

NESTLÉ S.A.

QUESTION & ANSWER SESSION TRANSCRIPT

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Presenters: **Mr Peter Brabeck**
Chairman & CEO
Nestlé S.A.

Mr Wolfgang Reichenberger
CFO
Nestlé S.A.

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Questions & Answers

Question #1 Share buyback programmes & Top line developments

I have two questions, maybe one is for Wolfgang, one is for Peter. First of all I wonder if you could just elaborate on the share buyback programmes coming up in the years to come. There seems to be, some people are talking CHF2 billion, CHF3 billion, CHF4 billion on top of a dividend. And then to Peter I wonder if you could just give us some guidance on how things have gone in the last couple of months with regard to top line developments in the various regions. Thanks very much.

Wolfgang Reichenberger - Nestlé CFO

OK maybe I'll start John, well the number is getting bigger by the minute. Look, what we have said already in January that we would consider share buybacks and we have just confirmed that the day before yesterday that we are technically now ready to do it starting 4 July.

We have our first programme equivalent to CHF1 billion which we will start second half of this year and we said also yes we would accelerate it in future years. It is our intention to return more cash to shareholders, of course by the way of dividends first of all and we will have some acquisitions from time to time.

While we said we don't see any major acquisition in front of us but we will not stop making acquisitions, we will have acquisitions and after the dividends and after acquisitions what is available I think we will look at it and in agreement with the board we would propose that most of that is then made, put at the disposal of the shareholders buybacks. Now you can calculate what amount it may get to. It will all depend also on your estimate as for our acquisitions, but surely it will be significantly more than the 1 billion we are starting. We always said the 1 billion is a modest start because we want to keep our triple A and the triple A means we first have to get to the right cruising level where a clean triple A should be, which is somewhere between CHF5 billion and CHF10 billion net debt and once we are at that cruising level we can of course accelerate the buyback programme, supposing the Board agrees of course.

Peter Brabeck - Nestlé Chairman & CEO

The other question of course I cannot talk very much in detail. We have no official announcement of our sales. What I can say in general terms is that up to now 2005 goes in line with what we had forecasted. I think we have been basically establishing our target of 5% to 6%, I don't see any reason why I should change that organic growth target.

I think if you are asking about the region I would say as we had forecasted it's more difficult in what George Bush calls the old Europe and it is easier in the new Europe.

It is quite encouraging to see the United States but you know the United States has been for us over six consecutive years a very, very stable and very high growth area.

I see Latin America from a business development point relatively positive. China which was one of those aspects which I have read in newspaper articles about Nestlé's performance, well just that we get this one right in mainland China and I'm talking now a RIG figure so that I get an idea. We had the growth in the last couple of years of 20% RIG in 1999; 27% in 2000; 29% in 2001; 21% in 2002; 16% in 2003 and 15% in 2004 which I think hopefully clarifies

any of those remarks that I have seen again in newspapers that Nestlé's performance in mainland China is not positive. I mean more positive than that if we're talking RIG figures here, I'm not even talking organic growth figures. And again for 2005 what I can say is that we are within this ball park of high double digit figures in the development. So this was for the mainland China region. I would say the area where we have as I mentioned before, the main area is old Europe and perhaps a challenging environment is still Japan. I would say those are the two areas of challenge, old Europe and Japan that's about.

Question #2

Choice of successor for CEO

In the US just in the last few months, two major packaged food company CEOs have lost their jobs, both in my opinion were handpicked by their predecessor. How will Nestlé, how will you and the Board avoid making some of the same mistakes that have been seen in the US? And why would you start the clock so early in the process with your statement at the annual meeting that within two or three years a successor will be named?

Peter Brabeck - Nestlé Chairman & CEO

Well, because that's what we had basically foreseen in our long term development that this is an intention, this is not an announcement; what we have said that when we talked about the corporate governance of the company we have said that me becoming chairman and CEO was a transition period. The main reason for this transition period was because we were in the middle of the transformation of the organisation that it didn't make any sense, nor was it fair to anybody to appoint either a chairman for two or three years or to appoint a CEO while we are in the middle of the transition period. And the only thing if I had been the chairman and somebody else would be the CEO the only thing I would have been able to say to the CEO is you can think whatever you want but we are going to finish the transition period OK. Well I wouldn't like to become a CEO if this was the thing. So it would have been absolutely unfair to appoint somebody by now as a new CEO, but we had in principle foreseen that in two or three years we should finish this transformation which I have explained today I think in all the details I can explain. And this would be then the right moment to appoint somebody else as a CEO which would give to the new person again I would say a ten year period which is I think a good period for a CEO for Nestlé if he performs well. It gives them, the new person, the possibility to rethink what he believes should be the strategy and what should be the future of this company, that's why this two to three period came through. This is an intention, this is not an announcement. That's what the Board thought at this point of time and that's why the Board also saw this was for a transitional period that we are putting the two jobs together, that's basically it. Now I think if you look at Nestlé's performance, how we are assuring executives' development and succession planning, perhaps we are again a little bit different to other companies and I think this has to do with two reasons. First of all I have said this several times, I get the feeling that in the Anglo saxon environment the company is at the service of the CEO. At Nestlé the CEO is at the service of the company and any member of the executive board is at the service of the company. And that is something which, sometimes is a cultural background, but it was in the beginning very difficult because in the Anglo Saxon environment if you become a CEO you are supposed within 100 days to show how you are going to do everything different because that's the way it is. Because you are supposed to be really changing the company. Well you remember when I became CEO you were all very deeply disappointed because I said look I will not

