Nestlé in Japan:
Winning in the New Reality

Kohzoh Takaoka
President and CEO
Nestlé Japan

Nestlé Investor Seminar, Shanghai
September 25th, 2012

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.

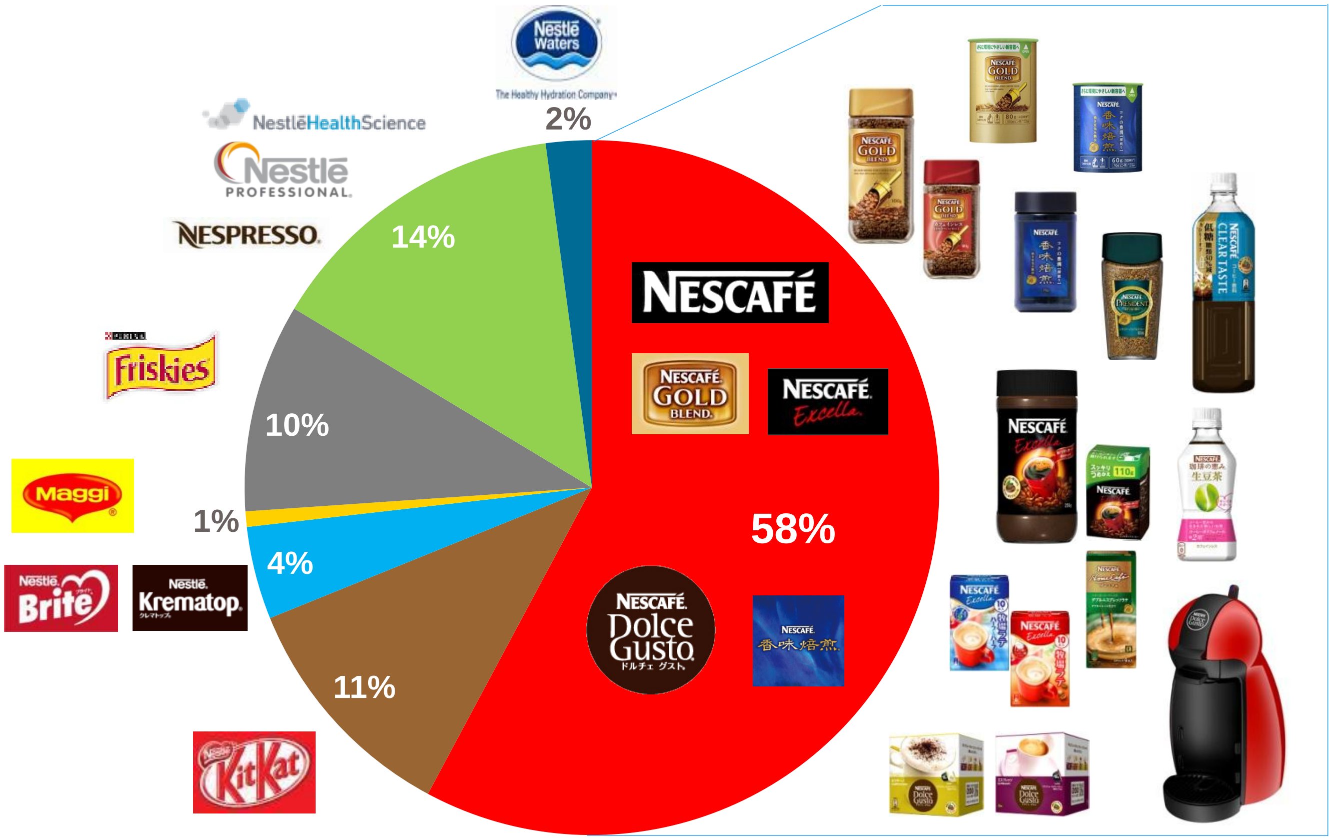
Agenda

1. Introducing Nestlé Japan

2. Winning in The New Reality

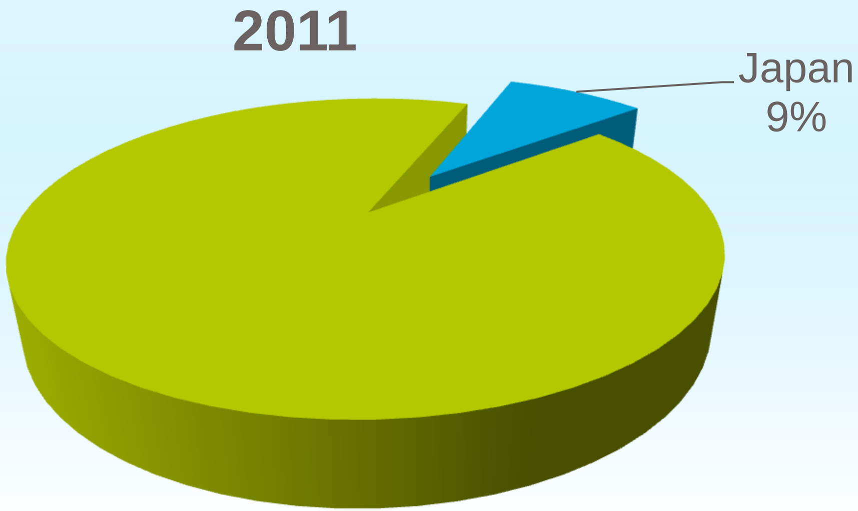
3. Performance

Sales by category of Nestlé in Japan 2011



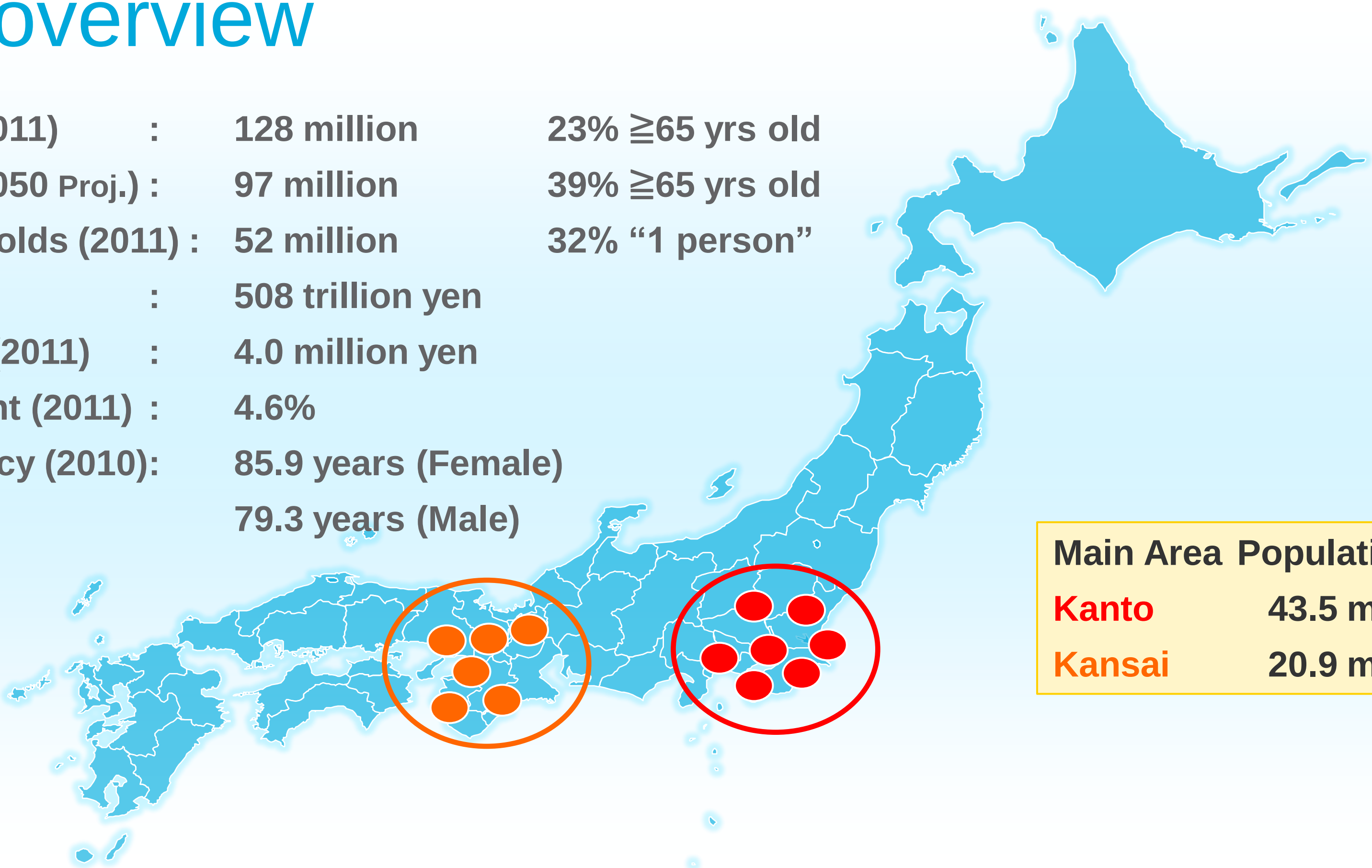
- Powdered and Liquid Beverages
- Confectionery
- Milk Products
- Prepared Dished & Cooking Aids
- PetCare
- Nestlé Professional / Nestlé Health Science / Nespresso
- Nestlé Waters

