

Procurement of Raw Materials at Nestlé



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Disclaimer

This presentation contains forward looking statements which reflect Management's current views and estimates. The forward looking statements involve certain risks and uncertainties that could cause actual results to differ materially from those contained in the forward looking statements. Potential risks and uncertainties include such factors as general economic conditions, foreign exchange fluctuations, competitive product and pricing pressures and regulatory developments.

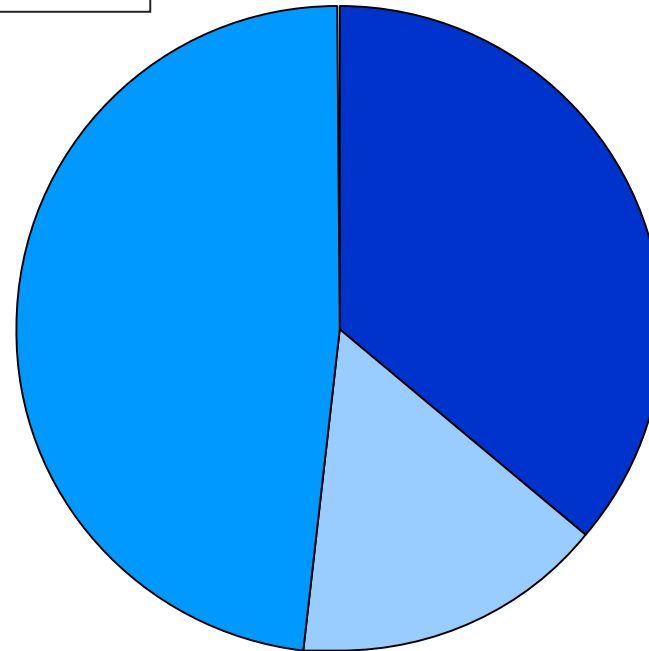
- Nestlé – Corporate Operations – Procurement
 - Functional Responsibility worldwide
 - Operational Responsibility on key commodities
- Buying Policy reviewed formally every month
 - Input from all Zones; business alignment
 - Signed off by Executive Board
 - Have approved “rapid” changes when required
- Buying & Hedging in 6 Commodity Procurement Centres across the Zones

- Ensure “quality” supply to our factories
- Buy better than the market
- Pursue cost reduction opportunities
- Manage impact of price changes
- First recipients of supplier innovation
- Compliant suppliers, Sustainability - CSR
- Efficient supplier interfaces – optimize supply chain

- Evolution of Nestlé spend on commodities
- Commodity market trends – driving factors
- The new environment
- How we manage the price pressures
- Nestlé's buying performance
- Impact of oil prices
- Sustainability with suppliers
- Outlook 2008 and 2009

