NESTLÉ S.A.

2006 HALF YEAR RESULTS LONDON ROADSHOW TRANSCRIPT

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Chairpersons:	**Mr Paul Polman** **Chief Financial Officer** **Nestlé S.A.** **Mr Roddy Child-Villiers** **Head of Investor Relations** **Nestlé S.A.**

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

Slide 1 - Logo

Good morning and welcome to the half year road show. It's great to be back in London where the sun is shining, the sky is blue and the share price is going up. I tell Paul and Dianna it's always like this in London but they don't believe me. But the pressure's now on course to make sure that that trend continues, blue skies, sunshine and share price, so with that, over to Paul.

Slide 2 - Disclaimer

I'll just click over the usual disclaimer which we always show for good form.

Paul Polman - Nestlé S.A. Chief Financial Officer

I think we've have very good results you've seen that, we are pleased about it, certainly makes my job a little easier standing in front of you, you understand that, But at the same time, there's a saying in the Netherlands that an early bird doesn't make a summer, so don't get carried away in fast moving consumer goods. It's a very competitive market so if you ever think you're winning, you're probably already losing. We don't have time for that so whilst you might be happy, whilst we obviously are pleased that it goes in to the right direction, it's also important to point out that don't get carried away, keep the expectations high, but also keep the system sharp because that's the market we're in. I don't want people to run around in Nestlé either and say isn't everything going well for us because of these great results. Obviously people should be pleased with these great results and they are well deserved, but at the same time there's a long road ahead and there's some competitors that are very good and getting better as well, so lets put all this stuff in perspective.

Slide 3 – Agenda

Now what we're going to talk about here is very quickly some headlines again of the first half results just as a little warm up. There's one slide with the numbers, I'll run them past you again. Then I thought it would be good to respond to some of your questions. In previous feedback you said, well you have an anecdote here or an anecdote there and you pick a product and you pick an initiative. Somewhere in the world, because you are a big company, you can always find something that has an index of 130 or 140 or 150, then you celebrate that, but it might not give the total picture. So I thought, why don't we just quickly run through each of our core categories, at a macro level, and just tell you very quickly how the category itself is transformed into Health, Nutrition and Wellness, how the category itself brings in that focus and efficiency, that I believe give sustainable improvements if we do our jobs well. In the second part we'll talk a little bit about our organisational transformation. Just to give you a quick update; where we are and how we see that moving forward. And then that gets you into the scale and structure, then we'll end up with some conclusions and then hopefully some interesting discussions with all of you here.

Slide 4 – 2006 H1 Highlights

If we go through the first slide. And by now you should be familiar with these figures. First half, very strong top line growth 11%, CHF 47.1 billion. If you start multiplying that out, we're getting close to the CHF100 billion as a company which obviously are impressive numbers in itself. Strong organic growth of 6.4%.

I want to remind you though that, if you grow at 5 / 6% that's CHF 5 / 6 billion that we have to add to the top line every year. That's the size of most of our competitors in total, so I just wanted to put a little bit in perspective how strong this growth is, 6.4%.

We're especially pleased that once more the main part of that growth is our Food and Beverage business, that's up 6%. And you all know the Jenny Craig and the Uncle Toby's will be consolidated in the second half only, I'll talk about that later.

So this is purely organic growth and I'm very pleased about that because it says our brands are getting stronger. And, as I continue to communicate with you, that's the most important thing. We can talk about all these individual numbers, we can make some adjustments and make some accounting changes but at the end of the day you build shareholder value by making your brands stronger.
Then the EBIT increased by 14.5% to 6.1 billion Swiss francs, that's an improvement of nearly CHF 800 million as well.

The EBIT margin you've now seen after all the restatements that brought us from 12% to 12.4%, we're actually then showing an improvement in EBIT margin by 40 basis points. 10 of that is foreign exchange and the other 30 is the underlying business. Of the 40, 10 is Alcon and 30 is Food and Beverage and that's the pleasing part of it, because we're now seeing Food and Beverage moving up in the right direction. Then you get net profits which is CHF 4.15 billion up and earnings per share 11.9% increase.

Now on the earnings per share, I just wanted to make a small comment because I was flicking through some of the results of our competitors and some of them have good results and should be congratulated on that. But when they talk about the earnings per share, the fully diluted earnings per share, they actually take the end position as full stop buy back, we don't do that, we take averages. If you take our earnings per share position, including the full share buy back that we did at the end of June, then actually that 11.9% would be 12.8%. So if you want to compare apples to apples then that number would be 12.8%, the way our competitors do it.

And if you look at Food and Beverage itself, as I mentioned it's a 30 basis points improvement, which is pleasing. Then working capital, you know working capital is end positions, lots of things happening there, but we continue to bring more focus to this area as well. I think its money laying on the street and we need to bring more discipline in there. It also brings us closer to what is happening in the business. The better your control of working capital, the closer you get to feedback from the market if you want to, if things go well or things don't go well. That's a very important element of running your business efficiently and also there we see some improvements.

Slide 5 - Our increased transparency

Nestlé is a very big company, it is obviously a complex company for some people and that complexity leads into difficulty sometimes to communicate our results fully and transparently. So based on the lot of the feedback that we've had from you over the last few months, we've also looked again at how we can improve transparency to reflect what the true business is doing. And we're making some substantial changes which are also reflected inside in the company, in how people act and behave. And the first thing is that we really talk Food and Beverage.

Alcon is a tremendous company. I was there last week and went over the business with them again. It's a very respectable company with an incredibly strong management team and focus, with leading positions in all of the areas of ophthalmology, be it consumer, pharmaceutical or surgical. And I'm glad it's part of the Nestlé family. But if you go to Vevey, they're probably only one or two people that can claim any responsibility for Alcon. So let's focus on Food and Beverage, which most people are responsible for, and how to hold them accountable for that. We said we would publish numbers for food and beverage separately. This helps you, and it helps us internally. We are now doing this food and beverage stand-alone reporting, leaving separate the pharmaceutical business. As I mentioned we are disclosing separately also Nutrition and we've broken out Water separately, so you can see the individual performances of our business better.

We're talking more about our brands, and you get greater transparency of how our brands are performing. I would really suggest that that is the main area you focus on but that's for you to decide.

And then we're also looking more clearly at the regions as we organise ourselves pragmatically for what each of the business models requires to be successful. We've created separate a Nutrition unit, a separate Water unit. But it also means that the Zone numbers as we report them are becoming slightly less meaningful. So we are giving you also the data of what the true Nestlé business is in each of the regions. And you'll see big swings. Zone Europe has a very respectable 2.5 % increase in business, if you look at the organic growth. But if you look at total Nestlé business in Europe, that number suddenly changes to 3.3% if you include Water, Nutrition and Nespresso, CPW, BPW. And that's really the true underlying Nestlé business. Then if you talk 3.3% for Europe, I can tell you Luis Cantarell and these people in Europe should be congratulated to have that strong growth in such a competitive market. So that's what we're doing as well, giving you more transparency there.

Then we're talking about sustainable improvements and I stress sustainable at the request of Roddy. Sustainable improvements in Food and Beverage and sustainable improvements for us means the margins, the EBIT, improvements in working capital, and, although we report it only once a year, it also means improvements in return on invested capital.

Slide 6 - Agenda

Here is the agenda.

Slide 7 - Creating shareholder value through profitable growth

This is what we're trying to do and at the risk of repeating a little bit, but as someone said at the conference that we had in June in Vevey, this is not about a restructuring of Nestlé, this is about a transformation of Nestlé. A transformation that started long ago, that Peter Brabeck is very skilfully leading. It's a strategic transformation in positioning the company truly into Health, Nutrition and Wellness. Obviously our established business is the key driver for that, with a strong programme of innovation and renovation. That generates our sales growth, that generates our growth in margins, that generates our growth in market share and obviously that's what we'll be talking about a little bit more in a minute.

That's growth by innovation, but then there's also growth by managing mix. You should understand that by managing our mix, growing faster where we want to grow faster, in portfolios, in countries, it's a strategy. And we have to decide where we put Capital investments, we decide to put it where we think it's most important to grow faster. We manage that mix, we run the business on that basis. You'd be stupid not to.

Then the second thing is the organisational transformation. That really helps us to continue to drive increased focus and discipline in what we do, by tackling underperformers, by improving the Food and Beverage margins and the capital efficiencies we're trying to drive there.

Slide 8 - Creating shareholder value through profitable growth

On top of the ongoing work, on our established businesses, we also continue to spend about CHF 1 billion a year on Add-on acquisitions and at the same time, equally important to us, the divestitures you've seen. Uncle Tobys in Australia, with a very strong healthy image, a brand that is present in cereals, in bars across a range of Health products. You've seen Jenny Craig, the weight management company, very fast, growing in the US. As a result we're running slightly ahead this year of the one billion. And we've made some other small acquisitions, a water company in Turkey, which gives us the leading water share in a very fast growing market and some others, so acquisitions are transforming our portfolio.

At the same time, equally importantly, we're continuing to focus on divestitures where it makes sense. You're always asking which ones are they or which ones are important to us or not important. And we don't want to talk about it like that because then it becomes a public auction. But it helps us bring our focus on to growing the businesses that are successful. A recent example of that is our UCC vending business in Japan, where we had brought a business which got us into the vending operations. We thought it was good, but it turned out to be a distraction both financially as well as in management time. So we've decided to get out of that, we kept a 15% share but we've basically got out of the business and sold the UCC vending operation again in Japan. That's not easy to do. We bought it in 2000 and got out of it again in 2006. You know, people think perhaps we did the wrong thing, it was a tremendous learning experience. But now it allows us to focus the Japanese company again, and further accelerate our Coffee business, our Confectionary business and accelerating some of our other businesses, to manage that mix. Likewise you might not know but we had a bottle making facility on Perrier in

Vergèze in France and we're not really in the glass bottle making business, you know we don't do that very well and it's a distraction, we lose money on that. Getting out of that business might not hit your radar screen but it's very important to bring focus to building the brands and we're doing that. In Greece we just sold a big milk business. That helps us to focus on building our brands. So these divestitures and pruning of our portfolio continues and we've actually seen a slight increase of that over the first half.

