

NESTLÉ S.A.

2011 FULL YEAR RESULTS ROADSHOW TRANSCRIPT

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Speakers:

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Roddy Child-Villiers, Nestlé SA, Head of Investor Relations

Title slide

Good morning, everybody, and welcome to the Nestlé Roadshow presentation. As I think you all know, the event is being webcast and recorded and broadcast.

Slide 1 - Disclaimer

We will as always take the disclaimer as read.

Slide 2 - Agenda

The agenda for today is for Jim to talk briefly about where we've come from and how we are set up to tackle what we call the new reality, then for Paul to talk a bit about what that new reality is and how we are addressing the challenges and realizing the opportunities, talking about the roadmap but particularly focusing on the consumer-facing aspects of the roadmap. And then Wan Ling is going to talk briefly about some first impressions and then of course we'll open it up for a broader discussion. So without further ado I'll pass it over to Jim.

James Singh, Nestlé SA, Chief Financial Officer

Good morning and thank you, Roddy. As Roddy said, we can talk -- we could write a book, or many books on the Nestlé journey but I just want to revisit what has happened over the last 10 years and just point out some of the highlights of the transformational journey and to share with you how the Company has stuck with a very clear strategy over time.

Slide 3 – Delivering progress sustainable in a New Reality

Nestlé is a value-creating enterprise and continues to do so consistently for more than 15 years now. These performance trends continue in a VUCA world which includes greater risk than the previously defined VUCA or volatility, uncertainty, complexity and ambivalence.

The last decade and the beginning of this new one was a period where there was a confluence of negative events impacting progress from the collapse of great financial institutions, political upheavals as citizens seek a voice, natural disasters, global health crisis and political leadership, the great political leadership divide in finding solutions to society's big problems.

However, in spite of these events we have witnessed great advance in science and technology. It is in this environment our Company has found ways to refresh and renew and position itself for further progress, even in a higher risk macro environment.

Slide 4 – 2011: Strong Full Year Performance

2011 was another year of strong progress, building on the foundations of the past and at the same time building capabilities and foundations to continue its performance strengths. Last year we had sales of CHF 83.6bn with organic growth of 7.5%, very well balanced between real internal growth and pricing. Our trading operating profit at CHF 12.5bn, our 15% margin, 60 basis points reported, 90 basis points in constant currency. Net profit plus 8.1% ahead a year ago on the continuing basis and a net margin of 11.3% or plus 130 basis points. The underlying earnings per share at CHF 3.08 was 7.8% ahead of last year. And on the basis of that we increased our dividend by 5.4% to CHF 1.95 per share.

If you normalize the prior year's profit margin for the material one-time gains on the staged exit of Alcon, the Company has virtually restored its net profit margin structure as it enjoyed when it had Alcon in the normal course.

Slide 5 – Delivering the Nestlé Model in 2011

In 2011 Nestlé again delivered the Nestlé model, both on the former basis and the enhanced Nestlé model which we presented here last February. On the old model, the organic growth, 7.5%, much outside of the range of 5% to 6%, and increased EBIT margin in constant currency, plus 10 basis points, recognizing that 2011 we had a negative impact on currency of 30 basis points, one of the most significant negatively in our experience over the last years.

On the enhanced model 5% to 6%, there again we exceeded the top line model, increased trading operating profit in constant currency by 90 basis points and increased underlying earnings per share in constant currency plus 7.8%. And here you see as part of the enhanced model is the commitment to increasing our underlying earnings per share in constant currency.

Slide 6 – 10 years of the Nestlé Model : Driving Organic Growth & EBIT Margin Improvement

Our margin structure has sustained and as I said before, Nestlé performance has been consistent and improving over the last decade, a picture of consistency and reliability. We had restated 2010 to be in line with 2011 as we move to net-net sales and trading operating profit as part of the margin elements in the model.

Slide 7 – Enhancing performance – EPS and DPS evolution

This is translated at the same time true progress in underlying earnings per share, allowing for an accelerated dividend to our shareholders which is a demonstration of our confidence in our business model to make progress as we've done in the past and also in the future.

Slide 8 – A winning strategy driving superior shareholder returns

Compared to our peers in the US and Europe our performance is translated to superior returns to our shareholders, particularly long-term shareholders who share our confidence and optimism. Our progress has been gradual, sustainable and on strategy. And the basis for these calculations was 2002.

Slide 9 – Growth Opportunities – consumers increasingly focusing on Nutrition, Health and Wellness

We continue to see a world of opportunity for Nestlé as we focus on the consumer opportunity on a global basis. On this diagram here the vertical axis is manufacturing value-added, in other words as you go up the scale you tend towards higher manufacturing value-added products. And on the horizontal is the per capita income for the consumers. And what we attempt to demonstrate in this curve is that as part of our strategy to value up our products so that we can capture the opportunity even from those consumers in the lower round of the economic scale to the higher round as we move up with a different structure of portfolio of products that capture the opportunity.

We know that there are 1.4 billion consumers coming on stream over the next eight to 10 years and we want to capture that and therefore the Emerging Markets is a key focus for growth as is the developed world, and Paul will talk a little about that. But there is no doubt that given the model we face, we recognise that as the Emerging Markets build over time, there's going to be a different type of competitor set, more aggressive local or regional competitors. In spite of that we believe we have the capabilities to win and to continue to do so.

Slide 10 – The transformational opportunity

The transformation journey continues because the outlook gives us confidence that this will happen. And if you look at the 'What' and the 'How'. The What is what are we doing as a Company. We're moving from the traditional products to a business more inclined or directed towards Nutrition, Health and Wellness. And the How is that we are creating a fleet of agile businesses and we are focused on demand generation all over the world and to every consumer, regardless of where they are in their economic standard or status. And we are leveraging scale through an efficient support structure. And we are going to tackle underperformers as we have done in the past.

Slide 11 – Significant acquisitions added new growth platforms and strengthen market leadership

Now the dimensions of the transformation have been significant, building growth platforms via M&A to global leadership positions. PetCare with Purina, Ice Cream with *Dreyer's*, Pizza with Kraft, Infant Nutrition with *Gerber*, Nestlé Healthcare and Nutrition which is the foundation of Nestlé Health Sciences with Novartis Medical Nutrition, and more recently our partnerships in China for Nutritional Beverages and Confectionery. Together CHF 30bn of revenue have been added over the last 10 years.

Slide 12 – Significant divestitures rationalized the portfolio and eliminated non strategic and loss making businesses

On the other hand, we have also exited low value non-strategic parts of our portfolio. Commodity businesses, Roast and Ground and French Fries in North America, private label products in PetCare and Ice Cream, dry cut pasta in *Buitoni* and many, many others. And together over the last 10 years we have divested CHF 17bn of revenue.

Slide 13 – Nestlé Innovation Territory: expanding to new dimensions

We talk about the Nestlé innovation as we expand into new dimensions and we have products that go up the vertical curve from mainstream products to higher value-added products and as we go across in terms of systems and services. We combine product systems and services to deliver a better offering to the consumers. By building scale around standard products for mass distribution with models to reach all consumers from PPP right up to the top of the scale, moving our products, developing systems, including single-serve beverages which we're a global leader. And we are adding service attributes to deliver more targeted personalised solutions.

Slide 14 – Capital expenditure driven by Emerging Markets, Powdered Beverages, Nutrition and investments in capacity and new product & technology

The transformational journey also impacted our mix of capital. Today our Emerging Markets represent more than 50% of the capital that we are spending, however still significant levels in the developed markets. On capacity new products and new technologies are approaching

60% of the capital budget and we are targeting our spending against more profitable higher-growth categories.

And you can see here on Powdered Beverages from 12% in 2005 to 25% in 2012. And the chart basically gives you a sense of where we are spending our money.

Slide 15 – Trade Net Working Capital is an area of focus and improvement

Now, an important aspect of capital efficiencies is our focus on working capital, and I can tell you I've read your reports. Excluding Alcon and the partnerships in China, from 2005 the trend has been down to 2010. However several factors, already discussed, contributed to an increase in 2011 which we will improve upon without sacrificing our 98%-plus first-time quality service for trade partners around the world.

Just to put the numbers in perspective, in 2005 -- and this is excluding Alcon now -- our net trading working capital was CHF 10.5bn, at the end of 2010 that came down to CHF 7.8bn, a reduction of CHF 2.7bn. In 2011 it went up, we are now at CHF 9.2bn and even with that level if you rebase it to 2005 our working capital was down CHF 1.3bn or 350 basis points relative to sales where they were in 2005. This trend in reduction will continue. But we will need to be mindful of the progress that has been made already and the negative trade working capital, as we have said many times before, is not part of our strategy.

Slide 16 – Nestlé's Operational Efficiency

We are winning inside by progressing to a lean enterprise, doing the right things right for the first time, building capabilities through growth and leveraging them with Nestlé Continuous Excellence, with its focus on zero waste and 100% target achievement. We have progressed from cost savings in manufacturing, MH'97, to cost savings across the organisation, Operation Excellence, to a mindset change with Nestlé Continuous Excellence. At the same time GLOBE has progressed from common data standards, common business processes and common technology platforms to become an enabler of profitable growth and a distinct competitive advantage.

Slide 17 – The Nestlé Model

So what do the last 10 years tell us? That we have been able to manage through a volatile environment whilst also driving improved financial performance as measured by the metrics embedded in the Nestlé model. I think this demonstrates that we are well positioned to manage through the challenges, realise the opportunities and drive for the performance improvement in the new reality that Paul is now going to talk about.

