



Nestlé in Greater China: Winning in the New Reality

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Disclaimer

This presentation contains forward looking statements which reflect Management's current views and estimates. The forward looking statements involve certain risks and uncertainties that could cause actual results to differ materially from those contained in the forward looking statements. Potential risks and uncertainties include such factors as general economic conditions, foreign exchange fluctuations, competitive product and pricing pressures and regulatory developments.

Agenda

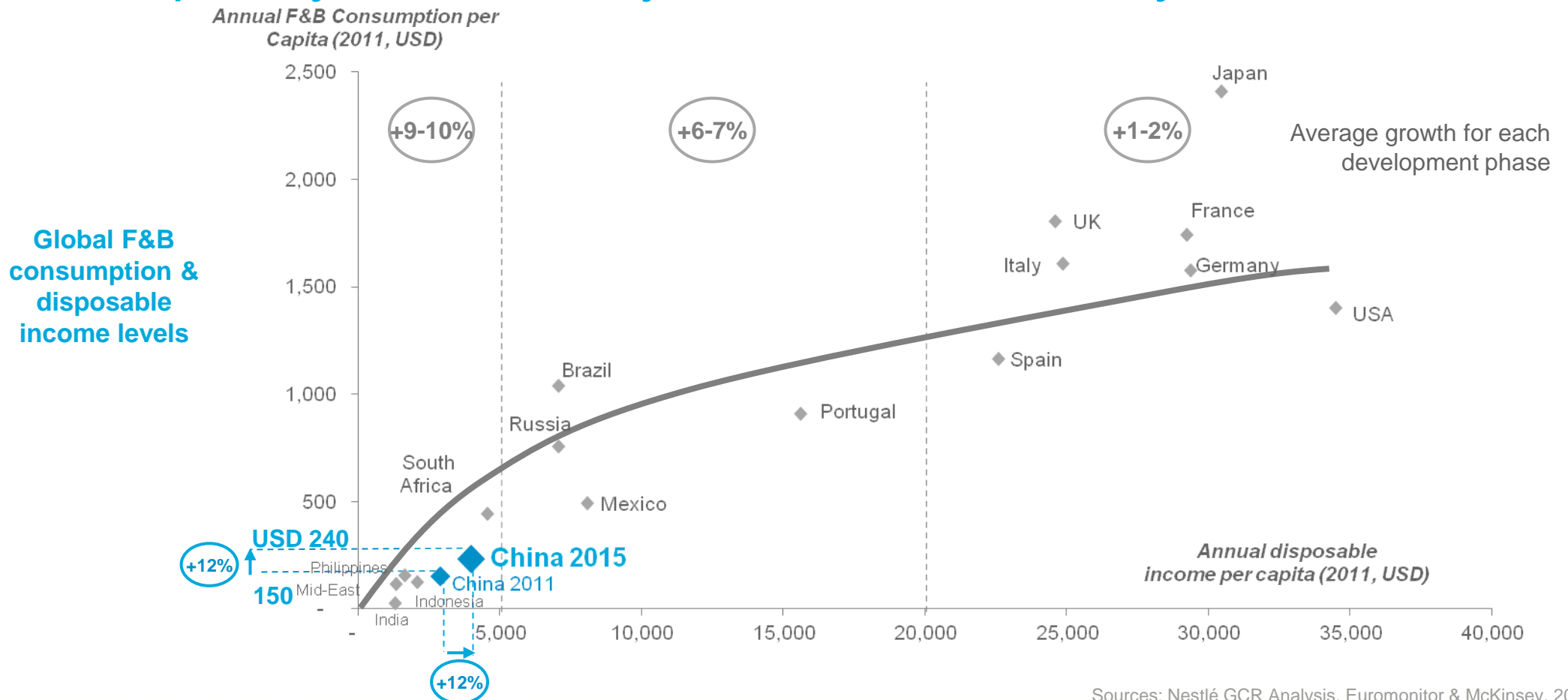
1. **China: Favourable yet challenging business environment**
2. Nestlé's roots in China and recent performance:
Accelerating growth and 2 step-changing partnerships
3. Vision, objective & ambition
4. Winning in the new reality: China-relevant portfolio,
region & channel focus, success with partners
5. Creating Shared Value

The size of a continent, with provincial GDPs at the level of developing or developed countries



Source: The Economist Feb 24, 2011

China is still at an early stage in food consumption: Per capita by 2015 ... only half of Mexico today



Sources: Nestlé GCR Analysis, Euromonitor & McKinsey, 2011

Nestlé continues to support government efforts to reinforce food safety

Zero tolerance



Stricter legal framework



Higher awareness



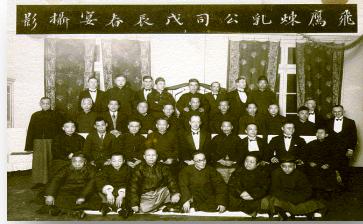
No preferential treatment



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Nestlé history: long presence in China but rapid development since the 1990's



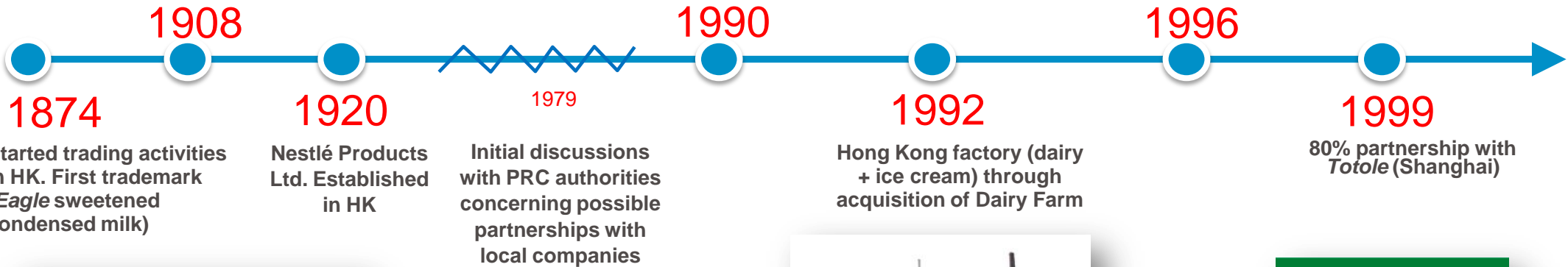
Nestlé sales office opened in Shanghai



Nestlé Shuangcheng factory started production (Heilongjiang Province)



Establishment of Nestlé China HQ in Beijing (relocated to new premises in 2010)



Accelerated investments in the 2000's showing long-term commitment to China



Nestlé R&D centre
in Shanghai



Nestlé R&D centre
in Beijing



70% partnership
with *Dashan*
(Water)