Then you get the organisational transformations with GLOBE and Shared Services. The roll-out of Shared Services I'll come back to later.

Slide 9 - Beverages, including Water

Let's just go quickly into each of these categories. Now I apologise for the briefness of it and going fast, and we can go back to that in our questions and answers. But the real purpose of that, is to give you a flavour how in each of our categories we are growing organically and why we are growing organically. The best thing for our shareholders really is that strong organic growth. So let's go to each of our core categories and let's look quickly at what we're doing there to drive Health, Nutrition and Wellness and what we're doing there to drive that mix and efficiency as a deliberate strategy.

We'll start with the Beverage category which includes Water as we put it here. That's about 26% of the group. We've seen a very strong organic growth in that segment of 8.1%, obviously water's being a part of that and also an EBIT improvement of 10 basis points. Despite strong input cost increases; energy, PET, coffee, have seen increases over the first half, still being able to go out with the 10 basis points EBIT, is a good performance. The special waters and Milo are the key brands in there. Excellent growth. The emerging markets are the key growth opportunities for growing double digits plus on these brands and the emerging markets. Japan and UK are probably the most competitive in that. You know the UK, if you go to Japan these markets are actually deflationary and yet we've been able to grow in both markets once more from very strong shares in coffee, RIG, we've been able to grow our business again. Then I talked about the raw material prices that we have. Now in waters as a result, we have global shares in numbers, but you know you can debate them until the cows come home, because in one country it's measured by IRI and in another country is measured by Nielsen. One measures it on Monday, another measures it on Tuesday. One includes this channel another includes that channel, so to add it all up and start debating if that number is right or wrong, doesn't really give me a lot of energy and I don't find it very useful. So what I thought would be more useful is to just take the shares every month on the same basis and see if it goes up or down and it's the trend that counts. I know if we're growing 6% overall in the markets 1.5 or 2% something must happen on the positive side. So we'll just look at trends and we'll talk trends. And what you see is in these categories like beverages, waters, Nescafé and Milo are all building share. That's tremendous. Then someone's saying, well in waters, waters in the US is a great market but that growth must stop. It will one day, but we have a lot of room to grow still. In the US they're still less than 100 litres of water consumption, per capita per year. In Europe it's over 120 litres of water per capita per year. If you see the carbonated drinks are still bigger. I don't' want to make predictions here because it's not up to me to do that but probably in the next 10 or 15 years, you'll see water overtaking carbonated as the biggest soft drink category in the US. It's a tremendous opportunity for growth, and profitable growth as we're seeing. You know some people were worried about it as well as I think you can do that and satisfy both sides of it.

Slide 10 - Beverages, including water

If you look at the Beverages, including Waters. Waters - Health, Nutrition and Wellness, what are we doing there? Milo would be a great example of that. As you know it is one of our key brands in AOA and Milo we've enhanced again with healthier products. In this case with a proto-malt, which is again basically a better carbohydrate profile which you know is very important for that part of the world. Milo is already a product that has a tremendous health image. If you go to countries like Malaysia, everybody will drink Milo for development, physical development, brain development and yet we're coming up with the healthier products again, supported sometimes with or without these branded active benefits to grow the business. Water - Aquapod launch in the US, I'll show you it in a minute. Very encouraging to get kids out of these carbonated drinks into much healthier water, and that is starting to take off, it'll be a good example. And then Nescafé I'll show you in a minute, what you can do with Nescafé, especially with a lot of the good qualities that are in coffee, to drive the Health, Nutrition and Wellness profiles. So you see that across the board, coming in at a higher and higher level, across these categories.

In terms of enhancing the mix and efficiencies, obviously you were getting as key drivers that we move to added value products, the ready-to-drink Milo fuse would be an example of that. Those are premium products that consumers are willing to pay more for. We have a Nesquik low-fat version that is starting to take off, which has premium pricing attached to that, so that is really a good example of driving the mix. Not to belittle the innovations, but also in this category alone, over the first half, we've closed factories in the Netherlands, France and in Canada, to drive that focus and efficiency.

Slide 11 - Milo

Here this is Milo. This is the underside of a viaduct which you drive under in your car and this is for example one of our parts of the communication of Milo, itself related to Health, Nutrition and Wellness, very impactful communication there.

Slide12 - Aquapod – The First Fun bottled Water

Here is the Aquapod I want to talk to you about. This is a little thing in the US and it's just fun. It's partly driven by that, how do you get kids into these categories? You have to make it fun to drink. It bounces, it floats, it literally flies off the shelf. I mean these kids like that stuff and it gets them into healthier drinks. 65% of the kids 6-12 years old would ask their parents to buy this product, and 85% of the parents would buy this for their kids. So it has a very strong underlying data what's revolutionary, in this case is the packaging, but that's part of the product and the product experience. This revolutionary PET technology that we have, allows for the unique shape and allows to make this packaging fun and as a result gives kids a chance to have that instead of the sugary drinks.

Slide 13 - Soluble Coffee

I talked briefly about coffee and enhanced health characteristics here. You know about ginseng, soya, calcium and the vitamins, all that can go in there and we certainly have a higher anti-oxidant level than green tea.

I was in Korea four weeks ago where our main business is the coffee business. We have been under pressure there when these markets moved to mixes and we were a little bit late to discover that trend. We're back on track now and one of the things behind that are these initiatives and we're again building share and growing that business quite nicely. So that's a great example of building Health and Nutrition into our businesses. These are launched in the Far East in the Philippines, Thailand, Malaysia and Korea. I drank a lot when I was there because they said it improved short term memory and I'm glad that it must do more because I still remember part of my visit there. So I encourage you to try out these products. That's the category of Beverages.

Slide 14 - Dairy products

The next category is Dairy products, that's about 20% of the group's sales. Here again, strong performance, 5% organic growth and an EBIT improvement by 60 basis points as you've seen from our announcement, this EBIT improvement is driven by our Milk products, also the price of milk here is actually in our favour for a change, and by our Ice-Cream business.

James Amoroso (Helvea) was asking in the phone calls if that was driven just by raw material prices. No it's really not, it's our Dreyer's business, we're having less promotions, we're having more premium products. We've just made a conscious choice that we might slow down a little bit the growth, we're still growing very nicely on that business but we want to see the bottom line improve as well and that management is responding to that and delivering on that. That is very good. CoffeeMate, we don't talk enough about that but it is a wonderful brand and it keeps growing double digits in the US. We have strong initiatives as well and higher value products.

Let's go into the details of that for a second. Here again on the bottom of the page, Dreyer's is building share in the US, Nido/Ninho with their Milk Health based-brands are growing share and CoffeeMate as you well know continues to run ahead.

Slide 15 – Dairy products

What are we doing? Here are some examples. You take Nido for example, we've launched in some of these countries a Lactobacillus it's a great improvement in pre-biotics as well as pro-biotics, improves your intestinal flora as you well know, generates again to give you some new healthier bacteria to increase your defence and all that stuff that is good for consumers and helps us feel a little bit better about ourselves. That's doing extremely well. The Slow Churn Ice-Cream that you're familiar with from the US, we're actually launching that in Europe now as well. We've introduced that in France, Germany and Spain. It's early days, just launched but we're off with a good start. In France for example we launched it under La Latière and we're seeing the market share increase on that business already. So we'll have to see after the summer. But we're encouraged by that. Then the no lactose, no taste-compromise Ice-Cream for Finland where lactose intolerance is particularly prevalent, which is an interesting one as well. We've come up with a product that is a 60/40 over our competitive standards and is a low lactose Ice-Cream. We had our board meeting the other day and we were all trying our no lactose Ice-Cream and it tasted very good. So those are good example of Health, Nutrition and Wellness, how you can drive that into those categories and the consumer appreciates that.

Going to the efficiencies. SKU rationalisation. I was in Malaysia where the Ice-Cream business, is becoming quickly profitable, where we want it to be and growing very fast. One of the things I asked was what are the key drivers in your business to do that? They have cut down their portfolio of SKU's by 30 / 40%. And they've got rid of all these distractions and focused just on the key ones and made them stronger. We've got to get a better distribution of the right SKU's, with better efficiencies, and be able to pass that onto the consumers. Once you get into those virtual cycles, you grow your business, that's what we're trying to do. We have some good examples of that.

Enhancing differentiation, factory closures again, we've closed factories, over the first half, in Greece, the Netherlands and the US, to rationalise our production base and to become more cost efficient and that's part of it as well. Then you are familiar with the Chilled areas and Lactalis, I don't want to spend more time on that but that also continues to confirm that it is a good decision and we expect final approval from the commission by mid-September. I think the date is September 19 but we're positive on that.

Slide 16 - Nutrition

Let's go to the third category which is the standalone category of nutrition that Richard Laube is leading very skilfully. We see a 6% of the group's sales right now in Nutrition, but actually the organic growth is 5%, the EBIT is up 60 basis points. If you take China out and I don't like to do that because our business is total nutrition so there's no excuse there, but if you take China out it's 8% growth. So that's actually healthy growth, excluding China, you'll be building share everywhere so just keep that perspective. But it's a good business that we have in other parts of the world as well. And the strong growth is actually driven by NAN HA. If you look at the ability for us to put that product out, it is now rolled-out in most places, at a significant premium and then accelerate our growth behind that, it's exactly what our Health, Nutrition and Wellness is all about. We've actually closed one factory here in Greece as well.