change the strategies because I had participated in the creation of that strategy when I was a member of the general management and I was responsible for the strategy. I was not going to change anything of the strategy I was going to improve the performance of the operation, that was my first priority. Why? Because always we are not, we are at the service of the company and not the other way round. So I don't think that we can be compared in this sense. We have a very simple rule. Anybody, anybody of Nestlé's management is replaceable in 24 hours, anybody, myself included. In 24 hours, if I died today in 24 hours you have a new CEO, he is appointed, identified and tomorrow morning 24 hours you have that. We have proven that very clearly, we saw that when Mario Corti who we all appreciated enormously decided to take a challenge outside. In 24 hours we had the chief financial officer in the company and for every single person at the executive board there is in 24 hours a replacement who is identified, approved by the Board in our succession planning process, is cast with the Board and approved by the Board. And I think this makes this company so incredible, stable and this is the work, long, long work where we are talking about a group asset, people, which we are discussing twice a year in the full executive board. We are identifying those people, we are moving those people into the right positions so that they are able to replace tomorrow somebody fast and of course the next step we have to replace this person. Don't forget when we asked Wolfgang to leave Japan and to come over here overnight we had to have also somebody who would be able to replace him so that he could come overnight. So this is the process which goes back, every market head can be replaced in 24 hours and so it goes backwards. This is enormous work which we are doing on the personal development side and therefore it is also quite clear that in most of the cases we have an internal replacement and not necessarily external. This does not prevent us to introduce people from outside and we have just now two very good examples. One is Nelly Wenger who was never working in any company, she was the head of the Expo 2000 of Switzerland which was a big thing, CHF2 billion investment, she was running that. And we took her, trained her and today she is the market head of Switzerland, very successfully, she came completely from outside. And the other one is Richard Laube who was running the OTC business in Roche and who is now working directly with me as member of general management. We bring people from outside, and especially in areas where we feel we don't have so much internal knowledge. In the case of Richard it was a fantastic opportunity because first of all he had many years of P&G experience, he has been working in the US, in Brazil, in Japan, he knew the world and the world of consumer goods, and he was running the OTC business at Roche worldwide. And that's an area where we have still not so much experience in-house so to take somebody like this is for us a great opportunity. And he will work and is working with me on the future of Nestlé and to see what will be the next step after we have the nutrition wellness company and with the experience he has in the pharmaceutical area, coming from a pharmaceutical company will be very, very helpful, it will bring us knowledge which we didn't have in the house so we are incorporating that. On other levels you have Dieter Hemmer in the food service which we brought from outside from Lufthansa, he was our biggest customer, brought him in. Wherever we feel that we don't have sufficient know-how internally we are also going out. And therefore I think frankly speaking that perhaps also this long term approach, this building up and knowledge and know-how and taking care of the people makes a little bit different to other companies.

Question # 3**Innovation in water & Innovation incentives**

You talked about a changing world and the need to accelerate innovation. I was just wondering with regards to the water category do you think that it has the potential to continue to innovate in the way that you'd like to see it? And secondly are you changing managers' incentives in any way to encourage innovation? Thank you.

Peter Brabeck - Nestlé Chairman & CEO

First the question about innovation in water, yes I think again with due respect I think we have revolutionised the water business when we launched Nestlé Pure Life, that was a concept that did not exist. And I remember we launched it in one of the press conferences here and this was the most fundamental innovation in the water business. Today you have seen that you have in front of you what I would say incremental renovation of products, I mean those things for me are more renovation, but we have just launched, we are just in the process of launching for example in Nigeria a new concept which I think is again revolutionary; a major innovation in the water which we have developed a new bottle, a plastic bottle which uses about a quarter or a third of the resins, PET resins for the same amount of water that you can distribute. It's a special shape, I don't know if you have seen it?

Now this was done especially for the developing countries because due to their very high oil price the packaging becomes so expensive, so we developed a new technology which allows us with about 30%, I think it's 30% of the resin that we would use in a normal PET bottle to produce a container that is resistant enough to take all the distribution stress which there is. And the product basically is based on the idea of an eggshell, the physical thinking behind, and that the water inside is part of helping to resist the whole thing. Now this is a new product which we're just launching now in Nigeria as a first market which will allow us again to bring down the cost and therefore increase the availability of water for people which have less income. The question about what else we can do with water I think is quite limited. You can go if you want into other directions, whether you have seen people coming from water to the tea for example which is considered to be ready to drink tea, it's certainly one of the biggest opportunities in the beverage business in the future. Now we have here a limitation, let's be quite clear because our ready to drink tea business is embedded in the joint venture we have with Coca-Cola, so we will exploit this point there. And that was the reason why we took Belte tea from Italy where we were already in this way of developing the water business, we gave this over to the BPW (Beverage Partners Worldwide), but I see full of new opportunities coming with water being the base yes. The management incentives on innovation which was the second question, for the time being we have a remuneration system for our management which is composed of base salary, short term bonus and a long term incentive plan. The base salary playing in our case a relatively important role, there we are different to most American companies where the base salary is not so important, they have higher levels on the short term bonus. We have a clear relationship between base salary and then a percentage of the base salary is then the short term bonus and another percentage goes into the long term. The short term bonus is today basically based on the organic growth target, the EBITA improvement margin and working capital. Those are perhaps the three main ingredients for the bonus payment. We have additional targets like capex, their achievement of Operational Excellence 2007, what else am I missing and the Fitness project. They are additional ones and then we have some qualitative ones. But I would say the bulk of the short term bonus is really being influenced by organic growth, EBITA improvement,

working capital, those are the three things which gives us a result and improvement of the return on invested capital. We have not up to now in the area of, in general terms for the Group introduced innovation as part of that, it has to do more in the qualitative target, but that's something that we might look into, it's a possibility. Perhaps if you start, if you go to certain management functions this already is if I take the responsibility of the SBUs for example. There you have in the personal target settings, there you have for example innovation already as a target which have an influence on the bonus payment. But the operational part, today it is organic growth, EBITA margin and,

Wolfgang Reichenberger - Nestlé CFO

And in the SBUs (Strategic Business Units) you also have return on invested capital as you heard yesterday from Ed Marra.