60% partnership with
Yinlu Foods Group

2001

2002

80% partnership with
Haoji (Sichuan Province)



2008

2009

Totole's second factory in Shanghai
started production (the world's largest
bouillon factory)



2010

2011

60% partnership
with *Hsu Fu Chi*

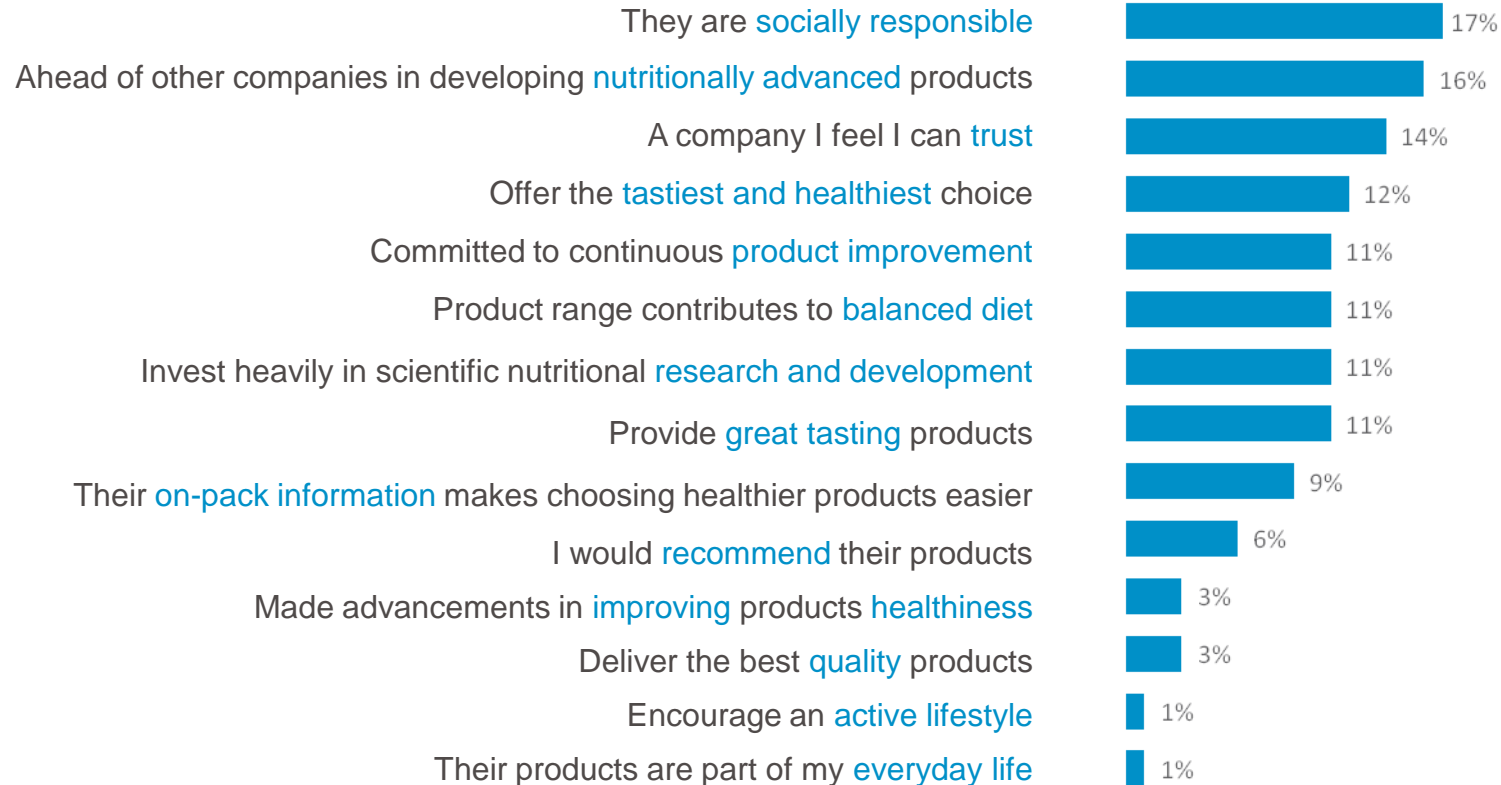


1993 – 2006

16 factories built in China to meet consumer demand

Nestlé is perceived as the tastiest, healthiest and most trustworthy F&B brand in China

Nestlé vs. 2nd Best (2012)



Source: Millward Brown, 2012, survey on the top 22 F&B companies in China

31 factories and 2 R&D centres all across China



- 35 million products sold every day
- ~90% of Nestlé products sold in China are locally manufactured

- Regional & local headquarters
- R&D Centres
- Factories (▲ under construction)

Our partnerships have enhanced Nestlé's capabilities

- Large portfolio:
6 China famous brands,
1 strong regional brand,
leadership in 11 categories
- 3 focused platforms with clear strengths and expertise
- 2 different “cultures”, same values
- Need to respect what makes our partners unique



Da Shan Water

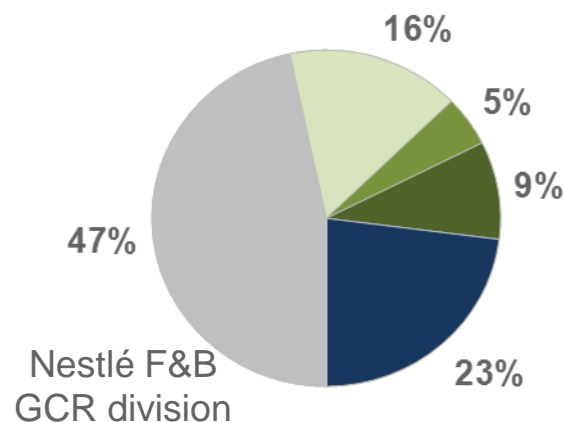
- Nestlé Dry Grocery → Key accounts, few key distributors
- Yinlu / Ready-To-Drink coffee → Ready-To-Drink beverage distributors, high point of sales coverage, lower-tier cities
- Hsu Fu Chi → Direct distribution, *Pick & Mix*, impulse model

- Multinational company vs. Chinese entrepreneurs
- Structured approach vs. speed / planning vs. hyperactivity
- Team-minded vs. great leader
- Different focus and KPIs – percentages vs. absolute amounts

