NESTLÉ S.A.

2005 HALF YEAR RESULTS ROADSHOW TRANSCRIPT

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	Mr Paul Bulcke **Head of Zone Americas** **Nestlé S.A.**
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Roddy Child-Villiers, Head of Investor Relations, Nestlé SA

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Hello, good afternoon and welcome to the Nestlé half year road show, we are broadcasting this so I will try to remind you when we get the questions to wait for the microphone. The plan today is to start with Wolfgang who is going to do a quick run through of some of the numbers and then pass over to Paul Bulcke. Paul is the head of Zone AMS, the Americas, he's worked around many of the Nestlé markets around the world and was most recently also market head of Germany. One or two of you have asked me why we chose the Americas and was it just because it's a good news story. I should tell you that we choose these speakers in October in order to ensure that we have someone to talk to you come the road show so it was more based on hope and expectation than fact at that time.

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Without further ado I'll pass you over to Wolfgang for his part of the presentation. Thank you.

Wolfgang Reichenberger, Chief Financial Officer, Nestlé SA

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So good afternoon and also my welcome to this half year road show. I think this will be the shortest stint that you will ever have seen me up here on the podium because I was actually very impressed with how well you have understood already our results by the reports that we have received. No major misunderstandings, I think everybody understood what our results were in the half year

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I can quickly go to them that we had a good organic growth which surprised many of you on the upside up to 5.2%. We had our reported EBITA margins up which most of you had expected but I think it still looks good against the backdrop of the industry in general and actually the constant currency margins were up 30 basis points which made us really look good there. Underlying EPS I think there were lots of good, sometimes surprises for some of you, not so much for us, below the EBITA line down to the net profit line and we will come back to that.

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Let's just have again a quick look at the EBITA, how did we get there, what had maybe surprised you that the cost of goods sold was up 30 basis points. We had not seen that in the last couple of years, we had always the experience of cost of goods sold contributing positively to the bottom line. Well this is the result of these extraordinary circumstances that we have with our input costs. We saw distribution costs down, that is good news and it comes partly from the disposal of a very distribution intensive business, Eismann. Eismann was sold last September so we will not have the full year impact of that in 2005. Marketing was up 10 basis points, again a reflection of the investment we make into growing our businesses also in difficult circumstances. Leading to the 10 basis points positive EBITA and in constant currencies at 30 basis points.

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I know you like, some of you at least, hopefully like my chart on showing what has happened from A to B from 2004 first half to 2005 first half. I think it is important to highlight here that first of all we have corrected 2004 already as mandated by International Accounting Standards for two years of share option programmes but two years of vesting, but since our options vest for three years we actually could not include a third year, but on a comparable basis this obviously makes part of our comparative sets. So we show you these additional 10 basis points of share based payment charge to make things comparable. Otherwise there would only be two thirdish kind of comparable.

Then we show you our savings and growth which obviously are positive, as usual minus the reinvestment, there again I have to remind you we reinvested into our markets, into our brands, into innovation in all the markets where we operated and another factor which we had last year which is the one of the cost increases. These again extraordinary cost increases we are facing and we will come back to that to show you just how exceptional they are.

We had a positive effect 40 basis points from product mix and really if you look at what our management has achieved, what our company has achieved, I invite you to take these three columns together. The savings growth minus the reinvestment, plus the product market mix, plus the positives from disposals which makes our 30 basis points positive achievement in the first half of 2005 compared to 2004. This is the 30 basis points we show there. Again they have been reduced by the foreign exchange impact at 10 basis points as you see there. The foreign exchange impact as we always try to look forward, what will happen with these curves because you, we, we are all making projections forward. Cost is exceptional, so this is something I think we have to highlight these input cost increases. Product mix: we aim at having a positive both product and market mix in the markets where we operate. We want to grow more high market, high margin markets, high margin businesses, grow more nutrition in the future. We may have some other divestitures to make which should be margin enhancing but that will depend on opportunities but more particularly also the foreign exchange one. For four-and-a-half years now, this is exactly since I assumed my current function as CFO, I have only known negative foreign exchange mix here and I only can believe that such things don't last forever and that we will see the day when this foreign exchange mix will be positive.

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Now coming to the lines under the EBITA down to net profit we have some changes in net other income expenses, some additional impairment in the first half of the year and restructuring according to the normal level that we should have and we should end up the year under the 0.7% which we have guided in the past. Amortisation of goodwill has disappeared as a line as from 2005. Net financing costs was a good surprise and mainly it is due to sustainable improvements because we have shifted some debt from US dollar into euros, so US dollar rates after that went up, the euro rates remain low, that has helped and some accounting changes also helped here, some of them a smaller part, also on a one-off basis. Taxes also have helped, on taxes also I have to say some of you have asked is that sustainable. We have now 25.9% as an underlying recurring tax rate. Is that the same as, what is the trend in our tax rate? I think if you had listened to the call that Alcon has made a couple of weeks ago, they have guided that their tax rate will actually go down by 200 to 300 basis points over the next two years. So if we have this positive Alcon effect, actually we can say our trend of our tax rate should also be positive over the next couple of years. That leads us to the net profit, particularly the improvement in underlying because the lowest line here, the 32% obviously includes this improvement from the repeal of goodwill amortisation but as an underlying recurring basis we would look at 11.2%.

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Now I said I would come back to this extraordinary increase in our cost structure and I think this chart more than anything else shows you, because it goes over 14 or 15 years, you will see how the cost curve has moved up over the last 18 months or so and is at the moment remaining volatile at a high level, at an historic high level. This reflects not our input costs, these are prices. This is a price index of commodities that can be tracked on the market, commodities which have an influence in one way or another onto our costs. But it is not directly reflecting our costs. It includes crude oil, by the way we don't buy crude oil I said pointedly we are not a petrol station but we buy first, second, third degree derivatives and they are not financial derivatives but things like fuel oil, transport, local ocean transport, PET resin, PVC film, glass, which is even influenced by oil. So we buy materials which are, to a more or less extent, influenced by crude oil. It includes milk, probably our second biggest material, which is at this moment at historic highs but has been stable over the last couple of months and it includes my billion Swiss francs club which is milks, coffee, cocoa, sugar, soy and meat.

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On a shorter term basis, you see here what happens with the same cost index I have shown you before. Particularly for you to understand or gauge where we are now and to validate what we said at the conference call that we are still somewhat concerned with the input costs at this level. Because some of our competitors and somewhere in the market we have also heard input costs are now already lower than they were the year before although this is not something we really can say. Our input costs or at least the price level of the factors influencing our costs is still higher than last year. On the other side you may say well if we just stay where we are now we think that the two curves will eventually close and the effect may dilute. At the moment we see cocoa and coffee actually down. Coffee still higher than a year ago but down just over the recent days or weeks. Oil as you all know is up and milk is stable at a higher level. So this just shows you still careful with input costs at least for the second half but again long term what we would expect that at least if we had stability we don't have to see input costs going down in order to show margin improvement, we just want to see a certain level of stability here.

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Now coming to the business, very quickly here Europe we have talked about it, minus 50 basis points in the first half of 2005 wholly due to chilled dairy on one side, the performance of chilled dairy, and on the other side the initiatives taken in the UK to improve market shares. I think we are therefore somewhat more confident or I would at least see some potential to improve in the second half as hopefully some of the investments in the UK bear fruits and also coffee overall in Europe which has increased prices in many of the markets, should contribute to some margin improvement. On the other side chilled dairy still remains a drag on profitability. I can also mention, which is not here on the slide, Russia gives us also more confidence now, it took us a while to sort out the distribution structure, particularly in chocolate but we are on the way, on a slow way to improvement. Zone Americas, the star performer among our Zones. I will not comment on it, I don't want to steal Paul Bulcke's show, who will talk to you in a few minutes.

