Nestlé Investor Seminar
"A Transformational opportunity"
Peter Brabeck-Letmathe
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.
EBITA margin over last 10 years

Nestlé Group EBITA and EBITA Margin from 1995 to 2004

EBITA (mio CHF)

% of Sales

* New sales definition in 2001
The four factors of sales 1995-2004

% Growth

10 years average

OG: Organic Growth

OG 5.7%

2.3%

3.4%

-2.5%

RIG Pricing & Other Acquisitions/Divestitures FX Impact

(*) in 2001: including TTS effect
Nestlé Four Pillar Strategy

- FitNes
- Operation EXCELLENCE 2007
- AOR*

- Consumer insight
- 60/40+

“Nutrition in its broadest sense”

- Horizontal distribution
- Hard discount
- FoodServices

(*) AOR: Agency of Record
Evolutionary Approach to Savings

MH'97

- Continuous Improvements
- Centre: top-down targets
- Markets: ownership

CI

Target 2004+

- Target setting
- Best practices
- Industrial Restructuring
- Joint Purchasing/Technical effort
- Harmonisation of Raw/Pack materials

Operation
EXCELLENCE 2007

- Integrated Technical / Supply Chain / Generating Demand effort
- Optimised planning processes
- Complexity optimisation
- Manufacturing/ Distribution network optimisation
- High performing logistics
"Operational EXCELLENCE 2007"

...aims at “Total Delivered Cost” improvement and with focus on four integrated streams:

- High Performance Factories
- Harmonisation of materials and global purchasing
- Implementation of remaining industrial restructuring
- Improvement of supply chain and distribution activities

GLOBE is the prime enabler
A fundamental truth

Scale and operational efficiency alone will not lead to long-term success...

...it is first and foremost our capability for Renovation & Innovation and speed with which we can bring these to the Markets.
Where are we with the Four P’s?

- Proprietary technologies
- Protectable product designs
- Aggressive patent policies
- Perceivably better products

Products need to live up to the 60/40 promise or, even better, 60/40+
"Innovation! Innovation! Innovation!"

We will be able to generate high value returns by creating proven benefits for our consumers

60 / 40 +

Innovation!

Marketing Power
Key Consumer Benefits

- Best In-Cup Quality
- High Variety & Individual Choice
- High Convenience
- Great Machines
- Best Service
The best innovations...

- meet a true consumer need in a surprising manner
- are in line with equity of brand
- need no explanation as to their use
Concentrate on those few but strong break-through ideas
Designing a Winning Strategy

- The art of asking questions
- Experimenting
- Constantly renewing the thinking process by questioning the answers

Always keep reinventing the strategy!
... but fast implementation is critical

Critical Success Factors are:

- Speed
- Executional agility
- Responsiveness

to win consumers' and customers' preference

**Speed is of the essence!**
Priorities agreed upon by Zones + SBUs on:

a) innovations that bring the highest impact to the business

b) innovations that support the turnaround of all strategic but still under-performing businesses in the Group
Our third pillar...

Low Cost Operations → Innovation Renovation

Consumer Communication → Whenever Wherever However

...an opportunity for improvement
We have developed an active hard discount channel strategy
We will revitalize our FoodServices channel strategy
We will expand our horizontal sales coverage

Costs have to be matched by incremental profit: a selective product/price channel strategy is paramount!
A new paradigm of consumer goods marketing

1. Brands must learn to address the needs of multiple stakeholders in a consistent and coherent way

2. Consumers will focus on products and their benefits as well as on the behaviour of the brand

3. Long-term profitable growth will require a whole set of relationships

“Show me, don't tell me”
Improving communication efficiency

Leveraging Nestlé's Scale...........

mobile

internet

GroupM

TV & programming

outdoor

Savings reinvested in the brands

CHF 2 Billion

Nestlé Investor Seminar - Vevey June 8-9, 2005
To achieve Nestlé's long term vision...

We have to continuously reshape our actual businesses & structures: not a revolution but an evolution

- Explorative within scope of our vision
- Proof-of-concept / viable business model required before major resources allocated

**Imperatives:**

- Drive industry change and paradigm shifts.
- Explore options outside current market boundaries
- Build new market segments and capabilities
- Develop future growth drivers
- Defend and extend current business
- Set foundation for future growth

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Core business | Emerging businesses | Nutrition, Wellness Well-being

**CREATE Viable Future Options**

**BUILD & STRENGTHEN**

**EXTEND & DEFEND**
...we are evolving

The Leader

from
a respected, trustworthy
Food company

to
a respected, trustworthy
Food - Nutrition - Health &
Wellness company
Nutrition First, Taste as a value added

Taste First, Nutrition as a value added

Nutrition for an enhanced quality of life
Newly created Corporate Wellness Unit

"Fast forward to Good Food, Good Life"

Competence center for 60/40+ and to change consumers’ mind perception of Nestlé to a Food, Nutrition, Health & Wellness Company
### Wellness in action

<table>
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<tr>
<th>Wellness in action</th>
<th>People</th>
<th>Products</th>
<th>Brands &amp; Communication</th>
<th>Science</th>
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<tr>
<td>Setting direction</td>
<td>Drive internal mindset change towards NHW</td>
<td>NHW as a value creator and a competitive advantage</td>
<td>Leverage 60/40+</td>
<td>Leverage our scientific strength</td>
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<td>Getting alignment</td>
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<td>Providing business solutions</td>
<td>Develop Nutrition Training</td>
<td>Accelerate the implementation of 60/40+</td>
<td>Develop NHW concrete actions and business tools</td>
<td>Coordinate the issuing of corporate nutritional policies</td>
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<td>Drive Wellness Networks &amp; Best Practices</td>
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<td>Ensure and share best practice on 60/40+</td>
<td>Develop and align BABs to health benefits areas</td>
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### Key Success Factors:
- Ownership
- Networks
- Collaboration

### Key Benefits:
- Transformation
- Speed
- Coherence
Manage the accelerated growth of Branded Active Benefits (BABs)

Products with BABs = over 2 bn Swiss francs in Sales
Nutritional product advantage + Consumer relevant communication
The human factor, our people, will always have to play a vital role.
Non-negotiable core elements

- Safety
- Quality
- Corporate culture
The decentralised "generating demand" frontline needs to be "focussed, fast and flexible" (Markets, Businesses),

Regionally or even globally run “ensuring supply” back-up necessitates being "slim, cost-efficient and service-driven“ (Factories and Shared Service Centers),

Strategic, consumer insight and R&D driven innovation/renovation (SBU, R&D).
In the middle of our transformational challenge

**Strategic Transformation**

A long-term transition from traditional businesses into a Nutrition, Health and Wellness company

**Organisational Transformation**

A new organisational dimension: Role of the Center, Role of the Markets and Role of the Market Heads

Towards a new dimension:
The Global Multi-focal Company
An agile fleet of businesses...

... each one independently strong and flexible, following its own rules to be successful, led by business specific, management and staff.
To exploit fully the Group potential...

... we need highly interdependent organisations, as we have to leverage our size vis-a-vis our suppliers, customers, media, governments, etc..
The Nestlé model

1. On-going organic growth target of 5 - 6 %

2. Continued year after year improvement of EBITA margin

3. Capital efficiency / Business ROIC

＝ Resulting in an industry outperforming, long term total shareholder return.
Excellence and Courage in execution

The course of the company has been set

Now our people must see the journey through
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