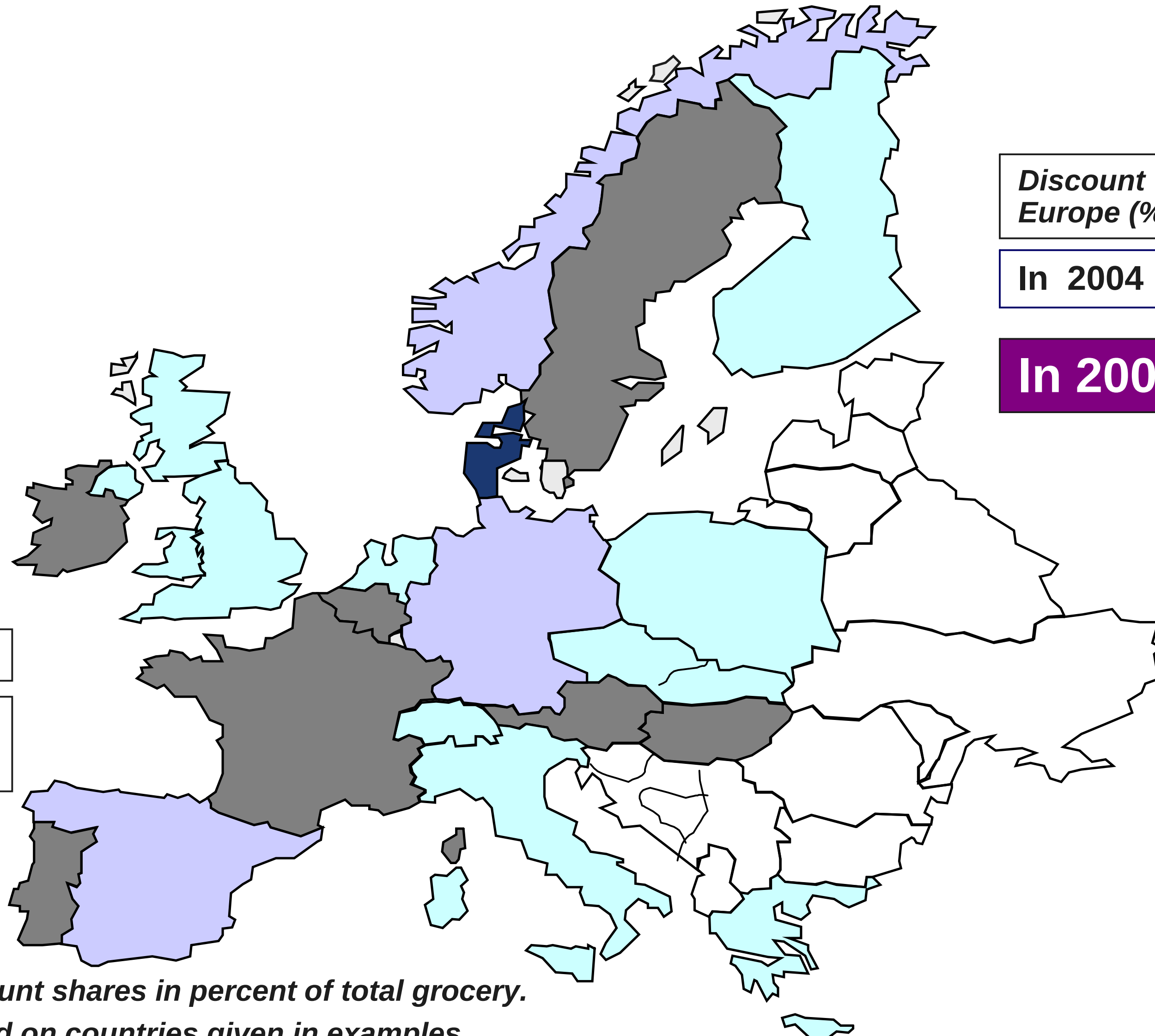
Nestlé Investor Seminar
European Discount Initiative - Hervé Cathelin

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.

Discounters have 18% value share - expected to grow

Discount market shares (%):
6-10
11-20
21-30
31-45



Discount value shares Europe (%)	
In 2004	18
In 2008	**??**

Growth rates, p.a. (%)	
Discounters:	5-10
Traditional retail:	1-3

- ***N.b.*** ***Discount shares in percent of total grocery.***
- ******* ***Estimate based on countries given in examples.***

Source: AC Nielsen, GfK 2003

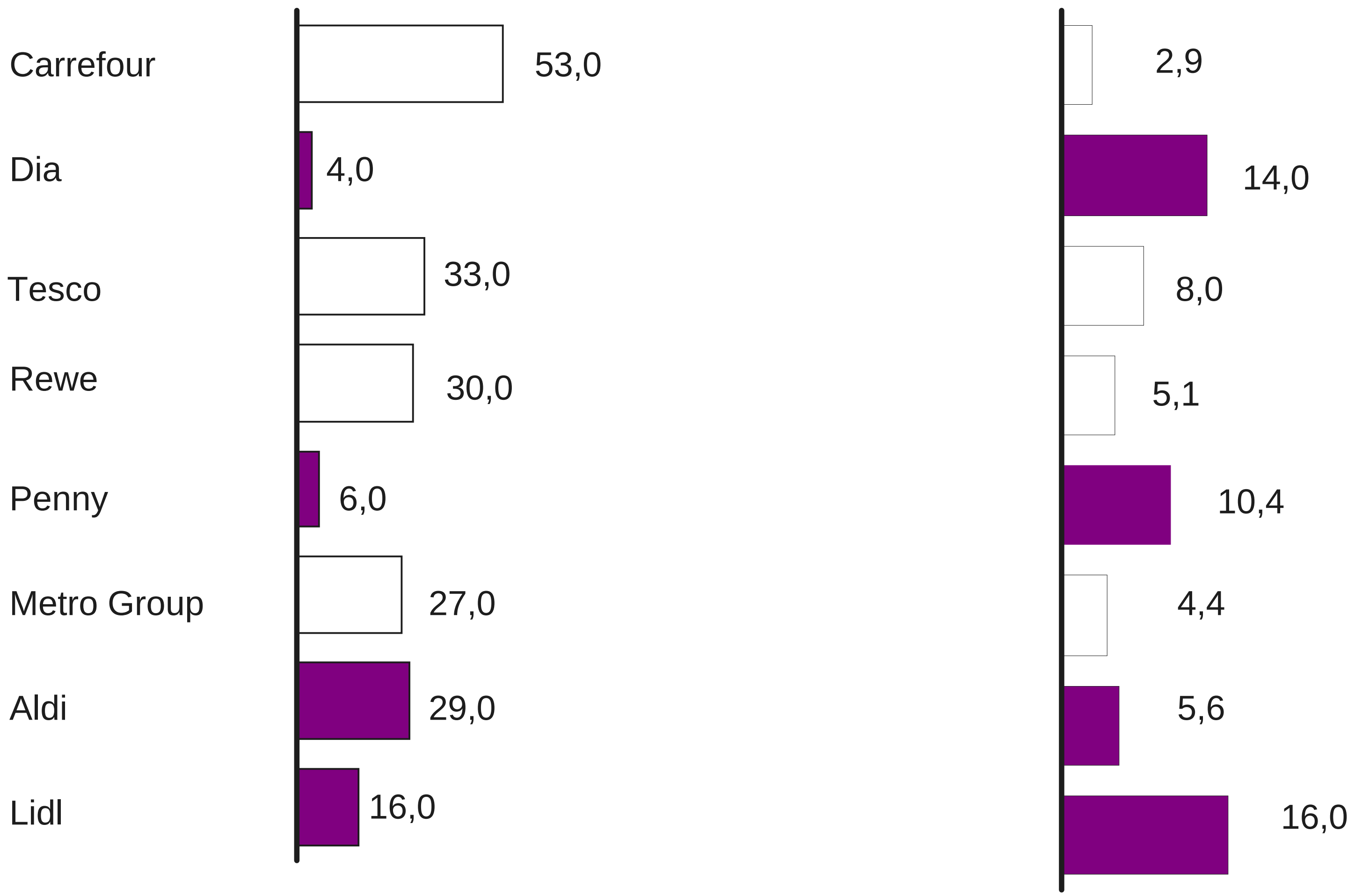
Discounters outperform traditional retailers

