeck has been outspoken in perhaps the way only he can be with his position, about the issue, raising awareness for the need to address water scarcity, particularly in agriculture. He's spoken at Davos, at the UN and other places too. And also Nestlé has walked the talk in so far as in the last ten years our production is up 76% in absolute terms and our water usage is down 28% in absolute terms. So we've also been practising what we've been trying to preach outside Nestlé. But you're right water scarcity is an issue

and we are doing everything we can to tackle it from our perspective. And also working with our farmers, that are our agricultural suppliers, to improve their efficiency of water use as well.

Questions on: Currency impact Offsetting impact of weak dollar

Participant:

I have a question regarding the currency and currency impact. You mention on one of your slides 29 billion worth of sales in CHF, in North America. Can you first break that out in how much of that sale is done in the US. Secondly what the currency impact on your business was this year due to the weakening dollar. And third, how if anything you're offsetting the impact of the weakening dollar both in the past and going forward. Thank you.

Paul Bulcke:

Global answer for Zone Americas; North America and Latin America. North America was two thirds of sales, Latin America one third. You start to see a little bit of a shift because if you translate it to Swiss francs because in Latin America the strange thing was that the local currencies were getting stronger. I mean you take Brazil; you take the Mexican peso and that against the dollar, that was getting weaker. So you have a little of an effect there but as north and south were growing quite handsomely I would maintain that one third, two thirds. Two thirds North America and one third Latin America.

Now for the latter part of the question of how it's going to affect. Well it's going to depend on how we project the dollar to go. I mean the fact is that we have good growth in North America so we hope when we convert back to Swiss francs that we don't have tailwind there so that this very interesting part of our sales is translating into less Swiss francs, but that depends where the dollar is going.

James Singh:

Our organic growth is after adjusting for currency and I think you're right there is an issue - there is a challenge with respect to currency. Last year we were able to offset the weakness of the US dollars with the very positive or the strength of the Euro. This year the Swiss franc is very strong and we are closely monitoring the situation but we do not believe that there is any need to change our ambition with respect to our Nestlé model.

Roddy Child-Villiers:

There are positives and negatives. I mean obviously the positive is that a lot of these raw materials, which is a key theme, are US dollar quoted. So for our businesses outside the US, there may be a benefit there. So it's a very complex area.

Question on: EBIT Margin objectives for next 5 years Alcon in long term strategy

Participant

Your EBIT margin last year was 14%. What do you think is a realistic objective for the company over the next five years? And could you discuss how Alcon fits into your long term strategy.

Paul Bulcke:

Our objective is to deliver the Nestlé model. The Nestlé model is linked with top line, bottom line growth. I'm not going to commit to specific figures but we have been showing last years that we can deliver so we are quite ambitious versus the past so we are going to try to maintain the line. That's our commitment.

Participant

And with Alcon?

Paul Bulcke:

Alcon. Oh yes I really understand the question and I hope - I believe, that you're really going to understand also that I'm not going to answer it. Let me explain why. There is already enough said I think and I don't want to add to the speculations and all that, and actually this is a board decision so I'm going to leave it to the board. I only can say that whatever it's going to take, whatever decision that may come up or is going to be taking into account all of the interest of all stakeholders and is going to be communicated at an appropriate time. And I thank you for your understanding in not answering your question.

Questions on: Salesforce percentages Acquisitions strategy

Leslie Feinberg, American Capital:

What percent of your employment percentage do you dedicate to sales and marketing? And in the different regions - how do you categorise it per region and how do you specify products per region. For example Eastern Europe will have certain products, the US has certain products, Middle East which is a great salest - has different products. How do you differentiate it - how do you market for each area? And how do you focus your sales force that way?

James Singh:

We don't disclose the breakdown of our marketing or overheads more than we have done in the past. But what I could tell you is that our sales force is an important part of what we do every day. They're the people who drive our business and therefore there is adequate support to do what I would define as the business of the business. In terms of our products we don't discriminate in terms of what products go in what region, you know our brands and our products represent an opportunity for Nestlé all

over the world and where and when it's appropriate given the distribution systems that are available or we can create, we use that to drive our products.