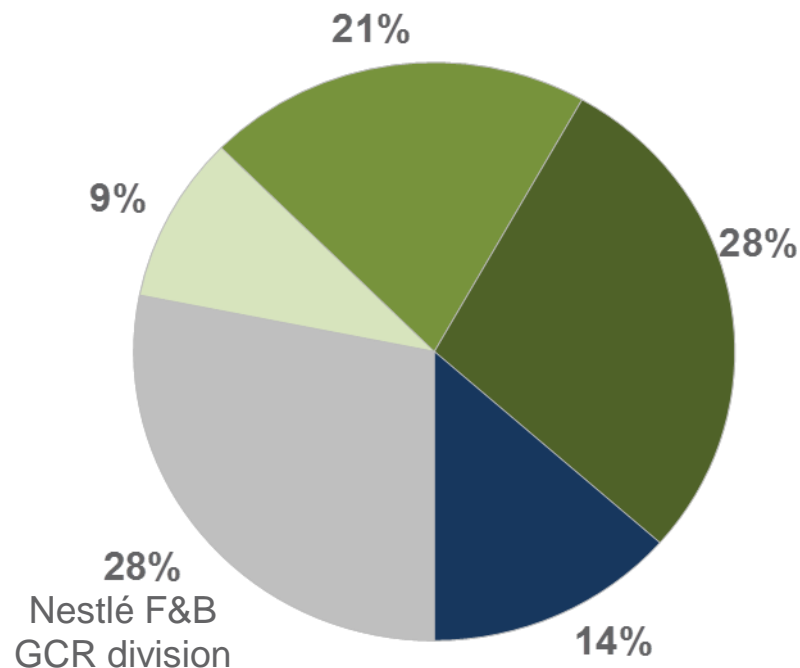
- Support & develop
- Listen and change only if all partners:
1. understand why 2. agree 3. see clear benefits

The 2 latest partnerships have drastically changed the capabilities of Nestlé


Actual 2011 Sales
CHF 2.5 bn



2012E Sales
CHF 5 bn




Nestlé F&B

 Dairy, Ice Cream, Coffee & Beverages, Infant Nutrition, Hong Kong, Taiwan

Partnerships

 Yinlu + RTD Coffee
 HFC + Nestlé Confect.
 Food (*Totole, Haoji, Maggi*)

Globally/Regionally Managed Businesses

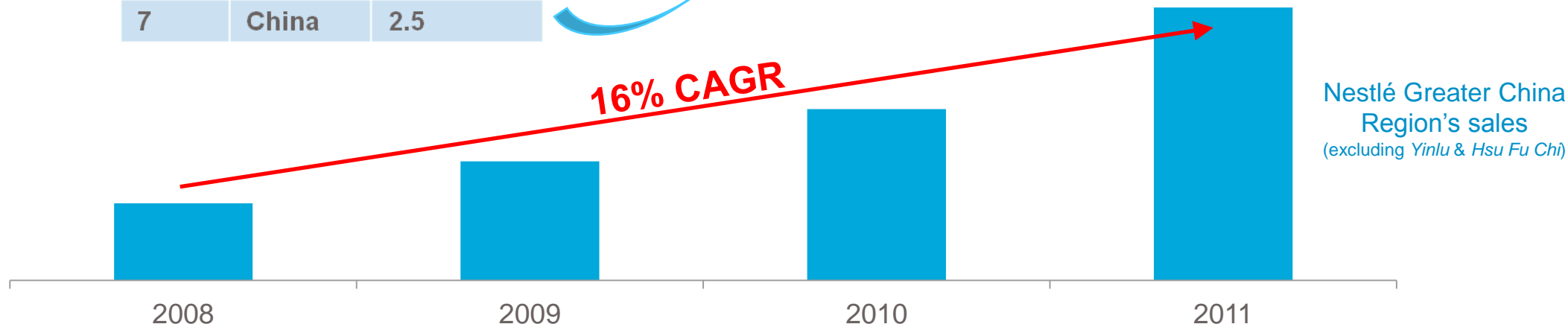
 Nestlé Professional, Nestlé Waters, CPW, Nestlé Purina Petcare, Nespresso, Nestlé Health Science

Note: Yinlu sales only 1 month in Actual 2011, Hsu Fu Chi sales in 2012E figures, not in Actual 2011; Nestlé F&B GCR includes Infant Nutrition

Greater China Region is on track to become Nestlé's #2 largest market

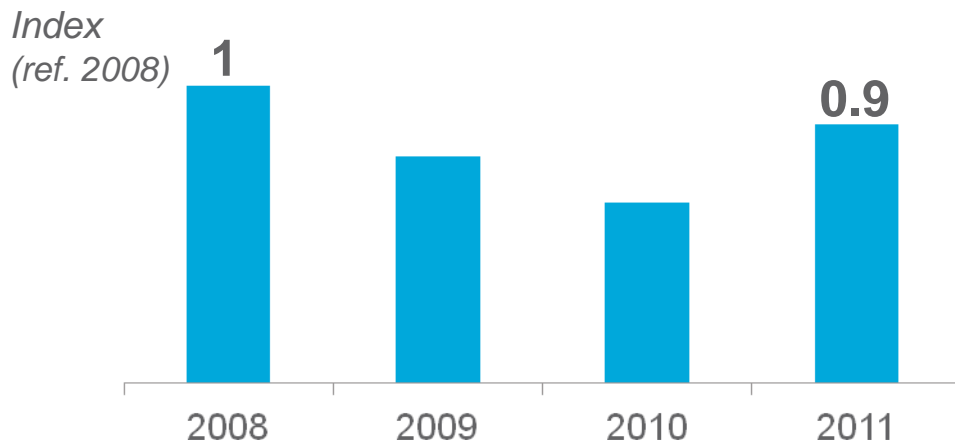
| 2011 Rank | Market | 2011 Sales (CHF bn) |
|-----------|--------------|---------------------|
| 1 | USA | 21.5 |
| 2 | France | 5.6 |
| 3 | Brazil | 5.4 |
| 4 | Germany | 3.4 |
| 5 | Mexico | 3.0 |
| 6 | UK | 2.7 |
| 7 | China | 2.5 |

