NESTLÉ S.A.

2006 NINE MONTHS SALES CONFERENCE CALL SPEECH

Conference Date:	**19 October 2006**
Chairperson:	**Mr Roddy Child-Villiers** **Head of Investor Relations** **Nestlé S.A.**

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Roddy Child-Villiers - Nestlé S.A. Head of Investor Relations

SLIDE 1 - Logo Slide

Good morning, and welcome to our 9-month sales conference call. I don't suppose that it will be a very long call, as our numbers are in line both with our guidance and with your expectations. You may also be interested to listen to our press conference, hosted by Peter Brabeck and starting at 10 Swiss time. Details are available on our web site.

SLIDE 2 - Disclaimer

I'll start, as usual, by taking the safe harbour statement as read and move directly to the highlights.

SLIDE 3 - Strong growth continues; Outlook confirmed

Total sales increased by 9.1% to 72.2 billion Swiss Francs.

The <u>Food and Beverage</u> business was the main driver of organic growth, as always, with 5.8%, comfortably above the industry average. This, together with a continued strong growth at our pharmaceutical activities, enabled the Group to achieve Organic growth of 6.1%. This slight slowdown since the half-year is in line with our guidance, and explains why we have continued to guide to a full year number of between 5 to 6%.

We have announced some disposals in the quarter, and I will come back on this in more detail.

We remain on track with our <u>GLOBE</u> implementations, with about 2/3rds of our Food and Beverage sales now operating on GLOBE systems. So far the implementations have passed without incident and, as you know, we are now turning our attention to assuring that we maximise the benefit of having the business running on the GLOBE system. I am sure that you have seen the changes in responsibility for GLOBE, announced today, and reflecting the progress that we have made. Mr Brabeck will comment on them more fully at the press conference.

The <u>raw material, packaging and energy environment</u> remains volatile, as expected. On the negative side, Robusta coffee prices have reached 7-year highs, and prices across the Grains complex, where we are less exposed, have also moved sharply higher during the 3rd Quarter, due to lower US supplies and as a consequence of new biofuel demand. Milk prices also tended to firm due to the negative impact of the hot summer in the US and Europe.

These pressures were partly compensated by our cover decisions, as well as by some more positive trends in Cocoa and, more recently, in World Sugar. Packaging materials continue to be the main source of concern, mainly in plastics (PET) but also to a lesser extent across metals and paper and board.

Direct energy cost pressures have eased in recent months, but may re-emerge in this quarter.

Finally on this slide, we have reconfirmed, as I have just said, that the Group is on track to deliver at the upper end of its five to six per cent organic growth target. We have also confirmed that we expect the Group to improve its EBIT margin over the level achieved in 2005, and I can reconfirm that our half year margin improvement, constant currency, is a good guide for the full year.

Slide 4 - Strong organic growth drives 9.1% increase in 9-month sales to CHF 72.2 bn

Next you can see the various elements of the sales.

Real Internal Growth, or volume, for the Group continued to be extremely strong, at 4.6% of sales. Pricing was 1.5%, in line with the half year. The Foreign exchange impact reduced by almost 200 basis points from the half year, as expected, whilst the net of acquisitions and divestitures moved from slightly negative to slightly positive. Within that number, acquisitions were 0.5% positive, while divestitures were 0.3% negative.

The Food and Beverage numbers also continued to be very strong, with 4.2% RIG and 5.8% organic growth.

Slide 5 - Currencies

And on this next slide you have the key currencies. As expected, not least due to the trend in currencies in 2005, we have seen their benefit to sales diminish as 2006 has gone on. You can see the detail for yourselves, so I will move on…

Slide 6 - Nestlé Food & Beverage* Major brands drive geographic sales performance

… to look at the organic growth of our total Food and Beverage business by geography. These numbers include the Zones, Nutrition, Water, Nespresso and our other globally managed food and beverage businesses, and you can see that we have continued to enjoy levels of growth that place us at the upper end of the industry in each area of the world. As you would expect from a Food and Beverage business, there are no significant shifts from the trends already established at the half year.

In <u>Europe</u> we enjoyed good growth in Nescafé and Nesquik, in the PetCare and Nutrition businesses, as well as at Nespresso and in Frozen Food. There was also an acceleration in Water during the Summer, despite poor weather in August, and in Ice Cream, reflecting the success of our launches of low fat products, as well as the relaunch of Mövenpick of Switzerland.

Our business continued to be strong in Eastern Europe, and we are pleased with the early results of our launches of CoffeeMate into those Eastern European countries, which have a strong Nescafé presence.