Slide 18 – Title Slide

Paul Bulcke, Nestlé SA, Chief Executive Officer

Good morning everybody, also to the people following by webcast. Jim, thank you very much. This is the last time you're presenting the results here in London and I want to thank you, thirty five years of loyal service to the Company and also the last four years as my co-pilot in turbulent times. I must say it was a heck of a ride, we worked hard and we enjoyed the ride and the journey. So thank you very much for being co-pilot and also for your friendship and effectiveness.

Slide 19 – The New Reality

Now the new reality is not only the reality that I change the co-pilot, Jim is leaving and I have Wan Ling, the new reality is much more complex than that with many challenges. And I'm not going to go into the detail of analysing, you know more about that and all the details than I know.

Slide 20 – Deliver shorter term

But there are also many opportunities and to be able to deliver in the short term, to win in that environment, in this volatile uncertain world, you really have to be fast, move fast, react fast, adapt fast. And you have to have, to be able to do that, an entrepreneurial spirit which is important in a big organisation like ours - to instil this and keep it going and keep it fresh.

Also the decentralised structure of our Company has been a very adaptive structure for that agility. We have a very decentralised structure that pushes decision-making as close as possible to where the reality is, the consumer is, and that has helped us quite substantially in the last years.

Slide 21 – Deliver shorter term Manage for longer term

But it's not only a matter of delivering in the short term, that's not good enough; you have to manage the things in the long term perspective. And that is something that we pride ourselves on, that we always maintain a long-term contextual thinking so that we don't do things in the short term that jeopardises the success for the long term.

And that is really identifying the underlying trends, the deeper trends like growing populations, the growing middle class in the Emerging Markets, the emerging consumers in the developed markets, that is the health awareness and how you play into it. These deeper trends are what we are trying to play in and yet at the same time deliver in the short term.

That has to do with upfront investments. We have been continuing investment in R&D to drive the innovation and renovation cycle, which is normally investing today and three or four years later you have the results and you have to keep that cycle going. Investing in capabilities and capacities in the markets and in the countries all over the world.

And that is organizing around bigger opportunities like Nestlé Health Science. These are long-term investments that you have to do to then enjoy them later on. And that is what long term inspiration in Nestlé is all about.

So deliver the short term, inspired and framed in the long term perspective. Yet at the same time you have to do that in a stringent framework of strategic direction, everything you do has to keep pushing the strategic agenda, in a decentralised way, based on strong shared values and very firm principles. And that is something that I cannot stress enough, how strongly that has been part of our delivering over time. It's a decentralisation with strong values, at a time where strong values and some good principles were lost.

Slide 24 – The Nestlé Roadmap

And that is what the Nestlé roadmap is all about. It is that framing, that aligning of the whole organisation behind a common purpose. And I have shared with you the roadmap several times so I'm not going to go in detail again. It defines what we want to be as a Company, the Nutrition, Health and Wellness Company and what that is translated into and creating nutritional, healthy and tasteful choices for consumers.

It defines also how we want to be as a Company and how we link up with society, creating

shared value. It defines how we want to leverage our competitive advantages. It defines how and where we want to play, the growth platforms, and also defines very clearly how we're going to organise effectively and efficiently through the operational pillars.

The key point is that the roadmap, in the times of the new reality, is as valid as ever. My focus today is going to be on stressing a few points in which we are investing in an accelerated way and that are going to be increasingly relevant for our success in the future.

And in this new reality, it's basically back to basics. It's to be permanently consumer-centric in all that you do and gear everything towards understanding the consumer very well, identifying his needs for today and tomorrow and then add a lot of creativity. It is consumer-centric and creativity that is in my eyes one of the major drivers of our success today and for the future.

Slide 25 – The Nestlé Roadmap – Addressing the changing consumer behaviour

The roadmap as I said is really built around the consumer. It is our promise to create tastier and healthier choices for the consumer and his family, everywhere in the world, every moment of the day and every moment of his life.

And I want to spend my presentation to really go into a little bit more detail in how we adapt to the consumer, the changing consumer needs, expectations and also behaviours.

Slide 26 – It's all about Engaging with Consumers

And that brings me to a dimension of Engaging with the Consumer. It's at the heart, at the centre of the roadmap and it consists of three fundamental touching points. The first one is the product and how that is a link with the understanding of what the consumer expects, the product which is linked with research and development, innovation and creativity.

The second touching point is communication and how that is evolving over time thanks to the new possibilities.

And then the third one is the physical reaching, the touching, which is the distribution.

Slide 27 – Driving Innovation Globally: Nescafé

Let me walk you through the first, the consumer engagement through product and services.

Let me start with an example. This is a bit of a busy chart but that's *Nescafé*. Horizontally you have the lines are the new products that we launched in the last few years. Vertical columns, the first one is when that new product was launched and then the other columns are actually showing how these new products are answering the roadmap, the growth platforms that we identified and also the geographical rollout. *Nescafé* is more than 70 years old and it has a business of over CHF 9b now. It has grown last year over double-digit. So it is a very vigorous strong brand that is still growing very handsomely. And I'd say that 40%, more than 40% of last year's sales figure is linked with innovations or new products that we launched in the last three years. So it is really innovation and renovation that drives the permanent relevance of very strong brands like *Nescafé*.

And the message is here that whenever we do innovation or renovation, whenever we apply creativity it should be aligned with the roadmap. And it is aligning the whole energy of 300,000 people in the Company that is creating that forceful drive towards permanent delivery of results.

Slide 28 – Driving Innovation Globally : Nescafé Green Blend

An example of this *Nescafé* roadmap is *Nescafé Green Blend*. That was launched in 2009. It is the first product that includes unroasted coffee beans and it plays into the Nutrition, Health and Wellness agenda by the fact that the unroasted coffee beans are much more loaded with antioxidants which are seen very positively for health.

We have it now in 29 markets, we have this strength of rolling out, good compelling innovation in a few years. And not having it spread over too much time. So we are decentralised yet we are globally inspired in innovation and driving common agendas all over. We have more markets to come next year.

Slide 29 – Driving Innovation Globally: Nescafé Dolce Gusto

Another example is *Dolce Gusto*. We have communicated that on several occasions. It's now an approximately CHF 600m business. It has grown only last year 60%. So still a lot of vigour after four or five years of being in the market. It is really answering the premium sector which is one of the growth platforms that we identified. It is now, four or five years down the road, in 56 markets and we still are rolling out in further markets.

Slide 30 – Driving Innovation Globally: Nescafé 3-in-1

Another example, *Nescafé 3-in-1*, which goes more to the PPP platforms, the emerging consumers, but it is in more than 70 markets. It is a standardised lower price but still very good quality product. It is the proof of continuous innovation. This is now for several years and is rolled out in 70 markets, really driving a lot of our *Nescafé* growth in the world in general.

Slide 31 – Driving Innovation Globally: Nescafé in out-of-home

Nescafé in out-of-home, our professional business. We have identified out-of-home as one of the growth platforms for the future and the Beverage systems that actually are spread over three categories. We have the *Viaggi* which covers the super premium, we have the *Milano* premium and you could taste one of the *Milano* products this morning, and we have *Alegria* that goes a little bit deeper, more mass market in the out-of-home business. So those cover super premium to PPP in the out-of-home [sector]. *Nescafé Milano* is a platform that we launched only a few years ago, we are now in 20 markets and going to roll out in an accelerated way in a minimum of 12 markets next year.

Slide 32 – Innovation Aligned with Growth Drivers: Infant Formula with L.reuteri

Another example of a totally different category, is here the Infant Formula with L.reuteri which is a clinically proven premium anti-colic formula. It's now in 16 markets; we're going to roll it out next year in 20 other markets really creating competitive gaps versus competition, as it is clinically proven.

Slide 33 – Innovation Aligned with Growth Drivers: Peelable Ice Cream

For kids segment in Ice Cream, an affordable, peelable ice cream. And again you see we have it now in 12 markets, [we are] rolling out very fast in 25 other markets in 2012.

Slide 34 – Innovation Aligned with Growth Drivers: Maggi Crispy Roasting

Maggi is now leader in the Juicy Roasting and we have been talking about Juicy Roasting now for two or three years, it's still going very strong and it is enjoying additional innovation to help to build the whole category. We have now a new *Maggi* product in the same range which is the Crispy Roasting, so it's not juicy, it's crispy, so it makes crispy products. And for example in the UK, which is not a *Maggi* heartland, we are establishing *Maggi* in that category. It is actually leader in that category with that innovation additional gain in market share with over 40% in the whole category, with a brand that was not actually part of the landscape. Ten markets now have the new crispy roasting and it will roll out further to another 14 markets.

Slide 35 – Innovation Aligned with Growth Drivers: Purina One Beyond

PetCare with *Purina One Beyond*, a totally different product offering, answering different expectations of the consumer. An ultra premium product that is answering well and creating the growth in the category in North America. And North America that actually is now in tough economic conditions also affecting or not helping the PetCare category in general.

Slide 36 – It's all about Engaging with Consumers

So in other words, our innovation and renovation creativity R&D is totally aligned with the roadmap. It has to play into the growth platforms, it has to play into our global strengths and it is also critical that the innovation and renovation is really linked to what the consumer expects and there's no other way than knowing what he expects, what he needs, what he sees in your products than communicating with him.