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Zone AOA, we had here specific problems, I think we can nail them down to four markets, yes they are big markets but we know what the issues are. We had in the Philippines price increases which had some effect of course on volume in the immediate aftermath of that but the price increases in milk are now done and through even at high levels and we see a better acceptance and we are more confident to go into a better second half. We had problems in South Africa with strikes and at the same time of course this was a bad coincidence, GLOBE was introduced so that led to certain problems but I can say in the meantime also these issues are settled, all the backlog is caught up with and South Africa is on the way for improvement. We have then number three, Japan, there we had the issues with our competition in soluble coffee which does not have an immediate solution as we see it. We still see a very aggressive competitor there in Japan in soluble coffee. On the other side we are taking all the measures in order to come out with innovation with Excella now in soft pack we had a very successful launch also of Excella Mild in a drinkable form, ready to drink so I think we have some successes there, our confectionery business is doing very well but the issue of soluble coffee still remains as long as we have that sort of competitive environment. And number four, we have China. Also in China we had a product exchange in the first half of the year. It has been duly reported. We have taken all the measures immediately, the necessary provisions have been taken for the products in the first half of the year but we still will have some consumer communication activities now in the second half of the year to help us to regain again our previous market shares and market positions fully. So in those two markets therefore Japan and China I want to put just a word of caution for the rest of the year. And waters under here, again very heavily impacts by input costs of course PET but we have a lot of savings also in other parts of the business and we should also get some drop through from the growth. We have good growth in most of the water markets notably in the United States also in emerging markets. The good news from water is also that our Nestlé branded waters again are growing at around 40%. This is Nestlé Pure Life in US emerging markets and Nestlé Aquarel here in Europe.

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So that brings me already to the observations here and to the outlook. We have already said the EBITA margins are up. Food and our food business has contributed significantly to this margin development and some who may have thought this is only due to Alcon are wrong. We estimated about two thirds of the improvement is actually due to our food and beverage business. Nevertheless Alcon has contribution strongly there is no doubt. Input costs remain a challenge and I hope I have proven that to you on my slides on the input cost development. We are continuing to be confident with our 5% to 6% organic growth range which is intact and the ability to deliver savings which is somewhat impaired this year by this heavy input cost issue but this ability continues to be there for the years to come.

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A quick word on GLOBE, just an update because every couple of weeks now we have some new go lives. Very recently we came on stream with Mexico in July, I was there myself it seems it worked. Now in August we started here in the UK and you may then ask Alastair Sykes himself if it's working and later in the year we will start Oceania, first of all New Zealand and then at the turn of the year also Australia.

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GLOBE is now a major factor of life within our Nestlé markets. It is not somewhere a little pilot project as you can see from those numbers here, CHF 22.6 billion of sales, so it's basically a quarter of our company is now running on GLOBE and I think the numbers speak for themselves. We could not have delivered this first half numbers if GLOBE would not be working.

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So I think to summarise the Nestlé model that Peter Brabeck has exposed several times is working. The first half confirms that we are just on track with that model. We continue to deliver our organic growth in the 5% to 6% range and we believe that we can do that on and on and on again. We continue to believe that we will increase EBITA margins on a constant currency basis and hopefully we will get some help in the next couple of years also from currencies and not have the backlash from costs and by the way both growth and margins will additionally be helped by our health wellness and nutrition vision and the businesses that we set in place for that purpose. It is not only coming from savings and the usual growth that we have, but also of course from our very strong and prominent presence that we have in emerging markets. So I think health wellness and nutrition and emerging markets are clearly important factors to help in those achievements.

And last but not least, foreign investors, you gave us money we had to make a decent return on that investment. Return on invested capital should also improve. We see a positive trend in the first half of the year due to the acquisition discipline that we have, the disposals of businesses that we're undertaking and a tight, really tight, discipline on working capital. And if we go even one step further return on equity should also be improving at the moment when we started now our share repurchase programme. I think on that note I may stop and hand it over to Paul Bulcke.

Roddy Child-Villiers

Thanks Wolfgang, just one precision on Alcon and the tax rate between now and 2007, that it will decrease 200 to 300 basis points per year in that period, not overall.

Paul Bulcke, Head of Zone Americas

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Good afternoon everybody, really a pleasure to be here and as Roddy said this was planned in October last year so we didn't work for these results, I can assure you that these results came out of the natural state of the Nestlé model and the Americas. My presentation is strucutured as follows: I want first to share with you the results of the first half of the year, rapidly then going to how we are structured in the Americas and then talk about the complexity and the opportunities and then going to really show you some examples of how we are organising ourselves in the Zone and how we actually make the Nestlé model work in the Americas.

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So my first chart goes through the results of the first half of the year and you'll see that we have got a very good growth on the bottom line EBITA and also driven by some very positive growth figures.
First going to growth. The growth has been in the Americas driven by North America and South America together, but specifically North America has been positive with an organic growth of 6.9%. This has been driven, to a big extent, to the acquired businesses as you may see, in Purina, Dreyer's and Chef America with positive sales figures and that was basically the reason why we bought them. If we go to Purina PetCare with a 8.6% organic growth in the first half of the year, you see the comparison also to a rather soft first half of the year but that's only over last year because of price increase we have done at the beginning of 2004, but this is only a small reason. The biggest underlying reason of the growth of Purina has been the innovation/renovation that we have been realising in the first half of 2005 with brands like Fancy Dry, Beneful Healthy for Skin and Coat, Beneful Puppy and other products, and also the innovation/renovation we had in the last part of last year in 2004 is still giving us momentum through this year. So we have growth in Purina coming from specifically innovation/renovation.
Dreyer's high 8.7% organic growth is driven by the new proprietary technology of Slow Churned which is under the Dreyer's and the Edy's brand Slow Churned Light and the Häagen-Dazs Light, giving us a tremendous boost in sales growth. Also sales have been driven at Dreyer's by Dibs, a new product that we have launched a few weeks ago and then also the re-launch of the kids assortment in the snacks business.
Also Chef America, the Hot Pockets business is doing very well in the United States and driven also with some innovations like the Subs, 3 launches during this year. Those were the acquired businesses doing fine and are delivering the sales growth

that we were looking for by the acquisitions. But also North America has been driven by the Nestlé prepared foods the Stouffer's and the Lean Cuisine Brand. We have there also acquired a very active innovation/renovation activity and we have also repositioned the brands as such, Buitoni also a smaller brand sometimes under the radar screen is giving us very nice growth figures.
Under the traditional assortment of Nestlé North America, I am happy to say that the Shelf Stable Dairy, the Coffeemate business is keeping us in double digit growth. Also the ready-to-drink business in the United States, specifically Nesquik, is giving us also very nice growth. In nutrition, infant nutrition and also an improved chocolate growth specifically driven by Butterfinger Crisps, Toll House Morsels with an innovation the Swirled Morsels and also the Wonka range, the chocolate I mentioned. The Wonka range that we launched for the occasion of the new movie release.
So in other words North America is growing not only in specific areas but basically in the broader assortment under their watch. In other parts, Canada is also showing a very nice growth with 8% driven by confectionery, ice cream and frozen food. As such we have a certain comparison I mentioned also, versus last year, you may remember last year we had the BSE crisis that was limiting us to a certain extent and importing products from the United States, that has affected us. Then last year so we have in that sense also a little bit of tailwind in comparison. But the businesses not affected by BSE are also showing very nice growth figures. So North America very strong and broadly spread in growth.
Also Latin America, you see there we have a 7.6% organic growth with a 3.7% real internal growth driven by Mexico again and also Brazil with 4.3% real internal growth. In Mexico and also most categories, so it's not one category standing up and also a very, very good double digit growth and in completion there with new launches.
In Brazil, although you may have seen a slowing down slightly in the second quarter versus the first quarter, that was driven by a timing issue on Easter, you know that the confectionery business in Brazil is very important in our total portfolio, up to 30% of our sales in Brazil. Because of Easter falling another day that comparison has been skewed to a certain extent. Also we had a major price increase in Shelf Stable Milk, Ninho, that came in May, has slowed down a little bit the sales in June but that is up to speed again in July and August.
In other regions also Bolivarian, Austral and also Caribbean we do have good sales growth also and in all product categories. So that's for the first.