Grocery net sales

EUR bn

2003

CAGR 2000 – 2003 (Percent)

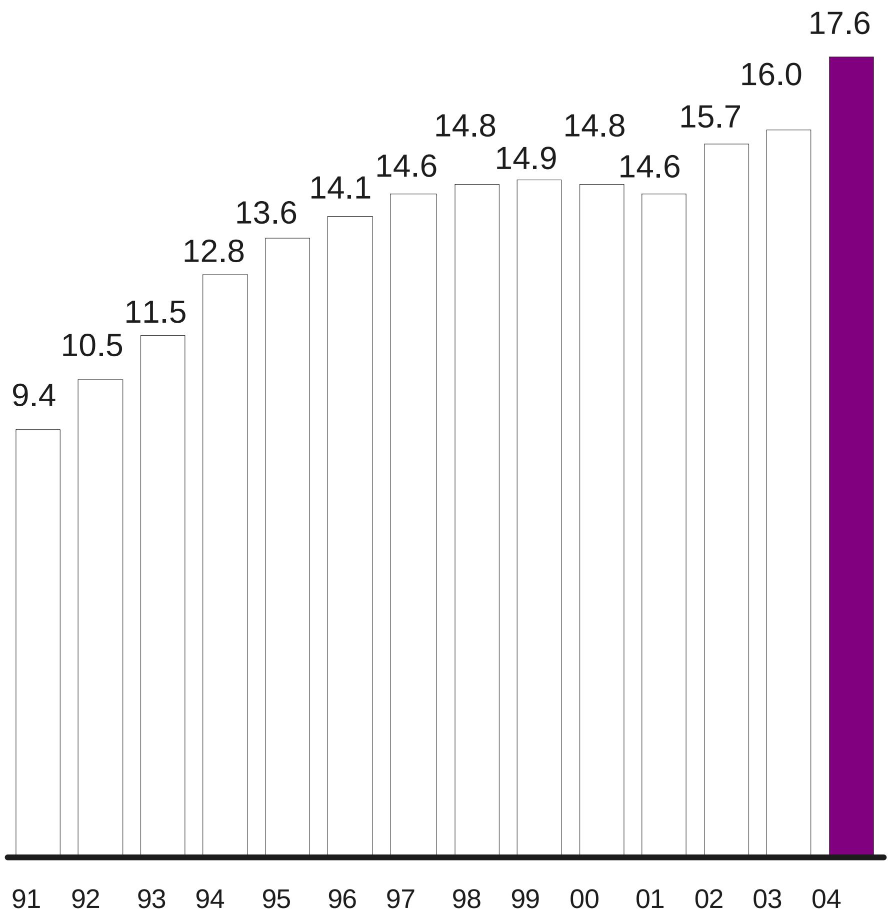


Remark: Exchange rate effects not excluded

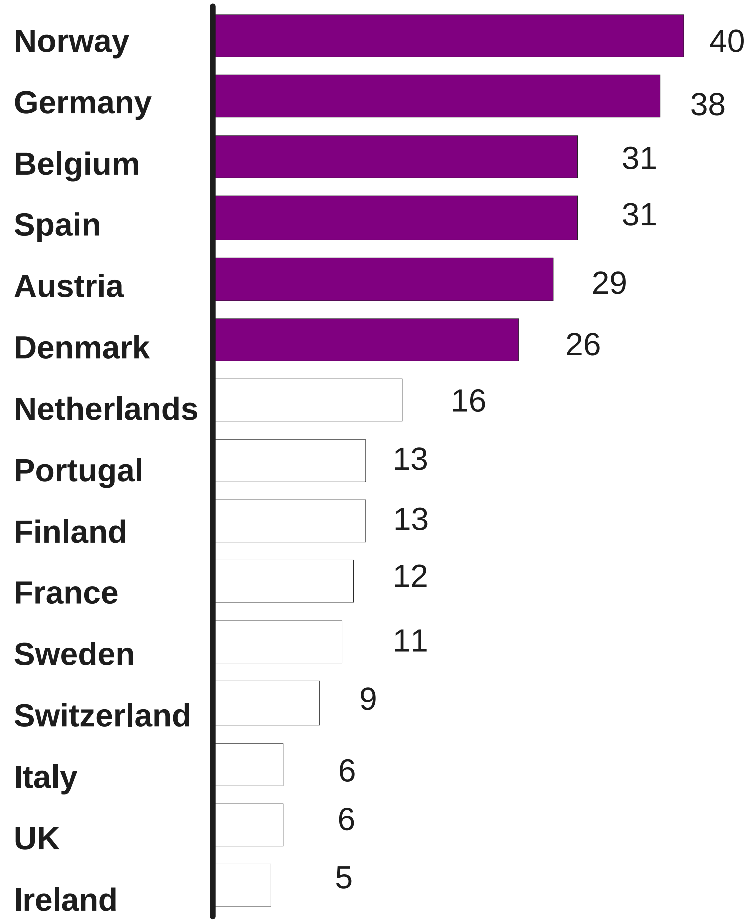
Source: M+M PlanetRetail

Discounter channel growth

Development of discounter share in Europe 1991 - 2004



Discounter share by market 2003



Source AC Nielsen, TNS

The Players

Discounter types	1: "Private label world"	2: "Branded fighter"	3: "Daily provisioner"	4: "Hyper-discounter"
	Strong private label discount	Aggressive discount chain with top brands	City provisioner with higher share of brands	Discounter for stocking, often outside; more variety
Profile based on key criteria	• **Focus on private labels** (90-100% private labels) • Very limited product ranges	• **"Balanced" brand share** (at least one third of products branded) • Limited product variety • **Every Day Low Price**	• **Favourite brands**; significant brand share (more than 50%) • Reduced assortment	• **Favourite brands** • **Larger assortment** (e.g. Mercadona >5,000 SKUs) • Work with promotions

