NESTLÉ S.A.

2006 FULL YEAR RESULTS LONDON & NEW YORK ROADSHOW TRANSCRIPT

Conference Date:	**27 February 2007 / 8 March 2007**
Chairpersons:	**Mr Peter Brabeck- Letmathe** **Chief Executive Officer** **Nestlé S.A.** **Mr Paul Polman** **Chief Financial Officer** **Nestlé S.A.** **Mr Roddy Child-Villiers** **Head of Investor Relations** **Nestlé S.A.**

Disclaimer

This transcript might not reflect all exact words of the audio version.

This transcript 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.

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

Slide 1 - Logo Slide

Good morning, as you will recall we're going to webcast the event so please when it comes to the Q&A remember to wait for the microphones and also remember to please share the microphones rather than keep them to yourselves.

Slide 2 - Disclaimer

I'll take that as read.

Slide 3 - Agenda

The agenda today is for Paul just to recap 2006 and to do it really from a product group perspective. On the conference call we talked really through the zones, so talked more product groups, and also to look forward into 2007. Then briefly to touch on the organisational transformation and how that helps to deliver the results in 2006, and again therefore the point due to what it might deliver in 2007.

Peter then will take a longer-term view; talk about the strategic and organisational transformation, as I say more looking further out. And also to touch on the Popularly Positioned Products or PPP as we call them, which we think is a great opportunity for the company. Without further ado, over to Paul.

Paul Polman - Nestlé S.A. Chief Financial Officer

Slide 4 – Introduction - Paul Polman

Good morning everybody. What I'd like to do is very briefly give you an update once more on the key numbers that we shared, and I assume that you've seen most of that. And then actually get into the details of each of the categories, highlights and why I believe that we are well placed to continue the performance and growth on these categories in the year that we're currently in.

Slide 5 – 2006 Highlights – all metrics improve

The first thing is the key financials. As you have seen a very strong organic growth of 6.2% for a total sales increase of 8.1%. What is more staggering is that that actually adds 7.3 billion CHF to our turnover for 98.5 billion CHF in total. That's the strongest absolute increase we've seen and that's a new record for the company, not surprisingly.

If you then look at EBIT you see an equal performance there with EBIT up 50 basis points. That's 1.4 billion CHF to a record 13.3 billion that's up 13.5% again. If you take it a little bit further down the incomes statement you get to your net profit that is up 40 basis points, 13.8% that's a 1.1 billion CHF increase or 9.3%.

We've talked about - in previous meetings - the opportunity that we have to further drive efficiencies in our working capital. If you remember the first six months results we shared with you the 40 basis points. We're very pleased with these results for the total year, which is a hundred basis points. And for us a help on the working capital of 1 billion CHF to our free cash flow. And then if you look at the operating cash flow you see 1.5 billion CHF improvement there as well or 70 basis points.

The last thing we've shared with you is a little bit more transparency on the Return on Invested Capital. We also said that we continue to want to drive that higher and I'm glad to announce either with or without goodwill, either if you want to look at that it isn't really that important because both of them improved by 40 basis points and 30 basis points respectively.

Slide 6 – Food and Beverages Delivering the Nestlé Model

We also mentioned that Food and Beverage, where again we've provided more transparency on the business is the key driver of this. And here you see there is in summary where 6.7 billion of the turnover increase, out of the 7.3 billion, is actually coming from Food and Beverage.

You see the same on the RIG (Real Internal Growth) growth; I wanted to point out especially if you look at RIG last year 3.8%, this year 4.2%, giving us an overall organic growth of 5.9%, so very strong internal growth actually a little bit ahead of the year before, which was a very good year in itself.

Then on the EBIT side we talked about the improvement of 1.4 billion CHF and you actually see 1.2 billion of that once more is coming from Food and Beverage. Likewise on the margins of the 50 basis points, 40 basis points are coming from Food and Beverage. And as we had forecast, by coincidence the exchange rate effects are actually zero. So what you get there is including and excluding exchange rates there is no difference.

Slide 7 – 2006 Highlights

These are the highlights. I think it's important to just remind ourselves of the Nestlé model what we say in the Nestlé model is the 5 to 6% top line growth, continuous improvement in EBIT, as well as an advancement in the Return on Invested Capital. And again it's Food and Beverage that has been the key driver of this growth and profitability with more importantly a performance that is robust across the categories and countries. All of our regions, all of our zones and our categories have shown very good performance. That is a good indicator of the robustness of the overall strategy that we're talking about.

More importantly we've increasingly talked about our brands. We have what we call the billionaire brands, brands that have over one billion in sales. We had 21 of them last time we talked, we actually have 24 now, and last year we entered with Nespresso, Dog Chow, Pure Life and Poland Springs as the four new brands to enter this exclusive league. That league is counting for about 70% of our total turnover. And it should come as no surprise that they are growing faster and as a result building share for us to balance off the categories.

At the same time as we've had strong organic growth, and these numbers are excluding any effects of acquisitions; as you know we don't count that into these number. At the same time as we've had this very strong growth on our core businesses we've also continued to advance in our transformation to Nutrition, Health and Wellness. Some very high quality acquisitions during the year, Uncle Toby's in Australia, Jenny Craig in the US and then the Novartis Medical Nutrition at the end of the year, which is a global business.

We've also driven further into our brands our 60/40 +, which is the consumer noticeable product wins with a better health profile. Our Branded Active Benefits (BABs), which are these proprietary ingredients that we have, that allow us to differentiate our products. And the Nutritional Compass, which is a consumer, preferred way of communicating, that we've put on our packaging.

Also part of it, as we continue to mention, is managing our mix and part of that obviously is also the divestitures of our lower margin less strategic businesses, lower value businesses and we've done about two billion CHF of that during the year as well. Not different to what we've done over the last seven, eight years. That was probably - we reshuffled our mix and divested up to ten billion and that is an ongoing thing obviously.

Next to this strategic transformation to Nutrition, Health and Wellness, there's the organisational transformation. And again here GLOBE as far as we are concerned now we are not going to report anymore on the implementation of GLOBE, it's about 80% and it will creep up as we move forward. But we're going to concentrate, which is obviously far more exciting on how we're going to leverage GLOBE and the benefits we're getting for that.

We've started to roll out Shared Services in our organisation and continue on that path. But at the same time we've actually made the organisation more agile by bringing profit responsibility down to the level of the business executive manager. Those are people that run cells, for Alistair in the UK that might be the Coffee cell, or it might be the Confectionery up in York and these people have full P&L (profit and loss) responsibility.

Then last but not least the creation of the stand-alone Nutrition and FoodService units is giving us the focus and attention that allows us to accelerate growth in those businesses as well.

Slide 8 – Billionaire Brands deliver robust growth

Now looking at the brand itself, my favourite chart. Here you see most of these billionaire brands and we're just looking with the way you report about the market and what we see. And it is the indication that we have is that most of these markets on average are growing 2% or make it 2.5%. Our 6% growth is significantly ahead of the market, which you see here as well, which actually means that most of these brands are building share.

We're also very glad, and we'll be happy to take any questions later on Hot Pockets, which is the one that is under performing. I'm actually glad we have one of those because it keeps us honest, and reminds us everyday that it's about satisfying consumer needs on all of our brands and you need to work for that. This is called fast moving consumer goods and that means if you take the eye off the ball sometimes, you notice that right away in your shares.

But to see all these brands performing ahead of the market, including our Ice Cream brands and Confectionery brands is a very strong performance. If you also look at this chart you see these BABs which are these Branded Active Benefits (BABs) and you actually see that the brands where we have these Branded Active Benefits (BABs) in are growing at 20% plus which is a testimony once more to the strategy of driving our products more towards Health, Nutrition and Wellness.

Slide 9 – Nestlé Waters

I want to pick up the pace now a little bit and go into each of the categories very briefly, because in the conference call we didn't talk to categories. And started here with the water category that's a 9.6 billion category, we've broken it out now from our secondary reporting to give you a little bit more transparency. And what you see here are two brands that entered the league of billion CHF brands with this Poland Springs and Nestlé Pure life. We've not only been able to grow this category by a whopping 8.2%, obviously the US market is growing very strongly. But also we have very healthy growth across our European market, including our French and Italian market.

More importantly you also see a 60 basis points improvement in performance which is different from what some of our competitors have announced in this category. There has been strong input cost increases over the year, despite that the 60 basis points once more is a testimony to all the tough choices we've taken to make the business, especially in Europe, more profitable behind the restructuring efforts that have been going on.

Slide 10 – Nestlé Waters Growth drivers in 2007

If you look forward, I conservatively estimate that this category is about a hundred billion CHF in turnover. With our ten billion CHF, although we're the market leader globally, you see the huge potential for future growth.

We have the North American markets continue to engine ahead at double digit numbers and the predictions are that over the next ten years it will comfortably surpass the carbonated market in total. We've just signed an agreement with Erikli in Turkey to have a joint venture and this is the leading water brand in Turkey in one of the fastest growing markets. Carlo Donati, the person who runs our water business, just signed an agreement in Mexico with the Modelo Group, again to be present in this fast growing market. And then obviously there is an incredibly strong pipeline of innovation, renovation behind increasingly to move to value added, functional waters etc that we're rolling out. So there is a very strong potential to keep this business on the growth path.

Slide 11 – Powdered & Liquid Beverages

Looking at the next business, which is the Powdered and Liquid beverages and here, I've taken water out for transparency, so it's easier for you to understand as well. That's a business of 16.3 billion CHF, that's the size of most of our competitors, just this block itself, yet it's growing at 8%, 7.9%.

Here you'll find Nespresso as one of the star performers with a 40% growth. You remember the chart with all of the brands. Nespresso opened about 35 new boutiques. The business is very healthy, even in our core countries, France and Switzerland where 60% of the business currently is concentrated. I'm sure you're all becoming members and visiting the store that we're now building in the UK, as we try to develop this franchise here as well.

Next to Nespresso you have your Coffee businesses, despite having a very high share of the cups of coffee drunk with Nescafé already and people saying - how can you grow? We continue to outgrow that market by staying ahead of the trends, by identifying the consumer needs and here the mixes, the three in ones are a key driver, as well as our premium initiatives that we've had. And then Milo and Nesquik, equally strong performances in those categories.

Slide 12 – Powdered & Liquid Beverages Growth Drivers in 2007

Moving forward. If I just take Coffee alone, because this category is so huge, that's 60 billion CHF by itself. And that market continues to grow. The first priority is the developing countries; we're a market leader in three out of the four BRIC (Brazil, Russia, India, China) countries. That's obviously where a lot of the future growth is going. You've been able to experience the wonderful Dolce Gusto that we've launched in Germany and Switzerland and the UK. Alistair was just informing us it's off to a great start and we're looking, not surprisingly, at rolling that out to other countries.

Nespresso continues to aggressively open the boutiques and then you have the initiatives on all of the other categories. So here again, a strong pipeline of initiatives and a huge opportunity to continue our growth.

Slide 13 – Nutrition

The next category is Nutrition, which is now a stand-alone unit. It's 6 billion that makes it a little bit over 6% of the total company business. We've had a 6.1% growth. I'm especially pleased to see that the growth this year of 2006 was higher than 2005. I'm also pleased to see that that growth actually accelerated over the second half. So that business is picking up momentum.

These numbers that I'm sharing with you are without the acquisitions of Jenny Craig and Novartis in the top line growth numbers, as I said because we don't include those until 12 months later. The growth is coming from a very strong and fast expansion of our premium initiatives on the NAN HA line, which is the immune system and digestive system upgrade that we have, now rolled out to 85% of the countries, in a little bit over a year's time. And the other 15% is coming in now, if we would not have had this global unit it would have been nearly impossible to do that at that speed. And that's obviously giving us tremendous momentum.

I do owe you a word on the 80 basis points decline. I've broken it out in other meetings so I might as well do that here. It's about 50 basis points coming from Jenny Craig. As we had mentioned to you at the moment of purchase of Jenny Craig it is diluted for the Nutrition unit but not for the total company and that is still the case.

Since the acquisition of Jenny Craig, that business has grown a further 30% so we're very pleased to be getting into Weight Management.

Then the other thing is, because we have a stand alone business unit that we have created here, we do activity based costing or ABC as it is called and we're charging at slightly more for the stand alone business. That then obviously needs to be taken into account and that accounts for the difference. Without those two adjustments that are frankly internal adjustments this unit would have also shown an EBIT in line or ahead of last year.