In the Americas, we continued to see strong growth in Frozen Food in North America, in PetCare, Culinary and ready-to-drink beverages, as well as in Nescafé and biscuits. Ice Cream's growth was somewhat slower than in 2005 as Dreyer's continued to focus on improving its balance between its sales growth and its earnings performance by reducing sales made on promotion, as well as various efficiency initiatives.

In the US we are seeing strong performances in a number of areas, including Frozen and Chilled Culinary, particularly the Stouffer's, Lean Cuisine and Buitoni brands, our products tailored to Hispanic consumers and in CoffeeMate. Nestlé Waters also continued to deliver double-digit growth.

Latin America continued to achieve organic growth comfortably above the Group average.

In Asia, Oceania and Africa, we continued to benefit from the strength of our business across many different markets in this part of the world, whether on the African continent or in Asia.

I think it is important that when you think about a company's presence in emerging markets, you think in terms of a company's actual sales in that market, rather than what that market represents as a percentage of that company's total sales. In Africa, for example, we derive our strong market presence, our economies of scale, and our strong EBIT performance from having over 2 billion Swiss Francs of sales there, not because Africa happens to represent over 2% of our Group sales. Scale cannot be measured as a percentage. Our emerging markets are enhancing to the Group's margins and growth because of our weight of sales there, approaching 30 billion Swiss Francs, not because they happen to represent about a third of our Group's sales.

From a brand standpoint in AOA, we have continued to see double digit growth from Milo, as well as in Chocolate, with Kit Kat continuing to perform well in Japan, in Culinary, with Maggi particularly strong, and in Water. Nescafé, Milk and PetCare also continued strong.

Slide 7 - Food & Beverage outperforming industry

In this next slide we show the performance of some of our key brands. As you can see, the great bulk of them are growing well above the industry average.

This slide demonstrates the value of having a clear strategy focused on profitable growth. As you know we have been focusing our efforts, whether in R&D or in marketing, around nutrition, health and wellness. It is not a coincidence that many of the faster growing areas have a health focus, such as the branded active benefits, Lean Cuisine and Milo. Nor is it a coincidence that even in categories that do not perhaps immediately strike you as heath-related, it is the health-focused products that are driving the growth, such as Slow Churn in Ice Cream, the Nido Nutrition system for children in Dairy, ONE in PetCare and so on, and with the promise of greater health benefits comes the promise of better margins.

Again, you have seen from today's press release that we are also reorganising our responsibilities around R&D to drive faster, successful, open innovation.

Interesting to note on this slide that Dreyer's, the brand, is still achieving high single digit growth, even if Dreyer's, the business, has slowed this year. This reflects a continued good performance by the Dreyer's brand in the market and a de-emphasizing by the business of the partner brands, owned by third parties.

Slide 8 - Product groups - RIG and organic growth

On this next slide we have the product groups. Some of this I have already covered.

In Powdered Beverages, both Milo and Nesquik are performing well. Nescafé and Nespresso are strong in Coffee.

In Waters we were up against very tough comparisons from 2005. North America was, therefore, somewhat slower but remained in double digits. Europe, on the other hand, accelerated, and we also enjoyed double digit growth in emerging markets. The Nestlé brands are well into double-digit growth, whilst San Pellegrino and Perrier, as well as the regional US brands are also growing well.

Within Dairy, Milk Products, where Europe now represents less than 10% of our business, saw a continued good performance from Shelf Stable Milk in the Americas and AOA and from CoffeeMate in the US.

I've already covered Ice cream.

In Nutrition, we saw a marked improvement from the half-year, as China began to accelerate. The message from Richard Laube is that we can now drop the China issue from our discussions on Nutrition, and he expects a further acceleration in the final quarter. There were good performances in general across the business, reflected by an organic growth, excluding China, of 8%. Richard is also delighted by the performance of the recently acquired Jenny Craig, although I should remind you that, unlike some peers, we don't include acquisitions in organic growth until a year after they are first consolidated.

In Prepared Dishes and Cooking Aids there was a good performance from Maggi in emerging markets, though Europe was rather tougher. Frozen Food was also strong, particularly in North America, as already mentioned, while Chilled Culinary maintained its excellent progress in the US.

Chocolate, Confectionery and Biscuits was the slowest of the product groups. The issue here continues to be the UK, as you know. We are in the middle of a business reorganisation that will transform the performance of this operation. Growth in our key 7 brands was OK, but was more than compensated by those brands that we are de-emphasizing. Also, as you know, the chocolate market as a whole was down in the UK.

Elsewhere there continues to be a mixed performance – stronger in Latin America, India, Japan, Russia and Italy, amongst others, weaker in France and Germany. The US improved in the quarter, helped by a good performance from our Stixx launch there.

