Spring Press Conference – 24 February 2005

Mr. P. Brabeck

Welcome and good morning, Ladies and Gentlemen!

It is a pleasure to bid you welcome to our first press conference of the year. This morning, we made public the 2004 results, based on the fully audited detailed Financial Statements that were put on the Net, ready for downloading. We have already conducted several TV interviews and investors were able to field their questions in a telephone conference.

I propose to first comment on the development of our business and of our results during 2004. Wolfgang Reichenberger, Chief Financial Officer of the Group,
will then walk you through the figures in detail. Afterwards, I intend to describe several developments that have taken place since we last saw each other and finally, I and my colleagues here look forward to answering any questions you might have.

It has now become standard operating procedure to have this press conference broadcast by satellite uplink. It can also be followed on the Nestlé Website and I would like to extend my greetings to all those journalists who are following the press conference in this way from afar.

Before commenting on last year's results, let me introduce the members of the Executive Board who are present today.

On my right, Mr. Wolfgang Reichenberger, Chief Financial Officer of the Group, who also supervises controlling, purchasing and exports, and who is personally in charge of the Nestlé FitNes efficiency program.

Next to him you see Mr. Michael Garrett, who runs Zone Asia, Oceania and Africa. Today, Mike is attending his last Nestlé press conference. Indeed, after more than 44 years of a very distinguished and successful career in the Group, Mike will retire at the end of April. You are all familiar with the importance of Zone AOA for the future of the Nestlé Group and Mike has played key role in its development. Mike was also instrumental in a number of initiatives of strategic value in products and in management issues. I personally want to express my deep gratitude to him for his very important contribution.

On Mike's right, Mr. Lars Olofsson, head of Zone Europe and Mr. Paul Bulcke, who has responsibility for Zone Americas.

Next to him, Mr. Frits van Dijk, who on February 18 concluded a very successful part of his 35 years with Nestlé as Head of Nestlé Waters in Paris. As I told you in October of last year, Frits will succeed Mike Garrett at the head of Zone AOA on May 1st, 2005. Frits spent a great part of his career with Nestlé in countries such as India, the Philippines, Malaysia, China and Japan and taking over the Zone will take him back to markets and mentalities with which he is already quite familiar.

This gives me the opportunity to welcome a Nestlé newcomer to this press conference: Carlo Donati, who since Friday last, is the man in charge of Nestlé Waters. Before moving to Paris, Carlo ran the South-Asia sub region, combining India, Bangladesh and Sri Lanka. He has been with Nestlé for 32 years and his broad marketing and management experiences spans three continents.

If I now turn on my left, you have François Perroud, who is in charge of Corporate Communications.

Next to him is Mr. Francisco Castañer, who supervises our pharmaceutical activities, liaisons with L'Oréal and is in charge of Human Resources and Corporate Affairs.

On his left, Mr. Werner Bauer, Executive Vice-President, head of Corporate Technical, Production and R&D and directly responsible for our manufacturing efficiency initiative Target 2004+. This initiative was so successful that I asked him to immediately follow up with another one! “Operation EXCELLENCE 2007” will cover all aspects of our supply chain, from purchasing to customer service with the clear mandate to improve delivery costs throughout the entire operation. I expect it to yield about one billion Swiss francs a year for the next three years.

Mr. Ed Marra, head of the Strategic Business Units and of the Demand Generation Unit is not here today. As you know, Ed has had to face a serious health problem and I am happy to say that he is recovering so well that he is able to exercise most of his responsibilities. We look forward to his returning to Vevey within the next few weeks.

On Werner Bauer’s left, Mr. Chris Johnson, Deputy Executive Vice-President, who runs the GLOBE project as well as the Information Technology Department and the Supply Chain.

Next to him is Luis Cantarell, Deputy Executive Vice-President and Head of Nestlé Nutrition, an autonomous and focused business organization, that is being constituted in the course of this year and that will have full profit-and-loss as well as operational responsibility for our core nutrition business from 2006 on.