Slide 14 – Nutrition Growth drivers for 2007

Then if you move forward and you look at the growth drivers for Nutrition. As I said the further roll out of our initiative of the premium initiatives NAN HA on the pro-biotic to 95% of the countries, re-launching our Power Bar business that we've spent time this year on getting the base right, getting it reorganised and moving it to Glendale. We're ready to grow that business again. Jenny Craig continues to be the growth engine on Weight Management and then obviously the integration of the medical Nutrition business. That's a hundred billion market in itself, in the way we define that, and with our six billion presence we might have a very significant share of that market, but you can see that there is enough upside left there.

Slide 15 – Dairy and Ice Cream

The next category is our Dairy, milk products, which includes Ice Cream. That's at nearly a 20 billion category, organic growth of 5% and an EBIT improvement of a hundred basis points, despite significant input cost increases, especially on the Dairy side. The main drivers, Coffee Mate, don't have to go into detail there, but that brand is going from strength to strength, double-digit growth, expanding in many other countries now. And then our Ice Cream business actually has dampened the growth a little bit. But our priority clearly there was profitability. Our Dreyer's business in the US has been driven with a very strong leadership to market leadership of the Ice Cream category in the US and we've prioritised also the need to improve our bottom line there and we're very pleased to see that actually happening.

Now it's easy to do one or the other we all understand that. In this case we were able to improve significantly the bottom line on Dreyer's but we're also able to build our market share there, around our core brands. That's obviously how we want it moving forward as well - tremendous progress there.

Slide 16 –Dairy and Ice Cream Growth drivers for 2007

If you look at the opportunities a very simple calculation will show that this is a 70 billion category comfortably. Again BRIC (Brazil, Russia, India, China) countries are high on the agenda for future growth there. Behind brands like Nesvita and Nido as well as the Ice Cream business, where we continue to drive profitable growth. And I want to stress profitable growth. We have more super premium brands, we're rolling out the Mövenpick of Switzerland to many countries in Europe.

We're being focused more on the impulse channel, which is significantly more profitable than mass and then a strong pipeline of innovations.

Slide 17 – Prepared dishes and cooking aids

The next category is prepared dishes. That's a huge category, 17.6 billion CHF for us and organic growth of nearly 5%. Here again in the US the Stouffer's and Lean Cuisine. In Europe, the Buitoni brand is doing well and Maggi, as you would expect, is a brand that is very strong in the developing markets and growing double digit there.

Slide 18 – Prepared dishes and cooking aids Growth drivers for 2007

Looking forward you see here we continue to drive in the US the Stouffer's and Lean Cuisine, they really are the market and are deciding the growth of the market, very much on the trend to less calories. Buitoni expanding very fast in the US, getting into the chilled section, and then the other ones I've talked about.

Slide 19 – Confectionery

The next category is Confectionery. I know something close to your heart here in the UK. The Confectionery category is an 11.4 billion category with a 2.6% organic growth. That 2.6% organic growth is again ahead of the market. And as you undoubtedly have done your homework on the first half and the second half you see that the growth rate there again is accelerating as well.

We have Kit Kat with it's lighter wafer technology, already better positioned for healthier snacks, is actually growing 7% globally and we have incredibly strong performances in most of our markets, bar the UK and the US which is pulling us down a little bit. In the UK we're still doing our reorganisation which is well on track, I'll talk about that in a minute. And in the US we've done the same thing.

EBIT more or less in line, ten basis points down which I have to honestly tell you is probably closing to our rounding than anything else.

Slide 20– Confectionery Growth drivers for 2007

If you look at the forecast it's an 80 billion CHF market once more. Tremendous strong growth in the developing markets. We were in Russia the other day with the Board and the brand is going from strength to strength at 20% growth rates, which is the same in the China and many of the Latin American markets. Kit Kat continues to be priority there and then we have to focus on some of these individual brands in our portfolios getting out of some of the lower margin sugar business, focussing the portfolios a little bit to continue to grow everywhere.

Slide 21 – PetCare

The last category I briefly want to focus on is PetCare, which is an 11.4 billion category up 7.1%. That's an incredibly strong growth mainly driven, to keep it simple, by the premium initiatives that we have in those categories, which are the Beneful, One and Pro-Plan initiatives, etc. that you're familiar with. It is no surprise then that you will find there the other new brand to the billionaire league which is Dog Chow.

Slide 22 – PetCare Growth drivers for 2007

Not only has this category had strong growth it also had the 60 basis points improvement to very respectable margins, as you have seen on the chart. That's a 50 billion CHF market. Here again we're well positioned in the US as market leader, a strong number two in Europe at this moment. But opportunities for growth continue to be in the premium segment and there are many initiatives that drive that.

Slide 23 – Improving performance of Nestlé Food & Beverage

And some of you have said can you just give a few quick ideas on what you do now that GLOBE is 80% implemented and how the organisational transformation, that we've put in place to manage a company our size as effectively as we do, how does that play out in real life. I have tried to do it very simply, as we've talked about this before, and I wanted to give just a little of what we've done in each of these areas.

The first thing is we drive simplicity to capture scale, in any company our size there is a certain level of complexity that we need to deal with and some of that is not bad. But there is also complexity that gets in the way of being agile and being focussed on the consumer and those are the complexities that we don't want and they get in the way of scale. By eliminating those complexities we can go faster in leveraging GLOBE, in leveraging Shared Services and I'll take you through that.

We've talked about tackling of the underperformers. Some underperformers need to be fixed because they're strategic; the UK Confectionery business is a good example of that. But others might be less strategic or more commoditised, and I'll show you some of the things we've done there. Improving our capital efficiency is now able to be done with more precision now that we have a broader visibility with our GLOBE system. And then driving the discipline in all we do.

Slide 24 – Driving simplicity, scale and tackling underperformers

Very quickly here on the driving simplicity, scale and tackling the underperformers what you see here is SKU optimisation is a great example of that. If your number of SKUs grows faster than your average growth of the company it means that your brand probably is getting weaker because you're diluting it over too many formats, so you need to optimise. This is something you always need to do and companies go a little through these cycles. We have the discipline that we're driving in now here as well. It obviously helps us on working capital but more importantly it helps us on giving the consumers the right SKU's they're looking for, to continue the growth in our business.

You see the legal structures, it is a little bit complex with again the many legal structures you have. You can have a concerted effort now with the visibility of GLOBE to drive that down; we've eliminated about 20% of them. I think we can go down another 10%. Less legal structures means less different books to close, it means less different accounts, it means more transparency that helps us focus on the consumer, instead of internally focussed.

Then you look at scale, not surprisingly GLOBE is now at 80%. We're going to talk from now on about how we leverage GLOBE but not any more reporting on where we are on implementing GLOBE, for us it is not interesting to talk anymore about that outside the company. Then the Shared Services, we're about 30% in the company Shared Services. Shared Services, basically the definition here is all the transactional services that we can aggregate to have a higher quality and lower cost. It's and, underlined and, because we don't compromise on either or higher quality and lower cost. We think we can drive that to 50% by the end of 2007, which is an ambitious objective but it's realistic for us to go for.

Then Operation Excellence, 1.2 billion CHF, we slightly over delivered last year as I said at the conference call. For 2007 we have again the 1.2 billion target, to help us offset some of these incredible cost increases that we continue to see.

Underperformers, two billion value destroyers off the company's balance sheets. Obviously we continue to look at that to see what we need to do to continue to strengthen the mix. Then last but not least our working capital; I talked about that the hundred basis points improvement.

Slide 25 – SKU optimisation Russia

Here's an example from Russia on SKU optimisation. This is in one of their businesses. By cutting their SKU's which is the blue line you see here; SKU's down 15% plus, you actually see that we're able to accelerate both our profit, our financial performance as well as our top line growth. The transparency that we now have with GLOBE allows us to do this with precision and discipline. To compare with other units, compare with other countries, however you want to slice it now it's nearly at our finger tips, so that the organisations themselves can actually focus on perfection in execution.

Slide 26 – Shared Services

Here is the Shared Services where we're on the slide line to move it to the 50% and then up to the 80% for the company.

Slide 27 – Tackling underperformers UK Confectionery

I wanted to talk briefly on tackling the underperformers. I thought it would be good in the UK to use the example of the UK Confectionery. That business has had some pressure points, partly because of change in consumer needs, partly because of a changing market, where we actually see a market slightly going down and some channels not being accessible anymore versus what they were before.

We've taken drastic steps here, reduced the number of SKU's by 40%. There are many smaller brands that were really not strategic. Out market share has slightly suffered but our EBIT is strongly up. That's actually what you need because you need to generate the money to invest in marketing and provide the focus again. Not surprisingly if you then look at the Magnificent Seven, which is now the strategy that Alistair has put out there, focussing on our seven core brands. We've been able to increase our marketing spend behind it by 10% and we're actually starting to see a share gain on the core and strategic categories. I was just looking at the last quarter of 2006 and I believe that we were the fastest growing manufacturer. So there is a good indication that the actions that are being taken, including making our cost base more efficient, that the actions that we're taking are starting to pay off.

Slide 28 – Increase in discipline Working Capital

Increase in discipline, there is no better example than the working capital. Now with full transparency with GLOBE; where we are by business unit, by country, are we going up? are we going down? what are the different elements of our working capital doing? Here we've been able to have our cash conversion cycle go down from 47 days to 40 days. That puts us comfortably in the middle of our competitive set by any standards that you've done in your analysis. But we even think that there are further opportunities to improve.

The main benefit from this is not only the cash flow benefit that we get but more importantly the consumer getting fresher products.

Slide 29 – Improving performance of Nestlé Food & Beverage

I've talked about the simplicity to capture scale, the underperformers we can now more aggressively tackle. The improved capital efficiency and I've also hopefully given you a little bit of a flavour of how we can do that with the discipline we can drive in more and more by leveraging GLOBE.

Peter Brabeck-Letmathe, Nestlé S.A. Chief Executive Officer

Slide 30 – Introduction Peter Brabeck-Letmathe

Paul has brought you up to date with details about 2006. I want to talk to you more about the future, because I think that's what my role is. And I think it is quite clear that if the Nestlé model should also work in the future, it can only perform when we have two things, which are fundamental. The first one is that our operational efficiencies initiatives are not the main driver for margin improvement.

The operational efficiencies, whether it was MH97, Target 2004+ or Operation Excellence 2007, that we are just running now, helps us to ensure cost competitiveness. Cost competitiveness vis-à-vis our main competitors but also vis-à-vis of course private label, that's a very important part. And it allows us to create the funds that we need in order to invest in the business. Invest in our brands as you have seen and invest in our capital, which we need in order to be able to produce what we need to support the growth. That's what the operational efficiency initiatives were for.

Slide 31 – Management changes with Strategic and Organisational transformation

The margin improvement comes from something quite different. The margin improvement is coming from the transformation that we are doing. It's coming from the organisational transformation, which allows you to improve the margins on the short term, and it comes from the strategic transformation, which allows you to assure a continuous and sustainable margin improvement. That's the underlying principle of the Nestlé model.

Slide 32 – Management changes with Strategic and Organisational transformation

The organisational transformation is empowered by GLOBE and the strategic transformation is basically empowered by 60/40 +. Now in this sense it's certainly not surprising that we have created a new structure, at the head office, by putting full emphasis on each one of those transformation processes. On the one hand Werner Bauer, as Chief Technology Officer, in this new role taking care of our R&D, of our acceleration, innovation team, the partnerships which we have with outside universities, packaging & design and so on. All that is driving the innovation of our group.

I always said this part is like the motor of a formula one racing car, you have to have a high performance motor in order to be able to win. But you also need all the rest, you need the car, the aerodynamics and all the other things and you also need a good driver, by the way.

On the other side when I look at the organisational transformation we have made a major step forward by appointing José Lopez Head of Operations Organisation where we are now really combining the full supply chain from purchasing down to the production, distribution until it gets to the consumer.

So this was the two things we did, just since February 1st, on the organisational side. Now let me share with you two charts with which I want to carry you over into the next ten years.

Slide 33 – Demographics

When we are looking at the world from our perspective we see this picture here. You see on the lower lever, on the horizontal axis you see the per capita income of the people in the different parts of the world. We can put countries around there you will see Bangladesh certainly being on the very left and you would see certainly Switzerland, the United States, Japan, UK on the very right. The dark line is the consumption of food manufactured value added products. This is data from UNIDO (United Nations Industrial Development Organisation). It's not Nestlé data, it’s data coming from outside.

The blue line, which is below, shows you how our business is developing compared to the total consumption of Food and Beverage. And what you can see here very clearly is that there is first of all in the lower income, in the developing countries Nestlé performance, Nestlé sales is absolutely in line with total consumption increase. So what we have to look at there is basically the demographics. What are the *(inaudible)* demographics and I will show that to you afterwards.