Slide 37 – Communication trends

So my second touching point with the consumer is communication. We have millions and millions of contacts a year so we see the major trends in communication, really playing into our hands, if we engage well with these new media. We are definitely moving from delivering a message towards engaging and having conversations. And we all know that the best way to have a good conversation is having something very interesting to tell.

Slide 39 – Innovation Aligned with Growth Drivers

We're definitely moving as a Company from Brand communication to Brand engagement. It is linked to a rigorous approach that measures the effectiveness of your communication. We call that internally ROBBi which stands for Return on Brand Building Investment. So return on invested capital and return on investment is very much part of the agenda also in this not-so-measurable dimension yet you can measure return on Brand building investment.

Slide 40 – How Nestlé is Driving Profitable Brand Conversion

We brought together a lot of expertise in our Company from all over the world that to build these building blocks of best practice inside our Company.

Slide 41 – Brand Building the Nestlé Way

A major driver of efficient engagement with the consumer is brand building the Nestlé way. It is a proprietary approach to brand-building that really creates a discipline, a framing, a standardised discipline to increase the odds of success in a not very exact science of communication.

And it is built upon a very simple set of steps and tools that are standardised through the whole organisation that leaves the space for creativity of thinking yet at the same time it creates a discipline of going about communication. And it is based on four fundamentals.

The first one is really to understand the consumer very well. And that is the key point. Really we don't start any communication until we really feel we know what the consumer thinks about a certain category, a certain product, etc. A deep consumer understanding.

The second part is then build a brand essence. And a brand essence is defining the DNA of the brand. And that is again -- like a brand for *Nescafé*, there's only one DNA worldwide. Then creativity, how you answer and relate to consumers can be different but the essence has to be the same. A lot of time spent to define this. And once that is defined that is then the roadmap to brand building and that's why we call it brand building, not brand using.

And then the third part is then the big idea, the big brand idea. Once you have a good understanding of the consumer, you have a good essence, defined the DNA of your brand, then together with your communication partner you have to have one big idea. That is really the short two-word phrase that captures the essence of your brand and that's going to be the base of your communication.

And then once you have done all that, measure. And as to the way to measure effectiveness we're going to go to this.

Slide 41 – Brand Building the Nestlé Way

So all this is really helps to have, in our decentralised world of Nestlé, consistency in driving best practice in sectors that you would see as not so standardizeable. That is helping our brand-builders, our people in Nestlé with their also support groups, together with our agency and communication partners, to delight the consumer. So by bringing the right DNA communication about our brands to delight the consumer.

Slide 42 – Effectiveness of Nestlé Messaging

And we got better and better at that and you can measure that. This chart shows that over the last three years the effectiveness of our communication, which you can define as the recall and also the persuasiveness of our TV spots, is much higher. The convincing power of our TV spots is much higher. So you see how we have moved in the top quartile and that is measured by the agency or by the companies that are measuring the effectiveness of commercials, all over, from all players in the market. How your effectiveness is comparing to other pieces of communication. And see how we have moved to more than half of our communication pieces being in the first quartile of communication effectiveness. So our communication definitely is more impactful and effective.

Slide 43 – Creating Competitive Gaps for our Markets

We combine that expertise and this drive of standardizing brand-building together with the new digital media. We have laid out a roadmap of how we are going to engage in digital media and social media. This is a new world. And it's explosive. It's going in many directions. You have to take the right options and engage in a meaningful way.

And there are two ways of doing that. You let markets do and explore and then after a while you take the best out of it or you start to really build a new network of markets, an experience in the markets. A network that goes very fast, engaging meaningfully, with a certain direction and a roadmap; a vision into the digital media and the social media.

Slide 44 – Winning in Digital & Social Media

So we are in that sense looking for excellence, through all the expertise we have in many markets, and combining that in three areas. The first is listening. The second is Engaging and then Inspiring & Transformation. That is linked with content, it's not only the technology or the tools, it has to do enormously with content. And we see then how we go from paid media to earned media which is a fantastic multiplier of what we defined before as ROBBi which is the Return on Brand Building Investment.

Slide 45 – How Nestlé is Driving Profitable Brand Conversion

And our spend in digital is going up. It's going up substantially. The effectiveness of social media now is high so it is definitely somewhere we want to engage.

Slide 46 – Trend in Digital investment

It's not only about presence, as I said before it is so much about content and how you structure it to cut through the clutter of social media. It is so important to measure effectiveness of your investment there, to test and learn together with players. And again, in a world like Nestlé where we are decentralised, it's so important that our engagement in social media is aligned.

So that we lead the freedom of connecting and creativity in the markets but that we do align our energies on the same platforms, that we do share best practice.

Slide 47 – How Nestlé is Driving Profitable Brand Conversion

In other words it is not only about output and saying how many pages, how many contacts, it is also the quality of input, the people, the understanding, the engagement with whom and which partner is important.

Slide 48 – Sharing Internal Digital Best Practices

And we have built up a lot of tools in our Company that are shared with the markets. It's built up of different dimensions like for example the digital acceleration team that we have now in Switzerland. And these are the digital experts that we have in the markets that come to spend a certain time in a lab that we have set up. It's a workspace, a multimedia lab where we are connected worldwide. We have something like 15 people, from all markets, who have an interest or have already good experience in digital, who are sharing and connecting with the world in general with the Internet and social media. They are building expertise and then sharing that with other people in the markets.

We have a listening framework. It is an in-source so it is a solution for us and it is monitoring and measuring the Internet listening. That is rolled out already in 40 markets and it is translated in many languages.

A third one is service application lab of excellence, SALE we call it, is the mobile App lab where we share best practice of building Apps. We don't want to centralize the app building, we leave that close to the consumer in the markets. But there's common practice, best practice, efficient app building and we have a lab for that so people can tap into it and we can guide them in making good Apps.

Global sharing tools and library is the same thing. It's sharing best practice on social media. This is a very volatile world, the social media, it's still in the shaping, it's very dynamic. So

best to have then a central base of best knowledge about this where people can tap from the markets into it and can share best practice very fast.

Slide 49 – How Nestlé is Driving Profitable Brand Conversation

Just a few examples of this and I'm going to walk you through very fast.

Slide 50 – Brand Conversation through Apps: Nestlé Dessert

Apps in general are very popular. Recipes have always been what people call for a lot; contacts through telephone calls and call centres were a lot on recipes. Same thing with Apps. They're very popular with cooks and Nestlé Dessert App in France is one good example of a hugely successful App.

Slide 51– Brand Conversation through Apps: Maggi

That you see also in *Maggi*. *Maggi* in France for example, launched in October 2011 -- all these were launched last year -- has been a number one app on App Store in France for quite a while, after a few weeks only of existing. In Germany, the extension of the Kochstudio Germany, a highly successful link with consumers for many years now, moved into Apps with videos and recipes. And in Hong Kong also in December, just launched a few months ago, an App that is giving services specifically focused on Chinese cuisine.

Slide 52 – Brand Conversation through Facebook

How we engage with Facebook. Facebook is a huge opportunity and we're linking up with them to build proprietary solutions and connections with consumers. We have already thousands of brand conversations a day.

Slide 53 – Brand Conversation through Earned Media

To finish the section we have here two world adverts. These adverts were watched by millions and millions over the web and on Internet. And this is definitely one of the best examples of earned media, not paid media but earned media with a lot of sympathy. That is one of the best examples I would say of ROBBI, the return on brand-building investment. And I want to share with you two of these commercials.
(Video playing).

Slide 54 – It's all about Engaging with Consumers

Well, it's not to be expected of Nestlé, to be putting a striptease on the Internet but anyhow. This is a good example of how together with your communication partner you can really build pieces that are highly visible and connected on the Internet. And it's another medium.

The first commercial, *Perrier*, you can use also on classical media but the other commercials are basically geared or conceived for Internet and getting an amazing amount of consumer response. Definitely a very good example of return on brand-building investment if you see the costs involved with these campaigns and the amount of connections you get.

So as I said, it's all about engaging. Engaging has three touching points, a product, an innovation linked to that or idea linked to that, it's linked with communication and conversation with the consumer.

Slide 55 – Reaching and Engaging with the Consumer

But then the last mile is also connecting physically the consumer with your products and that is linked with our operational pillar that we always have defined as one key priority. And that is the Whenever, Wherever and However. It's bringing the products to where the consumer wants to buy them. At the end of the day with Internet and all -- the products are physical and you have to have them where the consumer looks for them.

Slide 56 – Reaching and Engaging with the Consumer

So the way consumers shop is also changing very fast and you see here for example the mobile phones proliferating in the Emerging Markets. It's actually going much faster than in the developed markets. If you just think Africa, Africa has a 1bn population and something like 750m cell phones. And it's really driving a new dimension into these markets and it allows different technologies to get to the consumer.

Also Wal-Mart, for example, with smaller in-town shops and increasingly offering online shopping.

Slide 57 – Reaching and Engaging with the Consumer: Nespresso

We have been pioneering to a certain extent, quite early on, online shopping. *Nespresso* online which is our biggest *Nespresso* boutique is doing more than 50% of sales. The *Nespresso* boutiques, and there are now 270 and we're rolling out more, these are the real physical connecting points with *Nespresso*. 270 boutiques are doing 35% of *Nespresso* sales. And then the call centres, the call centres that were driving a lot of *Nespresso* in the past was doing 15%, still very relevant but you see the whole shift towards online is very strong.