Slide 17 - Prepared dishes & Cooking aids

Then the next category is 18% of the group which is the prepared dishes and cooking aids where you had a 5.4% organic growth and an EBIT with a slight decline of 20 basis points. Here again Maggi performing very well in AOA, accelerating in Europe where we are present. A continuing strong performances of our portfolio in the US which is Stouffer's, Lean cuisine, Hot Pockets but especially Stouffer's and Lean Cuisine. We're doing very well. Wagner, our Pizza business in Germany, is expanding, driven by innovation and getting positive results and then our chilled business is doing very well in the US, with one of our competitors moving out of the market. Buitoni, although from a small base, is filling up that space and driving our business there very well. Lean Cuisine, for example, what drives the Lean Cuisine? 100% wholegrain and no preservatives are very important benefits that American consumers are looking for, and they're rewarding us for that as they get their healthier ready meals. The chilled in the US alone is up +20% with the initiatives we're doing, so we're pleased about that.

Slide 18 - Prepared dishes & Cooking aids

Let's look at some of these initiatives. If you look at the Nutrition, Health and Wellness on Maggi, you're familiar with the Maggi cubes, we continue to work that with the reduced salt and make these cubes healthier. We've reduced the trans-fatty acids across the range and I've seen some good responses to that. We're increasing fibres and vegetables in the soups. Lean Cuisine is rolling out Panini, again in the Lean Cuisine version, having a wonderful Panini experience with all the convenience of that and actually 97% fat-free and Lean Cuisine pizza. So you can see again what are the initiatives that drive our businesses there and it's all around less trans-fatty acids or salt and adding fibres or vegetables or other healthy ingredients to our products. Again factory closures in this category as well, Israel and Sweden in this case.

Slide 19 - Maggi 2-minute noodles

Australia and a brand that's 25 years old. What can you do about that? Well this is what you can do, you can reduce your sodium by 38%, you can have it 25% less than your competitors and the consumers like that. You have over 70% reduction in saturated fat, this is again 50% less than our competitors. You can make a product that contributes 25% of the recommended daily intake of the Vitamins B_1, B_2 and others, and then your value share can grow to 65% of the noodle market. Why would a consumer pick any other product? I think that it's an insult that it's only 65% because why would you buy anything else? If you do your job well you get rewarded for that, also in other categories.

Slide 20 - Chocolate confectionary and biscuits,

Chocolate, confectionary and biscuits, 3.5% organic growth, this whole category is 10% of the group's sales. 3.5% organic growth, which actually you'd like to do more but it's good organic growth from where we came from. We see an increase in the growth in this category so I want to point it out that this category is going in the right direction. Although we have a slight decline in EBIT over the first half, the expected acceleration is in the second half because this business is seasonal and we will see that.

Strong growth in Russia, Brazil, AOA and southern Europe, so the portfolio of countries where we see good results is certainly increasing. Our core brands again, this is our focus, is delivering strong growth. The UK, again it's a little bit like China with Nutrition. In the UK as well we've decided to focus on what we call the magnificent seven, with are our seven core brands and get rid of the distractions that we created with some of the other businesses. So as we do that rationalisation, it's not immediately that you pick up the volume but the core is getting stronger again, but these things take time. And it shows you that in fast moving consumer goods it's easier to destroy your businesses, and then it takes time to re-build it, than it is to build your businesses. And don't expect that you can turn on and turn off. Once you make a mistake you know, it's a long road again. It's hard learning and hopefully you don't repeat them, but it's a long road. And in the UK we're seeing those improvements but obviously we have some way to go still and the plans that are put behind it and the team working on that is obviously doing that. Profitability as a result of that is impacted still because we have marketing investments in this category, that we want to keep up to build our brands again and that affects the results. Our core brand there, which is KitKat, is stable on share in this case.

Slide 21 - Chocolate confectionary and biscuits,

If you look at Nutrition, Health and Wellness in this category as well. You read about dark chocolate, the speed of growth of the dark chocolate category. Well it's a little known fact that Nestlé is actually the world leader in dark chocolate, so if we capitalise well on the trend, we should be rewarded for that. We have some work to do, but we at least have the brands, the portfolios, the consumer insights are coming stronger and clearer and if we can translate that on our portfolio that's a tremendous scale to leverage. Strong pipe-line again, that we have in our portfolio around Health, Nutrition and Wellness that I will share with you at the appropriate time.

We're also enhancing our mix and efficiencies. In the UK this magnificent seven I was talking about is about 70% of our turnover, more or less, but significantly more of our profits, so that's where we have to focus on. Getting more of our core brands globally organised and again factory closures, we've closed factories here and in the US and then the Philippines just over the first six months alone. Getting rid of underperformers. I mean they might all be small, but for example the Philippines sugar business, we just sold that and this allows us to focus on the winners.

Slide 22 - PetCare

Next category is PetCare. PetCare is 12% of the total company and a very important part of our family. 6.6% organic growth, EBIT up 40 basis points, driven by the most part by AOA and Latin America, where we have seen margin gains and these businesses are coming along nicely. It takes time to build brands and I'm glad we are in these developing countries because they're going to be important markets for us in the future. And we're seeing there some of these things that were good decisions are starting to take root and are starting to build our businesses. We have also continued growth in the US and strong growth in Europe with the Beneful initiatives. In America the initiative is the premium Beneful which is the single serve options. You might have seen these little cans that are actually on allocation on that and can't ship them fast enough. But as a result again, the growth is on the premium end, the Gourmet, the Pro Plans, the ONE, where actually we have the bigger opportunity with Purina is still to continue to drive that premium segment behind a very good initiatives which even for cats and dogs is driven around Health, Nutrition and Wellness,

So here you get a little bit of an overview of how each of our categories are getting into their DNA, the Health, Nutrition and Wellness, they are driving our businesses around that, there is still ample opportunity to do that, and at the same time working their mix and efficiencies to provide that broader focus, to provide the discipline that allows us to get through to the bottom line and that's what you see in the results. There's enough space to continue to do that.

Slide 23 - Key brands deliver above the market growth

That's what drives our organic growth, then if you take one step back and say I've seen now all these categories, we're looking at our brands again, which is important and these numbers are more indicative than exact, but you look at our brands, you see some of these brands going tremendously, you look at Nespresso, Nestlé waters, our Stouffers, our Lean Cuisine, those are great brands. Here important brands for us are growing, the Nestlé Ice-Cream brand or Nesquik or Buitoni, they're all around already the 5%. These are markets that are 1 / 1.5 / 2% perhaps. But the 5% that these brands are growing, and the Nescafé brand that has been around longer than you and I have been on this earth, still growing at 5 / 6% and then here you see some of the stronger brands, sometimes from a small base, sometimes because there's a tremendous discontinuity in innovation, but it's our brands that are getting stronger. And the other thing we look at indicatively, is the brands that have Branded Active Benefits because these have proprietary, claimable benefits that we put on our products. So I put those on and the Branded Active Benefits, although it's still a small base, but they keep growing at about 25% so that's good. But it's 25% and the question is, how can we get it to grow at 30 / 35%, how can we get it to be a bigger part of our portfolio. It's an indication that our brands are getting stronger, that the growth is a robust growth and that has to get translated into improvements in Food and Beverage margins.

Slide 24 - Transformation to Nutrition, Health and Wellness

In summary we've talked about that, innovation and renovation is at the hub of the business. It helps us then to differentiate from our competitors, if we differentiate in a meaningful way, we've got market share, if we differentiate in a meaningful way, we're able to capture margins for that and that gets us the higher RIG we're showing, gets us the above target organic growth and that ultimately drives the bottom line as well.

Slide 25 - The Corporate Wellness Unit

On the broader corporate level, the Health, Nutrition and Wellness has the corporate Wellness unit and we're driving that in with the Wellness Compass. Here you see the Wellness Compass it's coming now on more and more of our products. It's adjusted for each of the countries, with very consumer relevant, information that is good to remember, good to talk, if you want to call, or good to know about nutrition and nutritional profiles, which continues to be an area where the consumer is not always well informed or objectively informed and this compass is getting tremendous response as we drive that out.

Slide 26 - Transformation to Nutrition, Health and Wellness

On the macro level, again on top of that, these continuous add-ons or transformations in the portfolio, we're very pleased about Uncle Toby's, it's a leading brand in Australia, we have the turn-over there of 400 million Australian Dollars more or less. We got that business and you've commented on the fairly good multiple, I think we've brought that very responsibly. It's synonymous with Nutrition, Health and Wellness in that region and a very strong platform to give us more critical mass to grow. Jenny Craig, a great weight management business, Kirstie Alley is the spokeswoman of the Jenny Craig business, it's certainly served her very well and many other Americans. The market in the US is rapidly moving from weight reduction to weight control and this whole business is a weight control business. You get on a plan, about 80% of that business is actually food, it's personalised food. I've visited some of those Jenny Craig organisations and it's heavily skewed towards women still at this point, but it's tremendous potential and it's growing very, very fast. And as I said, 80% or 75 / 80% is food related, so that's right up our alley. It is one on one nutrition that's become far more important and it's also important for the company to get some knowledge in there, as that area grows, so don't underestimate it. Again, that business itself is a healthy business, 4 hundred million dollars more or less in turn-over. And again as you saw, what we paid for it, again an example our responsible acquisitions, that strengthens our core. And they can only build shareholder value if we do our job well. At the same time I continue to say that the divestitures are equally important. The Japanese vending machines and the bottle making facilities or the Greek Vlachas disposal of our milk commodity, more commodity type businesses are examples of that.

Slide 29 - Organisational Transformation

We've talked about the strategic transformation, on our core business, the organic part as well as the bolt-ons that we're doing with the Jenny Craig and the Uncle Toby's, we'll now move into the second part. This is the organisational transformation.
I don't want to spend too much time on that but don't underestimate that. It's about bringing focus and discipline to our operations that we're able to do now because of systems like GLOBE that will help us drive it to a different level. It's about tackling underperformers, not just to improve the bottom line or to get rid of a loss maker. No the biggest benefit will come from aligning the organisations to focus on the winners, to put our best people on our best brands and grow faster. That's where the pay-out is. Improving our Food and Beverage margins as a result and then obviously also the Capital discipline.