There is an opportunity, just by demographics, of about 70 billion US dollars, just in this part here. But we are perfectly lined up. Where we have an issue, at Nestlé, is that the higher the income is, the less we are really participating in this value added food consumption. For two reasons. People start to spend much more money on aspects like spa food or supplements, Nutrition products, highly nutritious products etc, where we have not been participating and we have not been taking advantage as much.

The other thing is that people are spending, the higher the income is, the more they're spending out of home. You see the gap that we have up there in the upper part is about 170 billion US dollars. So just concentrating on those parts we have an opportunity gap of about 240 billion US dollars for the next couple of years in front of us, which is quite exciting.

Slide 34 – Moving up the income bracket

If you take now this chart and you look at the $5000 to $13,000 income, what is happening in this area? Well these are the official charts of the UN and what you see in the first two columns is reality. We don't have to invent anything. This is the shift that has happened from 1995 to 2005 and which partially explains the excellent growth the Nestlé had.

You see here that first of all, in this income area for $5000 to $13,000, 230 million people moved into this income category in the last ten years. You will remember from the chart that this is where the consumption level starts to accelerate very strongly. You have about 200 million who moved from $22,000 to $28,000, this is the area where we have identified that we have been not growing as fast as we should have grown, if we had been just participating in this growth opportunity.

Now if you look forward what you see then is that this area of $5000 to $13,000, where we are perfectly aligned with the market, is going to have 900 million more consumers in the next ten years, 900 million more consumers. And in the top line you will have another about 400 million more consumers, which are going to go into this. This is a fantastic growth opportunity for the next ten years for a company like ours.

Slide 35 – Nutrition: High-value, high-growth

So therefore we have been concentrating on these three opportunities. Let me take you through the first one is which is the Nutrition one: high value, high growth market. The total market as Paul pointed out is about 100 billion and you see it here broken down in the four categories. You see Infant Nutrition, which is about 21 billion CHF, Healthcare Nutrition with 12 billion CHF, Performance Nutrition with 11 billion CHF, and Weight Management with 54 billion CHF. The biggest part of this market is Weight Management. I don't think it comes therefore as a surprise that we made a major acquisition in Weight Management, an area where we have not been before. Jenny Craig takes us straight into Weight Management. And you can also see that Weight Management is the area, which has the highest growth rate, 8 to 10% growth.

In Infant Nutrition we are the leader, the worldwide leader in Infant Nutrition so we didn't have to do too much about this, just to ensure that we are faster and bolder in our innovation. We were a small player in the Healthcare Nutrition. Our turnover was about 500 million CHF and we were lacking critical mass. We were also lacking R&D know-how and above all we were lacking specific know-how in regulatory and clinical trials area. Therefore when Novartis, the Medical Nutrition came to the market, obviously we looked into this one and I will say two words about this later on.

Slide 36 – Nestlé Nutrition

So you see that the Nutrition business is now a four-pillar business for us, Infant Nutrition, Healthcare Nutrition, Performance Nutrition and Weight Management. And Weight Management because of this huge market and the fantastic growth that there is out there.

Slide 37 – Jenny Craig

Jenny Craig is a fantastic brand it has been established in 1983 by the founder Jenny Craig and we are very happy that Jenny is still around and helps us to understand what the concept really was. It is a key player in the United States in the Weight Management. It is also the first step to a personalised Nutrition, because this is a one-to-one service. You go into one of our Jenny Craig centres you will be diagnosed individually and then afterwards we will establish for you a personalised Nutrition plan, which you get. You can buy or it will be delivered at home for a full week and you are lining up for a 12-week initial period then extent it to six months and then you can stay for 12 months with us.

We have over 600 branded centres and we have 2600 consultants. The business is growing very well; as a matter of fact we were growing 30% since we acquired it. And the real limit to growth is the amounts of consultants that we have to train. It's the human resources, which is the real limit to growth for now. And therefore we are very, very careful not to lose the core of this business, which is basically a Nutrition service business and advice business, and therefore it's very important that you have the best consultants.

We have the regional presence today in US, Canada, Puerto Rico, Australia and New Zealand and we will, as a first priority, keep those regional presences before we are looking for new geographical expansion. I think after this the first expansion should be, and will be certainly the UK. But the first priority for the time being is really to ensure the growth in those countries where we are already.

Slide 38 – Nestlé Nutrition and Novartis Medical Nutrition

So much about the Weight Management, now the Medical Nutrition or the Healthcare Nutrition business. With the acquisition of Novartis, which by the way we are still in the process of receiving the regulatory approval, therefore we have not paid for it yet, just in case. Some people were asking what are you doing with the money? Well we have to pay about four billion on this bill so that's why we have said in the first half of this year we have paid four billion for the dividends, then we still have to pay for this acquisition so we knew more or less what we're going to do with the money in the first couple of months.

What this acquisition really creates is a formidable number two player in this market. The number one player is Abbott. It has about 30% market share. We will have 28% market share but there's a big difference. The difference is that Abbott is basically focussed and concentrated in the United States, whereas the Nestlé Novartis Nutrition business has a global presence. It's represented in all the markets, including the United States, and has a broader portfolio of strong brands, which are supported by clinical data all over those countries.

So although we are going to start off on a 28% market share we have a fantastic base in order to become the market leader in a very short period. So I thought this was another strategic very important acquisition.

Slide 39 – The FoodService market

That was the first response to the 170 billion gap that we have identified. The second response to it is obviously FoodServices. This is a market that, from a consumer spend market, is a two trillion Swiss franc market today. From a manufacturer perspective it's about the 400 billion CHF market. You see Nestlé is already well positioned. We have developed ourselves into a clear leadership position with turnover of 6.5 billion already now, followed by Kraft, Unilever, Sara Lee and Heinz. But what you also see in this chart is, if you take all those big players and we have here the biggest players in the FoodService, altogether they make about 3% of the total market.

So you can see that there is enormous opportunity for consolidation but also for innovative driven growth. We have reacted to this by first of all working through a strategy for Beverages and one for Food. We have been able to attract an outstanding manager who as been the chairman and CEO of Parmalat North America and, as far as I remember, that was the only area where Parmalat was still making money, even through all the difficult periods. And he happened to be our FoodService manager in Canada before for 21 years. And we have put him into a newly created FoodService strategic division, which reports directly to me. A little bit like we did with the Nutrition business ten years ago when we started really to look seriously into Nutrition.

So we have elaborated now a business plan and at the end of the year we will talk about it and inform how we want to organise ourselves in order to accelerate this growth substantially, so that within a relatively short period we should become a 12 billion business for Nestlé, another great opportunity out there with a strong base.

Slide 40 – Popularly Positioned Products

Now let's talk about the other side of the pyramid, let's talk about the bottom of the pyramid. What we have here is a concept, which we have called Popularly Positioned Products (PPP), which is really all about how we can win the emerging consumers. And as I have told you, this is a $70 billion opportunity.

Slide 41 – Popularly Positioned Products

You have seen before the income level 1500 to 5000 US dollars that was also on the chart, that was Bangladesh on the left hand side. And we also feel that good nutrition cannot be the privilege only of the richest of this world. Those people, who have very little income, have very specific nutritional needs and there is a certain amount of significant micro-nutrient deficiencies. Therefore we start really at the Popularly Positioned Products with a nutritional profile which is specific for these low-income consumers.

The other thing we're doing is using our main brands, because this type of consumer aspires to have the same right, the same opportunity to be using one of the top brands, and not to start to bring a cheap brand or a cheap presentation for those people so that they feel constantly that this is a cheaper product. So we're using the main brands, the best brands that we have. And it helps us is to get these brands into contact with the lower income consumers. And then afterwards, when those consumers move substantially upwards in their income and their revenue growth, then we accompany them with our brands, accompany them through the rest of their lives.

Slide 42 – Nestlé Bear Brand Philippines

I'll give you two or three examples. Here in the Philippines we have the only affordable milk brand to address the Philippine mother's health concerns, which is really about the child's resistance against illness through vitamin C and zinc fortification. What I want to point out here is look at the price at which we are selling those products, 15 centimes, 15 centimes. And yet it is a perfect nutritionally well balanced product.

We are able to put this into 475,000 stores directly, which is an enormous effort on the distribution side. We have a proprietary manufacturing technology for this, which allows us to produce it substantially cheaper than we are doing on the other things. And we are using the strongest brand that we have and in the Philippines it's our Bear Brand, which stands for the best milk product that you can acquire.

Slide 43 – Maggi Bouillon Central West Africa

Another good example is the Maggi bouillon in Central West Africa. In Central West Africa we are addressing the micro-nutrient deficiencies with iodine fortification. You know that this, after the Second World War, was something normal in Europe which helped enormously in order to improve the goitre sickness that there was. Well this is the small help again, a product specifically nutritionally profiled for those people. We are selling every single day 65 million of products of cubes in Western Africa alone.

I think this is a good moment perhaps to draw the attention to a broader issue. When we are talking about organic growth of 6.2% we are talking about this year, for example, a sales increase of 7.2 billion CHF. Now 6.2% is perhaps not so impressive, if you're just talking about percentages. If you're talking about 7.2 billion CHF this becomes a little bit more significant because it's in many cases the size of our competitors, at least the mid sized competitors that we have.

But if I tell you now, that in order to produce, in order to be able to have the increase of 7.2 billion CHF we have to produce additionally 20 to 30 billion products. I think then it becomes a little bit more impressive. And this is what the organisation has to deliver. This means that every single year we are building between ten and twelve factories in order to be able to produce this stuff. And think about what it means to build a factory. I mean the engineering behind, the whole logistics behind, the infrastructure behind we have to design those factories and all of those things.

So this growth, when we are talking once you are a 100 billion company, this growth if you only talking about percentage really does not reflect what the reality is. You have to think more about the real numbers and what it means behind. And therefore it's not surprising that our Capital expenditure, which we have been able to keep it at 3.5 - 3.6 over the last couple of years, is now increasing because we need to build those factories in order to be able to produce those amounts of products

Slide 44 – New factory in Feira de Santana

Now the last thing, and that's why I talk about factories, was that we have designed and conceived a new factory concept which we have just implemented and inaugurated for the very first time in the North East Area of Brazil which you know are the poorest area of Brazil. And we were happy to have the President of Brazil Mr Luiz Inácio Lula Da Silva and he said "Nestlé initiative is a concrete example of how to generate jobs and income to make this country a fairer place, a place where people have the right to work, study and buy affordable products". I think this was the best that we have heard from a long time from any president, regarding this commitment that we have. Not only to the work for the rich people of the world but also to help the low-income people to have a better life and more prospects for their future.

Slide 45 – Group EBIT Margin over last 10 years

Now it is important of course, and I want also to be clear about this here, that PPP (Popularly Positioned Product) product is not a philanthropic activity. It is a highly profitable business. If it was not a highly profitable business we would not have been able to deliver on what we promised ten years ago, which is a constant improvement of our EBIT margins. And you see here the last ten years. As a matter of fact it is the 11th consecutive year that we have delivered the Nestlé model. And I think you can see here very clearly how we have been able to improve, from 10.2 to 13.5%, our EBIT margin. Always in one direction, always sustainable, always going upwards.

Slide 46 – Consistent top-line organic growth

This of course together with the consistent top line growth where we have over the last ten years now a 5.8% organic growth, and here again I would like to show you the portfolio management which has been behind there. On the one hand you see that acquisitions were accounting for about 2.5% of our growth, but look at the lower part. The divestiture was about 1.5%. And this portfolio management allows us to improve EBIT margins also. Because by weeding out the low profitable businesses and by acquiring and investing into high profitable businesses you improve evidently the EBIT margin. And this is a very important part. And by the way it also proves that an investment in CHF still continues to be one of the best currencies when you see that, just because of the consolation effort, we have been losing about 1.4% every single year. It talks about the strength of the Swiss franc.

Slide 47 – Environmental impacts down

Now those are I think quite high quality figures from any angle you look at that, because some just look at it from the financial side. But what it means, and what I indicated before, is that in order to achieve this growth we had to double over these last ten years the volume of the products that we are producing. And now you can ask yourself well, what was the impact on the environment? Because this has of course quite an impact on the environment. Well this was another area where we have been very careful and have been putting our environmental concerns into the forefront.

And what you can see here is that, although we doubled the turnover, we have been able to keep the energy consumption down at least at the zero and then lately even down to what we had before. So you see a very good energy efficiency.

If you're looking now that's special in the UK it's very important today CO_2 emission. Well you can see how we have been able to bring CO_2 emissions down although we doubled the turnover. Those were all investments, which we have been doing in parallel over the last ten years. When I said we have been investing into the business, we have been investing into brands but we have been investing into the environment very strongly. For us the Kyoto protocol has been a positive factor and not a negative one because of those initiatives that we have launched we are able to sell off Kyoto shares and not have to buy Kyoto shares. So from this respect also I think we can be very proud.

