

NESTLÉ S.A.

GLOBAL ACCOUNT MANAGEMENT WAL*MART
TRANSCRIPT

Event: Nestlé Investor Seminar 2005

Presentation Date: 8 June 2005

Presenter: Mr Bob Flaherty
Responsible, Wal*Mart Relationship
Nestlé USA

Disclaimer

This is a transcript version which might not reflect all exact words of the live session.

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

Roddy Child-Villiers - Nestlé Head of Investor Relations

I'd like to introduce Bob Flaherty to you. Bob is a 26 year veteran of Nestlé, unusually he's been in the US all his career and he's spent much of his time on the sales side dealing with Wal*Mart and as he's going to tell you Wal*Mart has grown over 200 times during his relationship with Wal*Mart. For the last nine years Bob has had a senior position; the first five I think were heading the US relationship and the last four heading the global relationship, and with that Bob thank you very much.

Bob Flaherty - Nestlé USA Responsible, Wal*Mart Relationship

Good morning everyone. Roddy, thanks for the introduction. As Roddy mentioned I have 26 years commercial experience with Nestlé. I have two office locations, I primarily work out of Bentonville, Arkansas in the United States, I also have an office facility in Glendale, California where Nestlé's domestic headquarters is located. But in all candour I spend greater than 60% of my time on the road working domestically with Wal*Mart in the United States and equally if not more importantly today travelling to each of the 11 markets where Wal*Mart does business around the world. On most every occasion I travel to those markets with Wal*Mart personnel, so it's not just solely a Nestlé trip, but a Nestlé Wal*Mart trip. My primary responsibility is managing the overall business development with this client for Nestlé around the world and that is obviously a daunting task, one that is far too great for any one individual and I'm really very proud to have the opportunity to work with over 125 Nestlé associates and personnel. They really provide value in representing Nestlé brands to Wal*Mart throughout the world.

So what I'd like to do today is provide you the opportunity in presenting the reasons why Nestlé, the largest food company and Wal*Mart the largest retailer are strong partners in profitable growth around the world.

But before I do that for many of you who might not have a background of Wal*Mart I'd like to take you through some very brief details about who they are and what they're all about.

Firstly, Wal*Mart stores was opened by a gentleman called Sam Walton in Rogers, Arkansas in 1962. In 1969 the company incorporated as Wal*Mart Inc Incorporated. They opened their first distribution centre and their headquarters in Bentonville, Arkansas in 1970 and at that time they went on the New York stock exchange incorporating themselves as Wal*Mart Inc. Sam Walton stayed very, very focused on citing that the customer is number one. And the customer is certainly the person their organisation serves. He believed in serving the customers' needs first, his business would also serve his associates, it's a Wal*Mart term for their own personnel, his business would also serve its shareholders, its communities and other stakeholders. Really throughout the 1980s Wal*Mart rapidly grew and became known for selling branded name merchandise at everyday low prices. 1979 annual sales for Wal*Mart topped \$1 billion and today Wal*Mart employs approximately 1.6 million associates and have grown their sales to date to \$285 billion worldwide. And Nestlé's partnership with Wal*Mart provides us the opportunity to expose the Nestlé branded impression to the 138 million consumers who shop Wal*Mart stores each and every week.

The Nestlé brand impressions reach consumers not just in Wal*Mart stores in the United States, but today Nestlé brands can be found in over 5,700 Wal*Mart stores around the world

in countries such as Japan, China, South Korea, Germany, UK, Canada, Puerto Rico, US, Mexico, Brazil and Argentina. And as a senior Wal*Mart executive would clearly call out, that outside of US you may have heard a rumour that Wal*Mart is speaking to other retailers around the world. Well that rumour is most likely true, they are talking to many retailers throughout the world.

Aside from Wal*Mart's passion being focused on the consumer, any supplier working with Wal*Mart would say that two additional poor competencies of their organisation are in the areas of information technology, supply chain and logistics. Wal*Mart's IT centre located in Bentonville, Arkansas runs the data system for all Wal*Mart stores worldwide, their proprietary information system called Retail Link tracks every register transaction for every Wal*Mart store around the world. This computer system is second only in size to the United States Pentagon. And Wal*Mart's private fleet of over 5,000 trucks and over 23,000 trailers travel over 700 million miles delivering Nestlé goods to Wal*Mart stores around the world.

So early on and initially in small towns in the United States Wal*Mart had expanded and grew through their discount store format. The stores range in size from 40 sq ft to 125,000 sq ft; they primarily offer shoppers a wide variety of general merchandise, very limited, they are primarily non-food outlets and these stores, these outlets are primarily where the Nestlé PetCare business primarily established their early on relationship with Wal*Mart. Although these store counts are diminishing in numbers in the United States, these stores do today list approximately 1,300 Nestlé SKUs and represents 16% of Nestlé's business.