On the EBITA side you see an 80 basis points growth there, this is especially driven by North America and that also in Nestlé USA and Purina and also in Canada. That is driven by an opportunistic or, not opportunistic, but timely pricing that we have done before the raw material costs came really in, that is also driven by our successful driving from the Operation Excellence 2007 initiative together with FitNes where we have driven the factory fixed overheads down, also the general overheads. In pricing also part of the raw material increase we have been able to compensate through a linking up of the purchasing through an economic point of detail there through our share service centres concept where we are trying to leverage the scale of North America and all the divisions we have and companies we have there and that has been also a positive in neutralising some of the raw material increases.
There is another issue too, we have a slightly skewed promotional and innovation/renovation programme in the sense that we're going to have even a more innovation/renovation falling in into the second part of the year so we have also there

our marketing expenses, a little bit lighter in the first half of the year, that's going to come up stronger in the second part of the year. But that helps for the time being also fuel some of the EBITA increase.

In Latin America where we are already on higher levels of EBITA we have been able to maintain and slightly increase it. That is for the status as for the first half of the year, so this is quite positive.

I want to now go into explaining pretty rapidly how we are structured and what the challenges and opportunities are in the Americas and that brings me to our first chart where you see the overview of the Zone as defined there as Nestlé.

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We're covering the 45 countries including the Caribbean but we are organised in eight businesses of markets reporting into me which is 4 markets USA, although USA has three businesses considered as markets which is Nestlé Brands, Nestlé Prepared Foods and then Nestlé Purina PetCare. Those three businesses making up Nestlé USA. We have then Mexico, Brazil and Canada as stand alone markets and then we have clustered the smaller markets into regions. And we do have there Austral America region that's the green coloured region in the southern part of Latin America, we do have also the Bolivarian which is the orange colour, Venezuela, Colombia and Ecuador, Caribbean and Central America.

Overall we are speaking about 860 million people, 70,000 employees of Nestlé where we are covering four major languages specifically English, Spanish, Portuguese and French, but English and Spanish predominant, and 7 time zones.

We do have another business still reporting into the Zone also which is our joint venture we have with Fonterra, which is DPA (Dairy Partners America) joint venture covering all the commersialisation of chilled and liquid products, milk products in Latin America for the time being.

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We do have a very strong position and we have a proud tradition in the Americas. Just to recollect, Nestlé in the Americas is already over 100 years of active actually production presence. It started in USA 100 years or more than 100 years ago but also in Latin America we have a very long standing tradition with 80 years of manufacturing. First factory in Latin America was in Brazil, Araras, where we still have a very, very big factory. We do have, and that's one of our strengths, and having been there for 16 years in Latin America, we do have a strong local management and an in-depth knowledge of the market reality that gives us a very strong and deep understanding on how to react on quite sometimes changing environments which is quite characteristic for the Latin America region.

We do have also quite a lot of people in the region going from one market to another, so we really learn from each other. We have actually 250, I would say, inter-Zone expats moving from one region to another or from one country to another and have actually also 120 expats, people from the region elsewhere and outside the region working for Nestlé in the centre or in other countries so we do have a good overflow of management skills and knowledge there.

We do have in the region also because of that tradition, very strong brand presence and those are also the brands where we're putting all the money behind. We have actually today eight brands which are delivering sales of over CHF 1 billion. You see the names there Nestlé, Milo, Nescafé, Nestlé Chocolate, Stouffer's, Lean Cuisine, Hot Pockets and Purina and we do have already quite a few brands, nine brands coming up and are above CHF 500 million and closing into CHF 900 million just to name a few we have Carnation, Friskies, Toll House, Juicy Juice, these are all brands that do have more than half a billion presence already in the Zone. So we do have a battery of very, very strong brands and we are focusing every effort behind those specific big brands.

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Now to show you, and to share with you, that our success comes from how you master the ability and understanding of how you manage those countries. There is quite a lot of diversity, you see it there on the GDP per capita that was $40,000 in the USA, $400 basically in Haiti so you do have a broad range of buying or purchasing power to answer. We do have on the other side a large population and it is growing. It is growing north and south, we do have North America 320 with a point close to 1% population growth rate, it is a highly developed part of our Zone. On the other side Latin America and the Caribbean 540 million people with a bigger, higher growth rate, 1.4%.

What is important, is that we do see, inspite of all turbulences, that the middle class has started to grow very firmly and that's where we are aiming our products but also, and we do have, I'm going to share that with you, objectives of getting into the lower classes and really looking for those consumers too. We do have products for that and we do have systems to get there. Just to give you an idea also countries like Chile or Mexico have grown in the last five years 7%. Countries like Ecuador the same.

So we do have quite a few countries over there who are showing some consistency in growth which was basically the problem a few years ago. On the other side it's the young population, you see in North America medium age 36 and Latin America even younger medium age just 24 years. So we do see looking to those conditions a huge potential, a potential that we want to rip open and therefore we have written a blue print if you want to see in the context of the blue print that Peter Brabeck has written, how to see, to align all operations behind a common vision.

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That vision is, and it should be, creative to the Group's vision and it is becoming a respectful structure of the food nutrition health and wellness company in the Americas and that based on a sustained profit growth and performance. And we want to do that and it's quite simple that's nothing new but it is clear to everybody and we really go behind and stand behind those Nestlé four pillar strategy.

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So we aim the whole structure, everybody in every market, is behind those three objectives which are length of growth, EBITA and market shares, so to have also the market shares very, very much in there and these are linked also with the different targets of everybody and that based on the four pillars you know already operational efficiency, innovation/renovation, the product availability and the consumer communication. So there's nothing new but we really are relentlessly going behind, and what we do add additionally is do that all with speed. Something that we are really giving some more emphasis because we feel speed behind those executions of those four pillars is really a competitive advantage that we want to exploit. Now let me go with you through these four pillars and give you some examples, basically of what are we doing and how are we getting there.

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So it's going to be quite visual, the first chart, not yet because this goes over the operational efficiencies but later on maybe go into innovation/renovation, I want to do that with specific and concrete examples.
So first is the operational efficiency and you see there that we are really going through with the global Group objectives of Excellence 2007 and FitNes. There we have to be accretive to the Group too, so we're one third basically of the business so we have to at least give one third and we are getting there to hopefully deliver there.
We are striving also to optimise our production infrastructure and that is a specific very important element in our setting up of more efficient operations because the history of Latin America was more closed in countries because of all the regulations and all that, that is opening up.
Also driven by the free trade agreements that we see popping up in the region. That allows us to really go for a more specific and focused competitive and specialised factories so in overall we are in the Zone working with 110 factories today. That has any number of certain acquisitions and so on but basically the last years we have been setting up or closing down five to seven factories a year, really to looking into scaling up some factories which were quite small because of the history. So we are still in that process but basically we do have now a more global industrial set up in the region therefore you do sense that we have overall 10% of all sales is already driven by intercompany sales, so from one country to another, in Latin America and certain regions like the Caribbean, that goes up to 40% to 50% so really looking for a scale of our industrial set up and the benefit of cost reduction.
Another expression of that is the Shared Service Centres. In North America we're going to go into slightly more detail there in the next chart where we're setting out the Nestlé Businesses Services the NBS linking all the back office functions from all the individual companies like I mentioned, the Nestlé Brands, Purina and also Nestlé Prepared Foods and additional to maybe Dreyer's, and later on Waters and other companies we have their presence we have there, to link it up to back functions and to leveraged scales and skills. We do the same on another extent also in Latin America. We have a specific project that we have in place now. That first expression and where it is the "lower fruits", where it's clear it's been purchasing, that's where we have already made a headstart throughout the common purchasing linked up in a network in the North American region first and now we are linking up also the south into there. And the prime enabler of all these efforts is the aggressive GLOBE implementation, we have today one third of all operations already under GLOBE and in the next two years we are phasing in to all the rest of the operations in the Zone.

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We are looking into the basic concept of the blueprint and how we want to work it linked to the chart we took from Peter Brabeck and it goes with a backline, frontline system, that's how we want to mentally condition our structure. In the sense that we really want, to have a frontline, which is where we have the people focused on where Nestlé cuts with the consumers in the market, so that they are totally outward looking. These frontlines have to be fast, flexible and focused. The backlines to align the NBS, the Nestlé Business Services and align the projects we have in Latin America, together with what we are driving already from the centre, should be slim and saving minded but specifically service driven.

