

# NESTLÉ S.A.

## 2007 FIRST HALF RESULTS LONDON ROADSHOW TRANSCRIPT

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## **Roddy Child-Villiers - Nestlé S.A. Head of Investor relations**

### **Slide 1 – Logo slide**

Good morning everybody and welcome to our presentation.

I just want to start by introducing a few people; I think you all know Diana Bachmann on the Investor Relations Team. We have a new member of our team Stephan Wirz, who has joined us. He was CFO of Romania, so if you've any questions on Romania after the presentation feel free to ask him. We also have the CFO of Nestlé in the UK Steven Phillips and Ian Rayson from Communications in the UK

Then we have Jim Singh here, who is Head of Mergers & Acquisitions, but he's here because our Treasurer is moving on to be CFO of CPW (Cereal Partners Worldwide) and so Jim is standing in temporarily as Treasurer. So he was managing the buyback. And he's now probably as you saw from the press release more a minister of disposals than acquisitions going forward I suspect.

Paul is going to just take you through the numbers very briefly and then talk more about the product groups, Nutrition, Health and Wellness and also of course the organisational transformation.

### **Slide 2 - Disclaimer**

We will take the first slide as read.

#### **Paul Polman - Nestlé S.A. Chief Financial Officer**

Morning everybody, What I want to do is really spend the next 30 or 40 minutes taking you through some of the performance of the individual business units as we mentioned at the conference call last week. And then spend as much time on the Q&A and hopefully engage in a good discussion on the business and the future of the business, because that's probably more on your mind. You've seen most of the numbers right now and probably studied them in detail and they're broadly good numbers. So I won't repeat all of them.

### **Slide 3 - 2007 First Half Highlights Strong performance across key metrics**

I thought it would be useful to just start very quickly with the headlines once more that you're now familiar with. These are the first six months results. And what you see is a very strong top line growth again of 8.4%. If you take out the acquisitions, divestiture and a small positive effect on the exchange rate you actually get to a very impressive 7.4% organic growth. And that splits about 5.3% real internal growth and the balance, the 2.1%, being pricing.

Acquisitions, divestiture as Roddy already deluded to, we have had a healthy acquisition pace again, with Jenny Craig in there, Uncle Toby's now in there, Delta Ice Cream now in there. But at the same time we've kept up our pace of divestitures of non-strategic or non-productive assets. And they accounted 1.2% of NPS, so that's quite a sizable chunk as well in that sense.

Moving to the EBIT, you've seen the 60 basis point improvement to 14.2% margin, that's nearly a billion CHF more in EBIT. And again that's a good performance, up 13%. If you move to net profits you see the 18.4% increase in net profits, again you'll find back about the 800 million CHF increase to 4.9 billion CHF and that's 9.6%.

Working capital, I'm very pleased to see again once more that the organisation has risen to the challenge. In the financial world unfortunately it's a spot position, which interests me less, but we look at the averages on a monthly basis obviously, which is more useful for the business itself. But even on the spot position if you take the end June position once more you can see the improvement on working capital, in this case 20 basis points, despite the strong growth of the business, again further efficiencies.

And then last but not least operating cash flow nearly up 30%, or 140 basis points that's a 1 billion increase to 4.3 billion CHF. So these are daunting numbers and obviously brings with them a lot of responsibility. So I think in summary you can say that although they are six months results, it's another six months of delivering the Nestlé model. It's another six months of accelerating the conversation to Nutrition, Health and Wellness as a strategic transformation and it's another six months of our further conversion to the organisational transformation, increasingly leveraging GLOBE, increasingly getting performances out of all of our business units. And not surprisingly, or surprisingly to you, we announced a 25 billion CHF buyback plan on the strength of our conversion and on the confidence that we have in the future cash flow generation of this business.

#### **Slide 4 - Creating shareholder value through profitable growth**

What we want to do very briefly if really divide it in two parts, which I think are equally important. The first one is the strategic part, which is the conversion to Nutrition, Health and Wellness. The main priority continues to be on profitable sales growth. There are many organisations that just focus too much nowadays on cost and cost cutting and you continue to read it in the papers. But you just can't save your way to prosperity. As I continue to mention to you as well you should put a premium on companies that are able to generate growth. 4 billion CHF just in the first half of incremental growth happens to be the total turnover of one of my Dutch colleague companies that was just being sold.

The market shares, you have to look at the market shares. You know you're investing in brands; I've always said that if you look at the difference between our market cap and our asset value, you see a difference of about 120 billion CHF. That difference you call it goodwill, or intangibles, that's the value of our brands. And it's more important today than ever to get your brands stronger. We have 26 wonderful billionaire brands I'll show you in a minute once more. But they have to grow share, that's what you're investing in.

And as the consumer has increasingly too much choice, as the retailers concentrate, it's far more difficult to bring innovations in. That premium that you have to place on these bigger brands growing share is going to increase over time, enhancing the mix, a very important part of the Nestlé model. Divesting of more commoditised, lower margin products, and adding more strategically higher margin products.

You ought to demand that our cost of goods as a percent of NPS is going down as we bring more added value. You ought to demand that acquisitions like Medical or Gerber or Jenny Craig are accretive to the Group; that's the essence of the strategy, and that's what we're driving. And then obviously with discipline and operational discipline as well, and you see that in all of our business units bar one, you see that discipline getting translated

even in an environment with a lot of headwind as we see currently on the commodity costs - you see that translated in improved margin improvements and that's important. There's enough room still to go further.

So that's the Nutrition, Health and Wellness strategic part. And then obviously underlying that a strategy is going as good as you can put it in place, lot's of people talk a wonderful strategy but don't have the organisational capabilities to put it in place. So a strategic transformation is one thing but an organisational transformation is equally important. You have to turn your organisation into a competitive advantage. And we've been focussed on very simple things with a little bit of Swiss modesty and that is first of all to drive some simplicity in the business.

Businesses our size have inherently built in certain degrees of complexity. But you want the good cholesterol; you don't want the bad cholesterol. Otherwise it results in bureaucracy slowing you down. So we continue to look at opportunities to make the company more agile, to have to more focus on the consumer, closer to the consumer and do the demand generation and take away a lot of the non-value added activities which frankly the consumer is not willing to pay for.

We'll talk about that later in terms of SKU's or legal structures and some other things. We also leverage scale for competitive advantage. Scale is not just a matter of costs. It's scale of ideas, flowing around the organisation. It's scale in the way you go to retailers. It's scale of efficiency like shared service. But scale has many dimensions and you need to think about it strategically. Increasingly we're starting to think about a company of 200 billion CHF turnover. How can you ensure that scale doesn't pull you down, but that scale continues to be the accelerator of success? I personally believe that should be the case but you have to think about it, you have to plan for that and you have to put the strategic things in place to make that happen.

We tackle the under performers, I'll show you in a minute some of those. And then obviously increase discipline in execution in all we do. I mean people don't like the word discipline, if I talk with my kids about discipline they don't think I'm the coolest dad in the world. But at the end of the day you have to have discipline in all you do and you have to be sure that there is a transparency of data, that people are held accountable and responsible and that some of these initiatives that you do, that they end up showing up in the bottom line as well.

## **Slide 5 - Performance of major brands**

Moving to our next chart, which is the billionaire brands. And as you know we have 26 of those wonderful brands. And as you see now that we've put this chart up again, and again, and again, and again, you just continue to notice, not surprisingly, that most of the brands first and foremost are growing ahead of the market. You take a market growth of 2 to 3% or in some categories you might want to take more. But you see that these brands report growth that is ahead of the market in most cases. That means share growth that means stronger brands. You have to peel the onion obviously but that's what we do and this is a snapshot of that.

But the other thing you notice is not surprisingly again that the brands that have strong innovations around Nutrition, Health and Wellness and increasingly are well positioned in their market segments grow significantly faster. You see the Branded Active Benefits on this chart and that would be growing at levels of about 20%. You see brands like Pure

Life, our Water business, our Nutrition business; Nido I'll talk about in a minute, Lean Cuisine can't be better positioned, very, very strong growth.

So it passes a little bit more than just a message of our brands are getting stronger. Now the other thing I like about this chart is that there is always a little sinner, which is good, I actually like that, I like a brand that goes down in a stable of 26 brands, because it keeps reality a little bit in the eye. It keeps us focussed on what we're all about which is to continuously improve the lives of the world's consumers. And when you have a brand that actually is going down, fortunately there's only one or two in the stable of 26, so the overall numbers work very well. But it keeps reminding us that we have to work hard to stay close to the consumer, that we have to work hard to innovate. And if we don't do that someone else is going to run away with our business.

So it avoids complacency, it's very important. But also on those brands I'm happy to report that the plans are in place to show that we can grow those again and hopefully in the future some of these charts will support that.

### **Slide 6 - Powdered & Liquid Beverages Strong performance by all categories**

Now let's look at each of these categories a little bit more in detail and I'll pick up the pace. And like we did last year for each of the categories, we'll talk sales, we'll talk organic growth, we'll talk the EBIT margins and you can follow that with me.

The first one is obviously a very big category of 8.4 billion CHF, which is our powdered and liquid beverages. There you find the brands like Nescafé, Nesquik, Milo and some of the other minor beverage brands. This category has had a stellar performance despite the rising input cost. You see a strong performance here across all categories. If you remember the shared slide we just showed. Not surprisingly again Nespresso continues to set the pace. That brand is rapidly growing to become a truly billionaire brand, it has passed the billion but people are now thinking already of the two billion, growing at 40% a year. We've always said actually the bigger you are, this is a word of mouth model amongst other things and the bigger you are there is no reason why you can't grow even faster.

Milo, a brand that you don't see in this part of the world as much as in the developing world but very much positioned on Nutrition, Health and Wellness. And here again a 10% growth on this brand is a strong performance.

Nesquik, behind less or no sugar and healthier profiles tremendously strong and then not surprisingly an EBIT performance of 60 basis points, by finding that sweet spot as we call it between pricing and cost. Although we continue to point out that we will have more costs over the second half.