Total: CHF 58 billion

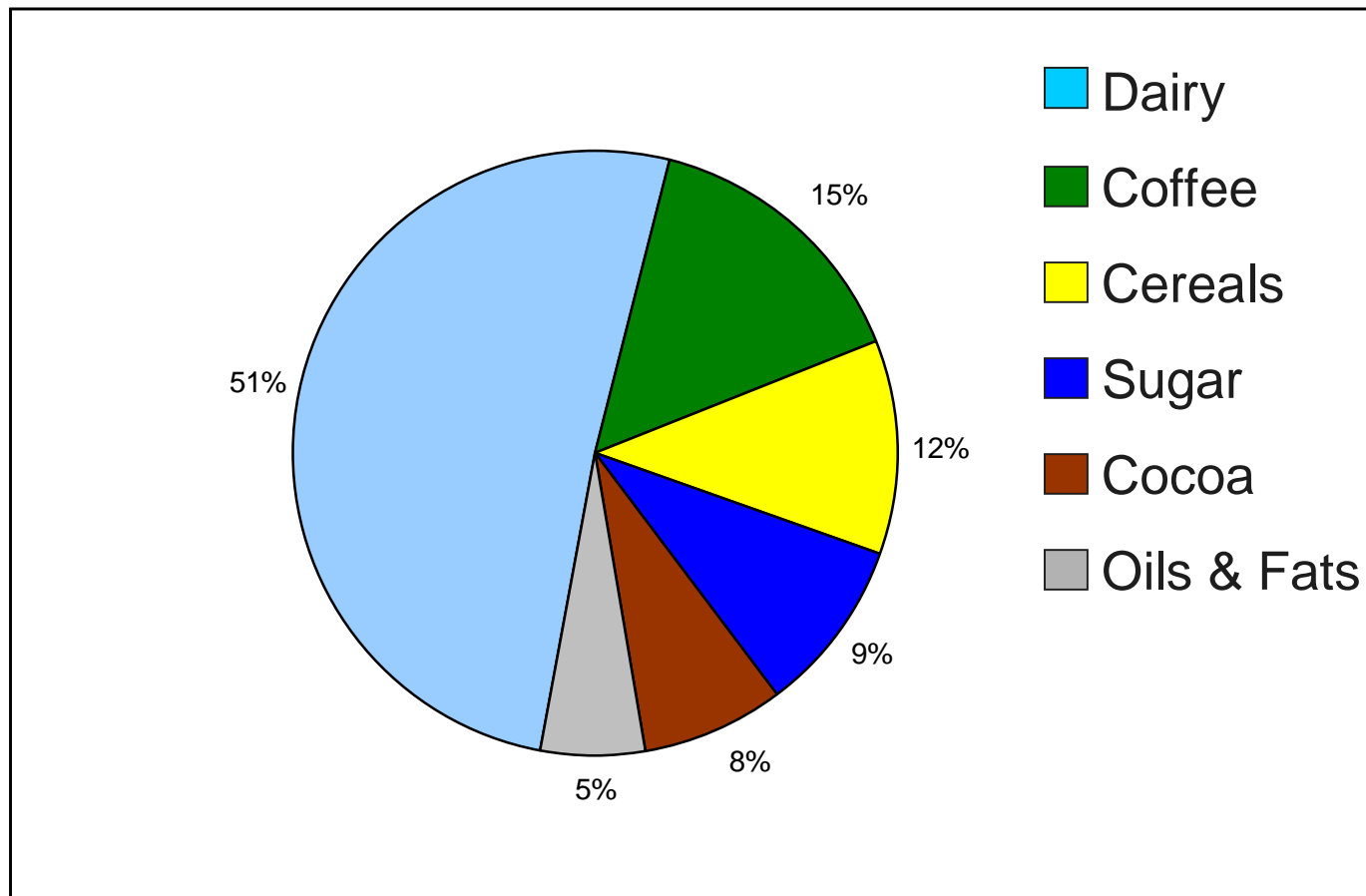
Services & Indirect
Materials (S&IM)
CHF 28 billion



