



Good Food

Healthy food, healthy growth

- ▶ Healthy food has been a key growth engine for the sector and will continue to be so, as it is triggered by the **converging interests of consumers** with growing concerns about health and an ageing population, **States** with growing healthcare expenses and **companies** with higher margins.
- ▶ Industrial groups are therefore now moving further ahead by **broadening their range of nutritional products** and developing health speciality and functional foods that open up a **tremendous field of investigation, where R&D becomes key** to building a sustainable competitive advantage within the sector.
- ▶ This move towards health benefits raises the question of the **implied risks**. **Major controversies over certain products** such as food additives, including sweeteners and food colourings, have drawn increasing attention as **the responsibility of industrial groups is engaged**.
- ▶ The new European regulation has now put a limit on inappropriate health claims and minor advantages by requiring proof – and significant results – for the benefits claimed by products.
- ▶ **We believe that transparency and innovation will be key mitigating issues for potential liability**, while we believe that litigation risks for the sector will depend on the findings of the future clinical studies.
- ▶ **Higher barriers to entry, growing R&D costs**, longer delays and meticulous procedures for guaranteeing **solid health claims**, counterbalanced by **higher margins**, clearly underpin the leadership of the super-sized champions: **Danone** currently benefits from a unique portfolio and **is clearly ahead** as the only pure player in this segment. For **Nestlé**, **Unilever** and **Parmalat**, health has become strategic priority, but they are still lagging well behind Danone.

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CHEUVREUX'S TEAM

Cécile Lamotte	France	(33) 01 41 89 74 96	clamotte@cheuvreux.com
Virginie Fernandes	France	(33) 01 41 89 74 22	vfernandes@cheuvreux.com
Paul Hofman	Benelux	(31) 20 5730 632	phofman@cheuvreux.com
Marco Baccaglio	Italy	(39) 02 80 62 83 20	mbaccaglio@cheuvreux.com

► Sector Top Picks

Danone

EUR55.42

1/Selected List - Target: 76

To 31/12	2006	2007E	2008E	2009E
Sales (EUR m)	14072.5	12680.2	17145.5	18745.5
NAP rest. (EUR m)	1194.0	1300.3	1411.1	1604.3
Clean EPS (EUR)	2.44	2.75	3.04	3.52
Reported EPS (EUR)	2.6	9.7	2.7	3.1
P/E (x)	23.5	20.1	18.2	15.7
Attrib. FCF yield (%)	4.1	4.0	4.0	4.6
EV/EBITDA (x)	14.3	17.8	12.5	11.1
EV/EBITA (x)	17.9	22.2	15.2	13.5
ROCE (%)	24.7	8.9	12.9	14.2
ROE (%)	26.3	70.0	15.1	16.8
P/BV (x)	5.7	3.2	3.1	3.0
Net debt/EBITDA (x)	1.2	4.7	3.2	2.8
Net dividend (EUR)	1.00	1.13	1.25	1.44
Yield (%)	1.7	2.0	2.2	2.6

We believe current share prices offer a good opportunity as we consider the negative impacts of the Chinese dispute and commodity prices increases have been over estimated. The acquisition of Numico was clearly not cheap but we consider it as an excellent strategic move. Danone will continue to benefit from the most dynamic product and geographical mixes in the industry. It implies a continued strong outperformance vs its main competitors.

Nestle

CHF513.00

1/Selected List - Target: 575

To 31/12	2006	2007E	2008E	2009E
Sales (SFr m)	98458.0	107604.6	116621.6	123601.8
NAP rest. (SFr m)	9444.6	10786.5	11795.6	12598.2
Clean EPS (SFr)	23.71	27.80	31.75	35.29
Reported EPS (SFr)	23.7	27.9	32.0	35.5
P/E (x)	18.3	18.5	16.2	14.5
Attrib. FCF yield (%)	6.0	5.2	5.3	5.4
EV/EBITDA (x)	10.5	10.8	10.1	9.7
EV/EBITA (x)	12.9	14.0	12.9	12.2
ROCE (%)	22.4	21.4	23.4	24.6
ROE (%)	19.8	22.0	25.1	27.7
P/BV (x)	3.6	3.9	3.9	3.9
Net debt/EBITDA (x)	0.7	1.0	1.1	1.1
Net dividend (SFr)	10.60	12.90	14.70	16.30
Yield (%)	2.4	2.5	2.9	3.2

About to start its greatest phase of outperformance ever: we believe that Nestlé is entering a period of strong value creation, and that its ROIC will reverse the structural decline it has experienced since 2000. This will be driven by margin improvement (now that negative commodity and currency effects are gradually fading) and better capital efficiency (now that the wave of large goodwill-intensive acquisitions is over, and that the Globe programme enables strong reduction of working capital).

INVESTMENT RECOMMENDATION

At present, **one out of every three purchases involves a product with health benefits**. This has resulted from a long process of growing awareness of the impact of food on health and increasingly broad offers from food companies.

The trigger is the converging interests of the three stakeholders:

- **States**, with increasing rising expense on chronic disease healthcare,
- **Consumers**, with growing concerns on health, due to healthy living trends and long life expectancy, and
- **Industrial groups**, with the expectation of higher margins.

This has created a sustainable environment favourable to the continuing rapid growth of this market. Based on a broad definition of healthy food, **this market is estimated at almost EUR300bn**.

Healthy food is associated with the prevention of the main diseases in Europe: cardiovascular disease and hypertension, cancer, diabetes, arthritis, allergies, Alzheimer's and asthma. Given the prevalence of these pathologies, the potential target base for industrial groups is very broad. Research is therefore focusing on **identifying biologically active substances in food products** that have the potential to improve physical and mental health and thus reduce the risk of disease.

The current challenge is now clearly to create as many niche products as there are specific client needs, either in terms of health issues or by client target base.

Difficulties still have to be overcome with regard to consolidating the market. An insufficient scientific basis for health food claims and over-use of the health/well-being argument in product offers are creating doubts and generating mistrust on the part of consumers. That is why it is crucial for industrial groups **to accredit products by demonstrating their harmlessness and efficacy via clinical trials and to innovate in the manufacturing process** in order to stabilise and protect ingredients. They can thus guarantee their health claims once the substances are incorporated in the food products. Moreover, the new European Regulation on health claims provides the necessary clarification of the product offer by requiring scientific proof. Health claims thus need to be previously authorised and validated by the European Food Safety Authority (EFSA).

