Leveraging scale and structure: 
Supporting growth and efficiencies

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

...through innovation

• Better, bigger, faster innovation

• Driving Nutrition, Health and Wellness

...through operations

• Efficient and flexible operations

• Capital efficiency
Better, bigger, faster innovation

• Consumer centric R&D: right structure, focused investment, aligned innovation management

• Leveraging internal and external know-how for innovation

• Fast deployment of science and technologies across categories and geographies
There is no "global consumer" – varying need for local product adaptation

Leverage similarities

Truly global products

Address differences

Uniquely local products

- Culinary
- Confectionery
- Ice Cream
- Water
- Coffee
- Petcare
- Infant Nutrition
- Performance Nutrition
- Healthcare Nutrition
Nestlé Research & Development structure – global scale and local relevance

Markets

275 Application Groups

1,300 people

17 Product Technology Centres & R&D Centres

2,400 people

Corporate R&D

1 Research Centre

- Rapid local adaptation
- Renovation

- Innovation
- Technical expertise
- Quality & Safety assurance

- Basic Research in Nutrition, Food Science and Food Safety

Local products

Global science and technologies
Investing consistently in R&D…

R&D Investment
CHF Billion

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment (CHF Billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>0.8</td>
</tr>
<tr>
<td>1999</td>
<td>0.9</td>
</tr>
<tr>
<td>2000</td>
<td>1.0</td>
</tr>
<tr>
<td>2001</td>
<td>1.2</td>
</tr>
<tr>
<td>2002</td>
<td>1.2</td>
</tr>
<tr>
<td>2003</td>
<td>1.2</td>
</tr>
<tr>
<td>2004</td>
<td>1.4</td>
</tr>
<tr>
<td>2005</td>
<td>1.5</td>
</tr>
</tbody>
</table>
...in a focused way through strong innovation management ...

**R&D Planning Cycle**

- **R&D Strategy by Business**
- **R&D Portfolio Management**
- **R&D Project Management**

**Cross-functional alignment for innovation**

**R&D Strategy Conferences**
- Consumer insight driven innovation roadmaps
- Defining major R&D axes
- Developing communication concepts

**Portfolio and Cluster Meetings**
- Project prioritization
- Resource allocation
- Deployment planning

**Project Reviews**
- 60:40+
- Project execution
...and ensuring impact through R&D performance measurement

**Effective use of R&D**
- **Input** to R&D
  - Input quality
  - Portfolio evaluation
  - Expected deployment
  - …

**R&D efficiency**
- **Conversion in R&D**
  - Resource allocation
  - Project progress
  - Time to launch
  - …

**Impact**
- **Output & Outcome** from R&D investment
  - I&R growth vs target
  - New product ratio
  - 60/40+
  - …

- Number of committed markets per project increased 3-fold
- Resources committed to "breakthrough" innovation doubled
- Consumer preference significantly improved
- Continuous scouting and assessment
- Partnering / insourcing in key benefit areas
- Venture Fund and Growth Fund

**Scientific collaborations – 3 fold increase since 2000**

35% universities
65% others
From commercial to co-development partnerships

- Leveraging synergies in expertise
- Increasing frequency and speed of innovation
- Increasing success rate and impact

Examples

- Sugar replacement
- Taste enhancement
- Flavor development
- Functional lipids
- Renewable packaging
### Quality & Safety

- **Initial scope**
- **Expansion**

### Packaging

### Nutrition

### Extrusion

### Encapsulation

### Initial scope

- Coffee & Beverages
- Culinary
- Confectionery
- Dairy
- Ice Cream
- Nutrition
- Petcare
- Cereals

### Expansion

- ...
Technology development to deliver advantages of extrusion

• Good flexibility / cost ratio
  – Modular
  – Scalable
  – Rapid start-up & change-over

• Broad variability of products, e.g., texture, shape, taste
Technology development to deliver advantages of extrusion

- Good flexibility / cost ratio
  - Modular
  - Scalable
  - Rapid start-up & change-over
- Broad variability of products, e.g., texture, shape, taste

Application of extrusion technology across categories

- Hot extrusion, e.g., infant and breakfast cereals, bars, pet food
- Co-extrusion, e.g., filled bars and snacks (Crispos)
- Cold extrusion, e.g., ice cream, chocolate
Leveraging Extrusion for Beneful

Flexible, scalable, cost-efficient technology for superior product quality and appearance

• Highly-palatable
• Unique appearance

Exceptional commercial success

Launch | Market share
--- | ---
• 2001 in US | 10.1%
• 2002 in Canada | 6.7%
• 2003 in Brazil & Mexico | 3.6% / 8.0%
• 2004/2005 Holland & Germany | 7.6% / 4.7%
Competitive advantage

• Superior translation of consumer insights with proprietary extrusion technology
  – Real meat appearance
  – Real, wholesome ingredients
  – Taste balanced with high quality nutrition

• Innovative packaging for wet products
  – Clear thermoform tub to see the product
  – Microwave-safe, re-closable for storage

Rapid commercial success –
over 6% market share 6 weeks after launch
Driving the Nutrition, Health and Wellness Strategy

• Leading science and proprietary technologies

• Better nutrition and stronger health without compromising taste

• Scalability and rapid deployment
Developing leading science and technologies to deliver Nutrition, Health and Wellness

Business Driver
Aggregation of business drivers

Key Consumer Benefit Areas
Health
• Digestive comfort
• Protection
• Weight control
• …

Pleasure
• …

Projects
Translation into projects

Technologies
Resource allocation to maintain/strengthen relevant technologies

Developing leading science and technologies to deliver Nutrition, Health and Wellness
Developing leading science and technologies to deliver Nutrition, Health and Wellness

**Business Driver**
- Coffee & Bev.
- Confectionery
- Culinary
- Dairy
- Ice Cream
- Infant Nutrition
- Baby Food
- Pet Care
- ...