In PetCare, Europe has remained strong, albeit a bit slower than in the first half, while the acceleration in North America has continued. In Europe, we are seeing good growth from our strategic brands such as Bakers, ONE, Gourmet and Beneful.

In PetCare North America, there has been continued innovation around the humanisation of pet food, including new natural products for dogs and restaurant-inspired recipes for cats. Shares are up in most categories as measured by AC Nielsen.

Finally on the slide, Pharma continues to achieve double-digit growth.

Slide 9 - Primary reporting: above market growth

For completeness I have included the RIG and organic growth in accordance with our primary reporting. I have already covered all this on the earlier slides, so will move on.

Slide 10- Tackling underperformers

As you will have seen, we have been making a number of disposals during the year. These have been in Ice Cream, Shelf Stable Dairy and Waters.

Slide 11 - Tackling underperformers – Dairy SBU

I just wanted to take the Dairy business unit as an example of our approach to underperformers. This is a longer-term chart, but the messages are clear. On the one hand we have been trying to find solutions for businesses that are not achieving an optimal performance, but which are in categories where we wish to remain present because they have a role to play in our strategic move towards nutrition, health and wellness, such as Chilled Dairy Europe or Dairy in Latin America. On the other hand there have been businesses which do not fit in the strategy of nutrition, health and wellness, and which do not offer the level of return that we would expect, canned liquid milk being an example.

In the first strategic category we have found strong partners, Fonterra in the Americas and Lactalis in Europe. The result is that the relationship in any given market between the consumer and our brands is unchanged, or even reinforced, whilst our structure is transformed to create a sustainable business model with appropriate financial returns. In the second category, which is perhaps simpler to address, we have sold the product range.

At the same time we have also been organically moving the profile of our dairy business more to nutrition, health and wellness through innovation and product launches such as the Nido Nutrition System for younger children.

And the impact on the Dairy business? – Sales have reduced by about 3 billion Swiss francs over the 4-year period, this being the net of disposals, negative currency impacts and positive organic growth. But the EBIT margin has increased by 220 basis points and the ROIC by significantly more. Somewhat startling, I think you will agree.

Slide 12 - Creating shareholder value through profitable growth

I wanted just to show this slide again, though you've seen it before, as I think it pulls things together well.

As you know, our strategic transformation to Nutrition, Health and Wellness touches all our product groups, and brings with it the promise of faster growth, continued market share gains and higher profitability.

You can see in today's numbers evidence of that growth potential, with growth performances that are clearly above market. The mix effect is evident too, not just in the previous slide on Dairy, but also for example from exiting low margin private label ice cream in Germany at the same time as launching higher margin low fat ice creams in various European markets, or from exiting the lower margin beverage vending business in Japan at the same time as launching higher margin nutritionally enhanced soluble coffee products in Asia.

These initiatives are evidence also of the energy with which we are tackling our underperformers as part of our organisational transformation, as is the disposal of the bottle making facility in Perrier and the recently announced restructuring of the York confectionery factory.

Slide 13 - Conclusion: The Nestlé Model reconfirmed

So in conclusion, therefore, before going to your questions. We continue to grow above the market, at 6.1% organic growth for the Group, with the key brands and our nutrition, health and wellness bias driving that growth.

The last few months have seen the Group further improve its nutrition, health and wellness profile, whilst also addressing the challenge of its organisational transformation.

For the rest of the year, our guidance is unchanged – to be at the top end of our 5 to 6% organic growth target, as well as to deliver an improvement in the EBIT margin in line with that achieved at the half year, at constant currency.

Looking further out, we continue to believe that Nestlé is rich with opportunity – with our innovation, our scale advantages and our improved mix driving growth and profitability.

Slide 14 - Questions & answers

I'll now go to your questions.

Question on: **Margin impact of recent acquisitions and disposals**

Arnaud Langlois - JP Morgan

My first question is related to the under-performers and some of the acquisitions you've made. What is the effect on your margin when you combine the fact that you have now sold your vending machine business in Japan, sold some of our Dairy assets in Greece and in Asia, and also sold your private label business, and yet to this the fact you have made two acquisitions of businesses with margins above group average with Uncle Toby's and Jenny Craig. Have you made any sort of calculation as to what the margin impact could be?

Roddy Child-Villiers

That's an excellent question to start a conference call on sales. Obviously a number of these disposals haven't completed yet. I mean they've been announced, for example we hope that the Dairy one announced this week will complete in February. So it is obviously a bit early for us to start talking about the impact on margins. Also, the Dairy business, even though was a significant under-performer, is only 300 million of sales, so as you say it's about putting all these things together, we've got more to do still in terms of tacking under-performers, before you're going to start seeing a significant impact on the margin. But clearly it's all going in the right direction, I don't want to give you any more detail than that at this stage I'm afraid.