Ladies and Gentlemen, as you saw in our press release of this morning, the Board has named Mr. Richard T. Laube Deputy Executive Vice President of Nestlé S.A. Starting April 1st, Mr. Laube will take up the newly created function of Corporate Business Development Manager in the Nestlé Executive Board. I proposed this nomination as I felt the need for someone with a broad international marketing and executive experience to assist me in defining the Nestlé road map in the direction of nutrition, health and wellness. Richard Laube, with his successful career both in consumer goods as well as in consumer health care, brings the right skills and experience to this task. He will work closely with our global nutrition business, the Corporate Wellness Unit, the Acquisitions and Business Development Departments as well as with Life Ventures S.A., our corporate venture capital fund. You will find a curriculum vitae and a picture of Mr. Laube in your press kit.

Ladies and Gentlemen, by now you are all familiar with the key figures that you have found in our press release. Before handing over to Wolfgang Reichenberger for a detailed comment on our 2004 sales and results, let me highlight what I see as the Group's key achievements in the past year.
2004 was not an easy year. We continue to have to contend with economic stagnation in key parts of Western Europe, with currency headwinds and consumer uncertainty.

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Nevertheless, the Group, delivered
- solid organic growth
- yet another EBITA improvement despite higher raw material costs and a very competitive environment and
- a significantly higher net profit.

All indicators point to an extremely healthy financial situation and a very solid balance sheet. We have again reduced net debt to slightly more that 10 billion Swiss francs, thanks to our capacity to generate cash at record levels on a regular and predictable basis. Our capital expenditure is rigorously controlled and we have maintained the level of 3.8 percent of sales in 2004, even though our sales in Swiss francs retreated slightly as a result of the negative currency impact as well as of significant divestments.

Our priority for the first half of the current year is still debt reduction. I have often pointed out that for us the AAA rating is important. It gives us an edge in financing costs and a flexibility that others in our industry do not have. With the reduction in net debt, that rating now will be consolidated.

Once this objective is achieved, we will be in a position to adopt a more flexible policy with regard to the management of our capital structure. As you have seen, the Board proposes a dividend increase of 11 percent to eight francs per share. This will bring the payout-ratio to a record level of more than 46 percent. In addition, we are studying a share buy-back-program that will start before the end of the year. The first buy-back will be in the order of one billion Swiss francs, future programs could well be more significant. The intention is to use this instrument selectively and flexibly in the future, according to circumstances and specific situations, and in combination with our dividend policy.

I am well aware of the fact that share buybacks do not enjoy universal approval in the investor community. I also want to emphasize that our decision does not in any way indicate a change in our long-term approach to the development of the Nestlé-Group. It so happens that at this point, in the absence of any prospects for a large-scale acquisition, and with a production set-up that corresponds to our needs, we see no need to retain that capital in the company.

I now hand the floor to Mr. Wolfgang Reichenberger for a detailed presentation of Nestlé sales and results in 2004.

[Presentation Mr. Reichenberger]

Thank you, Wolfgang.

Ladies and Gentlemen, let me now briefly broach a few subjects that merit comment.

Over the past few years, I have often underscored the importance of nutrition, health and wellness as a future axis for the growth of Nestlé. Last autumn, I announced the creation of Nestlé Nutrition, an autonomous global business organization that will assume full P&L and operational responsibilities for our core nutrition activities on 1 January 2006.

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The rationale for this move is our determination to strengthen our leadership in core nutrition. This is the category of products where the consumers' primary purchase motivation is based on nutritional content and on the health claims communicated by the producer, rather than on taste or convenience.

As a result of our strong global presence in infant nutrition, in healthcare nutrition and in performance nutrition, I believe we are uniquely positioned to leverage the existing trust and reputation in order to broaden the existing consumer confidence base and to extend it both in products and in geographic presence.

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Core Nutrition is but one of the two elements of our strategic move towards a nutrition, health and well-ness company. The other one is the Corporate Wellness Unit. I will get back to it later.