While poor nutritional profiles and obesity concerns are being fully addressed by companies, thus reducing their potential liabilities, there are various controversies surrounding food additives that could lead to new liabilities. Moreover, the fact that **uncertainty persists despite the need for marketing approval means that companies face a risk that is directly linked to possible new studies that find substances harmful**. However, with regard to health claims, the increased number of clinical studies aimed at demonstrating health benefits will, in principle, enable legal risks to be better controlled.

A responsible approach by food companies faced with these risks would be to **communicate transparently** on the scientific uncertainty. The act of informing the consumer reduces considerably the legal risks and in particular the amounts at stake. However, it is currently **very difficult to discriminate among the major groups** such as Unilever, Nestlé, Danone or Parmalat on these subjects.

The introduction of the health aspect to food and beverages is reflected in **an ongoing shift in the business model of industrial groups**. The process of developing new products has become longer due to the need to provide proof of health claims and thus reinforce clinical tests. However, **this stage provides better differentiation and added value** for the products developed, which has a **favourable impact on both the top line and margins of groups**. Protection of innovations also creates **higher entry barriers** but this requires patented innovation and considerable know-how of the behaviour of molecules/bacteria and the best technological processes to guarantee their efficacy. **This precious knowledge could lead to further M&A in the sector despite the lack of visible listed targets in Europe.**

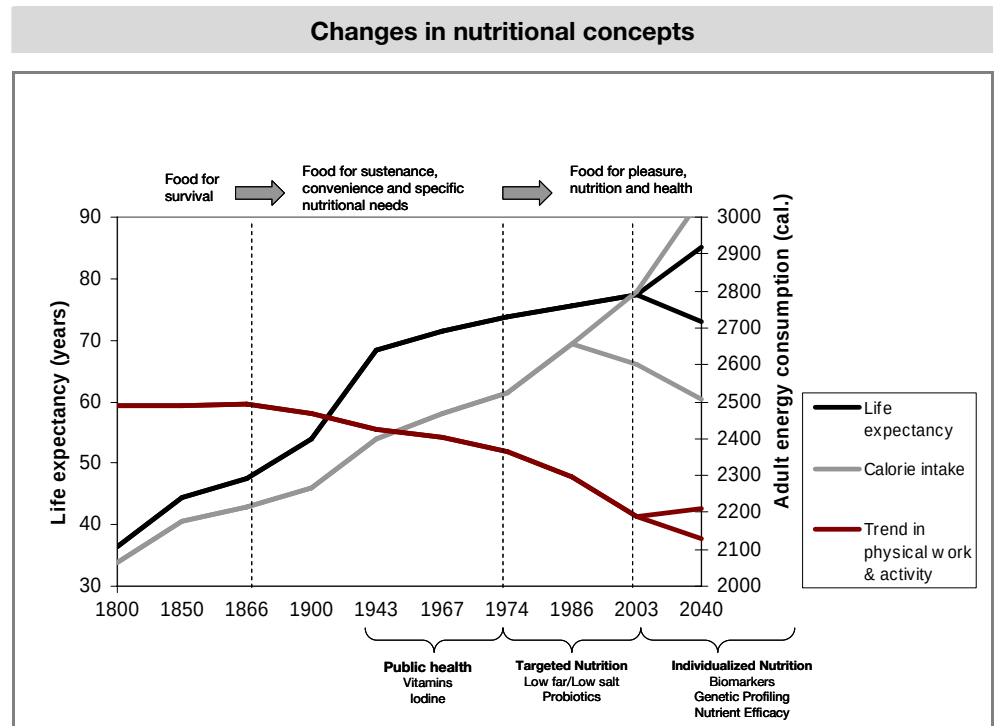
For these reasons, we believe that **Danone holds the leading position** as it is the unique pure player in the health market and it has considerable technological strength. **Nestlé is lagging** well behind **despite continuous efforts** to improve the nutritional profiles of its products and interesting innovations. **Unilever**, which entered this business too late, **is struggling to catch up**, and **Parmalat**, which has a product mix that is more favourable towards a shift to health food than Nestlé or Unilever, **still has valuable potential to exploit**.

I— HEALTH INNOVATION: THE KEY TO GROWTH

Health concerns, a stronger than ever driver

Over the past several years, health benefits have become a decisive argument in purchases.

This has resulted from a long process of the growing awareness of the impact of food on health. Moreover, the converging interests of the various stakeholders (States, consumers and industrial groups) is creating an environment favourable to the continuing rapid growth of this market.



Source: Nestlé, Cheuvreux

From a curative medicine to an attitude of prevention via foodstuffs

Food and health, a strong link that has been established relatively late

Progress in scientific research. Between the years 1950 and 1980, the link between food and chronic diseases was explored and gradually established by researchers. In the 1970s authorities began to set up nutritional recommendations specifically aimed at preventing chronic disease such cardiovascular problems and cancer.

Progress in food research. For the past twenty years, researchers have proven that foods contain other things besides calories, proteins, glucides, vitamins or minerals. From flax seeds to fatty fish that are sources of omega-3 including small fruits full of beneficial polyphenols, researchers are continuing to identify the health advantages of food ingredients. Research centres on functional foods are mushrooming around the world.

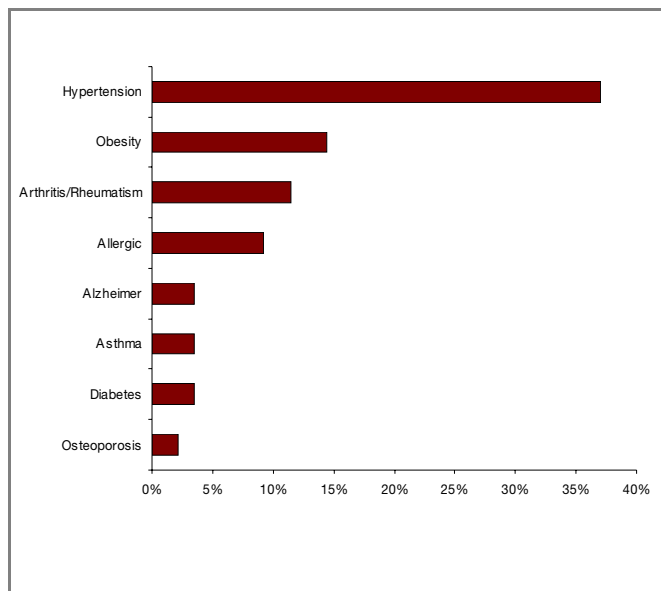
With research in abundance, nutritional science is changing rapidly

The science of nutrition has shifted toward concepts of "positive" or "optimal" nutrition. Research is currently focused more on the identification of biologically active components, in food products having the potential to improve physical and mental health as well as cut the risk of disease. Traditional foods such as fruit, vegetables, soy, whole grains and milk contain ingredients beneficial to health. In addition to these everyday foods, new products have emerged that increase or incorporate beneficial ingredients into our food.