Slide 58 – Reaching and Engaging with the Consumer: Special T

We have other offerings like *Special.T* it's online only, it's Internet based.

Slide 59 – Reaching and Engaging with the Consumer: BabyNes

And we have *BabyNes*, Internet-based. These are specific systems that we feel, by the concept of the product, are geared towards more specific narrower distribution and connect with the consumer in a direct way.

Slide 60 – Reaching and Engaging with the Consumer: Maison Cailler

We have recently launched also *Maison Cailler* which is a very personalised super-premium luxury chocolate experience that is built and engages in a direct relationship with the individual. It is not a mass product, it is personalised towards the needs and expectations of the individual and it is also Internet-based.

Slide 61 – Reaching and Engaging with the Consumer: Nestlé Marktplatz

And not all brands -- all initiatives are brand-specific. We have more global dimensions like for example in Germany we have the Nestlé Marktplatz which is an Internet-based shop of all Nestlé products where people can buy the German Nestlé products and also offerings of other products not even on the shelf in Germany. For example at the end of the year we had *Baci*, *Perugina Baci*, a hit in Italy that we wanted to share also then with the German market.

And that goes through these platforms. A very fast reaction mode to really have the products going to consumers, for a short term or for a specific longer term, in markets where we don't have normally the trade.

Slide 62 – Reaching and Engaging with the Consumer: B2B

Equally the use of e-commerce for business-to-business, here an example of the Nestlé international travel retail linked to the major important airports of the world, where they can really supply themselves with these specific products for that channel.

Slide 63 – Reaching and Engaging with the Consumer: Croquons la Vie!

As a good example of a more global dimension, we have another platform that was more consumer communication inspired but that's linking up with also physical distribution, that's *Croquons la Vie* in France which combines online with the traditional media. It's a consumer relationship marketing building multi-brand programme that has mailed magazines where people can access couponing websites and also an iPhone App that has already, in the first months of existence, more than 150,000 downloads. These are all direct ways of connecting with consumers and creating a direct physical link with products.

Slide 64 – New Outlets in AOA between 2010 and 2012

Not to forget at the end of the day also the base of distribution. So it's not only the new distribution - that's important and we are engaging quite deeply there with the experiences of some products that are basically driven by the Internet - but still we are investing and have been investing heavily in broad distribution. So it's modern retail, category management, being a category captain but also horizontal distribution. And when 80% of the world market is building middle class and Emerging Markets are engaging on a journey of permanent growth for the future, we see that linked with an increasing importance of the systems as they are today. Modern retail is fading in there but we see an increasing role of the traditional retailer.

And we have objectives there. We have been engaging in -- in Latin America engaging dramatically, in retaking a lot of broad distribution. The same thing in AOA, in Asia, Oceania and Africa where we have an objective of adding in two years' time one million outlets where we go directly or have directly the contacts and information. We don't have to own everything ourselves, it doesn't have to be payroll, but at least the information, the understanding and driving the connection to the stores has to be done by our people.

Slide 65 – It's all about Engaging with Consumers

Today we have focused on aspects of the roadmap. We believe in engagement with consumers linked with a fundamental belief that we don't own our own brands. It is the consumer who owns them. And that fundamental belief changes the mindset how you go about brands.

We have indeed these global brands, you know the Billionaire Brands as we call them, they're doing 70%, 75% of our sales yet at the same time we have a whole set of local brands. That creates some complexity, yet at the same time, I truly believe that it's the consumer that owns them and that drives us. It's for us to find the effectiveness and how we can manage that complexity but at the end of the day it is your bridge to the consumer and we are engaged in connecting with them through these local, global and regional brands.

So our engagement between our brands and consumers is stronger than ever and actually it is based on as what I said before the three pillars. It's first of all the innovation, the right products which is to inspire them, it's also the consumer communication and conversation, that is then to touch them emotionally and then also the road to market is to really enhance, in concrete terms, their quality of life.

Slide 66 – Roadmap Driving Performance in New Reality

That brings me back to the roadmap saying that at the end of the day back to basics. This is my last chart. Success is built upon having the right products. Put a lot of creativity into it and know the consumer very well, and answer their needs, their future needs and their expectations with the right products. And that is a dynamic world so you have to keep on innovating. You have to invest in R&D because more and more you need more rational arguments that are clinically proven arguments so that you can build a very strong portfolio.

But it is linked also for Nestlé with the fact that we have engaged in different categories at the same time. That creates a certain complexity, but it creates your relevance in people's lives. It creates a relevance of your Nestlé brand and the different brands that are standing for the different categories. So it is really about enhancing meaningfully, relevantly people's lives on a Nutrition, Health and Wellness basis. You can hardly do that with one or two categories. That's why we have that portfolio and we're managing it, I think, quite effectively and efficiently.

A second part of the roadmap is also of the operational dimension that is creating that competitive advantage, the gap building. It is to have a very competitive value chain, which is basically operations. It's a tangible physical of our business. It is the upstream, how you link up with suppliers, farmers, etc. How efficient you are between the walls of your structures and factories and how you link up with society, again with the commercial dimension of society. Through retailers, mom-and-pop stores, etc., you have been given some examples of that.

And how you build gaps. You try to build best practice in the industry in every part of the value chain. And these gaps, added together make a huge complexity to copy. If your success is built upon one gap, like a better product, you're copied the next day. We know that. How fast people are driving their own agendas towards copying you.

There's the complexity of creating gaps through the whole value chain. And this is how you relate to long-term relationships with suppliers. It is linked with how you build in Nestlé Continuous Excellence through the whole value chain. Within the walls of your factory, how you give ownership to the people, the 300,000 people that Nestlé has, of that efficiency drive. And the war on waste is managed by our people in the whole organisation with common tools that we share.

It is how you drive your relationship with retail, and I've mentioned a few; modern retail, mom-and-pop stores, how you engage in e-tailing. How you also relate with the consumer, efficiency and communication. I have shown how we want to build creative gaps there too in having a more meaningful conversation and effectiveness of communication. How we want all of our commercials in the first quartile of effectiveness.

The combination of these gaps is what we try to maintain, to drive. This is very unstable in the sense that you have to continue investing, and that's what we do. We know the worst that you can get is complacent. So we challenge ourselves permanently in every step of our value chain.

Then it is linked with the multichannel distribution, the route to market 24/7. I have shared our engagement there. And then engaging with consumer conversation. So you have the right product. You produce it with the minimum of waste, with competitive gaps versus competition. You bring it where the consumer looks for it and then you're so proud, you connect with them. And you say what you have done and what you have for him and you listen to him and you can fuel the whole cycle again of innovation, innovation, because you listen, you see and you feel his future needs.

And to do that with a perspective of long term, my first chart, it is to deliver short term, yes, but also manage and inspire your Company for the long term. And that is based on compliance, a very, very deep dimension of compliance, not only towards external laws but also compliance with yourself, to be true to yourself as a Company. This is linked with the long-term dimension that will relate you again with sustainability, be it environmental or be it also development sustainably, etc.

And it is about a fundamental conviction too that a company like ours, or any company, that projects its activity for the long term and frames it in a right set of values, everything it does should create, yes, shareholder value. Or in other words it should build upon the success of a company over time. But, at the same time, in everything it does it should also create value for society at large, because that is what creates a real base of sustainability and existence of a company, and we call that creating shared value. And I think it's more relevant than ever the creating shared value mindset in the new reality.

And that new reality, is the reality I'm going to work together with Wan Ling now in the future. It's a new reality with many challenges. And we also know the more difficult the challenges are the bigger the potential for glory. So we're going to work for that together.

I think we have our agenda. We have our roadmap. We have our priorities. But maybe you're now a few months with us and maybe you can share some initial thoughts with the audience, so Wan Ling?

Wan Ling Martello, Nestlé SA, Chief Financial Officer designate

Good morning. Having heard Jim talk about the Nestlé track record, having listened to Paul touch on some of the opportunities ahead of us, you can see why I'm very excited, among many other reasons, why I'm excited to be joining Nestlé.

I am very much looking forward to working closely with Paul as his new co-pilot in driving and getting the most out of the opportunities ahead of us, but also playing my role in driving improved financial performance. Now, like Paul said, I've been with the Company a few months. Happy to report that early observations validated my impressions of the Company before I joined.

It is a company with quality people, people who share a very strong culture based on values and principles. It is a company that's truly global in mindset and a company with some very significant capabilities.

Slide 70 – Driving Organic Growth & Margin Improvement (repeat)

What I want to do is bring back two of Jim's earlier slides. Clearly the bar has been set high, quite high, as evidenced by the growth and the value creation generated by the Company in the last 10 years. Having said that, I have visited with many of you about a month ago and I'm keenly aware of the issues that the financial community is focusing on.

Slide 71 – The Nestlé Model

Like Paul and Jim said earlier, we are going into 2012, we are very well positioned to deliver the Nestlé model once again. We have the strategies, the alignment behind the strategies across the whole Group. We have the brands and the product to deliver.

Now one of my key priorities in 2012 is to deliver -- to make sure that we not only deliver the Nestlé model, from the top line to trading operating profit, from trading operating profit to net profit, but also just as importantly in managing the balance sheet and the cash flow.

So, with that, I turn it back to Roddy.

Q&A Session

Roddy Child-Villiers.

Okay. So we will go to the Q&A.