Additional formats include Sam's Club. Sam's is the largest membership owned warehouse club in the United States. They're in business to serve the small business members. In essence what that means is they serve convenience stores, restaurants and food service outlets etc etc. They operate in a very limited SKU environment and today 19% of Nestlé's US turnover with Wal*Mart in the US is represented at Sam's Club.

Wal*Mart's store growth in the US is fuelled by super centres. Super centres run in size approximately 260,000 sq ft, it is clearly a one stop shopping experience combining groceries, general merchandise and a variety of ancillary services under one roof. Wal*Mart's expertise in food and Nestlé's expertise in working with Wal*Mart in food developed with the super centre concept. Today 64% of our Nestlé Wal*Mart Inc business is transacted in the super centre format. The last and newest and smallest Wal*Mart format in the US is neighbourhood markets. Neighbourhood markets although small and footprint offer good convenience, groceries, a high degree of pharmaceuticals and general merchandise. Due to the early on-development in a limited number of neighbourhood market stores, this format represents approximately 1% of our business.

So now please allow me to explain to you why, as well as how, the world's largest food company Nestlé and the world's largest retailer Wal*Mart are strong partners in profitable growth.

I will say firstly it is the strategic alignment between our two companies which inspires our passion for profitable growth. Priorities between our two companies have tremendous similarities.

I'll start first that the Nestlé four pillars is really a blue print for success with Wal*Mart. Under renovation and innovation pillar Wal*Mart and Nestlé are two companies very focused on the opportunities where product innovation will draw consumers into Wal*Mart stores

obviously for the purpose of driving top line and bottom line sales. Yet aside from product innovation Wal*Mart also rewards Nestlé for innovation in the way we work together with one another. Nestlé work together as partners as examples recognised in the way we co-develop our business building activities; the way we share category management insights; the way we seek greater efficiencies, and in the way we work together on supply chain activities; the way we enhance our utilisation of technology as well as our efforts to continuously improve our merchandising schemes. Under the pillar of product availability, Nestlé's objective is to have our products within arm's reach of wherever consumers want to buy them. Through our joint business planning effort, we are successful at aligning our branded demand creation activities, each of the Wal*Mart footprints throughout the United States and around the world. Under the pillar of consumer communications, many of you may have been in Wal*Mart meetings where they start a meeting with the Wal*Mart cheer and they close the meeting with that cheer. The last few words within that cheer they say "who's number one, the customer always". So really for Nestlé and Wal*Mart the similarities between us, as we have a keen eye on what the customer desires from both of us. In our partnership utilising Wal*Mart's technology, Nestlé has the ability to understand where every Nestlé SKU is sold in every Wal*Mart store, every day around the world. With transparency of this type of information, both Nestlé and Wal*Mart are capable of making very fact based decisions to better satisfy consumer needs. But the fourth pillar really is low cost highly efficient operations, we will tell you it is a very regular occurrence where we challenge one another on areas where we can mutually operate more efficiently. In many ways this process makes both of us much stronger companies.

I want to emphasise to you that Wal*Mart is a retailer who recognises the importance of brands, but from Wal*Mart's perspective Nestlé is a valued partner providing brands as an innovative solution to consumers' needs. Nestlé brands drive demand creation in Wal*Mart stores.

Really demand creation specifically designed to enhance the consumer's health and wellness from birth to healthy aged and all of this provided in an efficient cost effective business model.

Working together the consumer wins and rewards us both with accelerated and profitable growth. Our efforts today are clearly evident in our business results, Nestlé's direct sales to Wal*Mart in the United States are growing at approximately twice the rate of Nestlé's total US sales. Nestlé's total sales in the US from 2003 to 2004 increased at 7.2% while our sales to Wal*Mart in that same period grew at 13.8%.

The second reason why we're partners in profitable growth is due to really our parallel organisational alignment between our companies. If you take a step back in the early 1990s the United States' retailing landscape changed substantially. While Nestlé's growth at that time was in very traditional grocery outlets, consumers were choosing to shop at very non-traditional mass merchant outlets such as Wal*Mart.

For us to reach consumers shopping at Wal*Mart required far greater flexibility, more speed and new organisational capabilities for us to be successful. In the past where all communications went through one sales representative it became a necessity for Nestlé to have a Nestlé Wal*Mart centred organisation requiring specific expertise in a variety of disciplines with multiple points of direct communications in such areas category management, finance, marketing and supply chain. And as I mentioned to you earlier on,

today we have approximately 125 Nestlé specialists working with Wal*Mart in these very specific functions.

Additionally, as Wal*Mart expanded outside of the U.S., unquestionably a business opportunity presented itself to work far more closely together with one another on a global basis. To reach our mutual potentials with one another, Nestlé and Wal*Mart gained alignment in three key areas. Firstly, realising that consumers' tastes, product preferences and purchasing behaviours are local, we therefore agreed to conduct our business locally. However simply doing business locally in 11 markets does not inhibit us in any way from capitalising on our global best practices, regional or global sales opportunities or evaluating our global business on a very top line basis. We engage each of these activities successfully in our daily business process. Utilising all aspects of both personalised as well as technologically advanced communication devices, we've constructed a Nestlé Wal*Mart global network; a network that provides clear, timely, free flow of communications to all Nestlé companies, to all Nestlé markets around the world.