The needs to be met in priority

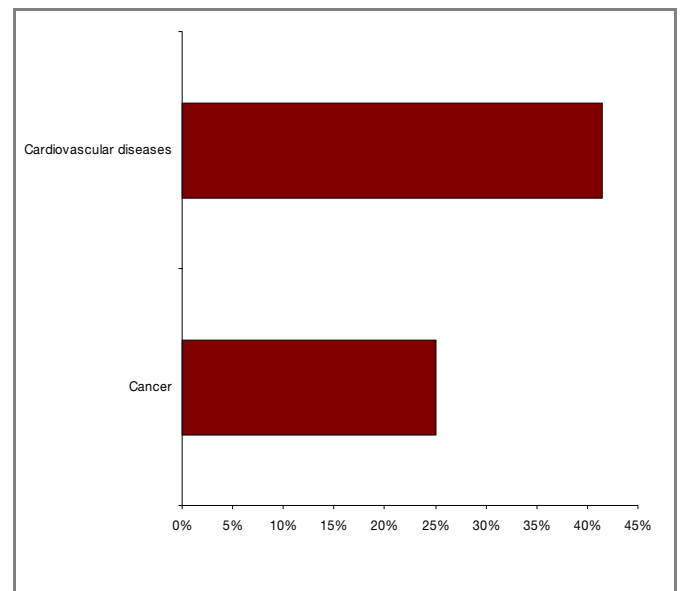
Functional foods are associated with the prevention of the four main causes of mortality in Europe: cardiovascular disease and hypertension, cancer and diabetes. Statistics show that one death out of three due to cancer is directly linked to food and that the latter plays a role in eight cancers out of every ten. Moreover, functional foods also target the prevention and/or treatment of other wide-spread disorders especially obesity, osteoporosis and high cholesterol.

Prevalence of main diseases in the European population



Source: WHO, EFPIA, Cheuvreux

Main causes of death in Europe



Source: WHO, EFPIA, Cheuvreux

In addition to the prevention of medical disorders, there are now food products making claims with respect to beauty (Essensis yoghurt launched by Danone in early 2007) or aid to mental processes (Rama margarine launched by Unilever).

A very large target client base

Given the wide prevalence of these pathologies, the potential target base for industrial groups is very broad.

- **Children** for better nutrition and to fight against obesity.
- **Adolescents** and **students** (even the 25-30 age bracket) whose meals have been deconstructed. For example Danone's TV ad ("Have you seen how you eat?", which shows young people learning how to eat normally again with its brand "Activia").

From babies to older people, via anxious people, all profiles are targeted

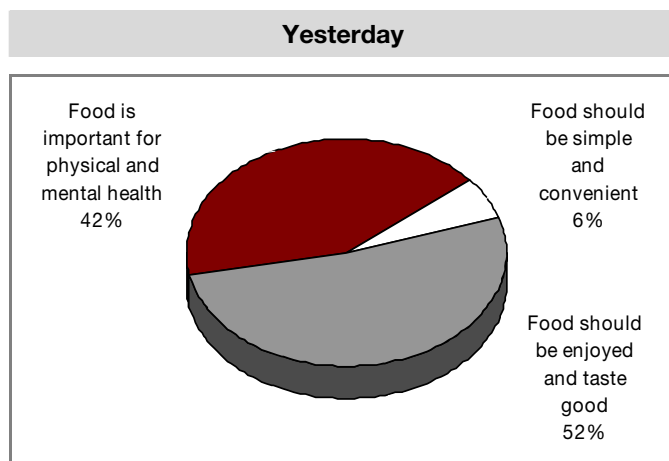
- **Women** and notably pregnant women are a major target. Future mothers change their eating behaviour. Thus 40-50% of pregnant women are health food enthusiasts (source: IFN survey).
- The **ageing population**, for the prevention of the four main causes of mortality in Europe: cancer, diabetes, cardiovascular diseases and hypertension.
- And **babies** with products to aid digestion.

Converging interests

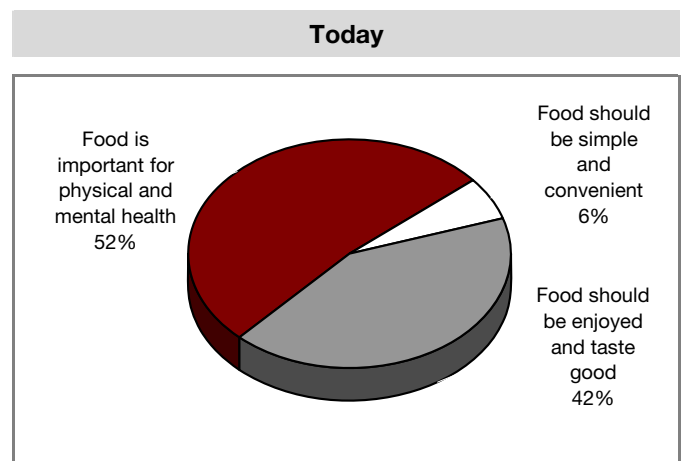
The interests of all parties are converging on health foods

The interest of industrial groups. Often accused of selling products containing too much sugar, salt or fat, the food and beverage industry sees functional foods as a means to polish up its image. In addition, these market segments are extremely dynamic. Products with health connotations fit with strategies of differentiation and adding value that offer guarantees for growth and margins in the long term.

