

NESTLÉ S.A.

NESTLÉ 2005 FULL YEAR PRESS CONFERENCE SPEECH (Mr. Brabeck part only)

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Chairperson: **Mr Peter Brabeck
Chairman and CEO, Nestlé S.A.**

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Good morning, Ladies and Gentlemen.

It's a pleasure to welcome you to our event today. In your kit you will find the press release that went out this morning with the fully audited 2005 figures. I have already commented on them in several TV interviews and Paul Polman had a telephone conference with investors. As you know, we make every effort to ensure that information gets to all interested parties at the same time. This is why this press conference is audio-broadcast over the Internet to your colleagues who have chosen to follow it over the net.

I will first comment on the full year figures in general terms and then let Paul Polman give you more detailed information. Then I would like to present to you some new information that is going to have an impact on our activities over the next months. Finally, we will give you our view of the business environment that will mark our development over the year and how we expect it to impact on our figures for 2006. I then propose to open this press conference to your questions.

Before doing so, Ladies and Gentlemen, let me briefly introduce my colleagues of the Executive Board.

On my right, Mr. **Paul Polman**, Chief Financial Officer of the Group since January 1st of this year. Paul in addition supervises Global Business Services, as well as the Legal and the Intellectual Property Departments. As you know, Paul joined us after a distinguished career in Procter&Gamble. He has a strong operational as well as a finance background and thus comes perfectly prepared to be my co-pilot.

On Paul's right, Mr. **Frits van Dijk**, who has been running Zone AOA. since May 1st, 2005. Sitting on his right is Mr. **Paul Bulcke**. Paul has been in charge of Zone Americas since July 2004.

Next to him, we have Mr. **Luis Cantarell**, Head of Zone Europe. Luis took over this important assignment on November 1st, 2005 and was simultaneously appointed Executive Vice President. After a 30-year career with Nestlé in Spain, Portugal and at the Center, Luis joined the Executive Board in 2003 as Deputy Executive Vice President in charge of Nestlé Nutrition. To his right you have Mr. **Carlo Donati** who runs Nestlé Waters worldwide. Next to him is Mr. **Richard T. Laube**, Deputy Executive Vice President. Richard came to Nestlé in 2005 after a successful career with Procter&Gamble and Roche. He now leads Nestlé Nutrition which operates as an autonomous unit worldwide.

On my left, Mr. François Perroud, who is in charge of Corporate Communications. Next to him we have Mr. **Francisco Castañer**, who supervises our pharmaceutical activities, liaises with L'Oréal and is in charge of Human Resources and Corporate Affairs.

On his left, Mr. **Werner Bauer**, Head of Corporate Technical, Production and R&D and directly responsible for our efficiency initiative Operation Excellence 2007.

Next to him you find Mr. **Lars Olofsson**, who is putting his broad marketing experience behind his new task as head of the Strategic Business Units and of the Demand Generation Unit.

Next to Lars, you have Mr. **Chris Johnson**, who runs the GLOBE project as well as the Information Technology Department and the Strategic Supply Chain.

Slide 3: Key Figures

Ladies and Gentlemen, here are our key figures for 2005.

Before getting into the details, let me put the exceptional results achieved in 2005 in their strategic context.

Slide 4: Total Sales and Real Internal Growth from 1995-2005

The Board of Nestlé named me CEO in 1997. I told shareholders then that the Group's objective was long-term, sustainable and profitable internal growth. Later I defined this in terms of an organic growth of between 5 and 6 percent and a sustainable, continued improvement of the EBITA margin. Here is how we have done in terms of growth in Swiss francs and in terms of real internal growth since 1995. You see of course the effects of the currencies in reported sales.

Slide 5: Group EBITA Margin over last 10 Years

Long-term continued EBITA margin improvement? This is the eleventh year in which the Group delivers. We have virtually doubled EBITA over the past 10 years and the EBITA margins have crept up, showing an unspectacular but steady and sustainable improvement over that period.

This is the real message: As a result of strong top-line growth and improving margins, Swiss franc EBITA has doubled.

Slide 6: The Four Factors of Group Sales 1996-2005

Sustainable top-line growth?

Nestlé did not generate that growth by going on an acquisition spree. In fact, on a 10-year average, only 1 percent of growth is attributable to acquisitions. It is real internal growth and pricing power that clearly puts us ahead of the industry as a whole.