The structure that is being put in place during this year will allow Nestlé Nutrition to be fast, focused and flexible. The new business organization has a dedicated structure through to regional and country levels, with direct P&L responsibility at all levels.
R&D, which is critical in generating demand, will be tightly linked with the businesses in establishing a strong pipeline and project management.
Operations are organized on a global basis and built around categories. Nestlé Nutrition will make broad use of shared services in our markets in vital areas such as sales, manufacturing, as well as finance & control.
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Let me share with you the example of the first project managed under the new structure.
It consists of a significant upgrade of our premium infant formula range to enhance our scientific lead over the competition and achieve faster growth in the premium segment.
Through this project, Nestlé Nutrition aims to create and own the benefit area of immune protection and allergy prevention – two areas of high interest in current pediatric practice.
This new generation of infant formulas is based on an innovative integrated nutrient system that offers Nestlé Nutrition a proprietary and differentiated competitive advantage in this segment.
Nestlé Nutrition's global structure allowed us to adopt a global approach to managing and implementing the project. How?

First, product communication is harmonized on a global basis.
Second, having a globally uniform product concept allowed Nestlé to focus our global R&D resources behind a single breakthrough project in our product pipeline.
Third, Nestlé Nutrition's global management and decisional structure facilitated speed to market.
The project allowed Nestlé to make the fastest ever launch of a new product.
The launch kicked off in Mexico in October 2004 and will cover all regions of the world in the course of 2005.
The new global structure made it possible to launch a product simultaneously in different regions of the world.
We will update you on progress and development at Nestlé Nutrition in due course.

Ladies and Gentlemen, let me now revert to the Corporate Wellness Unit, which is headed by Mrs. Christiane Kühne, reporting directly to Ed Marra. It has the task of driving the nutrition, health and wellness orientation across all product groups and all functions in the Group.

This clearly requires a major communication effort, both internally as well as externally, and a very close alignment of our scientific and R&D expertise with consumer benefits. The Corporate Wellness unit drives all horizontal, cross-business projects like Healthy Ageing, the Nestlé response to Obesity and Branded Active Benefits. It will also assume responsibility for the development and implementation of the 60:40+ program.

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Let me show you an example of the work that is being done in this regard.
As you know there is much discussion going on about nutrition, health, well-being, obesity. Consumers receive too much information, much of it conflicting, too many guidelines, too many warnings. Consumers would like to make informed choices about their diet, but they lack the tools to make sense of the information. This is why we have decided to introduce a Nutritional Compass, a new graphic labeling system to be adopted globally, on all products.

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It evolves out of the current Consumer Relationship Panel. It gives factual information in a non-directive, straight-forward way and encourages the consumer to talk to us if he has questions about nutrition, diet or wellness. Here are a few samples. We will roll out the first packs in France at the end of this month and in March, with the other markets to follow over the coming months. And of course, we will simultaneously supply tool kits to all Nestlé companies to help them in implementing these changes.

Let me emphasize that this is work in progress. We are well aware of the fact that much of the language – especially in French - is not yet adapted to the level of knowledge that can be expected from consumers. We will be working with regulators everywhere in order to find ways and means to talk to consumers in a more simple, straightforward way.

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In a similar context, there was quite a stir a few weeks ago about advertising to children. There is, I believe, legitimate concern about rising obesity in many countries and we are convinced that proper nutrition and adequate physical activity are essential to maintaining good health.
In our case, we have, since 2003, laid down specific guidelines dealing with advertising to children. Among other elements, they require advertisements to encourage moderation and not to generate unrealistic expectations of popularity or success. Nor must they undermine parental authority. The full text of the guidelines forms part of the Nestlé Consumer Communication Principles and can be found on our Internet Website.
Nestlé is of course ready to keep on working with both national and international authorities to ensure that all communication addressed to children is responsible and of high ethical standards. We are confident that the issue can be solved through self-regulation which seems also to be the preference of the European Commission.
We also believe that simplistic approaches, such as outright banning of advertising to children, are not helpful in finding a solution to a complex societal problem. In Sweden and Quebec, where advertising to children has been banned, there are not noticeably fewer obese children.

Ladies and Gentlemen, slightly over a week ago, the Kyoto Protocol on the reduction of greenhouse gases became law for a number of countries in Europe, as well as for Japan. I thought it might be of interest to show you how this convention impacts a corporation like Nestlé.