The interest of consumers. This interest is increasing with an ageing population that wants to maintain good health as long as possible. This interest is also stimulated by the health concerns of baby-boomers faced with the sharp increase in chronic diseases as well as the social trend to take care of one's own health (self-care). This trend can only increase, as it is expected that the percentage of persons over 60 years of age in the world population will increase to 21% in 2050 (vs. 10% in 2000).



Source: Nestlé



Source: Nestlé

The interest of public authorities. Unequally developed throughout the world, this aspect concerns the exponential increase in healthcare costs linked to chronic diseases such as cardiovascular disorders, cancer, diabetes and obesity. Some countries, notably Japan, have wagered that the inclusion of functional foods in nutrition can improve the health of the population and thus slow the increase in healthcare costs. World health costs are likely to increase from 3% of GDP to 9% between now and 2035 (Nestlé, Functional Food conference of 10 January 2006).

Appealing foods to fight against prevalent diseases

The different types of health food

100% Natural	Nutritionally correct	Light	Enriched "Naturally"	Nutraceutical "alicament"
Close to nature. Goodness and integrity Preserved (organic, homemade, country side...)	Balanced. Food selection/ Combination of "correct" products. Naturally rich in...	Products with less fat, sugar... (for slimming purpose)	Addition of natural ingredients (calcium, vitamins, fibers)	Products scientifically elaborated (cf sterols...). Focused on one pathology.
Well being and balance		Positive choice	Functional active health	

Source: Nestlé, Cheuvreux

Research is currently focusing more on identifying biologically active components in food products, with the potential to improve physical and mental health and thus reduce the risk of disease. Leading-edge industrial processes enable certain compounds to be incorporated in foods without detracting from their taste, their texture, their conservation, etc. This also involves ensuring that the beneficial effect of the molecules added withstands industrial processing. For example, to incorporate linseed oil in orange juice requires the use of technologically advanced processes.

Definition and examples of functional foods

According to FUFOSE (Functional Food Science in Europe), a functional food may be:

- A natural food, for which one of the substances has been naturally augmented via farming techniques. For example, a variety of strawberries that are richer in antioxidants has been developed in Quebec. Omega-3 eggs also enter into this category, as the feed given to the chickens is the source of the increase in omega-3.
- A food to which a beneficial substance has been added. Fruit juice enriched with calcium and milk enriched with omega-3 fall into this category.
- A food from which a substance has been removed in order to reduce the harmful effect on health. Trans fat cookies and crackers fall into this category.
- A food in which a substance has been chemically modified to improve health. For example, the hydrolysis of proteins in baby formulas reduces the allergen potential.
- A food in which the bioavailability of one or more ingredients has been increased in order to improve the absorption of the beneficial substance.
- Any combination of the above.

Examples of functional substances

Class	Substances	Source*	Potential Benefit												
			May reduce risk of			May contribute to									
			Coronary heart disease	Some types of cancer	Healthy vision	Anti-oxidant action	Cell growth	Brain/mental health	Heart health	Digestive comfort	Healthy immune function	Bone health	Detoxification	Regulated metabolism	Other
Carotenoids	Beta-carotene	Carrots, pumpkin,sweet potato, cantaloupe				Yes									
	Lutein, Zeaxanthin	Kale, collards, spinach, corn, eggs, citrus			Yes										
	Lycopene	Tomatoes and processed tomato products, watermelon, red/pink grapefruit													Prostate health
	Insoluble fibre	Wheat bran, corn bran, fruit skins		Yes					Yes						
	Beta glucan**	Oat bran, oatmeal, oat flour, barley, rye	Yes												
Dietary (functional and total) Fibre	Soluble fiber**	Psyllium seed husk, peas, beans, apples, citrus fruit	Yes	Yes											
	Whole grains**	Cereal grains, whole wheat bread, oatmeal, brown rice	Yes	Yes											Maintenance of healthy blood glucose levels
	Monounsaturated fatty acids (MUFAs)**	Tree nuts, olive oil, canola oil	Yes												
	Polyunsaturated fatty acids (PUFAs) –Omega-3 fatty acids –ALA	Walnuts, flax			Yes			Yes	Yes						
	PUFAs –Omega-3 fatty acids –DHA/EPA**	Salmon, tuna, marine, and other fish oils	Yes		Yes										
Fatty Acids	Conjugated linoleic acid (CLA)	Beef and lamb; some cheese								Yes					
	Anthocyanins –Cyanidin, Delphinidin, Malvidin	Berries, cherries, red grapes				Yes		Yes							
	Flavanols –Catechins, Epicatechins, Epigallocatechin, Procyanidins	Tea, cocoa, chocolate, apples, grapes							Yes						
	Flavanones –Hesperetin, Naringenin	Citrus foods				Yes									
	Flavonols –Quercetin, Kaempferol, Isohammetin, Myricetin	Onions, apples, tea, broccoli				Yes									
Flavonoids	Proanthocyanidins	Cranberries, cocoa, apples, strawberries, grapes, wine, peanuts, cinnamon								Yes					maintenance of urinary tract health
	Sulforaphane	Cauliflower, broccoli, broccoli sprouts, cabbage, kale, horseradish				Yes						Yes			
	Calcium**	Sardines, spinach, yoghurt, low-fat dairy products, fortified foods and beverages										Yes			
	Magnesium	Spinach, pumpkin seeds, whole grain breads and cereals, halibut, brazil nuts								Yes	Yes				maintenance of normal muscle and nerve function
	Potassium**	Potatoes, low-fat dairy products, whole grain breads and cereals, citrus juices, beans, bananas													may reduce the risk of high blood pressure and stroke
Minerals	Selenium	Fish, red meat, grains, garlic, liver, eggs				Yes						Yes			

List not exhaustive.
 ** FDA approved health claim established for substance.
 **** Preformed vitamin A is found in foods that come from animals. Provitamin A carotenoids are found in many darkly coloured fruits and vegetables and are a major source of vitamin A for vegetarians.

Source: IFIC Foundation 2006

From food additives to organic food, products cover a wide range of health concerns, not to mention processes which have been very innovative

Positive choices

In addition to functional foods which have been the focus of recent research, **food additives** and, in particular, **intense sweeteners** and **emulsifiers** that replace sugar or fats have long enabled diet or "light" products to be offered, thus participating in the fight against obesity, and indirectly to the fight against cardiovascular disorders.