Slide 30 - GLOBE Implementation Plan

On GLOBE, this is a little bit of a busy chart, but I want to point out that we're about 50% on GLOBE and which is a tremendous achievement this year. There's some very important countries coming in on GLOBE this year, like the US is one of them that is the US water business that is now coming in, France, I was in Japan and they didn't miss a beat, you know the Japanese it's just amazing, they were so proud they said they didn't miss one invoice, this was just tremendous what they have done in that transition. So very important countries like the US, like our waters business, like France, obviously give us the critical mass. Italy, Iberia and the most important country the Netherlands! So we think we'll be at about 80% at the end of the year, early next year, doesn't matter really if it's one or two months here or there.

We also think we're on budget we've always said it's about a 2%, I don't want to go on to micro management of each of these individual numbers with you, but it's also good to know that we achieved these things within the targets that we set. As we roll out, we get more costs, you understand that and even in a year of distraction of roll-out because when you do these things, you cannot do other things. You have to make choices, so when you implement that, you have a period of three months or sometimes six months that you're focused on this, and you keep the business growing but it doesn't allow you do some other things. It doesn't allow you to perhaps do a savings project or you might sometimes postpone another initiative that you had, so there're always compromises on these things and we're able to do these big implementations, without compromising the overall numbers.

Slide 31 - Nestlé's Future with GLOBE

Now we have to leverage that moving forward, so how are we now leveraging it, with 50% . The first focus is to get this implemented across the whole company and to get it to work right and that takes some time. When the baby is born you still need to feed it a little bit before it can talk by itself. So that's what we're doing now and that's important. But then we're starting to obviously leverage so to think about that and the first one is not to just do internal best practices but move it to external best practices, that's the most important thing. Provide better information and faster information. If we can move the whole organisation to getting the same information at the same time, we will not spend time discussing and debating the data, we will spend time acting on it. Instead of an internal debating society, you then become an external action society. Now, we're somewhere in- between, but the more we can push that to external actions, the better we leverage that system to grow, to profitably grow, that's what this is about, this is not the savings project, this is a growth project to ensure that we can run the business successfully, for many years to come. It facilitates organisational change. Thanks to GLOBE we can do these Uncle Toby's or Jenny Craig and integrate them. We can do the FoodService separate focus, we can move to Nutrition as a separate organisation. It allows us to have these different business models for these different businesses and run them effectively, give management who runs those businesses the right data to run it effectively and as a result it's all about generating profitable demand. Let us not lose focus on that.

Slide 32 - Global Business Services

Then we go onto the next one which is the Global Business Services. And that we're stepping up, which is basically leveraging scale in our back room operation. Peter is often talking about the big supply ship and we were trying to do that perhaps a little bit too much bottom up. You really can't do that bottom up, you really have to do that organised, fast and top down. So we're moving very fast in Europe and the US, we are looking at AOA and really looking to see how quickly we can get scale across some of our bundles, that we have in back office support. And that results in efficiencies, some savings that you'd love to know but again it's very irrelevant, but because above all it results in the organisation being able to focus on generating demand, that's again where the payout is. So that they don't have to do the routine, transactional back office services. And obviously GLOBE now is a key enabler that allows us to do that and to do that fast and efficiently.

Slide 33 - Initial scope relates to four service bundles

Here are the bundles that we're looking at which is employee services, it gets you into things like payroll and might get you into things like ex-patriate services or moving or pension management with all the routine parts of it. And IS/IT services, facilities services which are basically offices, office management and all that. Then the financial services with transactions such as accounts payable and transactional parts of accounts receivable or the other financially transactional services. That allows us to have that scale, allows us to reduce cost, increase efficiencies, but above all allows the markets to focus.

Slide 34 - Improving performance of Nestlé Finances

Then improving the performance in Finance, building again on what we talked about in June. We drive first of all simplicity, these are big machines and there's something in any system, if it can be simple, let's make it complex. Then when we make it complex, we become too internally focused, we become too bureaucratic and you have to fight for that. Obviously there is a certain level of complexity that you have to live with, with any business of our size, but don't get unproductive complexity in your system. And that's where you continuously have to fight for so that's where SKU, rationalisation comes in, that's where reductions in reporting comes in, we are now reducing our legal structures across the company by about 30 / 35%, so that we keep the focus on doing it simply. Let's just call a Maggi cube a Maggi cube you know, let's not try and invent something that is far more complicated than that. And keep the consumer language and the focus on that. As we do that, then it allows us to capture scale better as well. And there is the scale obviously in GLOBE and Shared Services, also the scale in procurement where we can leverage, where it makes sense, our buying efficiencies and that's what we'll be focused on.

Underperformers, I've talked enough about that, bring in that extra level. The company has always had a reasonably good track record of dealing with some of the underperformers. But there are some opportunities, and I've shared them already with you, over the first half where you've seen some of that moving forward. Then as we do all of that, the simplicity, the scale, the underperformers, we have also the element that is not on the slide but is the working capital and the capital management which is a very important part. Then you get the discipline. And drive discipline into the organisation also in the execution, which is measuring, tracking, sharing best practices and systems like GLOBE do that. So it's about simplicity, it's about scale, it's about underperformers, it's about capital efficiency and then it's about discipline and execution.

Slide 35 - Summary

No doubt if we do that well, we will continue to accelerate this transformation to Nutrition, Health and Wellness. We will transform the organisation, freeing up the needed time to continue to generate the demand and then opportunities abound to do that by driving mix, scale and efficiency to support the Nestlé model.

Slide 36 - Conclusion

Organic growth again, driven ahead of the market, driven by our key brands, I think you get a sense of that, Food and Beverage is the main contributor, first half growth on top line as well as bottom line, starting to make progress on working capital albeit it's only one number in the first six months and then more importantly the Nestlé model, I feel confident of 5 to 6% and an improvement in the EBIT margins. Peter and I have said very clearly is that for the balance of this fiscal, we will be at the higher end of the 5 to 6% we will not be above that, because we're up against the higher base. Last year if you look at the first half and the second half, you saw significant acceleration of the volume growth, even though we will have a good second half, by our own estimates, because it's against a higher base, the index is slightly lower so it gets you to the higher end of the 5 to 6%. We're also saying that the EBIT improvement that we've seen as a company at constant currency over the first half, we feel that that is reasonable to expect over the fiscal, so don't invent other words. That's what we're saying. And the reason we're not saying more or saying less is exactly because we have a little bit less scale momentum as these indexes over the second half, we have little more of the costs put into the second half which is contrary to what the whole market thought because these things are staying up a little longer in general and we have some of the initiatives and the marketing & administration spend behind that. So we feel in that sense comfortable to reconfirm a Nestlé model in what we have shared with you over the first half. Ok we'll open it up for Q&As.

Q&A Session

Question on:	**Level of data available thanks to GLOBE**

James Amoroso, Helvea

As far as GLOBE is concerned are you already at the point where you can sort of slice and dice quite detailed data from the markets?

Paul Polman

We do it practically, we're not at that point where we want to be but we do it practically. I give you an example of that, you know it's difficult to find out how many SKU's you have in any market by product category, by brand, you know, the detail. If you really want to do the work and progress, you have to have that detail. Not at our level, but the organisation needs to have that detail, to be able to bench mark one country versus another, why does Ice-Cream in country X have different SKU's than country Y? Is a country with more SKU's growing faster or slower, you know all the questions you ask if you run a business properly. For example now with 50% of GLOBE, we're able to have the countries that are on GLOBE do that already. But the US is not in there yet, Dreyer's is not in there now. We can do that manually and all that, so we very practically, we might not hit for some categories the big numbers yet that you want to but you can get going, there's no excuse to wait for it to be 100% implemented. So what we are doing in each of these elements is to leverage GLOBE as quickly as we can. So for example on this SKU we were looking at the other day, I have now about fifteen countries on the radar screen, that are big enough and we look at if it goes up or if it goes down and look at some trends and if we can drive some conclusions from that, so that's simple. That's the simple example of how you can do that. But where GLOBE is implemented now and it takes six months plus or minus that you have to get people used to the system, that you have to stabilise it and then you start getting the benefits. So really fully leveraging and accelerating it as a company it's well into 2007 that it is at a level that I would feel comfortable with, but already today every day you make a step forward. But I think there's a huge potential coming.

Question on:	Purchasing with GLOBE - Benefits

James Amoroso, Helvea

I was wondering also, whether in terms of input costs which is obviously an ongoing discussion, whether you've been able to quantify what are the net benefits….

Paul Polman

If you take Europe for example, because we're implementing GLOBE now, we are accelerating our work with IBM, or Hewlett Packard and some of the Shared Services. We've implemented some bundles here in the UK and France and Germany, probably a little bit faster than we thought ourselves. Those bundles ,that are now in the Shared Services, are being delivered more efficiently. Now do you get all the benefit immediately, the answer is no, because in any of this transition you have one or two months with people transfer that you have double on the payroll you have to manage all that, but we can already see that we're able to accelerate and do that thanks to GLOBE. And obviously for all of these bundles we set clear service targets and we set cost targets till we sure we hit those numbers with discipline and I have the tools now to do that. And continue to move that forward. I'm impatient you know, I'm probably more impatient than you are.

James Amoroso, Helvea

Quite simplistically, I was actually after a number for each one.

Paul Polman:

You won't get numbers.

Question on:	Details of the improvements at Dreyer's

James Amoroso, Helvea

Ok, then if I can follow on coming back to the Dreyer's example. If you could be specific what's happened at Dreyer's to get the cost down and to what extent is that simply solving the issues that were back in 2004. So if you could talk about that.