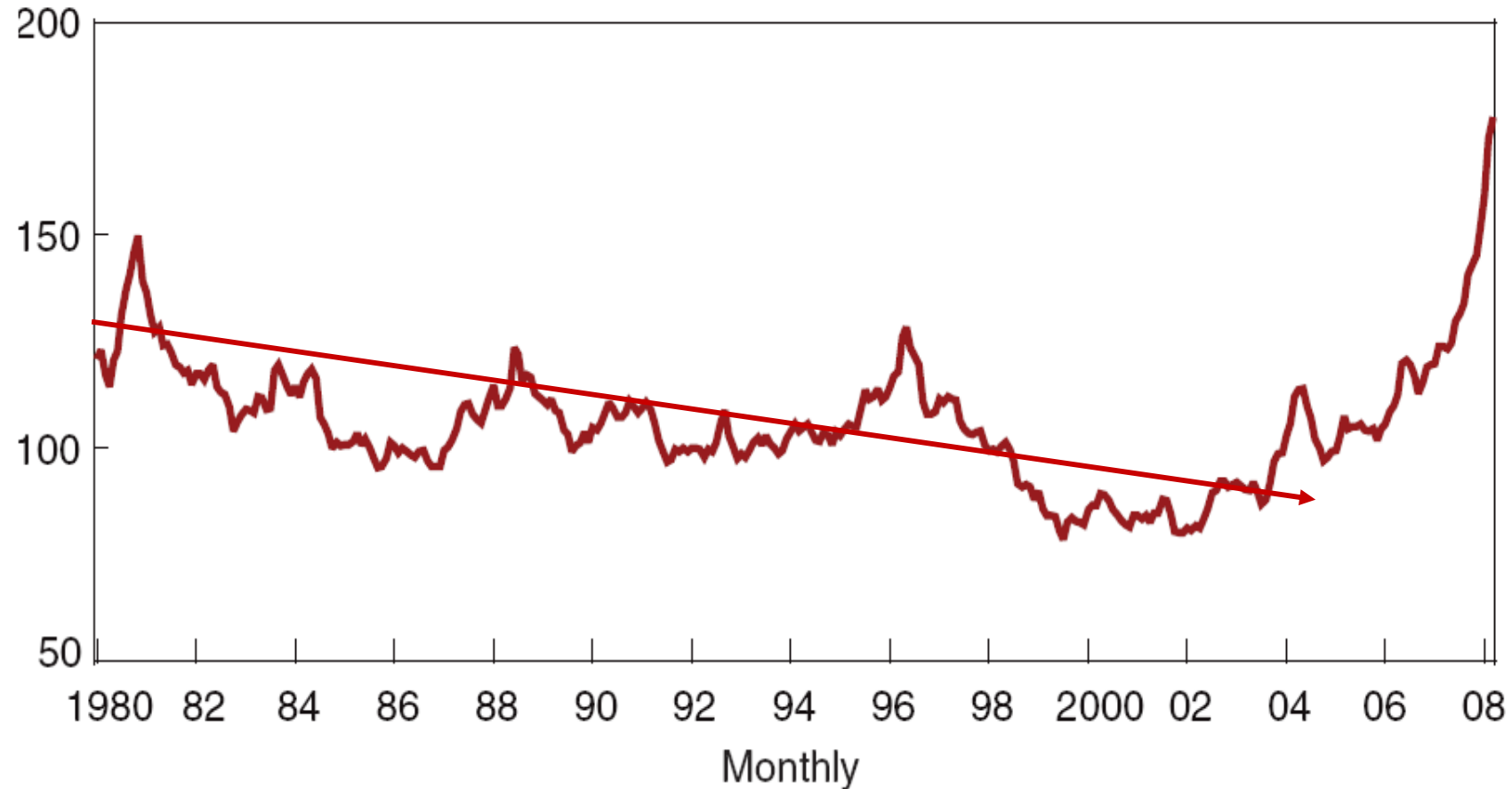
Raw Materials
CHF 21 billion

Packaging Materials
CHF 9 billion

- Total 2007 spend of CHF 21 Billion
- The 6 key commodity groups account for CHF 13 Billion



Index: January 1992 = 100



Source: International Monetary Fund: International Financial Statistics.