Sales contribution in total AOA



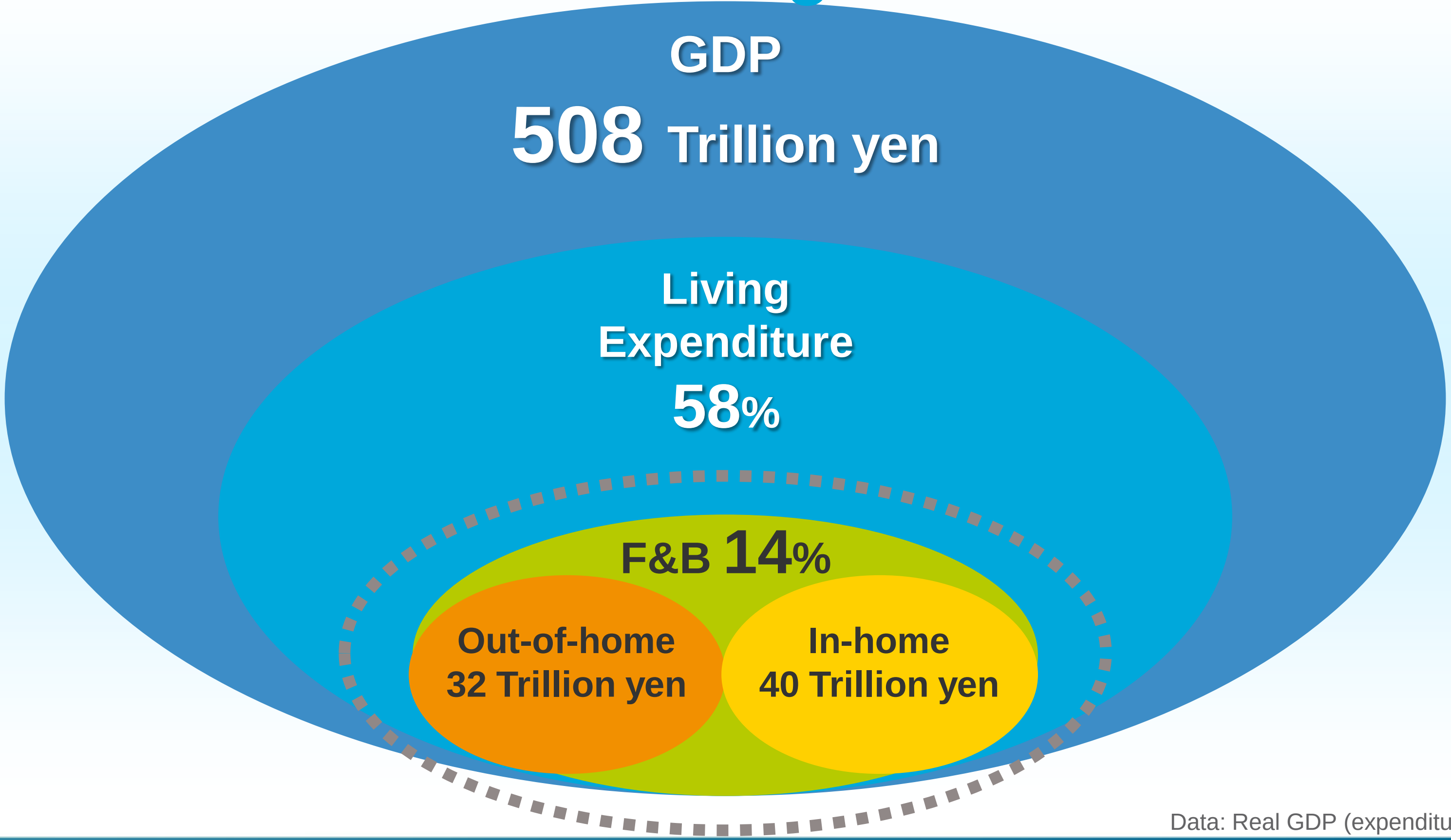
Japan overview

Population (2011)	:	128 million	23% ≧65 yrs old
Population (2050 Proj.)	:	97 million	39% ≧65 yrs old
No of Households (2011)	:	52 million	32% “1 person”
GDP (2011)	:	508 trillion yen	
GDP / Capita (2011)	:	4.0 million yen	
Unemployment (2011)	:	4.6%	
Life Expectancy (2010)	:	85.9 years (Female)	
		79.3 years (Male)	



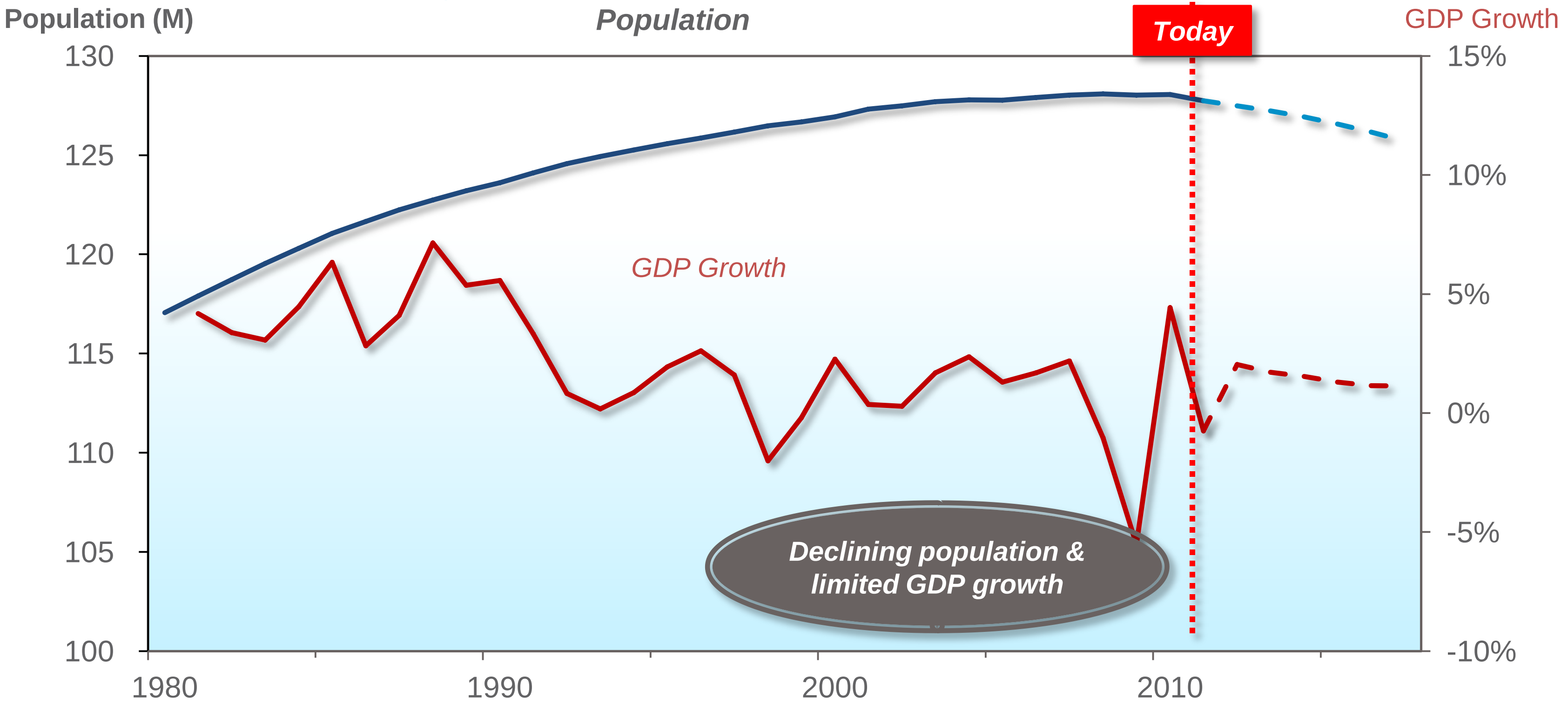
Main Area	Populations
Kanto	43.5 million
Kansai	20.9 million