As you know, Nestlé has been conducting business in most markets around the world for many, many years. Nestlé has years of international experience and in essence Nestlé has reached out to Wal*Mart and become a valued resource to them in areas of understanding local cultures, governmental relations, laws, trading practices, etc. All of which are potentially new experiences for Wal*Mart. As Wal*Mart's leadership mentioned to Nestlé's leadership, you are a global company and we can certainly learn a lot from you on how we run our company and we'll show you that our two companies value our organisational relationship.

The success of any business relationship as you know lies within the discipline of doing the details very, very well and one of the most powerful reasons why Wal*Mart and Nestlé are partners in growth was the result of our two companies' ability to collaborate on joint business plans.

The starting point for all collaborative business planning between Nestlé and Wal*Mart quite frankly begins with number one, the consumer. Wal*Mart sales data as well as Nestlé's consumer and category expertise bring forward a clear understanding of consumers' expectations. Retail Link as I mentioned, Wal*Mart's proprietary information system, provides Nestlé visibility to some, but not limited, to the following points. Point of sales (POS) data on all Nestlé brands and SKUs sold in every market around the world, and if you think of the implications to that, it can tell you how successful your marketing activities are. It's also going to tell you what days of the week your products are being sold the most, your highest degree of sales on Friday, Saturday and Sunday versus Monday, Tuesday and Wednesday, that certainly helps you deploy manpower based upon that information. Retail Link also helps us understand current inventory replenishment demands on Nestlé products. The implication to that is which stores needs Nestlé products and when. It also helps us understand price management. If you think of the implication of that, Retail Link helps us understand how promotionally sensitive certain Nestlé brands are; it also helps us develop promotional schemes based upon their consumer input. Retail Link also helps us understand market basket data, reflecting information as to what brands and what categories sell alongside a Nestlé brand, really within the consumer's shopping basket. And if you think about the implications of that is both Nestlé and Wal*Mart can become better merchants. A quick example. If you put a Nestlé confectionery product sold in the confectionery aisle during the Mother's Day celebration and we know that in the shopping cart that 40% of the

consumers who buy Nestlé confections during Mother's Day, buy a floral arrangement. Well that information provides us to cross merchandise Nestlé confections over into the floral department, a powerful tool. So data coupled with the trusted Nestlé intellect in the areas of consumer category insights product knowledge, global to vocal expertise builds a powerful strategy to Nestlé's competitive advantage.

The Nestlé Wal*Mart collaborative joint business plan really considers eight key aspects which are focused in areas of distribution for both existing and new items, pricing, merchandising, promotion, replenishment and measurements. So we could all say that these aspects are aligned with all retailers, yet the fundamental difference is how both our companies engage early on in the development of our plan; we'll tell you we truly co-develop our plans together.

Yet a plan is really nothing more than a plan without execution of that plan and as Wal*Mart and Nestlé execute everything right all the time I will tell you absolutely not, we do not. Yet we do strive for continuous improvement be it post or pre the implementation of our plan and what we call that is a correction of errors.

Simply stated we discuss what we can or what we could've done better the next time we do it. This is our partnership and correction of errors is our culture. Continuous improvement in our business culture because we realise that greater than 94% of Wal*Mart's and Nestlé's total business is sold on the shelf versus 6% of the business sold off the shelf either on display or on end aisles. We also realise that the consumer takes only eight seconds to make a purchasing decision and what has been ingrained in the Nestlé Wal*Mart team is an organisational passion to ensure that our products are in stock and within arm's reach of where the consumer wants to buy them. I know that I'm going to over-simplify this process with you, however at each and every touch point of Nestlé products, doing the basics very well, of having the right Nestlé product at the right place at the right time and at the right place in Wal*Mart stores receives a tremendous amount of attention at Nestlé and it is really a requirement in order for us to be successful at Wal*Mart.

I want to use an example. We introduced a new product called Nestlé Toll House Ultimates and I want to use really the speed to shelf as an execution example. So allow me to show you how important this successful retail execution is of the joint business planning itself. Firstly, Nestlé really provided first shipment of Ultimates to all customers on the exact same day. OK, there was no differentiation. During week one, which was the first week Tollhouse reached retail environment, Tollhouse was purchased by consumers in 75% of Wal*Mart stores versus 1% in Wal*Mart's grocery competition. By week four, Tollhouse was purchased by consumers in 99% of Wal*Mart stores versus 27% in Wal*Mart's competition. Now, when you look at the competition, there are certainly some within that that reach Wal*Mart levels, but this is an accumulation of the total grocery ACV in the US. A result of our collaborate business plan and speed to shelf, really Wal*Mart gained 62% of Nestlé's total Ultimate sales in the first few weeks of the launch and their actual share of that respective category was 18%. Importantly for Nestlé, we gained over \$0.25 million in incremental sales at Wal*Mart compared to the speed to shelf execution of Wal*Mart's competitors.