### **Slide 7 - Winning innovation Nescafé Dolce Gusto off to good start**

If you look at one of the key initiatives in this category, which was in Europe, accounting for one full percentage of real internal growth in Europe is actually the Dolce Gusto brand. We only have launched it in three countries and you were just able to taste it. I personally think it's a wonderful product - launched in Germany and the UK and in Switzerland. And

based on the success of the launch so far we're now rolling it out to the rest of Europe. So some very big countries coming in, countries like France and Spain and Italy - adding to the success. And what you can see here is in terms of machines sold, I won't rattle off the numbers but in terms of machines sold, in terms of capsules sold, in terms of capsules used or repurchased it by all means is pointing at a consumer satisfaction that you could hope for. And the brand has a lot of potential; we're adding other variants to that, just coming in with chocolate milk and some other things, decaffeinated coming in and others to keep the growth going. A tremendous innovation story at the high end of the market obviously.

**Slide 8 - Winning innovation  
Milo renovation in 2006**

If you look at Milo, which is the other brand that we probably don't talk enough. Milo is one of the leading brands in places like Malaysia, or the India or Pakistan or the Thailand's of this world and you'll find here an example from Malaysia on Milo. Here the innovation was very simple, again adding carbohydrates to the product. It's very much a health drink for energy; mothers give that to kids before they go to school. This is a re-launch, which was simply called Go Further. No cost increase behind that, our manufacturing cost efficiencies the same or in some places people would argue a better Milo taste. And you can see what the re-launch does. A market share in Malaysia from 90 to 92, I always wonder who the other 8% are, I'd love to meet them. But that's what it is. And then the market share you see on the liquid side, we have a powder business and a liquid UHT business, from 40 to 44%. Organic growth of 17.7% despite these high share levels, so it actually means you developed the market; you're actually growing the market quite significantly to get to these numbers, and then EBIT improvement of 270 basis points.

At the same time, which is neat, is a very interesting line extension with Milo which is called the Fuse range which are these bars, with cereals in there or with extra calcium. So you can see this health profile on a product that is very relevant to that. So that is our category that we just talked about the first category on the liquid beverages.

**Slide 9 - Nestlé Waters  
Double digit growth & margin improvement**

Now you move to the next category, which is our Waters category. And here again the category now is well passed the five billion turnover level, with 5.4 billion in sales. Making it by far the biggest unit compared to our competitive set. And despite that an organic growth of 10.3%.

Margin improvement marginally at 10 basis points, despite significant cost increases that I'll talk about in a minute. Here again you see the strong brands getting stronger. Pure Life is a billionaire brand or Poland Springs in the US these brands are running at double digit growth, in Europe, in the US and elsewhere. San Pellegrino and Perrier - our premium brands - double digit.

In Europe we've continued to say that we need to improve our efficiencies in our structure, you saw that in the numbers that we reported for the full year, you see it now again. We actually disposed of five factories in Europe between our last meeting and now. So the efforts to continue to simplify and tackle the under performers here, goes on

as well. And then the EBIT improvement is 10 basis points, which looking at some of the competitive set, which has been published, is a good performance once more, despite the increases that we've seen the PET prices and despite the increases that you see in distribution. Now this is a distribution sensitive model. As well as investments we've made to guarantee that we continue to grow at the pace that we're doing, in the higher value added segments. And in these line extensions as you would expect you have to invest ahead of getting that volume that all is being done and despite that profits are continuing to be built.

#### **Slide 10 - Focus & differentiation driving growth**

This is how we look at it, differentiation for growth, it's a very simple model but a permanent model works on a lot of things. And here you can see how you start from the basic nutrition on the base which are very big brands, Nestlé Pure Life, or Vera or Nestlé Aquarel those brands give the confidence to the consumer. It's very important once more to have those big brands. For us it doesn't matter to be first, with some of these ideas, to the market. There's a tremendous proliferation of ideas in this added value segment, in beverages and it doesn't matter really to be first. What matters to us is to be right first. And for that you need very big brands. And what we now see is, as we use those bigger brands and then start to get more into added benefits, we pick up significant parts of those markets as well.

Then we look at functional benefits increasingly and you get the different brands like you see here, like Vittel and Contrex, obviously the better-known ones, and these are added value products. And then you go even to the higher levels which I would call the champagne brands and you get to the Pellegrinos, Pannas and Perriers - all of them very fast growing as I just pointed out to you.

#### **Slide 11 - Dairy Products Strong growth and margin improvement**

Dairy alone is 10 billion. So you take Dairy and you take Waters and you just add up those two alone you get to a 15 billion category. So that's bigger than some of the competitors that we have in that field, just in these two categories combined. And here again you see a 10 billion category, just passing the 10 billion barrier, showing a 7.1% organic growth, building again market share as well as volume share. EBIT, a very strong improvement of a 160 basis points, part of that very simply is pricing ahead of cost and part of that is continuing to tackle our Ice Cream business where we want to improve the profitability.

Here again if you look at it first in milk products. The billionaire brands, again double digit growth. Dairy itself actually achieves a 5% pricing but then as you would expect RIG is slowing down a little bit as these prices are moving up. So our emphasis increasingly there is to value added products, that's very important to us. And Coffee-Mate is one of these examples of that. Coffee-Mate is now being expanded globally and growing at nearly a 10% rate. So that's a good example of a value added product in this segment.

On Ice Cream we had the priority on the performance improvement. But despite the performance improvement priority in terms of profits we also see that behind those strong innovations we're actually building volume at the same time. And not surprisingly, here

the innovations again as I will point out in a minute are in the health area and in the added value area and that's where they should be.

Both categories then improved EBIT as a result of that. But part of that, I continue to point out, is benefiting from pricing ahead of cost. So we will not see that projection that we now see on the six months, we will not see that for the full fiscal, you'd be fooling yourself.

**Slide 12 - Dairy Products**  
**Response to input cost challenge**

Then we look at the next slide, which gives you a little bit more in detail the input cost challenge that we have and how we are treating that. As you know the milk prices have moved up from \$1500 a tonne or \$1900 a tonne depending on when you started to \$5000 a tonne. That's a tremendous increase, these are world prices, our price increases have been less because of the way we buy and the way our supply structure is set up. But these are tremendous increases in the market. And you cannot just go to a consumer because a lot of these products are in developing markets; you cannot just go to the consumer and say pay 100% more. So you have to have your price increases spread out, and most importantly is that you recognise this trend and take price increases early. Then you can decide what you do and you run with your pricing slightly ahead of your cost increases and that's exactly what we have been doing. On top of that Operation Excellence 2007 like in 2006 is running well on target. And obviously the organisation is focussed on beating that, but that's a billion CHF of saving. SKU rationalisation does the same thing. Getting rid of the under performing, marginal loss making SKU's and focus on the fewer but stronger SKU's that frankly the consumer prefers.

We've worked on our pack sizes. We've reduced our packs in some countries to be able to hit certain price points that consumers can afford. Reduced packaging or packaging costs to compensate for that as well. And then, because there's a shortage of supply, it's also important that you're just not stimulating too much by spending for example in trade spend unnecessary monies when you can provide the product in some places in the first place. So you have to adjust your marketing programmes to support it as well.

For added value, which is obviously the most important thing for us, premiumisation, Nido, Nido One adding benefits to that. Increasingly shifting the portfolio from the base products to the added value products is probably the best strategy over time to weather any storm. And then the margin impact obviously will be less over the second half.

**Slide 13 – Winning innovation in Ice Cream**  
**Nutrition, Health & Wellness**

If you look at Ice Cream, which is the second part of the category and a very important thing and here again you see all the initiatives again on the premium end with Nutrition, Health and Wellness. And the consumer is again responding to that.

The Slow Churn that Dreyer's launched first, the lower fat, better taste Ice Cream has now no sugar added or yoghurt variants to that and they're doing very well. There are no sugar added variants for diabetes that have come on the market and weight conscious people as some would like to call themselves. We have launched initiatives in Chile where we have significantly increased the milk content and as a result the nutritional values. Lactose free in Finland, one of the main highest incidences of lactose sensitivity,

and the market for having a lactose free Ice Cream is exceeding our expectations there. And then Mövenpick itself launched the lower fat Ice Cream.

**Slide 14 – Dreyer’s Grand Ice Cream  
A more profitable future**

On top of these health initiatives with our added value you also have wonderful examples like we did in the US behind Häagen-Dazs Reserve that you see here, which is a wonderfully tasting Ice Cream, which is being sold at a 30% premium and creating again a whole new segment for Häagen-Dazs, optimising in the US furthermore the cost structures. Be it in our supply system and distribution, as you know it's a DSD (Direct Store Delivery) model, or be it in our trade and promotional spend has given us these numbers in terms of financial performance that I just shared with you.

**Slide 15 – Nestlé Nutrition  
Double digit growth & positive EBIT trend**

Moving to the next category, which is Nestlé Nutrition. Sales of 3.4 billion, so that in itself would project to about 7 billion on an annual basis if you just do a straight line projection. And that is before we account obviously for the recent acquisitions of Gerber or Novartis Medical Nutrition. Very, very strong growth again in this unit 10.5% growth, you know our objectives in this unit is 10% plus growth and 20% margins. And these are objectives are set for 3 years out plus, we're actually seeing that we're getting closer to these objectives already as you look at these results and the previous quarter that we announced.

Organic growth 10.5%, EBIT 20 basis points decline, the EBIT actually on our Nutrition business is up but because of Jenny Craig, which is neutral for the company this year, agreed as of next year, because of Jenny Craig the Nutrition unit is showing a 20 basis point decline, which otherwise would have been an improvement.

Here again the way we grow our business is with innovations and continuously driving the mix and filling these white spots that we still have.

**Slide 16 – Winning innovation in Nestlé Nutrition  
Project Bullet: Value enhancing growth**

Let's look at a good example of the innovation, which is the Nan initiative. We called it Bullet, it's launched at the premium initiative in infant formula, which is Nan and Nan-Ha. And these improvements are basically enhanced immune system and allergy prevention. And they are being sold at significant premiums to the base products.

We launched those as I mentioned last time in about 60 countries and we completed the rollout globally in about 12 months, that's a tremendous speed of rollout. And one or two countries missing for different reasons, but we have basically covered the globe. And not surprisingly what you see there is we've added about 200 million on incremental sales and it's easy to see that there is another 200 million waiting to be taken as these brands get adopted in the market itself. So it's a tremendous example here again of driving innovation in our premium, super premium segment with these added value benefits.

**Slide 17 – Nestlé Nutrition: CHF10 billion sales  
in a high growth, high margin business**

We've also made good progress on the transformation here. And I'm glad that Jim is here because he's spent many days and nights making this possible. But it's absolutely strategic for the company that we get the Medical Nutrition of Novartis and Gerber because we now feel that we have critical mass in this unit that allows us to further accelerate growth.