To **reduce fats**, less fatty raw materials can be selected or fats can be replaced by modified fatty acids, which are not digested and thus add no calories, or even by fibres or plant proteins.

For butter or margarine, it suffices merely to add water or even air to *mousses* or ice cream. It is sometimes necessary to add gels to preserve a creaminess similar to that of corresponding products.

Excessive **salt** causes arterial pressure to increase, and can eventually result in cardiovascular disorders. However, industrial preparations (preserves, condiments, delicatessen meats, bread, etc.), are generally rich in salt, and the average intake in the Western world is too high. Simply cutting the salt content may benefit the population as a whole. However, industrial groups are generally reluctant to cut salt drastically as they want to maintain the taste that consumers are used to, despite the recommendations of public health agencies that, in terms of salt usage, consumers soon become used to changes in taste. Therefore, products are made specifically for people on a salt-free diet.

100% natural

Furthermore, **organic farming products** are also perceived as good for the health:

- From a nutritional point of view. According to the food categories, they contain a greater quantity of high nutritional-quality micronutrients. Thus there are higher quantities of polyphenols in organic products. This molecule possesses antioxidant properties, which, as noted above, help to fight cellular ageing, among other things.
- From the health point of view, by the absence of chemical pesticides and the limited use of food additives (See p 16).

All these products give many options to provide healthy food to consumers.

The current challenge is clearly to create many niche products in order to reach specific clients needs, either by health issues or by client targets.

A promising market

An already substantial market

The market for functional foods is estimated at around EUR70bn, an amount that would be as high as EUR300bn, if the definition were broadened to include all food products with a health connotation.

Already a significant account

Annual account per French home for health products in 2007 (+EUR7/ 2006)		EUR139
Including	Slimming products	EUR92.30
	Anticholesterol	EUR22.30
	Other products	EUR24.40

Source: TNS Worldpanel

A dynamic market

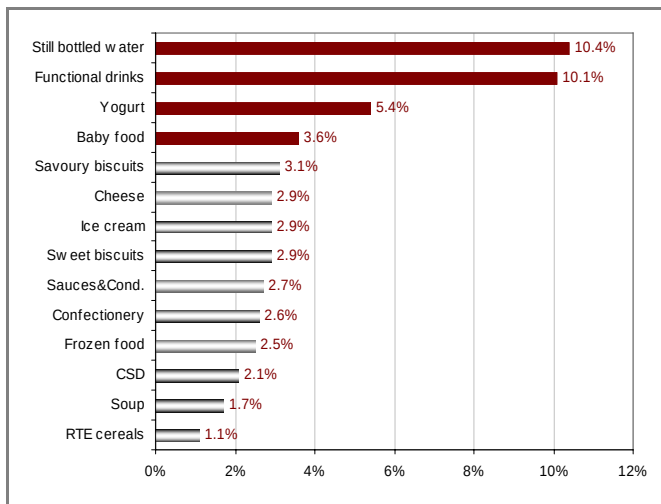
	Segments	CAGR 02-06	Market size 2006 (EUR bn)	Examples
Healthy food	Functional food	10%	70	Heart health – pro active
	Inherent goodness	5%	100	Goodness of olive oil, soy
	Positive choice	7%	130	Lower salt, sugar, fat

Source: Euromonitor, Unilever

A dynamic market with potential fully intact

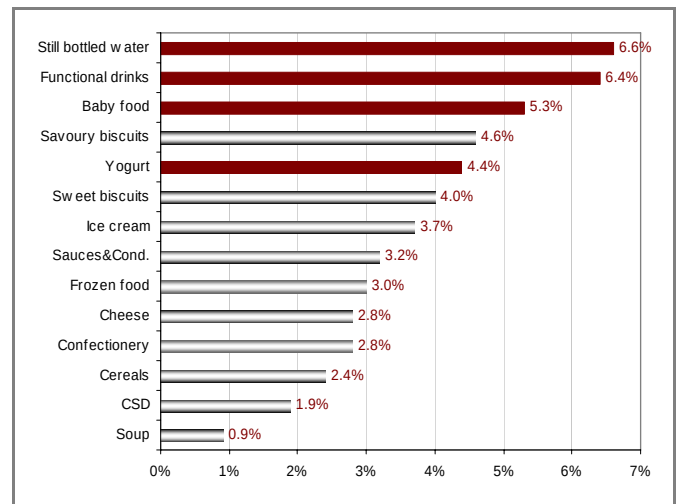
The health food segment is currently experiencing growth well above that of the food and beverage market as a whole. Food products with a health and nutrition profile boast much higher growth rates than conventional food products. In fact, the absence of negative characteristics in food products (sugar, fat, salt, cholesterol) already adds 1 or 2 percentage points of growth to the usual growth pattern experienced by the basic food products. When adding a positive functionality to food products (such as probiotics, extra calcium, balanced fats, etc.) organic growth prospects are boosted by another 5 or 6 percentage points. Therefore, functional products, such as those developed by Danone or Nestlé, usually show organic growth rates in the high-single digit area.

Sales growth, 2000-2004, worldwide (CAGR, volumes)



Source: Danone, Euromonitor

Expected sales growth 2006-2011 worldwide (CAGR, volumes)



Source: Danone, Euromonitor

II – BECOMING HEALTHIER: NEW RISKS AHEAD?

Health claims will have to be demonstrated

Difficulties still have to be overcome to consolidate the market. Insufficient scientific basis for health food claims and the over-use of the health/well-being argument in product offerings are stirring doubts and generating mistrust on the part of consumers. However, new regulations currently in effect in the European Union concerning health claims provides the necessary clarification of the product offer.

Nutritional and health claims are defined as follows:

"By nutritional and/or health claims, reference is made to a substance contained in an ordinary food product which exercises a beneficial effect on one or more target functions of the organism, in addition to basic nutritional effects (such as providing energy, proteins or vitamins, etc.). This substance is supposed to improve health and well-being and/or reduce the risk of contracting certain diseases. However, they do not have any curative effects".

European regulations

Enthusiasm for health food has led to some dubious practices with respect to the information given to consumers and the truth of the claims made. There are many examples: Chupa Chups lollipops which boasted that they contained no fat, the "slimming" chocolate that contained no sugar (but a great deal of fat), omega-3 fatty acids in products that had little to recommend them nutritionally.