Another example that I would like to provide to you of our ability to execute is Nestlé's relationship with Wal*Mart's VPI programme, an acronym for Volume Producing Items. I want to show you really two examples of VPIs that we have run. To help explain what a VPI

is, each year Wal*Mart executives choose a food, or maybe a non-food product as his or her personal VPI which they support for the entire year. Wal*Mart executives really have a fun internal competition amongst themselves to see whose VPI product sells the most. In 2002 Nestlé was successful in having David Glass, Wal*Mart's chairman choose Nesquik as his global VPI. And in 2004 we were successful in having John Menzer, Wal*Mart's president of their international operations choose Nestlé Waters as his global VPI. Although the VPIs are global in nature, the execution is clearly very, very local. The results of the VPI programme drove Nesquik sales to heights greater than 21% and Nestlé Waters plus 26% which in our eyes, and certainly Wal*Mart's eyes were outstanding results.

Now, activities such as the ones that I have just shared with you have generated significant sales increases for Nestlé and Wal*Mart. To measure our success, I look at two areas. The first area is how much Wal*Mart represents of total Nestlé US sales which is obviously the largest market. In the results in sales revenue to Nestlé year ending 2004, Wal*Mart represented 18% of Nestlé's total U.S. sales which is increasing year on year. The second way we measure our success is in point of sales, comparing Nestlé's worldwide point of sales growth at Wal*Mart compared to Wal*Mart's worldwide growth themselves. Results indicate that Wal*Mart's worldwide sales in 2004 were growing at 11.3% while Nestlé sales to Wal*Mart worldwide grew to U.S. \$4.4 billion, plus 15%.

So, if you could allow me to summarise. Why the world's largest food company, Nestlé, and the world's largest retailer, Wal*Mart are partners in profitable growth. Firstly, we have alignment between our strategies and the Nestlé pillars are our blueprint for success. Nestlé brands are clearly supported by Wal*Mart and help drive consumer demand creation in their stores. We have parallel organisation structures, both domestically as well as internationally and our collaborative joint business planning process provides us terrific ability to successfully execute at retail level.

And our partnership between our two companies goes well beyond doing what I term the basics very, very well. The two companies also committed to leveraging our global relationship for bigger, stronger, faster breakthrough activities.

This past summer Nestlé and Wal*Mart's top leadership met here in Vevey as well as over at Nestlé's research centre to discuss some of these breakthrough ideas for accelerated growth between our two companies. One specific purpose was to align our activities in the area of nutrition, health and wellness and during Wal*Mart's visit here, we introduced to them many of our wellness initiatives and collaborated on ways in which we could mutually benefit while focusing on consumers' nutritional needs. Seated at the right hand of Peter Brabeck is Mr John Menzer who runs really Wal*Mart outside of the US. Seated on the left of Mr Brabeck is Mike Duke who runs Wal*Mart stores in the United States. Additional guests here in the picture were Wal*Mart's global merchants as well as some representatives from Wal*Mart's people division, in other words their HR team, who spent a day with Nestlé's HR associates to better understand how we operate as a global company and utilise our human resources to maximise our global business.

Wal*Mart, like Nestlé sees wellness as a trend and not as a fad. Wal*Mart's visit here, to Vevey, helped them better understand the value of Nestlé's wellness expertise and how Nestlé products are solutions to addressing areas like diabetes and weight control and other consumer health personal nutrition requirements. Resulting from their visit, Wal*Mart

appointed Nestlé as a strategic wellness partner; the purpose of this partnership to co-create activities targeting consumers' wellness needs.

For Nestlé, the benefits of pursuing this wellness activity with Wal*Mart is clearly our ability to access a growing number of wellness conscious consumers and their purchasing insights, as well as the opportunity to accelerate the availability and sale of new, attractive margin, wellness-oriented Nestlé products. From Wal*Mart's perspective, the benefits of working with Nestlé on wellness initiatives is the opportunity to draw consumers to their stores to purchase obviously attractively priced wellness products and services and ultimately position themselves as a health and wellness destination.

In order to make it easier for you to see the visuals on this slide, I have adjusted the scale of the high growth and high profit quadrant, so please understand that. This obviously not to scale, it is to visually help you. But the message is, if you were to plot the sales and profit growth of Nestlé brands as they perform in Wal*Mart stores will show a clear indication that many Nestlé brands that have a connotation to wellness or an orientation to health and nutrition are brands that are in the high growth, high profit quadrant.

Wal*Mart clearly views Nestlé as being all about brands and at or near the point of purchase in Wal*Mart stores around the world we are initiating nutrition, health and wellness activities, some of which are shown here. These in store activities include product demonstrations, informational signage, product displays and consultation with actual nutritionists in stores. As we provide consumers with products and solutions to their wellness needs, both companies are enjoying significant sales results in this area.