**Greater China 2012
Sales est.: CHF 5 bn
Rank: ?**

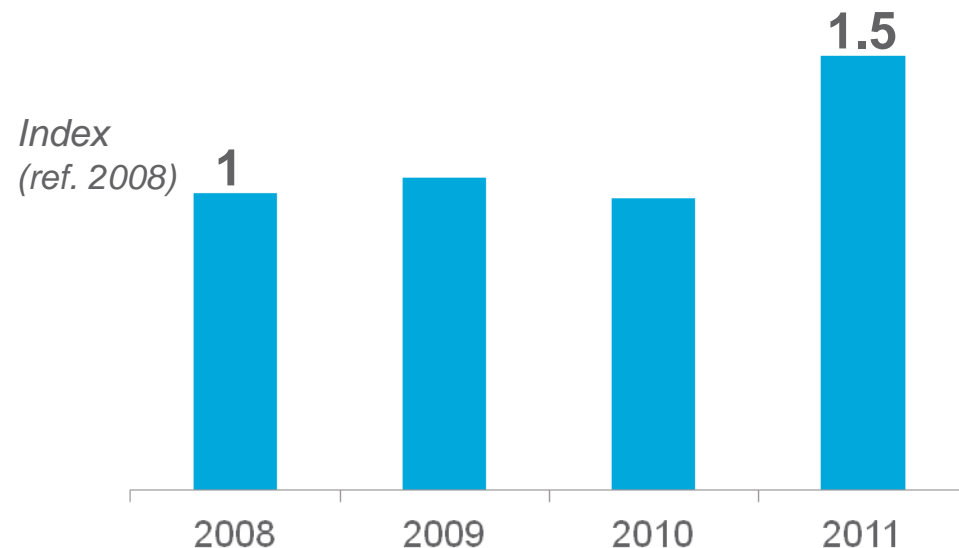


2011 has seen significant investments to support our fast growth

Trading net working capital*
as a percentage of sales



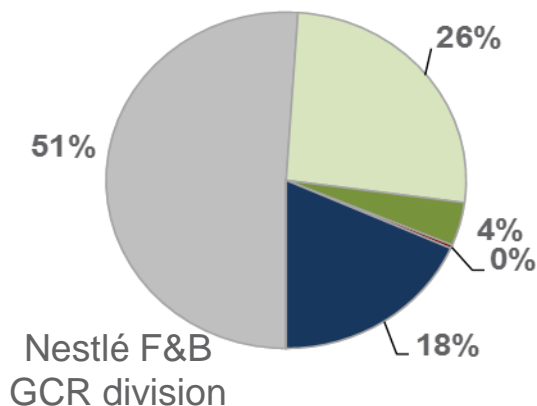
Capital expenditures*
as a percentage of sales



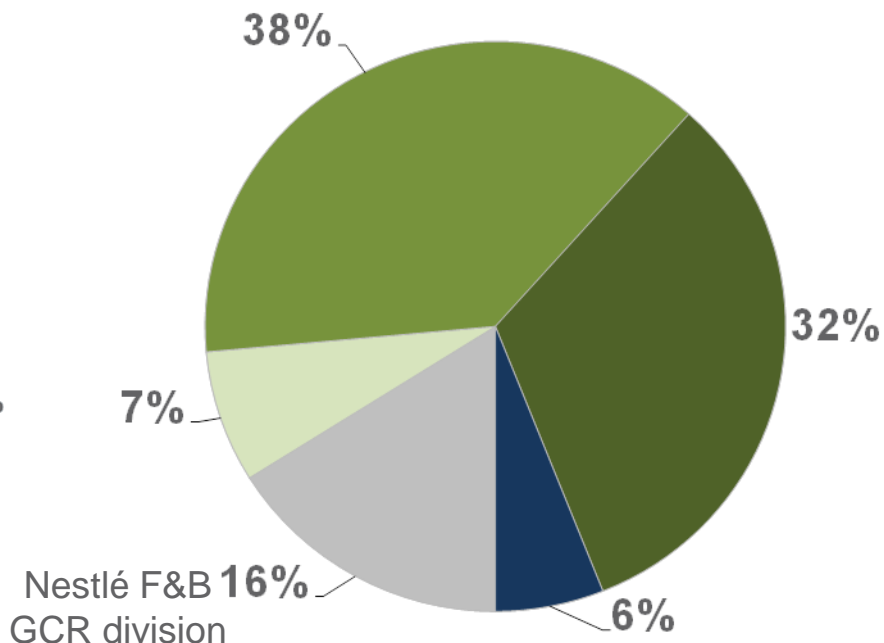
*Excluding Yinlu & Hsu Fu Chi

The new Nestlé China: 47,000+ employees


Jan. 2011
14,100 employees




Jan. 2012
47,000 employees




Nestlé F&B

 Dairy, Ice Cream, Coffee & Beverages, Infant Nutrition, Hong Kong, Taiwan

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Globally/Regionally Managed Businesses

 Nestlé Professional, Nestlé Waters, CPW, Nestlé Purina Petcare, Nespresso, Nestlé Health Science

Note: Yinlu & Hsu Fu Chi employees are accounted starting from Jan. 2012; Nestlé F&B GCR includes Infant Nutrition

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Our Nestlé Greater China vision

Be the recognised leading NHW
F&B Company by helping to build
healthier and happier generations at
every stage of life

- Delivering innovative, safe, tasty, trusted and good value-for-money products
- Building partnerships with all stakeholders from farm to chopsticks
- Creating Shared Value and sustained development



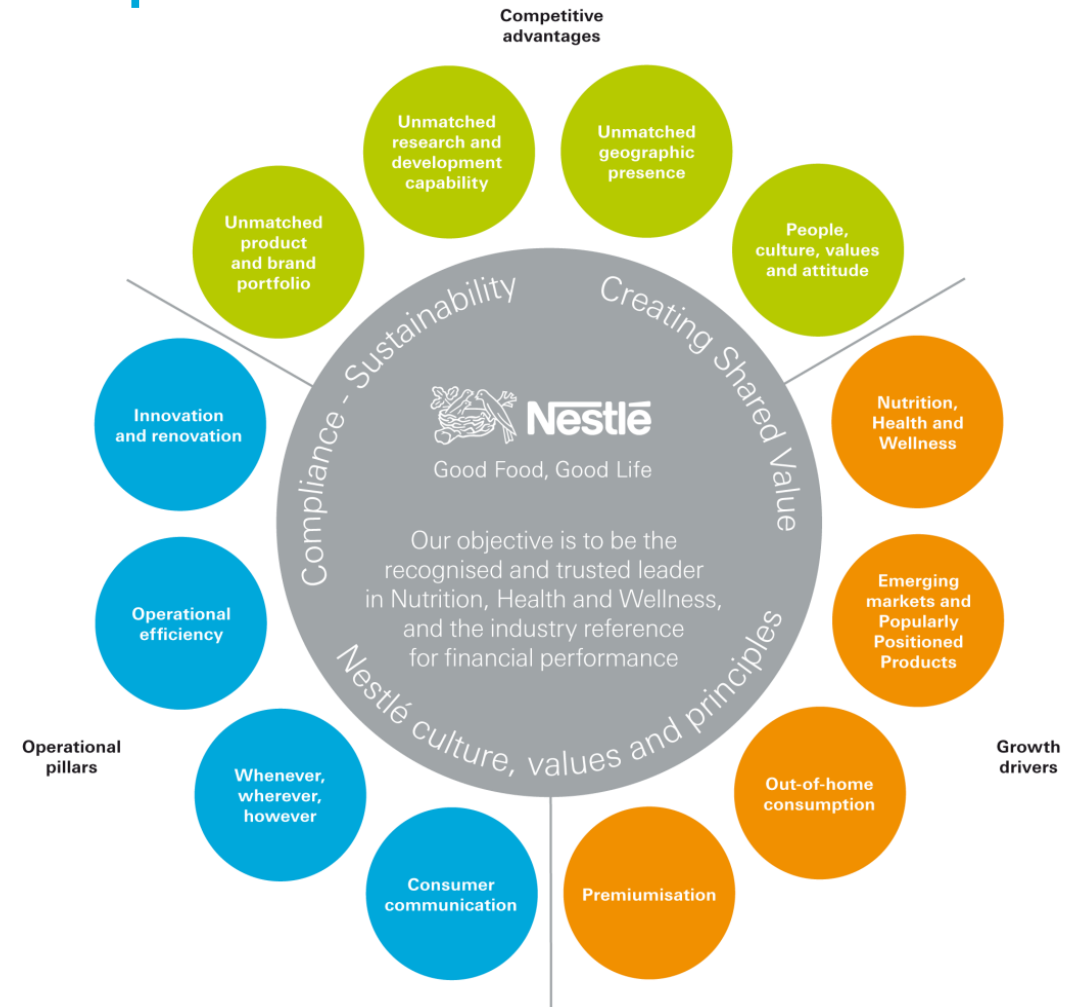
Our ambition is to grow double-digits while Creating Shared Value



