

NESTLÉ S.A.

"A TRANSFORMATIONAL OPPORTUNITY" SPEECH & TRANSCRIPT QUESTIONS & ANSWERS

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Disclaimer

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Peter Brabeck - Nestlé Chairman & CEO

Slide 0

Good morning, everyone, and a belated welcome to you all.

I hope that over these two days you have come to understand better the environment in which we are operating, whether in the US or Europe, and our response to that environment, whether through the example of European Petcare this morning or through Ed Marra's broader overview of strategic demand generation. The message that I hope you are taking away is that the competitive situation is challenging, but that Nestlé is sufficiently flexible, creative and well-positioned to meet that challenge.

Before I look to the future, I would like to start by remembering where we have come from. Some of you have seen these two slides before, but I make no apology for showing them again.

Slide 1

Disclaimer

Slide 2

The first slide shows our EBITA margin development over the last ten years. The total improvement is 220 basis points, from 10.4 per cent to 12.6 per cent, delivered systematically year after year, almost without exception, and despite an unhelpful accounting change and the currency pressures of recent years.

Slide 3

This next slide shows our growth over the same ten year period. I would like here to highlight Nestlé's record of delivering a consistent and challenging level of organic growth. An average of 5.7% over the last ten years represents a clear out-performance compared to the global food and beverage industry.

If you put these two together, the ability to achieve challenging top line growth with the ability to deliver a continuous sustainable EBITA margin improvement, you get what I call "the Nestlé model".

The Nestlé model is, I believe, the best and surest way of delivering long-term shareholder value.

What I want to do today is to tell you how we are assuring the future success of "The Nestlé Model".

Consistency at Nestlé runs deeper than just financial performance – our strategy has been consistent too, with the Four Pillars as relevant today as they were when they were launched in 1997.

Slide 4

Those four pillars are

1. Low cost, highly efficient operations
2. Innovation and Renovation
3. Product availability : whenever – wherever – however, and
4. Consumer communication

Slide 5

The achievements of our technical cost efficiency programs, like MH 97 and Target 2004, as well as of Project FitNes, with cumulative savings of over 7 billion Swiss Francs between 1997 and 2004, are clear proof that we have been successful in delivering on our first pillar, of operational efficiency.

Slide 6

At the beginning of 2005, we started our most recent cost efficiency program called "Operation Excellence 2007", with a target of 3 billion Swiss Francs of savings between 2005 and 2007. This is a natural continuation of previous programs. It integrates technical as well as supply chain and generating demand efforts, and it targets "Total Delivered Cost" improvement. It will focus on four integrated streams:

1. High performance factories
2. Harmonisation of materials and global purchasing
3. Implementation of the remaining industrial restructuring, and
4. Improvement of supply chain and distribution activities

GLOBE, of course, is the prime enabler of the savings.

Much as I value the success of this first pillar, I also recognise a fundamental truth :

Slide 7

Scale and operational efficiency alone will not lead to long-term success.

Long term success will come, first and foremost, from our second pillar, from our ability to renovate and innovate, and the speed with which we can bring new and improved products to market.

I am sure that you all recognise that the success of a brand is proportional to its ability to reflect innovation and renovation.

The key to success is superior consumer insight, (in other words, really knowing your consumers) coupled with scientific and technological know-how, and creativity. I feel that Nestlé is well positioned to make further progress in this area, given our R&D

investments, our recent global segmentation studies for our major categories and brands, and, as you have heard from Ed Marra, a heightened market and SBU focus on this second pillar.

The fact is that we have increased the speed with which we bring renovated products to market, and that we are achieving some significant innovation.

Slide 8

But, if I look at my four Ps, which are "proprietary technologies, protectable product designs, aggressive patent policies and perceivably better products", I believe that we can do more to improve the competitive advantage that our products have over their peers. This, as you heard yesterday, is a priority for us as we go forward and will be visible to you, as consumers, as we move our new product launches to a higher level.

For me, our delivery of the "Four Ps" is at the heart of our ability to deliver our organic growth target of between 5 and 6 per cent. Our performance in this area recently perhaps also explains why we dropped short of that target in 2004. We can and will do better. For example, one of the key learnings from our consumer insight is that today's successful brands are no longer simple products, but complex compounds of products, services, emotions and, increasingly, information.