Paul Polman

Also in previous communication, I think the company has always been clear and we had the wonderful initiatives of low-temperature freezing which is the Slow Churned Health, Nutrition and Wellness driven improvement on Ice-Cream that came from

Dreyer's. That was tremendously building our market share, that was a priority, so the company has invested significantly behind that and grown as a result. So we were building this new plant in the New York area and had inefficient cost structures by shipping products from the west side of the US to the east side, we can now produce on the east side. So a deliberate choice to drive our Ice-Cream business share, and that was at the expense of not cutting yet to the profit levels. Peter has also been clear in previous communication and once you get to a certain critical mass then obviously we need to put equally emphasis on growing a bottom line, that was well understood that we wanted to do that as of this fiscal, what you see here is the first effects of that. You said is it coming from milk and all that and I actually did go into the details once more after you'd asked the question because I wanted to be sure, we don't have all that in our heads for all of our categories. If you look at that result giving you the spreadsheet and the details of the Dreyer's improvements a part of that is driven by improvement in costs by having more efficiency in our system coming through the investments we made, part of that is driven by less promotional support, we're actually selling less of our brands on promotion. We have premium products that sell themselves more than in the past and so that gets reflected in promotional spend. There is a slight, slight in this whole new equation, improvement on input costs. Management themselves also had to put themselves under very strong personal incentives that are related now to the bottom line. The interesting thing is that that is happening without compromising on the share growth. We might compromise on the speed of the share growth but that's what I call responsible growth. And that is what is happening with Dreyer's in the US. Again it's early, let us not celebrate, we have some way to go still, but it's in the right direction and it's in line or even slightly ahead of what we were saying.

Roddy Child-Villiers

Those of you who were in St Louis I remember when Dreyer's presented the Slow Churn technology for the first time, one of the points they made about it was that it was going to be priced at the same level as existing Dreyer's products, but because it had significantly less fat it had significantly less COGS (Cost of Goods), so the margin of the product would be higher so obviously now that this growth has become substantial, there is a mix effect if you like in terms of raw materials.

Question on: European Margins

James Edwardes-Jones, Execution

You've obviously given us a very thorough review but one thing that struck me from the results is that your margins in AOA are now about 50% higher than they are in Europe. Will these sort of initiatives you've talked about here help close that gap or are there structural reasons why European margins will remain lower than in the rest of the world.

The answer's yes, there are structural reasons for some time to come. The benefit that you have in AOA where the results are good, both top line and margins show you that you can get very healthy returns from those regions, but you need to have those healthy returns because of the higher risk that is in those regions, and by the way AOA includes Japan and Oceania. So despite that there are strong growth and strong margins. The benefit that we have in those regions is that we go in and put something there, you can put a new plant which is efficient when you put it in. We don't have a big Water business so if we go in with a Water business we can go in efficiently. In Europe the issue is that we have so much legacy to deal with which is difficult to deal with. Without getting carried away here in a political discussion, but it's just very difficult to make structural changes in Europe, particularly in some countries. If we could redesign Europe tomorrow, the way you wanted to, margins probably could be significantly higher, but that's just not reality.

So to transform, already of these planned closures that I was talking about, which I think are about ten or eleven over the first six months alone, the bulk of that is in Europe. But we're sitting on a structure that is not efficient. We're also sitting on the go-to-market structure and a retail structure that is less efficient in Europe. So we have to be sure that Europe contributes to the company and will continue to do that. It's a very big business and we have a lot of areas that are successful, our Coffee business is growing in Europe, our PetCare business is growing in Europe, so in some of our countries our Culinary business. Nespresso is basically a European business, it's one of the fastest growing ones, and CPW. So it's not that we don't have any success stories in Europe, we need to do more about the cost structure, and the inefficiencies of that, and the go-to-market structures with the retailers will always result in Europe having lower margins for a long time to come. So that's what we have to deal with, not that we can't improve Europe, it doesn't mean that we can't get a decent return for our shareholders, obviously we can. But you don't compare one region versus the other, that's part of the total and that's also part of managing the mix. The fact that we want to grow faster in these developing markets where 80% of the population is going to be, is part of managing our mix, the benefit of being a global company. We're not like some of our competitors, 60 or 70% dependant on France.

Roddy Child-Villiers

Also the AOA portfolio mix is very heavily skewed towards the Nestlé products to which you just add water, there's Nescafé, Maggi, Dairy all of which tend to be high margin categories so there is a product reason why the region will be more profitable than Europe or even the US.

Question on:	**Structure of compensation and remuneration across the group**

James Edwardes-Jones, Execution

Given the evolving priorities of the business that you've been discussing and your ability to measure the performance of business much better than you have done historically, do you see any need or requirement to change the structure of compensation and remuneration across the group or do you think it's pretty well structured as it is?

Paul Polman

Well, it's always easier to say let's change something and then we get the better results because we want the better results so let's change something. Let's make what we have, really work. So what I would say is the bigger opportunity is not to debate at length on how you measure something or if you change a target or not, but to really have more discipline and to drive that down to the people and drive that to their compensation. So we're doing that with working capital, we're doing that with return on invested capital and obviously we continue to look at sharpening the compensation plans and ranges to get more positive incentive for higher returns and for positive risk taking and that we will continue to evolve. But the main answer there is not to change things, there's a lot of things that are very good, that good people have thought through. But as with a lot of the other things I've talk about, we need to drive in is discipline. So that's where I would focus right now and that's actually where we are focusing. I have a simple philosophy about that you know, anything you measure every six months or annually is useless, the figures will be so far back historically, people will find excuses and you cannot change behaviour on that. You can change behaviour if you have the discipline and data that you can track on a monthly basis, then you can change behaviour because people can steer continuously. That's what we need to get into our measures, into our rewards as well. And the same, we need to make the data real time, because if the data is real time people act on it, if the data is not real time, people explain it and you pay for data that is not real time. Would you pay for a newspaper that is three months old or five months old? It's the same in companies. Get that data, get it in real time linked to some of these performance drivers, and get it in front of people every day, you're in the right direction or the wrong direction. That's how you drive behaviour, it's just discipline. It's hard work but it's fun and you make the people more responsible to hold them accountable.

Questions on:	**Contribution of GLOBE to Accelerated profitable growth in first half** **European Water Margins compared to rest of category**

Victoria Buxton, Lehman Brothers

Paul, to what extent do you think that it's GLOBE that has driven the accelerated profitable growth that we see in the first half of the year. Can you actually separately differentiate the markets where GLOBE has been rolled out as the key drivers of the accelerated profitable growth that we've seen.
On European Water, you've mentioned both in the conference call and today that that's a business that you're obviously actively restructuring, you report water margins on a global basis. Without giving us absolute numbers, I just wondered if you could give us a flavour of where European Water margins are versus the total category and where you think that they could go given the restructuring that you're talking about?

Paul Polman

Let's talk about the first one first, on GLOBE. We do look seriously, we do look at countries with GLOBE and without GLOBE in progress. The company has clearly said we will not compromise growth. And we will go a little slower, we will spend a little bit more perhaps, we will duplicate a little bit our efforts, but we're not compromising growth because that's so important, because it's so difficult to get that back. The company is certainly delivering on that. So what you see during transitions, even during transitions to GLOBE, you would actually expect pressure on sales, not just benefits. But we are doing these transitions perhaps a little bit longer than you'd normally do and prepare for them better, most of these markets we prepare one year in advance of moving to GLOBE. Then we transfer them to GLOBE and then there's aftercare which is a period of three to six months as well. The good thing is that as we do this, in fact the positive news is that we don' t see any negative correlation. We had one market where we fell off the cliff and this was South Africa, which by the way is now helping the rest of AOA in the indexes because they have it in the base now. Then we have another market that takes off very strongly. But that's not really driven by GLOBE that's more the effect of something exceptional happening. If we look broadly at the markets, with and without GLOBE, we don't see anything to worry about. Are we starting to see longer term markets that are all on GLOBE growing faster? It's not growing faster it's maintaining the growth rates that we need, that's why we need GLOBE. It's getting tougher and tougher so you need to do those things to maintain the growth rates.

In Europe on the Water business, obviously you know, the key challenge is France and to some extent Italy. We have adjusted the price for Acqua Vera in Italy and that's going very well. We have slightly adjusted the prices a long time ago on brands like Acqua Panna and San Pellegrino and that's going very well, so the decisions we have made are starting to pay out there. We're also looking at restructuring of our industrial base, I just sold the Perrier bottle making facility which is quite significant. We are looking at bringing even sharper focus to some of our core brands in Europe and improving that business. The challenge is the home office delivery business in Europe where we have to look and see if we can make that more efficient; it needs scale, it needs structural changes and with short term increases in the energy prices, it's a heavy delivery; sensitive business, it's not helping our short term either, so that's a tough business. So Europe has lower margins than the US, but they're improving and we know how to improve them. And our business is stable to growing on our Water business so there's enough elements there that make it encouraging.

Victoria Buxton, Lehman Brothers

Structurally could the European water business have margins similar to the US or is Europe just a much more……

Paul Polman

Yet again you're dealing with a lot of things that are imposed upon us, what sizes you can produce in our plants, what the requirements are for the production, a lot of the source-based business. That's why we're doing Nestlé Aquarel, Nestlé Pure Life now, so that is not only source that we can bring it there, so but we have an infrastructure once more in Europe that takes time to adjust. Long term the margins in Europe, can they be as high in the US or not? I think it can be, you know, because it's more driven by the innovations and the brands that we can create and there's no reason why we would not be able to make decent margins there as well. By the way we're not destroying shareholder value here. With the exception of home office delivery, that we really need to find a solution for, ideally in house.

It is also important to point out that in a company of this scale there are always businesses that don't perform up to the standards that we set. That's not bad, someone asked me once, do you want 100% of your business to grow share. No I don't. Why not? Because if I have 15 / 20% not growing share, it keeps the organisation sharp, it keeps telling them what this is all about. It's being close to the consumer, exceeding their expectations and to have sometimes reality checks that someone else is doing that better, keeps you very humble. It's very important.