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The Nestlé strategic Roadmap to win in the new reality



Comprehensive product offer matching all income levels

Chinese Urban Household
Annual Income ('000 RMB)

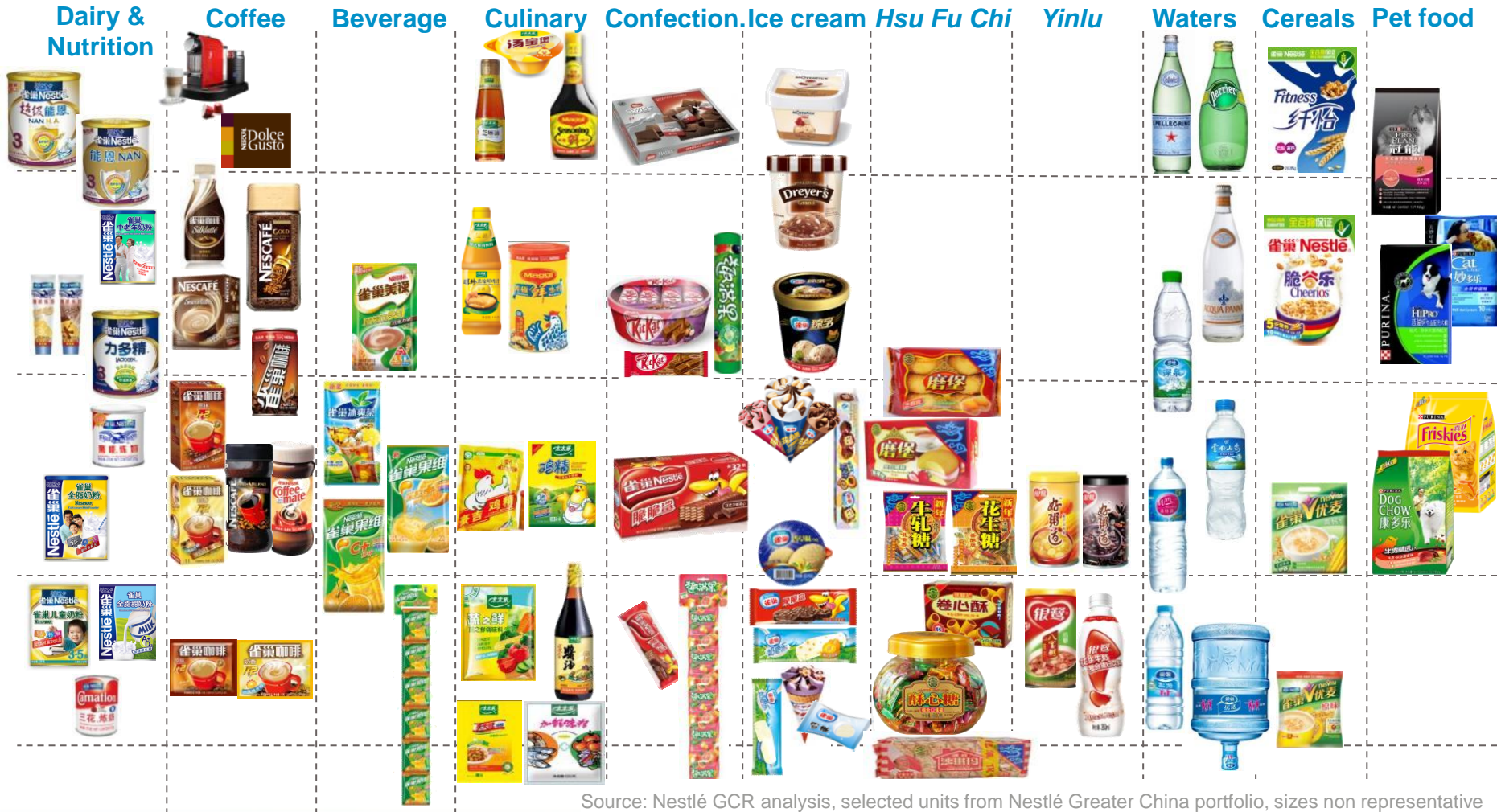
Global Affluent
>250
 (6% of population)

Mass Affluent
125-250
 (12% of pop.)

Upper Middle Class
50-125
 (39% of pop.)

Lower Middle Class
30-50
 (22% of pop.)

Poor
<30
 (21% of pop.)