Slide 7: The Nestlé Model

At our press conference last October I spoke at length about the strength of the Nestlé model and why I believe it is sustainable. The 2005 results confirm my conviction. If you look at the 2005 figures, you will see that our core food and beverage business is a strong contributor to that growth. There is real momentum there and our very solid positions in North America as well as in all emerging markets and in the developing world in general makes me confident that our industry out-performing competitiveness will continue for years to come yet.

Slide 8: Food Market Growth and Nestlé Sales

Population growth and higher purchasing power combine to generate growing demand in that part of the world. Literally billions of young adults are getting into their labor-intensive, productive years, creating a growing market for many of our staple products. These are needed to sustain an increasingly urbanized active population. As incomes rise, the family consumption models change: families with an income of 4000 dollars per year buy fewer and different products from families with incomes of 28000 and above. The great opportunity consists of course in being present as early as possible and at the lowest level possible with appropriate and affordable products and then to accompany the consumer as he or she increase their purchasing power. This is what we are doing through our Popularly Positioned Products: products that in their formulation, size, packaging, distribution channels respond to the specific needs of the low income population. The process is geared to attain one key objective: affordability. The approach requires a specific business model and a different set-up of production, marketing and sales forces who have to cover very small stores or even street vendors. It is through the availability of

our brands at this level that we broaden our consumer base and start building the trust that will result in brand loyalty and familiarity. As incomes rise, PPP products are then followed by our classical, more elaborate ranges where convenience, pleasure and diversity are key considerations. Finally, we reach the area of health, nutrition and wellness and ultimately, perhaps, well-being.

Slide 9: World Population by Income Groups

It is very important to understand that we are literally speaking of billions of consumers here. If I look at the income distribution in the period 1995 to 2015, I am struck by several facts. One is the reduction of the number of people suffering from extreme poverty with an income of less than 2000 dollars. On the other hand, between 1995 and 2005 the number of people earning from 2000 to 4000 dollars increased by 450 million, whereas 230 million made it into the group earning between 4000 and 6000 dollars. There is only one explanation for this extraordinary development – namely the positive effects of globalization!

Looking at the next decade, we can expect the latter category to almost double, and almost 400 million more people are going to be in the category above. Here, Ladies and Gentlemen, is the core of our consumer base in emerging and developing countries.

At the same time the number of people in the income groups below is going to keep on shrinking and we will continue to work on finding appropriate, attractive and affordable products that we can offer to them also.

In the industrialized world, and with the higher-income segments of the population in emerging and developing countries, Nestlé needs to respond to different needs and a different situation. Over and beyond caloric intake and occasional indulgence, consumers are looking to the food industry to come up with answers that no one else seems to be able to give to them. An ever larger group of savvy, well-off older consumers expect food to play an increasingly important role in helping them stay healthy and physically fit. Nestlé is well placed to respond to that demand, thanks to the depth of its know-how and its unstinting efforts in trying to understand the role of food and its components.

There is an additional dimension to it. You are all aware of our commitment to play a significant role in helping to solve health-related problems resulting from unbalanced diets. Some of these problems start putting a real strain on public health expenditures. The insight that there is a clear relationship between nutrition, health and wellness gets stronger every day. And I believe that the day will come when we can match an individual's genetic makeup with a personalized appropriate diet. Such tailor-made nutrition plans will constitute a real breakthrough and contribute to a healthier life for people while at the same time easing the burden on the health system. It is a very complex and subtle issue and it presents a dramatic contrast to the simplistic discussion in public. Remember the Atkins diet? At one point, 46 million people in the US followed a diet that, if applied rigorously, would cause irreversible damage to the body. The saving grace of any of these loony diets is that most people get bored of them in a very short period of time and turn to the next fad. But for the serious nutrition-oriented company, there are real opportunities in the health and wellness area.

As you can see, Ladies and Gentlemen, I am quite optimistic with regard to growth potential now and in the future. I would be less than candid, however, if I did not mention that there is a penalty to this, and it comes in the form of complexity. In response to such different, sometimes even contradictory demands and aspirations, as well as to an ever

increasing segmentation of our product groups, a single business model is not enough anymore. Many players in the industry have opted for streamlining, reducing the number of businesses or even regions they chose to be active in. This clearly had a beneficial short-term impact on their margins. Just as clearly, however, it deprived them of a chance to achieve top-line growth and longer-term profitability.