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So we really try to leverage there in the backline the scale our company and also the skills. The first expression of this, and this is a chart that has been shown to you already in St Louis by Joe Weller our market head in North America. It shows what we are meaning by setting up the Nestlé Business Services. You see there at the top the Office of the Chairman, that would be Joe Weller in North America, who has the Nestlé Brands and Nestlé Prepared Foods and Nestlé Purina directly reporting to him; Dreyer's is not reporting, it's a standalone business still, but it has a dotted line that says we see that as part of reality where we can gain some insight also into leverage more scale even. And then you have the Nestlé Business Services which is actually also giving services to, we see there, Nestlé Canada because we feel there is a natural linking together there.
Nestlé Nutrition who is phasing in next year into North America into Nestlé Mexico, Alcon, Nestlé Waters even. And that is where Nestlé Business Services is really pulling together the whole dimension of Nestlé and North America and where we can leverage the scale. Specific expression has been already the fruits that we took out of the purchasing network we have for them, and where we have already got very tangible savings. The same kind of effort we are doing now for Latin America too, so inspired by the experience in North America.

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That was the first phase of the NBS. You see here in the left column, the business is directly linked to the initiative in the first phase; we hope and we're working to phase in all the businesses later on. And you see also the functions and the work that already is covered by NBS. You see the purchasing as I mentioned, also the retail sales execution in the shops have pulled together, HR specifically the payroll and others you see there. That is what we have already and in Latin America we are specifically going for the same, I would say, obvious point of function that we can pull together in the Zone. That is one of the important pillars which is basically the efficiency in our global systems.

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Now I go to a very, very important pillar which is innovation and renovation, and in my mind this is what has driven even more of our growth for the first half of the year. You see there that we want to go to consumer relevant innovation and I just want to pick up a few examples because I feel them quite relevant, and one of them is Moça in Brazil. This is the sweetened condensed milk which is the most classical can you can imagine and it's more than 100 years old; this was something that you felt like, what can you do with this? This is a big market in Brazil; we are speaking about something like 250,000 tonnes, this is a big market, and we have 50% of that market. What we have done is the proprietary shape of the can, which is only a shape, but it has given us a new growth momentum in a product category that you would think, what do you do with it? And so that is something that we have done at the end of last year, and it has given us a very nice result.

Another one, which is Dreyer's Slow Churned. This is a proprietary technology that we launched already a year ago, and that is delivering specifically the same mouth feel of quality of product, but with 1 third less fat and half the calories. So we believe that this is a technology that is going to revolutionise the whole ice cream business, and we feel, as it is proprietary nobody gets close to it, that we have a very, very hard and a very good card to play there. We have that in Dreyer's Slow Churned and also as you see in Haagen-Dazs Light. Just to give you another example, Slow Churned Light in year two after the launches, sales are up 60% and we that this could be the paradigm of what ice cream is all about in future.

And then we have Cat Chow Indoor, another consumer insight driven innovation in Purina, where as you can imagine, cats who are indoor, they don't have the nice opportunity of eating grass or insects and rats and all that and apparently there is a need for them for the balance of their physiognomy. So basically indoor cats are unbalanced, so we give them the balance back through these insights and we have spoken already about a sales projection of over 100 million. So we're not speaking small, fancy footwork innovation; that is a real tangible innovation.

Butterfinger Crisp, a product that we are extending successfully now, with the crispies supplied by Venezuela just for your information, so we are starting to link up already Latin America also with North America. A product out of Latin America, Cocosette, is a classical product in Venezuela, and it was in a small format and we have also, through contact with consumers, seen that each consumer eats and needs to eat for a good stomach feel, two of them. This is a very light treat. So we made a bigger one, and this is a very classical product, but all of a sudden started to grow up again 30%. So that's also quite a big growth behind a classical brand.

And then you see others like Lean Cuisine, SPA Cuisine, Cerevita and other products. The pipeline these were basically launches that we have done end of last year, beginning of this year.

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During the first half of this year we have been launching very important products like NAN 1 and 2, where we have included leading edge formula changes owing to the immune protection of babies and allergy prevention of babies. This is a major technological step forward and these products are really delivering authority in the paediatric world, specifically launched in Mexico and foreseen to rollover in South America over the years to come.

We have Fancy Feast Gourmet Gold dry cat food as you see, Power Bar Triple Threat, where we tried to combine the nutrition with a very good taste of the Power Bar offering. Hot Pockets Subs where we tried to use the technology of Hot Pockets as such into normal natural bread which is microwavable. And other products like Chamyto Day and Night, specifically for night because the stomach function is different in the morning than when you go to sleep.

And another product where we have leveraged two brands which are very strong Latin America is Maggi Sopa Crecimiento, where we use soups and combine them with milk dimension to get creamy soups given to children with a milk dimension added with some specific nutrients like vitamins and minerals.

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And a very classical example which is also major is our extension of Nido. Nido is a big brand as you have seen, it is an over CHF 1 billion and it's a quite nicely over 1 billion brand. And in Latin America specifically it was a brand which was basically a full-cream milk product, plain, that was it. Over time we have added some vitamins, minerals, we've fortified slightly, but then we started to create, under the Nido brand, a whole nutrition system. Because mothers were aware that kids need different nutrients during the first stages of their lives. So we have the 1+, means one year and older, the 3+, three years and older, then third the 6+, six years and older. First year is stomach protection, second year is mind stimulation, intelligence and six year plus is basically the bone structure. So we have now Nido in three offerings besides the classical Nido, and I have to say that already that offering is one third of the total Nido business and growing over 10% a year and having also more value and margin.
So those are big innovations which we are disciplined rolling out in all countries in a very disciplined and a very fast way because we feel we create competitive advantage over time. This is just a few examples of innovation. Again, I repeat, I think innovation and renovation is over time. The most important pillar that is driving home business, because it has a lot of business growth and as we do have a specific science advantage we have to apply it and to use it.

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The other pillar that has special attention of its own is the product availability which is linked with the however, wherever, whenever. There you see the Nestlé RTD vending machine and we do have already in the United States 5,000. We are looking for 15,000 in years to come where we put our brands at arm's reach . Also riding the wave of the nutrition and health consciousness in schools, this has a very high acceptance.
Another point is Pet Promise, specifically linked with Purina, where we go for the organic pet food and specific channels. Also because we feel there is a specific need for that, and that product category although in specific channels like wholefoods and wild oats is doing very fine. This is one of the ranges that Dr Lau, who is an authority on organic, is really endorsing, one of the few lines he is endorsing.

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Another example, and more specifically in Latin America, is how we expand our brand Nescafé. Just to see now we have 13,000 vending machines in the Zone. Our objective is to go to 50,000 because we believe there is a major potential, because of our new technology that we can put in the product, also linked with foaming that we have been able to taste here before coming in. There is a proprietary technology that we can put in these products that is really highly appreciated also in Latin America. People, although they may think those are developing countries, they do like a good treat and they pay for it because that's part of their quality of life. So we are up for 50,000 machines just in Latin America. There's 150 billion cups of coffee consumed a year; Nestlé are selling 150 million equivalent, makes that we have basically 0.1% of that business and we are a leader. Now we do believe there is a major upside opportunity and that's one expression of trying to get that opportunity under the Nescafé brand is huge potential.

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Another point, sometimes forgotten because we always see the big clients, but, one of our strengths in Latin America is our historical, very strong presence in the Mom and Pop stores. As you know, and I mentioned that, we were already 80 years ago there, and basically in all countries we did had, we have commercial presence and we have sales forces walking the streets in every small city and every small village in the region. That's an advantage, that is a competitive position that we have, but we do want to build further. So we invest quite heavily in DSD in the region. We have a very strong basis, and we believe we have actually also a possibility to make it even grow. The fact is that Mom and Pop stores are, in spite of what the general impression maybe, are not decreasing, they are in some countries increasing. Often linked with some economical conditions but we want to, specifically in the impulse ice cream and chocolates and also in certain areas in the classical product range, really dominate more the street. That is linked with merchandising and you see a few examples there. For you just to know, we have today in Latin America, 12,000 vans specifically driven with Nestlé products visiting 700,000 shops. So there's quite a lot of potential still upside, we have always to look to the profitability of the routings and all that; we do have quite a lot of experience and best practice in certain countries that we can rollover in other countries. So we have projects in Mexico, Venezuela, Colombia, Brazil and Equador and Chile to really start delivering even more on our strong position in DSD.