Consumer associations have moved to denounce such practices.

These complaints have led to the implementation of a European **Regulation** that was drawn up and approved on 20 December 2006 and entered into effect on 1 July 2007.

Regulation (EC) No. 1924/2006 is aimed at regulating and harmonising nutritional and health claims, which now must be proven scientifically (or commonly accepted) and validated by the European Food Safety Authority (EFSA); then, they appear on the list of authorised claims.

This regulation, detailed below and in general favourably received, aroused some distrust on the part of consumer associations with respect to two specific points:

- Article 4 of the regulation provides for the implementation of nutritional profiles to be respected by the food product in order to meet the nutritional or health claims of the products. These nutritional profiles are to be defined by the EFSA by 19 January 2009 at the latest. While this constitutes the core of the regulation and guarantees the seriousness of the steps taken, it is on this point that consumer associations continue to be sceptical, as nutritional profiles will be very difficult to draw up. Moreover, they will considerably delay the effective application of the regulation.
- The second point concerns an exception slipped into Article 4, which authorises a nutritional claim to be made, even if one of the nutrients (salt, sugar or fat) exceeds the recommended limits, a concession that was pushed through by the industry and deplored by the **European Consumers' Organisation**. It will thus be possible to claim that chocolate that has an excessive fat content is "rich in calcium." However, on the same side of the package and in the same typeface, it must be indicated that the chocolate has a "high fat content".

Misleading health claims have led to the implementation of new European regulations

Two points of the regulation received criticism from consumer associations

Rich in calcium and high fat content

A relatively short validation period if the file is complete

A list of authorised claims is being drawn up and is to be completed by 2010. In addition, at that date, existing products for which unauthorised claims are made will have to be taken off the market.

The validation procedure will be **relatively short** (a maximum eight months) if the EFSA gives its approval. It will be longer and require the approval of a committee of national experts if the EFSA does not give its approval, or if the claim suggests that the food reduces the risk of disease ("prevents osteoporosis" for example).

The regulation forbids any health claims related to psychology or behaviour (for example "reduces stress"), references to doctors or their professional associations, as well as vague claims concerning general "well-being". It also prohibits any health claim referring to weight loss or control, to the rate or degree of weight loss, as well as those that indicate that it is unhealthy not to consume a certain type of food, references to a specific doctor or healthcare professional, etc.

Taillefine, Sveltesse, Slim-Fast etc: to prove or to be renamed

Lastly, **it prohibits brands or commercial names that might be considered to be a nutritional or health claim.** Brands that suggest such a claim (e.g. Slim-Fast, Taillefine and Sveltesse) will have to prove that they deserve their name. Existing names will have fifteen years to provide this proof.

Minimum content for a health benefit

Claims must meet certain conditions to be used as advertising for a food product. The substance (for example vitamins, fibre, etc.) must be present in **sufficient quantities** to have a beneficial effect. **If the claim concerns lower caloric content it must represent a reduction of at least 30% of the total calories of the foodstuff (a 25% reduction for salt).**

In the US and in Japan, however, authorities intervene after the fact. Industry players are **only sanctioned in cases of false claims.** Moreover, they can present their products with claims involving the prevention, treatment or cure of health conditions as long as they indicate that the effects have not always been proven in rigorous studies.

In the EU, such claims are prohibited. Health claims are permitted, but therapeutic claims are prohibited. No pathologies can be mentioned, as they are restricted to the field of medication.

The increase in the number of clinical studies and strong cases to demonstrate health benefits will, in principle, enable legal risks to be better controlled.

From scientific controversies to liabilities: what are the risks?

Food additives: a source of endless controversy

There have always been numerous controversies surrounding food additives. Accused of triggering allergies and even favouring the onset of cancer, every year a scientific study attempts to demonstrate the harm of certain substances that are currently authorised and used in industrial food production. This has long been, and continues to be the case for **aspartame**, a sweetener that replaces sugar, also known under its authorisation code as **E951**.

The EFSA has to respond to regular ad-hoc requests from the European Commission to review certain food additives in the light of significant new scientific information and/ or changing conditions.

Aspartame, monosodium glutamate and certain food colourings, the controversies rage on...

This has been the case recently for the aspartame, when it reviewed the conclusions of a long-term study on the carcinogenicity conducted by the European Ramazzini Foundation in Italy. Despite the findings of the study which concluded that aspartame is a "multi-potential carcinogenic agent", the EFSA decided in May 2006 that there was no need to further review the safety of aspartame nor to revise the previously established acceptable daily intake (40mg/kg body weight).

This is also true for several types of food additives, such as monosodium glutamate for example, which experienced the same fate. Thus, it is nearly 50% of the 346 additives (80 food colourings, 97 preservative agents, 37 antioxidants, and other emulsifiers, flavour enhancers, synthetic sweeteners, etc.) which were deemed "to be avoided" or even "prohibited" according to Corinne Gouget, author of *Additifs alimentaires: le guide indispensable pour ne plus vous empoisonner (Food additives: an indispensable guide to stop poisoning yourself)*.

...but under the watchful eye of the EFSA

The EFSA has also begun to carry out a systematic re-evaluation of all authorised food additives in the EU. In addition, EFSA is giving top priority to colours which were among the first to be evaluated under European legislation.

Food colours and hyperactivity

Very recently, a doubt emerged on certain food colours following a study conducted by researchers from Southampton University that suggested that a mixture of these food colours and the preservative sodium benzoate could be **linked to an adverse effect on the behaviour of hyperactive children**. According to the Lancet, this randomised, double-blinded, placebo-controlled trial gave clear results: artificial colours or a sodium benzoate preservative (or both) in the diet result in increased hyperactivity in 3-year-old and 8/9-year-old children in the general population.

Keep in mind that hyperactivity disorders affect 3 to 5% of children and are three times more common in boys than in girls.

The EFSA has been informed of these findings by the UK Food Standards Agency and is already re-evaluating the safety of these colours. The conclusions have not been yet given.

While most of the controversial food additives have not, for the moment, been identified by regulatory bodies as presenting an established risk, others have already been removed from the authorised list.