Question on:	**Sales growth in Dreyer's**

John Parker, Deutsche Bank

Are you able to give us more details on Dreyer's in terms of whether the margins are up towards Group average and what the actual Dreyer's sales growth has been?

Roddy Child-Villiers

As you know, Dreyer's has long been an under-performer. It was a public company so the profitability is public information, before we owned it and in the early days of our ownership, and it was clearly significantly below the Group average margin and I wouldn't expect you to see it getting to that level in the current year. In terms of the growth, the growth is a slightly complicated story insofar as Dreyer's market shares are holding and it's still growing against last year's double-digit growth but not at the same rate, and what they have done specifically is, as I said, de-emphasise the third-party brands. As you know, Dreyer's used to own a lot of these brands because it needed them to fill its distribution. With the success of the Dreyer's brand, the Häägen-Dazs brand and the Nestlé business, they no longer need to have those brands in their distribution so they're being de-emphasised and it just impacts the RIG because they're not discontinued businesses. But the market performance of the business is fine, the profitability of the performance is improving by hundreds of basis points but it's not going to be at the Group average this year.

Question on:	**Baby food re-launch in China**

John Parker, Deutsche Bank

As a second question, can you give us a little bit more colour on the baby food re-launch in China and perhaps as a percentage of growth in the third quarter in that region, some sort of quantification maybe?

Roddy Child-Villiers

The business in China is growing very comfortably in double digits in this quarter against the previous quarter, and it's too early days to talk about the actual re-launch itself but the fact that the business is growing double digit against the half is itself a suggestion that things are going in the right direction.

Question on:	**Organic growth figure for Full Year**

Jon Cox, Kepler Equities

Maybe I misunderstood when you were going through the introductory talk there, I thought you said the 6.1% figure organic growth for the first nine months of the year would be a good thing to take for the full year, maybe I misunderstood you there. Can you just clarify that?

Roddy Child-Villiers

You did misunderstand. What we said was that our outlook for both organic growth and EBIT margin is unchanged thus we are guiding to the upper end of our 5-6% organic growth target, and we are guiding that the EBIT margin improvement will be the same as we achieved at the half year, constant currency.

Question on:	**Slow down in organic growth in Europe in Q3**

Jon Cox, Kepler Equities

I just wondered if you can just give me some details about what happened in Europe in the third quarter, it looks like the organic growth slowed down somewhat, more than I anticipated. I wonder if you just give us all a *tour de table* of the various countries and what's going on?

Roddy Child-Villiers

The simple answer is UK Confectionery, the main driver to the slowdown in Europe is UK Confectionery, and I think you know what we're doing there. I mean effectively we're focusing our support behind the seven major brands, which are performing pretty well, KitKat in particular is taking some share, and we are de-emphasising other brands, and the weight of that impact is wiping out any benefit from the Magnificent Seven. So Chocolate is the biggest issue in Europe overall and then Culinary is also a bit weaker, but not to the same level.

Question on:	**Future share buyback programme**

Jon Cox, Kepler Equities

Something we touched on earlier this morning, there was no mention of a buyback at all and I think some of us were anticipating an announcement. Should we be anticipating something with the press conference later this morning?

Roddy Child-Villiers

We will make any further announcement at the appropriate time and we haven't yet finished the current buyback but we'll make any further announcement at the appropriate time through our Press Release.

Questions on:	**Coffee and Chocolate in Japan & Important Milo markets**

Alain Oberhuber, LODH

I have two questions: first question is about Japan. Could you talk a little bit about the Coffee environment, is it still competitive or could we increase prices over the last three months? And also in Japan about Chocolate, you mentioned that that's performing very well, how much is Chocolate now of your overall Japanese business?

The second question is about Milo in Asia: you showed a pretty strong growth rate there as well. Which are the most important markets for you for your Milo chocolate beverage?

Roddy Child-Villiers

The Coffee market overall in Japan is still down in value terms. We, as a business, are up in volume terms and down in value terms so we're performing about in line with the market really. Chocolate, as I said, yes, is continuing to go well. As you know, Japan was originally a soluble coffee market, today Chocolate represents over 10% of that market so it's becoming a substantial part of the market.

Milo, which is our malted beverage for children, which is available in Asian markets, is performing pretty well across the board actually, I mean double-digit growth in countries like Malaysia, Singapore, in South Asia; high single-digit growth in any number of countries: Africa, Philippines, any number of countries really so it's just a good story across the board. We did tell you on the half-year roadshow that we had done a re-launch of Milo following an upgrading of the technology and a further improvement of its already strong Nutrition credentials and that's clearly paying dividends in terms of the performance.