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Another way of product availability, and Nestlé is a business that's made up of lots of small things, so this is the project in Brazil where we really want to go to the people who are normally not getting exposure to our products. This is a specific project together with DPA, the joint venture that we have with Fonterra, where we try to link up an assortment of products, put them into a special plastic cooler packaging and through a specific distributor, go into the slums. And we have three packages with three prices so everybody can choose and they got the freezer free. Looks quite simple, the fact is logistics, but we have found ways of doing that and we have certain experience, so we rolled that out. That is a certain experience we want to grow because it is not only to go into those classes of lower income, it's not only to have cheap products, you go with your good products because basically food for these people are extremely important. They're spending basically 50% to 60% of their income on food. So you'd better go with good nutritional quality food, those products that we choose are specific, very rich in nutrition, and linked with also infants. And this is now growing. These kinds of projects, to get into those lower incomes, which is by number if you pull it altogether, a huge opportunity, we are starting to accelerate our position that we have already in there to even higher levels, and these are just a few examples.

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And our last pillar is consumer communication. I'm not going to talk about commercials, that is a classical way that we're going forward and we're actually also leveraging good experiences and skills there together with the centre. I want to go with a few examples of some specific initiatives that makes so much of a difference with our competitors. It is an example out of Peru, we do have also in the outskirts of the busy cities like Lima where basically two thirds of the population is living in the slums and the "pueblos jóvenes" (*shanty towns*). We go there first of all with consumer insight, so multi-disciplinary groups out of Nestlé people are going and they go and live two or three days with the people. So they really know what's happening and what's their aspirations and what is driving those people. Out of that came then a specific product offering and going to the stores and small amount of stores which are normally linked and hidden in those "pueblos jóvenes".
We have also made a Nutrimovil record in a small van where we have people who can understand and listen to people about the nutritional needs, and those people do have needs. Basically if you see the iron deficiencies and all that, the success of this Nutrimovil has been amazing. The image that it leaves, we believe, is also very positive. So these are specific activities that we are doing and not only on a small scale. So we started to roll it out because we feel whith the cost of one commercial it can do quite a lot of these activities and basically the spill over, the snowball effect of those and those parts of the population where you do normally not come, are amazing.

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Another example is Brazil. Brazil as you've seen 80 years of presence, more than 80 years of presence, Nestlé has in Brazil an amazing power as a presence of a company. It is basically felt as Brazilian; it has a lot of emotions. That came over time because of products like Moça which were always in the families, on the table, and so we have a very longstanding relationship with the consumer there. And now we are linking up quite a lot of activities from specific categories and put them under Good Food, Good Life as such, produced in Faz Bem, does well And also we linked up with campaigns specifically saying, giving output, that it does well because of this of this and this**.** It's not only Nestlé does well, there's lots of other dimensions where we use it and we link it all up. The presence of, the knowledge of Nestlé in Brazil is basically 100%. The positive emotions with the population, with the housewives is basically amazingly positive. So we are leveraging there, communications of specific products linked with a global campaign, and using it through the whole communication of every specific campaign.

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Another one and it's the last one, the consumer relationship marketing which has started to be more and more important because people start, are really in need of rational information about our products. You see there, I'm not going to get into the details, in every country we do have specific campaigns, with specific publications, that we do with certain local nutritional authorities and where we do have websites, and I just want to pick one of those Everyday Eating in USA. This is a specific publication which is linked with, it's a multi-category multi-brand publication, so covering all the products of Nestlé in the USA, which is specifically targeted to the diabetes world or dimension of the North American market. So direct, also Nestlé Purina you see there, not only America, but also North America. Very strong consumer relation marketing and we do believe in this part of communication and do invest in a lot in them.

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That's the end of my presentation and in summary I would say, performance is on track, in the first half of the year you have seen what we have. I do believe we have everything in place to maintain it's momentum to the second half of the year. We may have some shifts, but we totally believe we can get accretive results for the Group, so this is a very positive feeling.

We have a potential for continued growth, as you see the battery of our new innovation that we have. Also the environment and I am quite up beat about the positive environment that we are living in. North America may slow slightly down in growth, but we basically believe this is going to stay 3% up and South America the same. And we may have, like always, a patchwork of countries, so you have a little bit of risk spread there, but then overall I do believe the potential is there. We understand the potential and we are going to go for it.

I believe that in lower classes and lower incomes we have a major opportunity and we have a major initiative there. So the potential for continued growth in the Zone is there, it is for us to grasp, we are totally conscious about that, we're working on it.

We do have, and that's a very important point, a very aligned structure in the Zone. We do have a blueprint, everybody's aligned with the three objectives four pillars and we work with speed, that is a clear setting. Everybody has, and everybody in his own responsibility, has taken their blueprint and has translated it into his own operational world, so everybody in that sense is also aligned to the local conditions.

So we do have from people, discipline and enthusiasm, and there is certainly no loss of energy. So we are working in that sense also very well together with the centre to the SBUs as we call. So the innovation and renovation that you saw is not something that just has been invented in the Zone. That's where we really bring the SBU’s together with the specific categories in the market and drive our innovation growth.

And on the other side, I may have mentioned that already, I do believe, and I'm proud to be leading a strong management in each of the markets, and this I feel is one of the major leverages that we have as a company, because of our longstanding tradition. Whatever happens, we stay put. We have a very, very good experience, how to manage all the turbulences specifically in Latin America, but also to some extent in North America; we have a band of big companies with good practices; we have learned a lot from them and that combined is levering and adding up to the whole presence of Nestlé there.

That together with speed, which I feel is one of the major competitive advantages that you can build into the system, I feel together with the last phrases; we do have the people, we do have the products and we do have the brands, I'm enthusiastic and I'm happy to lead the Zone Americas. So thank you very much.

Wolfgang Reichenberger, Chief Financial Officer, Nestlé SA

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Well thank you Paul and thank you for sharing with us your cookbook with all the ingredients of how to achieve superior margin growth; I think it was very telling. And it's not just about vision, it's about things that have been done and that are happening at this point. Before we go over to the Q&A session I just would like to address two questions, two requests to you here please.

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First of all, it's about our P&L account. Here is it again and I don't show it to you to go into the details of the numbers, but I show it to you because its format is at risk. I already talked to you about that on different occasions previously.

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But if we go by International Accounting Standard Board (IASB) and the new rules that are being worked on, we may end up not having a net income statement anymore. I mentioned it already to you and since preparers are not seeing those people that are really listened to in this process, I have to trust on you, investors and analysts, to make your voice heard with the international accounting standards Board. I think they would welcome, actually, those inputs from you because they get the impression so far that analysts and investors prefer one comprehensive income statement, where everything is lumped together which is, as I mentioned before, a comparison basically between two balance sheets, between the equity in year one and the end of year two. So, if you like, net income statements in general, if you want to hear what also management and you, we together believe is really relevant for a year's success or failure of a company or a business.

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Please write to them and I think we have given already, we have already wrote to you personally, some of you already have reacted as far as I know, but many are still outstanding. I would like to see a massive row of letters going into 30 Cannon Street, it is not too far from here.
The second request I would have relates to a shareholder's survey which we have sent out about two weeks ago with a letter signed by Mr Peter Brabeck. As Mr Brabeck has said at the shareholder meeting in April, he will look into it that all the voices of shareholders are heard, and he will also look into the Articles of Association together with his Board of Nestlé SA. So before embarking on further steps, the Board and Mr Brabeck has sent out this questionnaire with five questions. I hope all of you, or many of you, have received it. The deadline to answer it, and there are five questions of course relating to our Articles of Association, the deadline is by the end of this week. If you have not received it, please go to your nominee, those who are entered, where your shares are entered into our shareholder register, this is normally with a nominee, and see that your voice is heard. It is very important that we get the broadest possible input from all of our shareholders, and not only those now which are directly registered in our share register, but many of you who

are registered through different constituencies, particularly through the nominees. So I hope you are all interested also in corporate governance in our Articles and will respond to that survey. Thank you very much and with that I would like to open then the Q&A.