In a previous slide, I shared with you how Nestlé is a resource to Wal*Mart. In this instance I want to show you how Wal*Mart is a partnered resource to Nestlé. We do this by launching Nestlé innovations in various Wal*Mart markets, I use Hot Pockets in this instance, which is obviously, as many of you know, is a successful brand sold in the United States. And the opportunity was to utilise this Hot Pocket asset and launch it bigger, better and faster in other Wal*Mart markets around the world. Earlier this year, we launched Hot Pockets under the Maggi brand name in Wal*Mart stores in Germany and I am really delighted to say that with our disciplined speed to shelf execution, on a per store per item basis, Maggi Hot Pockets in Germany are selling at 90% of the rate of Hot Pockets in the United States, so a very successful introduction. And again it is due primarily to our disciplined speed to shelf execution; it was exported to Germany.

But big ideas in the way Nestlé partners with Wal*Mart also include product packaging and merchandising solutions. For any of you who have had the opportunity to visit Brazil during the Easter holiday, you know that confectionery Easter eggs are merchandised in stores literally everywhere as depicted on the left-hand side of this slide. So on the left-hand side you see chocolate Easter eggs hanging in racks really in Wal*Mart action alley that are in virtually all the stores. Our sales and marketing objective was how do we take a merchandising idea such as the seasonal celebration in Latin America and apply a similar merchandising event in the United States. Well, working with Wal*Mart merchants we developed a chocolate seasonal Easter egg under a brand name very familiar to consumers in the United States, Nestlé Crunch. And utilising this best practice from Latin America the implication was significant sales increases for retail entertainment in Wal*Mart's USA stores.

In order for us to share best practices and bring big ideas to market, the Nestlé Wal*Mart global network regularly hold local summits, global category summits and senior level top to top in each market around the world. An outcome of one of these subjects was, in the example shown, the photo on the left depicts Caja Roja which as a Nestlé confectionery product with an incredible innovative interior package which is primarily sold in Spain. While collaborating with Wal*Mart merchants, our goal was to redesign the exterior of this package and create a sales opportunity to meet consumers' needs in other Wal*Mart markets, in this instance in the United States. So no matter where the innovation originates, our network's objective is to continuously bring new merchandising and packaging innovations to each and every local Wal*Mart market.

So let's discuss the future for a moment. Analysts suggest that Wal*Mart will layer on 10% growth over the next several years. In doing so they will be a \$500 billion retailer by year 2010. The implication for Nestlé is simply keeping pace with Wal*Mart's growth, our point of sales with them will make Wal*Mart an \$8 billion customer of Nestlé's. With Wal*Mart, Nestlé has the potential to more than double our international sales and increase our total worldwide sales by more than half. But keeping pace with Wal*Mart's growth, I assure you, is a far cry from our objective with them. And I can also assure you that merely keeping pace with Wal*Mart's growth, is not Wal*Mart's objective in working with Nestlé. As leaders in many categories, it is our responsibility that being Nestlé, to drive category growth in Wal*Mart stores.

So I have shown you reasons why, and I have hopefully shown you reasons how Nestlé and Wal*Mart, two great companies, are strong partners, in managing towards the opportunities that we present to one another. We are aligned strategically, culturally and operationally. Together we are attuned to consumers' changing needs. We collaborate both domestically and on the international front. We are successful in partnering profitable growth and it is clear that we should enjoy growth over 50% over the next five years as we have enjoyed double digit growth over the past five years. Impressive, yes. However, I will tell you what is even more impressive is the energy, the excitement and the passion the associates from both of our companies engage with our mutual desire to grow profitably. Thanks very much for your time.

Roddy Child-Villiers - Nestlé Head of Investor Relations

Thanks. Any questions please?

Questions & Answers

Question #1

Wal*Marts commitment to expanding its food selection & Implications for Nestlé if food items are used as loss leader items in Wal*Mart stores

Yes, my first question is Wal*Mart's push into foods has clearly given them a larger share of the consumer spending per week, and it has been a boon for food manufacturers over the last few years. But it has been at the detriment of Wal*Mart's profitability because selling food inherently is a lower profit business than their core business. So my first question would be, how committed do you think Wal*Mart is to further expanding its food offering within stores? And if that might slow down what are the implications for the food industry, including Nestlé? And my second question would be that Wal*Mart has narrowed or let its

price differential narrow over the last few years relative to a target and if we look at the recent Nielsen data it seems that Wal*Mart, as of the Spring, is aggressively cutting prices again to get the prices back to normal rates. Is there a risk that Wal*Mart might be using the food category as a loss-leader to establish its low price again relative to the consumer? And what are the implications once again for the food industry and for Nestlé?