Question #4

P & L responsibility & Nestlé's margin in 2005

Two questions if I may. You mentioned in your presentation the creation of a new position I think business executive manager would have currently a P&L responsibility for a category within a market. It sounds to me this is the final stage in the creation of a category driven organisation. Could you talk a bit more about this and clarify the P&L responsibility? And secondly a number of FMCG companies have guided for margin decline in the first half of this year and the rebound in the second half. Is there any reason to think that Nestlé's margin could follow the same pattern in '05?

Peter Brabeck - Nestlé Chairman & CEO

The question about BEM (Business Executive Managers) and category driven management, although it looks like it is not. And that makes us again different. As I have said very clearly we still believe that the situation, that there is no European consumer, very strongly I believe and I am more and more convinced there is none and if you look at what happens to Europe I think even people who still believe that there might be one one day are starting to recognise that this is perhaps a dream, that Europe will always be quite different, at least as long as I am living. Therefore we have looked for another model which brings us closer to but not to a category driven organisation. You see if I am in P&G and I am selling household goods, a wiper, yes I can see that they have a European consumer, but we are not in the household goods. If I am in L'Oreal and I'm selling Lancôme I understand that this can be launched globally. As we are doing some business, it's like for example Nespresso, Nespresso is a global business, they are very category driven and therefore you have a category driven organisation. But when I am talking about the mainstream business and I'm talking about coffee, I'm talking about chocolate or I'm talking about ice cream, well it is very different, very different to sell a coffee in the UK or to sell a Nescafé in Italy or to sell a Nescafé in Spain or to sell a Nescafé in Sweden. OK, therefore if you try artificially to make a commonality out of this what you're going to lose is completely the relevance with the local consumer. But this does not mean that in the market I can have a focused Nescafé manager who has a full P&L responsibility in the UK, in Spain, in Italy and in Sweden. So the establishment of the business executive manager which is the CEO if you want of the business in the market is not meaning that therefore we have to have a European coffee organisation now. What it means is that those people will work easier together, because they

are fully concentrated, we will know that we have, I don't know eight or ten Nescafé managers, they will be working directly together with the SBUs of course, that this link to the SBUs will be stronger. Those markets which are similar and which have similar challenges we will put them into a cluster, we will establish a common, I come back, a common technological platform, because if we want a new technology for Nescafé, of course it's one technology, we are not going to invent a technology for Spain, a technology for the UK, a technology for Italy, a technology for that, we will have on technological platform, whether this was the box, the ?? or whatever, we have just one. But then afterwards when it comes down to what the consumer can see, then we will be centralised as much as we can. The second one was a question about the margin, do you want to say something about that?

Wolfgang Reichenberger - Nestlé CFO

Yes I think the margin in the first half, I think we were not giving any guidance on that, what I think you want to know though is our cost structure and raw materials development, I think this has last year been an important driver. And that's why last year, I must say everything went up, I think we looked at all our commodities, there was hardly any exception, everything was going up, we have a much more differentiated picture going into the first half of this year, first of all you still see the coffee, up significantly compared to last year, cocoa also up, not as significantly but also up. But I want to remind you, those two commodities we have hedges in place, we are not living hand to mouth in coffee and cocoa, so while the increase of the raw material gives us good reason to raise prices and you have seen we are raising prices already in coffee in most markets where we sell Nescafé and we have already raised where we sell our roast and ground coffee. But in the meantime we still have hedges in place so I would not think that that will have an immediate impact on margins. Milk has peaked, this as you recall was one of the big drivers of last year's cost increases, it's off the highs but still at a relatively high level compared to a year ago but again in the meantime we have increased prices, in the Philippines we have raised prices for example four times in a row to bring the prices up to levels which ascertain our profitability that we had before. The other commodities, grain, sugar, meat and so on are basically not an issue, there's no big changes there. One commodity which on the other side will still affect this first half of the year is everything that is derived from crude oil. While crude oil has again been off the peak than it had two or three months ago but it still is significantly higher than a year ago and again the most important material is this precious PET white granules here, that is still higher, significantly higher than a year ago. So that's why I say it is more differentiated than it was last year. Also keep in mind foreign exchange movements. This year obviously the dollar is a bit stronger, many of those commodities are in dollars, so while this has no impact for dollar countries, but for countries selling and producing in other currencies than dollars, such as in Europe, this recent dollar strength may over time have some impact on their costs. But again we are not living hand to mouth, we have transactional hedges in place and we have brought some dollars forward for those cases. So I think this is to give you the cost picture, and on the prices I already told you, we have increased prices, you saw already the more significant price impact in the first quarter, 2% and we are continuing, we have just increased prices in coffee in the UK for example and other price increase are still happening.

Question #5**Shift of innovation process structure & Risk return profile of innovations**

Just coming to the aspect of innovation and the innovation pipeline, you mentioned that you wanted to shift the innovation pipeline, or you have shifted the innovation pipeline from a bunch of country driven initiatives to more around technology platforms. Could you describe where you are in the process of transitioning this pipeline, how long did it take or will it take to complete the transformation? Also if you could perhaps quantify it in terms of concentrate, like you moved from the top ten projects that are accounting for 100% of your budget or to five projects accounting for whatever? And lastly, does it change the risk return profile of the innovations, do you move from low risk, low return innovations to more blockbuster sort of things which are more high return but also probably higher risk?

Peter Brabeck - Nestlé Chairman & CEO

Yes I don't know, Ed why don't you comment? This is something you should be able to give an answer. Let me start talking about the risk profile. There is no doubt that the more you move into this nutrition area the higher the risk profile is going to be, that's what I said, you remember when I talked before. I think it is clear that when you have a development time of 4 of 5 years against a development time of 18 months, which you have in a normal food product, that the risk becomes higher, that's very clear. And the investment becomes bigger, but your margins of those products are substantially higher also. Now we have to look internally, if you ask me where is the higher risk profile, the highest risk profile is in Alcon in R&D, very clearly. OK, where we are spending most on R&D is in Alcon in percentage. Where do we have the best margins, in Alcon. So the risk profile in R&D, the more we move into nutrition and into this area is going to be higher at the moment, and therefore you have higher margins. Do you want to talk about the first question?