Brands are also in a continuous race for innovative advantage, especially in those businesses where a given technology is close to maturity. The main criterium for Nestlé's streamlining of its product portfolio is whether or not we can deliver products with a clear 60/40 preference over their competitors in a blind tasting, or even better a 60/40+ performance, including both a taste and a nutritional advantage.

Where innovation and renovation can no longer deliver perceivable consumer advantage, we will eliminate those products from our portfolio, as we have done in the past in sectors ranging from dry pasta to tomato processing, from milk powder production to cocoa processing. This is one of the most serious business challenges for our R&D and SBUs: to know whether to invest or divest.

As you heard yesterday, the consumer goods industry, and food and beverage in particular, is showing signs of slowing sales, rising costs and weak pricing. At Nestlé we understand that in this environment, complacency is unacceptable and that the rate of change must accelerate.

Slide 9

The most important ingredient for future success will be: "innovation, innovation, innovation" and to focus R&D on the most promising products. The key is to graft incremental innovation on products, or even categories, which are apparently mature.

Slide 10

Nespresso is an outstanding example of this; Nestlé, a soluble coffee manufacturer, revolutionised the roast and ground coffee market by moving it from a low price mainstream product to a high-value, super-premium quality and individual choice service, locked into a convenient proprietary system.

Slide 11

We need equally fresh and bold approaches for other mature products. The best innovations are those which meet a true consumer need in a surprising way, which are in line with the equity of the brand and which need no explanation as to their use. This is the area where the SBUs are concentrating their efforts, together with R&D and the market clusters. We will not spread our resources too thinly over hundreds of individual market-driven initiatives, but will concentrate on a few, strong, breakthrough ideas that really make a difference, regionally or globally.

Slide 12

Successes such as Beneful, Hot Pockets and Dreyer's slow churn ice cream will be introduced speedily and simultaneously in all relevant markets worldwide and be supported by appropriate marketing spending.

Slide 13

In the consumer goods battlefield of today and tomorrow, both strategy and tactics will be decisive in order to retain leadership.

A winning strategy comes from asking questions and experimenting and then by constantly renewing the thinking process by questioning the answers.

No matter how good today's strategy is, you must keep reinventing it.

Slide 14

But in implementation, the fastest will win. In this sense, speed, executional agility and responsiveness have become critical success factors to win consumers' and customers' preference. In other words, speed is of the essence – it is a competitive advantage.

Slide 15

It is for this reason that we created new units called "Innovation Acceleration Teams". Their goal is to serve as a catalyst for the accelerated deployment of new products profitably and efficiently. The priorities for the Innovation acceleration teams are:

a) innovations that bring the highest impact to the business; and

- b) innovations that support the turnaround of strategic but still underperforming businesses in the Group.

Slide 16

Let me move to our third pillar : product availability - whenever, wherever and however. It seems to me that we could be doing more here. True, in some businesses, such as beverages and ice cream, we have made progress, but in others we lack extensive horizontal direct distribution.

We must ensure that our products are available whenever, wherever and however the consumer wants them, and this is a situation that we are addressing.

Slide 17

One example, which you have heard about, is our strategy for the growing hard discount channels. Another is that we are re-invigorating our FoodServices channel strategy. We will also expand our horizontal sales coverage over the coming years. In fact, you will remember that during the Full Year Roadshow in March I made reference to sales teams as an area of likely increased cost.

A point that I want you to remember, however, is that we are aware that this is a balancing act; costs have to be matched by incremental profit. To achieve that, a selective product price channel strategy is paramount.

Slide 18

Regarding our fourth pillar – consumer communication - I have the strong feeling that we are moving towards a new paradigm of consumer goods marketing. Consumers not only see in brands a bundle of functional and emotional benefits, but they also expect broader accountability from those brands. "Show me, don't tell me" seems to have become more important to them. They not only think about the product, but they experience clear feelings about the brand. They are interested in the accountability of the brand; they want, for example, to understand how the brand helps to address any potential negative side effects such as obesity in children, pollution, helping the coffee farmers to get a better life or avoiding the use of slave labour.