Roddy Child Villers

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As I said we're broadcasting so please wait for the mikes. Any questions? In the front row please.

Questions & Answers

James Amoroso - Helvea

I've got a three barrelled question. It's following up on some of the aspects of Paul Bulcke's presentation with the DSD investment, getting people into the streets. I suppose my question really is whether that is intended to be funded by the savings achieved or within the marketing budget. Is there a shift going from above the line to these more direct forms? So is it more, or is it a switch? And perhaps Wolfgang has a view on the global outlook of that question? And then a very specific one, with the UK. I know that Alastair Sykes is here. In H1 there was quite a large investment in the UK, both coffee and confectionery, and what I'd like to know is to what extent these increases are structural? In other words, how much of this is extra people, sales force for example and to what extent this is purely a marketing spend that goes up and down?

Paul Bulcke

On the DSDs specifically it is not a matter of savings putting in there. First of all we have already a very, very heavy DSD system in place in certain countries. What we do is build it further up. So it's not a matter of starting from zero and all of a suden you invest in vans and all that, so what we do is, step by step continue investing. So we confirm what we have and we extend that to a certain extent. On the other side it has to be justified by the additional sales that it brings. So we do have, as we go in first of all with impulse buyers we do believe you have a big part of the sales you generate is specifically additional sales to a certain extent. So that is I would say self-financing, and it has to self-finance because basically what you do have going through your own system, or third parties because it is not all vans owned by ourselves. We have partners doing it for us specifically in certain areas. It depends on all the possibilities and the environment you're working in. But by doing so, what you do basically is, you go through other distributors whith whom you have trade spend, so basically your margin is higher but you do have certain additional investments. So basically we see this as an investment. Is it linked with marketing expenses? I would say yes, because basically the whole set up of generating pull for your products and a balanced pull/push is linked with this. So I would say this is for me, a marketing investment. But it is not taking out on reducing any specific marketing investment that we have. It is additional. But in principle has a very short payback.

Wolfgang Reichenberger

Yes I would agree that the same is the case also in the rest of the world. I think we have made similar moves in other parts, in Europe as well as in Zone AOA and in Waters of course. Yes we use sometimes savings or part of FitNes savings for example, we see that the overhead costs in some of the head offices are not coming down exactly at the pace that we had FitNes savings. If we look in detail we see that additional sales forces sometimes have been created. In some part also we can redeploy sales forces which are not needed in other parts of the business when you have, in certain markets, a chain growing which do not allow your sales force to visit their individual stores any more, you actually free up some resources that you can use then in those direct channels. And maybe to the UK question, Alastair you want to comment on that. Mr Sykes is here on the table.

Alastair Sykes - Market Head Nestlé UK

Thank you and good afternoon everybody. I think the first thing to say as far as the UK is concerned, we did take a conscious decision that we wanted to get off to a strong first half, a strong start to the year and if I say investment we see coffee is probably the biggest. We took the decision first of all, last year if you remember, in the first half of the year to try and de-escalate the promotional activity in the coffee market and we didn't succeed. I remember saying last year that we were now turning the taps back on and we have done that. So in a way the comparison of the first half of this year with the first half of last year is a little swayed by that activity change. That said, we did invest heavily and we did launch Half-Caff, which has been extremely successful in the market. Probably the biggest investment we took on coffee however, was a conscious decision to delay the price increase until half way through the year and live with the higher coffee prices. And that we did for strategic reasons, competitive reasons. And the fact is it's paid off. RIG in the first half on coffee was 9% and we have increased market share by 350 basis points. Market share continues to be at around 60% today. I would anticipate that coming down a little towards the end of the year. There is bound to be a competitive reaction, but I would be disappointed if we didn't hang on to two thirds of it. That makes it a very good investment.
Confectionery is a little different. We have spent more media in the first half versus the first half of last year. Again that was planned. We spent very little in the first half of last year. As we said last time, we are investing in confectionery on feet on the street. In other words more sales force, which is a structural change, which we explained last time. This is really, in my view, a bit, I look at confectionery a bit like a cake. We spend a lot of time worrying about the icing and the promotional activity and so on and so forth and forget sometimes the importance of basic distribution and display and that's where we are putting our focus in confectionery. We are starting to see the fruits of our labours. The market share is still flat, we are frankly a bit disappointed with that, although over the last ten weeks we have seen some substantial gains and I would be very disappointed if that didn't come through in the second half. All things said, we have got good growth. You have seen the figures for the UK. Overall our RIG is at 2.8% and our organic growth at 6.2%. We are

pleased with that as a sales start. The profits are exactly where we thought they would be and we are not foreseeing any problems in hitting our operational plan on profit for the year end.

James Edwardes-Jones - Execution

Wolfgang, I'm intrigued by your comment that Nestlé has the ability to deliver savings for years to come. Last time we were in this room on 1 March, I think Peter Brabeck said that we would have to wait to see if there was anything more to come by way of savings after FitNes and Excellence. Are you feeling more positive about the medium term outlook for cost savings? And secondly, can I ask you very briefly to explain why you are so passionate about this new income statement. From a brief glance it looks as though we get the existing income statement with a couple of lines added on to the bottom. Am I so completely missing something there is that broadly what is going to happen?

Wolfgang Reichenberger

OK on the savings, first of all I want to reiterate we will have savings in 2006 and 2007 with our existing initiatives. CHF1.2 billion each year, so this is already announced. I don't believe that thereafter savings will simply drop off. What we said we will probably no longer have an appointed initiative thereafter, but we still have to find what will from 2008 onwards, what will it be. It is too early to say but I would surely not say that we would not have any activity of continuous improvement, which should deliver some form of savings. At what level we really don't know at this point, but the important part is that the product mix, particularly, should also help in margin improvement in years to come. I think I mentioned that. The income statement, what I showed you here was our current income statement, not the one proposed by IFRS actually, we do not yet have a full format. The only thing we know is that they want to do away with the income statement as such. After our insistence, they agreed that a net income may be somewhere a sub total, lost in the middle of such comprehensive income statement, which also we found not sufficient.

Ian Kellett - Blue Oak Capital

Just a couple of questions, firstly Paul, could you explain to us, in your opinion, to what extent the margin expansion in the Americas has come through from cost-savings, as opposed to product and market mix? And if you're waiting then my second question would be to ask Wolfgang, following on from that, what he thinks about the international markets in that respect, excluding the USA and North America?

Paul Bulcke

To what extent the savings project has been stripped down to the EBITA, we don't really chase this as a tool to know how much has been slipping down to the bottom line. What we do have and Wolfgang can confirm that also on his side, that we normally have targets and we have several ways of getting there and that is basically product mix, it is savings, it is pricing, it is quite a few other tools. So specifically on that I would say that we don't track it as such, we don't have objectives on such things. If you have one cost saving, you have to have so much on the bottom line as such. We see it more as a means, one of the many means there. That said, I must say with the specific projects that we have in North America, we do have quite a lot of effect on the bottom line through the projects that we have there, of which one is very tangible and one is the purchasing thing, where we really can go into the savings specifically, black and white. We do have others which are more grey to track down to the bottom line, which is restructuring of the shared service centre initiative, which is less trackable because you do have that over time. So overall I must say that it comes partly from FitNes, it comes partly from pricing, it comes partly from the Operational Excellence 2007 and it comes partly from the mix towards more added value products that we are introducing via innovation. So it is a mix up of several elements.

Wolfgang Reichenberger

Yes, I think I only can add to that exactly as Paul has said. What we manage at a market level is actually not the market mix, we have shown you 40 basis points improvement. This is when we consolidate the whole Group. What each market sees is the total of the cost savings that they have, plus the positive operational leverage from growth minus the reinvestment, due to different initiatives, marketing or distribution or whatever, minus this cost impact that we have, which is not yet covered by price increases, which we see as a rather exceptional item in these days. But these four elements, really is what the market can manage. What we see at the end, and that helps us a lot no doubt, is the market mix, but this is part of our strategy to be in markets and to be in parts of the world which have faster growth and higher margins. And while each market and each business could tell you to the basis point how much they have saved, what operational leverage they had and what they have reinvested obviously and what costs they had not covered through price increases, it is not a meaningful number at the Group level. This is why we showed you it all compressed into one number, which was the 20 basis points that you had seen on my slide.