Questions on:	Improvement in Capital efficiency Capital return targets as part of performance evaluation
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Michael Steib, Morgan Stanley

Can I just follow up on the very last point that you made, improvement in capital efficiency? Obviously there's been a lot of discussion about working capital already, but it's a very broad definition and it's kind of a catch-all phrase. There are many ways you can define capital efficiency improvements. I assume that this is a target that is a longer-term objective. Is that true?

And then secondly is this really being pushed down to the category managers and the regional managers, i.e. do they have specific capital return targets as part of their performance evaluation? Thank you.

Paul Bulcke

Let me say a few comments how I feel in general. You told it right, return on invested capital, is broad, it has many things in there. But at the end of the day we are first of all in business, now that is top-line/bottom-line capital efficiency. To a certain extent the Nestlé model is a very straightforward thing. The fact that you make it explicit, you continue talking about it and you read it into your organisation as the framework of measuring your success is what counts and to do that every year and to see the underlying trends coming up. And return on invested capital is exactly that.

There are many things that we build up and give then to operations. Working capital is part of that, to work with it efficiently. But also how we judge capital investment, how we drive portfolio analysis management. And we drive that to the strategic business units so that we assure that the investments. The strategic business units in Nestlé [in Switzerland] are actually responsible for the worldwide capacity setup because there you have the global view on capacity and where we have to invest and for what and the new technologies that are coming up. So they are really involved here.

And the whole capital investment procedures are checked and sharpened every time. As I mentioned already yesterday, capital investment is an enabler but it has to be measured. We are investing heavily in capital investments now. Why? Because we feel it's the right time to

do. There's acceleration in technology platforms. We're engaging new dimensions. Also quite a lot of people are backing off and that's the right time then to engage, to build your positions. We have a common denominator, return on invested capital.

And again what we show normally is one figure, but there's so many dynamics and return on invested capital fractions that are building up that global figure. And that is how we drive our business day by day. So it's long term, yes, but it is a trend long term that is built upon everyday decision-making that should be inspired with these right criteria. But I leave it up to, Wan Ling, you're going to have to handle that together with me.

Wan Ling Martello

Together with you, Paul. The good news is this is not new news to the organisation. And so even before I started it's -- there's been a lot of dialogue within the Company, up and down the organisation. And as evidence of that you can't impact what you don't measure. We do measure it, but we've gone one step further, which is to hold markets and zones and SBUs accountable for that because it is in fact part of the short-term bonus going for this year.

Paul Bulcke

If there's something about working capital, I'm not going to hide from the question. So what you said you was very relevant, but let's go there. It looks like all of a sudden it's 'in' to have negative working capital. It's like a fad. We can have working capital negative tomorrow. We can have it tomorrow.

First of all we would, as I read somewhere, squeeze our suppliers. My last words were about engaging with society in a meaningful way, long term so that you build relationships, etc., squeezing suppliers are not part of it. Some of our suppliers are farmers. Squeeze the farmers; not going to do that. Even less so in an environment where these people cannot get real credit, so it makes business sense to engage in the long term. Working with farmers and food, these are long-term relationships. Why? Because a cow, you cannot shut down a cow. That's a basic philosophy of how we [work] -- and it should be meaningful.

We're not going to leave money on the table; that's true. But it's meaningful long-term relationships with our suppliers. We have to be efficient there. We have to prepare. We have to benchmark, but it's long-term engagement with these people.

Secondly, we can't factor in our lower invoices. Now that's good, you pay 2%, 3% less margin anyhow and therefore money that we can get cheaper, so it doesn't make business sense. We're not going to do that.

Working capital is to work with but we have to be efficient and effective. Yes, we have upsides but it's on the long-term agenda definitely, we're going to focus on that.

You see also in the last years our working capital has gone down. Last year it went up slightly. If you take out all things that are externalities. Not good. So we see that as a challenge. We don't take that just for granted, we could say it's good enough. It's not good enough. So we have it high on the agenda.

But working capital is to work efficiently and to build up a sustainable business over time, and our set of values are [to be] honest and fair with the players around us. And that's how we see it. And there is efficiency upside, yes, and we accept that so we're going to work with it. Negative working capital, it's not part of our business model.

I think we have to be honest on this, and that's how we feel. And we can diverge in our opinion but our business model, our way of doing business is long-term, is based on certain values. It is on quality in the products and relationships. It is on not also leaving money on the table. Waste, we have declared a war on waste. So it's a combination of all these dynamics that is justifying, in my eyes, the way we operate. And yes, we accept the challenge, and there is a challenge there. I see it more as an upside. It is also linked with return on invested capital here.

James Singh

Michael, just as you've seen, the progress of the business has also been matched with the way we spend capital in the Company. And return on invested capital has always been an important model, part of the Nestlé model. It is an important driver and measurement of performance of our people. So over the years we have also demonstrated good progress on return on invested capital.

The whole capital and returns on assets are part of the global business strategies. It's also part of the product strategies on a global basis. It's also part of the market business strategy. So when the market presents a plan for the next three, five years, capital investment is front and centre of that because it has to be part of driving transformation.

And linked with that, of course, is return on invested capital or payback or whatever measures we choose to use, depending on the size of the capital. So it is an important part. The return, the ROI is part of our culture. But when you have the kind of exchange environment that you -- that basically you have the risk of destroying the fundamentals of your performance, you have to manage through that and don't let that detract you from what is something that can't possibly be normalized in a very short term.

So it is part of the business planning process. It's part of the performance measurement process so it's very well embedded. It's not a long term, it's something that is there. And surely the trend needs to be long term because it needs to be sustainable.

Roddy Child-Villiers

I think if I can just add, I think there's always a temptation in any given results to put out a number, either to praise it or to criticize it. The Nestlé model is not about a given number. It's about delivering across a range of KPIs. And Jim showed the numbers, Wan Ling showed the numbers, in the last 10 years we've done that. And one of the enablers of delivering the top line and the bottom line has clearly been effective use of capital, effective in the short term to drive year-on-year improvement, effective in the longer term to invest for sustainable ongoing performance improvement.

And I think perhaps there's a difference between effectiveness and efficiency. But we have certainly been effective over the last 10 years in deploying our capital to deliver on average 6%-plus organic growth, on average 30 basis points' improvement in the margin, which put together is a unique performance in the industry. We've done that through effective use of capital, which has delivered outstanding returns to our shareholders compared to our peers.

So I think our capital has been put to good use, effective use for our shareholders. But perhaps there's a difference between efficiency and effectiveness.

Paul Bulcke

Actually, in French I don't think I have the two words. It's all together so we take it as the French interpretation so you have to be effective and efficient at the same time.

Questions on	Capital Expenditure in Emerging Markets Nescafé innovation in the future
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Martin Dolan, Espirito Santo

Just to make a follow-on about CapEx, of the 50% that's currently going into Emerging Markets, how much of that is going into new production facilities and how much goes into distribution so that you can reach those 1m new outlets? Just a rough split for us. And secondly, I think you spoke about *Nescafé* having an innovation rate of 40% over the last three years. Where is the Group now and where do you think the Group can max out, say, in three to five years, or if it does actually max out.

Paul Bulcke

Firstly, the investment in the Emerging Markets, the split is so different market by market, but I think definitely it's more in production capacities, building new technological platforms. We see an acceleration of quite high-tech factories in the developing world. So distribution takes up a lot, but we have many partners doing that. So the distribution, if you say we add 1m new direct store contacts, it doesn't mean we have to own the trucks or we have to have on our payroll the feet on the street. There's working with distributors in a direct way, doing with their marketing cycle, we actually have a Nestlé Continuous Excellence programme that goes for efficient working with small micro-distributors. So there's investment coming in and it's more operational cost. Our CapEx goes more to the production setup and technology.

Your second question I didn't really get. where do you think we're going to be in 35 years?

Martin Dolan, Espirito Santo

Three to five.

Paul Bulcke

Oh, three to five. I was saying real long term is ten years, but so long? We have structured our innovation as it is so important. Our R&D investment has to be effective and efficient. You have a 5G set-up which means that we have a pipeline of innovation in five years out minimum so that we have a rolling innovation and a set-up in each category, each product. *Nescafé* has that too.

It can be in technologies, for example, aroma capturing or it can be on the consumer benefits, like the green blends, which is not so much technology, it's more a green bean and what it has in antioxidants. It can be on systems, like *Dolce Gusto* and others. So that's build up in the 5G. So every year or every two years, in *Nescafé* you don't have to come with something every year, you see the rollout of *Dolce Gusto* is now four, five years old and it's still going 60% plus. And innovations in *Nescafé* are more fundamental, more platform-builders than just ongoing renovation.

In that sense we have the 5G. We have the next generations of machines coming. You see that *Dolce Gusto* is not the first machine any more. It has evolved. So there's renovation in systems, not only in products. With the *Nescafé* Barista we have now a smaller machine, we have a smaller footprint that is using additional technology which is less pressure but, for example, it makes milk foam based on a jet of air. So this is all new technology that is actually combining.

And that's why the chart that Jim has shown in *Nescafé*, you saw the horizontal axis was products, systems and service. And the vertical axis was mass production and personalised production. So that's the quadrant that we are filling up with innovation.