**Key Consumer Benefit Areas**
- Health
  - Digestive comfort
  - Protection
  - Weight control
  - ...
- Pleasure
  - ...
- ...

**Projects**
- Nutrition & Health
  - Probiotics
  - X-biotics
  - Probio & Allergy
  - Probio for Pets
  - ...
  - Glucose Absorption
  - ...
- Sensory & Satiety
  - ...

**Technologies**
- Resource allocation to maintain/strengthen relevant technologies
Applying leading science to the benefit of the consumer

Infant formulas offering optimal nutrition

Infant formulas offering additional key physiological benefits

- Less intestinal infections
- Less allergies
- Easier digestion
- "Mental performance" (brain / vision)

Proprietary and convincing scientific concept
Activating and modulating the immune system

Consistent communication through BABs

Leading probiotics science

Immune Protection
Allergy Prevention

Infant formulas offering optimal nutrition
Speed to market supported by "building block" manufacturing concept

Q4 2004 Global roll-out within 18-24 months Jan. 2007

New Infant Formula – first results
• Outpacing market growth - share gains
• Significant volume growth despite 20-35% price increase

Central Manufacturing of Probiotics
Proprietary technologies for nutritionally superior products: Booster

Sales growth first year:
- Japan: + 93%
- Belgium: + 76%
- UK: + 40%
- Italy: + 33%

Fat gram / 100 ml sauce:
- Meisterklasse: 50 g
- Foamy Hollandaise: 25 g
Proprietary technologies for nutritionally superior products: Cold extrusion

Technology transformation

From traditional hot extrusion to cold extrusion

Launch of nutritionally superior ice cream

Dreyer’s "Slow Churned" light ice cream, US 2004

• "...as rich and creamy as regular"
• "...1/2 the fat, 1/3 fewer calories"

Rapid technology roll-out
Leveraging scale and structure: Supporting growth and efficiencies...

...through innovation

• Better, bigger, faster innovation

• Driving Nutrition, Health and Wellness

...through operations

• Efficient and flexible operations

• Capital efficiency
Operation EXCELLENCE 2007: the culmination of a 10-year journey to cost optimization

MH'97

CI

Legal

• Continuous Improvements

Target 2004+

• Functional Targets out of Best Practice
• Restructuring the Industrial Network

Optimizing Total Delivered Cost by...

• Aligned targets across the Supply Chain
• Integrated Distribution and Industrial Networks
• Continuous Improvement culture

COGS % of Sales

1996

1996

51.8%
51.2%
50.1%
48.1%
46.8%
44.6%
43.2%
42.7%
41.7%
41.7%
2005
Evolution of cost optimisation across the total supply chain can be clearly demonstrated.

From local **factory performance improvement** ...

From local factory performance improvement ...

Contribution to total cost improvement Percent

- Manufacturing: 61%
- Raw & Pack Materials: 36%
- MH 97 1997-2001

... to **global best practice exchange** within manufacturing ...

... to global best practice exchange within manufacturing ...

Contribution to total cost improvement Percent

- Raw & Pack Materials: 56%
- Manufacturing: 41%
- Target 2004+ 2002-2004

... to **optimisation of Ensuring Supply**

... to optimisation of Ensuring Supply

Contribution to total cost improvement Percent

- Raw & Pack Materials: 34%
- Distribution: 12%
- Manufacturing: 4%
- Co-Manufacturing: 3%
Example Nestlé USA: Aligning Targets across Supply Operations

From independent functions focusing on independent targets ...

Marketing
   Product Innovation

Suppliers
   Price and Service Level

Purchasing
   Cost and Quality

Manufacturing
   Cost and Service Level

Distribution
   Transport Efficiency

... to a multi-functional team focusing on common business goals

Suppliers
Manufacturing
Marketing
Purchasing
Distribution

Nestlé USA Business Goals:
1. Maximise performance of industrial and distribution operations
2. Drive inventory down and increase product freshness
3. Reduce complexity - fast and flexible operations
Re-thinking the interface between production and logistics unlocks new benefits...

From Ship-to-Stock

- Inventory
  - Production

To Ship-to-Customer

- Inventory
  - Production

- Lower working capital
- Fresher products, higher quality
- Flexible, rapid response
... which has contributed to the significant improvement of the Market ROIC.
Creating competitive advantage ...

- Suppliers
- Manufacturing
- Marketing
- Purchasing
- Distribution

• Efficient and flexible operations
• Capital efficiency

... and ensuring sustainability

- Continuous improvement
- Involvement & engagement
- Clear, cascaded & aligned objectives
Striving for World Class Operations

WORLD CLASS SUPPLY OPERATIONS

- Customer Orientation
- Business Focus
- Operational Integration

OWNERSHIP & INVOLVEMENT

- Operational Excellence
- Inspiring Leadership
- World Class Tools

FOUNDATION

- Continuous improvement
- Involvement & engagement
- Clear, cascaded & aligned objectives

G M P@ NESTLE

- Instructions
- Discipline in Execution
- Competence
- People Management

Highest Quality in People and Teams
Continuous Improvement Mindset and Behavior
Malaysia - Mission Directed Work Teams

... it's all about people

Management Visibility & Support

... making the difference by working together at all levels in our organisation
Leveraging scale and structure: Supporting growth and efficiencies...

...through innovation

• Better, bigger, faster innovation
• Driving Nutrition, Health and Wellness

...through operations

• Efficient and flexible operations
• Capital efficiency

...enabled by our people