This means that the social reputation which, in the past, was more linked to a corporation, is now being increasingly linked to individual brands. Social and reputational issues can therefore no longer be exclusively the domain of a Public Affairs department. They have to be thought about in terms of brands.

For Nestlé, this means that they have to be incorporated into our brand essence profiles.

And, you might ask, what does this mean as we create, nurture and develop global brands?

Firstly, consumer insight and consumer focus will continue to be very important, but they form only the base of the strategy. The brand must learn to address the needs of multiple stakeholders in a consistent and coherent way,

Second, consumers will be looking at the overall behaviour of a brand, which means that they will focus on the product, and its benefits, as well as the behaviour of the brand and the company that owns it, and

Third, long-term profitable growth will require a whole set of relationships not only with our consumers, customers and suppliers but also with local communities, social groups, citizens, employees and others.

We will examine whether our global brands live up to these broader consumer expectations. We will listen more carefully to consumers, employees and all those who are close to the communities. As an example, we will screen web logs, an efficient and simple market research tool. The art will be to distinguish between noise and conviction, between superficial fads and strong undercurrents.

In this sense, we are completely revisiting the content of our consumer communication. Brands have to address not only what multiple stakeholders think of them, but also what they feel about them. We therefore have to ensure that, for example, a Nescafé consumer understands that Nescafé cares about the coffee farmers, and that a Nestlé chocolate consumer understands that Nestlé chocolate carries the certainty that no slave workers were involved in the production process.

In other words, this means that those who are responsible for our brands will have to extend their sensory abilities and learn to assess the social, environmental and reputational risks affecting our brands. This requires openness, transparency and a willingness to listen. Listening is not only a part of the communication process; it is also a brand attribute that people increasingly appreciate. In other words, creating an alert brand involves a change in how brands are managed and communicated, and in what they stand for.

The revised brand essences, together with our 60/40+ strategy, should lead to more effective communication programmes, integrated from mass media to consumer purchase-intercepting approaches and Customer Relationship Management, where our most valuable customers are known, serviced and satisfied.

Slide 19

We are improving our communication efficiency by leveraging our 2 billion Swiss francs expenditure on measured media through better media buying and media selection, producing significant savings, which will be reinvested into our brands. Our corporate and brand communication will carry more content that is relevant to consumers, whilst message-adapted programming and sponsorship will present our brands and their benefits more effectively.

But, there is more to assuring the success of the Nestlé Model than just the operational strategy.

Slide 20

We need also continuously to reshape our businesses and structures, an exercise that is not a revolution but an evolution. By continuing to

1. extend and defend our core businesses,
2. build and strengthen our emerging businesses, and
3. create viable future options in the field of Nutrition, Health and Wellness and, finally, Wellbeing ...

Slide 21

Nestlé is evolving from a respected, trustworthy Food company to a respected, trustworthy Food – Nutrition – Health and Wellness company.

Slide 22

The creation of a globally managed Nutrition business is an important step in this direction. This organisation will take care of "Nutrition for an Enhanced Quality of Life". Through science-based nutrition products and services, Nestlé Nutrition will deliver superior business performance and demonstrate leadership in the "claim first" nutrition business, as well as support health and provide care for consumers with special needs at every stage in life.

This superior business performance will be realised over time by

- achieving higher growth rates than in the past for Nestlé's Nutrition, business and
- improving profitability.

While leveraging science as a competitive advantage, a big part of the future success of the Nutrition business will depend on the quality of implementation. Consequently, the organisational set-up is now structured to ensure business focus and speed of execution.

With the creation of a self-standing Nestlé Nutrition business, the responsibility for driving the Nutrition and Wellness orientation within our mainstream businesses has been transferred to the newly-created Corporate Wellness Unit.

Slide 23

The Corporate Wellness Unit will have primary responsibility for all aspects of the Nestlé Wellness Program relating to

- People: to promote a positive orientation at Nestlé towards nutrition as a value-added benefit for most of our products and brands.
- Products: to develop the nutrition and wellness dimension as a competitive advantage in our product portfolio.

- Brands & Communication: to leverage the nutrition and health dimension as a relevant and credible selling proposition in our consumer communication.
- Science: to align science and consumer benefits.