So you see that you can move from a basic mass-produced product that is a product like a bouillon cube, well, we embrace that. We can be more efficient; can be a carrier of micronutrient. So we don't go from... towards, we embrace that too and do that efficiently. There's a big business there. But yet at the same time complementary we're building more and more products that are not where the value creation is less tangible. It is like systems where your income is not only the product, it is also the system and so on, or services, like Jenny Craig. And that is where we see, and also in *Nescafé* and other products, how you can build additional value on top of the tangible and you can personalize more and more. And actually *Nespresso* is a nice example of that. It's a system that is individualized, personalised to a certain extent. You choose your coffee at the same time I choose my coffee and you can have a long and I have a short. So that is more and more built into our innovation image too. And I see *Nescafé* going more and more in that direction. Yet at the same time the core of the business, which is the Red Cup *Nescafé* classic or the Gold, is high on the agenda too because that is driving also our huge growth, keeping our positions in the markets where we are, but it's creating a lot of growth in Emerging Markets. And the Three-in-one is a good example, which came on top of that.

So I see that going in that direction, three or four or five years with good growth momentum in Beverages. You saw it, Beverages is growing very handsomely. But it's more than that. It's *Milo*, for example, in Asia. It's growing double-digit too. *Milo*, it's another classical product and you have different products again. Added vitamins and minerals and signs [labelling] going to that for the Branded Active Benefits.

So you saw here, I would say, the blockbusters, but the strength of innovation, the strength of growth in our Company is linked to many actions. When you talk here it's like it's all simple, but you have to define simple because the reality of life is a little bit more complex. You have to start with simple ideas. But there are lots of actions, 60/40 plus, the driver of bringing tastier and healthier choices to the consumers and their family everywhere in the world. For example, last year there were 650 tests in the market on products or platforms. That is something like three a day, with results coming in and driving R&D then to answer. If we don't have 60/40, if we have 55/45, R&D has to come in and make a better taste, beat the competition, create the gap. If you don't have a plus, we don't have a competitive advantage on Nutrition, or if it's not in the Nutrition framework that we have, we have to go back to the drawing board and redesign or less sugar, less that or more that.

It's that network of all people that are aligned, that cannot be driven by a centre. 650 studies cannot be driven by a centre. Nestlé Continuous Excellence, I'm extending here a little bit, but Nestlé Continuous Excellence is a good strong platform. It had 14,000 projects last year alone. You cannot drive that in the Centre. You cannot drive that out of Lake Geneva. That is because you have alignment, you have common building blocks and tools that you drive through the organisation, where people take ownership. You're decentralised but aligned. And that is what I feel one of the strengths we pride ourselves on, and that is the job, our job to keep that going, to keep that inspiration, to keep that alignment. And that is the same in innovation.

Purpose. We spoke about brand essence, product essence. *Nescafé* has to stand for this, that's the DNA. All R&D should gear towards building that essence, and it goes many years out.

Roddy Child-Villiers

The Group average of sales touched by innovation in the last three years is about 33%. I don't know how many cups of coffee were drunk, cups of Nescafé were drunk during Paul's answer, but over 4,000 a second, that was a very profitable answer, I think, to the question.

Question on: Frozen Prepared Meal category performance in US

Simon Marshall-Lockyer – Jefferies

You've obviously given some sort of impressive examples of some of the Billionaire Brands that have been doing so well. One of the striking aspects of one of the slides actually that was presented the other day at the time of results, lining up the Billionaire Brands and their performance was that there are three -- I think it was *Hot Pockets*, *Stouffer's* and *Lean Cuisine*, off the top of my head. I don't have it in front of me. Forgive me if they're not the exact correct ones.

But all three of them are centred in the United States. All three of them are within prepared meals area. Is there a structural issue there? There seems to be some bridge or commonality in terms of the challenge you face with those three particular brands within that particular geographic area. And could you give some answers in terms of where you're bringing those because I think for some time you've been looking for some answers, but obviously it remains a very challenging space. Thank you.

Paul Bulcke

Well, *Hot Pockets*, *Stouffer's*, *Lean Cuisine*, you are totally right. We show it, we don't hide it. It has given us a lot of joy for many years. And now this whole category in United States is under challenge, yet at the same time Pizza is doing well, has been growing last year. But *Hot Pockets*, *Stouffer's*, *Lean Cuisine* are under pressure not as brands but as a category. For example *Lean Cuisine* is keeping or increasing shares, but the category is down. And that's linked with the reality, the subdued environment of consumers specifically in that category, reflecting in that category.

Some categories are reacting faster towards that downturn than others, and there is this frozen dimension. But as we are priding ourselves to be leading this category, we have to inspire the category. So it's a challenge. We're working on that. It's high on the priorities because it has given us so much joy. We want to get the same feeling again. But it is not giving the same joy now because it doesn't help to build the Nestlé model, which is growth. And then so we take it up.

I think at the end it has to do with innovation and renovation. I feel this category is such a relevant category even in a downturn, if you have the right products. There's maybe a little bit of a lack of innovation and renovation from our side too, but in general it's from the category side. So that's how we see it and that's high on the agenda as a priority to bring it back into black territory. We don't like these laggards.

Questions on : Emerging market situation for 2012 Digital media budget

Warren Ackermann, Société Générale

A question on the Emerging Markets business, which has been doing very well, I think running at 13%. Some of your peers have been suggesting there are early signs of the Emerging Markets slowing and competition increasing. Just wondering what your thoughts are on Emerging Markets for 2012 and whether you can walk through some of your bigger Emerging Markets. Can Russia improve its performance in 2012 versus 2011?

And then secondly a question on digital media, you talked a lot about digital media in your presentation. I'd be interested to know what percentage digital is of your total media budget and how quickly you think it will grow and where you think it might be on a three- to five-year view. I think the consensus view is that digital media is a lot cheaper than traditional media. Is that true? And do you expect inflation in the digital media over time? Thank you.

Paul Bulcke

Emerging Markets we have near 13% growth. Is it slowing? Well, by deduction we think of the Western world and the Western world is slowing. Slower growth is all over the place, that's the environment we have to live in. Is it going to slow? I think in certain markets, it's like an engine and if you go too fast, it may overheat. So there are some structural dimensions that also are going to induce some softening.

In the favour of sustainability of growth, I would say that's a good thing to happen. That creates a platform of sustainable growth, because if the country grows 13%, 14%, 15% over time, definitely the engine is overheating, and we know all that. So sustainability of the Emerging Markets is what we're looking for.

Now if the Emerging Markets are slowing it's creating a little bit less tailwind. But internally we are always saying to our people that we should define the growth rate by our actions. Not only floating on the river, we should swim. So if there's some slowing or acceleration or etc., it is our agenda to really go for the opportunities and work for it and build the right platforms.

So if there's in general a little slowing, although I don't see it, for example for Africa we don't have that yet. But that's why we're engaging deeper in the Emerging Markets. So I have, in proportion to our sales, the effects neutralized maybe by the more proportional part of our business being in higher growth area in the world. So there's this move towards more emerging market.

You see the investment we did in China, and the partnership is building up there. It's with the eye on tapping more into the China growth, and there are folks saying China's going to grow less. It's going to go to 7%, 8% only. Well, I rather enjoy 7%, 8%, than not being there. And we are building capabilities. It's not a matter of buying a business and enjoying a business as is, it is the capabilities that these brands are presenting.

First of all, they're so deeply rooted into the consumer landscape, and we have been talking about engaging. Well, a brand is a good story if it is really translated in good products. And Yinlu is definitely a good product that plays into our agenda of Nutrition, Health and Wellness. Hsu Fu Chi is a product that we can bring with some science, many arguments, but it has this capital distribution of the emerging consumer and this execution of power of distribution. So these are huge platforms that we want to leverage.

You spoke about Russia. Russia is in general mixed feelings. We have very good growing categories. All the categories are slower because they are, as a category, suffering because the consumer is a little bit less confident also in that region. But we are building platforms there wisely because there's a high-risk profile arising in certain areas.

You spoke about digital. You said digital is important. We have been talking about that. I think digital for us is now more than 10% of media spend. And you're totally right saying digital has a very good ROBBi, return on brand-building investment, if you do it right. And the right is pretty much linked with content. Although Internet and digital is so much linked with content, you cannot get through the clutter. People don't go there if the content's not there, which is different from a commercial. You pay for it, you have it. You can say -- put whatever, which is negative though after a while. But there you're punished straight away. It is content that tells. But once you have the content, that creates a lot of ROBBi.

And for example the *Contrex* commercial, it's a commercial and if you see the input cost of this, I don't want to say [the cost] but it's ridiculous for what you get out of it. It is engaging. It is unexpected. It is what it is and it has many, many followers. So *Contrex* again as a brand has created this. You think about the first recall of the brand has exploded only by that [commercial]. And that's the trick of digital media. You have to be aware of it, once you get it right and the ROBBi is enormous. And that's what you're looking for.

So we see digital going up in percentage of our media spend and consumer-facing communication, conversation spend definitely because I'm a true believer. It is meaningful.

Roddy Child-Villiers

We should have added, by the way, that *Contrex* grew share in France and *Perrier* was 9.8% organic growth. So they're not just good things to watch, they're also delivering as well.

Question on; Rolling out of Innovations

Jeremy Fialko, Redburn

I've got a question on the rolling out of your innovations. You've put the slides up showing the various markets that you were rolling certain new innovations into. Now some -- you see to have pretty high numbers of markets, some relatively small numbers, certainly planned for 2012. Can you just talk a bit more about the process of rolling out the innovations within Nestlé? How much of this has been driven by the centre versus how much is purely down to the local markets and the local markets deciding what they want to do and how you get this balance between ensuring that you're getting the most out of your innovations but without losing that kind of decentralisation which I suppose you pride yourself on? Thanks.