The other thing is we don't want to run away from everything that doesn't work, because if we created an organisation with a mentality of we can't make this work, let's get out of this, then you don't fight for anything. You become an organisation pretty quickly that is average and then you start losing.
So, to have some of these challenges like home office delivery where we say what will it take? It took us ten years on Nespresso to make that model work and the first six, seven years there were a lot of people, including perhaps in this audience and in Nestlé, saying let's stop. Why do we lose that money? Now everybody is saying wow, why don't we change the name of Nestlé to Nespresso, those type comments. So you know, it takes time. It took us ten years in China to make money, now everybody hugs us for the business growth that we're producing in China. So it's important as well to realise that.

Question on:	**Effect of Alcon and L'Oréal on Nestlé performance**

Chris Wickham, MainFirst

Paul, you've been active in this job now for eight to nine months, clearly you've enjoyed the recent revival in the share price. I just really want to come back to an older issue and ask you how sustainable is it, do you think that we can continue to invest in Nestlé really on the basis of the messages that you're pushing. In what's happening in Food and Beverage, when we have, close to a third of the business, deliberately or not, which is not part of Food and Beverage, in other words your share price is basically 2.80 Food and Beverage and it's about 1.40 Alcon and L'Oréal. So whilst the messages we're giving in this room, are clearly very strong, clearly very interesting, you're clearly doing some very exciting things, yet for certain periods of this year, we've seen the net effect of those listed businesses which aren't part of this presentation and aren't part of that control coming in and obviously having a negative effect on the performance of Nestlé SA. And really the question is, is that sustainable?

Paul Polman:

Well first of all, this is probably a most un-diplomatic comment to make, but you don't' have to believe anything I'm saying you know. You cannot talk yourself out of things you behave yourself into. I'm not going to say "you need to deliver on this and Nestlé needs to deliver", I need to deliver, I joined Nestlé because I think they have a lot of opportunities, otherwise I wouldn't have joined. I buy Nestlé stock because I think it's an opportunity, but do you need to follow what I say. Think by yourself what makes sense, because we have this margin improvement, it's not all of a sudden that Nestlé has changed. Nestlé has had a very good strategy for a long time and we're bringing in the discipline to start showing a little bit more of these results, but we have to deliver on that and I want to make that clear, also internally in the company, we aren't celebrating. Now I think we have a good potential, number one Food and Beverage company but we have some of these financial measures where we're in the bottom third of the league, so that tells me we have potential and we have strong brands so why don't we unlock that potential and move the company from good to great. It's not one or two people, it's the whole company. I'm always surprised about people in Nestlé, you cut them open and there's Nestlé coming out of them left right and centre. You know, their blood smells like chocolate, but why work so hard and not get the best results, we should be at a premium for the industry. Am I going to convince you here by talking like that and making these bold statements, please don't listen to those things. We just need to deliver, we need to keep our company sharp, we need to deliver. And if we deliver, we get rewarded for that. We're in this for a long time, we've been here since 1866, I don't want necessarily the share price just to go up by one day because we have 40 basis points, I think that's ridiculous personally, I want us to have a steady performance on Food and Beverage.

As far as Alcon and L'Oréal are concerned, they've been good investments. Peter said it as well, since Alcon in 1977 and L'Oréal in 74, they've been very good investments for the company. The interesting thing is when the stock of Alcon moves to 95 or something, we get a million letters saying I told you, you had to sell. Now the stock is again at 115 and you don't hear from these people anymore. But you know Alcon, is a good company, it's a good investment. When Nestlé made that investment they made it with smart thinking, it was a good investment and although not many people might run the business other than the Alcon people. Alcon people are 75% part of Nestlé as well. And Alcon would not be where it is if not for Nestlé. And they recognise it as well and Nestlé got some strength from Alcon as well, I can clearly see that as a point for another discussion.

So we always need to make decisions which we do in discussions which we have as part of a portfolio for Alcon and these discussions are going on all the time. And we said very clearly right now, Alcon is perhaps more of a financial investment, but it's a good investment and again, we're not going in to up and downs for three or six months. Not with Alcon either. It is a good investment for us right now and just to liquefy that and to turn that money back, we don't think it's a good thing. If we disagree with some people out there on that, that's fine. But what we talk and what we can perform with the 250 thousand people that are working for the Nestlé company, is the Nestlé Food and Beverage, so that's what I'm going to hold them accountable for.

Likewise with L'Oréal, it's probably more of a strategic investment and again we don't have the choice. The discussion right now is a discussion of Nestlé management thinking about what to do with their stake in L'Oréal long term. I hope management in Nestlé is thinking about how that fits long term with Nutrition, Health and Wellness. I hope Nestlé management is looking at what the various options are to leverage L'Oréal or not, to reinforce the core, because the decision if we liquefy that or not, is legally not possible, we don't have to make that choice until 2009. Which is good, it gives us that time to think about that. When I joined Nestlé, I said want to invest in a food company, I cannot invest in a hybrid or something. Sure you can invest in this. I don't think we have a discount because we have Alcon and L'Oréal. You can assess yourself if Alcon and L'Oréal are good investments and I think they are good investments. And we will deal with them at the appropriate time for the total company. What we want to tell you is what is under our immediate control of Food and Beverage, I want to talk Food and Beverage and I think that is correct, that is right.

Chris Wickham, MainFirst

Just to follow up, you know in order for your shares to be interesting they need to be somewhere maybe in a year's time and then I'll have to work that out you know. All you're going to learn about in this meeting is what happens to the 280 rather than the 140. So clearly there's some very exciting conclusions.

Paul Polman:

You can go to the L'Oréal shareholder meeting and think if it's an interesting investment and find out everything. Alcon is transparent as can be, so you can see these holdings how much they're worth and on top you can look at Nestlé. If you think that because these two are included, Nestlé's not attractive, that's your choice. We're living in democracy, I don't mind that at all. There were some people saying I don't want to get Nestlé when it's at 360, it's overpriced. Now it's a 420, they made a choice, I don't mind. It's just a theoretical discussion. Alcon right now is a good investment, we don't mind having it in the portfolio and we're looking at what to do at the right time. L'Oréal I cannot help, other than think about it until 2009. So my sphere of influence, for which I get paid, is to build the Food and Beverage business with the other 250 thousand wonderful employees in Nestlé.

When I joined Nestlé, I said I'd rather have Alcon and L'Oréal as part of the challenge to deal with, than not having them. And all I hear is, isn't it bad that we have them. I'm not trying to turn your question around but for me it's not worth even talking about. If some people out there think they don't want to buy Nestlé because we have Alcon, don't buy it. I cannot change that and I'm not going to sell it because someone says then I won't buy Nestlé, fortunately there are enough people buying. It's interesting actually when the share moved up, most of the long-term investors that moved in had gone into the information we have. I think they've missed a little point, but they still have a lot of potential and they're right to move in. In my opinion it's their choice, we cannot satisfy everybody to the nth degree and make that perfect.

Question on:	**Cash Flow**

Warren Ackerman, Citigroup

I'm struggling a little bit to understand why an 11% increase in sales growth in the first half is equalling a 25% decline in free cash flow. And if I take a longer term view, there hasn't been much improvement in the operating cash flow for quite a few years. Now I appreciate FX's or currencies has hurt you but it does seem even after some working capital improvement, for one reason or another, it's not actually coming through in the numbers, and I guess it's all very well driving top line and margins, but if you're not converting it into cash, at some point that must become an issue. Can you just comment on that.

Paul Polman

It's vital and at some point it will become an issue, so I agree with that. We looked at that also and rationally we explained the difference. I hope you understand the

rational difference for this.
We have higher CAPEX in the first half, we have some exceptional tax settlements, we've transferred the Dreyer's where we now own 100% of the trademarks. We have had some derivative payments that we had to do on covering for our bonds and then I think there was one other item that we have that I forget now.

Roddy Child-Villiers

On the free cash flow, apart from the CAPEX, the other big item was this slightly odd one on Alcon where we had to issue shares on the Alcon remuneration last half year, so we got cash in last half year on the minorities where obviously you normally have cash out. So there's a huge swing in minorities. So the 25% declining free cash is really one off. But let's talk about the longer term.

Paul Polman

The last element was this Alcon where last year we issued shares to pay the minorities and this year we didn't so that explains it, fine. And these are one offs not long term. Long term we need to improve our cash flow equally. And that's also why we put the emphasis on working capital right now as well, where I think there are opportunities. But if we grow our top line at the rates we're currently going to do, if we get our EBIT up consistently, on Food and Beverage, it will be the main drivers of that. And if we have capital and working capital discipline, then our cash flow should improve as well. I think for the same reason as you've held us accountable and to some extent, not reflecting any upwards movement over the last four years in the share price, gets to the crunch of your question. So if we do the things that we're now setting out to do and we deliver on those, then I would have a hard time seeing the cash flow not improving either and that gets to your question. At the end of the day it does matter. But the targets that we set around there are the ones I've talked about.

I don't want to put numbers out there, for one thing or the other, because the potential I see is always bigger than other people see. We get in to discussions and then you see it even bigger in the end and then every quarter I have to answer why it isn't there. But there's money there. You know I'd rather control the money than someone else. And it's also important, if you have, as an example, account receivables stays outstanding for 50 days then the feedback you really get from the market has a delay of a month and a half. You don't know a lot of things about how your business is running. In some cases, where we have cash on delivery, you know right away when the consumer doesn't have money. So, you are much closer to the market to run your business. In a food business as well, the shorter or the tighter your management or working capital, which is also raw material, packing materials and inventories, the fresher your products. What would you rather eat, a KitKat that's a year and a half old or a Kitkat that's three months old? We build our business by doing that, so working capital's not a finance thing, not just short term; it's discipline of running your business and giving the consumer a better, more delightful experience to grow your business faster. That's really why we're doing this. We're not running the business on numbers, also with finance we have to be very clear that we always have to run that for output measures, with better products and growing faster. And there's tremendous opportunity in Nestlé to do that, as

there is in any company.
One of the companies I follow closely, because I worked there for twenty-six years, just had published their results, and again there was an improvement in working capital on very good levels. There's no reason why you cannot do that. And that discipline has been there and here in Nestlé as well and then it sort of slacks off and then it comes and then it slacks off. We need to get back to where we deserve to be and I think it can be substantial, I believe that. Now there's a growth in absolute numbers because the business grows, but as a percent there's room.