Japan’s Food and Beverage market



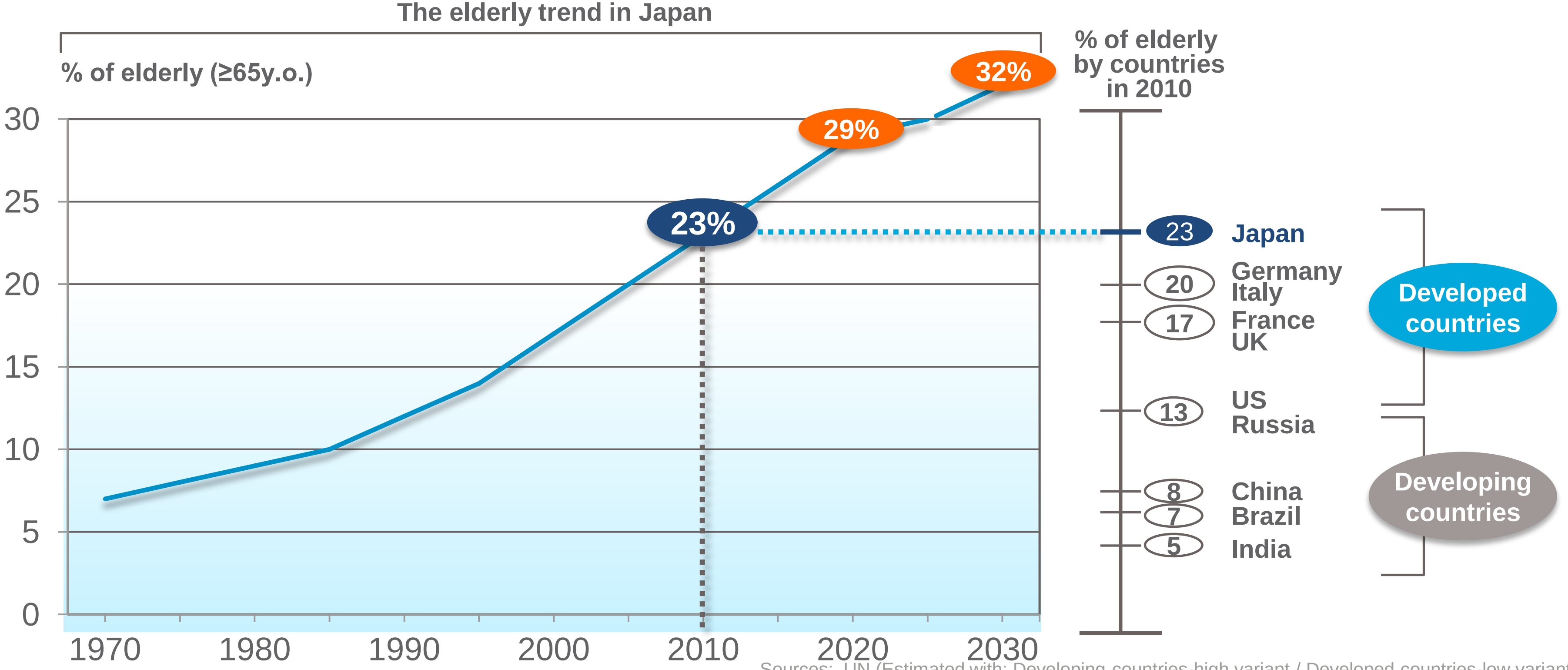
Data: Real GDP (expenditure basis) in 2011

The New Reality – challenges
No more overall growth / saturated market



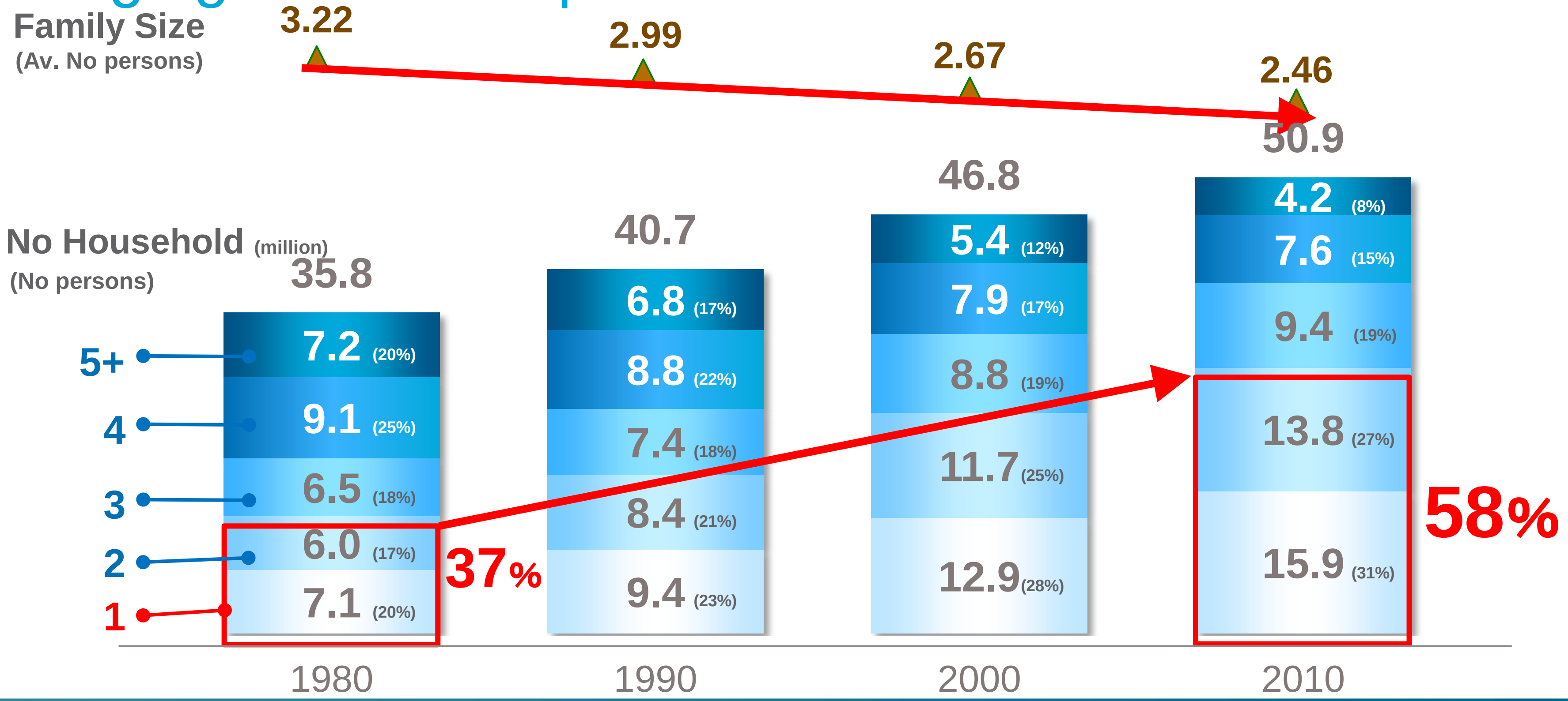
Sources: National Institute of Population and Social Security Research; UN; IMF