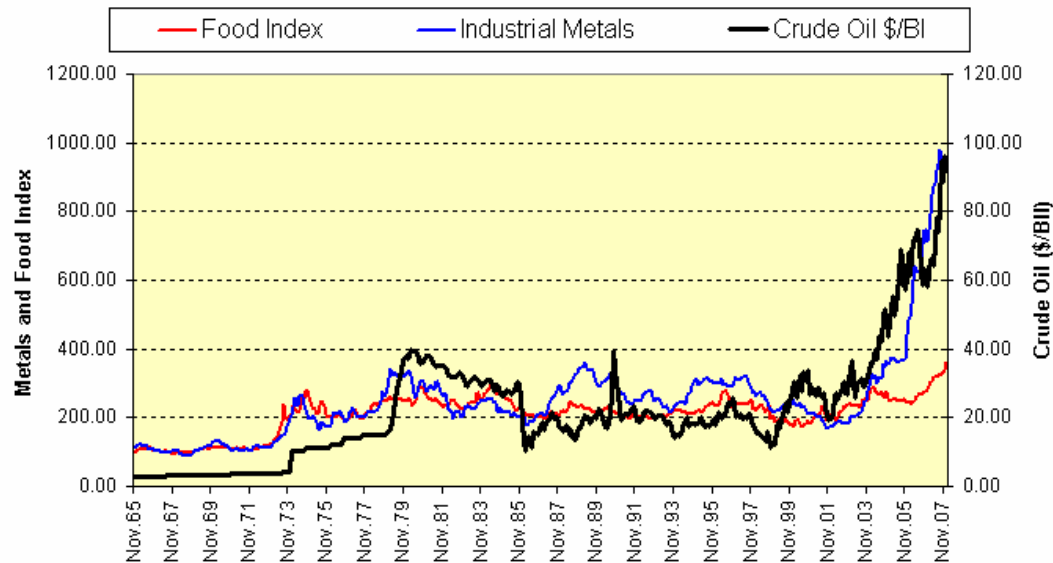
Cost Base Evolution



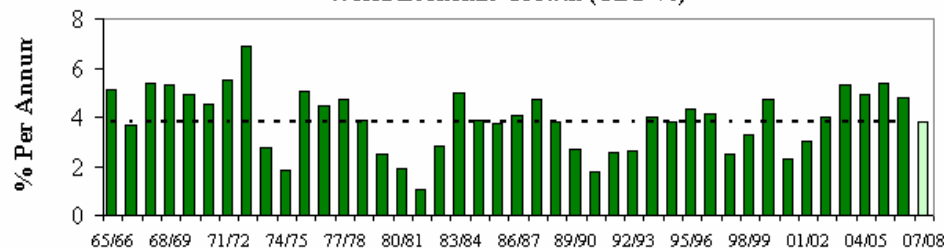
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Raw Materials (Bn CHF)	16	16	18	21
Packaging (Bn CHF)	7	8	8	9
Turnover (Bn CHF)	86.8	91.1	98.5	107.6
Raw Materials & Packaging % T/O	26.5	26.3	26.4	27.9
Change (bps)		- 20	+ 10	+ 150

- 1980s investments exceeded demand
- Excess supply. Then:
 - Mergers & Acquisitions
 - Consolidation → Capacity reductions
 - Competition → Reduced suppliers
- Safety stocks at all time lows
- Weather events
- Demand growth exceeds supply growth

Historical Nominal Price Trends Industrial Metals and Food and Crude Oil



World Economic Growth (GDP %)