If you look now at the water consumption, you see how we have been able to diminish the amount of water that we need in order to produce our products. And as a matter of fact we are today a water neutral company. That means we have saved more water in the last ten years than what we are selling in all bottled water, all over the world. We're absolutely water neutral in regards our things.

And finally the last one, which is the waste water generation, which is another very important aspect in the environmental concern. So I thought it was important that you also get the feeling that this quality is not only on the financial part, it is in every thing we're doing and especially now in the environmental part.

Slide 48 – Environmental impacts down

Therefore it is not surprising that we are being recognised, more and more, by the environmental survey agencies as to be also best in class.

I know that we still have a discussion about the value of our Triple A - financial Triple A, which some of you consider it a little bit too conservative. I hope we have no discussion about having received the Tripe A rating, the best out of 47 on the environmental side. I hope at least on this side we have a common ground.

You also see that we are best in class considered on the environmental and social performance by Storebrand, the Swedish one, and you might remember that Sweden was certainly one of the countries where we had most conflicts and we had most boycotts because of the infant formula issue. This has all been resolved.

If you look at corporate responsibility we are now second out of 32. So I think you have a company that can proudly say that it's not only top quality in the area of finance but also top quality in the area of the environment. And I think this is as important because whatever we are doing it's trying to assure that we have a long-term approach and that the long-term development of this company can be assured. And the environment of course is part of it; social of course is part of it.

Slide 49 – Delivering the Nestlé model

And after our latest long discussion with general management we came to the conclusion that we might deliver the Nestlé model annually over the next coming ten years.

We feel very confident about it and I hope that you have seen that if you're looking at some of the fundamental things, which you do not have to forecast because demographics are given, all of those are here. If we are intelligent enough, we have prepared the company good enough I think we can have the Nestlé model for the next coming ten years. And with we're opening up for questions, thank you very much.

Questions from London Roadshow, February 27th 2007

Questions on:	**Strategic pillars of Nestlé Nutrition Unit** **Selling, General and Administrative expenses management**

Alex Molloy, Credit Suisse.

One strategic question for Peter and one more financial question for Paul. Firstly the strategic one, I think you showed four planks on your Nestlé Nutrition SBU. Do you think those are the four planks you'll build off from here or are you perhaps going to add more platforms as we go forward?

The second one, more financial, is for Paul. As we've talked in the past you know one of the areas where Nestlé doesn't compare so well with peers is what's happened to SG&A (Selling, General and Administrative expenses) over the past five years or so. In this last financial year SG&A helped your margin. Are you actively putting in place programmes to try and manage that or is it just a result of other programmes if you see what I mean?

Peter Brabeck-Letmathe

Yes we have identified those four pillars. I think they also reflect what the market has been able to develop up to now. I showed you the different markets that exist and I think our first priority definitely is now to achieve leadership position in each one of them. That's what we always try strategically. In Infant Nutrition we have, in Infant Formula, a clear leadership. We don’t have this leadership in other parts of the Infant Nutrition; there we have still some opportunities.

In the Healthcare Nutrition I feel quite confident now - once we get the acquisition approved, which I hope should be earlier than what we had perhaps indicated in the beginning. I hope that we can accelerate it so that we don't have to wait until the end of September. Then we shall have a fantastic platform with 28% which should allow us to achieve leadership in a relatively short period. I'm quite confident about this one.

I think it is also clear and I don't know whether I mentioned it here but it will be the integration of our business into the Novartis business and not the other way around. We have already discussed with the Novartis people, they will run this business, they have the better and broader know-how about this. So this will be also a relatively easy integration process. I'm very confident that at the end of the year we will have this running 100% and fully integrated.

We have with Jenny Craig, in my personal appreciation, the best in Weight Management, we are not in the weight loss area which is a different thing. We are really management and Weight Management is a longer-term perspective than weight loss. Weight loss normally has a short-term perspective therefore you have to get out each time to get the new consumer. You keep them or keep her, mainly her, for a relatively short period. Whereas in Weight Management you can really establish a long term consumer franchise because all of us constantly have to look about our Weight Management. So it's a longer-term perspective that's why I'm very happy with Jenny Craig.

And where we are not very strong is in the whole area of Performance Nutrition. That's an area where we still have to look into.

Paul Polman

Briefly on SG&A, or overheads or as Nestlé calls them MOGEs we're very pleased to show the 30 basis points improvement that we've shared with you last week on the conference call. To answer your question I'd like to come back to the same discussions as we've had on the capital spending. You have to separate the good and the bad SG&A and I'll give you some examples. The installation of GLOBE or the rolling out of GLOBE is obviously an investment. But it's an investment that pays out handsomely for the business that you've seen here.

Likewise the investments that we're doing in businesses like Jenny Craig which are heavily service oriented, where increasingly you can capture value by broader defining the products that you're selling, the experiences, which has a service component on there. You saw the 2600 consultants which are SG&A intensive, those are good investment.

The example that Peter shared on the PPP in getting our products broader and deeper distributed requires a sales apparatus to be able to do that. Those are good SG&A investments. So don't just look at this number and say oh it's high or it's low because you have to look at that in the context of the business models you're trying to build, to put the total Nestlé model out there. That's why you can't go to each item of the P&L (Profit and Loss) and say we need to optimise because that total doesn't like that I can tell you.

Having said that with GLOBE we have increasingly now the possibilities to look at the good cholesterol and the bad cholesterol and optimise and capture economies of scale where we can. And that's where the 30 basis point were that you saw. And it might not be every year 30 basis points for the reasons I was just mentioning before. But we are trying to get the organisation to achieve increases in SG&A that are below the increases of net sales. That is to say we should become more efficient over time.

If there are good reasons to invest we will invest. So that's why we don't put targets out there. But I expect if we can maintain the growth rates of 5 to 6% I would expect that we would see further efficiencies in this area.

Questions on:	Shared Services Roll-out Underperformers

Warren Ackerman, Citigroup.

I was interested in the roll out of Shared Services from 30% up to 50%. Could you provide a bit more colour on exactly what's happening? What's being done, what's outstanding and what benefits you see from that roll out? That's the first one. And the second one is I think you mentioned two billion of value destroyers could you tell us what they are and what you intend to do to fix those value destroyers?

Paul Polman:

The two billion is actually what we have done in the last 12 months alone. So that's done, and they are all well known those are the Vlachas milk, the private label Ice Cream in Germany, some milk businesses in the Far East, which had become increasingly commoditised. Some sugar businesses, Philippines, South Africa, businesses that have become increasingly commoditised and less strategic, some times value destroying, some times very low margins. So that's the continuous culling of your portfolio as you get higher quality in your mix, the Jenny Craig's, the Uncle Toby's that Peter was talking about. So that's easy.

On the first part on Shared Services, very simply we've defined four bundles, which is IS/ IT, Financial Services, Employee Services and Office Services. So those are the four bundles. Employee Services would be payroll or pension administration. IS/ IT would be data, data input. Financial Services would be the financial transactions of accounts receivable, accounts payable. What we're looking for is opportunities to aggregate these services to provide better services at lower cost.

Very simply if every country would have one or two people in pensions, doing pension administration, you don't have critical mass, neither for these people to make careers by the way or to get best practices in. Perhaps you can do that at a European level, you aggregate it, have a bit more people but less per unit, that is the efficiency. Normally you get efficiencies 15 - 20%. Now what we would look at is what can we do in-house and what can we do outside. I've not used the word outsourcing here but if we can find outside providers that provide us with better services and lower cost, we ought to do that.

In Latin America for example we have a shared service centre in Riberao Preto, which is in Brazil - for total Latin America - that we have in house. So it's in-sourcing because we simply couldn't find enough benefits to outsource that. In Europe increasingly with third party services providers, we're also looking at outsourcing solutions. The benefits are very clear; there are the left-brain benefits that I don't have to explain of better services and lower cost. And any good businessman understands that very quickly. But there is an increasing awareness of in fact the broader benefit. And that is to allow the people in the markets to focus on generating demand and growing our business. By not having to spend too much time on these transactional non-value added activities, which you need to do to keep a business going. But for them to be able to spend all their time on driving our brands, better understanding the consumer, deeper penetration of our customers, our stakeholders to maintain the Nestlé model.

That obviously is not easily quantifiable but that's a much bigger benefit than the first one.

Warren Ackerman, Citigroup

Would these savings be within the 1.2 billion for Operation Excellence?

Paul Polman

We don't break that out because the 1.2 billion CHF for Operation Excellence was a savings that has a broad supply chain definition. So there are some elements in there that come from Shared Services. And what we've stopped doing is to say what comes from saving, what comes from mix, what come from increases in costs, what comes from which element, which is cost avoidance and what is real saving. I call it useless energy to go into that level of detail.

Again these are the type of things you need to do, coming back to the previous question, to maintain your SG&A competitiveness - to offset tremendous input costs that we've seen. Don't forget, let's put it in perspective. Like in 2006, let's just not go too quickly to the next year, but 2006 had one of the strongest input cost increases in living memory and, rightfully so, of great concern. Here you've seen the strength of the brands, we were able to price for that and the efficiencies that we continuously drive into all the elements of our operations were able to compensate for these increases. And come out with a 50 basis points improvement. That's really what we're after.

Roddy Child-Villiers

On the two billion of underperformers the big one of course is the European chilled Dairy business that's in there as well.

Question on:	**Working Capital improvement**

Michael Steib, Morgan Stanley

My question is on working capital. You managed to reduce that in 06 despite the good growth and said there is further improvements to come. Could you give us some examples of where you could see some of that improvement? Is it specific projects that you have in place or is it really a function of many individual initiatives like SKU reductions and things like that, thank you?

Paul Polman

They tie in obviously because they all work together, SKU optimisation is part of working capital but it's more broader than that. I'm especially pleased looking at these numbers, which once again what you report is a December number, but underlying that is an improvement throughout the year across all elements. Accounts receivable, accounts payable and inventory. It's also a broad improvement. Not every country I have to admit, because we have a 150 of them, but you cannot get to these numbers if the bulk of the countries don't show the improvement. So it's a broad thing across the company.

There are two things; the first one is in the bonus targets that Peter kindly distributes to the organisation, working capital is an important element of that and people understand that. And GLOBE is giving us the possibility to track that and monitor that real time. Alistair in the UK will have a scorecard every month where he is on working capital, all of his elements. Alistair can compare it with all his European peers or globally. So it's real time, real focus.

The second thing that the company has is a worldwide effort, which we have labelled Freshness again that we have started. This is to be sure that our consumers get fresher products. Again that increases the quality of the products; it increases the loyalty and allows us to grow. One way of getting fresher products obviously is to have lower levels of inventory. So it makes good business sense.

So it's definitely a company wide effort, it's linked to the bonuses; we can now track it with GLOBE in a transparent way, no long discussions about the definitions any more. More focus on the actions. And that's why we're seeing these results.

I'll give you a clear example of that is indeed by looking at the SKU rationalisation, you free up space in your warehouses and all that stuff. By looking at our bad goods more transparently and comparing with countries we can drive that down. By aggregating in GLOBE our suppliers and having for example more common definitions of materials we can aggregate, we can have transparency now on the payment terms with suppliers. And we found out that some of the suppliers for the same materials had different payment terms. Well guess which one we are now picking?

So all that transparency and discipline that we can drive in and all these elements thanks to GLOBE, is giving you these results. And again we have to be careful in light of the business model we want to optimise and we have other opportunities to optimise, but to have our business model work. The surest way of not having any working capital is not shipping anything. So that's why I want you to keep a little bit in mind.

Question on	**Future returns from GLOBE**

John Parker, Deutsche Bank.

I'd like to ask a bit more about GLOBE, we're obviously at something of a turning point with regard to this project and you've talked in the past about GLOBE as an enabler contributing to the improvements in performance that we've seen. But can you give us some sort of guidance as to whether we've now seen the best of what GLOBE can deliver to Nestlé? Or whether looking forward the best is yet to come? I think I recall when you initially talked about the GLOBE programme you were indicating the main pay backs would come when GLOBE was effective across the whole of the Nestlé Group I mean is this still the case? Do we still have the best ahead of us in terms of the returns you're going to see from GLOBE?

Peter Brabeck-Letmathe

I think as we have pointed out GLOBE is a project, which is very comprehensive, and therefore it has taken quite a lot of time. We have really started implementing it in 2005 and 2006. The good thing was that, although there was inherent danger of business interruptions when you implement such a huge comprehensive global business excellence project, those were the two years when we have been able to grow the most and the fastest. So I think at least from this point of view everybody is now convinced that GLOBE works and allows you to grow, which I think was quite a penalty that we have been suffering for quite some time.