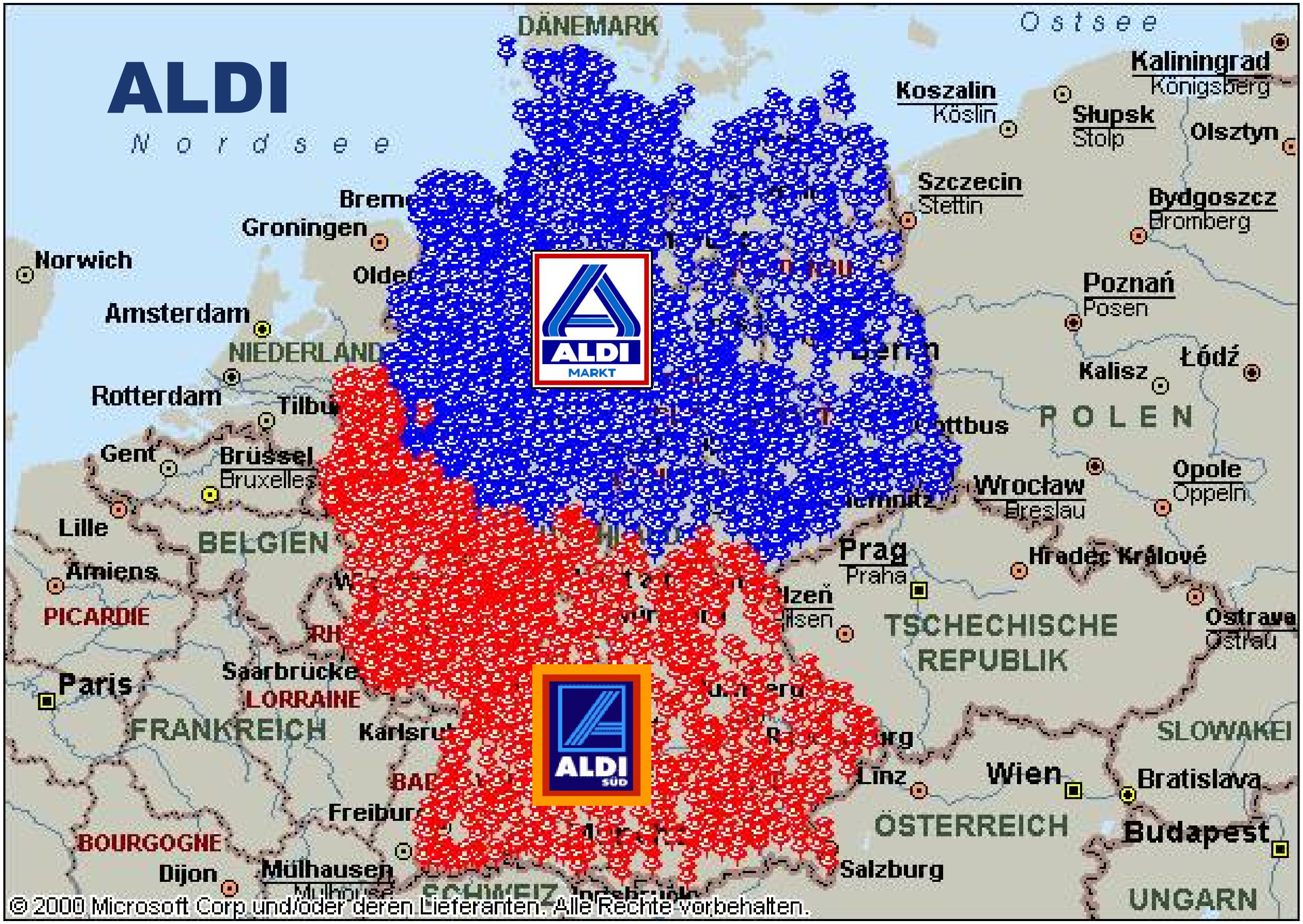
Plus and Lidl are gaining market share among German discounters

Discount stores	Food Market shares 2002 in %	Food Market shares 2003 in %	Food Market shares 2004 in %*
Aldi	43.3	41.8	41.2
Lidl	20.1	20.8	21.2
Penny	12.1	11.7	11.2
Plus	10.0	11.2	11.8
Netto	7.4	7.7	7.7
Norma	4.8	4.7	4.7
Others	2.3	2.1	2.2
Total	100.0	100.0	100.0