Slide 24

Additionally, it will

- Manage our global Nutrition Champions network to facilitate, inspire, motivate and drive Wellness initiatives in markets and SBUs, and it will
- Coordinate the Nestlé response for horizontal, cross-business projects like Healthy Ageing, or the Nestlé response to Obesity.

This slide gives you a fuller overview of their role. The key benefit will be that Nestlé will be delivering a co-ordinated, accelerated implementation of 60/40+ and a more rapid pipeline of higher value, nutritionally advanced products.

Slide 25

- It will also manage the accelerated rate of application of Branded Active Benefits (BABs) across our food and beverage business. Today, products with BABs represent about 2.5 billion Swiss francs in sales.

Consumers will perceive Nestlé as a Nutrition and Wellness company only if we change our way of communicating our products and brands. Therefore, a better understanding of the nutritional values of each one of our products, a preoccupation to improve not only the organoleptical but also the nutritional quality of all our products and then, finally, the communication of those nutritional advantages, is an ongoing objective for Nestlé.

Slide 26

60/40+ is a simple, yet powerful idea combining nutritional product advantage with consumer-relevant communication. We will concentrate our Marketing spend where we have the most evident nutritional advantages in our products and where we have been able to integrate proprietary technology, thereby making those products unique in the market place.

As I hope I have demonstrated to you, we at Nestlé are not complacent or satisfied with our past performance, either in terms of our organic growth or in terms of our profitability. We have revised our long-term vision, we have adapted our four-pillar strategy, we are strengthening those areas where we are weak.

Slide 27

The human factor, our people, their skills and personalities, their strengths and weaknesses, will have a vital role to play in our successful transformation.

Our new version of "The Nestlé Management and Leadership Principles", which is available in the lobby, not only re-emphasises the values that have been and always will be those of Nestlé, but also strongly focuses on the skills and social attitudes which our people need to ensure Nestlé's future.

One of the most critical management issues for our Company seems to be to decide what needs to be structured and what should be kept flexible and unstructured! There has to be a fine balance between business focus, critical operational mass and differentiated consumer approach.

Slide 28

Just as important is the need to find a balance between radical, organisational change and the retention of the non-negotiable core elements of our corporate success, not only in the hard facts of safety and quality but also in the soft aspects of our corporate culture.

Over the last couple of years, Nestlé has left behind its organisational model of being the most decentralised multinational company, with a federation of highly independent market organisations. We have been moving to become a regional, global company, with a more integrated network of production and supply back-ups. We are in the middle of this effort, distinguishing clearly between :

Slide 29

- a decentralised "generating demand" frontline, which needs to be "focused, fast and flexible" in the markets,
- a regionally or even globally run "ensuring supply" backline, which need to be "slim, cost-efficient and service driven" (including factories and shared service centers);
- and strategic, consumer insight and R&D driven innovation / renovation with the SBUs and R&D.

Intangibles are one of the invisible but decisive advantages which are driving long-term business performance. Already today, they constitute "the competitive edge"; and that role will be even more important tomorrow. Consequently, their management will be critical, and we will not rely on centrally located knowledge and skills. We will search out and mobilise market intelligence, R&D, technologies and know-how that are scattered across the globe. A more active Intellectual Property sourcing and selling/licensing strategy has been laid out, managed by a dedicated team; our "Life Venture Fund" also has an important role to play in this area, as will partnerships with universities, think tanks and NGOs. This means the creation of a highly inter-dependent network organisation with centers of excellence that can move to any place, depending on the quality and leadership of individuals and also on the demands and considerations of the different partners.

There are, of course, pitfalls and dangers in any open organisation. They can turn into a "global debating society", in which unguided networking and consultation undermine efficiency and rapid decision-making. Operational management can drown in complexity, and there is the danger of losing the necessary dedication to operational daily tasks in the markets.

Consequently, we need two minimum requirements for such an organisation :

- a basic communication infrastructure, which allows a free flow of information in a harmonised language, and
- a strong qualitative, business-driven leadership coming from the SBUs and certain functions at the Center as well as a decisive operational line stewardship from the Zones and global businesses.

Slide 30

It is in this sense that we intend to continue our evolution from a multinational to a global and, in the end, a global multi-focal company. This carries the implicit understanding of the need for standardisation and harmonisation in data, business models/processes, IT infrastructure and supply Chain, (which you heard about in the GLOBE presentation yesterday) but with distinctiveness in the areas of demand creation, marketing, communication and increasingly, also, in sales and distribution (again, as you heard yesterday). Multi-focal has to be understood as a multi-business focused company with deep local roots.