We have adopted a different course. For us, the question was not how to avoid complexity, but how to manage it and how to combine it with operational efficiency. In recent years we have been putting in place the tool that allows us to do so.

There is a structural transformation going on at Nestlé right now. I have often used a naval analogy. I believe that today a fleet of agile, rapid patrol boats provides a more efficient answer than a huge battleship which takes eight nautical miles to come to a stop. Every one of our businesses therefore receives a tailor-made management structure and the autonomy necessary to be as decentralized as possible in marketing, advertising, pricing and distribution channel management. At the same time, we are making sure that we can leverage our size at a local, regional or even global level through the creation of an efficient manufacturing system and of shared service centers.

The vital tool to achieve this is of course GLOBE which offers us the technological means to run the armada in a strategically coherent and tactically efficient way. When you can act in concert, size becomes an asset. When hundreds of units are doing things in isolation, size can turn into a liability.

Slide 10: GLOBE Program Status

GLOBE continues on track and on budget. It is already fully operational in over 20 markets, who have implemented best practices, data standards and management as well as introduced a standardized information system. Today, GLOBE helps its 75 000 users in the Group administer and lead over one third of Nestlé's food and beverage sales, over 300 factories, more than 300 distribution centers and over 200 sales offices. Our uninterrupted growth through this process is a tribute to our people and demonstrates that the system performs well.

And with that remark I hand over to Paul Polman for a more detailed look at our figures for 2005.

[Presentation and comments by CFO Paul Polman, speech not included here.]

Thank you, Paul.

Ladies and Gentlemen, we are clearly looking back on a very successful year. Our excellent results are also reflected in our financial position and in an extremely solid balance sheet which let us maintain our AAA status. Net debt fell again and now stands at 9.6 billion Swiss francs. The drop is less significant than in previous years, mainly because of the appreciation of the US dollar. As you know, most of our debt is in that currency as a natural hedge between debt and cash flow creation.

A first share buy-back for cancellation, worth one billion, was announced just one year ago. We completed it on October 31 and at this year's Annual General Meeting, the shareholders are going to be asked to approve a corresponding reduction of the number of outstanding shares. A second share buy-back program, with a value of three billion Swiss francs is underway.

Nestlé today has a more flexible policy with regard to the management of its capital structure. The Board now makes use of both tools, dividends as well as buy-backs. When we announced the first buy-back program in February of last year, I specified that we would use buy-backs selectively and flexibly, according to circumstances and specific situations. Also, we made it clear that this was not to be interpreted as a fundamental modification of our views as to the long-term development of the Nestlé Group. It gives us, however, the possibility to economically return capital to shareholders when circumstances do not require this capital to be retained in the Company. You have seen that our investments in fixed assets remain stable as a percentage of sales. You know our acquisition policy at this time centers on acquisition opportunities that help us fill-in strategically important sectors in specific countries or regions. Finally, you are aware of the rock-solid nature of our balance sheet that is reflected in the AAA rating. At present, therefore, we are returning capital to our shareholders both through buy-backs as well as through a dynamic dividend policy.

Slide 21: Dividend Evolution 1995-2005

This year again, the Board proposes a dividend increase of 12.5 percent to nine Swiss francs per share. You will have noticed that over the past three years, the Board has proposed sharply increased dividends, reflecting very satisfactory results and a secure financial situation. Our dividend has trebled since 1996.

Let me, Ladies and Gentlemen, also make a remark about the total shareholder return in a longer-term perspective. If you combine capital appreciation and dividend payments, total shareholder return over the past ten years amounts to 267 percent, or close to 15 percent per year. I do feel that we have delivered on our promise of long-term, sustainable shareholder value growth.

Slide 22: Dividend Payments 1995-2005

Finally, let me add one consideration. Over the past eleven years, Nestlé will have paid out 21 billion Swiss francs in the form of dividends. This illustrates the Company's capacity to create wealth for its owners. I believe this to be the key social responsibility of a corporation. Very many of our investors are pension funds who, as a result of the demographic evolution, face an increasingly challenging job. By responsibly and efficiently managing the capital entrusted to us, we help them fulfill their obligation which is funding the retirement of millions of people. Not to put a too fine point on it, it is the Nestlés, and all the other public corporations of this world, that create the wealth that by and large allows pension funds to meet the challenge.