Questions on:	**Broadening of Beverage category** **Arguments against de-merging Alcon**

Julian Hardwick, ABN AMRO

Looking at the Beverages category, most of the players in that category seem to be broadening the range of areas in which they're operating, as you yourself are. Could say a little bit about how far you could see Nestlé taking your exposure in Beverages and in that context, how viable do you think the joint venture with Coke is going forward. And secondly, apologies to return to the Alcon debate, could you run through your thinking what the arguments against simply demerging Alcon, which would be letting your shareholders decide whether or not they'd like it as an investment.

Paul Polman
There's two things on Beverages, the world is *liquefying* a lot of our areas that we compete in and it's a good carrier for Health, Nutrition and Wellness in a lot of respects and Nestlé if you look at it in the whole thing, you take our Coffee businesses you take the Tea businesses you take the Milo type businesses or you take our water businesses, we are an incredible player in the Health, Nutrition Wellness segment that is very fast growing. Part of the reason we can grow is to be rightly positioned you know. I thought the research report by Bernstein on being in the right categories is obviously a very important point, which he made us all think through once more. Nestlé is well positioned there with the critical mass and the right brands in that direction. Are we fully leveraging that scale? No. In some countries I see a vending machine over the counter in a Burger King or in a McDonalds and you can put in there Milo, you can put in there a Nestea, you can put in there one or two of our Waters and you can put in there a Growing-up milk drink and that vending machine is very, very profitable and doing very well,. So leveraging our scale in Waters and other Beverages combined is a huge opportunity. Thinking that through more that's what we're doing also now in FoodService to be honest because a lot of it is out-of-home as well and Marc Caira has now taken the lead and now FoodService business has to think that through as well. and that's what we also do in building a part of our capital. Coming back to the cash flow question, we don't run our business on twelve months either you know, if it makes good sense to invest and invest now, we invest now as long as these investments make sense. So we've always said we want capital expenditure to be around 4%. Last year I think we were a little low, this year we probably are a little higher, but we are around the 4%. If the water business grows in the US so much, we have to build at least two plants a year to keep going. We're well positioned on that again because the brands are good brands and we need to leverage our scale and we need to continue to drive that more towards Health, Nutrition and Wellness, I think it could be very profitable. Yes,

there are other big players entering and yes, there are some segments that we probably need to look at to go into as well. One of the fast growing segments in the US is sports drinks for example. There are ample opportunities for us to grow and Nestlé has some advantages in some of these places, over some of our competitors, which we can exploit. In our business models, in our brands, in our way to go to market and that's just fair and at the end it'll all be good competition and the consumer will benefit. And we can do that profitably, the truth is we have higher margins in the US now than most of these competitors who have entered the market and started fighting. So I believe yes, if we continue to stay close to consumer and innovate and renovate the way we're doing, it's a very profitable future.

On Alcon specifically, why don't we let our shareholders decide? It's not really a reasonable question, because I have shareholders who call me and say why don't you float Nespresso and give us the money so because then I can decide what to do with it, it's the same thing. You've no idea how many creative ideas are out there, that we have to respond to. On Alcon we have said we do it at the right time. And what if we can use Alcon at the right time, to further strengthen our Health, Nutrition and Wellness core businesses? Instead by just liquidating that money and then not perhaps getting another opportunity to further strengthen our Health, Nutrition and Wellness business, we're irresponsible. We're irresponsible to our shareholders and irresponsible on long term growth. We think we can get more out of Alcon by doing it at the right time and the right way than just liquefying it, it's a simple as that. Now you agree, or disagree, that's fair, I have full respect for that, but just to sell Alcon right now, liquidating giving all that money to the shareholders, we believe first of all that Alcon can give good returns, so there is no immediate short term pressure. I'm not talking about two or three months or the exact numbers. The second thing is that we will be able to do that at the right time and strengthen our Nestlé business that is then left. That's why we're running these businesses, to make those decisions and we'll explain them at the right time if that opportunity arises and build more shareholder value. And if we are right, we will benefit, if we are wrong, we are held accountable to our shareholders. Very simple. But this is the same question of why don't you sell this or that.

Julian Hardwick, ABN AMRO

So Alcon is important as acquisition currency for you?

Paul Polman:

If that's what you read in there, then I won't deny that.

Roddy Child-Villiers

I think the Alcon question's interesting: you know we've owned it, as Paul says for 30 years and you know, I'm not sure what we've ever done wrong with Alcon. What strategic mistake we did ever make with Alcon ? Why did people suddenly care that we're going to make some disastrous decision. Alcon has gone from a hundred million we paid for it I think, it's been a huge success. Where has our parenting let the business down that everybody suddenly thinks we're going to do something wrong with Alcon? Why can't we be trusted to continue to do the right thing with Alcon? I just wonder.

Questions on:	Geographical roll out of Nespresso Pricing in Europe Cash Conversion

Simon Marshall- Lockyer, Bear Stearns

On Nespresso, can you give us a little bit of colour as to how you're seeing the geographical rollout of Nespresso, a lot of it is being European centric, how's it rolling out and how can you sustain these fantastic growth rates that you've been showing more recently. The second question is on pricing in Europe. You talked of sort of a measured improvement, tentatively generally in the Food and Beverage environment in Europe, yet you weren't able to pass on the raw material price headwind of the first half, what are you seeing in Europe today which encourages you maybe into believing that we are on an improving trend here, rather than just a one off and we've been here many times before with Europe. Then the final one is just back to cash conversion and the working capital issue, could you maybe from the vantage point of your experience in turning around or contributing to turn around P&G Europe, tell us where maybe P&G's ERP (Enterprise Resource Planning) platform might have helped you on that count the free cash flow, cash conversion, maybe beyond just the inventory and central purchasing issues that we know about.

Paul Polman

Nespresso now this year at least the numbers that we're seeing is surpassing the one billion Swiss francs in sales, so it's becoming a very respectable business by any standard. And obviously as the base is bigger the percentage growth rate will come down. In my former life used to run some of our fine fragrances and we had brands like Lacoste or Hugo Boss. You don't want to grow too fast because you're losing the essence of what the brand is all about so you have to manage your growth to continue to be what you want to be. Nespresso is the Luis Vuitton of coffee. So part of that is controlling your growth, it's very important, don't over estimate that. Don't be as the Spanish say *Pan por hoy, hambre por mañana*, (Bread for today hunger for tomorrow) you can get very good numbers very quickly but then you discover long term you don't have the right brand equity. It has happened with a lot of the brands that are positioned in the premium segments, you have to be very careful now. And Gerhard (Berssenbrügge) runs this business very well, is very well aware of that. Very strong growth but you have to manage your growth in this business, it's a different problem to have than in some of our other businesses and it takes a special skill and special people to run these premium businesses. I want to point that out that we're not being too short term, too greedy. Having said that it's growing very nicely and very fast and that growth is mainly driven in Europe but don't underestimate what we're now doing in the US as well, we've opened a store in New York and now in Los Angeles, we're looking at some other places, so the US has a great potential and you see that brand picking up there. I apologise I don't have the latest numbers anymore, when I was there six months ago for a briefing that was like hundred thousand consumers or something is the number that sticks, but now we're six months further so it'll be interesting to compare that, but the numbers are going far up and then in the Far East, don't expect miracles there because it's just not the case, what you do is you have a presence in some of the big cities, but you're really talking there a much smaller base of consumers than you would get here, so you establish the brand. You establish the image, so that's really creating an aspiration, but it's not going to change the numbers.

But Europe still has a lot of potential which is amazing. If you take the country where it's very developed like France and Switzerland, and yet the growth rates there are still the same. And I think part of that is inherent in the Nestlé model. Some of my friends came to visit and they saw the Nespresso machines in my home and they all walked away saying I'm going to buy one. So this multiplying affect of word of mouth on Nespresso is very strong. Whilst the growth rate will come down, I think you'll continue to see for a long time the strongest growth coming out of Europe and I don't know when that stops because even countries that you rationally think would not buy these machines are going into this fairly fast. And it's because it's such a wonderful experience and it's the whole experience again. We're putting out machines there that are very desirable. There are people now buying two or three machines, or changing their machine for the colours of what are the fashion now. It's becoming part of that experience and we're seeing these half yearly tastes, the coffee special edition we call it, that we're selling at a premium to the regulars, we're seeing them becoming very desirable objects.

There's a store that opened the other day, that now buys Nespresso from us online like consumers and sells it at a premium because he thinks there's a market out there for people that are time starved and absolutely need an Nespresso now, like their little pharmacy around the corner and I'm willing to pay a significant amount of money for that. So you see, you know, soon we'll have counterfeit Nespresso being sold all over Europe.

So there's enough potential, and then the next growth is probably more the US than anything else. We're slowly building the model elsewhere but that's the main areas and we're opening stores at fairly good rate, we're now opening stores in Germany, few stores in some other countries. We are opening these stores, in very desirable locations to build the brand. It's a tremendous franchise.

On pricing in Europe, Europe is difficult on the pricing front, it's not as easy as in other parts of the world, you know, which is one of the reasons also in Europe on the structural profitability, the private label business is tremendously developed. Whilst the retailers in Europe might have low shares of the total European business, in each of the countries that you deal with which is where the rubber hits the road, they're pretty powerful. In some of these countries you can have two or three retailers who have 80% of the market or in other countries they easily approaching 30 / 40%. So whilst in the US everybody has a WalMart story, in Europe the concentration in the countries where you have to sell your products, is already much higher than anywhere else and they have very strong own label businesses. So the pricing ability and passing that through has always been more difficult in Europe than it is in the rest of the world and we have to deal with that, it starts with accepting that reality.