Source: Nestlé GCR analysis, selected units from Nestlé Greater China portfolio, sizes non representative

Adapting product tastes & formats to local preferences



PPP: *Crispy Shark* chocolate wafer

The right consumer insights

- Right recipe
- Right brand & price positioning
- Right communication campaign
- Right in-store promotion

1998

Launch Nestlé Wafer in China

2005

Explore *Pick & Mix* opportunity

2006

Reach 10,000 tonnes

2008

1st Above-the-line communication

2009

Re-launch *Crispy Shark* brand

2011

Continued innovation and growth



R&D: Senior Nutrition, addressing the needs of the ageing population

Ageing society

- Chinese aged 55+ will reach 335 million by 2015
- They allocate half of their expenditure to food: RMB 5000 per year & per capita



HEART and BONE are top 2 health concerns for Chinese senior consumers

Senior milk powder
Product offering

Specific health
concerns



Omega senior
Heart Health



HiCal
Bone Health

Digestion- essential
nutrition



Price
↑
High

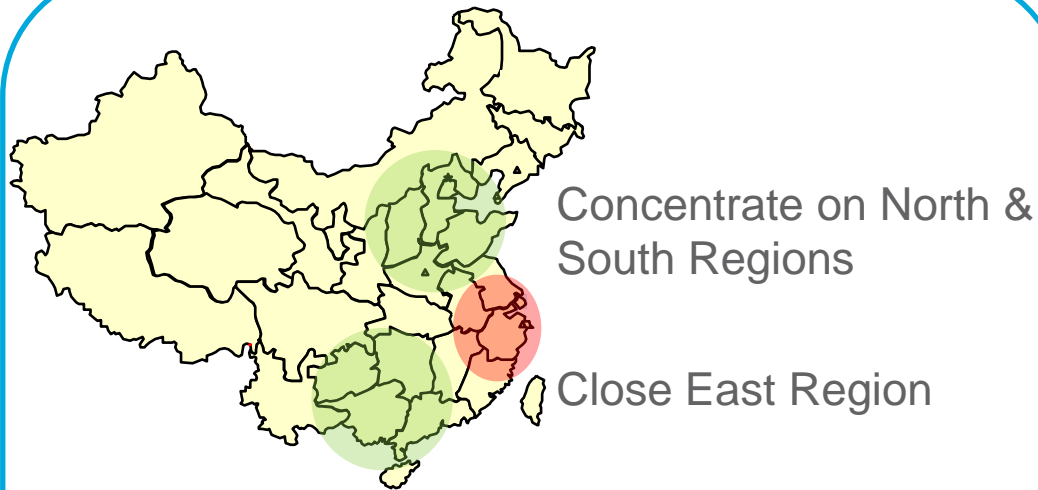
Strong R&D to build up expertise in nutrition for seniors

Source: National Statistics Bureau 2010/Kantar consumer panel/McKinsey insight China

I&R: Focus on winning regions with winning products

The Ice Cream success story

Focus on regions
with strong ability to win



- ✓ YTD growth 45% like for like
- ✓ Improvement of Trading Operating Profit

Portfolio optimisation

More selective & better innovations



Out: 46 SKUs In: 14 SKUs



- ✓ More competitive portfolio
- ✓ Increase of Marginal Contribution

Out-of-home: *Nestlé Professional*, helping operators win!



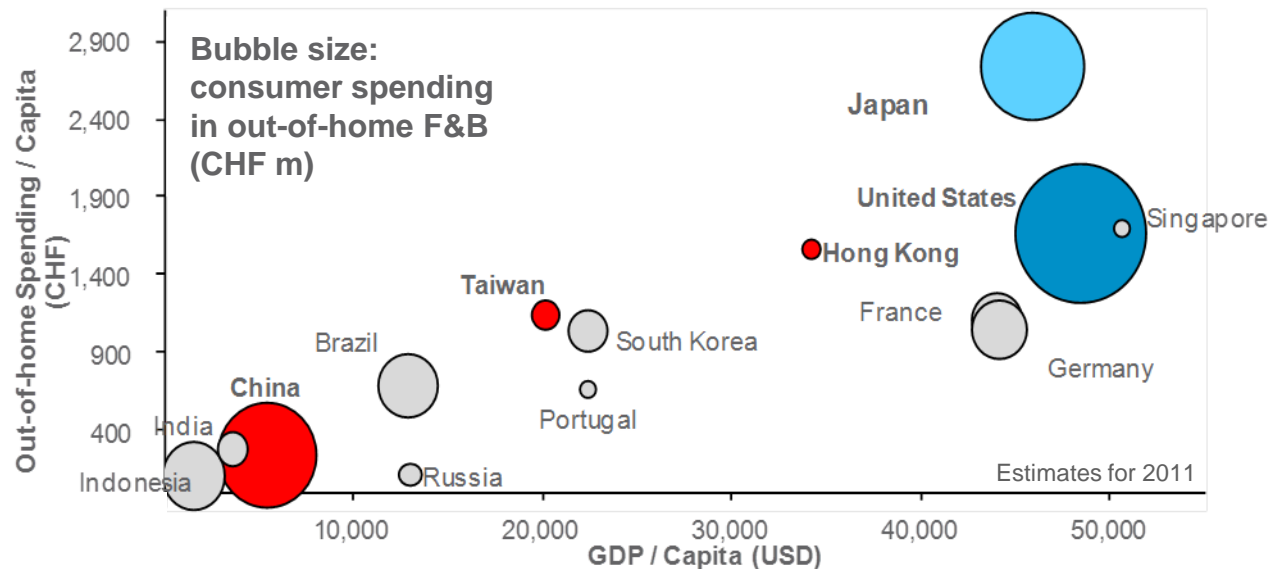
Inspiring Partners' Growth by Providing
**Branded, Creative and Profitable
Food & Beverage Solutions**
that are Making More Possible
for our Customers



- Dedicated organisation with strong channel & customer intimacy
- The widest F&B portfolio in the out-of-home market
- Nestlé Group expertise & capabilities
- Ability to customise products & solutions



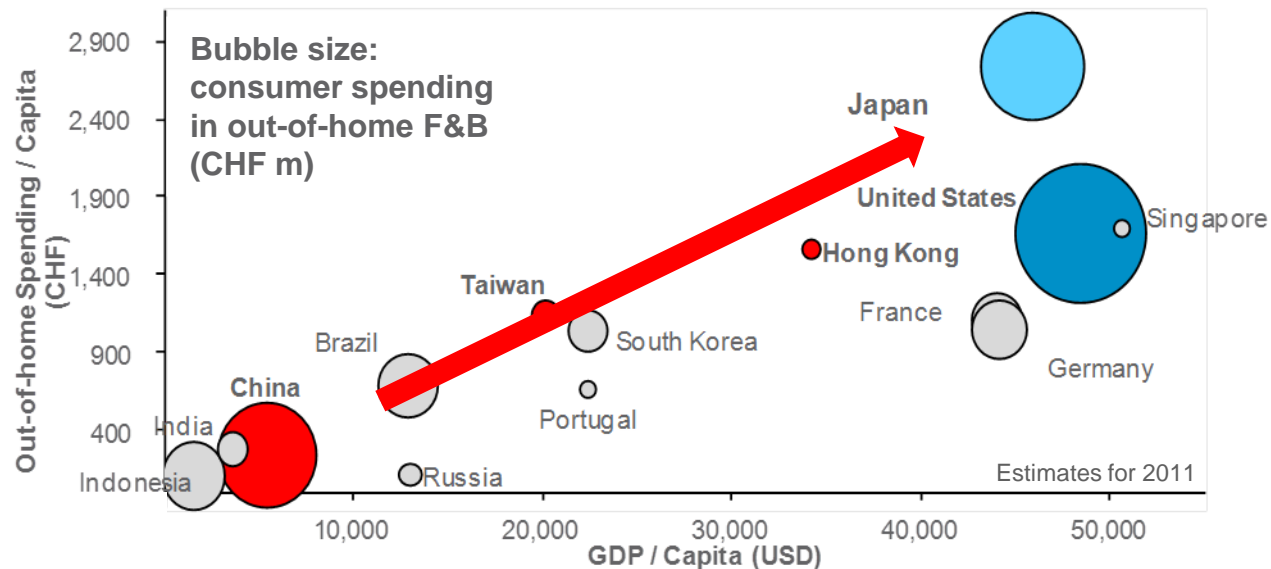
We will keep on developing the professional channels as out-of-home consumption increases in China