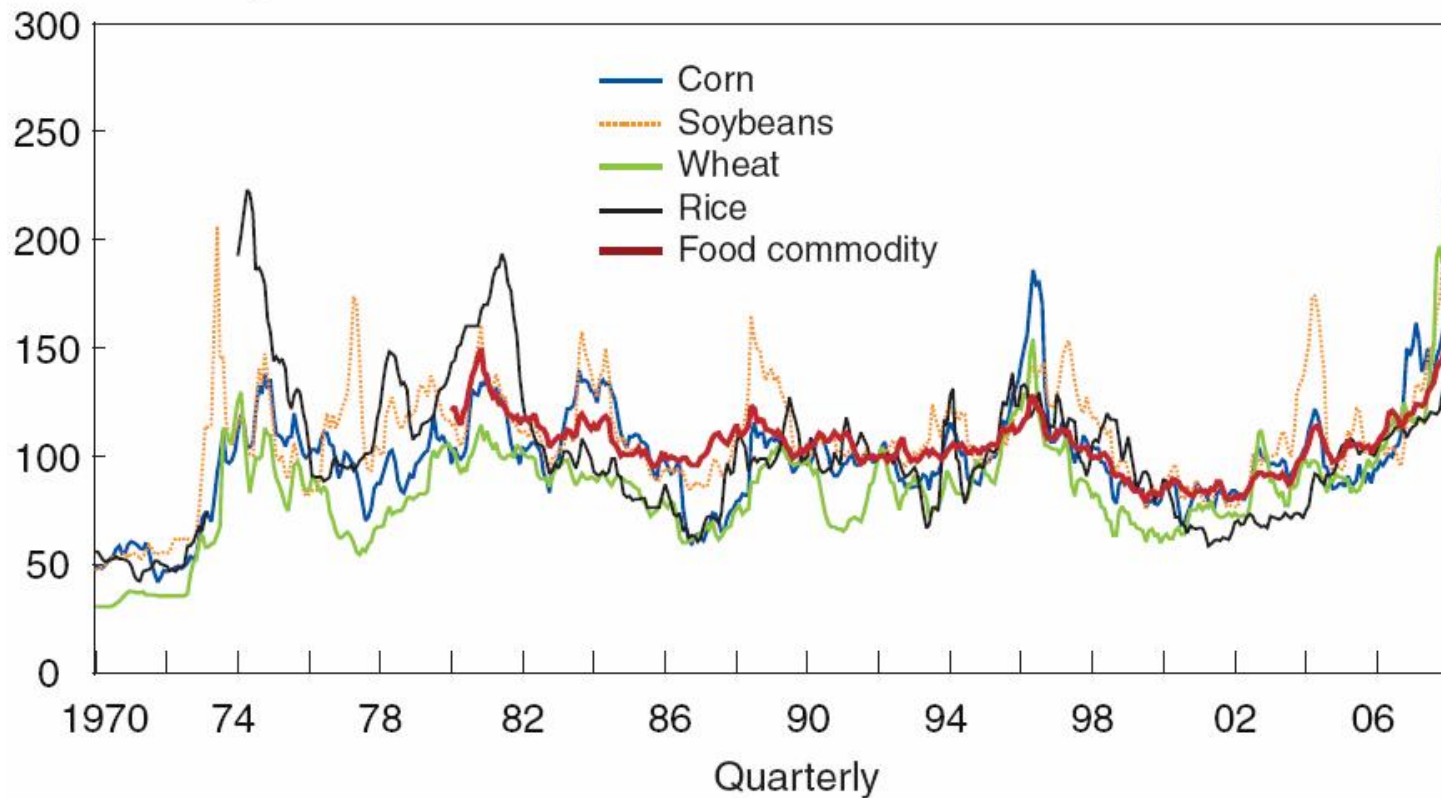


- **Metals and Energy have been driven by China / Asian / Middle East construction boom.**
- **Growth, especially BRIC, likely to fuel increased food demand and create commodity specific spikes.**
- **Food rallies historically tend to be more supply (weather) related.**
- **Investment by funds make traded commodities another volatile financial market.**

- Sustained demand growth – BRIC countries
- Major “new” demand from bio-fuels
- Fund activity – commodities an attractive investment
- Significant price volatility – but varies by commodity
- Weaker USD
- Memories of the late 70s / early 80s !!

Food commodity price spikes since 1970

Index: January 1992 = 100



Source: International Monetary Fund: International Financial Statistics.

- Both rising input prices and volatility to manage
- How ?
 - Commodity Research Team
 - Centres of expertise in hedging
 - Aggregation of buying volumes (Regional / Global)
 - Major focus on structured communications
 - Continued emphasis on Operational Efficiency
- “Good Buying” is necessary but not sufficient

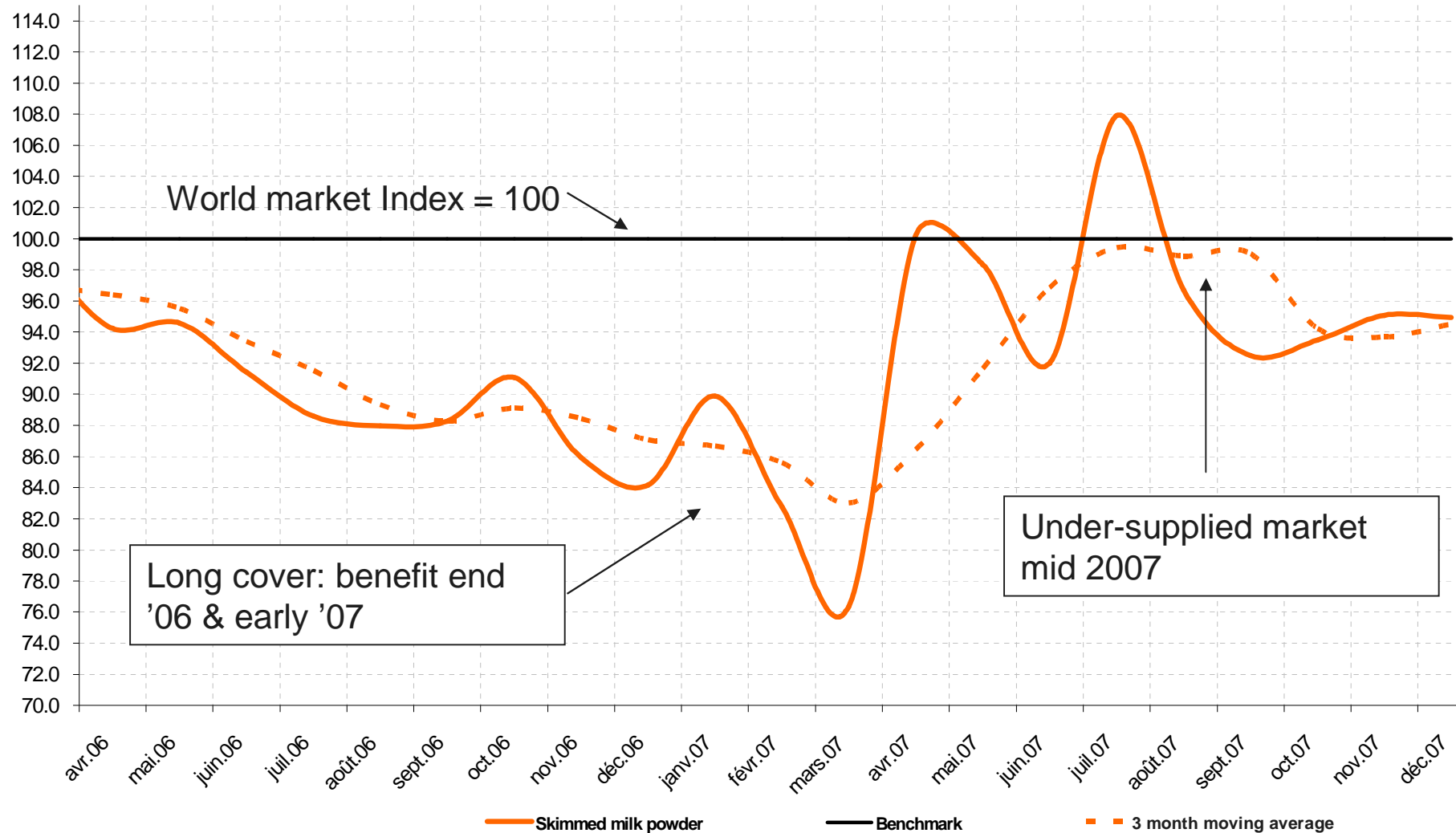
- Different techniques in different supply markets
 - How big a buyer is Nestlé ?
 - How important is the spend ?
 - What is structure of supply market ?
 - Availability of futures / derivatives for hedging ?
- Long-term contracts help ensure supply
- Multiple-origin sourcing balances risk
- Direct Procurement creates new sources, gives transparency, adds competitive advantage