The New Reality – challenges & opportunities: Ageing population

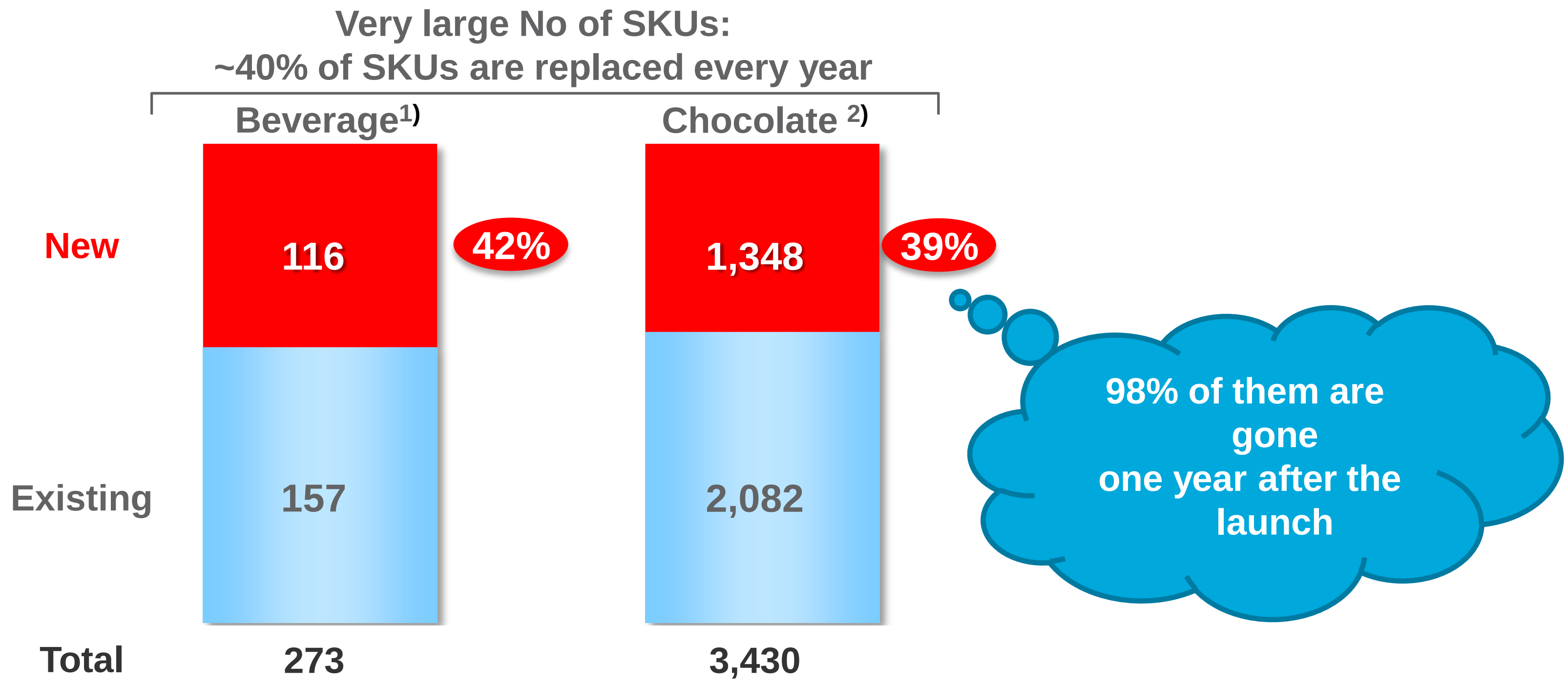


Sources: UN (Estimated with: Developing countries-high variant / Developed countries-low variant)

The New Reality – Challenges & Opportunities: Changing household profiles



The New Reality – Challenges & Opportunities: Consumers demand a lot of new products

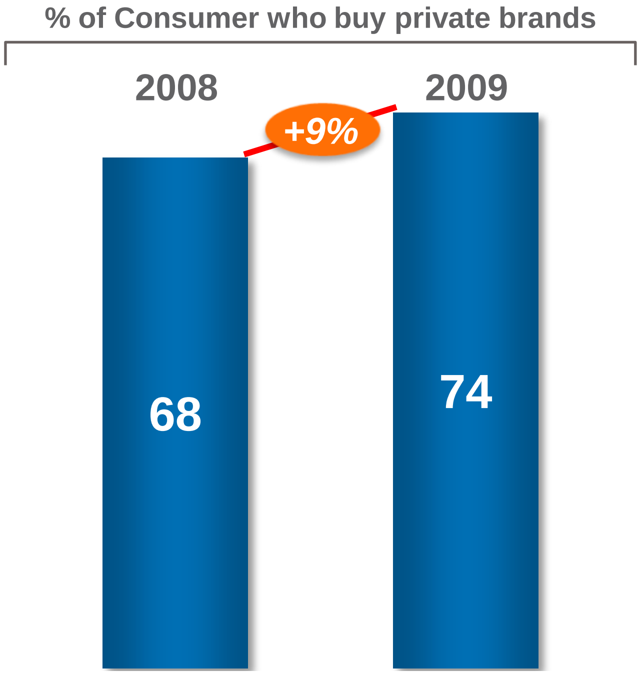


1) 2011 for Canned Liquid Coffee   2) 2011 for Chocolate

Sources: 1) ASD 2) Intage SRI

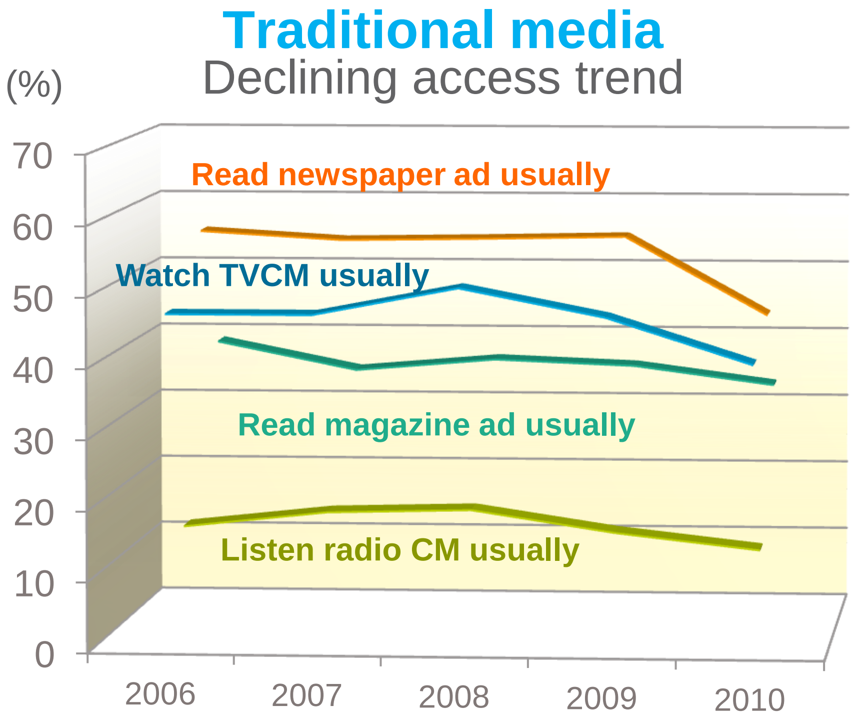
Nestlé

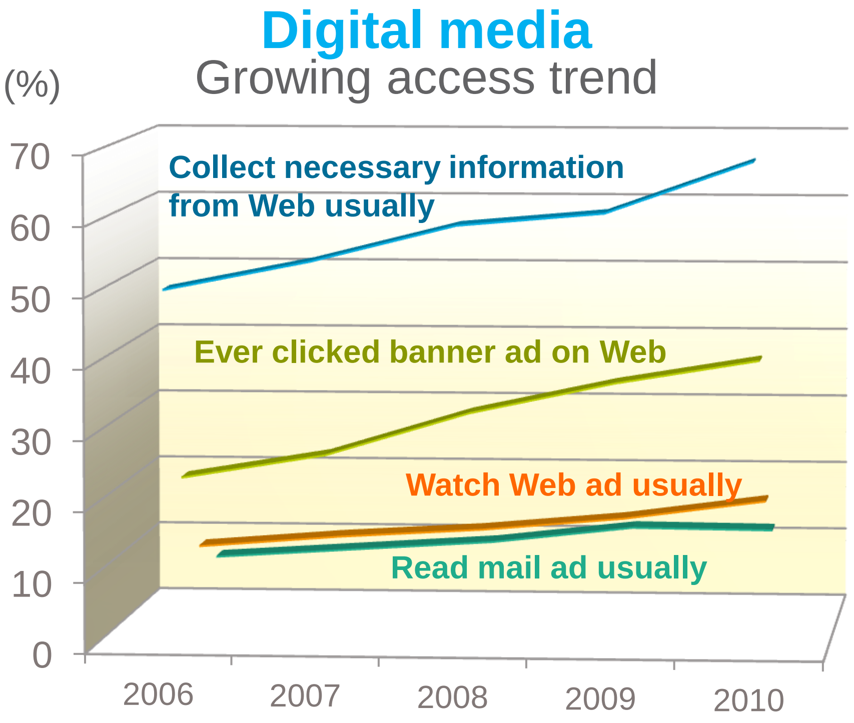
The New Reality – Challenges & Opportunities: Consumers shopping smarter & looking for lower prices