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The Kyoto negotiations started in 1997. Let’s see how our global warming potential developed in that period. Group production increased to 33.3 million tons, carbon dioxide emissions were reduced by 10 percent over the same time. Before Kyoto became law, I hasten to add.

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Of the 500 factories in the Group, about 30 – or 6 percent – will be subject to Kyoto mandated emission reduction targets. And those 30 factories account for 21 percent of the Group’s total carbon dioxide emissions of 4.4 million tons.

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The Kyoto protocol aims at reducing greenhouse gas emissions by 1.5 percent per year. In other words, to meet national commitments, Nestlé needs to reduce its yearly output of carbon dioxide by 14’000 tons.

And how are we going to reach that target? Well, here are two examples. In Japan, our Himeji coffee factory started operating a co-generation plant reducing carbon dioxide output by 32’000 tons a year.
In Chile, our Graneros factory switched from oil and coal to gas and reduced its greenhouse gas emissions by 19’000 tons per year.

In other words, we have already met our obligations under Kyoto for the years to come and I am quite confident that by 2008 we shall be amongst those companies that will be net sellers of emission rights.
Let me add that all these changes will take place in the normal course of modernizing and updating our industrial park and that the expenditures will be covered by the routine capital expenditures planned for the years to come.

Ladies and Gentlemen, in my introductory remarks I mentioned that Mike Garrett will retire from Nestlé after a long and distinguished career spanning 44 years. Over the past years, he was instrumental in bringing Nestlé's activities in China to their present level and I asked him to give us a brief overview of our position in this country.

Mike Garrett

Thank you, Peter.

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Well, Ladies and Gentlemen, let me begin by stating that over the past two centuries and in the present one, Nestlé has been in China for more years than it has been absent. In fact, in the 121 years since we started trading in Hong Kong in 1874, Nestlé China, through many ups and downs, has grown into a vibrant corporation with 10 000 employees, 21 factories and sales in Greater China of 1.6 billion Swiss francs.

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In mainland China, our sales volume and our turnover have quintupled in eight years.

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Better yet, we have performed better than the food and beverage industry. Indeed, over the last six years, we managed to generate real internal growth of over 20 percent, while the industry was growing at a very respectable 10 percent.

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This growth is driven by very strong market positions in key product categories. We are clear leader in infant formulae, in growing up milks, in premium milk powders, in soluble coffee, in bouillon, in concentrated liquid seasoning and in chocolate wafers.

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Nestlé and all the other actors are evolving in a fiercely competitive market. Nestlé is clearly ahead, when you look at Western food &beverage corporations who are majority owners of their operations and who manage them themselves. This allows us to take a long-term approach to strengthening our brands and to patiently push our presence westwards from the coastal area by building distribution presence in the thousands of smaller Chinese towns. The definition of a small town in China means anything between 500 000 and 1 million people!

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Furthermore, we are now in the sixth year where our operations deliver operating profits.
Nestlé is in China for the long haul. We are building a long-term relationship with suppliers, the trade, the authorities and I believe that our presence is appreciated. We have made two highly successful acquisitions in the bouillon sector, Totole and Haoji, propelling us in the number one spot in a very important sector.

The potential of the Chinese market is mind boggling, but time and again, corporations out for the quick buck or those who chose their partners unwisely, have come to grief. Our recent history in China shows however, that sound business principles, a serious commitment and a determination to win result in an outstanding success.

That’s what I wanted to say about China and I now hand the floor back to you, Peter.

Thank you, Mike.

Mike has the habit of pointing out in our Executive Board Meetings that China will one day be the largest individual market in the Nestlé Group. He is very prudent, however, and I have not yet managed to nail him down on any specific year. That being said, I believe he is right and I certainly look forward to a continued exceptional development in that country.

Let me now, Ladies and Gentlemen, broach two entirely different subjects. I first want to give you a brief update on the very satisfactory development of our joint-venture with General Mills, Cereal Partners Worldwide.

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Since the beginning of the nineties, that business has grown almost like driven by a metronome, regularly, year after year. It think this steady development indicates how well the partners work together and how closely their views on business development coincide. That is one of the key factors in the success of any joint-venture – if time horizons differ too sharply, it is very difficult to operate successfully.