Ian Kellett - Blue Oak Capital

Can I just ask one follow on, sorry. Following from Alastair's comments about the UK coffee business. You talked in Japan about the degree to which it is a competitive market in coffee and it looks as though this has helped with the price competitive at the beginning of the year and then followed through with a price increase part way through the year. We have not heard that you have done likewise. Does that mean that you have now become a price leader in the marketplace or are you expecting increased prices?

Wolfgang Reichenberger

In Japan, I mentioned a very particular competitive situation, with a competitor in which maybe many of you have also invested, I think it needs a lot of patience to be invested there, because our competitor clearly is not making an appropriate level of profit there now. How long he can hold it out is something I cannot say. The only thing I can say is that it is an unusual environment, inasmuch that we kind of fight with different arms there, particularly since, Ajinomoto General Foods is managed by a different set of managers, more of Japanese origin. When I was there, I was market manager of Japan for a while, at that time the Americans were running the show. So this has changed a year or two ago and has significantly changed the mechanics of that market. But again we don't believe that this can go on forever.

Warren Ackerman - Citigroup

Two questions, first one for Wolfgang on distribution costs in the first half. I was surprised to see probably a 50 basis point contribution from distribution, when you said in the presentation that water was a negative. I realise Eismann was clearly very distributionally intensive, but what would that number have been excluding Eismann, and what would be realistic for the second half of the year? That's the first one and the second one is for Paul on Brazil; you said that the major issue in Brazil was timing of Easter for confectionery, can you talk about the rest of the Brazilian business and tell us what's happening with Garoto. Presumably there must be some uncertainty in that market and maybe that could be a call for a slowdown in the second quarter. Could you just comment on that please?

Wolfgang Reichenberger

OK, first on the distribution costs, Eismann was about half of this improvement, although a bit less than half approximately there. The rest came from different businesses, one standing out there still was Dreyer's and the rest comes from a lot of different savings we have made in different parts of the business.
And regarding Brazil?

Paul Bulcke

Brazil overall I must say, if you see the first half year chocolates has done quite nicely, also cold beverages, which was quite down last year, very very strong this year. Coffee has done very well. Infant Nutrition is doing very well.
I mentioned chocolate because of the shift, apparent difference versus last year because of Easter. There is more between the second and the first quarter. Overall and this year to date, chocolate has put up a positive growth and also the shelf stable, although I mentioned the example of Ninho and Nido, the pricing, is again to explain why we have some slowing down in growth, because of the second quarter was influenced by a huge price increase. But overall year to date it is still positive. So you see, you have the figure there, the real internal growth of Brazil is 4.3%, which is not bad and that is on all product categories as such. We don't have actually one category negative. So that is Brazil and we expect that to extend into the second part of the year.
On the Garoto thing, well basically Garoto is ours, we are still fighting. We are using recourse there to ask for some clarification about the whole process through CADE. This has been a long, dragging on process. We split the operation from that process, in the sense that the business operationally is doing excellent, doing fine. It is managed by a standalone unit, because it cannot mix, we cannot go for certain synergies, but the two businesses are so big that we do have already enough synergies, we should have maybe some more. But we have to wait for that. So in the meantime the business is run very, very effectively and we are really, really happy having Garoto with us. And we are still fighting to maintain them. It is like

everything in Brazil ... it takes time but it is well worth the wait. So we are working pretty hard for it.

Warren Ackerman - Citigroup

Can I just ask a couple of follow-up points Wolfgang, just on Eismann again. Is about 800 million of sales, about 1% of the Group? I am just trying to work out whether 1% equals 25 basis points, it sounds a big number?

Roddy Child-Villiers

I haven't got it in my head. You just have to take it away, this year's number from last years. It is in the annual report, you can see it there.

Warren Ackerman - Citigroup

And Paul, just back on Latin America, were Latin American margins actually down in the first half?

Paul Bulcke

No I would say we have maintained margin there, which is quite high and that is good, because we are very dependent on milk prices which went up very strongly in the first part of the year, so we have been holding on there. We have also some shift in cost and so I would say we are holding on, on our high level there and projecting in growth for the second part of the year.

Victoria Buxton - Lehman Brothers

I have got a question for Wolfgang. In the context of Nestlé's strategy for organic growth between 5 and 6% and progressive margin expansion, constant currency, to what extent do you expect the benefit from raw materials price stabilisation, as and when it occurs, to fall to the operating margin? And to what extent do you think it will be reinvested in R&D, innovation and advertising to hopefully accelerate the organic growth profile of the business? On the basis from my understanding of the H1 results you were actually achieving your organic objectives or strategic objective already.

Wolfgang Reichenberger

I think that first of all, we have to see when the cost situation will normalise and I believe then ... we are not head a on fixed 5.5%. I think we will have to manage it according to the circumstances and targets will be set for each year, according to the outlook and the environment that we have. We want to aim, in the medium term, on 5 to 6% and we will not just force the 5 to 6%. One year we can get maybe more or one year we may, as has also happened, not quite make it. So it is not something that you have to expect from us every quarter, every half year. I think this is really important to keep in mind. This is a long term target. This is our range within, overall you will see us growing, but we will not try to at all costs get it there, if in a given year the environment is extremely difficult, or on the other side if we have particularly a year when a lot of tailwind we will also not give up opportunities. So it is very difficult to now foresee, what elements we may have to put in place in a year. You may say rightly it may already be 2006, yes hopefully. But then we will deal with it in October or November when we set the targets for next year. I could not give you now the elements of that.

Roddy Child-Villiers

Just by the way on Eismann, it's CHF 750 million of sales approximately.

John Parker - Deutsche Bank

I have got a couple of questions. Could you just update us on the evolution of ice cream margins and any thinking going forward on that, because last year I think they fell sharply because of the butterfat issue in the US and also weather the factors are in Europe and I know we were hoping to see a significant recovery, I wondered if that's on track in ice cream? And the second question, perhaps for Paul, I think you made mention of new initiatives to tackle lower income consumers in Latin America. I'd be interested if you could just expand on that a little bit. I wondered why that was being done now, obviously they've been low income consumers for a long time now? And how significant is this going to be, will it be visible in the numbers that we see in terms of an impact on sales growth, and if you're looking at low price point items, are we going to be looking at lower margin business?

Wolfgang Reichenberger

No, John maybe on the ice cream margin first. We have improved in the first half of the year, actually we saw a nice pickup in that margin. But a relatively broad based source, Dreyer's is out of a heavy investment phase it was in last year, Europe slightly better and also the rest of the world, so I think we're on the right track there. Do you want to talk about the lower income?

Paul Bulcke

Yes, the lower income. First of all this is not new, this was also 25 years ago in North America when I started there, this was very high on the radar screen already. So you're right, that is not a new phenomena in the region so. What I express here is that we want to put more power behind this because I really believe that there is still a huge opportunity for us. And we do have lots of products which are already going there and like even the normal bouillon cube. This is one nice example of a product which is really going very deep into all levels of the society. We do have portion packs, or smaller units of Nescafe which are already going there, something like 8 grams or 15 grams going in there. That depends also on the habits of the region, those are products specifically in Brazil. We have products like ice cream in Chile where we have Savory is going everywhere and every street you see Savory and we do have specific offerings, lower priced offerings.
Now going back to the second part of lower prices, lower margin, not so. We don't sacrifice margin, it is not even lower quality. It is really the understanding of how the purchasing pattern of those people are. We have lots of products, people are not

going buy at the supermarkets because first of all they don't get there, it's too far and they don't want to spend time for it, or they don't have the money to take a micro or the buses. Secondly, they go every day so you'd better have not a tin or a glass or a jar of Nescafe, you'd better have smaller packaging. Those are the initiatives that I've been talking about. I do believe there is still quite a lot of opportunity to grasp so we have to understand better the consumers. We do see shifts in attitudes, we do see that nutrition is very high on the radar screen on those people because they are really very conscious about how they spend their money. They know that 50% to 60% as I mentioned is spent on food, then that food has to deliver. We know that they're looking to our food with different criteria than the higher class so we have to build that in in our offering.