Bob Flaherty - Nestlé USA Responsible, Wal*Mart Relationship

Hopefully I have captured all of your questions and many of those you would have to pose directly to Wal*Mart. I'll be very candid with you. Last week, myself and many other Nestlé executives spent time down at Wal*Mart's annual shareholder meeting which was conducted last Thursday and Friday. Unquestionably, Wal*Mart's leadership during their shareholder meeting cited some of the challenges that they have on the development of really the non-food side of the business and getting consumers over into that area. They find that, or seek that as one of their primary opportunities. For Nestlé, as I cited in the example of confectionery using floral, I see that as an opportunity really for us, to help them as two partners, really to bring consumers who may primarily walking into Wal*Mart stores to shop in the food category, to help them cross merchandise and bring them over into the non-food department to help as partners improve their operational margin. With regards to price differential gap versus the competition and the risk to food, we at Nestlé, we haven't really seen that yet. Unquestionably they are being challenged. I think they have put new senior leadership in organisations that are there from other parts of the world, Eduardo Castro-Wright, for example who came from Wal*Mart Mexico now head merchant into Wal*Mart USA. I think clearly he is a highly respected individual from Lee Scott to Eduardo Castro, I think you will see Eduardo make significant changes to sharpening up the merchandising techniques of the store. They cite that over 70% of the consumers who shop in Wal*Mart stores are women, so again the challenge to Nestlé is how do we improve our product impression or our advertising to coincide with a heightened female shopper in that base. Additional key points I believe to help one another together as partners is in the area of store of the community, which is very, very important to Nestlé and to Wal*Mart. One of our strengths is obviously the broad reach of our brands and I will cite an example, a US example where we have such a very high connotation of Latin American consumer shopping in border towns and Wal*Mart stores in the United States. That one of our strengths is utilising Nestlé Latin American products that now have application in border stores to Wal*Mart in the United States. We are utilising those tools to help improve the margin and also draw shoppers over into the non-food department with Wal*Mart.

Question #2

Differences between target and super target format & Has Wal*Mart reached saturation point in US? & The Wal*Mart model overseas, particularly in China

Wal*Mart's sales have slowed down over the past couple of months and it appears that particularly they are losing share to target and the super target format which is proving pretty robust in the US. Can you talk about some of the differences between the two formats? And why you think, whether you think that Wal*Mart might have reached a point of saturation in the US, particularly with how much share it has taken out of grocery over the past decade. And then, there are certain international markets where the Wal*Mart model is proving more robust than in others; it doesn't travel as well to certain markets. Can you talk about

Wal*Mart's ability to go across border and particularly in China about the positives and negatives of Wal*Mart's actions are there and your ability to grow with them in that market.

Bob Flaherty - Nestlé USA Responsible, Wal*Mart Relationship

Again two questions that would be far better posed to Wal*Mart executives than to a Nestlé representative as a supplier to Wal*Mart, but I will try and give you my impression and observations. I am fortunate enough to attend many, many Saturday morning meetings with Wal*Mart. For those of you, I don't know if any of you have been to those, they start at approximately 7 am in the morning and they finish approximately two hours later. Those meetings as it's widely publicised, are focused on the business. So the business week closes on Friday night and 7 o'clock Saturday morning you have the numbers from the previous week. And each of the department managers speak about their success and/or lack of/or correction of errors of what we could have done better for the following week to implement Saturday and Sunday sales. So speed of execution. Unquestionably during those Saturday morning meetings, whether it be target or any other competitor that they obviously compete against and it could be Dollar General, discount store formats or whatever, incredible focus by that organisation on how to make improvements. An organisation that's incredibly self-critical of themselves in a very constructive manner. So I cannot speak specifically to their success or failures against some of their competitors but I can share with you their incredible focus to compete and sharpen up their own internal operations to do a better job with them. In the areas of the Wal*Mart model travelling well or not so well around the world they obviously communicate that also. I think it's one of the primary reasons why we have such a great partnership; that being Nestlé and Wal*Mart. We need their help and they are readily and quick to say that they need our help and that's the beauty of our partnership and working with them in either developed or undeveloped markets around the world. And I am incredibly bullish on their international success in many markets around the world. I see their model like anything else in life, the devil is in the details but I see them doing the details very well to execute better in each market around the world.

Question #3

Nestlé's willingness to tailor products and create brands for Wal*Mart

Could you talk a little bit about your willingness to tailor products specifically for Wal*Mart? You gave a couple of examples there. How do you think about the cost benefit of doing that? And also your willingness to create brands specifically for Wal*Mart. In the conversation about hard discounters we saw some examples, actually you said that Model 3 was something you weren't so enthusiastic about but I was under the impression that was something you were prepared to do.