The right sourcing strategy is a balanced one

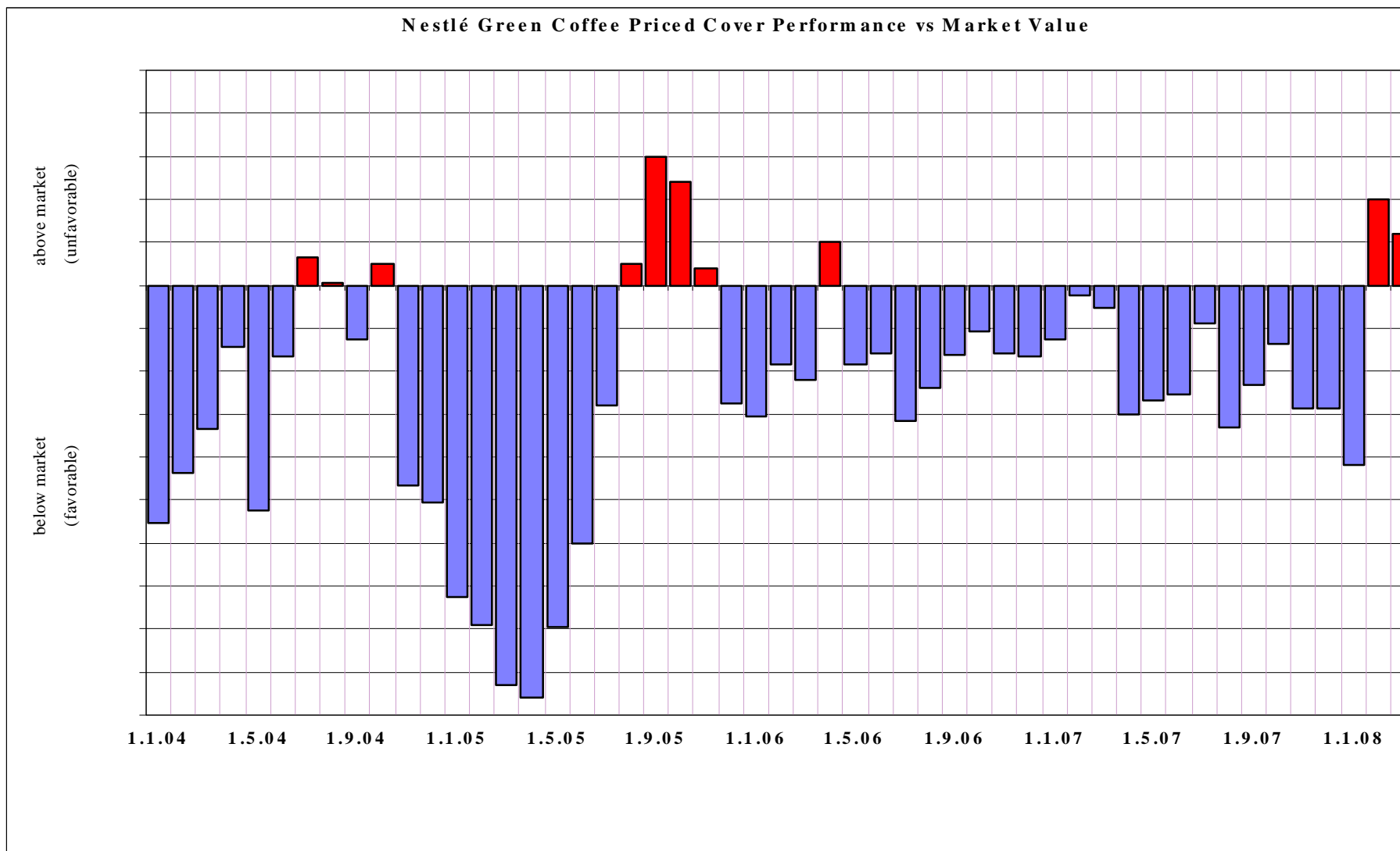
- Review supply strategies for critical materials
- Creation of “Supply Working Groups”
– managing impact on our business
- Evaluate mix of supply; re-consider “value added” vertical integration
- Long-term supply agreements; supplier investments; assure competitive / quality supply
- Spend management on world-wide basis – leverage scale of Nestlé; best suppliers