As you know, together we got these two businesses for about 2.8 times sales or 16 times EBITDA. And looking at some recent transactions on the market with some at double that I feel very good for what we've bought here and what we paid for it. And the more so as you can see how it fits in very well into our business with very strong growth and successful businesses already and how we're hitting the ground running.

Medical Nutrition we just got the approval and are in full swing of integration and welcoming the wonderful people there. And the Gerber acquisition we're still waiting for the final legs of the total approval, we think we can do that around September.

**Slide 18 – Prepared dishes and cooking aids  
AOA and Americas deliver high growth**

The next category is Prepared dishes and cooking aids. In all the good news that we're sharing with you probably a relatively disappointing performance, nothing wrong with a 3.1% organic growth, that's probably slightly ahead of the market in most cases. But we saw some of our businesses under pressure. On the positive side we have very good businesses on Maggi in the developing markets, even in Europe we see very good businesses on Herta that is in here or frozen pizza or Wagner, which are actually building our businesses.

But we've been pulled down a little bit in Europe by frozen recipe dishes by our European Maggi business and by Hot Pockets in the US. So I'd call it a mixed picture. EBIT is slightly down 40 basis points; we still think the total year has all the opportunities to be positive. But this is a category where we've been under pressure clearly. Where innovation is coming a little bit later in the year, where cost increases have already happened and we've not been able to price perhaps as fully for that as we probably would have liked to do. And as a result we now need to start picking up the pace over the second half.

**Slide 19 – Prepared dishes and cooking aids  
Nutrition, Health and Wellness**

Looking at that again how we do this category and you see increasingly again this segmentation that helps us here. We have the base lines, very much standard products with good nutritional profiles being expanded in many places, doing very, very well in developing markets. I just came back from India and if you see the Maggi brand there it's just a miracle behind the Maggi noodles and some other things, increasingly enhanced features, where you bring greater taste and improve the nutritional values or nutritional profile to your products. And the Buitoni line in the US would be a wonderful example of that, growing very fast.

And then you go to specific solutions for specific consumer groups, in this case a product that would fit in there perfectly would be Lean Cuisine. And you then see how that is growing 15% plus in the US if you do that.

**Slide 20 – Confectionery**  
**Significant margin improvement**

Moving to our next category - that always seems to be close to your heart here in the UK - which is Confectionery. Always a hot topic. 5.3 billion category again, organic growth well ahead of the total category, 4.6%. And the market share is increasing. And not only market share is increasing, this is being done at the same time as we see the EBIT improving by 120 basis points. So it's a very good performance from this unit.

What we see here is that again as you would expect the emerging markets, Russia, Brazil, China and some of the smaller emerging markets are the engine for growth. And that will continue to be the case. We have a little bit of a slowdown over the second quarter, versus the first quarter, some people have asked questions about that. So to address that, it's basically the timing of Easter.

We see improving results in the UK and the US, which are our biggest markets. We're actually building share in the UK, we can talk about that a little bit later. Our rationalisation and our focus have started to pay off there behind what we call the Magnificent Seven. At the same time we've ruthlessly attacked the cost structure on this business. We've rationalised some of our manufacturing base that we need to do. We've transferred some of our assets, in this case the pace making for chocolate to Barry Callebaut and obviously you'll see that reflected into the EBIT. But again a word of caution for the second half.

**Slide 21 – Confectionery**  
**Nutrition, health and wellness**

Nutrition, Health and Wellness also creeps into this category, not surprisingly. Dark chocolate is one of the fastest growing categories. And we should realise that and act upon the fact that we are the biggest producer of dark chocolate so we should get a fair share of that growth and that should get translated in our numbers. And a lot of activities in different countries are geared towards that.

Portion control is very important. Kit Kat brand up very strongly also in the UK and part of that is behind initiatives like you see here, or Crunch where you do portion control. And then even at the lower end of the categories you have Popularly Positioned Products, usually again for the developing countries, where the snacking habit obviously is also coming in and where you can bring in very healthy profile products in an extended range, leveraging some of our brands that we have there. Be it the Nestlé brand or the Milo brand, so again with that segmentation very, very strong growth.

**Slide 22 – PetCare**  
**Good growth and margin improvement**

Another category that continues to do well, despite some of the headwinds that this category has had over the recent months, mainly related to the sourcing of some of the materials. We have been relatively little affected by that if you look at these numbers,

because organic growth is 7.2%, sales is 5.9 billion.

The US market in some of these segments is actually down in absolute as a result of this consumer uncertainty. But increasingly consumers are now turning to brands that have that confidence that they can trust. And we're actually growing share in these markets, again the importance of having leading brands. So you see a strong performance here across all regions, be it the US, be it Europe or be it the Far East.

We continue to drive the profitability in this case 20 basis points, despite the input costs, we continue to drive this profitability by managing the mix. I call it the humanisation of pet food, but I'll show you some examples in a minute on where the premium, super premium come in and how far we can drive this category. We've rolled out some of these initiatives very successfully to US and Europe increasingly a faster speed of rollout behind things like Fancy Feast or others that really give us a fast return. And then the EBIT is a result of that.

### **Slide 23 – PetCare Innovation driving mix**

Now let's look at for example three of those just over the last six months. I could have taken other ones but if you start with the Science Based segment, which is on top. You get for puppies the OptiStart initiative which is doing very well or the ProPlan for vital age 7 plus as these animals get older for longevity or the Veterinary Diet which we have with fortifiers in there would all be in the science based nutrition. Growing very fast and as you can imagine that's the premium end.

Then you get a hyper premium actually below that which is the initiatives that you see there would be the Fancy Feast that I just explained to you with the Elegant Medleys. But you have increasingly recipe inspired dishes there leveraging some of our knowledge that we have in the other categories. The last segment is the natural segment I don't need to talk about that certainly in the UK but the wholegrain or natural colours or natural blends are things that fall into that with the unique perceived healthier ingredients by the consumer. All premium initiatives, all unique, all actually creating or setting the pace in these categories.

### **Slide 24 – Nutrition, Health & Wellness**

Okay let's just take a summary point here for a second. We've talked about the strategic drive towards, Nutrition, Health and Wellness. I think we're over that tipping point, you can now see that. We've spent a lot of time explaining this Nutrition, Health and Wellness but we are Nutrition, Health and Wellness. I don't think if you listen to this that you can say it's Food and Beverage anymore - it's Nutrition, Health and Wellness and increasingly so. Tremendous opportunities to build that further. But by now I think the distance is going to be a little bigger between what we call the normal Food and Beverage and perhaps some of the competitive sets that you compare us with and the Nutrition, Health and Wellness that we're talking about here that is the engine of the growth that we're seeing.

It is further confirmed with the acquisitions that we've done over the last 12 months, which give us the 10 billion Nutrition unit by far the biggest in critical mass and obviously the engine of science. That's where the science comes in which we then leverage over a lot

of other brands and you can see that increasingly. We confirm for that reason again once more that the Nutrition unit can get to the 10% organic growth and 20% margins.

In the other Food and Beverage categories as you've seen with the examples I've shown is increasingly differentiating ourselves from our competitive set. Be it on the lower end with the Popularly Positioned Products, be it in the middle with Nutrition, Health and Wellness or be it at our premium end and you've seen examples of that. And not surprisingly if you do that well it's hard work, but if you do that well you can also see that you can improve your bottom line at the same time as you grow your top line and that's obviously the consistency of what we call the Nestlé model.

**Slide 25 – Creating shareholder value through profitable growth**

We've talked about the strategic part of Nutrition, Health and Wellness briefly together now let's go to the organisational part where I wanted to show a few examples of how we're driving simplicity across the business, how we're leveraging scale for competitive advantage, tackling under performance and how we're driving the increased discipline. I've tried to pick one example from each of them but there are obviously numerous in each of these areas.

**Slide 26 – Improving performance of Nestlé F&B Focus areas**

If you look at the simplicity, you see here SKU reduction, legal structures, reporting as some of the elements that we'll be talking about. And I'll go directly to this chart with some of the examples.

**Slide 27 – Drive simplicity across the businesses**

Nestlé Waters, a category where we grow very fast, still lots of opportunities for driving simplicity. 20% reduction in SKU's in Nestlé Waters North America alone, 10% reduction in zone AOA across all of the SKU's. Zone Europe just in the first half of this year a 9% reduction in SKU's.

Now what people can see here is if you reduce the right SKU's you actually grow faster. You've spend your money, you're focussed, transparency with the consumer behind the right SKU's. There is no trade. Faster growth and less SKU's that's how you have to do it. And you continuously have to prune your portfolio with discipline to get there. You see the same at legal entities, legal entities create complexity. In the rollout of GLOBE, in running the business and sometimes you feel that some organisations motivate people by making a legal structure for any individual so that they can all call themselves general managers. And that, you know, bogs down the system; you have to break that down.

And here again we've been able to liquidate 50% of the legal structures just in water alone. In zone AOA 20%, zone Europe well on the way to get to half of the legal structures. And that is a tremendous help in simplifying the way we run our business.

## **Slide 28 – Leveraging Scale Nestlé Retail Operations Center**

The next area is scale, very briefly. You've talked with me; last time the Shared Services on scale. It's a wonderful example, it's well on track, I don't want to really spend too much time on that, but we still believe that we can get to about 80% of the shared service bundles by the end of next year, which would be a very fast implementation by all standards. And the organisation is rising to the challenge to achieve that.

But another example of scale for example smartly leveraging scale is what we call NROC (Nestlé Retail Operation Centre), which is actually the retail organisation in the US. It's very simple the concept here is with all of our US businesses to create a dedicated, expendable, retail-merchandising organisation. Now what it does is actually it increases our direct sales coverage by about 50%. We're adding people for that - and you see it a little bit in our margin - but we're adding people for that short term and then obviously the incremental turnover comes.

But just by getting this better coverage you're getting deeper penetration of your products in the store which is so important this moment of choice for the consumer. And so many opportunities still to build our brands at the point of retail and this is a wonderful thing.

Now the retail organisations that we've combined here, which is Nestlé US, Pet Care, parts of Nestlé Nutrition that alone is about 12 billion US dollars roughly. And you can see as other businesses in the US get into that, that we truly can get to a critical mass that becomes a tremendous competitive advantage to leverage our scale at the point of sales and build our business.