For example, in September 2004, the EFSA issued an opinion on the safety of parabens used as preservatives in foods (additives E 214-219) and decided to withdraw the acceptable daily intake for one type, propyl paraben which led to the exclusion of E216 (propyl p-hydroxybenzoate) and E217 (sodium propyl p-hydroxybenzoate) from the list of substances permitted for use in the EU. The AFC Panel concluded that a group ADI (Acceptable Daily Intake) of 0-10 mg/kg body weight per day could be established for methyl and ethyl parabens and their sodium salts. However, propyl paraben could not be included in this group ADI due to recent research demonstrating its effects on certain reproductive parameters in rats, and the panel was unable to recommend a specific ADI based on current evidence.

The case of organic farming vs. GMOs

As has already been described, organic farming enables farmers to produce "superior" products in terms of pesticide and nitrate residues, as demonstrated by Afssa (the French food health and safety agency).

It is also important to underline the fact that the use of food additives is limited in organic produce. Furthermore, the additives authorised are those that do not appear on lists of food additives determined to be dangerous or better avoided by independent consumer associations.

Apart from the numerous risks associated with GMOs, it is mainly because they represent the current apex of scientifically modified food that they might appear alarming. The vast majority of consumers in Western Europe are reluctant to accept GMOs, and this is in sync with the success of organic food. Indeed, we see that a significant part of the population would prefer to return to more "natural" food as an attempt to better control what they eat. However, the industrialisation of food production has been taking place for a long time, and most people, living in urban, do not realise the extent to which agriculture and livestock breeding have been industrialised.

Regarding labelling transparency, the European Commission has set clear rules: companies should indicate that a product contains GMOs as soon as more than 0.9% of GMOs can be measured. (for more information, please refer to our report on GMOs)

Modern food vs. ancient and natural practices

The detractors of milk and of modern agriculture

One school of thought created by Dr Jean Seignalet in 1985 is based on the fact that food has changed so much and notably in the 20th century when it underwent the greatest and fastest changes (seed selection, introduction of various synthetic substances), that the human body did not have the time to adapt and can no longer digest modern foods correctly.

Dr Seignalet therefore recommends a return to the diet of our forebears, meaning:

- No more animal milk or dairy products;
- No more modified cereals (wheat, corn, rye, barley, oats), replace by non-modified cereals (rice, buckwheat, sesame);
- Non more hot-pressed oils
- Consume unrefined salt and sugar

Over and above the scientific debate, exploring old varieties of cereals could also be a source of opportunities.

According Dr Seignalet, the enzymes that enable us to digest food are no longer fully adapted to our modern diet. In addition the mucous membrane of the small intestine, which should normally act as a barrier between the inner body and molecules, has in some cases weakened and bacterial and food macromolecules can therefore pass into the blood stream and thus sometimes, trigger illnesses. The impermeability of the small intestine is compromised by stress.

However, Dr Seignalet's work is controversial as he does not provide any studies with a valid methodology (double blind, for example) and on the other hand, the medical community remains sceptical as regards the results of this form of nutrition.

Over and above the scientific debate, exploring old varieties of cereals could also be a source of opportunities.

Likewise, increasing gluten intolerance within the population – recent studies showed that coeliac's disease, triggered by gluten intolerance, is more widespread than forecasts suggest with a rate of prevalence of 1 in 130-340 in Europe and the US with many cases of silent intolerance (i.e. with no apparent symptoms) – **gives manufacturers an opportunity to stand out by offering the usual products without gluten.**

The same approach can obviously be used for other categories of allergens. For example, Valpiform sells a full range of gluten- and allergen-free products on line.

Transparency is key to risk mitigation

Improving the nutritional profile of products to prevent obesity related liabilities

Liability risks linked to obesity became more obvious from 2004, especially for products that contain deceptive allegations, i.e. either not true or misleading, for products marketed to children. However, very rapidly, civil associations put pressure on European bodies to reinforce regulation. This was the case when national food standard agencies, such as AFSSA in France, recommended reducing the levels of trans fats in a wide range of bakery products, and also when the European Heart Network (EHN) called for an EU-wide ban on television advertising to children of "unhealthy" food. This was also the case when the National Institute of Health, as soon as 2001, recommended a reduction in sodium to decrease blood pressure.

These also constitute the stems of the directive on health claims and lie behind the European Commission's wish to establish a nutritional profile.

All these factors gradually led food companies to increasingly question the nutritional profiles of their products and prompted Nestlé, Unilever and Danone, especially in the biscuit division for the latter, to reduce levels of salt, sugar and trans fat etc. in their products.

The bulk of the efforts are still focused on improving the nutritional profile especially for Unilever and Nestlé for so called "indulgent food" products such as ice cream, chocolate bars, etc.

Conclusions of clinical studies on food additives may lead to potential litigations

Recent light shed on possible strong links between illness, symptoms and food additives such as those detected between some food colouring and hyperactivity in children could lead to potential liability for manufacturers that use such colouring.

The fact that theoretically the link was previously unknown to the manufacturer would limit the extent of the compensation the claimant could ask for, but it is clear that the manufacturers' reaction to results and the forthcoming reaction of the EFSA (European Food Safety Authority) is crucial in determining these sums.

Effectively, if the manufacturer acts as though it is unaware of this new scientific research, it could find itself in the same situation as tobacco manufacturers, which, because they knew that their product could damage the consumer's health, had to pay colossal damages to victims. However, this parallel may not be so direct as colouring may simply contribute to the symptoms of hyperactivity, without being the main cause.

For other controversial additives such as aspartame, some studies show that it can have secondary effects ranging from headache to cancer but no specific illness.

Despite the low causality between an illness and an additive, the fact that uncertainty persists despite marketing approval means that companies face a risk directly linked to new studies that could be made.

This reminds us of the situation of electromagnetic radiation and telephone operators.

A responsible approach on the part of agrifood companies as regards these risks would be to communicate in a transparent way on the scientific uncertainty. This act of informing the consumer reduces considerably the legal risks and in particular the amounts at stake.

With studies showing a link between food additives and specific symptoms, potential liabilities are gaining ground

A more pro-active approach would be to minimise the use of controversial food additives, to enlarge organic offer and to look for ancient varieties of cereals or vegetables.

Best in class analysis

However, it is currently very difficult to discriminate among the major groups such as Unilever, Nestlé, Danone or Parmalat with regard to these subjects.