Participant

But you are moving to more sort of longer development times etc, it's more and more like pharma like risk profile basically but then you have stronger intellectual property protections in pharma which you don't have in food.

Peter Brabeck - Nestlé Chairman & CEO

Oh yes you have them in food. Of course you have them, but you remember when I mentioned in my speech, I talked about IP (Intellectual Property) management, do you remember my speech? I said one of the things we have put into place is a more active IP management, that has to do with protection, it has to do with licensing out, licensing in, becoming much more active than what we have been in the past. The first question which is basically, where do you feel we are on your ten ten ten and how you are concentrating?

Ed Marra - Nestlé Head of Strategic Business Units & Marketing

Right and just to elaborate, because we didn't talk about it yesterday, the ten ten ten is kind of a rule that I use in terms of managing my schedule just to focus on top ten brands, top ten markets and top ten customers, so we aim our priorities from there, at least as a starting point. Relative to what we've done on the innovation pipeline, I would say that a good 30% to 40% of my time in the last 18 to 24 months has been working with the SBUs (Strategic Business

Units) and R&D in the clusters that I described yesterday to map out the innovation pipelines for our major brands and categories and I think what we've done there is cut down the number of projects to focus on bigger ideas but importantly I think all of them start first with a consumer benefit, then we can look out for a period of, depending on the category, five to seven years of what we're going to do year by year. First with the consumer benefit, then the second stage would be, what I would call simplistically, the claims or the 60/40 plus that we would be communicating on our packaging and our communication and then lastly what you would see underneath would be the technologies that are supporting those innovations that we have mapped out.

Question #6

Outlook for Russia and Japan & Alcon and L'Oréal relationships

Yes I've got two questions, the first one is for Wolfgang. It's just a couple of problematic markets, Russia and Japan both are quite big for you. I think Russia has been a problem for a couple of quarters and you mentioned some issues on distribution in Japan, it seems to be coffee and a few other things. Can you just give us your outlook on the future for both those markets? And the second one for Peter, it's a bit of an old chestnut but could you reclarify your long term thoughts on both Alcon and L'Oréal please?

Wolfgang Reichenberger - Nestlé CFO

I think I will try to do it, on Japan and Russia they are two different issues there really. In Russia we had reorganised our distribution set up starting late last year and going into this year, that has caused and is still causing a temporary decline in our sales, particularly in confectionary. On the other side I think we are doing very well on coffee in that market. But I think during that year and towards the second half of the year we will return to some better growth rates in that market. I think on Japan, do you want to mention Japan because it's more a marketing and an issue of the competitive set there, where we have relaunched last year in October a full coffee range and I think we were very successful with the superior premium, with Gold Blend, but we encountered heavy price competition on the standard segment in Excella, actually our competitor has sold their super premium product seem below the price of our standard price. But I think this has become more difficult for our competitor this year because of the rise in coffee prices, on the other side we have also relaunched our standard product, particularly we have introduced for the first time in Japan a soft pack. In April and May, launched just very recently, so we are more confident that we can address these issues in the Japanese soluble coffee market.

Peter Brabeck - Nestlé Chairman & CEO

Regarding the question of Alcon with L'Oréal, I think there is no change at all. I think we have been able by taking Alcon to the public to show what the real value of this company is and you remember I was desperately trying to convince you that Alcon had a certain value, everybody gave it maximum CHF5 billion at that time. Well two years later it's about almost CHF50 billion if you take the total value of this company at today's price, \$105 a share, it is close to 40 billion, you can make the calculation. So I think we have done what we wanted to achieve, the future of Alcon is bright, we just had again an R&D session on the Board, looked at the long term possibilities, R&D pipeline it looks absolutely brilliant, so I have no reason to give up something which is doing well, going very well, has a bright future in front

of it, great R&D pipeline and therefore I have no other thoughts about it. It is being managed anyway at arm's length like it has been done and the people are happy with the way we have organised it. Regarding L'Oreal, I think very clearly the issue that was in the minds of some of you when we were in Miami and which provoked basically a restructure of shareholder value of this company for whatever reasons, I'll leave it up to you to judge whether those reasons were justified or not, I think we have clarified that today. The situation of there is no PUT obligation, there is no core obligation or whatever you have on all this stuff, and therefore it is an investment, a substantial investment in the leading cosmetic company of the world and I don't see any reason why there should be a change here in the short term either. Now all in all you can of course ask yourselves, strategically what does it all mean, from a financial point of view I think both investments are more than justified, they are excellent investments. I think from a strategic point of view Richard will certainly have as one of his tasks, working with me, thinking in the longer term where are we going to take this company after we have a nutrition and wellness company and although I don't think I will be the CEO when we are going to really start to execute in the longer term, because as I said when we have fully finished the transformation into this nutrition and wellness company it's my intention then to retire from the CEO job and then have somebody else who then should do the next lot. But the strategic thinking of course is that it's already started and Richard would help me to think about where should we be and whether those investments can play in a longer term period also a strategic role. Today they have a financially strategic more important role, let's see in the future. But this is something we will, over the next couple of years, think about it and then we will see. So there's basically no change.

Question #7

Joint ventures with Pharmaceutical companies & Acquisitions in Nutrition

Regarding your long term strategy, what are your thoughts about joint ventures with pharmaceutical companies? And secondly what are your thoughts about acquisitions in the nutrition field?