Paul Bulcke:

It's an interesting question though because in overheads you have good cholesterol, bad cholesterol. Overheads we call them cholesterol but you have good and bad. Sales force is a good one and I believe that and that's why in certain areas where it is meaningful we go for DSD, direct store delivery. That is as a sales distribution structure more cost heavy but it is a competitive advantage if you do it in an efficient way. So that's why for example in Latin America we are investing quite heavily in setting up structures that cover DSD, the direct store delivery to smaller Mom and Pop stores, because we believe that a competitive advantage of a company is not to be much better in one part of the supply chain or the value chain. Let's say one specific product that is unique and only having your competitive advantage because you have a unique product, because the next day it is copied. In every step of the value chain you have to build in better than the other.

Now if you can have in every step of the value chain something that you do better and you combine that, that is very hard to copy. That is why we are trying to have that new mindset of Nestlé Continuous Excellence because you give to all people in the organisation, in every part of the value chain, the mission to be better than the others. And also the empowerment to do something about it. And it's not just a project management from the top down that you always go for part of it; you disseminate in the new structure that mentality. And then you create that best in class in every step of the value chain, very hard to copy and you maintain it. And sales is one of them. And that's why we are investing, and sometimes the totals doesn't show it, but we are investing and creating to a certain extent some overheads but I call it the good cholesterol and it's very important.

Leslie Feinberg, American Capital:

What's your acquisitions strategy? Will there be one, will you do any brands, what will you do as far as that is concerned?

Paul Bulcke:

Well we are now 100 billion plus Food and Beverage company, if you say 100 Food and Beverage specifically. And we feel we have, and I mentioned it, it is a competitive advantage to have a complimentary set of product categories that are part of people's live I mentioned from morning to evening and from birth to death. We believe we have the right set up of portfolios and structures and categories that allows us now to grow on that platform. So in other words we don't feel the need to go for major acquisitions to fill in major gaps, so we go and focus on growing what we have. It doesn't mean that we totally closed to whatever may present itself as in opportunity that is in line with our strategy. So in other words we foresee a permanent bolt on possible acquisitions. Now nothing that we can say is identified as major.

Question on: Strategy of new CEO and opportunities for change
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Kurt Schansinger, BlackRock.

You talked about the Brabeck era and there was some pretty dramatic change in the organisation; mixed business, focus profitability, return of capital to shareholders. It sounds like your strategy is more sort of continuing the model that your predecessor built. Is that a fair assessment of how you envision your tenure as CEO and are there opportunities to make further dramatic change in the organisation over the next ten years?

Paul Bulcke:

I'm not worried about legacies. I'm only worried about delivering results and I believe that the direction we have, the strategy we have for this company of which I have been part of, I am not just coming in here and saying oh that's nice, I have been part of bringing about this Nutrition, Health and Wellness vision, Peter has inspired it and has been vocal on this but I have been there. So it's so strong and the right strategy for the company. So it would be wrong for me to say well I want to think about my legacy so I have to invent something and destroy something. I mean that would be wrong for the company.

Now everybody has his style, I have mine. I believe the strategy is strong, I believe 10% of success of a company long term is linked to strategy. Now we have also the structures and the tools for me to leverage that so I'm going to focus also on execution behind it. And I believe we can go faster. So I have a lot of sympathy for acceleration. And that will not be me going around but it will be allowing the people to do that. So it's going to be linked to delegation, it's going to be linked with what I mentioned before, continuous excellence. You really empower the people to take their fate in their hands. That allows them to have more joy in their job.

But the sense of urgency and speed as a competitive advantage, that we have to build in the system. You know sometimes, in the many years that I have been working for Nestlé, I heard that Nestlé is strategy rich and strong, but sometimes execution poor. Now I don't want to hear that in a few years time. So I want to do something differently and that's going to be acceleration. Do the things you have to do. It's a mindset.

It has driven in Zone Americas quite good results in the sense that what you say you're going to do, you just do it. And you use the gap concept; whenever you identify you have a target and you identify a gap because of whatever, headwinds and all, all energy goes in filling the gap, not in explaining it. And to be very blunt or outspoken on this, it creates a mentality of 'can do'.