- US: largest out-of-home market, followed by Japan and China
- US/Japan: size driven by spending; high out-of-home spending / capita, but low growth
- China: size driven by population; low out-of-home spending / capita (RMB 1,800), but high growth

Source: Euromonitor , Nestlé Professional Global Food service Industry Channel Quantification Report 2012

We will keep on developing the professional channels as out-of-home consumption increases in China



With increasing disposable income and changing socio-economic demographics, out-of-home consumption increases

- US: largest out-of-home market, followed by Japan and China
- US/Japan: size driven by spending; high out-of-home spending / capita, but low growth
- China: size driven by population; low out-of-home spending / capita (RMB 1,800), but high growth

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Totole: A successful partnership in culinary products



2012

Mr Rong Yaozhong, founder of *Totole*, is still **General Manager** of the company after 13 years of successful partnership



2009

Opening of *Totole's* second factory

2001

Opening of Nestlé R&D centre

1999

Nestlé acquires 80% of *Totole*

1997

Opening of *Totole* factory

1988

Start manufacturing chicken bouillon

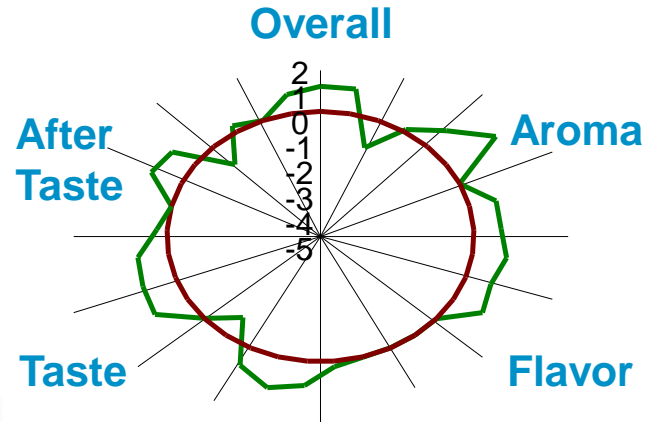


Totole local insights + Nestlé technology = Winning recipes

Totole local insights



Nestlé technology



Nestlé
Proprietary
technology
MHT STB

Winning recipes



... leading to a relevant portfolio for Chinese consumers



MSG range



3 'Xian' granulated chicken bouillon



Dehydrated bouillon



Paste and recipe mixes



Premium soya sauce & premium oil



Gel & liquid concentrated bouillon

Totole: A proven track record of managing sino-foreign partnerships

Nestlé-Totole
way to success:
Common values,
mutual learning,
respect of
differences



JV established



Nestlé R&D opened

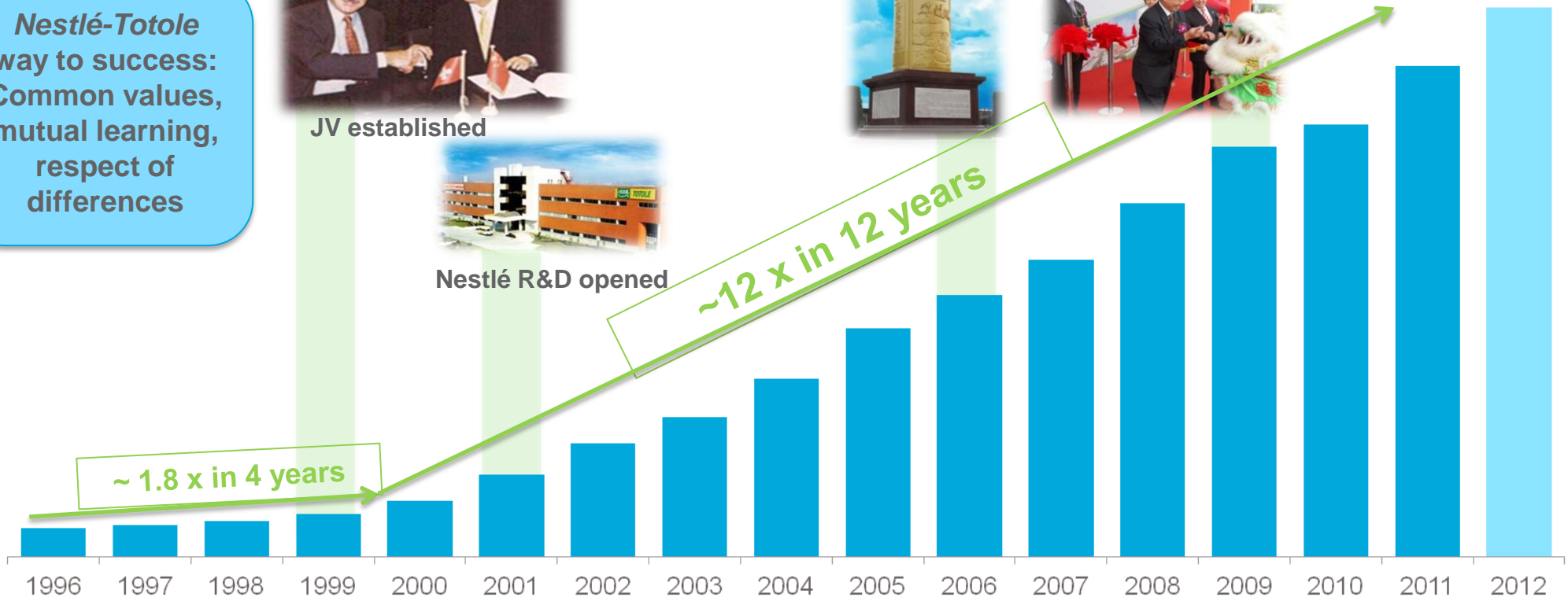


2nd factory opened



~12 x in 12 years

~ 1.8 x in 4 years



Source: CNCS, 2011

Yinlu is an ideal platform to become a major player in healthy dairy-based beverages and nutritious congees