Slide 23: Nestlé Corporate Social Responsibility

But Nestlé takes the concept of corporate social responsibility one step further. For us, it does not end with shareholders. We have always held the conviction that you cannot expect to create long-term value for the shareholder, if the company does not simultaneously create long-term value for the societies in which it operates. Through our activities as a purchaser of raw materials, equipment and services, as a responsible employer and tax payer and finally as a purveyor of high quality nutritious products to billions of consumers around the world, Nestlé adds value to the every day life of literally millions of people. Corporate Social Responsibility for us is not an add-on, not a showcase for well publicized acts of charity: it is an integral part of how we operate, of our business model and strategy and of the way we do business every day. Nestlé takes pride in creating shareholder value. But we are interpreting it in a long-term perspective and this allows us to take that concept a step further. We are also creating shared values –

opportunities, attitudes, respect, empathy shared with billions of consumers, millions of farmers and their families, thousands of suppliers, our 250 000 employees and last but not least institutions and individuals who are in contact with Nestlé.

Slide 24: Latin America

We have worked with Professor Michael Porter of the Harvard Business School to explain and illustrate this approach, based on Nestlé's activities in Latin America. This report will accompany the 2005 management report and I warmly encourage you to take a look at this document when it is published in mid-March of this year.

Slide 25: Nestlé Corporate Governance

I now turn to the issue that I raised with you in October, namely the wish expressed by our shareholders to see the Company modernize its Articles of Association. You remember the results of last summer's shareholder survey that I shared with you at that time. With a return rate of over 25 percent, many of our shareholders let us know that they desire to see these Articles change.

You may be aware of the situation that in 1989 led to the approval of certain provisions in the present Articles. At that time, Nestlé had proposed to its shareholders to change its restrictive policy concerning the registration of non-Swiss shareholders. You also might remember that two thirds of the capital consisted of registered shares accessible only to Swiss or Swiss based institutions. In return for their approval to open the share register to everybody on a basis of total equality, the shareholders demanded measures in order to protect the Company against an underhanded takeover attempt. Thus a strong majority of the shareholders approved a limitation of voting rights. Nestlé shareholders also agreed to special quorums requiring the presence of up to two thirds of the total share capital and supermajorities for certain decisions, including changes to voting restrictions or the terms of the members of the board, etc. In the meantime, Swiss law has been amended and provides greater transparency and protection in a takeover situation.

Also, today, more than a third of shareholders have elected to hold "dispo" shares and not to be registered with us. They voluntarily forego their voting rights. The Company's highest authority, the Annual General Meeting, thus finds itself factually unable to achieve the participation required by these quorum clauses and therefore cannot change the Articles of Association in several key points. Clearly, nobody in 1989 imagined that "dispo" shares would ever become such a massive phenomenon.

Other important changes have occurred also.

Slide 26: Share Capital by Investor Type 1994-2005

Let me just point out two elements. First, institutional shareholders today own more than two thirds of the capital. Ever since the year 2000, institutions have more shares than individual shareholders.

Slide 27: Distribution of Share Capital by Nationality since 1992

Furthermore, the number of shares owned by international shareholders has increased sharply since 2002 and today far exceeds the shares owned by Swiss shareholders. These two elements have introduced new performance expectations and different time horizons. They have also reduced the number of shares represented at our general meetings.

Overall, then, we live in a different legal and economic environment from 1989. The Board, therefore, agrees with the views expressed in the survey and believes that it is in the best interest of the shareholders and the Company to enable our shareholders to bring the Articles of Association up to date. We are well aware of the fact that there are differing opinions, priorities and interests between different groups of our shareholders. The Board intends to safeguard the interests of all shareholders and to submit to the shareholders for their approval a revision which is well balanced and in line with the changed legal and corporate governance environment. The shareholder survey has indicated the direction of that revision.

This is the background then for one of the proposals that will be addressed to the Annual General Meeting of this year. The Board asks the shareholders for a mandate which will allow it to propose to the shareholders a complete revision of the Articles of Association and which will clarify the procedure. In 2007, or later, shareholders will of course have an opportunity to vote on the proposed revision and a two third majority of the present or represented shares will be required to adopt it.

Let me again state the objective: what we are aiming for is a set of Articles of Association that is balanced, in line with the changed legal environment and in the best interest of all shareholders and of the Company in order to create long-term, sustainable shareholder value in a forward-looking, strong corporation.