***First estimation February 2005**

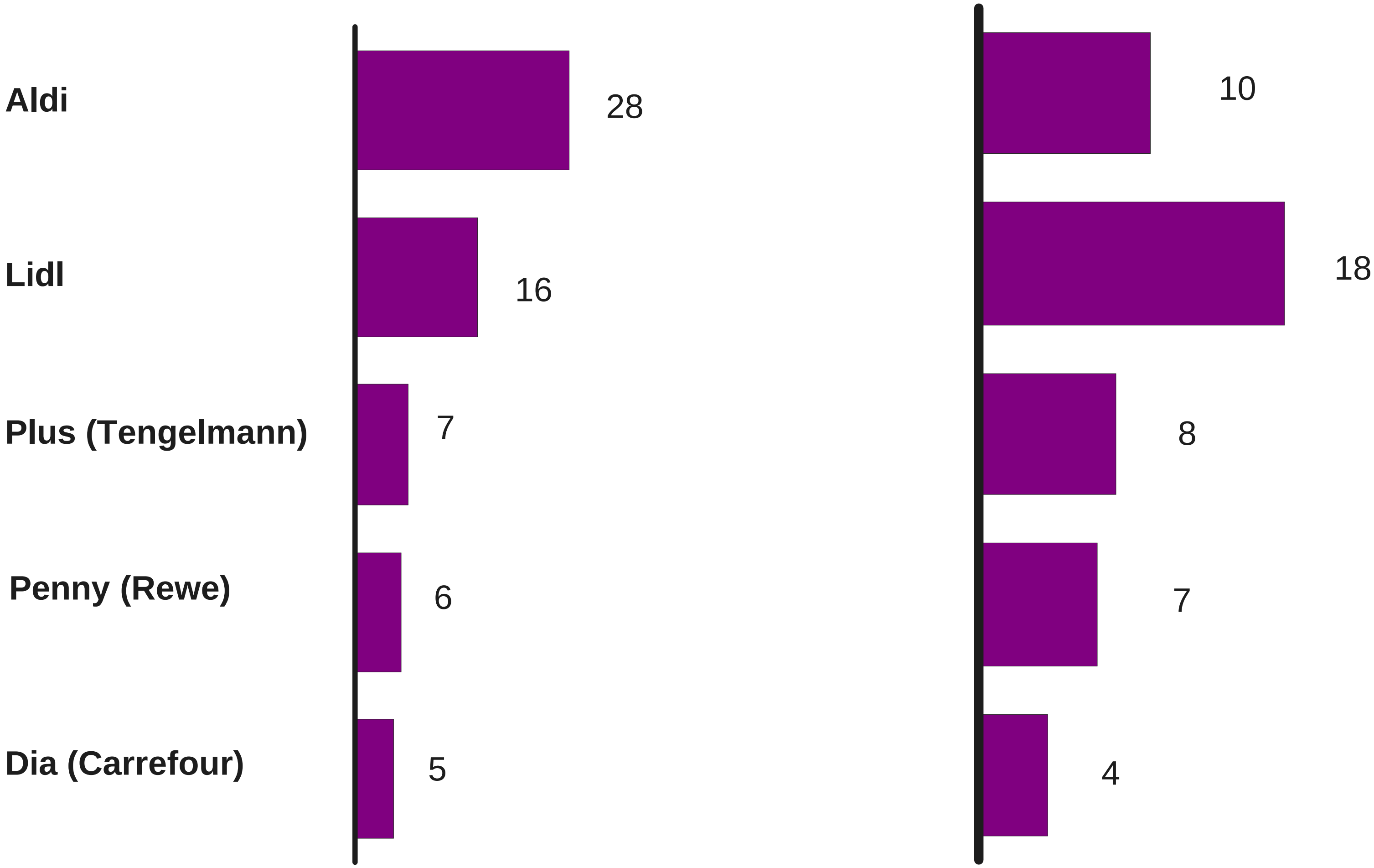
Source: M + M Eurodata

Aldi on every city corner in Germany

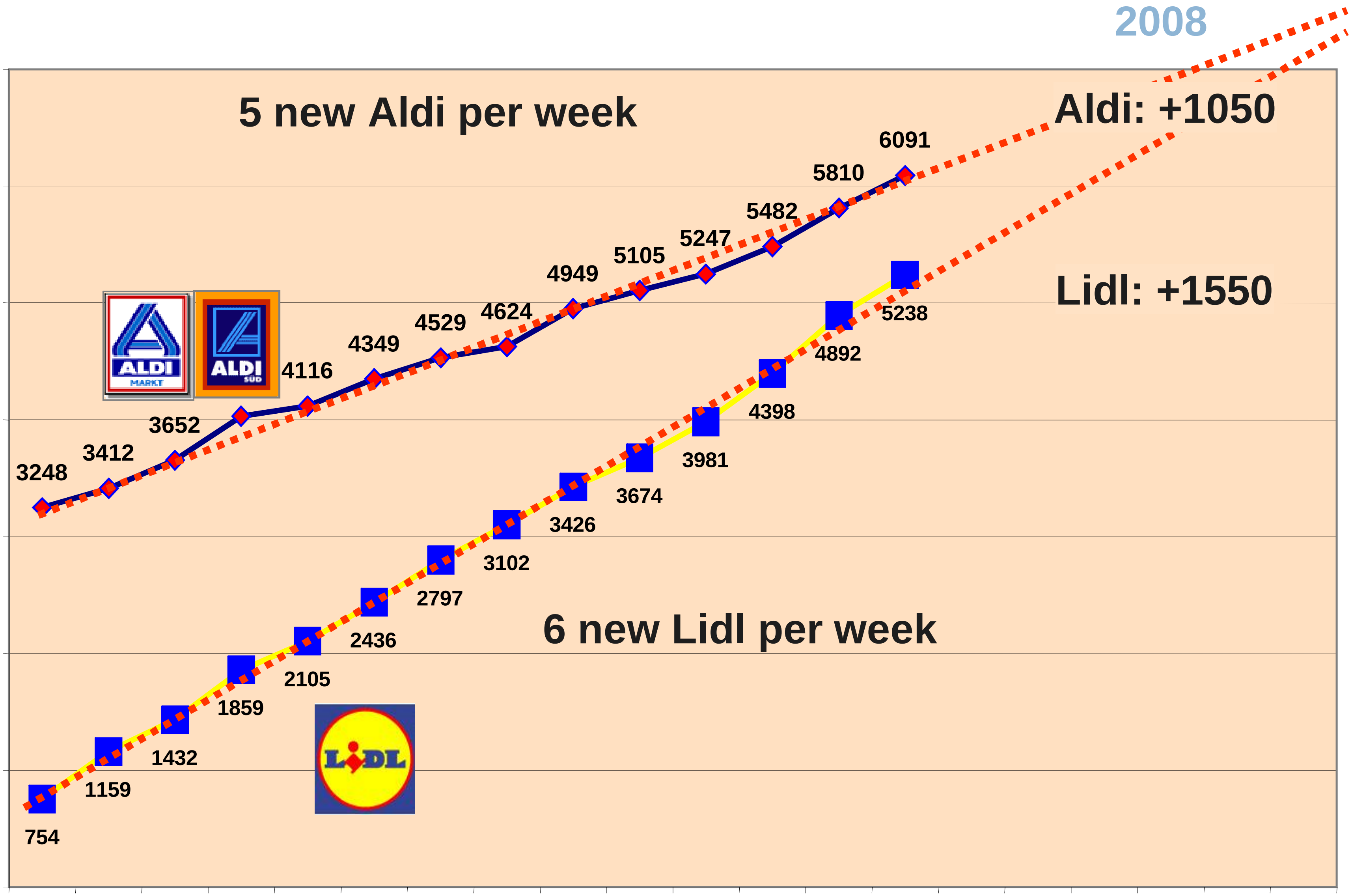


Discounter expansion

Share of worldwide discount channel (percent) | **Geographic reach Markets in 2004**