I have shown you a product, Cerevita, Cerevita is a cereal based product in a sachet, very very simple, not low margin, but a simple conception, that you have to cook. Now that was something that we tried to drive out of our products, it was convenience. Now that people, they don't valorise not cooking but they like cooking, that's what they're doing, they're not going to work in the city. They're living there, they cook and they like to do that, so by taking out that kind of preparation or by putting in that kind of convenience, you take something away from them. So those are consumer insights that we have to understand and to adapt our product portfolio towards those specific needs.

That's what I meant. So yes, we have done it many years ago, we have been doing it all over time, I do believe still personally and we're seeing it through those initiatives in Brazil, that there is a huge opportunity. We have actually sales with that small project there all putting in to chilled dairy in a package. Those are very basic simple ideas but they're working. But what we are selling there is 100% additional sales because those people they don't go to a supermarket where they can have a chilled cabinet and buy some chilled products, those are additional sales and they are linked with the brand Nestlé and that is the positive part of it. So that is what I mentioned and I really want to confirm and say to you that low price is not low margin, definitely not.

Mark Lynch - Goldman Sachs

In May Peter Brabeck talked about innovations being bigger, better and faster for Nestlé, is the second quarter evidence of people acting on that call? question for Wolfgang. And for Paul, a question, what does that mean for him? Does it mean a change in process or a change in emphasis? And I guess the third question, a bit more specific, on Water in Europe, given what we're seeing in the first half, what are your thoughts about this profit outlook for that business?

Wolfgang Reichenberger

On the innovation, faster, I think on the process, I think we have talked to you and I think Peter mentioned it also at the investor seminar, that we have innovation acceleration teams. Innovation really is a very important element of our strategy. Innovation, we measure also to a certain extent, we have innovation KPI, the percentage of products being new in the market for three years, I think in the UK it has been pioneering some of those markets and using some of those measures to see how different businesses in different markets are really living up to that expectation. So I think there's a big incentive and drive within our Group overall to be innovative. Because, and Peter has also shown it, on the famous balance of marketing muscle, just rubbing it in with costs with additional promotional spend or innovation, what is more important? It is totally clear for us that innovation and being creative, being first and being fast is much more important than just higher spending. I don't know if I answered that but I think it should be clear that this is becoming or is already a very important part of our dealings. I think you had another question to you.

Paul Bulcke

Well to confirm with you said in the sense that if you have the four pillars again, I'm always going back to those four pillars, and you say, what pillar is more important than another? It's not a matter of ranking them. But if you ask my personal belief, I believe over time innovation/renovation is the one that is going give us a leading edge as a company.

Now how do you leverage that? And speed is part of this again because you may have a lot of, and you have KPI’s to measure that, fancy footwork, I call it innovation, it's like doing something and you have the impression that you innovate. We have to have breakthrough consumer relevant innovation equals value. And how do you get that? And that's the whole dynamics that Peter is referring to, it's how we as markets are starting to work more effectively also with the SBUs who are driving all the research behind our products and our product categories. And that's how we work nowadays. It's the markets, they are part of clusters where we bind together on relevant category, relevant criteria bonding together and maybe market out of Zone Latin America together with one country in AOA and Asia because they have the same challenges on the consumer side, maybe.

So on the third criteria, bundle markets together which do have the same challenges together with the SBUs and then we drive the innovation to give answers to those common needs, not only for one market, for a cluster of markets. That means that you can really power your research and development much better, you can pool more resources behind it. But once you have a strategy then the markets go back and they are real speedy implementers of innovation. Because so many good ideas are lost over time because of speed. So you have a market leading innovation, introducing it, if other markets are not falling in over time or in a speedy swift manner, you lose your competitive advantage because you open your cards too easily and too long.

So that's the whole dynamics. Markets, clusters, SBUs, science and research and development behind that, once you have a good strategy you have to be a fast implementer. And that's how I see it in the Zone working. And there we have to help certain processes of products that you can basically launch in different countries. That's why we have those innovation/renovation teams, those are specific teams with members who have some project skills, because sometimes getting innovation through in each market with the complexity of production and all that you need some project management skills. Those teams are going to the markets to help local management to organise that speed. And that is that whole dynamics that we are using now to much higher extent that I think Peter was referring to.

But the major thing is, consumer relevant, value creating innovation can only be driven by more investment and research and development and science, and that can only be done when you cluster markets. And then when you have something, make it happen. Then you do have to have iron discipline. And that's what I wanted to show to a certain extent, some examples of products that have been rolling out over the Zone as such like the Nido thing. The markets were all more or less OK with that, some did have other timings, we said no way, we go, and then everybody is behind it and does it. And that's why we have those kinds of innovations bringing 30% of big brands already in, with higher value and margins.

Wolfgang Reichenberger

OK and the other question was regarding Water, Europe and particularly the margins. We don't give you the exact number but we can say it roughly held the margins year on year. It must be though a mixed bag because in terms of growth, Aquarel as I had already mentioned grew 40%, outside France basically. Italy had some good growth and also other regions. Where we suffered more was France itself, so it is a little bit unevenly distributed in terms of growth but there are actually some good signs particularly with Nestlé Aquarel.

Roddy Child-Villiers

No more questions? One on the front row.

James Amoroso - Helvea

Yes, just following up really on the first one. I'd like to understand when you take a decision to make an investment in new distribution, so you've got people out there on the streets. Now presumably there's a feasibility study that you have internally that says, if you do X, Y, Z amount of sales then the margin is fine. How does that work then in practice once it's actually out there? How often do you monitor? And if it's not fulfilling your expectations do you pull the plug or does it just sort of roll on?

Paul Bulcke

Those projects they are based on two experiences. First we do have already DSD in many markets, where we do have them it’s a matter of building up on that success and one of what we feel is best practices, Venezuela where we do have in the confectionery very strong DSD system. It is basically driven by DSD, so we use that as a model and bring it into other markets or bring people in. We have done in other markets where we had to explore certain ways of doing it for the first time, we have done test markets. Like in Mexico, in Monterrey where we have done some, we bought some vans and we brought in some people, talents from other markets, who have been working with DSD to test it out. There as an example, we had 30% more additional sales overall not only in the routes.
Now how do we work and how do we check? Because those activities are linked with investment, you never have a stable system, so permanently you work with routings. And routings are what you evaluate everyday and routings have to have minimum contact points, minimum successful contact points and minimum drop size. So you do have KPIs, as we call them, which are linked with the whole system and which are monitored not only every week or permanently, every day. And we're working and trying to have the system working in such a flexibility that basically the routings are revisited every day. So we have flexible routings and that's the major challenge of the whole system. How can you work with flexible routings, because

once you have fixed routings your system tends to, I call it inertia, it tends to be less effective. So you have to revisit the routings everyday. And that is a practice that we have in certain markets, we have talented people who we use in other markets where we build it up. And that's how it works, it's permanently challenging the system because you need, and those KPI's are very clear, how much per route per day, you have to get there. One of the major success factors is don't overload your vans, make them specific to a very short range, that's one of the key KPIs that we're using.

Roddy Child Villiers

OK, one final question just a final one.

Last Participant

My question is for Paul actually, it's basically you actually put your business Americas in the context of the whole Group vis-à-vis the Operation Excellence programme and FitNes, what was your target for '05 in terms of how much can you actually achieve in Operational Excellence if you actually deploy GLOBE, because you actually launched GLOBE in Mexico recently. What was your targets and what would you expect would be your savings in '06 and '07 in Operation Excellence and FitNes?

Paul Bulcke

Well I don't give figures, what I say is that we are 30% of the Nestlé Group. And I mentioned the word already '*Noblesse Oblige'* so we have to give one third of the minimum and we are up for that, so we are working on that, those are the targets.

Wolfgang Reichenberger

OK that's a good point to end it. Thank you very much for coming, thank you for your interest. We will not disappoint you living up to the Nestlé model or as Paul said '*Noblesse Oblige'*. Thank you very much.

END OF CONFERENCE