I am now turning to an entirely different subject, namely the progress we are making in the strategic restructuring of Nestlé.

Slide 29: Chilled Dairy Brands

In this context, I want to draw your attention to a venture in the chilled dairy sector with Lactalis, announced in December of 2005. For Nestlé, this was a sizable business, with sales of over 1.5 billion Swiss francs, occupying the Number two slot in Europe. Consumers find the products attractive, but unfortunately, they did not deliver the margins we are accustomed to. We had a production system that owed more to history than to industrial logic and the strength of store brands in the chilled dairy sector also hampered us in reaching a satisfactory profitability.

We therefore looked for a combination with a partner who could bring a highly efficient manufacturing system and a good supply chain expertise to the venture. We found that in Lactalis, which is now going to run that business using our brands and its existing contacts as a supplier to the retail trade to broaden the business base for the venture. We expect it to strengthen the Nestlé brands and make them more dynamic in the marketplace. So consumers will continue to enjoy them, while Nestlé shareholders enjoy a better return from this sector. We continue to believe that chilled dairy is an important element in the Nestlé move toward health, nutrition and wellness.

Slide 30: How the Food Service Industry Operates

We are introducing a new management structure also in our foodservice business. With over 6.6 billion Swiss francs in sales, Nestlé is the world leader in foodservice, with particular strength in beverages and beverage systems. It is a very specific business, that has its own way of operating. Manufacturers and distributors reach the customer only through the operators such as restaurant chains, airline caterers, hotels and so on.

Slide 31: Why Food Service is Attractive

It is also a business which still has a huge potential. We estimate that consumers yearly spend 2 trillion on out-of-home consumption of food and beverages. The highly fragmented food industry's part in this amounts to about 600 billion of which the global manufacturers control about 3 percent. There is clearly room for growth in a market whose development is driven by consumer preferences. In the USA, for instance, 50 percent of consumer food and beverage spend is out of home. In Taiwan, entire apartment blocks go up in which there is not one single kitchen. Finally, customers are consolidating and offering new opportunities to manufacturers who can come up with attractive, economic menus and solutions.

In order to seize the future opportunities, we are going to upgrade foodservice to a Strategic Business Division, reporting directly to the CEO. The Division will be headed by Mr. Marc Caira who will be appointed Deputy Executive Vice President and take up his post on May 15 of this year. Mr. Caira spent a good part of his career with Nestlé Canada acquiring extensive experience as manager of our Canadian foodservice business. He then worked as Chairman and CEO for North America for an international dairy company and will now return to Nestlé. I am certain that his joining the Executive Board will accelerate the momentum and give a dynamic impetus to the high-potential food service business.

Slide 32: CPW Volume Growth Since 1991

Let me finally say a few words about one of our joint-ventures that just crossed an important threshold. Cereal Partners Worldwide, our breakfast cereals and bars joint-venture with General Mills, is now 16 years old and just passed CHF two billion in sales. While the category grew 1.8 percent in 2005, CPW increased its volume sales of by 4 percent and showed an organic growth of 6 percent.

Slide 33: Record Cereal Share

And in a contested market, CPW's market share inched up again, to more than 22 percent, while simultaneously recording very solid progress in EBITA. The joint-venture is a real source of satisfaction, as it continues to meet the performance foreseen when the venture was created.

Slide 34: Next Media Events

Ladies and Gentlemen, before opening this press conference to your questions, I would like to tell you about how we see the year 2006 evolving. Overall the economic outlook is rather positive and even Europe seems determined to once again start growing. I do believe, however, that there are elements of uncertainty that could cloud the horizon. Take the impact of the high crude oil prices on energy and on packaging. Take the more volatile political situation in some parts of the world . Take finally the possibility that the Doha Round might not be concluded successfully – and you will understand why we will be watching the global political and economic radar screen very carefully. For the Nestlé Group, however, I continue to believe that we can maintain and even extend the momentum of our business model and I am confident that we will be able to attain our organic growth objective of between 5 and 6 percent and a further improvement of the EBITA margin in constant currencies.

With that, Ladies and Gentlemen, our presentations are concluded and I now welcome your questions. (Q&A session) Thank you for attending our press conference and for your numerous and interesting questions. END OF SPEECH