You know I'm a pilot and I always compare before and after GLOBE very simply. Before GLOBE, as a CEO, I was flying a plane with a compass and a good Swiss watch. And you can fly a plane with a compass and a good Swiss watch, that's the way planes have been flying for many, many years. But of course you need a lot of experience because you have to have the experience of the whole organisation, the environment you're in. Today with GLOBE we are able to have a high precision flight. You have an instrument panel which gives you all the indicators, all the key performance indicators (KPIs) that you need in order to fly with absolute precision. And this is a big difference.

Before, we were a reporting society. As you know we were decentralised and we were waiting for the reports to come back to the head quarters and then we could do something about it. Today Paul can sit at his desk and he has an immediate access to all the data all over the world. So if he comes now and says look we have so many SKU's less, today we have so many legal entities less, today we don’t have to wait until the reports come six weeks after the thing has happened. You have a control panel which is absolutely fantastic, completely on time and that makes a big difference.

This allows us now to run this company differently. Now as we have about 80% of our business on GLOBE we have I think the best things are still coming in front of us, once we have really all of it on GLOBE this will allow us to be more precise, faster in decision taking and therefore I think we will be more efficient without any doubt.

The good thing is that it allows you to find this efficiency combined with the complexity that we need in order to be able to drive this business further on. If you wanted to avoid complexity you wouldn't go into PPP (Popularly Positioned Products) products. You can only be in PPP products, where we have really such small price therefore an enormous amount of products, if you are very precise otherwise it would be a disaster. You cannot go to 475,000 customers directly in one country if you don't have the GLOBE system behind. That's why before we only had 15,000 customers in Mexico and now we have already 220,000 we are going also to 470,000 customers, because we have now GLOBE, which allows us to do that.

So that's a big difference, a compass a Swiss watch and now you have the full board of KPIs (key performance indicators) which gives you on time basically information, which allows you to act precisely on the company. That's a big difference.

Questions on	Portfolio mix	-	Pace of divestitures in future

Julian Hardwick, ABN AMRO

Could I come back to the question of underperformers. Paul in the past, when you've talked about this, you've characterised three buckets if you like, one being businesses where you've been investing for the future and you are comfortable that you can see how those businesses are going to deliver the sort of returns that you want in a the future. A second group, which are strategic for you and you need to find a solution to move them from being underperforming to no longer underperforming. And then a third group which are not strategic and are clearly disposable candidates and you've been actively removing those from the portfolio. Could you just scope out for us currently how big each of those buckets are, within Nestlé? And looking ahead should we expect to see the pace of divestitures accelerate from the sort of run rate we've seen historically?

Paul Polman

Let's take these buckets for a second, they will always be there is the answer. Because as you work a company of a 100 billion and soon a 110 billion and on we go 150 billion you will always have these buckets because you will have migration with consumer habits and market changes where some categories become increasingly less attractive to add value or where the ability to differentiate is less. So this is a continuous managing of the mix. You look at the 10 or 11 years now of Nestlé there has been a continuous management of the mix. There's 10-15 billion CHF of businesses that have been sold.

So I think this is a never-ending story. The same in your first bucket of investing in the future. When we launched Dolce Gusto, one of the reasons in Europe we are only 40 basis points down, if you remember the first half was 90 basis points down. And we told you we would improve over the second half. We end the year with 40 basis points down. That has been achieved despite investments in Dolce Gusto.

So good investments will also increase, in terms of growing our business. The first ten years of Nespresso we didn't make any money either. So the bucket of investing in the future is going to increase as the company grows and that's what you want and obviously we want good returns from that one. The bucket of divestitures, we will always have I think at the level of what we're seeing here.

I was looking at the chart when Peter talked of the 1.4% divestitures. Obviously you have to make a decision in any given year but if you look at that line it's a fairly consistent one. It's the thing you always do; it's not a thing you just do because you wake up today. And then we know and this is where GLOBE comes in again. With GLOBE we are able to be more accurate with out ABC costing I was mentioning before. We can also now have more transparency on the cells on what we call the business cells that we measure individually on performance or non-performance. It used to be that we would have that twice a year or actually even once a year in the detail. Now we can have that every quarter or every month if we wanted to.

So I think there is more emphasis on individual cells in the company to get our performance up. And there is a big benefit that we might not have had in the past because there are little units that you don't see that don't even get on your radar screen, but they take as much attention from people as the broad decision of Lactalis or Eismann in Germany or Trinks; there are many of these individual cells. And there the company will benefit from having now more transparency and focus on what that actual performance is, so that people focus on fixing it.

Now also by the way the last remark is when a business doesn't perform I want to stress that you don't want to have a culture either of "well if it doesn't perform we sell". We want a culture where we want to fix the businesses that we're in and we have the best organisation to be able to do that. So the first priority always is fixing what we have, especially if it fits our strategic model. And you know people need to be in that mindset also, it's not like well if it doesn't work the company can always do something else, that's not a good culture to have either.

Peter Brabeck-Letmathe

May I say one thing about this because this is one of the most important strategic aspects of the Nestlé model. And the Nestlé model and the result of the Nestlé model is not something, which is just given. We are managing the company in order to deliver the Nestlé model. So when you look backwards you will see that in some moments we have been divesting businesses in order to achieve the increase of the EBITA margin that we have promised. Therefore the question when and how and what you are doing it depends on how the performance of the whole group is.

Sometimes you have more time to try to invest in an opportunity and sometimes you don't have time because you have to deliver. So it is part of the way how we manage the model in order to deliver what we are promising. And divesture and acquisition is a critical part of it because you are changing the business portfolio and the decisions are done sometimes even in short things. I'm very open about this. The Trinks divestiture, which was a 1.6 billion divestiture, was basically done because at that point of time we needed to improve the margins through divestiture because Trinks had a 2.3% margin because it was a distribution business. It wasn't strategic. And it helped us in this one moment to improve the margin of the Food and Beverage businesses. So it's part of a strategy. And I think this is important for you to understand.

We would not have been able to deliver this Nestlé model over ten years if we were not playing on all the registers of the businesses. And the three buckets you are rightly pointing out is part of this strategy.

Question on	Future trends for outsourcing

Simon Marshall-Lockyer, Bear Stearns.

Can I ask you a question about outsourcing and the deal that you cut the other day with Barry Callebaut in the chocolate business. Is this indicative of maybe a future trend in further outsourcing? What parts of the business do you think are ripe for more outsourcing deals of this type? And is there also a corollary to the invested capital side of the way you look at the business,

Peter Brabeck-Letmathe

I think Barry Callebaut was not the first thing that we have done on outsourcing, especially in the area of production. What it is, is very clearly a recognition that whatever somebody else can do better and more cost efficiently then we can do and where there is no proprietary technology involved, we should let somebody else do it. It is very clear if you look at the Confectionery business, the Confectionery business is very asset heavy, as you know very well, that's one of the reasons why Return on Invested Capital is very difficult to improve because you have these huge assets.

Now if you go into this business you see that the heaviness of the asset side comes from the chocolate mass. The amount of working capital, which is involved, is in the producing of the chocolate mass. You have huge warehouses full of cocoa beans hanging around, then you have the big presses, you have the cleaning you and have an enormous amount of capital tied up. It is much better, if you can, to find a partner who is doing this professionally, who has his presses and capacities working 24 hours than to have, in each single one of our Confectionery companies, a chocolate mass-producing unit. And that's what we have been doing basically.

Now the first deal with did was about five years ago with Cargill. Cargill was the first one to acquire a chocolate mass building. And then now we have been able to do that with Barry Callebaut for the three factories and the three markets, France, Italy and Russia. So this is a trend that we are doing. It alleviates the capital which is invested, it brings working capital down, substantially because now we don't have to do this we can call up Barry Callebaut and say tomorrow morning I want to have at six o'clock in the morning in a tanker, in a liquid warm tanker, I want to have this chocolate mass available.

Where we are really adding value is how we are combining the chocolate mass with the wafers in order to make the KitKat, which by the way is now a 1.2 billion CHF brand. It's one of the biggest brands that there is in the whole Confectionery business. We don't need to make the chocolate mass in order to produce a KitKat. The technology that we are bringing is really in how we are combining chocolate mass with something else. And this is the reason why we are getting out of the things which are not value adding or which is something that somebody else can do better than us.

And we are doing the same thing in other areas. Take the whole frozen vegetable business. We have not gone out of frozen food when we sold Findus. But we went out of fishing in order to have fish blocks, which we produced in the past. We went out of the green peas from Sweden where we had working capital tied up because you have three weeks of harvesting and then have 12 months of having the stock. Those were the working capital intensive businesses, which we came out of. And today we buy the frozen peas on the open market; we don't have to produce them anymore.

You go into milk, the same thing; in the past every single litre of milk produced was collected by us. Today we are buying a big part of our supply on the open market. And where we still have investments we have done that in a joint venture together with Frontera. So you see this happening not only in the Confectionery area it was just one of those glimpses you looked into, it's really happening all over the place.

Similarly we are now talking about Shared Services. Everything, which is transactional, everything, which is not proprietary to us, we can outsource if we want. But what we don't want to outsource is the functional responsibility of certain things. We can outsource the payroll but we will never outsource the functional responsibility of human resources that's ours, that's specific.

Question on:	**Recalibrating Nestlé Model for Food and Beverage alone**

Charlie Mills, Credit Suisse

I just wanted to talk about the Nestlé model on the screen there, I presume it should be a sustainable improvement in EBIT margin rather than just EBIT. But it's particular with mind to the presentation today and indeed the results last week, all of the emphasis was on the Food and Beverage business, I don't think you even mentioned the Pharma business today at all. Is any thought be given to recalibrating that Nestlé model to give a target for the Food and Beverage business and particularly the margin in the Food and Beverage business?

Peter Brabeck-Letmathe

The model stands for the whole group and the reason why we are talking about Food and Beverage and nothing else is because in the past the market has been penalising us because we did not put sufficient emphasis in Food and Beverages. Constantly, when we looked at the evaluation and the analysis, it was saying well the improvement is coming from Alcon and only from Alcon and therefore the core business is not performing.

So now we're giving you clearly the indication that this group is improving because the core, which is the Food and Beverage, is improving. Out of the 50 basis point improvement on EBITA margin, 40 came from Food and Beverage so that's the reason why we are talking only about Food and Beverage.

Secondly of course we have our main business outside which is our Alcon business. You have a full roadshow and you have a full presentation of Alcon so we don't want to repeat here. As a matter of fact it's also fair to say that you would have a different audience when we are talking about Alcon. An audience, which is specialised in the Pharma and not an audience, which is specialised in fast moving consumer goods.

But anybody is of course welcome to come to the roadshow on our Alcon business, which I think you have seen is doing extremely well. The third investment that we have outside of Food and Beverage is a strategic investment in L'Oréal and again I don't think I have to talk about L'Oréal because you have again here a full investor relation department which explains very well how L'Oréal continues to be out performing its category and establishes itself stronger and stronger as a clear leading personal care company of the world.

So that's why we are not spending more time on the other businesses that we have and are really concentrating on the Food and Beverage one here. What it does show is that when we talk about the Nestlé model we want this continuous improvement of the EBIT margin. And by the way, you are right, we want both, we want the EBIT improved, it is very important that the EBIT in CHF should improve, but we also have a commitment to EBIT margin improvement. This will be driven, not only by the non-food business, but mainly by the food business. That's basically what we wanted to say.

I will have to excuse myself here to attend a press conference but Paul will stay with you to answer further questions.

Question on	**Pricing for agricultural products and long term sourcing or hedging polices**

Mark Lynch, Goldman Sachs.

You talked about the growth in population etc, with that growth comes growth in demand for food and we're seeing obviously at the moment pricing going up and partly also driven by bio fuels. I'm just wondering what is are your thoughts on the long term about where pricing goes for agricultural products and are you changing any long term approach to either sourcing or hedging policies as a result?

Paul Polman:

Unfortunately we've been proven right about the a cautionary comments we made on input costs at the half year results. We've not seen any relief of that over the second half of 2006 and it's also fair to say that we see a very much pressure on the agriculturally based materials getting into 2007.

I believe that's not going to change, contrary what some other people say, but you know if we all knew exactly what would happen in the future. But I think it's very prudent to take a conservative approach. We have here a demand that is increasing globally and it's now broadly global. We have alternatives coming in especially in the area of bio fuels and the increasing use of maize for that. And then we have hedge funds moving increasingly in this domain to try to get returns. And then last but not least we have a global environment that is, to say the least, a little bit unstable in the sense of big droughts in Australia etc, affecting significantly the milk prices.