## **Slide 29 – Tackle under performers**

Tackling under performers, a continuous thing you have to do. But here again it's always easy to identify but it's always hard to do. But I'm just amazed at again how the organisation rises to the challenge and how everybody is now taking these tough decisions, which we've done historically and which we continue to do as part of the Nestlé model. Nestlé Water has actually reduced five factories in Europe alone just over the first half of 2007. You know how difficult that is in Europe to do.

In Dairy we've disposed of the canned liquid milk and some other businesses over the first half. We've done a chocolate facility on pace making as I mentioned before. The Performance Nutrition, we've taken some tough choices. It's a small business, but still we have to attack it with the same rigour to start growing it. And then not surprisingly where we've focussed you see these improvements. Overall EBIT margin improvement on Food and Beverage, improvements on the margins about 50 basis points for zone Europe. Improvements in our confectionary margins, obviously the UK being a main area where we wanted to see improvements and last but not least Dreyer's. Those are all areas that you've expressed some opportunity for improvement any time we meet and those are areas where you consistently and continuously see the improvements actually happening.

## **Slide 30 – Value creation at Nestlé: share buyback**

Then we talk about the 25 billion share buyback programme, which is being executed over the coming three years. And here again it's an important thing to do the right thing at

the right time and do it properly and not just to be driven by a calendar. We're a long term company, we've always said that, the Nestlé model is a long term model; it's the model that gives you 390% shareholder return over the last ten years. It's a model that actually is able to build the share price in a market that is significantly down. But it's a long-term model. And because the previous share plan is finished in November doesn't mean we automatically announce another share plan. You have to study things, you have to look the markets, you have to look at your businesses and increasingly we have the confidence with the major acquisitions behind us, the significant improved performance in our food and beverage business, that we have a steady cash flow generation in our business and increasingly less need for any major acquisitions. And that's why we're confident to announce the share buyback, which has been discussed at length with the board obviously, and the board has given its full agreement to that.

The good thing is that even after announcing it, I looked at the credit ratings; we've only dropped one notch for all of the credit ratings. And that obviously is a testimony again once more to the robustness of the Nestlé model. They look at a lot of variables, some of these financial ratios being one of them, but there are other variables, strength of the brands, and strength of management, strategy etc. And I think we're very well placed there and are getting recognised for that.

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| <p><b>Slide 31 – Conclusion</b><br/><b>The Nestlé Model reconfirmed for 2007</b></p> |
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Last but not least I wanted to end on the Nestlé model again for 2007, we want to be very clear on the Nestlé model. The Nestlé model is 5 to 6% top line growth and continuous EBIT improvement. For 2007 with the data that we have in, with the projections that we can make, we think we're approaching the 7% on the top line. We think on the EBIT improvement and I've been looking closely at the consensus once more that the EBIT improvement is not going to be what you see in this first and you should not expect that. Anybody here that does his reasonable analysis and looks at the time line of material prices versus our pricing, look at the six month effects coming in of Gerber and medical nutrition that we need to absorb some of these costs over a few months only.

We will see that, yes, we will come in at the average of the last ten years or probably slightly above that. But be reasonable there. And I looked at the latest estimates that are coming in now and I think some of you are taking that reasonable position and that is responsible.

Last but not least I do expect us to continue to show working capital improvements still. We need to see again what the spot position in December 31st is. But we are planning on continuous improvements in that area as well as part of the increased capital efficiency. And that's the announcement as a result of that of the 25 billion share buyback programme.

I'll leave it at that; we are exactly at the 45 minutes as we have planned. And then I'll open it up for the next hour and 15 minutes for any Q&A you may have. Thanks for your attention.

## Q&A Session

### Questions about: Future cost saving programmes – 2008 and beyond

#### John Parker, Deutsche Bank

I wonder if you could say something about future cost saving programmes, if there's anything you can tell us about that? There are a number of reasons why I think you might be looking at more aggressive cost saving programmes going forward. You've got raw material pressures, you've got the benefits of GLOBE coming through and a couple of your competitors Unilever and Cadbury have announced bigger restructuring programmes recently. I think Operation Excellence has been running for a number of years, saving about a billion CHF and that terminates this year, so can you say anything to us about what we're going to see in 08 and beyond perhaps in terms of cost saving programmes, efficiency programmes and whether there might be any change in the pattern of restructuring costs associated with that?

#### Paul Polman

Without any doubt the Operation Excellence and the programmes before that MH 97 - 97 before my time, Operation Excellence are certainly delivering or exceeding their savings targets. But I think there's a slight different between what you see some other companies doing and what we do. And moving forward I think we're going more into the direction that we feel comfortable with, needless to say. And that is that underpinning the success of the Nestlé model is to be sure that the organisation continues to focus on profitable growth, with an increased emphasis on profitable. But it's on growth; you create value by growing, by growing your businesses. And we have to be careful that we don't promise the future by just announcing these big savings programmes, as one-off special programmes like we see some of our competitive set doing.

We would very much expect to leverage systems like GLOBE and other things in our organisation, so that there is a continuous effort going on with the transparency of data that we can bring to the party, with the focus that we can increasingly direct across the organisation that we create a culture - or further build our culture - of continuous improvement without these big announcements and then having everybody focus on saving, saving, saving. There is no doubt that any organisation of our size can continue the performances in efficiency like what we're now showing under Operation Excellence. But we just have to institutionalise that year after year versus making every two or three years a big announcement of whatever the flavour is then.

A good example of that is working capital. We haven't made a big announcement to you on working capital; we haven't called a programme with a fancy name of working capital. But we're building in increasingly that discipline to have that continuous improvement. And that should be the case for all the other elements of our cost structure as well. We're not going to make a big announcement on the MOGE Programme (administrative costs), but I would expect for example our MOGE would start to show efficiencies over time. And we're building in internally the tools to do that.

So yes you'll see the performance; no, you won't see the big announcement most likely of the next vanilla flavour in savings projects.

**Questions about: Alcon: a financial or strategic investment.**

**Warren Ackerman, Dresdner**

Can I ask a question on Alcon? I think in the conference call you called Alcon a financial stake, but in an interview with the Financial Times Peter Brabeck called it a strategy stake, could you just clarify your position on that?

**Paul Polman**

The position is exactly aligned so we're not going to make more out of it. Peter was clear also in the Financial Times this morning, people are playing a little bit of words here. Peter calls this also it's financial strategic. So that's where the answer is, it's financially strategic. And he's been very clear on that in the Financial Times.

**Ian Kellet, Numis**

Just following up on that I think it was 2004 or 2003 when you restructured the L'Oréal - Gesparal holding structure or you didn't but they did that Peter stood up in London and said that Alcon is no longer a strategic stake it's now a financial stake and he was very clear about that then. And we now have it's financial and it's strategic and it's financial strategic, some clarity would be really helpful.

**Paul Polman**

No, the good thing is that there is progressive thinking and that new terms are being invented. The worst thing is to just hammer around on the same thing and expect different results, no? So this shows a certain level of flexibility on the side of Nestlé that is good. And for that reason we continue to say very clearly, let me just be very clear that there are no plans on Alcon, no discussions on Alcon in the company either to do anything else but to have Alcon as part of the Nestlé Company and enjoy the tremendous performance of Alcon, I have to be very clear here.

And that doesn't matter because I think it's just a debate that's not very useful, if it's financially strategic, if it's financial, if it's just strategic and not financial. Alcon is a, and continues to be and has been but continues to be a very important part of delivering the Nestlé model, you would agree on that. And we continuously assess that like we've done over the last two or three years, there's nothing different there. But you know people try to pick words would be unfortunate. And Peter was clear and I think I was clear as well and I don't think we said anything differently to that extent.

**Questions about: Plans for Prepared Dishes in Europe  
Scope for Admin improvements on margin**

**Alex Molloy, Credit Suisse**

A couple of questions, in Europe you highlighted perhaps some areas of slightly disappointing performance. Confectionary seems to be making a bit of progress, could you talk about plans in for example Prepared dishes, that's the first question.

The second question is at the conference call for the results you talked about bad cholesterol being saved in trade spend, but perhaps a little bit of disappointment that there wasn't more leverage on fixed costs, could you also talk about that a little bit please?

## **Paul Polman**

I'll start with your last question which is the admin part in total where you have different items in there, trade spend, fixed admin costs and media costs, that's a very big item. And what we continue to do is, drive the efficiencies in the trade spend. What you would expect is that as our brands become stronger and as we increasingly go to added value products then the percentage of our brands that depend on promotional driven activities should decrease and a significant increase should come from connecting better with the consumer and communicating the benefits of our brands. And that shift we are looking at in all of the markets fairly closely to see that the quality of our share progress is truly a sustainable quality. That's very important.

We don't break these numbers out, but what you've seen again is six/seven hundred million more CHF, which are sizable amounts, in quality brand building. And that for me is the most important thing in terms of getting some good cholesterol in. Some of the trade spending is good cholesterol, not all the trade spending is bad cholesterol, I would be oversimplifying it and I don't think the retailers would like that either. But there is spending in there, promotional activities that don't benefit the retailer nor the manufacturer in driving increased disloyalty or an increased group of consumers around price shopping behaviours doesn't benefit anybody neither short term nor long term. So it's those types of spending that we're trying to get rid of.

Behind the growth that we have and NROC is a good example of that, we have also invested once more in broader and deeper distribution of our products. And NROC is 250 people more on our payroll, we see the same in some of our activities in Europe and as a result we should be - if you put it positively, we don't see any margin pressure from our overhead structure, from our admin cost or fixed cost as you called it. And that's already good that we haven't seen any cost pressure. I think over the second half with the increased momentum and some of the savings projects that we've put in place hopefully we will start to see improvements in that area as well.

I would personally expect that if a company grows at the rates that we're doing, the 7.4% organic growth, that we would be able to keep our admin costs over time at a lower rate of increase so that we become increasingly more efficient. And I think we can - and we start to see that already in some of the countries that gives me confidence to do that. We just now need to be able to share that with you and share that with you on a consistent basis and plans have been put in place to do that.

On Europe itself, it is indeed pleasing to see the Confectionary business, overall our European business is up 3.5%. That's why we started reporting on a total Nestlé business in Europe and a 3.5% business growth in Europe, you know you can always do more I don't disagree with that. But if you are fair and sometimes every six months it's good to also not just demand and demand from the organisation but also to put a little bit of a - step back and put a perspective on that. It's a decent performance in the European environment that we have.