Sources: METI; Fuji Keizai

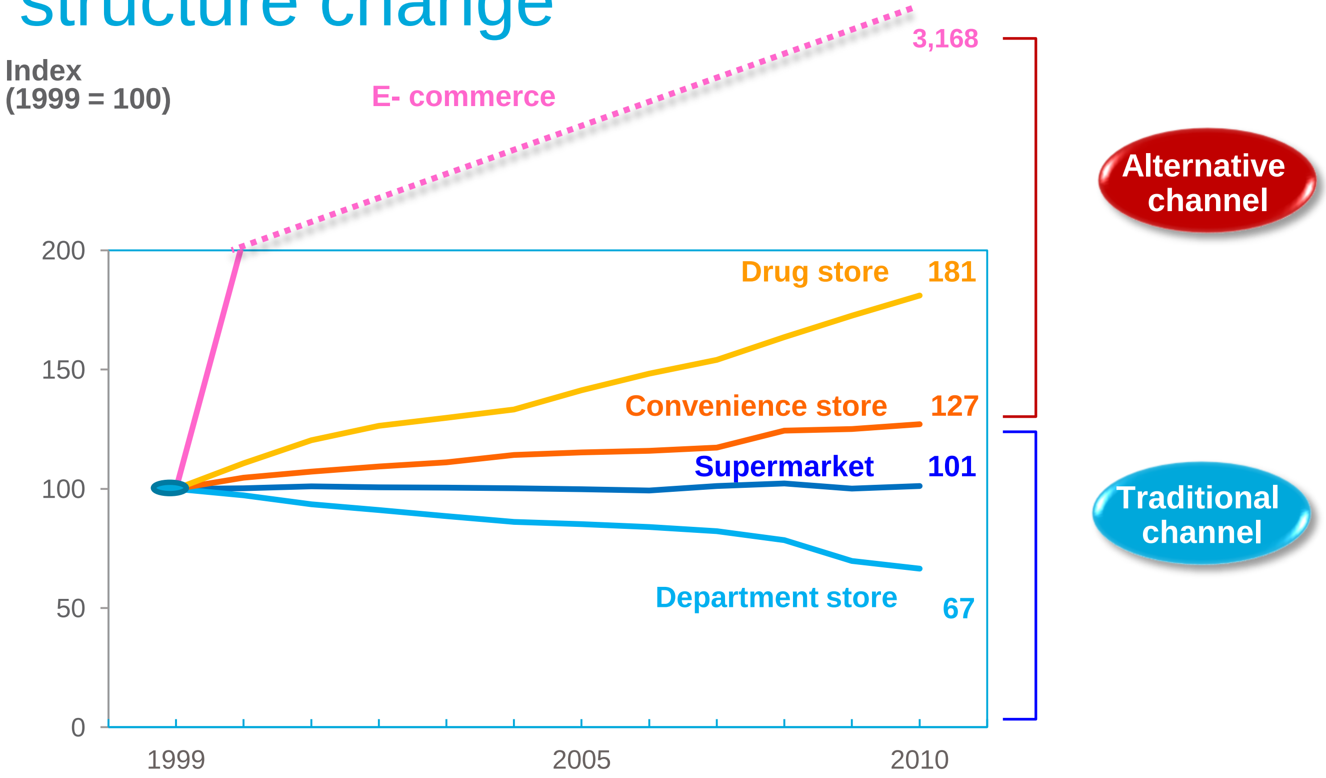
The New Reality – Challenges & Opportunities: From traditional to digital in consumer communication





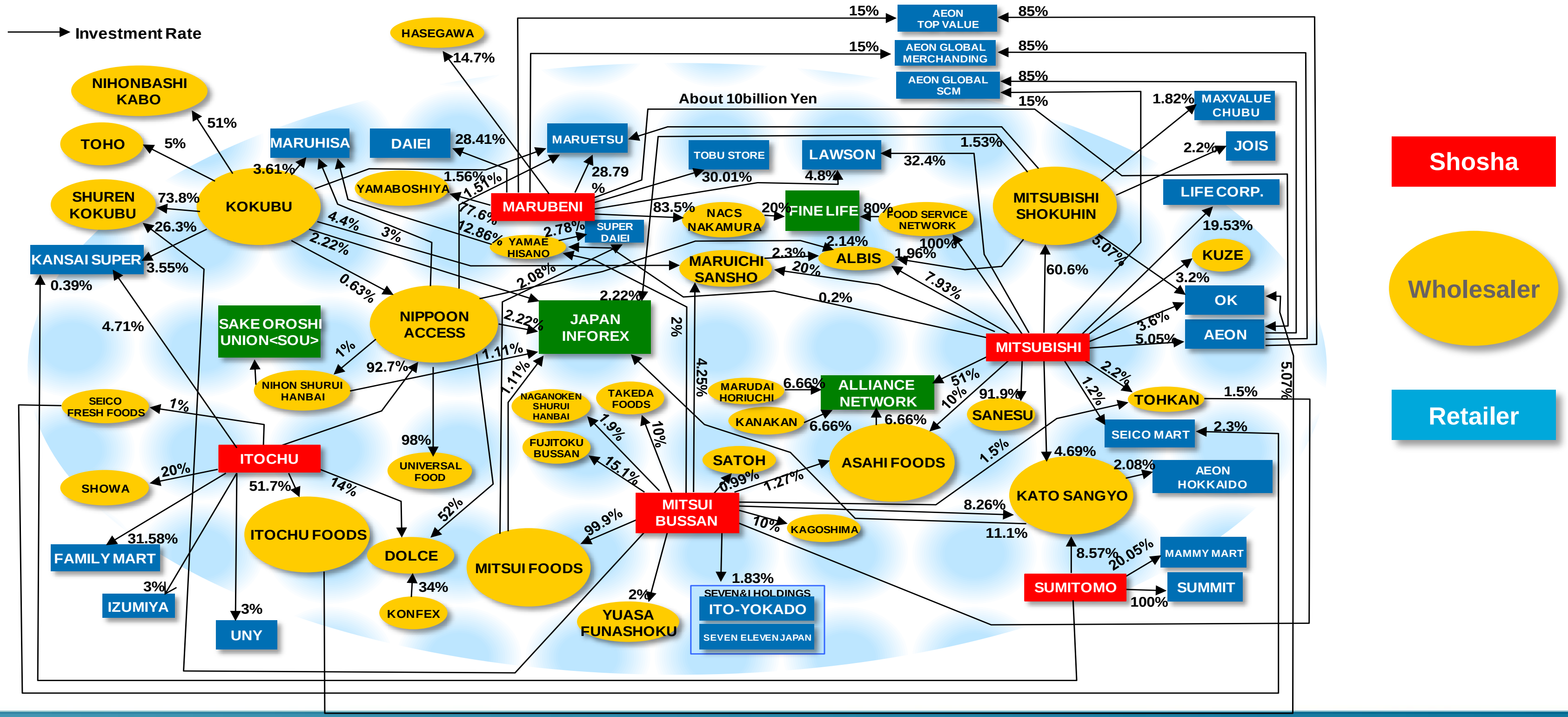
Source : Hakuhodo HABIT2011

The New Reality – Challenges & Opportunities: Channel structure change



Source: METI / Fuji keizai

The New Reality – Challenges & Opportunities: Complex traditional trade still a reality