Unfortunately these are categories that it's not that easy to be hedged far out. And with the sharp increases that we've seen, we've continued to shorten our positions hoping that these prices would go down. So we go into the year on some of these materials where you could go out, with a little bit shorter hedging covered than our position would have been 6 or 12 months ago. And that's why we have to be careful and prudent. And that's exactly what we said on the Nestlé model moving forward and that I was happy with the absolute consensus but not with the thinking that we can pile up 50 basis points on 50 basis points on 50 points. I think that's an irresponsible way of putting the message out there of what is going on.

We have strong brands, which is the most important thing because strong brands have strong pricing power. We've been able to leverage that and the brands are getting stronger. It's the most important thing as far as I'm concerned. We're also taking an approach, unlike perhaps some of our competitors, that we plan for these things to happen and then if it's good news, it's good news, but we plan for that to happen. That's again why you saw a strong volume over the second half, that's why you see strong profit progress over 2006, because we planned for that. We take these pricing decision earlier and we don't pray for it go away and then have to react at the end of the fiscal year.

The same happened in 2005, we got the benefits at the end of the year in volume because our competitors had to price and we got the benefits in our margin progress because we took the pricing early. And again we want to do the same thing in 2007. That's just a prudent way of running the business, I don't see it differently. But I have to say, and people can listen or not, that the environment is not easy on input costs. It's not worse than 2006, it's not easier and that's why I'm glad we have GLOBE to leverage, to have the discipline in some of these other elements because we do need to see our SG&As, we do need to see our trade spend or working capital, the bad cholesterol, we do need to see that further improved to help us compensate for some of these head winds that we have to make this model come alive.

Questions on:	**FoodService Target and Evolution** **Treasury shares**

Martin Dolan, Execution.

Two questions if I may, the first one is I think Peter gave a target of 12 billion CHF for the FoodService business. Can you give us some idea of what kind of time frame that might be and also if that means you're going to look more at moving more into catering or even following Jenny Craig and Nespresso boutiques into the retail side of FoodService?

And secondly on the treasury shares on the balance sheet, can you give us some indication if you plan to keep these as a strategic reserve or you might cancel them in the short term?

Paul Polman

On the FoodService Mark Caira is putting that strategy together right now and we will have our key market conference in two months time and we will be taking our market heads through the strategy. It is basically a two-pronged strategy and it is related totally to FoodService. One area is our beverage part of the FoodService, which is obviously a fast growing area and very profitable area. And we are very well placed, if you look at out stable of brands, to be really the leader in the non- carbonated beverages. If you put all of our brands together like Nestea or Nescafé and we now have the ready-to-drink Nescafé back out of the BPW (Beverage Partners Worldwide) venture. You add our Water businesses, you add Milo, or Nesquik and we have a very strong stable of healthy alternative beverages. And that is increasingly a business that we can run regionally, if not globally, very effectively. Adding to that, some of our proprietary things on the machines and equipment that come with that as well.

The second part is our food part of the business. That is a more local business. Again we would concentrate more on our brands, which is more important. If we can leverage this FoodService business with our brands, so that we can also benefit from that with the consumer, we can capture far more value than if it is non-branded business. There we will look at probably a little bit more of a local approach and a local set up. But again it is very much centred around brands. With that I think we can clearly see the opportunities to get to the 12 billion CHF. With the growth engine being our liquid business.

Are we going to set up other format like the Nespresso formats etc on FoodService and there is not plans to do that right now. That would be worth sharing with you.

On the treasury shares, what we will do is we will put in front of the shareholders the cancellation of the three billion shares, which we will do in April at the shareholder meeting. And then we will continue to trade our shares at the moderate level on the first trading line. But that's right now our activities and our own share trading is probably less because of not having announced a further share buyback when it was last year.

Question on	Expectations of growth in 2007

Simon Marshall-Lockyer, Bear Stearns.

Can I just come back to one or two of the comments you made at the conference call last Thursday in respect to expectations of growth in 2007? Is it correct to assume that there was a very slight shift in terms of confidence, between those third quarter comments from Peter Brabeck-Letmathe in respect to 2007 and the comments you were making? Was that a subtle shift of maybe slightly greater confidence for 2007? And as a corollary to that can I ask whether you're slightly more confident at this point about Europe?

Paul Polman

First of all I think the 5 to 6% we've seen we've come out a little bit stronger at the 6.2% this year. We've had a strong start to the year, so being at the 5 to 6% we feel comfortable with that, and somewhere in the middle I think is where the consensus is and we feel comfortable with that. So if that is a slight improvement from six months ago, probably but we're talking a small difference there perhaps, and more in wording. But we've had a very strong second half you've seen that. And also Europe has been a strong second half. We see the European economies picking up a little bit. Our total business in Europe which is more relevant than our Zone business is up 3.3% and by any standards actually that's a good performance if you look at also the numbers at least that we're analysing from our competitive set.

We have a strong pipeline of initiatives. I for the first time see now a broader stable of brands, versus cherry picking, a broader stable of brands that is growing. Our PetCare business, our Coffee business, our rolling out the premium Ice Cream, the Dolce Gusto, the Buitoni brand, I can share more and I feel more comfortable than just saying we have one brand that's doing well in Europe.

The other thing don't forget is we had a rough patch in Russia. Last year certainly was a very good year for Russia. I think we have those problems behind us, which I remember when I joined the company I had to share them with you on the distribution channels the restructuring we had done in 2005. We're actually seeing very healthy growth in Eastern Europe, which is part of our European numbers that we report. So I don't want to be overly confident because it always continues to be a very tough market.

What people don't realise perhaps, over the next 20 years or so is the statistic I read, just by the pure demographics, the European population is going down by 70 million people, if we don't import more, which seems to be a problem in many countries to do. But we're sitting on a shrinking economy in Europe, by pure demographics, we just don't want to make babies. Which was a bigger problem when I was running Pampers, but now still it's an interesting challenge to deal with.

And that's not really our core focus right now for the company to solve that problem. So for that reason we are actually very pleased to see an increasingly amount of our business shifting to the other regions. You do want to grow fast in the developing markets and be there, you do want to continue to engine ahead in the US where the population is growing. So take that into account as well.

So looking at all of that and growing 3.3%, if we can maintain those growth rates for Europe, admittedly improved profits is what I personally would like to see, then I think we have a very healthy contribution to our mix. But don't read it as negative if Europe becomes less and less of the mix of our company, read that as very positive. That's what I would do. But not by compromising Europe, you can grow but it will be at lower rates than the rest of the businesses.

Conclusion

Paul Polman

I don't have to say too much you've now listened enough to us. We've told you we'll bring more transparency to the Food and Beverage business and we've told you the Food and Beverage needs to perform more. As they say in Dutch “An early bird doesn't make a summer” so we're not going to oversell ourselves here. But you see more transparency on the Food and Beverage business.

You see the performance increasing, we've also said we want to be better in our capital efficiency. Working capital is the easiest one to get to. You also see an improvement in working capital and asset efficiency will continue to be our focus. It's significantly higher on the agenda now. So I don't see any reason why we cannot maintain that.

You've heard us talk about the potential we have in each of that markets, which are huge markets growing, our portfolio is well positioned to participate in that growth. And you've heard Peter talk about the acceleration of our transformation to Nutrition, Health and Wellness. So I believe we're well placed to continue the model and the tools that we have, tools like GLOBE or Shared Services, becoming increasingly accessible to a broader part of the Nestlé population to leverage that.

So with that I'll leave you for 2007. We continue to say and I want to repeat that once more in case you want to measure every word, comfortable with the 5 to 6%, comfortable with the absolute consensus that is out there in terms of the margins. But don't run ahead of yourself because I don't think you'd do yourself justice in this volatile environment that we're in now. And if we can produce those results and continue the growth of the company for a 12th year that would be a mighty fine result. Thanks for your support and thanks obviously for the time you've spent with us and hopefully see you all soon. Thanks.

END OF SPEECH

Questions from New York Roadshow, March 8th 2007

Question on	**Scope for margin improvements linked to demographics**

Participant

Peter the slide on page 17 was very interesting. This is the one that had to do with the demographics and the 240 billion opportunity. I'm wondering if you could also talk a little bit about the margin difference on this scale, not just the sales difference on the scale?

Peter Brabeck-Letmathe, Nestlé S.A., Chief Executive Officer

Well there is no margin difference on the scales and that's what I tried to explain before. You have in the higher income part, in most cases, margins that are not as high as you have in the lower income part. Some may think it would be the other way around but let me explain that very simply. My margins in Germany are lower than the margins in China and Russia and Brazil.

Now this might be surprising but the reason also is that you have higher risk and therefore normally you would expect also to have higher margins. So the margin development has nothing to do with the per capita income. For example in the area of higher income you have more hard discounters playing,. You have more communisation playing and that's why you see that the consumption of value added food manufacturing flattening out because you are getting there into other areas. People are spending more in spa food, more on supplements, more on high nutrition products. When you are in the commodity area, then the margins are getting smaller and smaller. That's the area where some private label plays a higher role.

So the margins are not higher in the higher income and lower in the lower income. As a matter of fact in most of the cases they are higher in the lower income and in many cases lower, especially in the commodity products in the higher income.

Question on	**Nestlé Brands in Eastern Europe**

Participant

Two questions, one involving Eastern Europe and one involving food service. In Eastern Europe - you're a world brand, Nestlé is a world brand, it's known all over Europe more than it is here. What are you doing as far as Eastern Europe as far as growth of some of the brands; this is something we don't see? As an example Infant Nutrition in Russia is very big and I don't see your products there. Some other product like Ice Cream in the South of Russia is very big, I don't see the Nestlé brand there. What are you doing to market over there? There's a lot of money.

Peter Brabeck-Letmathe

First of all that there are no products there is not true. But we don't have a national distribution in Ice Cream. We are the leader in Ice Cream in Russia, if you take it altogether. But it is a very heterogenic market. Our first priority has been Moscow, St Petersburg and the big cities and you will find all of our products in the street, wherever you look.

We are not yet in the South, we are not in the far East of the country. Now in other areas, like in confectionary, we have already a national coverage. Basically you go to Russia you will find Rossiya, our main brand, wherever you are all over Russia from Kamchatka in the far East right over to Moscow. So it depends a little bit on the product category. Some have total geographic national coverage or others have a specialised one.

Question on	Distribution network in Eastern Europe

Participant

Are you going to build your own distribution network or are you going to rely on others? You mentioned before you had 200 distributors at one point, are you going to build your own distribution network, or acquire a distribution network?

Peter Brabeck-Letmathe

We moved - we started like everybody. 15 years ago we started by importing, and we went through distributors and importers and then afterwards we started to establish our own factories, which we have today. Then about two or three years ago we moved from distributors into our own distribution. And today we have our own distribution. This was the reason if you remember that we had a small hiccup in our Russian business in 2005 or the end of 2004. Where we had the hiccup that was when we moved from the 200 distributors to our own distribution system. And this changed; it was a little bit difficult and delicate to manage. But now we have our own distribution systems.

Participant

I was wondering is that same distribution in Poland and Hungary all the Eastern Europe countries and in the Baltic States? Do they go hand in hand with Finland, Sweden, Norway.

Peter Brabeck-Letmathe

Well no, this is different. We have Denmark, Sweden, Norway and Finland under one management team, which we call the Nordic States. Russia is under another one, Ukraine has a different one, we do not have Ukraine reporting into Russia.

What we have is all central Asian, Uzbekistan and Kazakhstan and all they form one region with Russia. And then afterwards we have Poland, which is independent market, Czech Republic is independent. So there we have normal Nestlé organisations.

Question on	Improving the Food Service network in the USA

Participant

Can I go onto Food Service in the States which also transponds into Europe, what are you doing as far as there is to build a better network? You see more of the Kraft brands in the Food Service, at least in the North East, than you do with your brands.

Peter Brabeck-Letmathe

Well we have a very substantial FoodService business in the United States, especially in the area of food. Stouffer's is very strong in Food Services. But we have also another brand which is more food ingredients, which is Minor's, which you might not relate to Nestlé, which is one of the leading food ingredient services companies.

And then we have of course the Beverage systems of FoodServices for Coffee, Nesquik, then our Coffee Mate business is very strong in FoodService so we have quite a big amount of FoodService in the US. We have it organised in such a way now that we have one North American FoodService organisation, so the Canadian and the US FoodService organisation is into one.

Question on	Relationship with SYSCO and US Foodservice

Participant

Who is your distributor? SYSCO or US Foodservice? A lot of the food service is controlled by SYSCO or US Foods, they distribute and basically controls a lot of the FoodService, what's your relationship there?

Peter Brabeck-Letmathe

By SYSCO? Well we are working both, on the one hand we have of course specialised brokers which is very important in FoodService. But we have also the main operators if you are talking about the McDonalds; if you're talking about the Pizza Hut we have a direct relationship with them, with the big FoodService operators.