Our Nespresso model is growing very well, our PetCare business is growing very well, and our Water business is picking up. We have our Coffee business doing well, not only with Dolce Gusto but also the underlying business. So that is a good performance around many areas of the European organisation. We have put some emphasis also on getting the structural profit situation right, which you start to see with the 50 basis points. And that obviously balances your growth as well.

The issue that you see in Europe is Chilled and Frozen, where the performance is not as good. And - you know we're continuously looking at opportunities there to do better. And that is something that we need to work over the coming months if not years to correct that situation because that unit is clearly pulling us down. Although there are some elements in there like Wagner Pizzas, the Piccolinis and some other things that we're launched that are doing well. But obviously they don't have yet the critical mass of that unit. So there's no doubt that in our European business our Prepared dishes are pulling us down a little bit. And that we need to find some solutions for that.

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| <p><b>Questions about: ROIC shift. Size of future opportunity on Working capital<br/>Milk price outlook for 2008</b></p> |
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**Simon Marshall-Lockyer, Bear Stearns**

Just a couple of questions, the first is on invested capital, return on invested capital. A lot of progress has clearly been made in terms of the underlying operations and the brand positions and the returns, the announcement of the 25 billion share buyback, the loss of a notch on your credit rating and some progress in terms of working capital indicate that there seems to be quite a significant shift towards addressing that side of the equation, in terms of value creation going forward, the actual capital turn in the underlying business, the cash conversion, the efficient use of capital. And there seems to be a very big step gone forward with the announcement of the share buyback. Can you address that issue and particularly given the progress on working capital say or give an indication of how far you think you could go, or give us some measure of maybe a continued pace of improvement in addition to the billion working capital release of the second half last year for example, how far you could go?

The second question is about the comments you made in respect to milk price for next year. You seemed reasonably confident in respect to the beginning of a decline maybe of milk prices. Could you take us through your thoughts on that? You seem to be looking out to 2008 as slightly more confident in respect of the input price dimension?

**Jim Singh**

I think what you have seen over the years is that we have gradually improved our return on invested capital. The last time we reported we were pretty close to about 14%. With the improvements in place we've now turned our attention to the whole issue of our capital structure. And it has always been our intention to manage our capital structure in line with the progress of the business. And as Paul has just demonstrated, not only for the last six months, but I would say for the last two years since we started reporting information to allow you to calculate the performance of our Food and Beverage business you have seen significant improvement in that area.

This is all based on our whole transformational efforts towards Nutrition, Health and Wellness. And with the recent acquisitions I would say four large globally scalable

acquisitions, I think we're well on our course to delivering against that strategic objective. There are no major acquisitions foreseen at this point in time and therefore in adjusting our capital structure to meet our business needs we believe it was appropriate at this time to announce a significant share buyback programme extended over a three-year period.

## **Paul Polman**

Just to add to what Jim is saying, our SBUs have a ROIC target. And with increased transparency we obviously look at that. And we've added ROIC to the Nestlé model. We see a top line improvement 5 to 6%, EBIT continuous improvement and constant currency and ROIC. And then we've added to that increasingly on food and beverage. That requires you to focus on the different elements of that ROIC. But you have to do it smartly. It's not - you see what I would be worried about that you have too many targets out there be it on admin, be it on savings, be it on working capital, because what happens over time is that these targets then become the things you manage versus managing the business.

So I don't feel comfortable to put other targets out there for what will be our admin costs, SG&A over time or our savings targets or our working capital targets and share those broadly. We will show improvements and we will talk about those improvements and hopefully after ten years of the Nestlé model and hopefully the coming ten years you'll have that confidence that you get these improvements. But it's important that we don't just communicate those targets to you, because first of all you lose in the forest the picture of the overall strategy, what the company is doing and we should be talking much more about our Nutrition, Health and Wellness strategy and our brands.

And secondly it leads to the wrong decisions sometimes. You take an example with significant input cost increases like we've seen on milk; I'll get to your milk question in a second, like we've seen on milk. Well some countries have increased their stocks of milk that helps then now tremendously. First of all they don't have these immediate cost pressure yet and they can supply the products that the consumer desires. That doesn't help me on the working capital right now but I'm fine with that. So you need to create a little bit of space.

The US is not improving yet on their SG&A but they have a tremendous continuous growth as you see, profitable growth also for our shareholders by investing in an expansion of this NROC, this sales force. So if you create an organisation too much boxed in on all the different items of the P&L which some companies engaged on in the discussions, I think you stifle the business model and you won't get the results that at least from us you've become accustomed to.

So I find that's a very important thing. And I'd rather explain things than give you these broad big statements and numbers for the future. I'd rather explain sometimes because I will be in front of you one day where I have to explain that working capital has gone up. I don't mind that. But long term I think we have improvement opportunities there. There's no doubt about it. And again the bigger and stronger the brands becomes, it should improve.

The more we get to added value and the higher margins by definition our costs of goods as a percent of NPS should come down, so we should continue to see efficiencies in our operational expenses, etc. So I think that normal, I find that just a continuous mentality of

how we run the business, to be able to continue to strength our Nestlé model. But to not go into the direction of setting targets on all of that stuff and having a share price react because someone gives a big target out there. I don't think it's a good way of running the business and increasingly so.

On the milk prices it's very clear that the milk prices have been hit by many elements at that same time. You see a world population growing; we've talked about that enough. But you also see interestingly, that as a population grows they go far more to dairy and meat. So they change their consumption pattern as well, which gives you an extra boost.

Then on top of that we've seen on the dairy products the tremendous drought in Australia that have happened that have put a tremendous pressure on the supply of those materials. Not surprisingly then if you just have Adam Smith work at its best you see \$1900 per tonne going to \$5000 per tonne. We obviously have different sources of supply for our milk, we buy the SMK, which their prices are well known, and again they're different by region. Europe is different again from the US or the Far East. We buy fresh milk, we have our own milk districts, we have long term contracts with Fonterra or others that are long-term supply contracts. So what you see as the world price of milk is not necessarily what we pay, I hope you understand that.

But what is happening is milk prices have gone up so much that trend will continue. We'll see that going up in the next six months. Some of that for the same reason that lag effect will go into the first six months of 2008 and then come down, because the drought is over now, supply comes on stream. You know you have to get the cows pregnant before they give milk and it takes a little bit of time. We haven't found a way yet to accelerate that so if you have any ideas we would love to hear that.

So we can see already with the dynamics that there will be more supply coming on the market, hopefully with the weather and some other factors that have played will ease a little bit. And if you look out you can see that happening. Will it go down to the levels that it was before? I don't think so. I think with a lot of these materials we have to get accustomed to higher levels, much like we've seen with the energy input cost. And again we're planning on that.

And I want to be again clear that what you've seen in these results for which a lot of people were sceptical because I talked to a lot of you individually as well. And you say well you're just a little bit negative on the material prices. And my answer then is the same as my answer now, I'd rather be a little bit more conservative and have it in the pricing and then decide what to do if I can get good news than the other way around. And you see it again in these results. We took the pricing early, we have covered more in pricing as a result than the increases in material prices right now and we're in a better position than many of our competitive set. And we'll continue to take that attitude as we move forward as well into next year. But on milk specifically we'll see some easing of the prices probably as of the second half of next year coming through in our costs, because there's always a little bit of a lag effect, based on our inventories and all that stuff.

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| <p><b>Questions about: Acquisition outlook for next 3 to 5 years<br/>Nutrition business compared to competition<br/>Sales to emerging markets; run rate</b></p> |
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**Celine Pannuti, JP Morgan**

I have two questions, the first one is on M&A (Mergers and Acquisitions). Well, in view of the board deciding that the big wave of M&A maybe was coming to an end at Nestlé, I would like to know whether this is a three year view, this is a five to ten year view, and whether there would be any lists with some exceptions or what-if scenario there? And a corollary maybe to that if you could maybe give us your assessment of one of your competitors buying into the Nutrition and Baby Formula category?

My second question is on top line growth at 7.4%. How much of that is emerging markets? If you could give us the run rate of emerging markets? And notwithstanding your performance in Europe and in the USA, at least to me it seems to me that the increase that we have had to make in our forecast really comes from emerging markets. So I would like to understand from your perspective what is the run rate maybe over the next six to eighteen months in these regions?

**Jim Singh**

Just on the M&A question. In arriving at the 25 billion CHF buyback we considered in our model a normal ongoing M&A activity of about two billion CHF a year. And in my experience in Nestlé over the last several years two billion CHF is a handsome budget, so you could still do a fair amount of transactions.

With respect to the recent acquisition by a competitor now a competitor of the Medical and Infant Nutrition business I think we have made our major acquisitions in those areas, with the acquisition of the Gerber business and the Medical Nutrition business both businesses from Novartis. I think we're well placed now to develop a very strong business with global leadership in some of the key categories. And we don't really need to make any more significant acquisitions in this area.

**Paul Polman**

You can also see that - because I hope that there are two things now clear which you are equally aware of as us. The first thing is our transformation to Nutrition, Health and Wellness. It's not anymore a transformation, we're really further on this path than perhaps many people realise. And increasingly a bigger gap between us and competition. And I'm glad to see that on some of these rumours that are in the market at least for a change we're not mentioned anymore.

Last year when I joined everybody was thinking Nestlé was buying everything. And just felt sorry for Jim. But you know it was like whatever has a label of Food or Beverage on there Nestlé will buy it. Increasingly now at least people are understanding the Nutrition, Health and Wellness and what we're doing and how we're setting ourselves apart from the Food and Beverage category and creating this newer category. So a lot of these targets are simply not interesting anymore with the strategy that we're doing, simple.

The second thing that has changed is with our own success there is always a little bit of a downside to your own success in that sense that in some of these categories we are now

so big as to buy someone else doesn't make any sense because we'd probably have to divest over half of it now. So we've become victims of our success in a positive sense, which we like. But a lot of these targets that you might think are interesting are not in reach anymore. And as Jim says with Novartis and with the Gerber and with the Medical Nutrition we've closed the doors on many other things. And that was a good choice, we don't regret that, now we move forward and that's why you see most of the growth now organic.

In terms of developing markets it is true that the developing markets should continue to be the engine of growth, that's good that's part of what we call the mix. You have to grow where the growth is, you have to grow faster in fast growing customers, you have to grow faster in fast growing channels, but you also have to grow faster in parts of the world that are growing faster. And that's why we reported over the first six months 9.7% growth, organic growth over in zone AOA and that includes Australia and Japan. If you take Australia and Japan out that growth is higher, you understand that. I don't have to give you the details on that but it's well above 10%.