Paul Bulcke

A very good question and there is no one answer. Let me explain. First concept, I'm a true believer of global inspiration, local execution. That's why we have roadmap. This roadmap is true and valid worldwide, so it has global inspiration, local execution. Now if you see the roadmap, localness can be built into it. It is only the global strategic direction that is defined where we want to play, the tools, but then the inspiration. The filling up is local.

There's something about innovation there that I feel we are getting better and better definitely. Good ideas, good innovation should have authority, even in a decentralised structure. We give a lot of decision making into the markets and they have their priorities, they have their liking and beliefs. But good platforms, we have to have buy-in. That should have authority. It is not authority by somebody saying you have to. It should be authority because as you are aligned with the roadmap, as we are setting our innovation high on the agenda, as we are true believers that we're enjoying today what we invested three years ago, everybody should be conscious about the need of already putting new innovation in today to enjoy in two, three years' time.

And that's attention because you let local markets decide quite strongly a lot of their own reality, aligned with the roadmap. Yet at the same time you can have another belief, saying *Dolce Gusto*, I really believe in this. And the markets say yes, but not now, I have other priorities. But you also know that competition may come in and so you'd better take broader parts of the market, like Europe. Well, then that's a discussion we have and that's something that is then a decision made and say we're going to roll out, and that's this, this, this and this. But as we have strong alignment in general and say from all players in the markets, all leadership in the markets and all that, there's a good buy-in. There's a good understanding. They would have liked maybe to do it in June not in July, but that is what the zone managers are managing then.

And *Dolce Gusto* is a good example. *Dolce Gusto* was something that the zone managers said, with all the leadership in the room or through conferencing, that's really big and let's work together to have that in two, three years' time rolled out in many markets. These are big ideas where competitive gap is short but are really making the difference on staking position. So that's where we then force and give more authority, executional authority to certain ideas. And *Dolce Gusto* is a good example of that, but with good buy-in.

And success breeds success. So Europe did that and now we have all markets waiting for having *Dolce Gusto*. So then a limiting factor is the executional capability. And that's why we're investing actually in the UK in *Dolce Gusto* lines in an accelerated way and creating jobs here in the UK, which is actually nice because it's like a little bit of sunshine in a dark environment. So we are driving these agendas globally, but with the markets with us. We don't impose it. But we convince them that's the right thing to do.

Other innovations are more local, they may be global-inspired technology but then we leave it to the markets to really play because they are, in the scheme of things, less strategic. They are strategic because that's how our innovation process goes, but we don't impose, for example a biscuit and say that's a good biscuit in India, we have to have it there [another market] too. It's linked with the fact also that we can work with local brands and local things and leave a lot of that energy and that initiative in the markets.

We do have an R&D that is aligned though, so we can see some innovative platforms, for example additional arguments that are translated into many markets in a different way. You have, for example, a brand like *Munch* in India and all that which is a popular positioned confectionery product, a wafer, that you can find with another brand somewhere else. And that is the role of the SBU's to platform that knowledge and share that success. So you have different answers but big ideas and I believe are out for global inspiration.

And you see *Barista*, *Barista* is something that started with Chris Johnson in Japan with a small footprint machine that uses air blowing technology to create foam, that's a fabulous idea, so we are rolling it out now fast in other markets, because it's relatively [inexpensive] -- I would say it's not a PPP but close to it. It's a mainstream small footprint machine that is not portion but you make your own coffee in your own way, so it's a fabulous thing, so also the good ideas have authority.

Question on	Nutrition performance in 2011
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Alan Erskine, UBS

Just one question on the performance of the Nutrition business in 2011, I'm not sure if the 10/20 objective is still there, but it looked to me as if Nutrition actually was a drag on growth in the second half. So I wondered if, A, you could talk us through what some of the underperforming parts of the Nutrition business were in 2011 and maybe, secondly, just give

us a little feel for the latest outlook at the Health Science operation and how that's been settling down? Thank you.

Paul Bulcke

Well, Nutrition first of all is defined with Health Science and Healthcare already in there, so we have now three dimensions to it. Basically the Infant Nutrition, which is the biggest part of the Nestlé Nutrition as it is now. We have Weight Management and also Performance Nutrition.

And actually Infant Nutrition is growing very well, that is double-digit plus, specifically infant formulas, so gaining market share there and also in infant cereals. This is going very well and so much driven by innovation and renovation again.

Performance Nutrition had growth. You may remember Performance Nutrition was something we were not too happy with. It's a smaller business now but its focus -- it's very narrow in its focus which is very good, but as we say showing growth. And we're going to have, through the right leadership, a good future there. I know it's very narrow, but that's the business per se, so we cannot add to that and it's going very well in other areas, North America is now taking up growth again.

It's Weight Management, Jenny Craig that is suffering a little bit from the global downturn, also competition has been very effective and we have to answer that. So we admit that, we accept the challenge. I'm a very firm believer that Jenny Craig is a very strong, winning model because it engages in something in a way that is, in my eyes, combining so well how we see Nutrition, Health and Wellness. That is pleasure because it combines good eating and balance because it offers a wide range of products that are creating balanced diets. And it is understanding, because you build understanding through private personalised consultations, about a problem that is quite big in society

So I think we take up the challenge, I truly believe this has a high future, we have launched it in Europe, in France and UK, and it's going well, in France really well. I believe that it's another way of connecting with consumers, because it goes towards the problem in a different way and as it's so personalised you can do that. I feel it's a winning model, but it has a little bit of a downturn. It started, actually with the priorities of the housewives. Jenny Craig's is very much linked to women. When there was less consumer confidence and a little bit of a downturn, two or three years ago, the priorities of the housewives were the following: first priority, my baby, secondly there's my pet, because they see it as a baby, it cannot talk, cannot cling; then my children; then, we hope, the husband and then me, and Jenny Craig is me. So it's not priority, the whole category and that's why. But still that's not good enough, I feel the elements are strong enough to drive growth there.

You had a second question?

Allan Erskine, UBS

Health Science

Paul Bulcke

Health Science, well, it was the first year we are operational with Health Science, we are building at the same time the Institute. I was there a week ago and they have the major structure already in setting up labs and we have the right people now, that we attracted, who are now working in a combined way with the discipline. So the Institute is building up relationships and knowledge and driving the first ideas.

And the initial Health Science business, that took the Nestlé Healthcare, has shown very interesting growth. You may remember that last and the year before the businesses that we brought in from Novartis. We have profiled the portfolios and that has shown very good growth now based on that revamped portfolio of brands and products, so that's a good base.

And you have seen also we define in Healthcare, internally, very clearly the growth plans of where we're going to focus, because the biggest challenge of growing that new dimension, that business opportunity that's in the making, is to pick your battles. Because there really you can't go and be scattered all over the place. So you have to pick your battles, that is a definition that we have done during this year, we have defined gastrointestinal and a few -- five or six battles, well, not battles but the opportunities we want to focus on. There are many others but that's where we want to focus on and we see the most upside for what we know, what we are strong with and what we feel can be relevant for our personalised nutritional health solutions.

And in the meantime we have done some acquisitions that are the building stones of that business, like Prometheus, because when you talk about personalised nutrition solutions, diagnostics is important. Prometheus was and is a company that is leading in gastrointestinal diagnosis, which is one of the platforms we want to work on.

So that is what we did in one year and I'm pleased with how far we got in one year. Luis Cantrell is really enthused and full of energy and we have built the capabilities on people. This is another ball game, that's why we have created that business at arm length. It's another business model; they have other thinking, other decision-making, other channels. So we have now built in the capabilities and the capacities, the human capacities and capabilities to do that. It's a fantastic team, it coagulates very well, and it's very fascinating to go there because the language you hear is quite different from what we're used to hearing, but it's very inspiring. I think we are building up the right capabilities for the future.

Questions on;	Key drivers for growth in Emerging Markets Competitive intensity in Emerging Markets
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Pedro Gil, Santander

I just would like to follow-up on the Emerging Markets and you've discussed the middle class consumer growing in these economies, the PPPs, the traditional channel. If you could perhaps elaborate about some of the key levers that are yielding the best growth results in these economies that would be really helpful?

And secondly, on the competitive intensity in these markets and where you feel you stand, your competitive lead relative to local players.

Paul Bulcke

First of all, we are saying we're going to have 1bn more consumers over the next years and that is definitely when you have the growth. The Emerging Markets are 75% to 80% of the world population. You start saying the middle class is building up, for example, in China give or take, 350m people are starting to be really part of their cash economy. That's what we have now.

I think China is working to have a middle class, a deeper middle class, of 500m in a few years time, because they also know that, politically speaking, it's a strong middle class that creates political stability. We know that, it was the problem in Latin America. You see India

doing the same thing, really trying in an accelerated way, to build middle class, because that creates then political stability.

That is where we tap in. Is that in the emerging consumer? Yes it is, because PPP cannot go to the non-cash economy people, we can go and have offerings they dig deeper for, but these are for the people who are coming into the cash economy, and that's the middle class, the growing middle class.

The middle class is defined differently in different markets, because it is a PPP equivalent, purchasing power parity equivalent and relative to where they came from. And then, once you have the numbers coming in, where you have a big chunk of emerging consumers in there, then it starts to deepen. In the different markets it's linked with different dynamics.