Peter Brabeck - Nestlé Chairman & CEO

Well I think it will be interesting to see how in the longer term the industry in general and the players of the industry are going to develop. My personal opinion is that if you want to participate and create new industries you will have to have one way or the other of partnerships, whatever you call them. Joint venture is already a legal expression of something, therefore I am still using the word of partnerships in one way or the other because I do not believe that you will create a new industry if you have only the knowledge of one. And therefore I think partnerships will become more important, we have already today partnerships with pharma companies, in areas like diagnostics. If you want to become, or you think that diabetes is an area where you can create a substantial business, well you have to be able to participate in the diagnostics of diabetes, because without a good diagnostic tool you would not be able to know what you should be eating, how you should be eating, what about your income and things like this. So therefore there is a close link between the two things. If you want to be in the weight management, well I can imagine that perhaps there are possibilities, if you have a company like Roche with Xenical who has been able to develop products that help you to not absorb fat, well perhaps I have no idea, but perhaps it's worthwhile looking at the research and development and perhaps you make a partnership in this specific area, which would mean that you might be licensing in or licensing out or

something some of the knowledge that we have. We have looked and it's true you know, we have looked at the work with Colgate-Palmolive to see whether we find in the oral healthcare area a common denominator. We worked and we came to the conclusion that there was not so much in there that it was justified to create a worldwide joint venture, but yes, we have and we can have licensing agreement about knowledge that Nestlé has based on milk and milk acids and carriers and things like this which we are not using because we are not in this business. So I think what you will see more in general terms are partnerships in one way or the other. Some of those partnerships might evolve into a joint venture but I don't think that the legal construct of a joint venture is what is going to be dominant, I think it's more these partnerships which will be more and more common I would say. About the acquisition, I have said very clearly, first of all, let me take advantage of this, I have never said that it is Brabeck's dream to run a 140 or 150 or 200 billion company which I have been reading again over and over again, I have never, ever said that. What I have said is I feel it is my duty as a company which comes to a turnover of 100 billion to prepare the organisation so that the organisation can afterwards evolve again to a company of 150 billion or 200 billion. Because it's like with the sound barrier, you're coming to a certain point where growth becomes hindered by an organisational set up as in one we had in the past; it was very difficult with our old set up of the market, the federation of independent kingdoms, to move into a next dimension. And that's what we have been doing and that's what I've been saying. I have never said Brabeck wants to be the CEO for 150 billion or 200 billion company, let's get this very clear. What Brabeck wanted was to create an organisation that allows the company to continue to grow, even if it hits the 100 billion barrier. OK? That's the first thing. Therefore, acquisitions is not a means to get me to 150 billion companies, it's not a mean. And I have shown you today again our priority is organic growth of 5% to 6% and acquisitions will always play a role like it has done in the past, but it's not the main driver of the development of this company. Now, talking about acquisitions, it's very clear that in what I would call the old part of Nestlé our positions in most of the cases are strong enough that we do not need further acquisitions, we are more divesting in this area than we are acquiring and I think we have proven that as I mentioned already in my speech. In the area of new emerging businesses which were the three areas where we did all the acquisitions over the last couple of years, and 90% of all the money spent in the acquisition went into ice cream, pet food and water and nothing else. Here we have now achieved basically worldwide global leadership positions. Therefore any major acquisition is not possible even if I wanted it because the regulatory situation hadn't allowed any more; once you're leader you're leader, there's nothing left substantially, OK? So there's no way to have a big, big acquisition in this area. Therefore the only area where you can see further acquisitions and which could be bigger is in the area of nutrition and wellness. That's basically the picture of acquisitions.

Question #8**Transition to a nutrition, health and wellness organisation**

You've said a couple of times this morning that you're looking at what the strategy will be after Nestlé becomes a nutrition, health and wellness organisation. Do you want to talk a little bit about when in your opinion Nestlé does become that business and what criteria you use to judge that?

Peter Brabeck - Nestlé Chairman & CEO

Well I think first of all, as I said we are in the middle of a transformation, for me one of the very important things is the creation of the nutrition company per se which we are very well advanced. As a matter of fact we have already now the independent reporting working because as we are going to report to the outside world as of 1 January we will have a new primary reporting, nutrition will be a primary reporting as of 1 January, we have to build up already now the data banks so that we can confer that for next year. So this year we already have, internally we have this organised, we have basically the healthcare nutrition and the performance nutrition are already reporting operationally into Luis Cantarel's organisation, the company, it's not a company because legally it's not the company, it's a business organisation, the people are not any more in this house here because they are now operational, I don't want to have operational people here so they have moved out from the headquarters so they are running the nutrition business already from outside of the headquarters, they are not here any more. And basically we have been advancing in all these fields substantially; the first new products are being launched already now which has been developed on a common technology base, especially in infant formula. So this is for me the first step and the most important step. The second step is now really what I mentioned before, it is implementation of 60/40 plus as an overall guideline to transform basically every one of our products into a better product, nutritionally better product. And for me this is the real assignment; when I get the feeling that the majority of our products are really 60/40 plus products, I think then I would be able to say well this transformation is basically done. From there onwards of course you will have again some new acquisitions, you have to think about the pipeline and the longer one, but this is about I would say the first stage that we will get to there. And this should show that the product portfolio will move; I didn't show it here today but if you would look at the product portfolio, the change that we had from when I became CEO to today you will see that what you call the old Nestlé is relatively becoming smaller and smaller, the new emerging business is growing faster than the old one and the new nutrition business will grow faster than the emerging businesses. So you will have a change from the product portfolio but again this is not going to be a revolution that Nestlé in three years, 90% of the turnover is going to be in the nutrition business, that is impossible. It is just that this business will grow faster with better profitability than the other part of it. Once we have that I think then there comes a time that when we have to think what we are doing in the long term. But the wellbeing dimension which we are putting the first seedlings in, and by the way Laboratoires Innéov is doing extremely well, it's doing much better than we even had thought which was it's encouraging sign for me, because it is one of those proofs that I think our vision which we have laid out many years ago is something which is practical. Now this will take much longer, and the timeframe for me is frankly speaking a timeframe for my successor as a CEO; perhaps I'm able to accompany him from another position but that's a different story. So that's about timeframe.