Questions on:	**New share buyback programme &** **Results from Confectionery re-organisation**

Patrik Schwendimann, Zurich Kantonal Bank

I have a question again on the share buyback programme. The old programme you have practically finished, I mean there's just 20 million open so what are the reasons that you don't announce a new programme already today and when can we expect a new programme?

And second question again on the Chocolate and Confectionery business, you are now in the middle of a re-organisation as you were mentioning, when can we expect first positive results? .

Roddy Child-Villiers

I can't tell you any more than I've already told you on the share buyback. We will announce the share buyback through a press release as and when is the appropriate time to do so.

On Chocolate, we've put out a fairly major press piece on this, there's significant restructuring going on in the business, over 600 jobs are being taken out, hopefully as much through voluntary redundancies as through forced ones. We are expecting to see first benefits in 2007 but running on also into 2008. So, it's a major exercise this, there's about a 40 million CHF investment in the York facility, although we are selling a significant part of that facility to make it into commercial and residence so that will help to fund the investment, but it's a pretty major process that we're going through and, as I say, 2007-2008 to see the benefits.

Patrik Schwendimann, Zurich Kantonal Bank

But again on the share buyback, can we assume that it should come in the next couple of weeks or months?

Roddy Child-Villiers

Well Patrik you can assume what you like but, as I say, there's a process. We have to finish the share buyback. If we choose to do another one we have to have a Board meeting, the Board has to approve it, then we have to announce it, but as I say we will announce our next steps at the appropriate time but it has to be through a Press Release, that's our obligation.

Question on:	**Specific results for France**

James Amoroso, Helvea

Could you let us know how France, as a country, was doing in the quarter?

Roddy Child-Villiers

For sure, it's accelerated in the quarter and that acceleration driven by soluble coffee, by a very strong performance in ice-cream reflecting the new launch I mentioned of the slow-churn technology into France, also, in Powdered Beverages, which is relatively small over there, that's Nesquik. So, it's a good performance.

James Amoroso, Helvea

Positive mid-single digit or . . .

Roddy Child-Villiers

It's positive growth.

Question on:	**Difference in performance in France in comparison to Q3 2005**

James Amoroso, Helvea

I don't know whether you've done the calculations for the previous quarter because obviously now you've got the absence of the chilled dairy business, is there any marked difference between the existing categories today compared to performance this time last year?

Roddy Child-Villiers

Well the European Chilled Dairy business is out of all the numbers anyway because it was de-consolidated from 2005's numbers, but in any event Chilled Dairy Europe was not part of France, it was run as a European business, so it was never read in the French numbers even when we did have it consolidated.

Question on: **UK confectionary performance**

James Edwardes Jones, Execution

Can you quantify the decline in the Confectionery market in the UK in the quarter and also tell us what your sales decline was in UK Confectionery?

Roddy Child-Villiers

I haven't actually got a number for the market decline but our performance is about in line with the market. I'm just having a look but I haven't got a percentage for the market decline. We're about in line with the Magnificent Seven, as we call them, the core brands, out-performing somewhat and then the other brands that we're keeping are doing fine and obviously there are brands that we're discontinuing as we're clearly under-performing because we're discontinuing them.

James Edwardes Jones, Execution
Yeah. And in terms of market, can you even put an order of magnitude on it, is it a mid single-digit decline, low single-digit decline

Roddy Child-Villiers

It's low.

James Edwardes Jones, Execution

Low single digit. Thank you very much, Roddy.

Slide 15 - Nescafé Beverage Systems

Roddy Child-Villiers

Well, as I forecast, that was a relatively short call. Thank you very much for your questions. There's one thing I couldn't resist doing which was to inform you of a major innovation in Nescafé: they've launched a coffee beverage system in the UK, Switzerland and Germany which is called Dolce Gusto. I wanted to let you know about this and I'm sure that its addition to your homes will enhance your Christmases beyond your best expectations.

Slide 16 - Nescafé Beverage Systems

As you can see, the machines are great fun and it's a complete system offering all types of coffee variants whether you prefer Cappuccinos, Lungos or even Latte Macchiato Consumer tests have been very positive and we are expecting great things from Dolce Gusto in the years to come, and you'll be glad to hear it's available now in electrical stores, supermarkets as well as on Amazon.

Slide 17 - 2006 9 months sales conference call

Thanks very much for your attention, and as I have said we are confident of delivering on our guidance for both sales and earnings in 2006. Thank you very much.

END OF CONFERENCE CALL