That's something that we have to disseminate a little bit more in the company. And by doing so it's really fulfilling to see the energy that you have in an organisation like ours. That's why I said people are important but you have to unlock the energy there. And I believe we have the right people they're just waiting for it maybe a little bit stronger than in the past. So the world is changing faster and faster so we have to go faster only to stay on the same place. So we have to go faster and faster to really

create the reference and that's my objective, execution.

Question on: Taking over the CEO position
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Tom Russo, Gardner Russo & Gardner:

Two questions. The first is a related question and just from an insiders view maybe over the past 20 years of your career, however long you've been with Nestlé maybe longer, you've watched from the inside what Peter's done and from the outside we've seen it. And from the outside an American expression would be Wayne Gretzky, that Peter has sort of gone where the puck was going while others skated to where it was. And he's been inspired in directing the company on strategy and on execution. Is there something within the company that you can see that will allow you to sort of share the same kind of clairvoyance let's say that he's enjoyed as a result of your being in his seat, or do we just have to accept the fact that we had a good run with Peter and he was unique in his characteristics, or will there be something structurally that will help add that extra vision that he seems to have enjoyed and help to direct the firm.

Paul Bulcke:

Well I confirm he was quite unique. He still is unique. I have had close to 30 years in Nestlé so. Helmut Maucher put Nestlé on the world scene and gave strategic direction of categories. Peter inspired it with a clear vision and direction to let's call it Nutrition, Health and Wellness, has given it a platform of efficiency, call it GLOBE, and structure. But that doesn't mean we're there. We are not the global Nutrition, Health and Wellness company per se; you have to fill it over time. And division of Nutrition, Health and Wellness, you just think about low carb, it's something that has really played time over time over time. A few years ago low carb was a symbol of health and yet it was short lived. We didn't go in there because we didn't see it as part of our strategy; we saw it as a trap. So you have to inspire the strategy year after year. You have to put it always in new context and that's evolutionary.

So we're not going to say well that's it and we stick with it. We're going to maintain that in context and that's going to be evolutionary, the definition of it. Now over time to walk in that direction it's going to be linked with challenging ourselves on how efficiently we get there. How we leverage our R&D towards new levels of efficiency. And there, there are lots of miles to go so in that sense. I'm sure when Peter started he didn't say well I want to have in ten years time this definition. He walked the distance step by step and that's what we're going to do, but you have to challenge yourself permanently on the two levels. The first - vision level and what does it mean. And secondly - permanently on your performance level. And you see the changes to move from best in Nestlé over best in class towards zero. That's quite dramatic as a mindset and to get there it's going to take a long, long time too so we have quite a lot of things to do.

Question on: Partnerships

Tom Russo, Gardner Russo & Gardner.

Thank you very much. A second question would be partnerships and your use of partnerships around the world. You've had some that have succeeded and flourished and some haven't. And I'm wondering if you look across the range of partnerships that you've engaged in what you would say has led to their success in some instances and not others.

Paul Bulcke:

Well partnerships are - first of all you have to have a shared common business vision. That's obvious because that's the reason why you're coming together. But then in my eyes the most important platform of success is an unspoken feeling about the same values. That is what you need to really have a successful partnership. And we had that in Cereal Partners Worldwide and we have that in others. So but it is that closeness of values that you don't have to talk too much about or have long meetings to convince about the business case, because we basically share the same culture value, you don't have to be from the same ship. So that is in my eyes the most important one. And you see it is linked again with that model of integrating the whole value chain. We have partnerships also upstream with suppliers. The example of Callebaut is one of them who is producing our cocoa and these are also partnerships that are working very well because they feel a shared common purpose and common values with us.

James Singh:

I think one of the key successes in a successful partnership is senior management involvement, at the time of the formation of the partnership and the day to day management in terms of giving guidance to the operators. When senior management withdraws from the partnership in a very active way the partnership suffers and it is a prerequisite of our relationships that the most senior management of the companies are involved at the board level in the partnerships.

Questions on: Learnings from Zone AMS to apply to global company Market share trends and private label competition

Abie Shamah, Owl Creek.

Are there any lessons or best practices that you learned in your zone that you think are applicable to the rest of the company? And second question could you please comment on market share trends and private label competition.