Question #9

Future of confectionery business

Good morning Peter. Can you give us an update on your thoughts on confectionery; it's a very fragmented market globally; clearly it's part of your heritage. There seems to be a process of consolidation going on in that industry at the moment. I was just wondering whether or not you would consider participating and where you see your confectionery business being in five, ten years' time. Thanks.

Peter Brabeck - Nestlé Chairman & CEO

I will ask Ed to talk a little bit about the confectionery business because that's something he takes care directly, but the consolidation, I'm not aware that there's a lot of consolidation going on, but perhaps I'm not updated on this one. I have, the one issue that we have discussed already was the issue of Hershey, I come once more, there is no way that Nestlé could participate in anything related to Hershey because it would not be approved by any FTC. I mean for this we have learned to know the FTC sufficiently long enough so there is no way that Nestlé is going to participate in anything like that. There's only one thing I have is a continuous interest to recover my brands. Anything I have is an interest to recover my brands, that's the only interest I have, otherwise I don't see anything happening in the confectionery, at least what I can see, perhaps I'm missing something but I don't see a lot else happening in this area. Ed, you want to talk a little bit about the confectionery businesses?

Ed Marra - Nestlé Head of Strategic Business Units & Marketing

Yes, I mean what we've been doing is a lot of focus on our three major markets, US, UK and Brazil. I would say working on the fundamentals, so Kit Kat is a big priority. We've seen that we can grow that business through some of the work we've done in the UK, limited editions, product improvement, and I think that our capabilities in wafer technology really give us an advantage; it's the ideal candy bar going forward, it's lighter and more of a fit with the demographics. So the other things also in the blocking and tackling of the business, Peter talked about horizontal distribution so there's been a lot of effort in rebuilding sales forces and better merchandising in what I would call the convenience store, variety store, outside of retail where a lot of the confection business is being done. And then a very solid and concerted effort in terms of an innovation pipeline.

Question #10 R&D investment

I'd like to come back to R&D. I remember a year and a half ago I was here with a group of investors and asked a question about how R&D would develop, and at that point it was clear that there was going to be an additional globe cost which has since happened. But otherwise pretty much got the impression that as a percentage of sales it would stay fairly stable; I'm just matching that to your previous statement; were you talking, it's clear you're talking a percentage of sales that's now going up, so really what's the difference, and I'm sort of matching that against the seminar of two years ago when you presented R&D and some of the inefficiencies that were a problem which are being solved. So in real terms if you're increasing as a percentage of sales then it is a massive increase in real increased R&D. Is that the case or am I confusing something?

Peter Brabeck - Nestlé Chairman & CEO

No, I think, look, first of all as I said before, the faster Alcon grows, mathematically, if Alcon grows faster, then the mainstream food business, the percentage of R&D expenditure of the Group will increase, that's mathematic. As I said if you have 18% in a business which grows faster against you have 0.8% in the business which grows slower, well you will have an impact, recently the Alcon R&D has more weight and therefore there will be a growth. Secondly I have said I believe, we are not spending it now, but I believe that for the nutrition

business we will need somewhere between 3% to 4%; if I see the costs of clinical trials, if I see all of this, I don't think I can do a nutrition business in the future with 0.8% of R&D expenditure, this would not be realistic. Now as the nutrition business is a 5 billion business, today its impact is not yet very big, but as it grows faster than the other part which has a low level, there will be another increase in the percentage for the Group, it is just mathematically, OK? And therefore in the food area in our traditional business, I don't see an increase in R&D, but if I take then Alcon, nutrition and the other one and I see where the growth is coming from, I have to recognise that under normal circumstances R&D as a percentage for mathematical reasons will increase something. Now it will not decrease to 3%, 4%, don't get me wrong, but it cannot be stable where it is today either if this is the case. That's basically it. It's basically mathematic.

Question #11
Defining qualities of CEO successor

In your capacity as chairman what are going to be the defining qualities of your successor as CEO?

Peter Brabeck - Nestlé Chairman & CEO

Well why don't we talk when we get to there, because as I said before, we talked about intentions, I think we still have time to go there but I mean I have no doubt that basically we will be looking again for somebody who first of all knows the company, somebody who has experience in the world, very difficult to see somebody who has not had international exposure, who has not been working in different markets, who has not been operational, I mean all of those things basically I think we are going to look again. Somebody who understands to be part of a team and somebody who understands that he is at the service of the company, that he has a vision which allows him to help us to carry over this company into that whatever will be the future vision of this thing. It's also the main characteristic, somebody who will say, will communicate what he thinks in an understandable manner and who will have a certain level of modesty, I don't think you're going to have somebody who is a big showman and something like this because this does not really fit into our culture. Very, very simple. If you would take the Nestlé leadership principle which you will find when you go outside, you will find the characteristics of the person that will become the next CEO. I think he will have to have strong nerves, don't get flickery each time if somebody happens outside or if somebody has a different opinion of what we are doing and not doing and things like this. All it is, basically in the Nestlé leadership principles you find the profile of the person that will become the CEO.

Question #12
Products in clinical trials

Sorry, I had a follow up that I also forgot which is do you have any products actually going through clinical trials at the moment, and if not when do you think that process is likely to begin?

Peter Brabeck - Nestlé Chairman & CEO

Oh no, we have of course, we have already quite a lot of products which are in clinical trials, especially in infant nutrition, and we have clinical trials, we have to make those clinical trials in all parts of the world. We have very close relationships with universities in Latin America, we have very close relationships with universities in Asia and in Africa and of course in Europe and the United States. Because one of the things in food products that you still need afterwards approval from the relevant local health authorities, so we are spreading those clinical trials all over the world in order to create the database and yes, so yes, absolutely yes.