We have in Europe unfortunately now we have Dairy cost pickups. But we have deconsolidated that, so the European mix that we now have in the zone Europe numbers that we report, has a lot of Coffee in there and so the mix is not helping you in explaining that cost pressure. They didn't get as much relief as some of these other regions got and the other ingredients. Partly it is this, partly it is the retail pressure, but I don't think it's going to get less necessarily. So what we need to do in Europe, much more moving forward, is on the initiative side. When we have meaningful initiatives like Beneful, Coffee mixes and Slow Churn Ice-Cream, we can grow the business and improve the margins. By the way on the coffee also it's partly a mix effect in Europe. If you introduce new products like the mixes, you need to be there because that's where the growth is, but they start with lower margins, which is quite normal and acceptable.

So in Europe, it's making our brand stronger and having these initiatives at the premium end. Then underperformers, rationalising our cost basis as we've said several times this morning, the biggest opportunities are in Europe. That's why we're prioritising Europe for driving Shared Services. That's why we're putting so much emphasis on this rationalisation of these plants, most of them are in Europe. So you have to work the cost base, you have to work the innovations, and make our brands stronger and then we get each time a little bit more pricing power in Europe as well. Why are we confident that the second half improves as the first half if that was the second part of your question. It's simple because in the first half, we are picking up in the total company on efficiency and marketing spend, but in Europe it's the other way around, we have had initiatives in Europe. We're also in the first half implementing GLOBE in Europe, which doesn't allow us to do these efficiency things which will come in, in the second half and then we're seeing on the momentum side where Europe is picking up momentum, you get more benefit of that in the second half. So we don't think that this 90 basis point decrease that we see in the first half, is a reflection of the total year. That is not what we're currently seeing with the best knowledge that we have. We think we can improve on that over the year.

Simon Marshall-Lockyer, Bear Stearns

And you are seeing this momentum in Europe?

Paul Polman:

Well there is on average, there are some categories where there is not but on average yes, that's what you see in the numbers, total Europe is 3.3 and even in all the zone Europe numbers are picking up. So we see that the numbers that we report as well.

Roddy Child-Villiers

Across the categories against the end of last year, every category is ahead on RIG except Ice-Cream which obviously is seasonal pricing. It's the first time in a long time as I'm sure you've noticed that we've got volume that's higher than our pricing in Europe.

Paul Polman

You'll never build margins long term if your volume comes down, I've not seen that. It doesn't work. You cannot just cut costs down and see if you wait for prosperity, you have to have these businesses grow, you have to make your brands stronger and now we're trying to do that in a responsible way. And then let's see where we come out at the end of the year. Obviously the most important thing here once more is the total company's performance for the share price. I've always said that and we can get our business growing in Europe, we can get our business growing. We don't have to be depressed about Europe because we're Europeans. If we put the right products out there, with the right innovations we can grow, I've seen it over and over.

Which gets to your third question, which is on the cash flow and the SAP platforms. There is no doubt about it that if we have these platforms in place, we can drive the discipline faster. We still have to do it, you can drive the discipline faster, you can collect your money faster, you can get more efficient payments, you can get less re-work in invoice payments. I will not give numbers, I will resist that temptation but the amount of overdue is unacceptable. Overdue is what you get paid beyond what you've agreed to get paid. Forget the discussion if you agree to get paid at 75 days or what might be ridiculous or not. We compare them. But then on top of that to have a relationship that results in you not paying me at the time we've agreed to pay is unacceptable. Right? I'm not doing business that way. The reason is often is oh well, this invoice is wrong and I don't fully understand or this wasn't this, it's all nit picking on small things so that someone else can keep your money because that discipline, that transparency isn't there, so if you have this SAP you can drive in very clear and transparent discipline and you can hold people accountable, likewise on the other side. So it's a key enabler, it's not the answer. Because you have the system you don't have better working capital though. Because you have the system, you do have many more tools transparently to drive your working capital down. No doubt about it.

Question on :	**Break down of margin for geographies – 100% F&B**

Joseline Gaudino, Société Générale

You've broken down your top-line sales by zone including 100% of your food business, could you give up the same number for the margin?

Paul Polman

We haven't done that. No, we could theoretically, but we haven't done that.

Joseline Gaudino, Société Générale

Ok, just to have an indication how Europe is doing with Nutrition, with Waters.

Paul Polman

No, I understand your question but I'm telling you honestly we haven't even done that, I don't even have those numbers, I could rationalise them out and give you a story but we haven't done that. Would we publish that way to the market? Not right now, we don't even have that yet. This is a good example where without GLOBE it would be ten million man hours to answer a simple question like that. You don't know where you're going.

Joseline Gaudino, Société Générale

So you'll publish it next year.

Paul Polman

Well I don't know if we'll publish that or not, we need to communicate things that help us build the business and where we get your help and our help to build the business. I expect that if these brands that are not included in that, like Nutrition, our Water business, CPW, Nespresso, our healthy growing businesses with strong brands, they're growing faster because that's why these numbers go up more and at 2 point whatever to 3.3 that they're also broadly profit-accretive to the total company and certainly to zone Europe. So you can rationalise the answer yourself as well as I'm now doing, but we haven't run that number yet.

Questions on:	**Big Innovations H1** **Number of Brands** **A and P expenses**

Joseline Gaudino, Société Générale

On the innovation you mentioned that you're going to have fewer but bigger innovation. What have been the big innovation in H1 would be in H2? And as far as Europe is concerned, you just said that you need to make your brands stronger, don't you think you need to be more focused in less brands. Some of your brands in the second category today are more fragile and it will be very difficult or very expensive. If you look at you're A&P (advertising and promotion) expenses could you give us an indication of the level of expenses you have in Europe? Is it higher than the group average, lower, which zone is higher?

Paul Polman

Some of the big innovations that we that are coming through in each of these categories, some of them I have talked about. Don't underestimate the Slow Churn for Europe, don't underestimate the Beneful and what we're now rolling out. Don't underestimate the NAN HA that we're rolling out in Nutrition. Those are big innovations. Also on these categories you have to continuously refresh what you have, so there is a little bit of what you might call small innovations as well. So it's a good stable of big innovations that are being rolled out. But we want to always be higher but there's a big stable of big innovations and that's why it drives your shares at the end of the day that's the difference between a 1.5 or 2% market growth and the 6% is because you have some big discontinuities. And the same thing when we talk about Frozen food in the US, there's some big innovations, Hot Pockets that we're still growing in Europe and it's growing nicely. I hope from what I've shared with you that you get a little bit of the sense of these bigger innovations. And over the second half they will continue with ones we haven't announced yet, we will talk about them later but there are some things coming that are encouraging. Even on the Water, people ask what can you innovate on water? The little innovation I shared with you in the US is a big innovation. Don't belittle those things. And they're very difficult for competitors to copy. Sometimes because of the way they go to market, on whom they depend, how their production system is and many other elements that might not make it so easy to quickly copy. There are enough big innovations in all of our categories and I could go on a little bit but that's basically what it is.

In terms of the brands you are right, stronger brands but don't confuse stronger brands with fewer brands necessarily. When someone said once very wise words, we go from six hundred brands to four hundred brands, I'm not sure they did themselves a favour. And also not because the first thing that happens is that in the company, people are very smart and they quickly discover. In my previous job we once made a mistake to say what was strategic and what was not strategic and boy were we right. Because what we said was not strategic quickly went down and it went quicker down than we even thought. It's a self-fulfilling prophecy because then people don't want to work on it anymore and people start thinking "well the boss doesn't think it's strategic anyway, so let's get rid of it". So what we are talking here about is not brands, what we're talking here about is the equities and they can have different brand names but what we're talking about is the equities that we're selling and the categories. In Korea Nescafé is doing very well but it's called Taster's Choice. We reported as a brand but it's Nescafe and the strategy that we have is the same. So, don't confuse that one. Now having said that you're right, there are in our stable there are enough brands that don't perform that are too small that you will not invest in. Some Water brands, we have some Cheese businesses, the Sugar business, so we will continue to look, as part of this pruning of our portfolio, rationalising our underperformers, to drop these things and not invest in them. That I totally agree with. And there are enough examples that we're doing.

In terms of A&P in Europe, your question was if our A&P spend in Europe is going to be higher or lower is that what you're asking for the second half?

Joseline Gaudino, Société Générale

For the full year.

Paul Polman:

For the full year. No I expect that we have to see where we come out for the full year, but I expect that we'll still continue the investments that we're doing to help our business grow and the initiatives that are coming, that we probably will see a little bit higher, at least the same but probably a little bit higher A&P spend in Europe. It's a percent of sales I'm talking here. Whilst the rest of the world will benefit from the overall efficiency of the growth. It would not surprise me.

Roddy Child-Villiers

AOA will be a bit higher second half as well.

Paul Polman

AOA has certain initiatives towards the second half. So the big jump in margin that you see in AOA, that's what we're saying, AOA has seen the big jump because the initiatives are also coming in the second half. That's why we're saying that the Group margin progress over the first half, over the second half is about right.

Joseline Gaudino, Société Générale

So when you say in H2 you are going to have higher cost, excluding raw materials is it mainly AOA expenses or?

Paul Polman

We don't include our marketing and administration costs in our discussions. But marketing expense I think in total, I don't know what the total company will come out with the growth that we have but it looks like AOA will have their marketing spend a little bit more skewed towards the second half because of the initiatives. Europe has had the strong spending over the first half but will continue part of that or most of that into the second half and the Americas with the momentum that we're showing there, we should get efficiencies. This is as a percent of sales I'm talking here.

Roddy Child-Villiers

The US is always second half weighted as there's year end impact. It always is because of Stouffer's and Thanksgiving and Christmas and all that it's always second half weighted.
I'm afraid we need to wrap up things. We'll leave you with one further innovation which is one those of you in Europe will certainly see: probably the biggest innovation in Nescafé for many, many years, before Christmas.

END OF TRANSCRIPT