Challenges & Opportunities in The New Reality

Declining total population, increasing single households and elderly population

Increasing polarisation of wealth and consumption

High demands for quality, innovation, freshness and customisation

High "nutrition awareness"

Highly developed alternative communication

Shifting from traditional channels to emerging new channels

Highly complex traditional trade still a reality

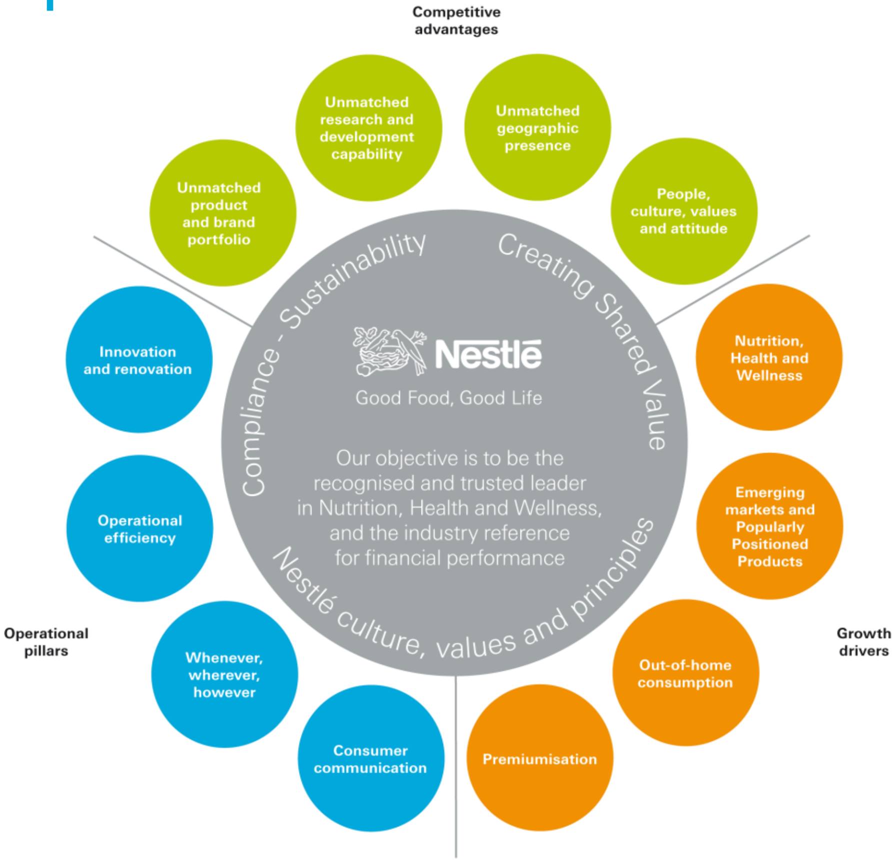
Agenda

1. Introducing Zone AOA

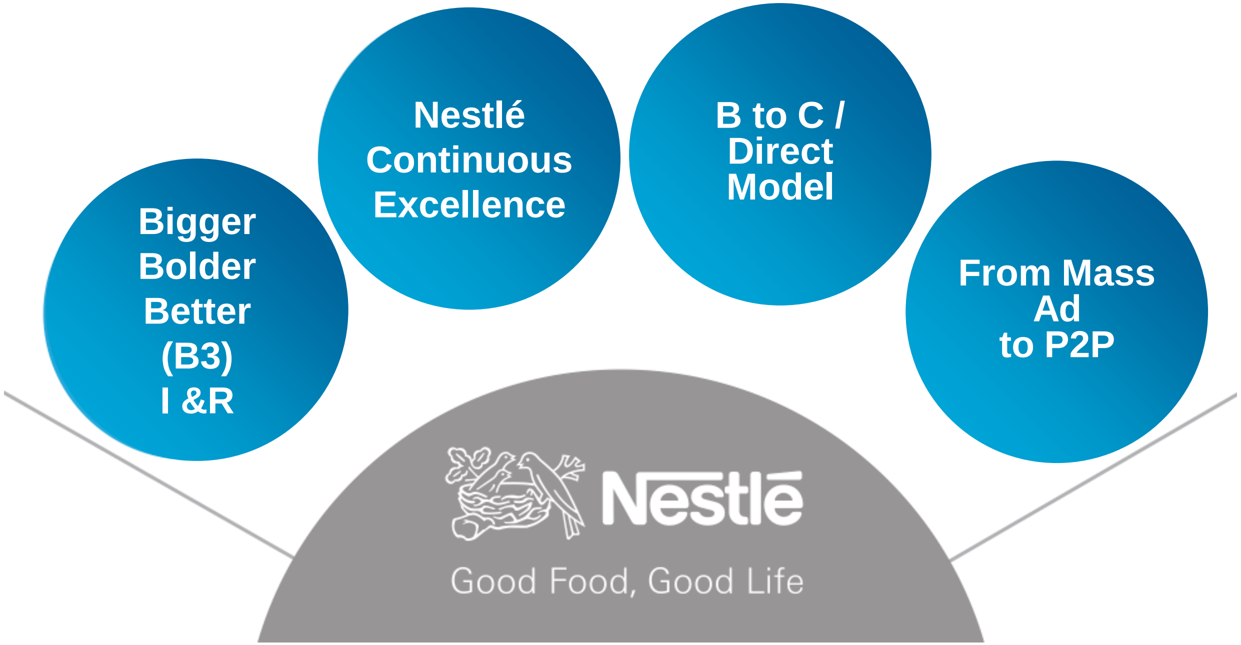
2. Winning in The New Reality

3. Performance

The Nestlé Strategic Roadmap to Win in The New Reality



Strategic enablers to achieve Nestlé-in-Japan Mission



NESCAFÉ Barista enjoys great popularity

B3
Innovation

Now the best-selling coffee machine in Japan
Launched in March 2010

'Drink instant-coffee-machine style' is catching on

Enjoy a cup of café latte for 25 yen !

10% of machine purchasers are R&G coffee drinkers

5 kinds of café menu with one button

Machine price reasonable

NESCAFÉ Dolce Gusto Creating new segment in coffee machine market

B3
Innovation

Enjoy fresh taste & aroma and varieties anytime using capsule for *NESCAFÉ Dolce Gusto*, completely new and different from traditional electric coffee maker