Outlook for the 2 giants…



Source étude workshop HD ACNielsen 2004

France: Hard Discounters growth is 13%

	2000	2001	2002	2003	2004 **143** **billion €**
France	**+ 3.6**	**+ 3.5**	**+ 2.8**	**+ 2.9**	**+ 1.6**
Hypermarkets	**+ 2.8**	**+ 3.7**	**+ 2.6**	**+ 2.3**	**+ 0.8**
+ 6 500 sqm	+ 2.3	+ 2.6	+ 1.4	+ 0.9	- 1.7
- 6 500 sqm	+ 3.6	+ 5.4	+ 4.5	+ 4.4	+ 4.4
Supermarkets	**+ 4.8**	**+ 2.9**	**+ 1.4**	**+ 0.8**	**- 0.3**
+ 1 200 sqm	+ 4.9	+ 3.7	+ 1.8	+ 0.3	- 0.1
- 1 200 sqm	+ 4.5	+ 1.1	+ 0.5	+ 2.2	- 1.0
Hard discount	**+ 4.9**	**+ 6.9**	**+ 10.0**	**+ 15.0**	**+ 13.0**
Convenience stores	**+1.6**	**+ 1.8**	**+ 2.5**	**+ 3.0**	**+ 2.5**

Structural trend of food business

At constant universe, HD are only growing by +7% >> Park effect of 6%

	2000	2001	2002	2003	2004*
France	**+ 2.9**	**+ 3.0**	**+ 2.6**	**+ 2.1**	**+ 0.4**
Hypermarkets	**+ 2.2**	**+ 2.4**	**+ 2.0**	**+ 1.7**	**- 0.7**
+ 6 500 sqm	+ 1.6	+ 1.6	+ 1.1	+ 0.8	- 1.7
- 6 500 sqm	+ 3.0	+ 3.7	+ 3.3	+ 2.9	+ 0.9
Supermarkets	**+ 4.2**	**+ 4.2**	**+ 1.7**	**+ 1.7**	**0**
+ 1 200 sqm	+ 4.3	+ 4.3	+ 2.0	+ 1.5	+ 0.3
- 1 200 sqm	+ 4.1	+ 4.1	+ 1.0	+ 2.3	- 0.8
Hard discount	**+ 1.9**	**+ 2.0**	**+ 6.0**	**+ 6.0**	**+ 7.0**
Convenience stores	**+ 1.8**	**+ 3.0**	**+ 2.7**	**+ 2.5**	**+ 2.5**

Constant univers trend

	2000	2001	2002	2003	2004*
Inflation rate	+ 1.6	+ 1.4	+ 1.9	+ 2.2	+ 2.1
food products	*+ 2.8*	*+ 4.7*	*+ 2.6*	*+ 2.5*	*+ 0.1*
INSEE large surface stores	NC	NC	NC	NC	- 0.4

*2004 à fin novembre

Impact on other retailers' behaviour

Banners' marketing development: promotional activities

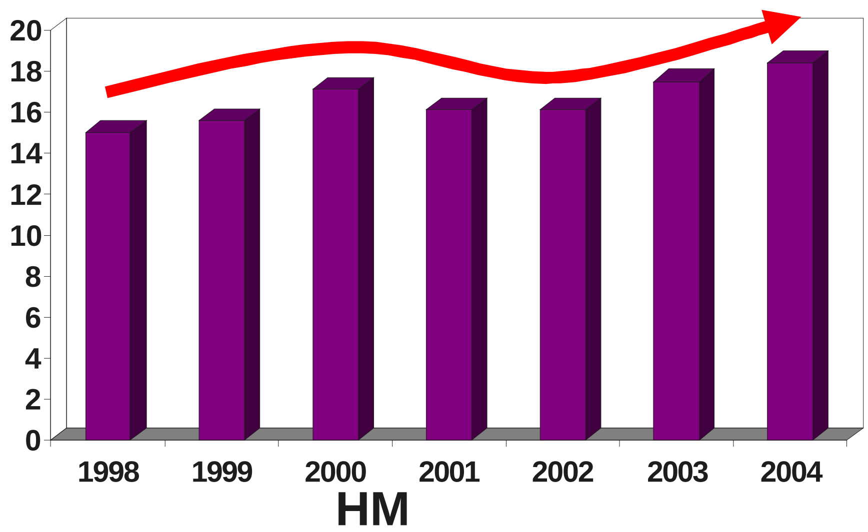
- Growth of promotional activities especially on regular formats
- Lower consumer interest for large sizes packaging
- Impact of price cut must be significant and visible (on pack)
- Better promotional impact on high value added manufacturers' brands
- Soft accelerating impact for electronic promotions

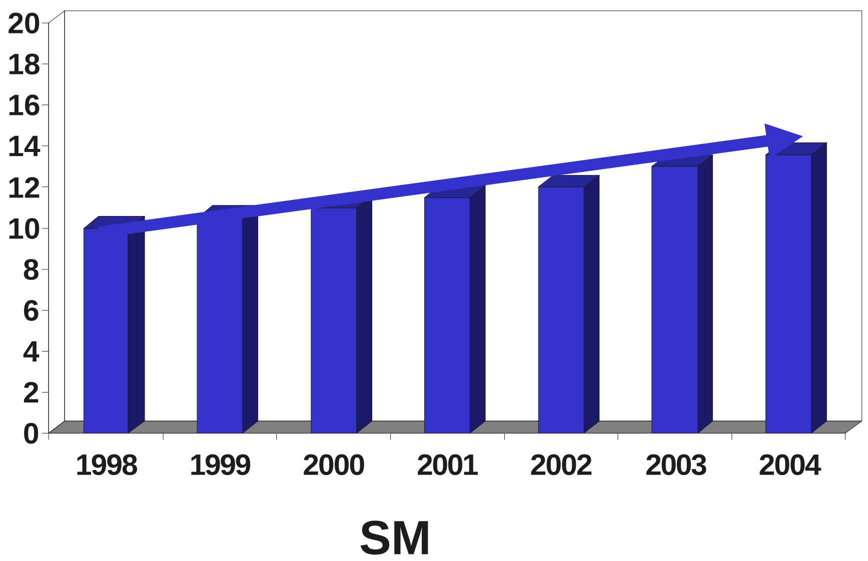
Source : ACNielsen/Action plus study « New behaviours of the consumers in view of promotions » (Feb 2005)