60/40 partnership with
founding families
Headquartered in Xiamen

Traditional trade & deep penetration



- 8,000 sales people
- >700,000 outlets covered

Chinese relevant products



- Leader in Ready-To-Eat congee and Ready-To-Drink peanut milk

High operational efficiency & aseptic experience



- 3 large-scale factories

...with a range of leading healthy & nutritious products



Peanut milk range



Red date peanut milk



Milk peanut



'Eight Treasure' congee

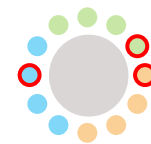


'Hao Zhou Dao' congee

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Quality, food safety and compliance are our non-negotiable priorities



✓ ***Quality is our biggest boss...***

Making it the cornerstone of our operation, we never compromise with food safety and compliance

...a consistent engagement

Continuous consultation and cooperation with authorities, academics and trade associations

...across the whole value chain

Long-term partnerships with farmers and very stringent selection and control of raw and packing materials

...in each of our factories

Strict implementation of the Nestlé Quality Systems with comprehensive quality controls at each manufacturing step and full compliance with regulation

...with the most advanced technology

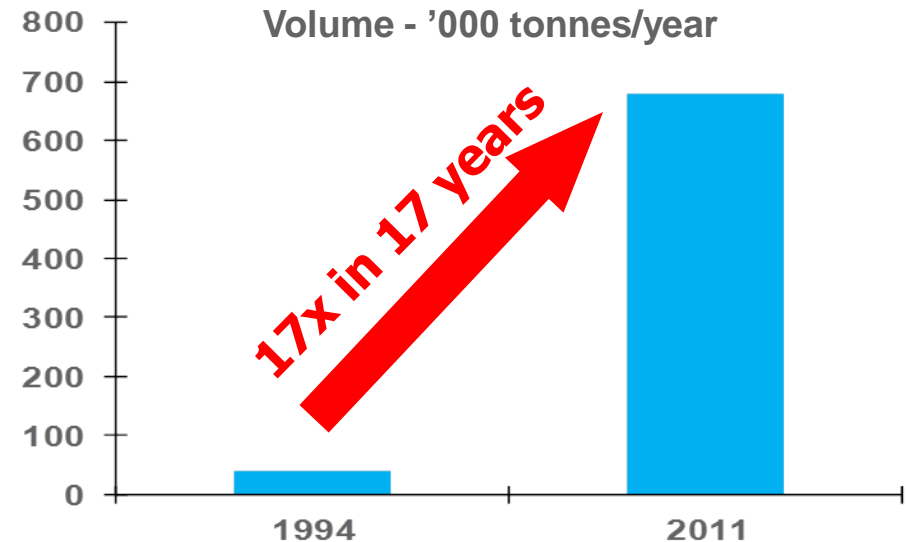
Investment in state-of-the-art equipment and best-in-class analytical capabilities



Long-term cooperation benefiting thousands of farmers

1. Fresh milk collection

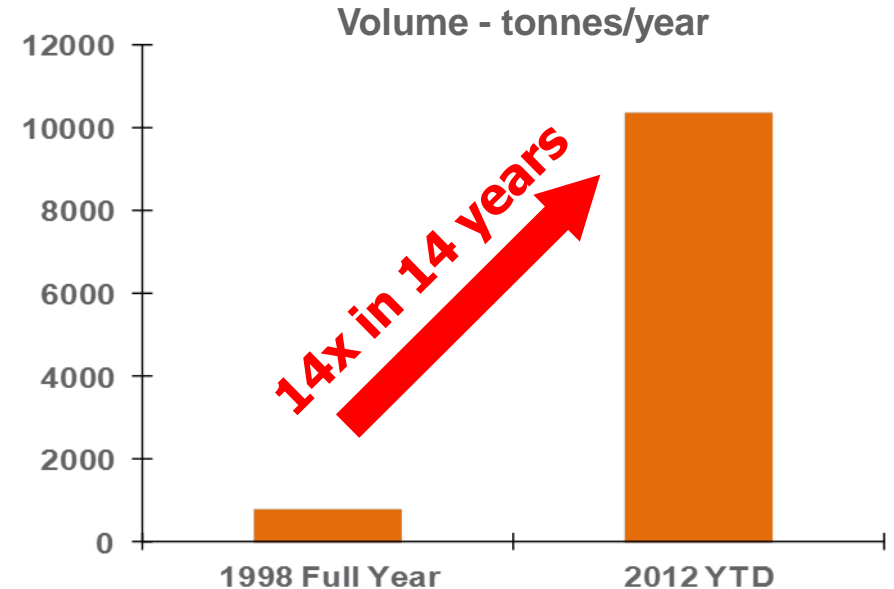
- Local fresh milk collected and processed every day
 - Daily fresh milk payments to farmers
 - With multiplying direct/indirect effect on local communities: ~ 200,000 people
- In 2011, Nestlé agronomists trained ~17,000 farmers
- **World-Class Dairy Farming Institute** under construction in Shuangcheng, to support the sustainable development and the modernisation of the dairy industry in China



Long-term cooperation benefiting thousands of farmers

2. Coffee culture

- Nestlé has helped pioneer coffee growing in Yunnan province
 - Nestlé Agriculture Technical Assistance: world class support to coffee growers
 - Experimental training and demonstration coffee farm: model of best practices
 - Trusted, reliable buyer of coffee beans at stable and competitive price
- June 2012, Rio, Brazil: Received the **World Business and Development Award** for *Innovative & productive business practices that benefited Chinese society*



Key Enablers

Human Resources

- Attract, develop & retain local talents

Sales & Distribution

- Expand distribution depth, strengthen effectiveness & expertise

Research & Development

- Transfer & build expertise and know-how with strong Chinese insights

Technical

- Anticipate growth with best-in-class production capacity & organisation

Greater China Region: a strong growth engine for Nestlé



✓ Double-digit sales & profit growth “the Nestlé way”

✓ Positive 2012 outlook

✓ A quantum size leap:
2 new partners in 2011

✓ Proven track record of
winning with local partners

✓ Comprehensive portfolio
& deep Chinese insights

✓ Creating shared value
from farm to chopsticks

Winning in the New Reality





Thank You !

谢谢 !