Paul Bulcke:

Well I mentioned already what I was quite proud of in the zone was that we tried to be simple in our things, simplicity has many charms; it helps to align people behind clear visions or targets. So it is simplicity alignment, very strong alignment. We didn't complicate our lives. And then we expected people to deliver against it. And so we

didn't lose a lot of time with explanations. We went for filling the gaps; all the energy is to fill the gaps. If that is the target you get there. What you say is what you do. It's quite simple. It's very close to North American ways of doing business so it was quite simple to do that and we had it already in Nestlé USA. It's a little bit more difficult in Latin America to have a discipline like that but once you've had the flavour of it and the people enjoy much more their job. But then you allow them also to act , so we delegated a lot into the markets.

I always say I need three conditions for a meaningful delegation. The first one is alignment and clarity on where the journey is heading, call it vision, call it targets. You have to have a very clear definition in both minds, the one who delegates and the one who receives it. That's a responsibility - a very clear vision on where the journey is heading at so he knows there is a direction. Secondly you need very clear tools and frame workings so that he knows what is at his disposal to do what he has to do, the full resourcing and the backing. But the most important one is a very clear set of values because that is the framework, the reference points that he has at his disposal to take and judge his own decisions. Only when you have these three you can really say I delegate and I forget.

And that's how we work, that's quite efficient. We didn't have a lot of controls, I believe in my people. We have very good people in place and we saw always speed as one of the major drivers of all in the motivation, to do things fast. What you have to do you do, you don't lose time, you don't try to explain why not. So it's a mindset and I believe we may have some mileage out there to roll that over in other zones.

Private label has much more of a relationship one to one on raw material increases than we have. So in that sense private label is a little bit more vulnerable for price increases due to raw materials. They're still however lower price so in other words there may be a risk that I read in the press too that some company is going to be suffering because of private label because people are going to shift into lower cost products. But yet at the same time if you see if there are certain pressures on purchasing power of people you have to consider several things. First of all food whilst 25-30 years ago was something like 25-30% of average people's spending in certain countries. Nowadays in the developed world it's 10 to 15%, so much less.

So the impact on certain price increases is felt in the global budget, de facto in rational terms is less. Emotionally the perception is still the same but we know that. Secondly the private label is going to have to increase proportionately more their price than we have to do that because of just the margins that we have and the relative lesser proportion of raw materials in our cost of goods sold. So in that sense I believe that private label is still there, it's part of our landscape but I'm quite confident with the strength of our brands, with the innovation renovation put behind these brands that we quite playing in another field.

Questions on: Confectionery business Working with L'Oréal
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Andrew Wood, Sanford Bernstein.

Question on your vision for your Confectionery business, how you see it fitting into

your health, wellness and nutrition vision. And your plans to sustain, enhance or reduce your exposure to Confectionery over the next few years. And a specific question about the US Confectionery business which you've admitted in the past is sub scale, what plans you have to address that. And then a second question on L'Oréal, which is not going to be what your plans are to increase or decrease your stake to which I think I know what your answer will be, but more how you work with L'Oréal, perhaps explaining your Galderma and Innéov joint ventures and your view on how exciting the prospects are and opportunities are for your relationship with L'Oréal. Thank you.

Paul Bulcke

First Confectionery. If it fits in Nutrition, Health and Wellness, yes indeed it fits because if you read a book about all the goodies and the good nutritional dimensions of cocoa, it's really a healthy part of our life. So I don't see any contradiction there. Confectionery is considered not so health because of the calorie dimension and there I believe Nestlé can bring, thanks to R&D, quite meaningful answers. So in other words we are sitting in a category that has quite healthy elements in it. We have to make them more surfaced in the marketing in consumer terms so they know about them much more. And part of that is already being realised through the dark chocolate with all the antioxidants and there's much more in there.

So that's one aspect but yes you have to take out of the problem of confectionery which is the caloric intake. And there we have answers too. You see we can through aeration, through building in extrusion biscuit dimensions, build in a lighter dimension of snacking or enjoying confectionery in a unique way, and we have competitive advantage there, so we can leverage that again. So these are things that I believe go hand in glove with our vision of Nutrition, Health and Wellness but yes, you have to inspire your innovation renovation towards that. And we are doing that.