Nestlé

Kit Kat "Sweetness for Adults" Reinforces *Kit Kat* brand

B3
Innovation

- Differentiated brand image from original *Kit Kat*
- Gained market share

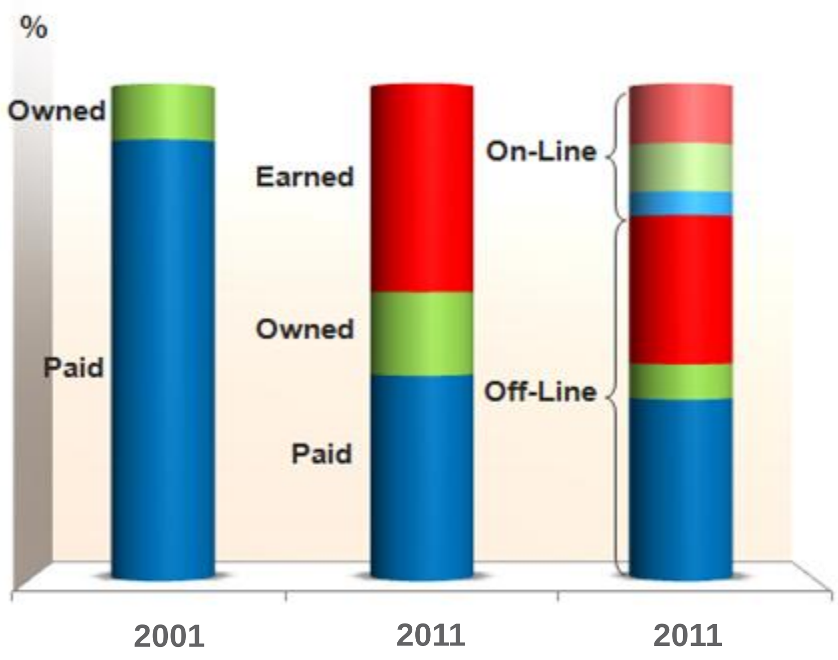
⇒**Real 2nd pillar to the brand!**

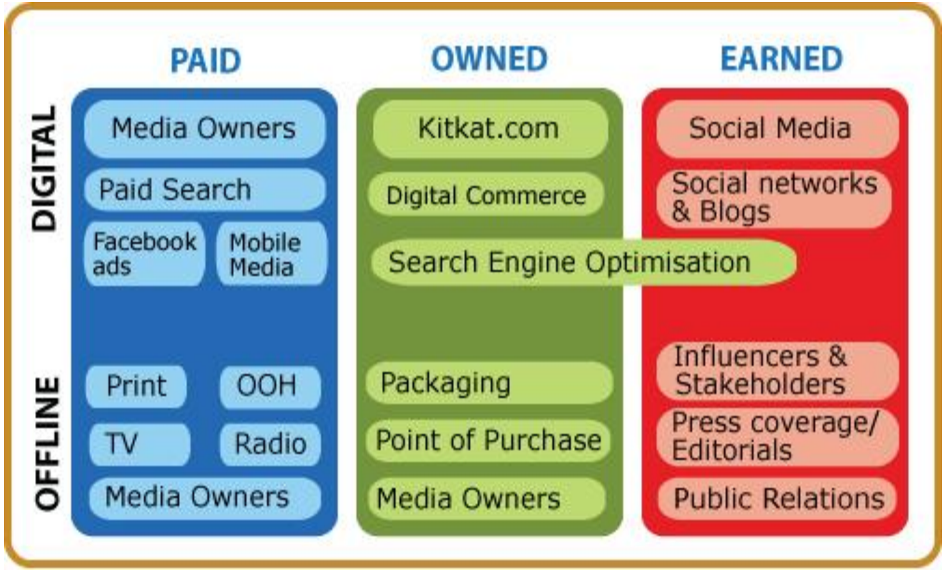
Crushed dark biscuits mixed into chocolate mass

- Unique texture
- Enhanced lightness
- Less sweet

Move to digital accelerates owned/earned Media value

Mass Ad to P2P





KIT KAT strengthens brand value by PR exposure
5 times more PR exposure than TV every year

Mass Ad to P2P

KIT KAT **Juken Campaign**

- Campaign born from consumers' word-of-mouth

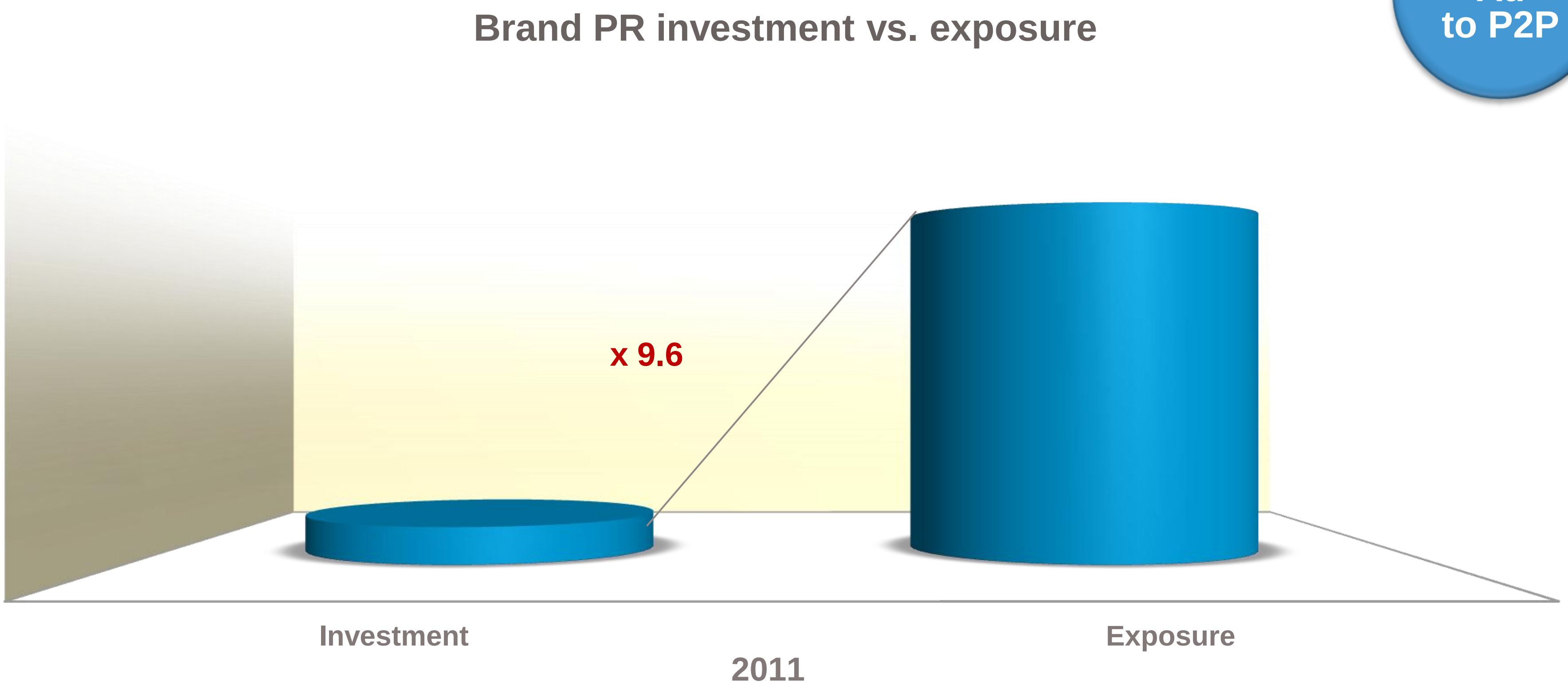
  KIT KAT sounds like Kyushu's dialect "Kitto Kattoh" (Surely win!)' and has become a lucky charm for Juken among students since around 2002
- Sending message through 'third party' makes the news more public and sympathetic
- Students bring it to test room, or teachers, family, or friends send it to students to cheer them up

KIT KAT X Japan Railway

KIT KAT X Japan Post

Our PR activities are on the right track

Mass Ad to P2P



Nestlé Consumer site contains E-commerce, brand communication, membership programme, entertainment for wider access and CRM

Registered members：2.5 million (as of the end of July, 2012)
The number of page views: 270 million（2011 in total）

Brand contents

nestle.jp

Entertainment contents

Online shopping

Channel development
Established direct selling as growth driver

Direct Model

'Nestlé on-line shopping'

NESCAFÉ Barista
Innovations beyond products

Direct Model

New Innovative business model exploration - *NESCAFÉ* BARISTA office

- Unique opportunity : 5.3 m small offices

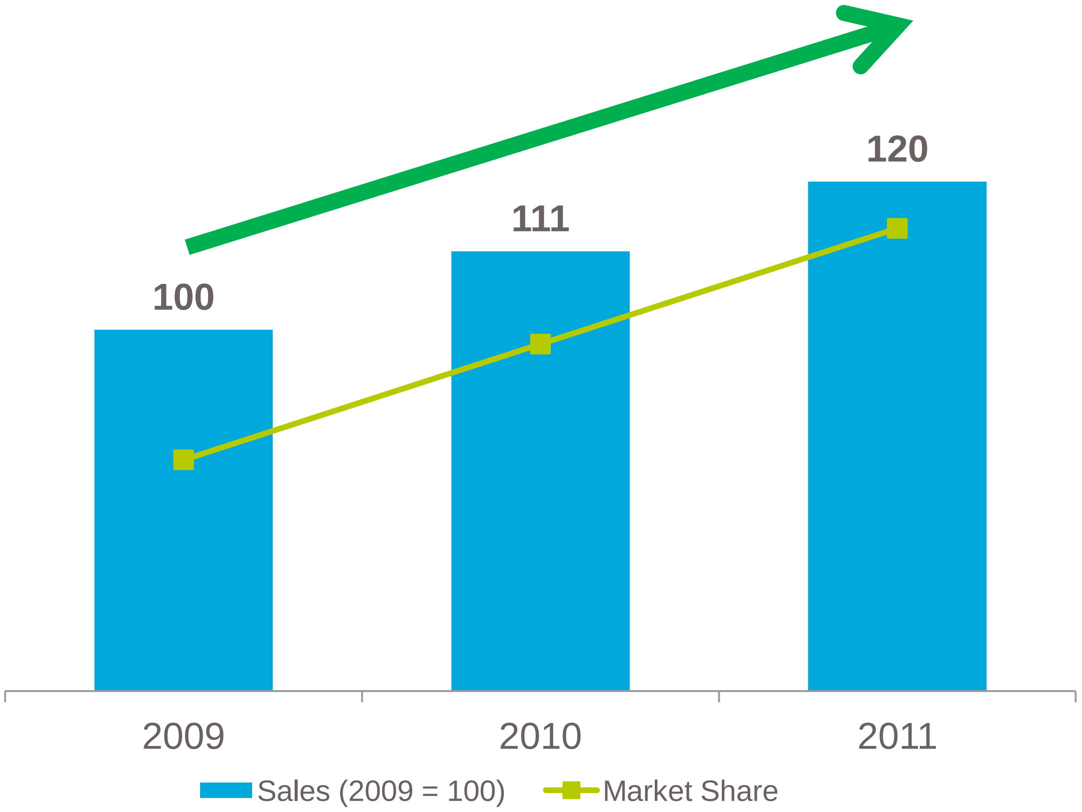
- New business model idea:
  - Installation of free *NESCAFÉ* BARISTA machine
  - *NESCAFÉ* ambassadors engagement
  - Direct sales of coffee