Question on	Working style required for recent Nestlé Nutrition acquisitions

Participant

A question about the Nutrition business, where you've made a couple of sizeable acquisitions recently. They are businesses with different competitive dynamics, different sets of competitors. How do you gain confidence that the skill set that has worked so well in the core Nestlé business can be translated in some of these new markets where again it may not be a sort of new product and advertising and promotion driven, where it's more a relationship building and confidence in the product?

Peter Brabeck-Letmathe

I think you're absolutely right and I mentioned that. I mean in the Nutrition business they are completely different business models. If you're talking about Jenny Craig, the one we talked about for Weight Management, I pointed out very clearly that the trust and the reliability that a consumer has in the consultant is extremely important. Therefore I said we will be very careful with the growth. We could grow faster than we are growing today and we are growing well. But we will be very careful; we don't want to lose the core of Jenny Craig. And this is really this one- to-one relationship between the consultant and his consumer, that's extremely important.

Moving now into an area of Medical Nutrition. Medical Nutrition here we are talking about highly professional relationship. Here we are talking about the specialist of the hospital with our specialist in nutrition talking about how you can support the customer that cannot swallow food any more. That you have to make him tube feed, or you have to give him intravenous feeding. There what really is important is this professional discussion and level that you have from one professional to the other.

That's why I said this is an area where research and development, clinical trials, regulatory affairs become the driving and the most critical aspect of the business. It's quite different to the other model I took. Now take Infant Nutrition, if I talk about Baby Food and these things this is more a traditional part of the business where the retail relationship is very important because you're going mainly through the retailers. So each one of those businesses is quite different from each other and demands a different set up, demands different people.

But you see that when you listen to Paul's presentation, and I have been listening to it now several times and it always comes to my mind. It is very complex. If you want to be a 100 billion business, and you want to grow by 5 to 6% which mean six-seven billion every single year. Well you cannot do that without complexity. The business is complex, every single business needs its own structure, it's own way, how to run. And this is why last time I explained to you what we were doing on the organisational side. Breaking up the super tanker that we were. But the super tanker that could not grow any more or would have difficulty growing. The reason is physically you remove this stuff.

The same thing with a company, you come to a certain point where with a pyramid structure you cannot grow any more. When you come to one hundred billion you have to break it up and you have to make it, as I said, an agile fleet of different boats. And every single boat, one is bigger, one is smaller, one is a destroyer, the other one is an aircraft carrier the other one is a speed boat, every single boat has to have its very specific crew and its very specific set up. But behind all of that we have to be able to leverage the size of the group and this is through Shared Services that's what Paul was showing. So they have one supply ship for the fuel, one supply ship for the food, one supply ship for the munitions okay this has to together in order to leverage from the size.

And this is what GLOBE was always meant to give us and this is why, now that GLOBE is running, I think we have today a competitive advantage of years to anybody else in our industry. Because we have been able to combine complexity, which is necessary in the generating demand side, with efficiency which is necessary in the supply side. That's what it's all about. And this gives us a unique opportunity and that's why we can still grow, otherwise we could never make the commitment, which I just made in front of you.

And I made it not on my behalf; I made it because the management of Nestlé is convinced that we have now everything in place in order to continue to deliver the Nestlé model for another ten years.

Question on	Nestlé Waters and distribution costs

Participant

A question on Nestlé Waters and distribution costs. I believe that McLane one of the large wholesalers has announced pretty large price increases on bulk water distribution. I was just wondering if you know to any extent you've renegotiated your contract, what type of increases you might be seeing and if you're considering any pricing to offset those and if there are any alternative means of distribution?

Paul Polman, Nestlé S.A., Chief Financial Officer

I want to go back to 2006 for a second because this is a category, Waters, where you have tremendous cost of energy, tremendous cost of PET, we've seen that go up. And despite that you look at our numbers and you have a basis points improvement of again another 60 basis points. You saw that over the first half, you see it over the full year.

So the first thing that we will be focused on continuously is to provide the consumer tremendously good value. And being able to increasingly capture these benefits of scale, being able to bring in efficiencies like light-weighting our bottles, changing our distribution system, for us is the priority number one to offset. We can offset those cost increases to a great extent and improve margin. Our home and office delivery for example, in the US, is a very profitable business for us and a very good business.

So the first priority for your pricing power or to be able to offset these things is be close to your consumer, provide these efficiencies and then you have the strong brands. The stronger your brands are you're able to offset that with pricing. And again here in the US we have very good brands. We've seen tremendous onslaughts on the pricing side from the Pepsi's and Coke's that were trying to establish themselves. But interestingly if you just look at last year alone the absolute share growth of Nestlé was higher than the next two combined. And yet we're moving our margins up. So that's how we want to run the business.

Now if the pressures continue in the logistic side which we don't think are going to be as high in 2007 as in 2006 and we cannot offset that with savings and efficiencies then our brands are strong enough and certainly if competition finally move some of these prices up then we're in a very good position to do that as well. So we are coming from a position of strength.

I'll conclude for a second it's because we showed the 30 basis points increase in distribution. 10 basis points is Jenny Craig, which is a very distribution intensive model, the other one is the fast growth of Nespresso, which is a distribution direct model, and the other ten basis points is water.

Question on	**Managing the Portfolio mix**

Participant

Start of question missing… - what is the criteria to get into the category and how has it changed in the last couple of years in terms of that criteria to get into it?

Peter Brabeck-Letmathe

We change our terms - you know whenever you have a business as broad as ours you have basically three different types of underperformers. You have those, which are chronically sick, and these you have to identify and then afterwards you have to separate yourself from them. You have the others, which have symptoms of sickness, but you are not yet sure whether you can really repair them, to help them and make them again healthy. So you give them a certain period of time in order to see whether you can overcome their sickness.

And the third one is those which are basically strong in the opportunity that they present therefore you're investing into this period. And the question here is simply in your portfolio how fast and when are you acting on the different categories. How much do you give a category to become profitable? Now as you know we have a relatively long-term orientation in our company. And we have been saying if we go into a business, a completely new business our timeframe for a completely new business is about ten years. That's what it takes in order to create a worldwide leadership position.

This means that you will have to invest approximately a billion CHF, accumulated over ten years, into research and development. You will have to make some acquisition in this area in order to achieve your leadership position and after ten years when you have this leadership position you will start to consolidate your profit margins.

A very good example for that is PetCare for example. It took us about the ten years; we were number six when we got PetCare through the acquisition of Carnation, which was not really strategic at that point of time. In 1990 we decided in a strategic discussion with our board of directors whether we wanted to stay or get out of this business. At that time we had the profit margin of about 5 or 6%, it wasn't killing us but it was not something you know you would be looking forward. We made the decision that we wanted to become a leader and from then onwards for ten years we invested. As of 2000 we had a shared lead and today we are the leader in pet food and you are seeing the profitability. Today it is already above, substantially above, the average of the group, this would be my first category.

The second category where you have businesses which are relatively weak and you still give them an opportunity those are normally local businesses. We tried this for example in dry pasta; we tried this in frozen food. There was again - again there were margins but not very attractive ones. We tried with research and development, when research and development is not capable to deliver differentiated products which are more valued by the consumer than somebody else well then we have to get out. If they are able to do that then we stay in the business.

And the last one is really the chronically sick ones and there we have to get out. And Eismann was one of those, this was non-strategic with very low margins. You had the Trinks business, very big but 2 and 3% margin because it was a distribution one. We went out of those things. Frozen peas, etc. we don't need those things any more, with low margins and very commoditised so we got out of this. Liquid milk, UHT milk, there's nothing that we can add to those, so we got out of this business. Those are all the businesses we are basically getting out of.

Question on	Nestlé in China and India and future opportunities in developing markets

Participant

Morning could you give us an update on China and India and in terms of the size of your company today what they represent and looking out where you see the opportunities in other countries?

Peter Brabeck-Letmathe

I think our performance in China is remarkable. We are very happy we have 21 factories running. I will be over there in two months from now inaugurating the 22nd one, which is a milk factory in the Inner Mongolia, which is in-line with the priority that the government has. I met with the government last year, they explained to us very clearly where their priorities - their priority today is a more social equilibrium. They were worried about the disequilibrium which has been established.

Secondly they want to have a more environmentally conscious behaviour of the industry. Environment has become a priority for them. And the third one was the development of the rural area. Those are the three priorities of the present government, a little bit different to the one of the former government.

We fit very well into this as I have just mentioned we are building in the Inner Mongolia, which is really one of the most remote areas. A milk district, we are helping thousands of milk farmers to have a daily income. And we are also from an environmental aspect bringing in for the first time into this region waste water plants and things like this. So I think here we are perfectly again aligned with them.

The growth - I don't have to talk about China's growth you know that as well I do - the creation of the middle class and the rich class today, the most amount of millionaires in Asia are in China. Anybody who is in the luxury goods knows that this is where you sell your Austin Martins and your Ferraris and your things like this. So this is a very developed part. But there is also a very non-developed part. That's one of the reasons why we feel the Popularly Positioned Product strategy also has a good application in China for example, especially in the rural areas.

So I would say we are looking very confident into the future and we have good profit margin. As I said before we have higher profit margin in China and I have in Germany, which says that we are very successful and also very profitable.

India; I think the Indian market is different to the Chinese market. For us it is a more difficult market to handle. We have been in India for many years. We have many factories down there. But the Indian democratic system this is the biggest democracy in the world by far. With a lot of delegation down to the States and State parliaments and things like this and this complicates life a little bit. It's not as easy and when you have a strong central government where you know the rules of the games are clearer than when you have a democratic system where the rules of the games are different in time and different in geography.

So it's a little bit more difficult to move in there. But again we have a very good growth rate. We have a continuous investment into this market. And I think again this is an area where we have over proportional growth. But I think there are two business models that are quite different between China and India.

Question on	**Historical influence of Nestlé presence in India and China as a driver for future growth**

Participant

Continuing on Bob's question in terms of how the brand might have had a historic identity in India where it may not have had a presence previously in China as you think about Nestlé around the world you've always been present in emerging markets and it creates an aspirational drive for the products. Do you sense that that exists in India and it might help ultimately to drive your business forward, way different even to in China where you probably had very little prior presence?

Peter Brabeck-Letmathe

Well you know we were present in China from the end of the 19th century up to 1947. This is something we are forgetting sometimes, for us China is not new. In 1947 we were forced to withdraw and we came back to China in 1978. So I say we have been in China all the time with the short interval. But the reality is our brands were there, people knew about the Nestlé brand, people knew about and had a strong relationship with the Nestlé brand, which helped us also. We had also the other good advantage that the Nestlé brand in Chinese means chow-chow, chow-chow is bird's nest. And bird's nest had a very high nutritional connotation as you can imagine. The most nutritional product for the Chinese is of course the swallow nest, the bird's nest. So we had from this respect a huge advantage from the brand side.

And therefore for example Nescafé is called Chow-Chow Coffee, the birds nest coffee. So we didn't have to invent any Chinese brands, we just were fortunate that our name translated into Chinese has enormous nutritional connotations.

Our presence in India is also very long. But it has been more limited to the milk area, that's where we started. It was 30 years ago that we then moved into the culinary area where we have today a booming business. Our Maggi business in India really is booming and we are just building another factory in order to be able to keep up with our Maggi business. And then lately we came on with the Confectionary business, which is younger, plus a beverage business.

They are simply two different business models. It doesn't mean that we are not growing; we are growing very well in India. But the question is where are we going to grow faster and where is it easier to forecast, to make your investments and also have a certain security in what's going to happen. And in this respect I would say China is still an easier place than India.

Question on	**Limiting factor of out-of-home consumption trends on the Jenny Craig model**

Participant

The Jenny Craig model where you described the consultant providing you with maybe a weeks worth of products to take home. With 60% of consumption being away from home in the United States does that limit the ability for Jenny Craig to work for the dieter because they have no recourse to the product when they are away or can you create some kind of a portable product that might travel with the consumer?

Peter Brabeck-Letmathe

No I think that this is another great advantage of Jenny Craig. I mean we are independent of retailers. Basically it's a home delivery system and what we are doing now is we are learning from our friends from Nespresso because they have basically the same distribution model. We have taken their very sophisticated IT infrastructure, which allows them to have a big part of the business on the Internet and we are implementing this now in Jenny Craig. And we have created Jenny Direct. I think an important part of the future business of Jenny Craig is going to be Jenny Direct. So that the people can get their advice through the Internet and then afterwards they can put their order through the Internet and it will be delivered at home directly.

So there we really took advantage from the experience that Nespresso has developed.

Question on	**Nespresso Boutique coverage**

Participant

In your Powdered and Liquid Beverages you have the boutique openings, Nespresso Boutique openings. How many do you have currently in operation? How many in North America? How many countries are you in? And basically what is the revenue projection? You said you had one in New York can you give an overview on that?