Continue to apply best practices in Procurement

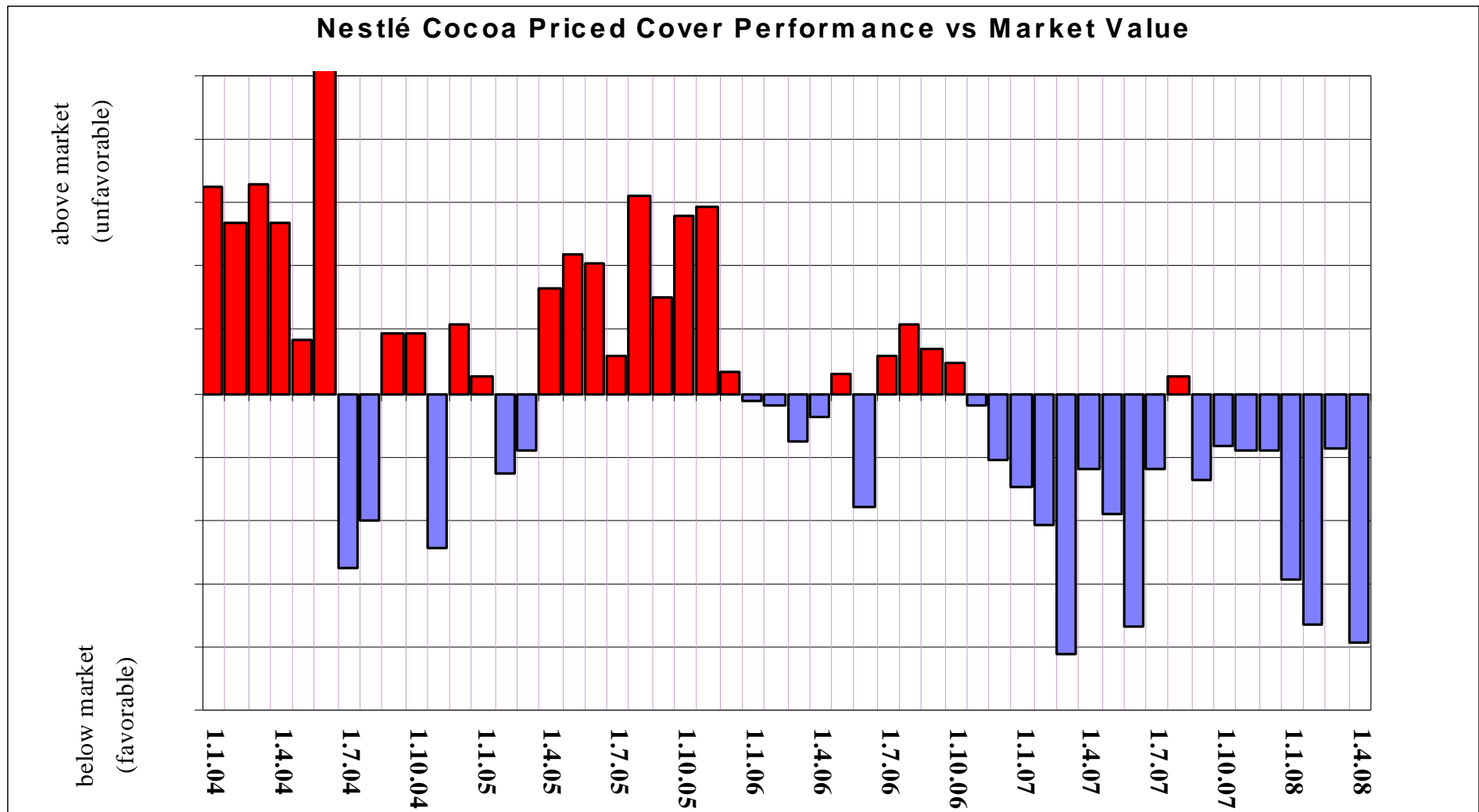
Nestlé skim powder purchases against key market indices



