Procurement of Raw Materials at Nestlé

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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
Procurement Objectives

- 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 expenditure - spend category (2007)

Total: CHF 58 billion

- Raw Materials: CHF 21 billion
- Services & Indirect Materials (S&IM): CHF 28 billion
- Packaging Materials: CHF 9 billion
• Total 2007 spend of CHF 21 Billion
• The 6 key commodity groups account for CHF 13 Billion
Food commodities

Index: January 1992 = 100

Source: International Monetary Fund: International Financial Statistics.
<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw Materials (Bn CHF)</td>
<td>16</td>
<td>16</td>
<td>18</td>
<td>21</td>
</tr>
<tr>
<td>Packaging (Bn CHF)</td>
<td>7</td>
<td>8</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>Turnover (Bn CHF)</td>
<td>86.8</td>
<td>91.1</td>
<td>98.5</td>
<td>107.6</td>
</tr>
<tr>
<td>Raw Materials &amp;</td>
<td>26.5</td>
<td>26.3</td>
<td>26.4</td>
<td>27.9</td>
</tr>
<tr>
<td>Packaging % T/O</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change (bps)</td>
<td>-20</td>
<td>+10</td>
<td>+150</td>
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So why the trend change?

- 1980s investments exceeded demand
- Excess supply. Then:
  - Mergers & Acquisitions
  - Consolidation $\rightarrow$ Capacity reductions
  - Competition $\rightarrow$ Reduced suppliers

- Safety stocks at all time lows
- Weather events
- Demand growth exceeds supply growth
• 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.
New factors in 2007 & 2008

- 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 !!
Global Food Commodities

Food commodity price spikes since 1970

Index: January 1992 = 100

Quarterly

Source: International Monetary Fund: International Financial Statistics.
Mitigating the business impact

• 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
Procurement practices

- 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
New practices for a new environment

- 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

- **World market Index = 100**
- Long cover: benefit end '06 & early '07
- Under-supplied market mid 2007

**Diagram Description:**
- The graph compares Nestlé’s skim powder purchases with key market indices.
- The orange line represents skimmed milk powder, the dashed line indicates the benchmark, and the dotted line shows the 3-month moving average.
- The X-axis represents months from June 2006 to December 2007.
- The Y-axis shows the market index values from 60.0 to 114.0.
Managing cost pressures

Coffee Buying performance vs market 2004 - 2008:

Nestlé Green Coffee Priced Cover Performance vs Market Value

above market (unfavorable)
below market (favorable)

1.1.04 1.5.04 1.9.04 1.1.05 1.5.05 1.9.05 1.1.06 1.5.06 1.9.06 1.1.07 1.5.07 1.9.07 1.1.08
Managing cost pressures

Cocoa Buying performance vs market 2004 - 2008:

Nestlé Cocoa Priced Cover Performance vs Market Value

above market (unfavorable)

below market (favorable)
Managing cost pressures

Procurement savings within Operation Excellence:

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

- GLOBE enabled, through increased spend visibility.
Summary – A new environment

- 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
The Nestlé Supplier Code

• 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
Commodity prices: Outlook 2008 & 2009

- 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
And finally

• 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