The same you see in Latin America. You have the demand from companies and we have to grow faster in those regions. And again we have an advantage there because a significant part of our business is there, you don't need to look at that in percent of our business, which is already 20% plus, but it's in the critical mass that we have in these markets.

I just came from India and Pakistan three weeks ago and it's just tremendous to see that potential that we have in these markets. And we should demand from ourselves that we grow double digits, like we do in most of these places. And that's why you will continue to see the faster growth in AOA. Now what is clear is that you're asking specifically the next 12 or 18 months out. What is clear is that with these tremendous input costs that are coming through the system and the pricing that's also still the region that is most sensitive to price increases. What you see in milk is a good example of that. You see organic growth slowing down - sorry RIG slowing down and then the pricing component going up, just in milk alone there's a 5% pricing component. And a lot of that is in those parts of the world. So we have to be careful there as well. But the good thing is that consumption continues to be strong in these parts of the world. But I think over time in the next if I may just talk the next 12 months or 18 months since that's where your question is, we will probably see in that part of the world a little bit lower RIG and a little bit higher pricing component. But still growing overall at a rate that should be faster than these other two regions that you mentioned and I would expect that. Hopefully, more than hopefully I would expect that.

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| <p><b>Questions about: Disposals linked to Novartis Clinical acquisition<br/>Growth in China and Russia</b></p> |
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**Alan Erskine, UBS**

Just two quick questions, one is just on the acquisition of the Novartis Clinical business, can you just give us some colour around the disposals that you've been required to make as part of the approval for that deal? Is it correct that you have to sell all of your existing business in France to get the deal through and what impact that's had on the synergies around it?

And secondly I know you don't like going into country levels but could you give an indication maybe of what the growth was in the first half in China and Russia specifically?

**Jim Singh**

On the Medical Nutrition question, yes we have to have a divestiture in France and in Spain to which we have committed to the European Commission to have that done within a reasonable period of time. Essentially what is going to take place is that we will sell the Novartis Medical Nutrition business in France and the Nestlé Medical Nutrition business in Spain. I think the overall impact in terms of revenue it's about 5% of the total Novartis Medical Nutrition we bought. So we don't think it's material. I think there we're in the process of getting that done and I'm highly confident that we will get it done very shortly.

**Paul Polman**

And by the way I think it's fair Jim that this is less than what we had in the acquisition economics?

**Jim Singh**

Significantly less.

**Paul Polman**

You know on any of these acquisitions of that size you know that you probably have to make some small adjustments but this is better than we thought. On the Russia and China we mentioned, which is important again if you look at the robustness of the strategy, you need to look at that across the total business. And what you see all businesses and all regions are growing which basically tells you the robustness of the strategy, to different degrees but it's the robustness of the strategy when that happens that consistency across the business units on top of the consistency over time.

The engine again as we said is Nutrition, Health and Wellness but also the change in mix in geographies and China, Russia, Brazil, India are very important parts of the total BRIC. One of the things we now look at as a company on a monthly basis as part of our top ten is our performance in the BRIC countries to be sure that we have enough resources, the best resources, to be sure that we put our investments behind that to capture a significant part of that growth. And our target obviously is to grow share in these countries and develop a lot of these markets.

Nutrition, 10% plus growth, Water 10% plus growth, zone AOA 10% plus growth and these two countries that you mentioned if we would report on countries would fall into that same category. That's about the closest answer you get from me on the growth rates.

**Questions about: Acceleration of disposals. Criteria for M&A**

**Julian Hardwick, ABN AMRO**

I wondered if - a question for Jim Singh, I guess. How busy does he expect it to be as a senior VP for divestitures rather than acquisitions going forward? And I suppose specifically should we expect the pace of disposals going forward to exceed that that we've seen in the recent past. And as the Nestlé business develops more closely towards

a Nutrition, Health and Wellness model, are you refining your criteria as you look at potential investments? In particular are you raising the bar in terms of the performance that businesses need to deliver to stay within the group, either financially or strategically?

### **Jim Singh**

Well, 2 billion CHF a year could keep you quite busy. But we not only do acquisitions, we do a fair amount of divestitures as you've seen. Over the last two or three years we have been doing, even before the speed of four acquisitions in the Nutrition area, we have spent a lot of our time on divestitures. And you will know this that whether it's a big deal or a small deal, it requires the same amount of work. Sometimes the divestitures require a hell of a lot more work than buying a business three or four times the size. So we anticipate that we will be very busy and we still have staff working extraordinary hours on very small projects, small but very important. Criteria's not changed. I mean the criteria that we have posted for M&A activities remain in place. They've served us well in the past and they'll continue to be applicable as we go forward.

### **Paul Polman**

And just to be clear and also to give Jim some credit, if you look at things we've looked at that others ended up walking away with, then you see - I think by now also you see that these criteria strictly applied. I can give you five things that would be nice to add to the stable but we didn't do that because there's a limit. We can afford anything but there's a limit. And at the same time I hope you've also seen that what we have bought has been very reasonable.

Now we're entering in a time period where there are little bolt-ons. The coffee in Central America or the Ice Cream in Greece, they're strategic because they fill in the blanks in the portfolios that we have, but no transformation if you want to. And on those we apply the same stringent discipline and criteria as we've done in the past. But I hope that there is enough credibility in what you see out there. Jim negotiated 2.8 times sales for all the Novartis business. If you now see that some others are willing to pay up to five times of that you know. So you can hopefully see that the multiples that we've been paying in these markets have been fairly good.

### **Participant**

I was thinking more in terms of the disposal side of things, as you accelerate in growth and improve your margins, do the businesses need to, whoever the laggards are, do they need to also up their games to stay in?

### **Paul Polman**

Yes and some are doing it, yes. This is very simple. And there is no business farm in Nestlé you know. Every business has to earn its right to be there - it's as simple as that. Now criteria might be short term a little different depending on where you are in the stakes. But everybody has to earn his right to be there. I find that quite normal. Sometimes the solutions are shorter term; sometimes the solutions are longer term. But you have to provide the consumer benefits first of all to give you the reason to be there and to grow and to grow profitably. And then to fulfil some of the financial criteria that you out on there. I don't have any problem with that and I find that quite normal.

But as Jim says some will take more time to solve sometimes. And what you don't want in a company which is equally important is - oh well if we have a problem let's sell it. No, if we have a problem, let's work first and foremost to fix it. You need to keep that fighter spirit that people understand that we're in the business of building brands, not selling brands. And that's very important. Because sometimes you think well this business you don't make any money. But some of these businesses have had longer times where you didn't make any money which are now some of the highest return businesses.

And some of that's where the longer term comes in. Responsibly, that's where the longer term comes in. But you don't want to create a culture there like well we'll try and if it doesn't work we'll sell anyway. No, every brand we have we're going to grow share as long as we have it. And then we can decide separately longer term or not if it fits in our portfolio for whatever criteria you set yourself. It's an important discipline that you want in a company.

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| <p><b>Questions about: Major innovations in H2. Categories of biggest price increase<br/>GLOBE - coverage and total of cost savings</b></p> |
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**Corinne Maillet, Lehman Brothers**

I have two questions. The first one pricing and innovations. Could you give us some colour on the major innovation that you expect to launch in H2 and also which zone and category will see the biggest price increases going into H2? The second one is on GLOBE Could you update us on the rollout of GLOBE here to date and the amount of total cost savings that you expect by the end of this year from all your different initiatives?

**Paul Polman**

On the innovations just very quickly. I mentioned Dolce Gusto, and that is now being rolled out now to all the other big countries in Europe. That's a big thing. And I mentioned the PetCare initiatives. You shouldn't underestimate that, that's a big thing. And then we're just launching another improvement in our Nutrition product on Infant Nutrition, which is the next step of again for the premiumisation initiative and that is being rolled out. So those are some very big initiatives. And then in some of the other categories you get the premiumisation. We are looking at continuously rolling of Mövenpick premium Ice Cream, again doing well in that respect. Just need a little bit of better weather in the UK if you can help us with that. But those are big initiatives that maintain the pipeline. And by the way R&D as a result of that is getting stronger as well. We really are starting to see the results of now having gone about our dedicatedly responsible for R&D.

Our innovation pipeline is getting more robust, it takes time but it's getting more robust. We're having better partnerships, there are more ideas coming in. The W.Health one, (*the Nestlé Growth Fund*), they're starting to invest in some other things. So this innovation machine is becoming bigger and better and we would always continue to work on that. But it's good and otherwise frankly you can't get this top line growth. You can't create 4 billion new turnover if you wouldn't have a good machine in the first place.

In terms of GLOBE, GLOBE for us is basically rolled out. There are units that need to be on GLOBE. There are some modules that need to be on GLOBE. But we basically have, all of our business units have one of more models on GLOBE. So most people have been

trained. We're extending that to contract manufacturers. We still need to do some businesses in the US. We're in the process of now doing Waters. Dreyer's still needs to come in at the right time. But broadly all of our businesses have one or more modules on GLOBE. And increasingly we can leverage that to run our business. And we do that with 80% of the information. But 80% for us is not good enough.

To see if the SKU's go up or down, it's the 80% coming out of GLOBE. It's not the 100% perfectionism. But that's not needed for us. There's enough critical mass there that we can see the trends and take actions to steer and direct the business to get the efficiencies. Now GLOBE, as I mentioned before is definitely an enabler for savings in some elements. We are rolling out Shared Services but we're not rolling that out ahead of GLOBE. We're implementing GLOBE and then we're putting these bundles into Shared Services for example. What we found out is that if we run too fast with Shared Services on businesses that are not in GLOBE, we create two times the transition. That is not good for the organisation.

So for example that would be savings. It's better service, it's more efficient in terms of overall costs. And as I mentioned before it helps the markets to focus even more on demand generation. With GLOBE now increasingly we aggregate and continue to aggregate our buying functions, procurement. Half of the procurement are things like milk or other major ingredients that you talk about. But for companies like ours half of the procurement also is in what we call SNIM, selling and indirect material as Nestlé calls it. And selling and indirect material are a lot of the other purchases that you do to keep the offices running and factories other than what goes into the material and the product. And that's often half of the total bill. So those are areas that a lot of companies deal with, struggle with, attack. But now with GLOBE we can get some systematic focus on that again and get some benefits. So yes we continue to see benefits of that.