Question #13

Confectionery markets and luxury confectionery & Chilled dairy

I have a couple of questions just on the confectionery. Does that mean you are actually withdrawing from the other markets outside of the US, UK and Brazil? Just to add to the confectionery, it seems that you're lacking a luxury chocolate brand, obviously that's the category that's growing the fastest. Obviously there's a little company on the other side of the country, I wonder if you thought about an acquisition in the luxury chocolate area. And a similar sort of question on the chilled dairy, chilled dairy is another sort of problem area with the company, what are you looking to do to address that, is it a case of maybe withdrawing from some of the markets who are not interested in chilled dairy or is it a matter of making sort of bolt on acquisitions in certain places? Thank you.

Peter Brabeck - Nestlé Chairman & CEO

Well, I would say no, if you understood that in this sense then you are wrong. We are not going to withdraw from the confectionery business in the rest of the world, on the contrary. I think what Ed was saying very clearly is that his priority is those three markets, because we know very well that without being successful in the UK, given the importance of the UK confectionery market, without being successful in the US where we have a more difficult challenge because we have a relative small participation in the market and yet a substantial business because the market is so huge. And without having a successful business in Brazil which is another one you wouldn't be successful as a world global leader. So that is where he has his priorities. We have absolutely no interest or no intention to withdraw from anywhere else out of this business. On the contrary we have achieved something which I still believe is an outstanding achievement which is we are today the number one, we have today the number one brand of the Japanese confectionery market which is Kit Kat which we built against the Japanese companies which were absolutely the leaders. And we have been, like again very silently built up the number one brand now in Japan. We have a huge business in Russia which is one of the leading confectionery markets which we have first to develop, we have the Eastern European markets which are developing very well. We have Perugina in Italy and so on and so forth, Australia; South Africa; Brazil with Garoto, we mentioned Brazil. So no way that we are withdrawing. The question about the high premium one, well we have a high premium one which is Cailler, Cailler is the high premium brand of our portfolio, have we exploited it sufficiently? Has it been as successful at Lindt? No. I think in this sense as Lindt has only high premium the attention was different and therefore I think they were more successful. Does it mean therefore we have to acquire it? No, I don't think so. I think Lindt is in very good hands, it's very well managed and let it be very successful, I think it's good for Switzerland and it's good for the image of Swiss chocolate anyway, so I

don't think therefore we have to acquire this company. The last question was about chilled dairy. There is no secret I have said that over and over again, if we have one weak point today in my product portfolio it's chilled dairy in Europe. I think we have very good business in Latin America, this business is now being strengthened by being involved into the DPA joint venture. Therefore we have critical mass, we have very good leadership positions in Latin America in the most important countries, so from this point of view we are very happy. Our chilled business in Australia is doing extremely well, in most of the Asian markets we are doing fine, we have an issue of the chilled business in Europe. And I think in Europe you have basically two aspects to that; once you have a formidable competitor who has very clear and substantial lead from an economic side in this business. And the second thing is that you have a constant and rapidly growing commoditisation of this business. If I look at the penetration of private label in the area especially of yoghurt it is a little bit astonishing to see how fast private label is penetrating into this area. And therefore for a company like ours which is being squeezed between a dominant leader, a very strongly growing commoditisation of the base business and we as the number two fighting with another number two on a small level, it's not a comfortable situation, it's a difficult situation. We have been looking at non-conventional solutions; as you have seen we have been withdrawing our business in Germany where we had the 7% market share, you cannot survive in this environment with a 7% market share. Therefore we had agreed to licensing our brand to the market leader because finally for the consumer he couldn't care less who is bringing the products to the market as long as he gets the brands and the product. Similarly we did in the case of Switzerland where we have basically given our licensing of our products and brands to Emmi which is the leader here, very clearly in this thing. In Italy we have the business that develops very well, it's very specialised and it has a very unique position. In the UK we have through Ski a good developing business so there's no problem. We have a problem in France basically and Spain and this is an area where we are still looking into solutions which we have not yet found. But I think the solution will only come by being creative and non-conventional frankly speaking, but this is basically two countries that we have to find the solution.

Question #14 Divestitures
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In your earlier presentation you made a point that acquisitions have not played as significant a role as perhaps some had suggested. I guess one reason for that is that, that's a net figure and you've disposed of substantial sales over the last ten years. I wondered if you could give us some sense as to what sort of scale of divestitures we should be expecting going forward? And given the difficulties that you're experiencing in old Europe is that encouraging you to look harder at the businesses you've got there with a view to deciding whether or not it makes sense to exit?

Peter Brabeck - Nestlé Chairman & CEO

Well I think like on the acquisitions side the divestiture side is getting very close to where we want to be and we can be frankly speaking. I don't see any spectacular divestiture that we can do.

We are divesting businesses for example sugar confectionery. In sugar confectionery we are constantly divesting businesses which are the basic confectionery business. I think the latest one we just did in Costa Rica I think a month ago or something like this, OK we got out of

this one. Those things they don't even touch you. You don't even read about them. But those are the smaller divestitures, like we are doing on the other side, small acquisitions, but they are not substantial.

So if you look from a divestiture point we also have done over the last couple of years, you're absolutely right, the 1.3% is the sum of acquisitions and divestitures. The acquisition side and divestiture side was very important. Last year alone we divested businesses for 3.5 billion, last year, which was, nobody recognised, it was a big divestiture we did last year. But frankly speaking I am coming to the end what I can divest, I don't have anything obvious like that. One thing we wanted to divest and which we have been able to fix was of course Perrier. In Perrier we were very close, very, very close of divesting Perrier and I am of course very pleased that we were able to finally achieve an agreement with the labour union and the politicians that allows us now to put into the place a plan which was a sure asset. Perrier in the future is going to be a profitable business with a decent EBITA margin. And we are now in the process of executing already the new plans in the factories and the first 350 people will leave the Vergèze plant. So that was the only I would say, substantial businesses which we really were thinking about divesting and I have said this publicly that I want to divest it, I didn't make any secret out of this. But otherwise I have nothing which looks like spectacular to speculate on divestiture.