Now in the USA, you know in the USA we are third player and there we always have a hard time-Nestlé to be a third player. We like to be leader or at least a second player and close to be leader. We have this ambition and we have some trouble sometimes to be third player. We have two very strong competitors there and we are a third player. Now I don't believe that consumers are buying first player, second player or third player confectionery, they're buying brands. And we have three big brands, we have Crunch, we have Butterfinger, we have Baby Ruth. And you see people they buy these brands.

We have much other smaller things there and we held on to these, building complexity in our Confectionery business because we were already not big. You're not going to destroy an SKU there because then you lose a few kilograms of product in a market where you're not big. What we have been doing over the last few years is to start cleaning up this portfolio and really going for the three big brands we have and start being proud of them and building behind these brands with innovation renovation in the line with what I mentioned before. You have Butterfinger, that is a biscuit based confectionery, you can do certain things with that, that are less caloric and yet very indulgent. So these are the things we are working on and really believing in brands in Confectionery more than company importance in the sector.

On L'Oréal it's true that we have Galderma, we have Innéov. That's where you see an interesting dimension of R&D, what I said that open spoke model where R&D starts to also share with other companies or other platforms based on a common interest to join and leverage the scale of the R&D platforms. Now in Galderma the methodology is what is good for the inside is good for the outside. And Innéov is the same thing. So the interpretation for food, it shows in a very pronounced way about what nutrition can be for people. You see it's not only nutritional relationship between nutrients and the body to feel good and great, it's also to look good and great. You start to touch the borders of potential future dimensions that we have to work on and that is a little bit linked with your question, what do you do Nutrition, Health and Wellness. It's very well defined if that is going to be all. But you never know how far you can bring that, what is Nutrition and Health, what is Wellness per se? And Wellness is a very broad concept.

Now in our relations with L'Oréal I would say the same thing. So all what has been said has been said and anyhow we are still - till 2009 all answers will be meaningless.

Question on: Impact of a diet brand on the growth of the category

Paul Bornstein, Black Diamond Advisors:

I just had a question in terms of when you launch a diet brand what is the impact on the growth in the category and does it take away from the first brand out there, for example Hot Pockets? You started offering a lot of lower calorie brands and I'm just curious what is the impact for you getting more of the share of that category and also how much sales are you taking away from the initial brand if any?

Paul Bulcke:

Well a good example is - well we have Hot Pockets but you also have Lean Cuisine. Stouffers and Lean Cuisine. In Stouffers we started Lean Cuisine quite a few years ago and because that lean diet was part of an increasing interest and Lean Cuisine is now growing dramatically. It's really nice to see double digit growth year after year after year after year. Now that is more than the classical Stouffer brands but it is the offering of Stouffers. So in that sense you have to see the two together and Hot Pockets, we have Lean Pockets. So in Hot Pockets we had the same potential. Did we use that potential? No, we have to work towards that.

And there you have certain equations which are not so easy to translate into meaningful low calorie solutions. But then again we can use our R&D to do them. You see to be very honest Hot Pockets is very good, it's very savoury because it's - well it has a little bit of fat. Now how do you combine that enjoyment and yet not fat? And that is what we are working on. We foresee quite a few new things coming out there for Hot Pockets and Lean Pockets together, which would go in the same direction as what we have done with Stouffers and Lean Cuisine. Stouffers Lean Cuisine a few years ago, you may remember, didn't show really good growth figures. And we have done a global overhaul of Stouffers and Lean Cuisine and ever since it has been growing very, very handsomely. While I would say that Hot Pockets are a little bit lower in the brand curve, we are in that same stage. It's like one step back to jump better in the future. So I'm very upbeat for Hot Pockets.

Now another good example is the slow churned ice cream of Dreyer's or Edy's. That is the last thing you would think of ice cream being something that is diet. Now we are able, through technology, to deliver a slow churned ice cream that actually allows you to enjoy. And if you taste blind actually give preference the slow churned ice cream versus the normal one, to enjoy ice cream and yet one third less calories and half the fat. That's because of the technology that you put behind it.