These considerations led us to rethink the Role of the Center and the Role of the Market in general and the Market Head in particular, as I shared with many of you last year in St Louis.

The expected structural changes in the markets are :

1. A stronger business focus, with a flatter market organisation and a delegation of the responsibility for profitability in the markets to the level of Business Executive Managers or Divisional Managers, the people who actually run our food categories. This should further crystallise the business leadership in a market.
2. The reallocation of certain business responsibilities to regional global structures.
3. The establishing of market, regional and global shared services, to improve efficiency and take out cost.
4. The strengthening of vital market functions, such as Finance, Technical and HR.

The Market Head assumes the function of Mr. or Mrs. Nestlé in a market and, as such, will have a broader overall accountability than in the past. He will act as a business portfolio strategist, keeping an eye on all businesses in a given market, and

will have direct P+L responsibility for any businesses that do not have their own P+L manager, as well as being accountable for the overall performance of the market. Finally, as the number one Nestlé person in a given market, the Market Head will act as Nestlé's ambassador towards all stakeholders in his market.

Slide 31

With regard to business structures, it is obvious that different success criteria drive different structures (e.g. Water, Nutrition). Instead of having one uniform business, we will have an agile fleet of differentiated businesses, each one independently strong and flexible, following its own rules towards success, led by business-specific management and staff.

Slide 32

On the other hand, to exploit fully the group's potential, we will have highly interdependent organisations to enable us to leverage our size vis-à-vis our suppliers, customers, media and governments.

GLOBE is the system which is enabling this new organisation. I know that you have heard from Chris already, so I won't spend any more time on GLOBE, except to say that with over 16 billion Swiss Francs of sales already under the GLOBE systems, it is clear that GLOBE works.

This flexible structural framework is allowing Nestlé to evolve into a "global multifocal company", which is able to combine business complexity with operational efficiency. Through successful implementation over the coming years, Nestlé will gain a significant competitive advantage over its peers.

As I have explained, Nestlé's business strategy rests on its ability to exploit scale and complexity – without compromising closeness to the consumer or speed of execution. This is tough, but it is the secret to keeping the successful Nestlé model vibrantly alive.

Nestlé is in the middle of a long-term strategic and structural transition period, which brings enormous transformational challenges and opportunities. But we will achieve this transformation whilst also continuing to deliver the Nestlé model, which is

Slide 33

.... Organic growth of between 5 to 6 % per year, combined with an improved EBITA margin and improved returns on capital, resulting in industry outperforming total shareholder returns.

Slide 34

Let me close by saying that the course of the company has been set, it remains for management and our people to see the journey through. I believe that we have an exceptional team of managers – which is why I have been so happy for you to meet

so many of them over the last five years at events like this - and I believe that it will be their excellence and courage in execution that will distinguish us from our competitors.

Slide 35

Thank you.

Questions & Answers

Question #1

Innovation acceleration teams and strategic demand generation

You introduced the concept of these innovation acceleration teams and Ed talked about strategic demand generation. Could you describe where these people are and how they interact and just how it all comes together?

Peter Brabeck - Nestlé Chairman & CEO

Yes, sure. You see we had, when we started MH97, an elite troop of young people from inside and outside of the company, basically many of them were coming from consultant companies, others were coming directly from universities, which helped us to drive MH97 through the organisation, because, I mean, we always talk about the results of it and the targets but we have never talked too much about how we achieved those things. So we created an elite troop which were about 130 young people which we sent out into the market in order to drive MH97.