But to break it down to one or another thing, I now have said to everybody GLOBE is an enabler to do all those things. And all those things you need to do anyway but they become more and more within reach because of GLOBE. So we don't break it out anymore specifically. But the longer I'm in Nestlé the more I'm convinced that GLOBE has been one of the best investments that Nestlé has made. And probably one of the major parts of the transformation that Peter has made under his leadership. I don't think you could run a company like ours of our size, and perhaps double our size in the next ten years, successfully were it not because of systems like GLOBE.

And the biggest strategic benefit of systems like GLOBE continue to be that it allows the company to stay agile and to break it up into smaller units to stay much closer to demand generation. I mean look at it now; we've centralised treasury, we centralised legal, we are having a more centralised tax now. We centralise these Shared Services. Yes all that is then less pressure in the countries because you're taking that away and some are scaling that and making it more efficient. But it frees up a tremendous amount of time in the countries to focus on demand generation.

We're now setting up the independent FoodService unit. Look at now the year two of the independent Nutrition unit. How we're getting performances. I don't think in the old structure we would have even been able to do these acquisitions, and integrate them, and keep the business growing the way we're growing now. And people don't realise that. I better explain it after the facts like we're doing now to show you the data. But these things don't happen just by serendipity. Those are hard work to even think about it and

GLOBE allows us to do that. So if there is one legacy for Peter it definitely is GLOBE.

Don't underestimate that. And it's certainly not a - some people keep talking about an SAP, an enterprise wide system. That's not it. Those are people that don't see the full picture. And so we continue to see that as a tremendous competitive advantage in the total Nestlé model. And an organisational competitive advantage.

Until the end of this year we were running programmes like Operational Excellence and FitNes which we don't talk any more because we folded it in to Operation Excellence, but we are running that at savings of about 1 billion, 1.2 billion. Which is what we've done over the last five years now consistently. And there's no reason why we cannot do that this year. The bigger you are the more savings there are. Did you know that? It's good.

**Questions about: Future capital structure set out. Change in dividend payout ratio**

**Martin Dolan, Execution**

Given Jim's comments on the M&A going forward we now have pretty much all the variables to work out the capital structure that you'd be happy with in three years. Obviously just maintaining that capital structure would imply an even greater cash return over the next few years. Can you give us some indication why we shouldn't see a step change in the dividend as a stronger sign of what you want to do rather than just relying on buy back?

**Jim Singh**

I think our dividend payout ratio is competitive and I don't see any need to change. I think the share buy-back along with the dividend will deliver a significant return to our shareholders. And I think the mix is quite appropriate at this time.

**Paul Polman**

Significant increase in dividend, you've seen that on the payout ratio. If you take the last three years, you have undoubtedly done that. And if we can keep that at the levels and grow as the earnings per share there continues to be a significant increase.

**Question about: Combined revenues of billionaire brands. Comparative margin Position on L'Oréal stake**

**Participant**

Two questions if I may. Can you give us an idea of the combined revenues of the billionaire brands and how the faster growth you're seeing of those brands impact on your mix, where some indications of differential returns or margins that those brands make compared with the rest of the group? And secondly I guess someone's got to ask the question about L'Oréal. You've given us a description of how you view Alcon, how does L'Oréal fit in? Is it strategic or financial or financially strategic or whatever else?

## **Paul Polman**

Strategically financial. The billionaire brands are roughly 70 billion out of the 90. If you give me plus or minus 5 billion that's more or less where it is. And as you can see from the charts these brands are growing faster. They're obviously also the priority brands.

Now we have a lot of brands that are coming into that league that have potential to be a billion brand and they need to be noted as well because a lot of them are the seeds for future growth. So that number will go up a little bit. But even as the number goes up, the 26 to 30 whatever it is, you still expect that these brands are getting stronger and that they carry a significant part of the company growth. That's part of the contract I think we have with you and we manage that as well. Not surprisingly if you go to a country and review the business you start with those brands. And you see if they get the attention and if they grow faster. And then you move to other possibilities. So that's about it, 70 billion.

On L'Oréal it's the same thing obviously as you know. L'Oréal has been a very good investment for Nestlé and continues to be and fortunately the best thing we have here is time. As we've said before time to think about what the best solutions are with the shareholding that we have and this continues to be our position. I think it's irresponsible - which I've said before as well, but I get probably misquoted again - but I think it's irresponsible to say now what you do with L'Oréal when you have this huge benefit of time that is one of our scarcest commodities, to think about it properly and look at all the options that might be available to us. And we continue to assess that in that light. And that's what we continue to do.

### **Question about: Scope of GLOBE to analyse tail brands and optimizations**

## **Ian Kellet, Numis**

The other brands in the portfolio making up the other 20 billion or whatever it is, 25 billion CHF. Now that you've got GLOBE do you find you get a lot more visibility on those? How many have you got in total in the portfolio? How much slower are they growing than the aggregate of the portfolio?

## **Paul Polman**

Yes we can now definitely see that plus or minus to give us indications on that. And what you will see is that a lot of the things that Jim calls minor divestitures we don't even talk those with you but are often in those areas. Some small sugar businesses in South Africa, Philippines that we divest, you don't even see that. Or some other minor brands in the dairy areas or whatever, you don't even see that. But we continuously prune that portfolio. It depends a little bit how you define it. If you define it as just purely brands and brand names, you know there are well over 3,000 of those. But some of them have different brand names but fit the strategy and category.

You know if your strategy is soluble coffee but you happen to have a different brand name in that country that the consumer is accustomed to, that's fine with us. So we count it as a brand, but it will go against the strategic Nescafé brand. You understand what I'm saying? So Nescafé protects that; we just launched in Korea doing well, which is increased level of polyphenols with longevity benefits. Is that a brand or is that Nescafé? So we count that in our system as a brand, as a separate brand in this 3,000 number but it is the Nescafé brand. So you have to be careful.

From a macro perspective where you are sitting, we rather look at some broader categories and say what do we need to do to solve these categories because the pruning on these individual portfolios in these countries is now continuing everywhere. But you've seen we've just taken an impairment charge in Europe on Home Office delivery of a little bit over 200 million CHF so we continue to see this Home Office delivery water market in Europe, can we get it more profitable? The market has clearly not grown as much as people had anticipated. The energy cost distribution is a big part of that model and has not helped us either and we need to see if we can do that.

We've talked about the European Chilled market and some of the Frozen products in there; we need to continue to see if we can make them profitable. So there are some categories that we look at and if they are longer term structural and have issues that we cannot solve internally, you know we're very pleased with what we do with Lactalis, for example, on the Chilled Dairy. So that is obviously from where we're sitting we're focusing on these broader areas. And then the countries pruning at the bottom of the pyramid. But you gave part of the answer yourself.

Increasingly GLOBE can guide us to that and see that either we fix some of these bottom of the queue things. But you should also not forget that there are some brands in there and in some of these countries there are some brands in that smaller league that again are very fast growing and might become future potential for the company so you have to be careful there.

### **Roddy Child-Villiers**

There are very strong local brands like Winiary, not just in the US but also in European countries that have significant sales and strength, San Pellegrino for example. Not a billionaire brand but probably perceived as such and likely to be one on day. So there's a very strong first division below the premier league I should say. A very strong first division behind.

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| <p><b>Question about: Performance Nutrition. Outlook and scope for M&amp;A<br/>Progress in UK coffee and confectionery</b></p> |
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### **Warren Ackerman, Dresdner**

Given your acquisitions in the Nutrition space I guess the one area that now stands out is Performance Nutrition i.e. Powerbar which hasn't benefited from acquisitions. You alluded to making some tough decisions on that in your prepared remarks. Can you clarify what those tough decisions were and what the medium term vision is for Performance Nutrition? I mean is it still a core business? And the second one is given we've got the CFO of the UK business here I think it's Stephen, I was wondering if he could update us on progress in UK Coffee and Confectionery perhaps from latest market share data would be helpful.

### **Paul Polman**

Performance nutrition is obviously a relatively small part of the total Nutrition business but you want all your cylinders, you want to run on all cylinders and that is what Richard Laube is trying to do. The Performance Nutrition business probably was a little bit too

diluted under the previous structure of management. And again it's a small business here so keep it all in perspective of the total.

But it was entering into the big distribution and buy one get one free and it became like a promotional brand. And it probably lost a little bit of its core heritage which is for the top athletes under extreme physical efforts. And if you fall in that category then obviously our Powerbar product is a tremendous product. I was in the triathlon this week in Geneva, and Powerbar all over. And in the Vienna marathon we sold out day and half before, the day before the marathon on Powerbar so it really has a tremendously strong image and you have to be careful that you don't dilute it for top athletes and we were probably doing that a little bit.

So what Richard has done are some courageous decisions again, the harder right versus the easier wrong because there is always a tendency to go to short term volume and then produce some short term good numbers but you undermine the long term model. So he consolidated the offices in the US and attacked the cost and the structure, brought them into Glendale, put new management in place there. Very good people running that business now. It's a business run by passion as you can understand. You have to really be passionate about extreme sports and all that. And again focus in terms of technology and positioning to that segment.

So make the brand more aspirational but for a smaller group of people. So this is not going to be a brand that you have on this chart in two minutes but it's an important brand in the total because it brings in science into nutrition. You work with extreme parts of the body and that knowledge can be leveraged across other ones. And so we see that very much as a strategic part of the total mix.

### **Warren Ackerman, Dresdner Kleinwort**

My point is do you see Powerbar, I mean it's only one brand, as having sort of critical mass. Because although it's a small business for you it's quite a big category overall. I mean could it be a candidate for some of that 2 billion Swiss franc acquisition spend?

### **Paul Polman**

Well in proportion as Jim was saying the acquisitions flexibility that we count on is more or less the 2 billion a year is the number that Jim mentioned. Within that we will look at both homes. We just bought a wonderful Nutrition brand, Performance Nutrition in Australia, Musashi which is doing extremely well there and has potential. We have segmented it around different sports, male, female and we're building the businesses there. So there's a lot of room for organic growth.

But if there are the individual opportunities to complement that, there isn't really anything really big in that space the way we're looking at that. These are highly science based to some extent niche markets where you want to be I think as part of the overall Nutrition model. But the other Nutrition lags by definition are going to be much bigger. Doesn't mean that you can't grow this unit by 10% plus or have margins that are agreed after that unit. That needs to be done though. But we're talking here a smaller thing in the broader perspectives so I want to keep it on that.