So these are meaningful solutions. Should Nestlé be in Ice Cream? Well we are a company that can deliver the enjoyment with less fat or less negative nutrients or building in positive nutrients. So we can build competitive advantages in these categories where that is not so obvious. And it's because it's not so obvious that uniqueness and the competitive advantage stays. So in other words the more difficult you would link it up with Nutrition, Health and Wellness the more I would say well yes but if you can crack the code you have a long standing competitive advantage. And that's where I think we should be working on, not only on the obvious.

Question on: Innovation measurement and targets
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David Driscoll, Citi Investment Research:

The question is on innovation, how do you measure it, is it percent of sales, number of new products? And could you define what your target would be?

Paul Bulcke:

Yeah that's a good question. That's a question we are always asking ourselves too, because it's very difficult. Purina is a good example. Purina we tried to turn to have 15 to 20% of the portfolio overhauled with innovation renovation. First of all you have two dimensions. Innovation which is basically new, really new, not on the map, not in the world before. And then renovation is re-inspiring products towards new offerings or towards new additional consumer benefits. And the two together in Purina we are working to 15 to 20% so in every five years you will recycle your products and you really challenge them towards new offerings or new meanings to the consumer.

Now on the 60/40+ concept that I mentioned before, that is going through the whole portfolio of Nestlé and that is at the core of our strategy of Nutrition, Health and Wellness. What it does is to oblige us every few years, depending on the importance of the product, to check versus competition. And we check it on two levels, so two dimensions. The first one is the blind preference for taste, texture, enjoyment versus the competitor. And that has to be 60 versus 40. We have to have 60 preference. And then it goes also in testing against nutritional benefits, the plus versus the framework or versus competition.

Now we have to do that every now and then. And by doing that the competitor doesn't stay in the same place, so he moves. So this permanently you have to test your products against the moving competitor means you fuel renovation permanently into the system to really make the product permanently better versus competitor. So by doing that and by adding the innovation on top of this I believe we have to move to a 15%. I want to have the product categories; all products renovated and innovated

every five years. That would be good, a good rhythm.

Question on: Increased marketing spend trend in the USA
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David Driscoll, Citi Investment Research.

If I could ask a second unrelated question. In the United States we've seen the major US food companies increase their marketing budgets dramatically in the last several years, pretty much across the board. The companies that were below average within the industry have been raising marketing spending substantially above their level of sales so that the percentage increase is rising. Can you talk about the effect on the competitive environment in the United States to Nestlé and maybe just a bigger picture on why you think this trend is happening and is this a multi year cycle where we should see higher marketing spending across the board for branded foods?

Paul Bulcke:

More and more - the marketing playing field is linked with innovation renovation. More and more it is linked with nutritional arguments. More and more you have things to tell people. So that's why I think it has been increased over the last years, it is marketing warfare too to some extent because there are certain races for certain spots. But in that sense I believe it's not a matter of more spending and more spending, it's a matter of spending wiser and so you have to combine the two things.

Our 60/40+ coming back to the same tool, it's a very strong tool. The 60/40+ is linked with increasing dramatically also our quality of nutritional communication. And to go to the quality of communication you have to go to the media where you're going over. So there's a little bit of exploring on the new media too that increases some of the spending. But I don't believe it's by overpowering, just pulling more marketing spend, that you get better efficiencies in your marketing spend, so we are combining the two. We are combining the two.

James Singh:

Increase in marketing spending, advertising doesn't guarantee increase in sales. As a matter of fact you'll likely get more efficiencies in your marketing spending depending on the choice of medium you use. And in some of our products the advertising is low relative to other products. Nespresso for example. Television advertising does not really drive the business; it's the business model that drives the business in terms of what it is. It's a luxury product and you hardly see a lot of advertising around luxury products, or PPP products are advertised based on their availability. There's a lot in terms of communication that is not at the same value elementary units relative to TV ads. So it doesn't guarantee it because you spend more money you'll become more competitive.

Roddy Child-Villiers:

Okay I'm afraid we've run out of time. Thank you very much for your attention. Thank you for your interest in Nestlé. Just to say we are becoming the reference in Nutrition, Health and Wellness. It is our mission also as we've made clear to be the reference in

financial performance. Thank you.

END OF TRANSCRIPT