Bob Flaherty - Nestlé USA Responsible, Wal*Mart Relationship

Our company's willingness to co-develop, an incredible passion to co-develop, that in all honesty is our business model in working with them. I cited the early on collaboration between our two companies. I'll draw you an example. We finished the Christmas seasonal confectionery sales period day in the Christmas of 2004. It's not so many short weeks after that we're already collaborating on the '05 Christmas offering so our collaboration in business planning with them is that far out. Our willingness to co-develop, we certainly don't necessarily co-develop brands or if you're asking the question of private label, we don't co-

develop private label but using Wal*Mart's Retail Link data on the consumer telling us what he or she wants coupled with Nestlé's product innovations or category insight helps us clearly co-create. And there's clearly a heightened sense of willingness to co-develop business building activities. It might be how do we improve the pack size, how do we make a display, how do we do a side kick, how do we improve the side counter so yes a phenomenal amount of willingness to collaborate and develop those together. Do we do it on an exclusive basis? No, not necessarily. In fact my definition of exclusivity in working with Wal*Mart is the example of speed to shelf. In essence, in many respects we are having exclusivity due to their operational efficiency to execute their speed to shelf in that manner. I want to make sure I answered the full question. I don't know if I missed your second part?

Participant

Well I have specifically heard that there was a water brand in the U.S. say a relatively value priced water brand that had been created specifically for Wal*Mart and was being sold nowhere else which is not far away from private label. I wonder whether that is something you still do and whether that's something,

Bob Flaherty - Nestlé USA Responsible, Wal*Mart Relationship

We clearly do. It's part of the mix of that, it's unquestionably in the overall strategy. It clearly depends upon the category or the business within the category but there is always a willingness to listen and seek the opportunity. There is also always the opportunity to say no to an opportunity without any types of repercussions.

Roddy Child-Villiers - Nestlé Head of Investor Relations

The water brand is Nestlé Pure Life so it's very clearly Nestlé branded.

Question #4

Cost of access to Retail Link data

The data that you get from Wal*Mart on a weekly basis is obviously very valuable and also I think more than you can get from own systems. Do you have to pay directly for that or is that just part of the price negotiation for your brands?

Bob Flaherty - Nestlé USA Responsible, Wal*Mart Relationship

Retail Link again is data on Nestlé brands so Nestlé SKUs sold in all Wal*Mart stores every day around the world and transparency to that data. We do not pay a single nickel for that information outside of our own personal investment of the computer system to be able to pull that information up. It's an internet based system. So the hardware expense is the only expense that we go through which is really a Nestlé investment. As far as in the price negotiations with it, it has never come up in my ten years experience working with Wal*Mart, it's part of the culture of doing business. It goes back to the early on years of Sam Walton saying the more you can share with your own associates and your suppliers, the more they will engage in your business. That business model was successful back then and clearly has been successful for them today. Unquestionably as Retail Link really matured over the last ten years, in my opinion the more successful suppliers working with Wal*Mart today are

those suppliers that thoroughly engage that tool and all of the elements built-in within that tool. That really is valuable insight.

Question #5

Negative aspects for Nestlé of Wal*Mart collaboration and return on operating capital

Could you focus on what you think the biggest downside of dealing with Wal*Mart is? For example, specifically is it a misconception that the upside is you get loads of sales growth as you go off Wal*Mart's, but the downside is you get a lower return on operating capital employed and therefore effectively you grow in a less good way compared to other grocery channels?

Bob Flaherty - Nestlé USA Responsible, Wal*Mart Relationship

You know really the question that was asked before about some operating profit questions and I'm obviously not at liberty to share any of that information to you, but I guess I can answer that question with a bit of a story, if I could also. And the story is recently again, it's last week at a Wal*Mart shareholder meeting. H. Lee Scott, the President & CEO of the company, made comments that one of greatest parts of his job is his ability to speak to a number of people in our industry, be it leaders of various countries or CEOs from consumer package goods organisations. And the feedback that he receives from the large amount of CEOs that he deals with is that Wal*Mart is one of the, if not the, most profitable retailer that those CPG companies do business with. So without sharing specific information as that reflects to Nestlé, I can tell you I see only upside in that manner for our organisation.

Participant

Does that comment apply to return on capital because that's what was asked?

Bob Flaherty - Nestlé USA Responsible, Wal*Mart Relationship

Yes, well I would have to say they both correlate together, yes.

Question #6

Justifications and rationales for differentials in pricing

How is Wal*Mart different in, are they more aggressive than others in doing price comparisons across countries? And I don't mean asking for the same price but more in asking for justifications or understanding the rationales for differentials in pricing.

Bob Flaherty - Nestlé USA Responsible, Wal*Mart Relationship

Again we do business locally in each market around the world. The relationships that we have with Wal*Mart is that I like to determine that we have transparency to our investments; that we provide Wal*Mart an equal level of opportunity to earn; earn the most favourable conditions in the marketplace. What's interesting for Wal*Mart is how do you change behaviours themselves to earn those best conditions. Then you become collaborative as

partners. Again in my experience with them we have never had conflicting conversations about pricing from market to market.