Coffee Buying performance vs market 2004 - 2008:



Cocoa Buying performance vs market 2004 - 2008:



Procurement savings within Operation Excellence:

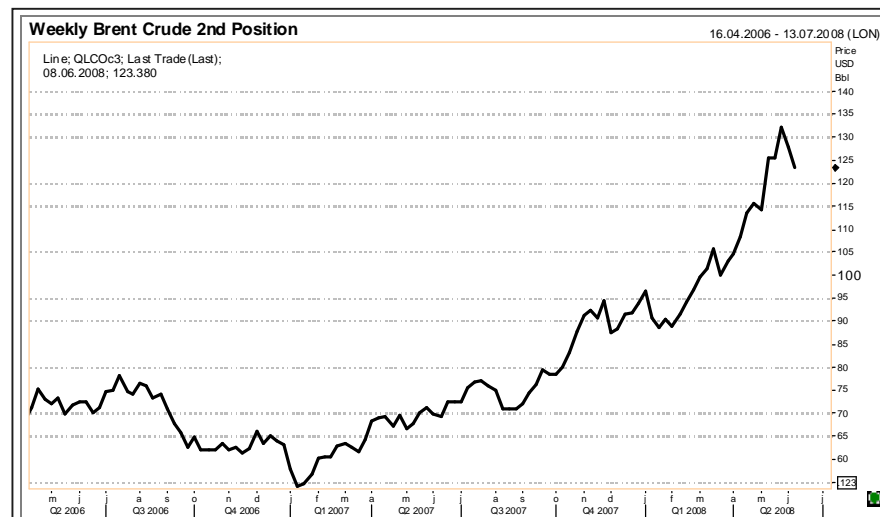
- 2005 600 Million CHF
- 2006 500 Million CHF
- 2007 500 Million CHF

- Savings from Price Negotiations, Specification Harmonization, Alternative Suppliers.
- GLOBE enabled, through increased spend visibility.

- Commodity prices were too low for too long
- Price volatility will continue
- Procurement techniques, controlled hedging policy, strong global co-ordination
- Since 2006, greater focus on business engagement – alignment – communications
- Long-term supply, direct procurement, harmonized specifications – balanced sourcing strategy
- Continue to measure performance vs markets – and consistently to beat them
- Focus on operational improvements – since 1997

Several areas of impact

- Energy - utilities
- Transportation
- Packaging
- Supplier cost inflation



The impact on Nestlé 2008 and 2009

- “Some” exposure on transportation – 20% (inc duty) of distribution costs – and certain packaging categories
- Majority of 2008 on fixed price contracts
- Sustained high oil prices could impact 2009

- States Nestlé's expectations
- Integrity; sustainability; labour practices; safety, health & environment; agriculture – all covered
- Applies to all suppliers, world-wide
- Compliance, corrective measures and continuous improvements will be expected
- Audit plan in place
- Link to contracts through GLOBE
- A responsible, sustainable and competitive supplier base to support Nestlé's future growth

- Increases over 2007 in line with expectations; prices will stabilize in H2.
- 2009 outlook – higher prices stimulating supply:
 - Dairy & Cereals down from 2008 highs; no return to pre-2007 prices; more stability in 2009
 - Coffee price unlikely to increase further; large 2008 crops could reduce prices, but not immediately
 - Cocoa shows little sign of major supply growth; prices remain firm
 - Strong demand for Oils & Fats, as well as Sugar to keep prices firm despite growth in supply

Anticipate 2009 will see stability vs 2008 for Nestlé

- Focus on buying competitively – sustainable & responsible – to support Nestlé’s accelerated growth
- Improve operational efficiencies – eliminate waste; align & communicate with business
- Commodity markets have changed; no return to 2004; more stability in H2 2008 and 2009