Paul Polman

Last year alone we opened 35 of these boutiques. And just to explain for the people that are less familiar with your question. The model of Nespresso is a direct-to-consumer model as Peter explained where people can order the brand on the Internet. But a very important component of Nespresso, which is the Luis Vuitton of coffee if you like, is obviously you need the appliance, which is the machine itself which you see here. And so you have a store experience often located in a very exclusive area, next to the Prada or the Gucci or the Luis Vuitton store and the same you find here in New York.

So this is a model of premium that you need to seed, like any premium brand. If you would go mass with premium, that's contradictory to what you're trying to build. So we have these very exclusive stores, which actually turn out to be half of the sales we're doing. People come in there, they might order on-line but they still come in there and buy in the stores as well.

We're now in about 40 or 50 countries roughly where we are seeding the brand. But

60% of our sales continue to be in the two countries that we started with which are Switzerland and France. And interestingly as you can imagine this model has been there for 20 years. It took us ten years to establish and then it took us ten years to start going and now it's you know exponential acceleration, growth of 40%. And that's not bad for any luxury model by the way.

But what you also see then is the countries you went in earlier, Switzerland and France as I mentioned, they continue to be the bulk of the sales, because they are now on a higher base but continue to accelerate. We have now 3.1 million households on our database that regularly order and use Nespresso. We're now basically in all of the major capitals of the world. We just opened in China as well, all the major European cities, we're opening stores in Germany we're expanding that in Switzerland even further. So I don't think that the store opening rhythm of 35 that we've opened in 2006 will be less in 2007, that's very important. But the growth will continue to be skewed to the earlier countries that you're in as you see this model.

Participant

Or is there a franchise programme?

Paul Polman

No the stores are rented but the people that are in there are our employees. That's a tremendous service model there. And they have the data bank. I don't know if you've been in a store. My wife shops in Geneva and when she goes in there - Hello Mrs Polman, this is what you ordered last time. Have you tried this taste. Glad to see you back. - The profile is in there, what you order, try this new one. It's a very customer friendly model. And then a lot of women go in there because they hope one day to encounter George Clooney, which is a tremendous incentive to go to these stores. And we have him run around from store to store but we never tell you where he is.

.

Question on	**Propriety of Nespresso system**

Participant

On the Nespresso is there a generic version of the resale or is it more like an iPod where they're dependent on the Nestlé brand going forward?

Paul Polman

It is a proprietary model just to finish that. It's a proprietary model and it's obviously heavily patented, the capsule and the system is proprietary. And obviously the combination gives you this wonderful experience. There is a patent that is like any patent, it has a life and this is 2012. And we're working to have other options to extend the uniqueness of this system.

Now there are many imitations there, you can by coffee by the pot. In fact we have a 3% share, which is amazing; it's a brand of more than one billion Swiss francs growing very fast. But there is a huge market out there already with other systems. But you have seen some of our competitors make huge write-offs or invest in things that don't give the return. This is a model that might have taken a little bit longer but it's based on a very solid foundation with a totally different league that we're playing in, in terms of the coffee experience that we're providing to consumers.

Question on	Strategy and positioning of Novartis Medical Nutrition

Participant

I was hoping you could follow up to the Medical Nutrition arena talk a little bit more about the Novartis business, the strategy and your positioning versus other players such as Numico or Abbott?

Peter Brabeck-Letmathe

Well I think I have shown you first of all the environment, the Nutrition business 100 billion. If you look into the market in Infant Nutrition we are the worldwide leader very clearly. Most of our competitors are pharmaceutical companies. And you know them. Whether they have a first priority of this business or not, this is sometimes questionable. Whether they have the know-how that you need for this business, especially in the future where organoleptical part becomes more important. We feel that we are better prepared for that. So we feel relatively sure that we can defend our leadership position there.

It is true that we have in Infant Nutrition one weakness; the weakness is in the baby food area. We are basically only in the dry cereal part of the baby food. We are not really in the wet part of the baby food. In some countries we have some but we are far from the leader in this area. So this would be an area where we are still weak I would say. Otherwise the rest I think we have clearly the leadership worldwide.

In the Medical Nutrition I have talked about, 28% market share and I am absolutely convinced - due to this geographic spread plus the very specific know how and the combination now of the Pharma know-how from Novartis and the food know-how from Nestlé together, we will become the leader within a very short period. And I'm quite convinced about that.

Performance Nutrition is an area in which we're are still struggling a little bit. We have Power Bar. We took Power Bar as a speciality brand, tried it out in order to expand it a little bit, perhaps went a step too far and made it an energy brand that you can buy in any retailer. I think it lost a little bit of its characteristics. It was basically the food for the triathlon runners and the marathon runners and those people. And it lost a little bit of the shine. That's the reason why we have decided to reposition it back into the core in where it was before, taking that out of the discount stores and things like this. So on this one, I would say, we still have a lot of work to do and we are still relatively small. That's another opportunity.

And then Weight Management with Jenny Craig we have now a fantastic base that we can develop ourselves. That's about the way I see it.

Participant

Do you see any further consolidation in your own acquisition potential there?

Peter Brabeck-Letmathe

Well I mean we have been very open. I mean any business that comes on the market in the area of nutrition Nestlé will be looking at that and will be interested in this. And if it makes economical sense we will be there. If it doesn't make economical sense I mean we have a list like any other company before we make any acquisition and it has to comply with all these criteria's if it makes sense we will be there and if it doesn't make sense we will not. But we will look at anything that comes on the market very clearly.

Question on	**MSG reduction in Maggi products**

Participant

Peter there's an expectation with regard to some of your Maggi lines that you're preparing to launch a product that features a substance that perhaps allow you to use less MSG (Mono Sodium Glutamate) while preserving flavour. My question is this - when do you expect such a launch to begin and how significant to sales would you expect this to be?

Peter Brabeck-Letmathe

We have been working on MSG elimination for many years. And as a matter of fact I remember when in 1987 when I took over and was responsible for the Culinary business we had our own MSG factory in Italy, because at that time we needed so much MSG. We have sold this and we are today not any more in MSG production and had eliminated continuously MSG from our products.

So 'clean label' is something that we have been launching in several countries. Last year and the year before we have introduced 100% clean labels. Which means not only no MSG, but also no E-number or anything like this. In Austria and Germany for example for our Maggi range, we have today clean labels there. So that's an ongoing effort.

Within the 6O/40 plus that Paul was mentioning before where we are checking all of our products constantly. On the one hand the consumer preference of an organoleptical preference, that they have a clear preference to our products from a taste point of view. But also that we had a better nutrition profile than those of our competitor, which is what the plus stands for, and within this you have salt reduction, sugar reduction, trans fat reductions which is an ongoing thing.

Question on	**Future development of involvement in Alcon and L'Oréal**

Participant

Could you talk a little bit about your stakes in Alcon and L'Oréal, how you see those developing in the near term and long term? Obviously there's been speculation about Gerber being on the market. Is that the type of asset that you would potentially use your financial assets to acquire? Or is that something that maybe you'd be willing to take on more leverage?

Peter Brabeck-Letmathe

No, first of all if Gerber would come on the market, I don't think we need to sell Alcon in order to be able to finance that. I think we have sufficient cash flow, if you look at our cash flow creation I think we can digest a Gerber acquisition if it ever came to the market without having to sell Alcon or anything else.

Let me say again the relationship with L'Oréal is a relationship, which is being handled through a contract, it is a public contract. Anybody who wants to know and see the contract it's on the Internet. We have learnt that it's very important to be transparent about these things. So you can read the contract and it stipulates very clearly that up to 2009 no party can move on its participation. As of 2009 it's the first time that Nestlé could envisage to sell part of its holding. It cannot buy, but it can sell as of 2009. And that we have a contract of first refusal one to the other. The only way that Nestlé could acquire more of L'Oréal would be in the case of the death of Madam Bettencourt and, as anybody who knows Madam, you can only wish a long, long life. She's very active, she's on the strategic committee, she's on the remuneration committee she's at each board meeting, very much involved and in very good healthy state. So I don't think there's anything that we can do on this area for the time being.

In the case of Alcon. I have said many times Alcon of course is not a strategic part of Nestlé. But it is financially extremely important and has done very well for Nestlé and it is part of the Nestlé model. In difficult times when we had to make decisions in order to further invest into our Food and Beverage businesses, the presence of Alcon allowed us to deliver the Nestlé model and to invest at the same time into the Food and Beverage business and still deliver the model. So I mean we have to give a lot of credit to Alcon.

You have seen it's a business that before we brought it to the market was basically under valued by everybody. Today it has its own valuation, it is one of the most highly valued pharmaceutical businesses that there is. If you talk to any pharmaceutical analysts for them this is really one of the star performers of the market. Our R&D pipeline in Alcon is healthy. It assures you development over the long term, a very good R&D pipeline. And under those circumstances we don't see today a reason why we have necessarily to sell our participation there. It is very helpful as I said before to deliver this Nestlé model but is it strategic, no. If once the question comes up about a major strategic issue we will certainly look at that and - Alcon know that very well. I've also told the Alcon management as long as you're growing faster, as long as you have a higher margin than the food business you might not be from a growth point of view strategic, but financially you're very strategic. I think they know that and that's what drives them also to perform and to have the star performance that they have.

Question on	**Joint Venture with Coca Cola**

Participant

Just a few months ago we heard about your relationship with the Coca Cola Company being somewhat more limited. I was hoping you could talk about this relationship now and how you're thinking about new product development going forward.

Peter Brabeck-Letmathe

Well the relationship with Coca Cola is now a long term relationship which had been re-visited over again according to the external environment and changes also at Coca Cola's management which sometimes have different priorities. And the latest announcement that we made we clearly indicated that we came to the conclusion that we would separate Nescafé and bring it back to the full responsibility at Nestlé, which is I think for us very important because we feel that we can make Nescafé ready-to-drink a faster growing business than it is today.

In the joint venture it had the second priority, very clearly the first priority was their tea business. Therefore it has not had this growth, which I would expect from the number one coffee brand of the world. So this was a decision that we have taken. We are now in the process of retaking the business country by country. This is a process we had in principal a two-year transition period because this is not so easy. I mean to take it out not only from the joint venture, you have to take it out from the bottler system, you have to establish your own system and see how you can ensure the distribution part of it.

But we have started with that and we have already some businesses reporting directly back into Nestlé. So that's the one part of that and the second part of it is about the question about the tea. Here what we still have to fine tune a little bit is a definition exactly what this tea - you can imagine both companies are in the water business as competitors. And the question is what happens if you put a little bit of green tea into the water, is this falling under the joint venture or not? So this definition is very critical as we are competitors in a very close product category and that's what we are still working on. But overall I think we see where they should be handing on and I hope that in the next couple of weeks or latest a couple of months we should have the final agreement on this part of it.

But the Nescafé this is already decided and this is already happening. Nescafé comes back to Nestlé and will be the full responsibility of Nestlé. And on the tea side as I said the issue is how we are managing this area which is between tea and water plus. How do they delineate exactly the line those are the issues.

Question on:	**Water distribution strategy**

Participant

As you establish your distribution for ready-to-drink Nescafé are you going to change the strategy for distribution in water?

Peter Brabeck-Letmathe

No, certainly not in the distribution for water. What we are going to is to look whether we can use the distribution power of water also for ready-to-drink coffee. But we will also use any other way to get the products to the market. I mean there are different ways. I can imagine that in many markets the distribution power of the Nestlé organisation vis-à-vis retailers is very important and very strong. Don't forget that we have a ready-to-drink coffee business 100% in Japan because the joint venture always has excluded Japan. Our biggest business of coffee in the ready-to-drink is in Japan and there we have brokers in order to get into the vending machines. We are using the Nestlé sales force in order to get to the retailers. We are using partially FoodServices.

I can imagine that in the future for example our home and office delivery system of water could perfectly offer also to bring a box of cans of ready-to-drink coffee. There's nothing wrong about that. So I mean this is exactly why I think bringing Nescafé back home will give it a greater growth opportunity than limiting it only to the bottler distribution system of the Coca Cola organisation. That's the reason why we want it home.

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

Thank you very much indeed. As Peter said earlier on water scarcity is today, and increasingly will be one of the major challenges facing the world. At quarter past ten in this room Peter is going to host a presentation to discuss the issue and how Nestlé is playing its part to address it and everybody is welcome to stay.

Peter Brabeck-Letmathe

Thank you very much. As I said this is all about the social responsibility part of it and what we consider and why we consider that water is really the most urgent issue that we have to tackle that's what we're going to talk about afterwards. Thank you very much.

END