In certain markets it's a television set, the other market it's quality of life, the other market it's a house, a car, but that is the sensitivity that we have with our localness to answer these different dynamics in different ways. Our PPP initiative has close to 15% growth last year, which is good, and you see actually it's growing faster than the Emerging Markets globally in general, so that is a driving force.

But what it helps to do in our Company is to see the whole classical marketing mix geared differently rather than extrapolating the Western thinking, which is I feel a strength. Which brings me to the second part of your question is about competitive intensity locally.

It is understanding that the marketing mix has to change completely in different environments and in many Emerging Markets it is not the Western marketing mix tweaked with a little bit less sugar, a little bit more hot that is going to bring you success. It is the whole marketing mix, it is the product definition definitely, but it is the pricing point, it is in distribution, etc.

And local competition is showing us or maintaining us on a high alert on this, because they by nature, being local, they understand that much better to some extent. We see as a company, by being so many years in all these countries that we are so local already, in mindset, we have so many people that are local in these countries that we can compete effectively.

And we don't limit our competition with the international players, etc. We are really going and engaging and competing dramatically with local players. Because we see that local players in the big markets, like India or China, are potentially global players. You have local players who are regional players and in China they are seven-eight billion businesses. And investing in R&D, not only going into copying but they're understanding their reality and being creative and going about that.

So I think we have to be very humble and say yes, we can learn so much from localness and that's why we have to bring in our management more of that dimension of people who are from there. And that is something we're doing and we are embracing our openness to diversity, really not only verbally. It's so important for our success in the future.

James Singh

I would say if you look at Emerging Markets, what is happening there, just four factors. First of all, more than 80% of the existing consumers and new consumers will be in the Emerging Markets. Their rate of increase in terms of per capita income is higher than most parts of the world. I think the population at large is highly interested in nutrition and, therefore, our strategy with respect to Nutrition, Health and Wellness is right on.

In addition to that there is a high degree of organisation, 75% of the organisation that will take place in the next 10 years will occur in the Emerging Markets. And I would say that with our brands, with our innovation and renovation technology, with our ability to invest and our presence in these markets make these markets, the conditions, the winning ones for Nestlé, without giving up on the significant opportunities that still remain in the developed world.

Question on; Cost of digital media

Eddy Hargreaves, Collins Stewart

I was wondering if you could talk a bit more deeply, if you like, about the digital new media spends. It seems to me that potentially you used to spend on traditional marketing and now it's more a case of investing in new media because it has a longer lifespan because it sits there on the internet and you, yourself, said that you have to be very careful with the content, the content is everything in that respect. I just wondered that although it appears to be cheaper and more efficient, is there some sort of hidden cost, if you like, in terms of employing a lot of people, good people to do it or systems to put it on or methods to measure feedback from it? Is any of that investment at all significant in the bigger scheme of things and, if so, where do we see it in the P&L? Yes, so just talk broadly around that subject if you can.

Paul Bulcke

Definitely it's content and it's all new and it entails a risk, so there's a higher return but there's some risk linked with that too because you go in the wrong street and it's hard to get back out of the street, we know that, we have experience of that. But the upside is huge if you do it right . You have to engage with the right partners too there, so the Facebooks of this world, and then working directly in bringing in the right talent.

So we bring in resources to do that, I feel not engaging and ignoring is much worse, because then you can have the negatives anyhow. The social media definitely you don't own it. And we actually normally used to be in control somewhere, that's a totally different role. So we have to bring in capabilities that are answering these risks and these opportunities in a more meaningful, organisable way.

And to be very honest, I am very humble towards that challenge. Why? Because to a certain extent until now you could decide on things or put people in charge because you had been there and you are able to delegate. I've been in the market, I've been in the street, I have been selling, I have been doing merchandising, I have installed factories. I could not understand all the details but at least grasp it.

And this is a new dimension, it's for the first time that you talk about things you don't really know, to be very honest. You have to engage people, young people, we have very young people, they are young from mindset and you have to say I don't understand but I believe you, to engage there, to commit resources.

We set up our lab there in our building, the sixth floor, we have our lab with all screens and young people that came from all over -- we have something like 15- 20 people in our lab I think, and something like 15 nationalities. They're coming in, they are interesting for what they did for Nestlé in their markets, they're in there and we are building up that capability of understanding, they're working together.

There's definitely a one plus one is three, or 11 even, in knowledge sharing, etc. That's where we really start investing with the right leadership and exploring these alternatives, in a

meaningful way, without having it exploding it somewhere in the market that you don't control, because social media is global.

So that's why we don't want to take all the energy out of the markets on social [media], we have to keep it but we have to have a driving force of inspiration and that is what we set up. Is that upfront investment? Yes it is. We are engaging with Facebook with longer term contracts, so we're engaging and that is linked with time, with interest and money. But I believe the upside is higher and the downside of not doing it is even higher. So that's why we engage fully in there.

And then you see the e-commerce, which is another story, it's not digital social and connecting a conversation but then it's the road to market. It's not anymore the road to market - it's the road to consumer, which is fascinating. We have so many businesses already linked with that we are not actually taking that as a very conscious strategic decision, we see it more and more as a thing that we have handle strategically and linking up our capabilities to do that more effectively and efficiently.

Roddy Child-Villiers

I think also, Eddy, that different companies are making different choices and, as Paul said on his slide about showing internal digital best practices, we have chosen to create our own internal listening capability. I think if you talk to most companies they're doing that -- they've outsourced that and we believe we should own the expertise that enables us to understand what consumers are saying about our brands.

Clearly, for us, that's going to be likely at greater cost than somebody who chooses to outsource it. We think the value in owning that listening is worth the cost. I think also, just coming back to the point on spend, one of the slides we talked about how media spend gets brands seen but creativity gets consumers chatting.

Once consumers start to chat online and hopefully influence their friends, you're into the earned media, or the free media. So the pure media spend line is not going to be telling the whole story about what we're actually achieving in terms of brand communication, brand engagement, brand conversation going forward.

Okay, no more questions?

Paul Bulcke

Well, maybe we have Paul Grimwood here, on digital, I think UK is quite in the forefront of digital and quite a lot of innovation is going through digital. You may say a few things maybe of --

Paul Grimwood, Nestlé UK and Ireland Chairman and Chief Executive

Thanks, Paul. I think we have to be just a little bit careful as well with how we pick up digital, because if you go back into the annals of history, 20 years ago it was very easy in that there was one media. But we were trying to deliver what we call the Path to Purchase, which is who do we actually want to talk to and how are we going to do it.

And there's a little bit at the moment with digital thinking that it's either all or nothing and it's actually very integrated. And when we launched something like -- I was interested to get this particular product [launched], which is *Rowntree's Randoms*. Did we still do TV? Yes. Did we still do bus sides traditionally? Yes.

But we're now at the point where we've 270,000 Facebook friends in the UK alone on *Rowntree's Randoms*. So it was very much an integrated campaign and it's what we call path to purchase, which is whatever we do with a product, whether it's a line extension or launch, it's actually about making sure that we get to the complete matrix of people that we're wanting to touch and one is absolutely reliant on the other.

There is very much a big conversation about is it digital or is it TV or whatever and actually the most successful launches, *Dolce Gusto*, *Randoms*, that we've put on recently have been fully integrated right across a variety of media types.

Paul Bulcke

Well, you have *KitKat* as a good example worldwide.

Paul Grimwood

Yes, absolutely

Paul Bulcke

Of how we have built up a digital community that is over millions and millions, so *KitKat* is a good example to our traditional product that you have.

Paul Grimwood

Well, if you take what we're doing on *KitKat* at the moment, on *Chunky*, we're actually allowing people to vote on what particular flavour they would like the next *KitKat* to be. It's been incredibly successful, we sold out way ahead of expectation but the awareness building started off with press and some TV and then completely transferred over to the digital arena and the conversation continues on that forum. That's up to 360,000 votes in the last three weeks, so it's very much an integrated option for us.

Paul Bulcke

Well, thank you, Paul. That's a good point, because we spoke a lot about digital, it's not that we all of a sudden jump on digital is going to make or break our success, it's again you have to maintain a balance of traditional communication, it's still valid, but you have to be creative, you have to have the good brand idea, the big idea, but also to combine and fade in, it's that complementarity. And again it's flooded by products of a different set, a different mix. Okay, thank you.

Roddy Child-Villiers

Go on, Jim

James Singh

Well, just I may see some of you at CAGE, but I have to tell you that the journey and the relationship with you has been clearly for me value-added. We don't necessarily agree on everything and that means we're human, but I respect and I appreciated your challenge and I'm sure after work at Nestlé as CFO in particular, we are going to run into each other, I can guarantee you that that is going to happen.

And it is a fond memory that I have had and I think I have become a better person, a better finance person, a finance director because of the relationship and the challenge you continue

to put to the organisation that helps us fine-tune our focus. So I see the relationship with you, the analysts and our shareholders are very value-added.

For the shareholders it perhaps means a lot more and I hope you have been duly rewarded and that is not going to change. I'm not going to be there but I know Paul and Wan Ling will make sure that you continue to get your fair due because the Company will continue to make progress.

Paul Bulcke

So you're going to continue watching over my shoulder.

Jim Singh

I will, so thank you for your support and thank you for your kind words, I really do appreciate it.

Paul Bulcke

Thank you very much.

END OF TRANSCRIPT