Question #15

Chilled dairy in US & Slowdown in France and Germany

You've said in the past that you could be interested in penetrating the US dairy market, chilled dairy market. What could help you to penetrate this market? And my second question is about the so called old Europe. What has been your reaction to adapt or to resist the strong slowdown of some countries like France or Germany?

Peter Brabeck - Nestlé Chairman & CEO

Well let me start with the US dairy market. The question about the US dairy market is a question about business opportunities if they are or if they are not. Today we have a joint venture agreement with Fonterra which includes North America and therefore as of today anything we are thinking about in the North America would be within the context of our joint venture agreement with DPA (Dairy Partners America), and this might give us new opportunities because Fonterra has substantial business in North America. So if we would be looking for the time being that's one way to look into this market. Regarding the old Europe I think it is almost ironical that the less the old Europe grows the faster I can grow. And that's the irony of the thing. Because every single year the old Europe becomes smaller and therefore the weight of the others is bigger and it goes back to basic mathematics. In the good old times not so long ago the old Europe was 60% of my turnover 50%, today it's not even 30%. So if 30% doesn't grow its for me not so bad that if 50% or 60% doesn't grow. Because the weight of the higher growing becomes every single year stronger and stronger and therefore my target of 5% and 6% is easier if the old Europe doesn't grow. Now having said that, that's not what I want, but I'm just pointing it out. I mean it becomes every single year for me a little bit lighter as the weight of Germany and of France becomes smaller. But that's not what we want and I think we have proven that even though the environment is very challenging, we have been able to grow. Even in Germany we have been able to grow and in France which I think at this point of time seems to me perhaps the most challenging of all the markets. I think, and we had a discussion with Lars and with the management over there, we

are putting plans into place which will allow us to grow; I am confident that we will regain growth. It will not be the 5%, 6% but I think it will be a decent growth like we have been able to achieve in Germany where we had growth from 1% to 2% which is at least growth. So we are definitely not saying forget the old Europe but we have to have fresh approaches as we have been proving. We have to take the product to wherever the consumer wants, that's why the hard discounter strategy is very important but not only the hard discounter one. I can still sell ice-cream you know in a kiosk on the beach, I can still do a lot of things to get my products in the market where before they were not. So there are options and opportunities.

Question #16

Investment and acquisitions in China

You've highlighted the success of the Chinese business and I'm just thinking that you've got turnover of 1.6 billion which is sizable but not sizable in the context of China as a country. And looking forward do you foresee a stage where you will need to step up the level of investment significantly as you either roll out new product categories or perhaps make tactical bolt-on acquisitions if there are any?

Peter Brabeck - Nestlé Chairman & CEO

Well first of all I would say, you say it's not sizable, I would say it is sizable because it's the biggest foreign food company in China anyway. Now that's sizable, even for China it's sizable. The second is that we are basically participating in China in all strategic businesses of our portfolio. This is from ice-cream to coffee to culinary except chilled dairy and except water. Because the water business that we have, I don't think that this is the participation in the water market. This is like an espresso in the roast and ground market. We have never said because we have Nespresso we are participating in the roast and ground coffee business although it is. And what we are doing today with water in China is not participating in the water business we are participating in the highest premium water based beverage market. It's like the Lancôme of the cosmetics that's where we are participating, we are not really in the water business. Those I would say are the two areas where we are not otherwise we have made the investment into factories and into distribution they are all done. And for the next foreseeable future I do not foresee anything big as an investment. Yes we are going to build but this is already in the capex we are going to build a second milk factory in China outside of the Shaungcheng district but that's about what it is. Otherwise we have capacity, we have possibility to further develop. I don't see any need for huge investments into infrastructure as of today. The question is are we going to participate in the water business in China in the short term; my answer is rather no, I don't think that as of today the value opportunity which is there is big enough for us to justify to make a huge investment into this, I think we will participate in this top notch of the business. And the chilled dairy I think there is another, for me, a big question mark whether the time is right for us or whether we shouldn't wait until somebody develops itself sufficiently well and then we can afterwards see what we do. So I don't see foresee anything which is spectacular in China but the continuously fantastic internal growth that we have, as I said of RIG between 15% and 20% and this is already great growth.

Question #17**Other collaborations following the Wal*Mart model**

Listening to the Wal*Mart presentation yesterday it's pretty clear that it's pretty much a two-way relationship built on quite deep trust as it would seem. I was wondering whether, it sounded to me like a bit of a one off, obviously a big one off but are there other relationships that you would point to around the world that are similar?

Peter Brabeck - Nestlé Chairman & CEO

Well absolutely, I mean Wal*mart, I think we have taken Wal*mart because it has become our biggest customer but it's not our only customer. And first of all let me tell you one thing which I think is again quite unique and specific for Nestlé. The top ten worldwide retailers account for 20% of our business. I don't think there are many companies that have such a relatively small dependence on the top retailers. And Wal*mart of course is our biggest one, one of them. But in this top ten you will find people like Carrefour which is our second one with whom we have basically the same relationship that we have with Wal*mart, we have a team sitting in Paris working with them in Paris. We have a similar setup like we have the one with Wal*mart. We have of course a very similar relationship with Tesco. A very distinguished retailer and I would say high class retailer with whom we like to work together. Metro in Germany of course, so we have a list of ten retailers with whom we are working very closely in a similar way that we have shown to you with Wal*mart.

Roddy Child-Villiers - Nestlé Head of Investor Relations

OK, no further questions? Well thank you very much. As you all know there are many Nestlé gems but our objective in the last couple of days has been to focus much more on the more challenging parts of the businesses and the bits as I said, you wanted to hear about. And so I hope over the last couple of days that we've succeeded in showing you that we understand those issues and also more importantly that we have the strategies in place and also the execution in place to respond to them and to continue to perform at least at the level that we have been in the past. Thank you very much.

END OF CONFERENCE