- Test sales (Jun.-Jul. 2012) successfully done in Hokkaido region

- Exploring national roll out

TV infomercial

Evolution of Nestlé Health Science in Japan



Current businesses

- Ageing care
- Critical care
- Paediatric

Future opportunities

- Metabolic health
- Gastrointestinal
- Brain health

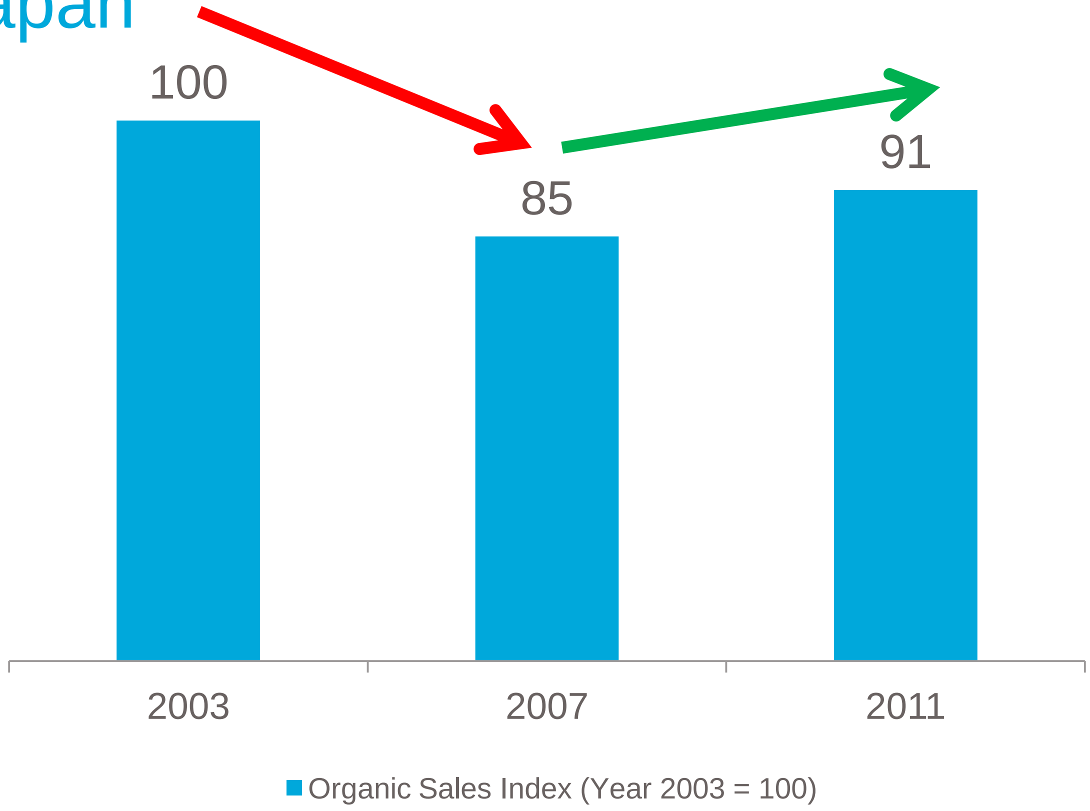
Agenda

1. Introducing Zone AOA

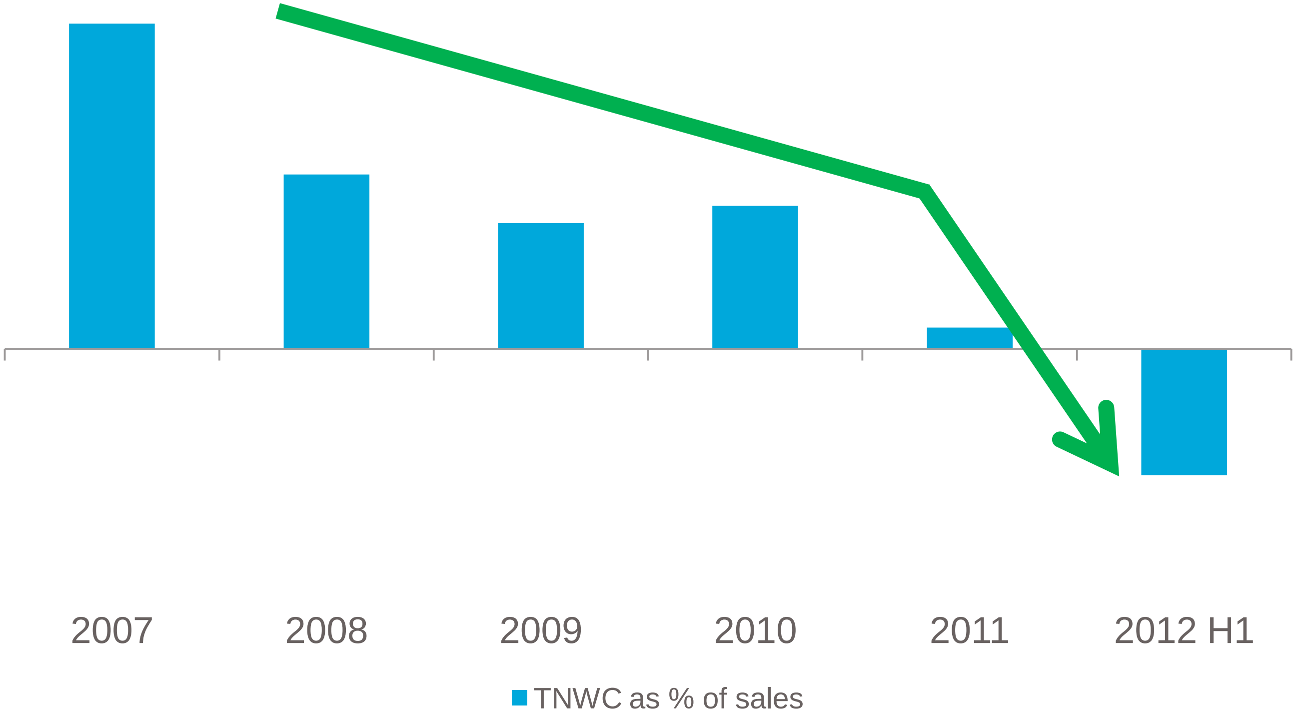
2. Winning in The New Reality

3. Performance

Return to sales growth Nestlé in Japan



Acceleration of working capital improvement Nestlé in Japan



Nestlé

Winning in the New Reality in Japan

The New Reality	Nestlé Japan's Response
✓ Unfavorable demographic trends – shrinking and ageing population	✓**Return to Sales Growth**
✓ Consumers becoming more demanding and value conscious	✓**Accelerated Profit Margin improvement**
✓ Traditional Media giving way to Digital Media	✓**Increased Capital Efficiency**
✓ Sales channel structure evolving from "Traditional" to "Alternative"	***With emphasis on:***
✓ Complex and expensive trade structure still remains relevant	◆**B3 innovations**
	◆**Direct business model**
	◆**From Mass Ad to P2P communication**
	◆**Nestle Continuous Excellence**

Nestlé

Thank you!

Q & A