## **Steven Phillips, CFO Nestlé UK**

So first of all on Confectionery, I think you had a slide on some of your other presentation material. It's a great turnaround in 2007 in the first half of the year. I think that a lot of that turnaround I think very much goes back to the presentation that Paul made secondly on the operational side, but more importantly firstly on the marketing side. And the focus we've had on the magnificent seven brands.

The market share, to answer directly the question, I think if I remember rightly was 20 basis or 30 basis points - 30 basis points up. But that also masks a little bit of the underlying real growth that we've got because we've reduced the stocks in trade quite significantly. As I say this is an operational issue, that's where we really tackled. And also cycling out a lot of sort of not very successful product developments in the first half of 2006. So my point is that sort of distorts the underlying growth that we have in the market share.

In terms of Coffee, I just had a note there of the figures somewhere, but Roddy hid them. I know Coffee's up certainly in the last four weeks. Overall what you find in the coffee markets in the first half year to date were about 58%. That's actually slightly down on the last year. But in the last four weeks we're significantly up and this is really the competitive action of some of our competitors who have their half year, their full year and their half year do a lot of actions in the first half so in the second half we're certainly building up our market share again. And Coffee remains a very strong business in the UK as you'll appreciate and Dolce Gusto was very successfully launched in the back end of last year.

### **Participant**

The magnificent seven are of the total business in the UK and secondly how you kind of manage the tail in that business.

### **Steven Phillips**

I don't have the figure in the top of my head of what the proportion the magnificent seven is but it's - about one third of the total. But in the case of the tail, yes there is a tail there but there's actually some, as Roddy alluded to, there's some very strong first division tail there. And some of those products are not forgotten about. What we basically do is put all our investments on - the vast majority of all our investment PFME behind the magnificent seven, and much less against the other brands. But there's many strong brands in there like Toffee Crisp which is growing very significantly in the first half of this year. So we're not losing those brands; they're just being managed differently, in a maintenance mode.

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| <b>Question about: Strategic importance of prepared food</b> |
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### **Luca Padulli, Perseverantia**

My question is on Prepared food. How strategic are Prepared foods in the current portfolio? They are we understand a little bit under performers. What actions are you taking to correct that?

## **Paul Polman**

If you look in the US where we obviously have the biggest business, so you look at the Stouffer's and Lean Cuisine, they're doing extremely well. Lean Cuisine is up 15% in the US. So Prepared dishes is certainly a strategic category for us and it's a fast growing category. And if you provide the Nutrition, Health and Wellness with that then it's a very rewarding category to be honest. And obviously the US is our main focus there. Jenny Craig to some extent you could say which is Personalised Nutrition is Personalised Prepared Food. It's the same core of that business if you want to.

So the Prepared or the Prepared dishes for us is strategically extremely important. What has happened in Europe is there's a major transition in that category where Frozen is being seen as less desirable versus Chilled or Fresh. In the US that's not entirely the case. So in Europe that market is a little bit more difficult. And we have at best spotted performance in that. In the grand priority of things would you aggressively launch now in Europe the Stouffer's or the Lean Cuisines? I think we've been there, that is past.

That is very difficult to do now. The consumer has moved on. And as a result I think the bulk of that business will continue to be driven by the US. The other part of Prepared dishes is our FoodService part. And we have one of the bigger businesses that we have in FoodServices, Davigel in France for example. Those are billion CHF plus businesses.

And again if well managed, which Davigel is, a very formidable company and well run, but if well managed then that is an area with increasingly the habits of out of home consumption, FoodService now being a stand alone unit, we have deliberately done that because we see that tremendous potential to grow that segment there as well. And I think in Europe you will see it more being attacked from the food service part as a result of that, leveraging strong organisations like Davigel, than you would see more brands being introduced into retail. But in the total mix of the company it is definitely strategic and it will continue to be.

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| <b>Question about: Positive US outlook contrast with domestic retailers</b> |
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### **Participant**

I would like to come back to the comment, the very positive comment you make on the US growth going forward, in the conference call. I just want to understand what was behind your almost bullishness compared to some of the cautious comments which have been made by some of the retailers there.

### **Paul Polman**

See what you look at if a lot of our products, sure these markets will have little ups or little downs. And we don't have to speculate on the US market, how this financial effect is getting through to individual pockets. But you have to look a little bit at the broad basket.

The US economy is growing and will continue to grow. We have a very small percentage of the total US economy in terms of even food consumption. And if you continue to innovate we now have the - what we call the intercept project coming in which is the septic filling on the liquids. The market is moving towards liquids. We have things like NROC that I was talking to you about. We have innovations behind our products, and I can mention, some I have done on Nutrition, Health and Wellness. There is no reason

why you can't grow. Stouffer's is growing, to your point and your question, Stouffer's is growing 15% behind Lean Cuisine. It's not that all of a sudden Americans are eating 15% more; it's just that we have the right innovations to grow our business and to grow that segment.

So there are many factors that enter into the equation. And whilst undoubtedly there will be some pressure on these markets, what I said at the conference call and what I'll say now is, we should not use those pressures, that you can all talk yourself into, as an excuse for not continuing to grow in the US. And frankly if it's 0.5 plus or minus I'm not talking that. But there is not reason with the great leadership that we have there, with the innovation programmes. Yes you have to work it a little harder, so be it. But we have ample opportunity to continue to grow there.

I think you might see a little bit of a slow down in the Water market in the US when that conversion, the Water conversion has been rapid but that's for different dynamics. It has been rapid versus carbonated drinks and as you get to a bigger conversion then the growth rate slows down. So you have some of those dynamics that you have to take into account into your business model. That's why we look at added value initiatives in the water category as well.

But broadly the US market as I mentioned before, has all the potential to give us a performance in line with what we have become accustomed to with the Nestlé model if I stay at that level.

### **Roddy Child-Villiers**

Also in the Frozen Food business, the Stouffer's business which is a big part of our US Food and Beverage business, we said that we expected to see an accelerating trend in that business and we did even from Q1 to Q2. So if that continues as we expect it to do then that in itself is material to the outcome for the whole of the US market.

### **Paul Polman**

But you take the PetCare. You know because you can run the business with excuses and then you know always explaining what happened versus running it proactively and beating your own past. You know I always say it's better to make the dust than eat the dust. And I honestly believe that.

And you look at PetCare in the US is a good example. They've had tremendous headwind. They've had input costs going up. A lot of grain based materials in there. Tremendous increases because of the bio fuels. They've had the food scare with the wheat gluten from the imports from China and the market actually is down. A lot of people either they are depleting their stocks or they are changing their habits around their pets so the market is down. Despite that you see the global numbers which you cannot deliver if the US doesn't deliver on that, 7% plus growth profits up.

And the reason is not that they just sat there explaining all these things to happen to renegotiate their bonus targets. No the reason is they said we just have to work a little harder on our innovations. Have to work a little harder on our costs. Work a little harder on investing in marketing to reconnect with our consumers and create a little bit more confidence. And yes we're being paid to do all of that and deliver good results. That's

what good management is. That's what good leadership is. You will do that in most categories.

Now we are diversified enough that sometimes it might not happen on all categories but that's what running a good business is all about. And that's why that's such a formidable management team with the highest respect. So I think that that example, we can take that on other businesses but that would be true for the mentality that we have and would like to keep in all of our businesses. And that's why I'm less worried about going up a little bit or going down a little bit depending on what you read today in the headlines in the papers. You know because half of that is just short term panic all the time and we shouldn't run our business off that basis either, as simple as that. And there are a lot of nonsense titles in newspapers these days as you well know.

## **Slide 35 – Closing words**

### **Roddy Child-Villiers**

Okay, one final question. Okay just clarification on the UK magnificent seven. It's about 60% of the UK Confectionery business.

### **Jim Singh**

Yes we had a fair amount of discussion around GLOBE, with respect to the businesses that are there today. But I could tell you that in eight to ten months time we would be able to integrate all of the Medical Nutrition business which was something that would have taken us two to three years on the pre-GLOBE period. I think this is important because the transparency and the ability to integrate successfully, allow us to validate the synergies and even find more synergies as we go through this process.

So when we said that we could offset the 5% disposals in Europe, it isn't that if we didn't have the ability to integrate speedily and validate our synergies, we would have had an adverse impact on our model, because it was not our intention to sell any of the business at the time of the acquisition. And we still believe that but we had to make a concession to get approval at the European commission and that's what we have agreed to and we are committed to.

But the effects of that 5% of the total business will be more than offset by the benefits of being able to integrate easily the acquisition of a billion dollar business operating in 40 markets in the world. So I think when we look at GLOBE, GLOBE also sets to give us the ability or the capability to make acquisitions whether small or large on a global basis and have them quickly integrated into the Nestlé system.

### **Paul Polman**

Yes it's 11 o'clock so we'll wrap up. Just again thanks for your time and the discussions. I appreciate it. I appreciate your support first and foremost for the company and the confidence that you have in us and in the Nestlé model. It's very clear that there are basically three elements as far as I see it. It's continuing hard work to stay fit. We all need to do that personally, we also need to do it in the business. We have opportunities to continue to stay fit and trim and efficienise [sic] and grow a little bit on our established businesses and we will continue to do that. And that obviously is a big part of our daily work. And then we'll change the rules.

I think you've clearly seen with Nutrition, Health and Wellness both the strategic and organisational transformation. It's not any more something that is going to happen or that is in the process. I think we're well on our way and from now on we'll just continue to talk with each other on how we further drive that difference between us and the rest of the pack if you want to. And increasingly move away from talking about us as Food and Beverage but far more as Nutrition, Health and Wellness. And that is probably a better discussion around our mega brands.

And then after you stay fit and change the rules, you start working on changing the game. And increasingly you see things here in our Nutrition units and some of our elements coming into the business which are providing us the 10% growth, 20% margins where we clearly are changing the game. GLOBE being another one where if we continue to leverage this and build on that we're clearly changing the game in terms of organisational competitive advantages.

That's at the strength of the Nestlé model, that have given us the good results in the first six months. We continue to say once more for the total fiscal year organic growth approaching the 7% and then the EBIT continuous improvements slightly ahead of what we've seen over the last ten years on average, but don't run too much ahead of yourself because we are getting the bulk of these increases in the second half because of the inventory lag effect and you understand that very well.

I certainly look forward to either seeing you individually and one on one discussions or otherwise on the next road show. Thanks once more for your time and safe trip home. Thanks.

END OF TRANSCRIPT