Question #7

Role of Nestlé Pure Life in growth for 2004

Just one question really following up on the water. Obviously the water has grown very quickly generally in the U.S and I was wondering to what extent the Nestlé Pure Life in Wal*Mart has contributed to the growth that you've shown in 2004? I think it was 15%?

Bob Flaherty - Nestlé USA Responsible, Wal*Mart Relationship

Significant. The total Nestlé Waters business for us last year grew at about 25%. As well, I think was mentioned in my talk, John Menzer supported Nestlé Waters as a global VPI. Those VPI items represented a significant amount of that 25% overall growth for the company but one area that is really brilliant for both of our companies is the work that Nestlé Waters has done with the SAM's Club format. SAM's Club as mentioned to each of you is a format that services small business members and Nestlé Waters, Nestlé Pure Life has positioned themselves with Sam's to be a secondary distributor through convenience stores and outlets that help really provide a vehicle of distribution for Nestlé Pure Life. That business relationship between SAM's and Nestlé Waters has been phenomenally successful.

Question #8

Access to Retail Link numbers and private label products

Are you category manager in any food area that would allow you to get all Retail Link numbers? And do you make any private label products for Wal*Mart other than the pet food products that I know Ralston does?

Bob Flaherty - Nestlé USA Responsible, Wal*Mart Relationship

Very good question. For those who, I didn't really explain this in my talk but Wal*Mart assigns roles that in their term they call it category advisors. Nestlé is category advisor to Wal*Mart in virtually every strategic category where we do business. PetCare, Waters, In line Confections, Beverage, Frozen food in the United States as well as we are category captains in many categories throughout Wal*Mart around the world. So I want to cite that we are category advisors in virtually every strategic category that we compete in with the Wal*Mart environment.

Participant

So you get more than just your own numbers, you get everybody's numbers?

Bob Flaherty - Nestlé USA Responsible, Wal*Mart Relationship

To continue on, one of the privileges of that responsibility is visibility to category data. Not just Nestlé POS (point of sale) data but POS for the entire category. We sign a letter of confidentiality as we work with that data. Our category advisors that work with the buyers in

that role are literally separated from the Nestlé team and are a consulting partner to Wal*Mart.

Participant

Like investment banks, right?

Bob Flaherty - Nestlé USA Responsible, Wal*Mart Relationship

A very good analogy. But you can imagine the wealth of opportunity that comes from that relationship but I like to term it that we win all the ties. Private label, as I said, I have 26 years with Nestlé I have personally never had any experience in my 26 years selling private label to a retailer. So that's the DNA of Nestlé and I think Hervé mentioned that. Through the acquisition of Nestlé Purina PetCare we do a private label business primarily in the dry pet food arena. On the scale of it, based upon the total scale of Nestlé Purina's business with Wal*Mart it's not an enormously significant portion of the business.

Question # 9

Savings on figured targets & Ice cream category advisor

You mentioned programmes on seasonal confectionery. Do you have programmes on savings with figured targets over 12 months or 3 years to achieve jointly with them? And if yes do you also agree on how you would share these savings? And a small follow up: are you category leader in ice-cream? Thank you.

Bob Flaherty - Nestlé USA Responsible, Wal*Mart Relationship

The budgeting process in your regular day's activity.. again the first job on a Monday morning is you look at your numbers, how's your sales, how's your business? First activity. In the Nestlé Wal*Mart environment, how are your sales versus budget? So unquestionably the activity between the Nestlé and Wal*Mart budget are clearly connected together. For example targets are set early on in the calendar year for various categories. I'll use a general statement here and it's clearly more defined on a category by category basis but food to grow at X%. And it would be different for seasonal confections versus it might be for frozen food, so on and so forth. But tremendous alignment between the budgets of our two companies when it comes to your sales and all of the elements within the vendor performance scorecard, utilising with Wal*Mart.

As it pertains to ice-cream, we today are not category advisors. The Dreyer's brand ice-cream business with us is clearly today underdeveloped and an incredible opportunity. When Wal*Mart's leadership came here to visit us in Vevey we did a great taste test of Dreyer's Slow Churn ice-cream. We did the blind taste test of Slow Churn versus regular ice cream and we had them. And the Dreyer's organisation through the years just prior to the Nestlé acquisition really did not have a team on the ground in Northwest Arkansas. Today they have a significant group of Nestlé associates on the ground in Northwest Arkansas, part of the team that's working with the entire Nestlé group, and working with Wal*Mart. If you think about it from Hot Pockets to Stouffer's frozen food to now Dreyer's brand ice-cream we are a significant player in that frozen aisle in all Wal*Mart stores. We have enormous growth plans that are agreed to within our budget to grow our business on the Dreyer's ice-cream

both with Slow Churn as well as new product introductions like Dibs and others that are out there. Very, very, very exciting piece of the business right now.

Roddy Child-Villiers - Nestlé Head of Investor Relations

We'll learn what a Dib is from Ed Marra later on today. Bob, thank you very much.

END OF CONFERENCE