Growing promotional pressure

Hypermarkets increase their promotional intensity

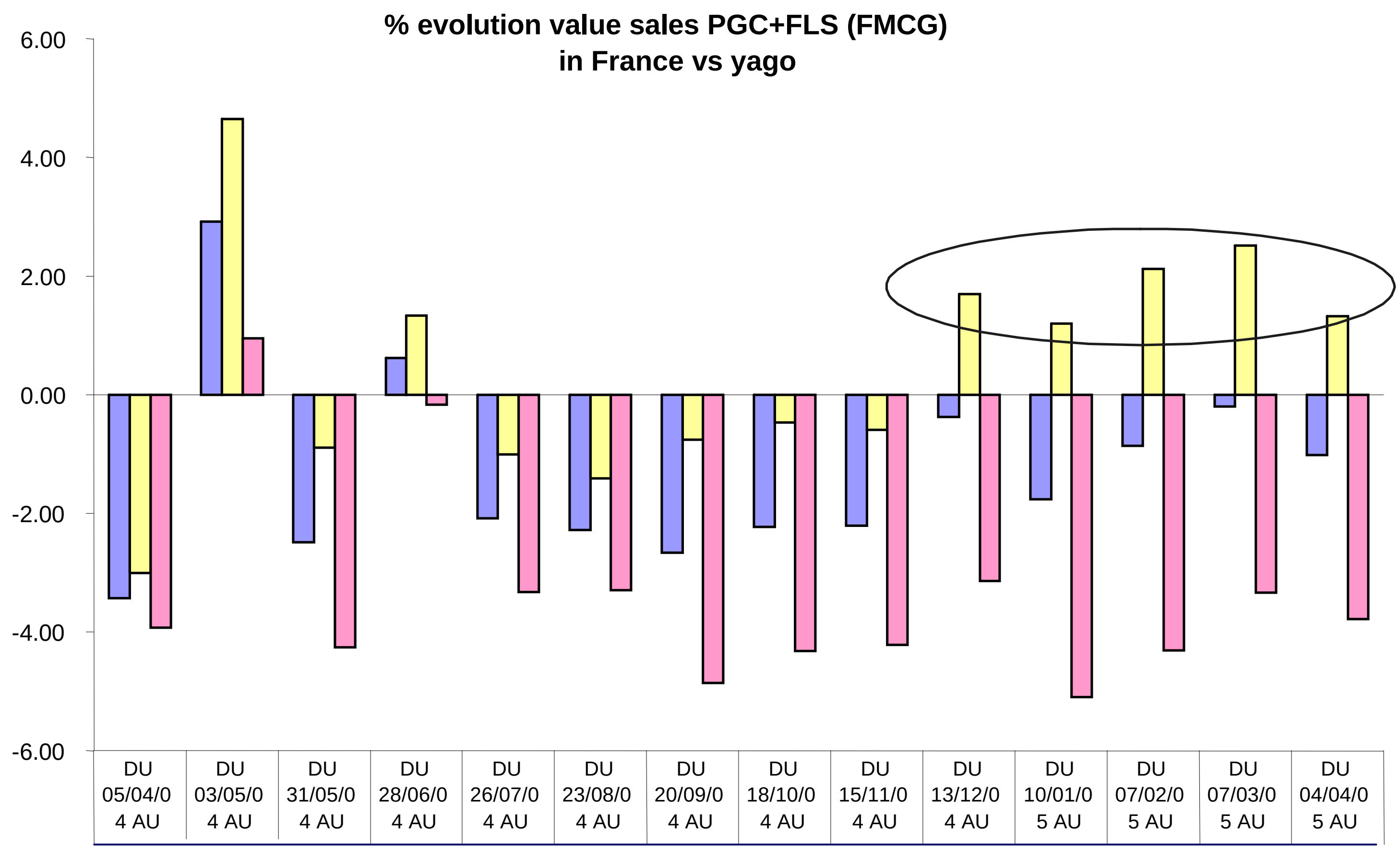
Supermarkets progress at a rate of 5% a year
but remain far from the hypermarkets





EVOLUTION OF SALES UNDER PROMOTIONS for 255 ACNielsen PRODUCT CLASSES

In France, Hypermarkets see short term recovery



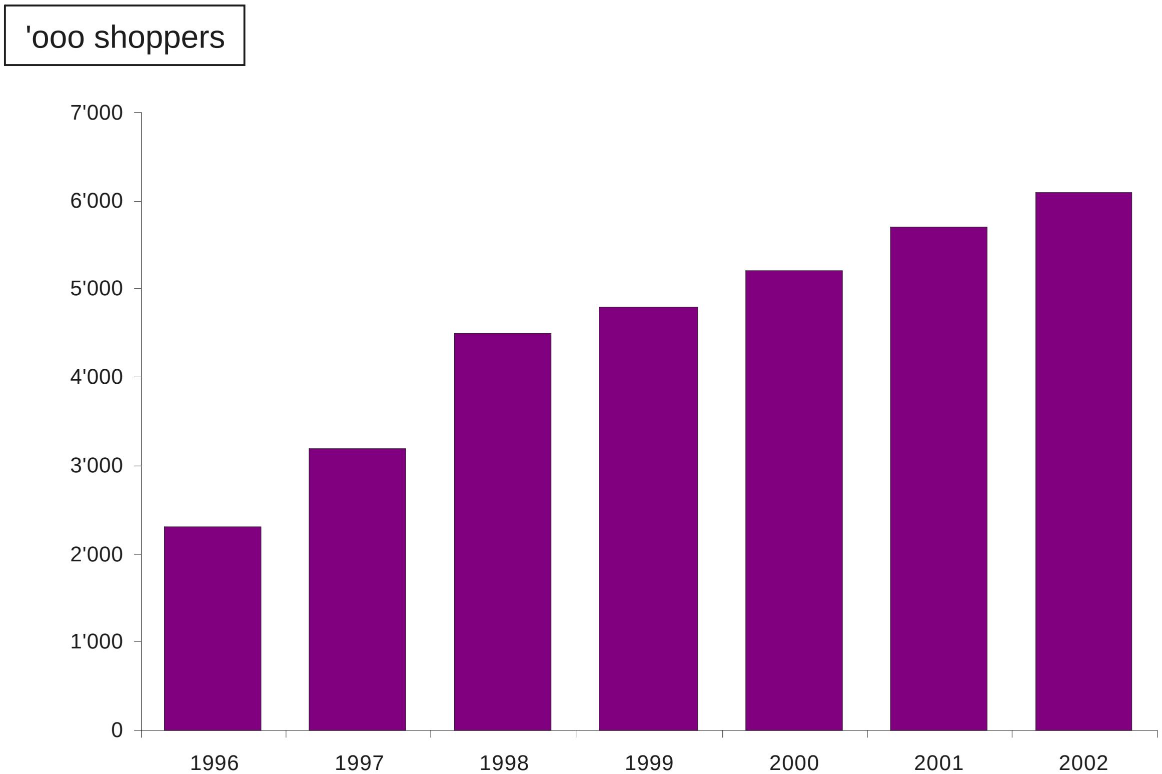
Banners' marketing development: consumer loyalty

- More and more customized loyalty programs
  - Very broad diffusion (from 1 to 7 million card holders according to the banners)
- More and more systematic use of the consumer associated databases
  - Targeted couponing
  - Price cut on various services (travels, entertainment, credit, insurance, phone...)