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Our business started out modestly, evidently, and it was a hard slog against the Number One in the business at first. Overall, competition has expanded the overall market and we still see room for improvement with regard to market share.

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Again, both partners knew one has to invest before harvesting. They had the patience to stick it out, to continue to invest and to build a business. Breaking even in year eight only took conviction: I am not certain that a company with a short-term financial outlook would have done it.

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As you know, our joint-venture agreement excludes the US where General Mills runs a very successful business on its own. The rest of the world, however, is CPW territory and just last year, Cereal Partners Worldwide opened its first factory in mainland China. Today, you find CPW products in more than 130 countries.

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I would like to say a few words about our water business which accounts for 9 percent of our overall sales. Nestlé waters went through an extremely turbulent year with sharply contrasting conditions in the key regions of the US and Europe. In Europe we faced a rotten summer, following the heat wave in 2003. The consumers’ trend toward private label and lower priced bottled waters accelerated in 2004, with a resulting decline in sales. We had fortunately pre-empted that trend with the launch of a pan-European water, Nestlé Aquarel, in the year 2000 already. Aquarel lived fully up to its promise with an organic growth of over 40% in 2004.

Last autumn, Ladies and Gentlemen, I talked in some detail about our determination to improve overall productivity in our water business in France and specifically in Vergèze where Perrier is located.

I am happy to report that the restructuring of our water business in different legal entities is making good progress in Vittel and Contrexéville, as well as in Quézac. The dominating labor union in Vergèze, the Confédération Générale du Travail has unfortunately elected to oppose that move at Perrier and we are expecting a court decision that could unblock the process in mid-March.
Let me, once again, make our position perfectly clear. Nestlé believes in the economic potential of the Perrier brand and is willing to continue investing in order to bring Perrier back to commercial success. But none of this is going to happen unless we get a clear commitment from the labor union to put an end to their policy of blocking productivity improvement. The option of selling Perrier is still on the table.

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You know how important the US market is for Nestlé Waters. As a matter of fact, it accounts for about 45 percent of our world-wide water business. We have a broad portfolio of strong regional brands, such as Poland Spring, Arrowhead, Deer Park, Ice Mountain or Zephyrhills, a strongly growing national value brand with Nestlé Pure Life as well as the premium waters like Perrier, San Pellegrino and Panna covering the top end of the market.
The US water market in general saw continued volume growth, but at lower prices. Nestlé performed well and gained market shares in retail , with 9.7% organic growth. The price declines in retail also affected the Home and Office delivery market in the US, but this remains a sizable business for Nestlé, with excellent profitability. I am happy to report that our overall water business in North America showed internal growth of almost 15 percent, settling once and for all the question of market leadership after the price wars launched by a competitor in 2003.

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Over the past few months, there has been considerable interest in the Nespresso story. Let me quickly, without going into too much detail, give a few highlights of this success story. I hope that my presentation will also explain why we do not expect the intensified competition in this field to significantly impact the Nespresso growth rate.

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This, Ladies and Gentlemen, is what explains the Nespresso success and this is what be believe will continue to make it unique among the many systems vying for consumer attention.
By combining

- technology,
- quality and
- service

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Nespresso encompasses the entire value chain from the raw material to the consumer. It is therefore not the expiration of a patent for the capsule technology in a few years that could endanger the enviable position of Nespresso. It also means that we have to remain very attentive to consumer preferences and to keep on innovating in order to remain at the head of the pack.

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Let’s just look at a few figures that illustrate the development over the past fifteen years:

In 2005 we will probably reach 1.5 billion capsules and a sales forecast for one billion Swiss francs for 2007 appears very realistic with a very good profitability. I do expect that we will reach 1.8 million Club members this year already – and with growth rates of 30 percent and over, you can imagine that we are quite ambitious still.

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Indeed, Nespresso still has huge potential. Growth will come from these five factors. Let’s look at them in some detail.

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I have already mentioned that the discernible consumer benefits in this sector are the key elements and I believe we have found a mix that competitors will have a hard time matching.