Target 2004 and to explain it to the market and to ensure in factories, in the head office, that then a team was created locally in order to make MH97 and then Target 2004 happen. Now, I meet with these people normally twice a year, at the beginning of the year and in the second half to get their feedback. This is the room, we are normally here, it's the same room like here. And about a year ago we were talking about again Operational Excellence 2007 and they were all getting ready to go out to the markets and talk about operational efficiency. And at that point in 2004, my feeling was that our innovation was not fast enough and it came to my mind that perhaps, if you would take part of this elite troop and redeploy it and put it more into the innovation part and not concentrate all 130 people only on the operational efficiency part we would get an acceleration of the innovation aspect. So that is exactly what we did. We took a part of this 130 people and transformed them and asked them and empowered them to become this innovation acceleration team which are going out. The next thing we had to do is work out how we are going to establish priorities, and the priorities were established based upon two criteria. The first one was, we saw something which was really revolutionising and which could be applied in many markets relatively fast. The example is, if you take Dreyer's new ice-cream technology, which is something that is valid both for the United States but it is also valid in the rest of the world. So we took this one technology platform, which is a new way to make ice-cream and said to the innovation team, you now go out to all ice-cream markets and you stay there and you push this project through. So they are to accelerate the implementation on a worldwide scale. Or you have seen the case of Beneful, for example, which was I think and outstandingly good idea which was

developed by Ralston Purina and in order to ensure that we have an accelerated implementation in the markets of the same products, well, that is another very good example where we can implement our innovation acceleration team. And the other area, we were in businesses where we felt that we were still struggling with, so another area for example for the innovation acceleration team is the area of chilled dairy, because we know very well that this is one of our weak points that we still have and therefore there we are concentrating. So that is the way it works. It is an elite troop of people who have one target which is to say, let's accelerate the implementation in the market, to be fast in the implementation of ideas which can spread through several markets and not only one market. That is basically the idea.

Roddy Child-Villiers - Nestlé Head of Investor Relations

How does it interact with Ed's SGDU (Strategic Generatic Demand Unit)?

Peter Brabeck - Nestlé Chairman & CEO

Well, the priority setting is done, of course for us so it's done in general management and of course the SBUs will bring forward what they consider are the most important new innovations that we have and we discuss this, and I am sure Ed must have talked about ten, ten, ten which is his invention. And out of those ten, ten, ten you can be sure that they will be then afterwards part also of this innovation team. But the priority setting is done in general management based upon the recommendation which comes from Ed and the SBU (Strategic Business Unit).

Question #2

R&D spend & Acceleration in margin growth and sales growth

Two questions, if I may. Last year you spent 28% of sales, we were told yesterday, on marketing. One way or another you have spent 1.6% of sales on R&D. Given what we have just heard, is that balance going to have to shift more in favour of R&D? And second, you have been telling us about the transformation opportunity and yet by implication are sticking with the existing business and financial model. Is there a possibility, given what you have said, that the next ten years might see greater acceleration in margin growth and even greater sales growth than you have achieved over the last ten years?

Peter Brabeck - Nestlé Chairman & CEO

First of all, the first answer. There is no doubt that in a consumer goods company, the marketing, the total marketing costs will always be bigger than our research and development costs. I am in no doubt about it. But I've also said that the strategic reorientation of the company will have an increase of the R&D costs. As a matter of fact, you can already see that, that our R&D costs are increasing something. Now how far this will go, I don't think it will be something that will ever get close to what you might see in a pharma company, but I can consider that for our nutrition business for example, the R&D costs will be somewhere between 3% to 4% of our business. Because as we have to go into clinical trials, if we have to go into getting approval from the different regulatory authorities, the time is longer of course for the development of new products, the risk is higher. You have to spend more money. Now it will not go to what it is at Alcon at 80% to 90%, so what you will see is that

the recent gradual increase of R&D costs will continue because this is part of our model, into the future. But I don't think it will get, as I said before, to the percentages that you have in a pharma company like Alcon or Roche or any other of those. Regarding the marketing costs, I think what you see very clearly is that advertising expenditure and those part of our marketing costs are not any more the most important ones. I remember when I came here the first time, I made an interview in a famous newspaper and I said, advertising is out long term, direct communication with the consumer is in. This was about, almost now, 20 years ago. At that time it was a revolution. I think in the meantime we have come closer to that. And I mentioned that in my speech to you that we have many, many other ways how to communicate in a relevant manner with the consumer of today. Whether this is simple things like a web log, something which is absolutely almost free of charge and you learn enormously about it, if you just use it intelligently. We are talking about intercepting purchasing behaviour by paths to purchase, by having our product and our communication available at the point of sale, which is very, very important and is becoming more and more important. You see how Nespresso communicates for example, through the creation of boutiques, how Häagen-Dazs communicates through the creation of the Häagen-Dazs parlours all over the world. So they have many new ways of doing that. So the costs of marketing I think they will be more or less what they are, but the composition of it is going to further change in the future. Sponsorship I'm sure is going to take a more important role in the future than it was in the past. But you have a second question.