➡ BETTER KNOWLEDGE OF CONSUMER BEHAVIOUR

Growth in loyal customers is key to Tesco's success

Loyal Shoppers at Tesco



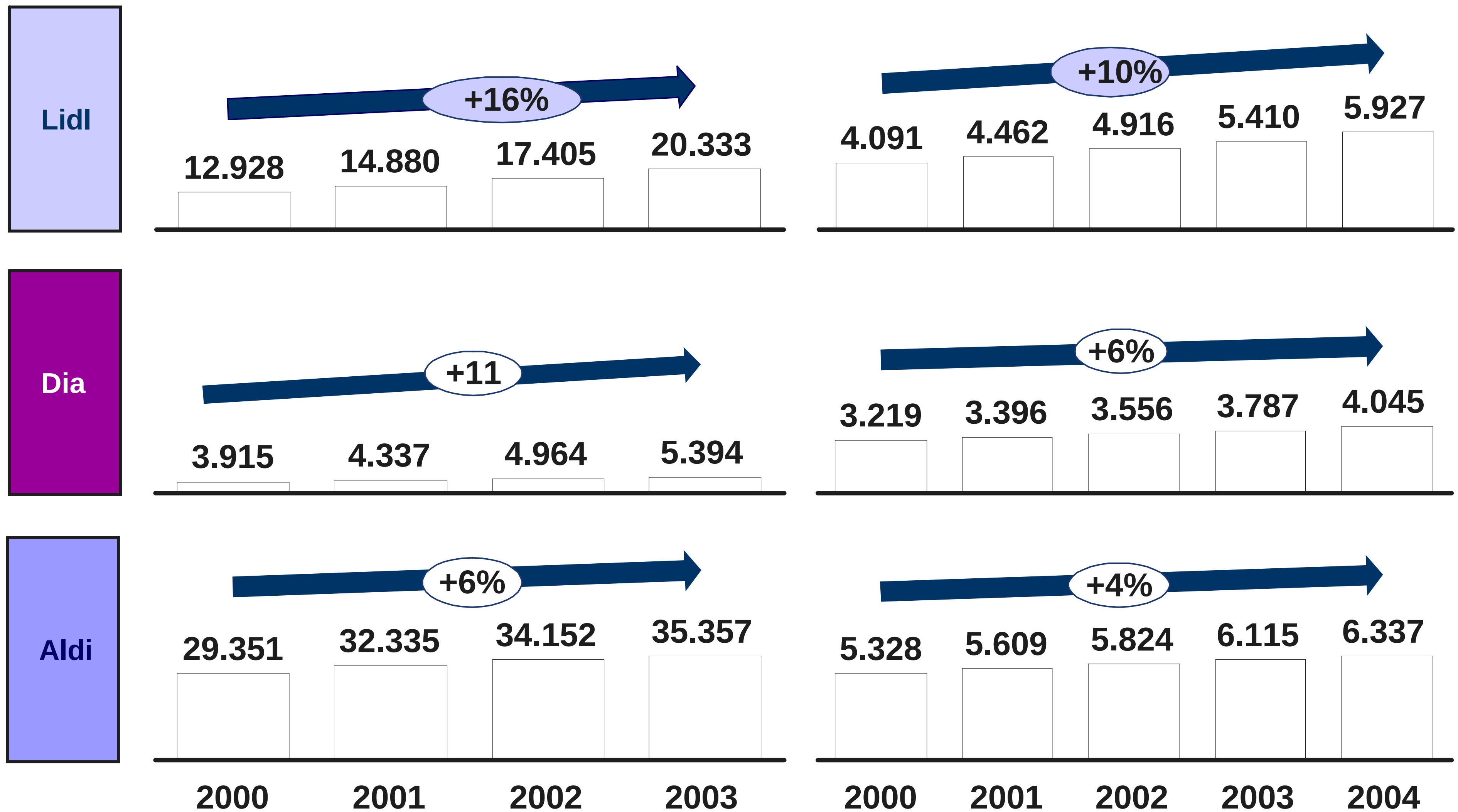
The number of loyal shoppers has tripled since 1996