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We are in an Espresso market that is still growing strongly. Moreover, opportunities for new segments, such as Cappuccino, Latte, Frappucino and so on exist and will be exploited over the years to come. This allows us to adapt our offer to consumer preferences everywhere and thus expand the concept geographically, at private homes as well as in offices.

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Nespresso is a global brand already, as its presence on four continents indicates. But the market potential is still huge.

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Just look at the market penetration of Espresso machines, where Switzerland is world champion. These are all markets with high purchasing power, growing sophistication in coffee consumption and an evident interest in convenience.

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And as you can see from acceleration in the sales of Nespresso machines, the mix of good design, ease of handling and a broad price range, accommodating virtually all household budgets, has had its effect.

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We are extending our Network by adding Nespresso Boutiques which help us anchor the concept of Nespresso as

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the Super-Premium brand, the acknowledged and preferred leading quality coffee company for portioned coffee – the icon for perfect coffee worldwide.

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Another highly successful operation within the Nestlé Group, Ladies and Gentlemen, is of course our pharma operation Alcon. Sales in 2004 rose almost 15 percent, reflecting some favorable currency tailwind as well as the successful expansion of market share in key new products. In addition, an extremely well-filled and promising R&D pipeline makes me believe that this company still has a significant potential to sustain an enviable growth rate in the years to come. Earnings per share were up sharply – over 35 percent! – over the previous year. Margins are of course aligned on the pharmaceutical industry, not on the food and beverage sector and help you understand why I often insist on the importance of our 75 percent stake in Alcon in our overall finance strategy.

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And I am very happy to report that this stake is developing extremely well. As you know, since March 2002, Alcon is listed on the main board of the New York Stock Exchange. 25 percent of the Alcon stock were put on the market at 33 dollars a share. The partial initial public offering was a success and the market valuation of Alcon has more than doubled between the IPO and the end of 2004, when it amounted to almost 25 billion US dollars. These days its market value amounts to over 26 billion US dollars and our - in inverted commas - little pharmaceutical diversification in Fort Worth is the world's 19th largest pharma company if you go by market capitalization!

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Before coming to the outlook on the present year, let me, Ladies and Gentlemen, make some brief remarks about GLOBE. You know the main objectives:

1. Implementation of harmonized Nestlé Business Excellence best practices
2. Implementation of data standards and data management
3. Implementation of standardized information systems and technology

Still on track and on budget, I am pleased to report, GLOBE has started this very important year with several Go-Lives already.

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South Africa, Austria and Pakistan, as well as the Center, have already completed the process. Over the coming months, very major markets like Germany, Russia, South Asia, Mexico, UK/Ireland, Oceania and Nestlé Waters Home and Office Delivery in the UK will go GLOBE also.

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At this stage, twelve markets in 15 countries, with total sales of about 10 billion and 36'000 users have implemented GLOBE in its totality, that is have adopted the processes, data and systems. 113 factories, 129 distribution centers and 138 sales offices operate fully on GLOBE. In other words, about 12 percent of Nestlé sales worldwide are administered, measured, billed, accounted for and reported in GLOBE.

Ladies and Gentlemen, before taking your questions, let me briefly sketch our outlook for the present year. I do not see any fundamental difference with 2004, even though the chances for a political breakthrough in the Near-East seem to have improved somewhat. From an economic perspective, we expect growth to continue in the Americas, in Asia, in the Middle East and in Africa. In Western Europe, however, growth remains as elusive as in 2004, while Eastern Europe keeps on catching up.

There are no major acquisitions on the horizon; as I told you some time ago, we have done our homework in those areas where acquisitions were critical to reach an end-game position in strategic product categories such as pet care, ice cream and water. For the Group then, this shapes up as a normal year requiring a lot of hard work, but no major re-orientation of our strategy. Profitable sustainable growth is what we are looking for and I believe that we have shown over the past few years that our strategy is perfectly able to deliver that.

So you will not be astonished if I say here that I am confident that the Nestlé Group will again show sales and margin growth at constant currencies in 2005 and that
I see no reason why we should discard our organic growth trend target of 5 to 6 percent.

Thank you for your attention, Ladies and Gentlemen, and we will now be glad to take your questions.

Q & A period