Roddy Child-Villiers - Nestlé Head of Investor Relations

On the growth potential and margin potential.

Peter Brabeck - Nestlé Chairman & CEO

OK, margin potential. Well the reason why I say that this is our Nestlé model to continue to deliver ever increasing, sustainable EBITA margin improvement; it's not coming so much from the cost efficiency programmes. Of course the cost efficiency programmes are important, but much more important to be able to make a claim like I'm doing, is the change of the product portfolio. That is margin enhancing; that's what we are doing. By eliminating those businesses that have become commoditised and therefore are under stronger pressure on the margins, and by favouring investing and developing businesses where we have proprietary technologies and the four "P"s which I mentioned, we can demand higher margin. There is no doubt that you know that very well. That the nutrition product, if you talk about clinical nutrition, the margins are not comparable that if you are selling plain yoghurt, OK? And you see very well how the plain yoghurt business is being commoditised, not only for us you just have to see what happens on the plain yoghurt side, for everybody who is in this business, it is becoming more and more commoditised. And therefore the margins are going down. We are looking at what we are favouring and developing, and you remember my model, I was saying I have to defend my core business because it is still a big cash carrier, but I have to develop fast with emerging businesses, which was the water, the ice-cream and the pet food ones. And at the same time I have to create viable new solutions which bring me to the higher margin business. And it is this change of the product business portfolio which allows me to say that we have the possibility to further improve our profit margin. If it was only for the cost savings, I couldn't make this claim because one day you come to an end to that. It is the other one, it's the strategic reorientation which allows us to make the claim that the Nestlé model will be valid also for the next forthcoming years.

Question #3**Strategy, perception and portfolio changes towards the global consumer concept**

I think in the past you've tended to talk about there not being a global consumer, and emphasises the strength of Nestlé in its local knowledge, closeness to the local market. And today you referred again to the deep local roots as being important. But you've also said today with regard to innovation, that you don't want to spread your resources too widely and you're wanting to focus more on, and I think you said, products with a regional, global potential. Is this a change in strategy and perception here? Perhaps does it reflect a change in your portfolio? I just would like to hear a little bit more about your thinking in this respect.

Peter Brabeck - Nestlé Chairman & CEO

No, I don't think there's a change. I have explained it again; our model is even a more stronger decentralisation in the generating demand area because we do not believe there is a global consumer for the mainstream businesses. But on the other hand, and this is one of these big challenges that we have, you are absolutely right, we do not want to have that our R&D pipeline is full of individual market driven projects because you will not get the efficiency of R&D. Now how you find the solution to that? Yesterday I had a long meeting with all our technical community and R&D community which have our world meeting here in Lausanne and we talked about that. And the answer for me is that we need to have technology platforms. You see, when you are a consumer, when you are buying a Polo, an Audi, a Skoda, a Seat, you do not know that all of those brands are the same technology platform. The technology platform is the same. The car is basically the same. But you don't know that. When you are in Spain, you buy a Seat, you buy a Spanish car and you are very proud to buy it. That's what you can see; you can see the shape, you can see the feeling of the car, you can see the colour scheme. But the platform is one, and that's exactly what we have to do. When I talked about Slow Churn ice cream, of course Slow Churn ice cream in the United States has to be under Dreyer's, and not only under Dreyer's, has to be under Eddie's and that is because Dreyer's in the east doesn't say anything. Even in the United States you have two brands, and of course it has to be in Europe, either under Mövenpick or under Nestlé. But the technology platform is one and that's what we have to establish. This is where then, and this is the task of SBUs (Strategic Business Units), establishing one technology platform which is proprietary. And then afterwards the application of that into the market has to be local and as decentralised as possible. That's the way how you can achieve both things and that's the way we are trying to work. And I think the car industry was for me a very good example; I looked at that very, very carefully. I think they were the best in order to do that.

Roddy Child-Villiers - Nestlé Head of Investor Relations

Thank you Peter.

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