Loyal customer average weekly spending has almost doubled in the same period

Achieved by improving the shopping experience for high potential shoppers

Best in class: LIDL

Total net sales, 2000-2003 (EUR m) | Number of stores, 2000-2004



Source: M+M PlanetRetail

Key Success Factors

1. An attractive Shopper proposition

- **Convenience**
  - **proximity**
  - **choice**

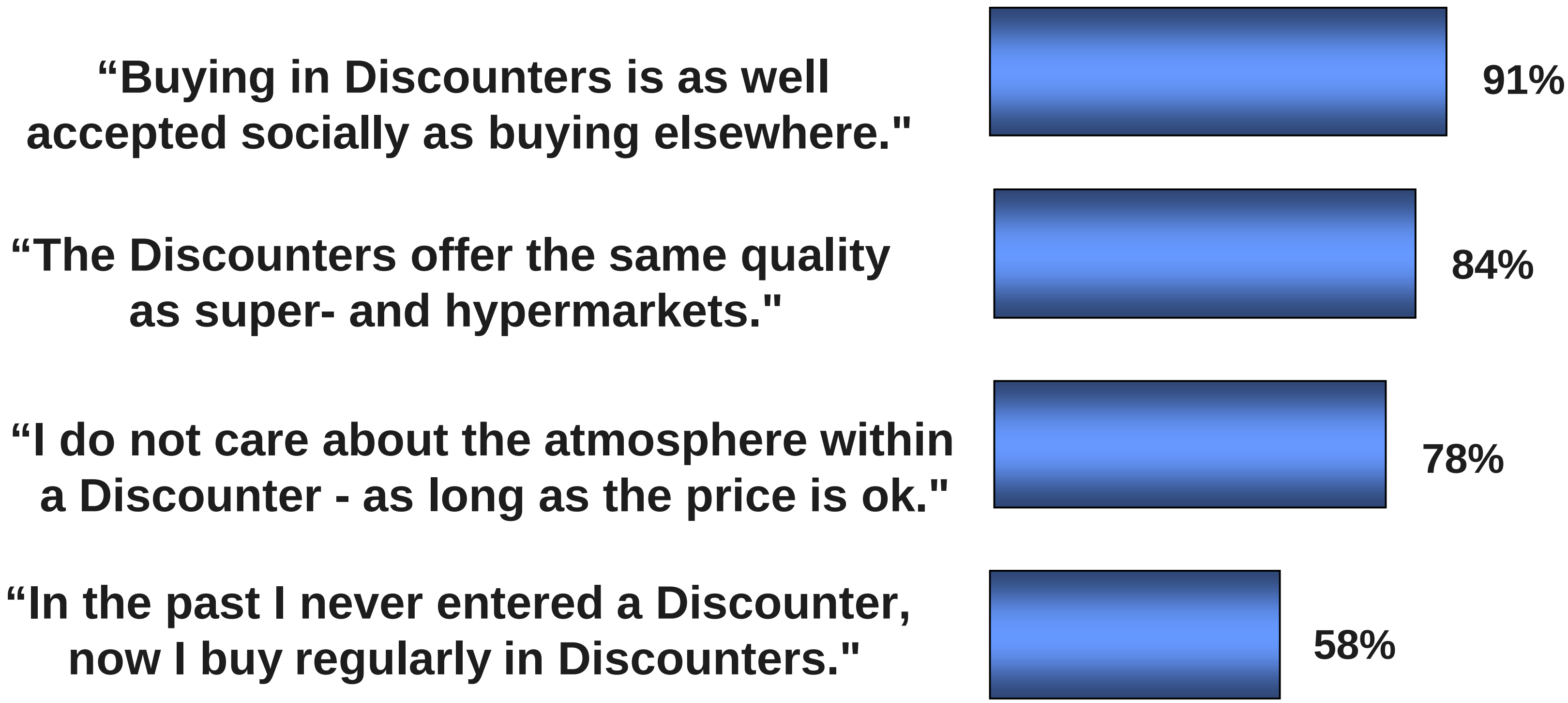
  ➡ easy to shop

- **Simplicity**
  - **quality**
  - **price**

  ➡ "smart buy"

Key Success Factors

In Germany, the social barriers towards the discount are gone



Source: Shopperstudy

Key Success Factors

2. An efficient operating model

- **High rotation SKU's**
- **Low cost** ➡ HIGH UNIT MARGINS
- **Low price**

The Discounters Operating Model

Limited Range

High rotation SKU's

Efficient Logistics
&
Low cost to serve

Simple Stores
&
Lean Management

E.D.L.P.

France: pricing level

France

	Average price in euros*	Hard Discounters	Hypermarkets	Supermarkets	*Index Hyp. vs HD*	
Chilled Dairy	Nestle Fruit Patissier X12	10.36	9.86	10.24	95	
Chilled Dairy	Private Labels Fruits X12	5.32	5.15	5.64	97	
Chilled Dairy	Private Labels LiegoisX4	11.89	9.42	10.35	79	
Chilled Dairy	Sveltess Recette Cremeuse X12	9.69	9.50	9.94	98	
Chilled Dairy	Private Labels Fruit X12 Light	5.94	6.55	7.11	110	
Soluble Coffee	Nescafé 100G	15.08	14.60	15.08	97	
Soluble Coffee	Private Labels 100G	6.89	9.15	9.15	133	
Soluble Coffee		46	63	61		
Choc. Baking Tablet	Nestlé Dessert (Baking Chocolate Tablet) X1	3.76	3.70	3.83	98	
Choc. Baking Tablet	Private Label (Baking Chocolate Tablet) X1	1.29	1.45	1.61	112	

* Average price = Total value/volume sales, ie promo & non promo

How we add value to this model

- Nestlé's brands/products are an attractive and unique consumer proposition
- Opportunity to increase the loyalty rate of H.D. shoppers
- Brings more in store "excitement"
- Increases average transaction per visit
- Nestlé has multi-category coverage
  - **efficient negotiation progress**
  - **efficient logistics**

GROWTH AND EFFICIENCIES

How can HD add value to our business

- Opportunity to reach all type of shoppers
- Full channel coverage
- Lower cost to serve
  - **sales activities**
  - **in store activities**
  - **administration**
  - **logistics**
- Production efficiencies
  - **concentration of volume**
  - **no promotion - no "peaks and packs"**

GROWTH AND EFFICIENCIES

Winning with discounters

	Model 1	Model 2	Model 3
Models	Offer discounters same brands and variants as traditional retailer	Offer brands, but differentiated approach: variants, packaging/labelling, etc.	Offer dedicated brands (existing) or sub-brands (owned by Nestlé)
Opportunities	▪ High **attractiveness** for discounters ▪ **Efficiency** in terms of production/packaging, distribution	▪ High **attractiveness** for discounters ▪ **Differentiation for limited transparency to compare prices** with traditional retail	▪ **Brand ownership** at Nestlé ▪ Significant **differentiation** from traditional retail and **less price transparency**
Risks	▪ Pricing	▪ Increase of complexity within supply chain	▪ Lower attractiveness for discounters
Nestlé	▪ Manage **pricing and margins**	▪ Create attractive **differentiation solutions**	▪ Create attractive alternative **branding solutions**

Nestlé sales to Hard Discounters in 2004

	Nestlé Branded Sales
Lidl	+ 5
DIA } Carrefour	=
ED } Carrefour	+ 21
Mercadona	+ 26
Migros	+ 47
Others	+ 20
TOTAL ZONE	**+ 10**

Total Sales

Hard Discounter Projects

Germany
Cappucino
Confectionery
Ravioli
Baby Food
Maggi sauce

France
Ricoré, Mousline
Nestlé Dessert +Tablet

Spain
Culinary

Portugal
Full entry


BEBA

MULTIPACKS

CHOCO CROSSIES

MINIBAGS

CULINARY
(Spain)

INSTANT BEVERAGES

Hard Discounter Projects

France, Spain, Portugal, Greece

Enhanced assortment

Dia %

Ed

Soluble coffee (Cooperation Model)


Nesquik


KitKat

MERCADONA
SUPERMERCADOS DE CONFIANZA

Spain: Nutrition

MERCADONA
SUPERMERCADOS DE CONFIANZA

Nestlé
NUTRITION

Conclusion

1. **HD are a growth opportunity**
   > additional sales
   > reach all types of shoppers

2. **The winning model is the one where shoppers can shop brands**

3. **Nestlé fit in the Hard Discounter operating model**
   - attractive for shoppers
   - high rotation potential
   - reinforces shopper loyalty
   - operating efficiencies

4. **Interesting economics**
   - cost to serve
     &
   - production costs

OBJECTIVE: TO ACCELERATE DEVELOPMENT IN THIS CHANNEL

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