Indeed, all the companies have food control departments that are very much on the look out for any new studies concluding that an additive/substance is harmful. The scientists from these institutions are in constant contact with EFSA, notably to give their point of view on these studies.

However, Danone has on several occasions gone further than national or European recommendations, notably with regard to trans fats on which Danone, 12 years ago already, decided to strengthen the existing standard and go further than this by reducing doses in its products.

Clear labelling to increase transparency

The European Union classifies all substances that can be included in foodstuffs into four categories: ingredients, additives, flavourings and processing aids.

Only the first three categories are subject to labelling. In 1988, the EEC adopted a framework directive setting rules for assessing and approving food additives. Then, rules for the authorisation of sweeteners, colouring and other additives were set by three specific directives in 1994, and purity standards for each category of additives were added in 1995. Lastly, in 2006, the European Commission proposed to the European Parliament and Council a simplification of the authorisation procedures for additives and flavourings, as well as a harmonisation of the existing rules in member states for the use of enzymes in foodstuffs.

Ingredients are listed first by order of quantity. Next, additives are indicated by a letter "E" followed by a three- or four-digit number. Additives are subject to strict rules. They must be included in a list that is frequently reviewed and determined by the Commission. Additives not on the list are prohibited. Authorisation is granted by the European Food Safety Authority (EFSA). Additives include sweeteners and colouring.

Natural or artificial flavourings comprise the final category on the label. The presence of flavourings must be labelled, with three types of statements: "natural flavour (of cherry)" is solely extracted from cherries; "natural flavour" can be derived from a mixture of plant matter; and "flavour" is synthetic (i.e. cherry flavour). They are thus fairly precise, but do not provide the consumer with a very intuitive understanding.

With regard to these subjects it is clear that it is the responsibility of industrial groups to help consumers grasp these terms.

On the other hand, **processing aids are not included on the food labels.** There are many such aids and they are part of the food processing process, but not part of the finished product. These include, for example, agents for washing, peeling, feather removal and drying, anti-agglomerates, biocides (such as hydrogen peroxide, chlorine or formalin to eliminate micro-organisms that can cause health risks), colouring agents, etc.

Pre-packaged foods must also contain mandatory information on the label, including the name of the company selling the product, any possible allergens (the list of allergens was established by Directive 2003/89/EC), the best-by date and the storage conditions.

Natural or artificial flavourings, precise terms that are poorly understood by consumers

Nutritional labelling is harmonised throughout the European Union. It is optional, but becomes mandatory whenever health claims regarding the product are given on the label or in advertising.

The information given on the nutritional label falls into one of two groups, as indicated below:

Group 1:

- Caloric content;
- Amount of proteins, carbohydrates and fats;

Group 2:

- Caloric content;
- Amount of proteins, carbohydrates, sugars, fats, saturated fat, dietary fibre and sodium.

When a nutritional claim involves sugar, saturated fat, dietary fibre or sodium, the information in Group 2 must be given.

EU member states are refraining from introducing more detailed specifications than those given in the present directive with regard to nutritional labelling.

Labelling or advertising campaigns including a health claim must provide certain information:

- the importance of a healthy diet and lifestyle;
- the quantity of the food and the mode of consumption ensuring the benefit claimed;
- persons that should avoid the substance;
- an indication of health risks in the event of excessive consumption.

All in all, we consider labelling regulation restrictive enough to provide a good level of information to the consumer. The lack of intuitive understanding might remain a major limit, however.

III – A SHIFT IN THE BUSINESS MODEL

The introduction of the health aspect to food and beverages is reflected in a shift in the business model of industrial groups. The process of developing new products has become longer due to the need to provide proof of health claims and thus reinforce clinical tests. Moreover, this stage provides better differentiation and added value for the products developed, which has a favourable impact on both the top line and on margins.

A new business model between food and beverages and pharmaceuticals

		Food & Beverage	Nutrition	Pharma	
Driver of innovation	Consumer pull				Science push
Time horizon and risk	< 1 year, market adoption risk				+/- 10 years, ide range of risks
Consumer needs matching	Local				Global
Selling channels	Mass consumer				Speciality, expert prescribed
Source of competitive advantage (superior margins)	Brand				Patents and claims

Source: Nestlé

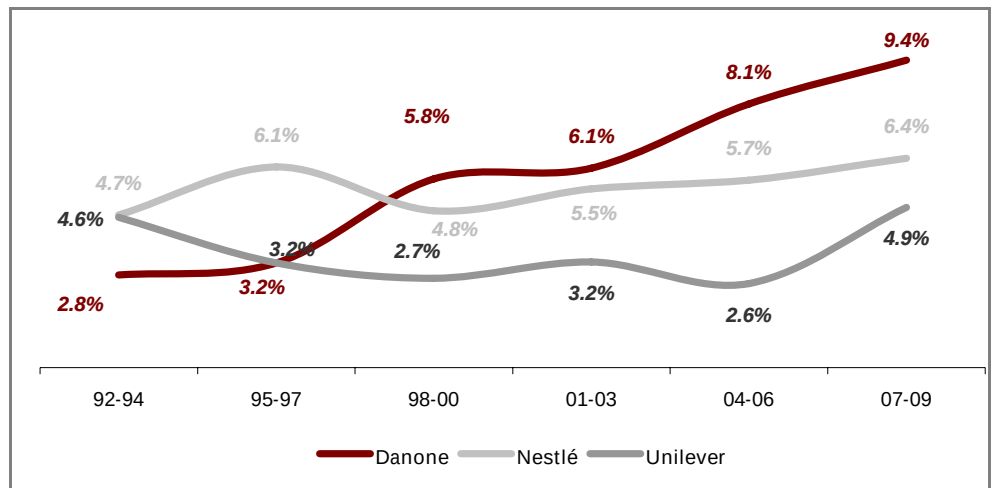
Becoming healthier and accelerating growth

A market showing strong growth

A strongly expanding market, that is boosting the top line

As we have described in the first part of this report, segments of the health food market are more dynamic than standard food products. This trend is reflected in the organic growth recorded by the various industrial groups, which is closely correlated with the proportion of health food products in their respective product portfolios (see company profiles). In particular, we clearly see the lead taken by Danone, a pioneer in the field, which decided to reorient its product portfolio toward health products starting in 1997.

Organic sales growth (3-year average)



Source: Cheuvreux

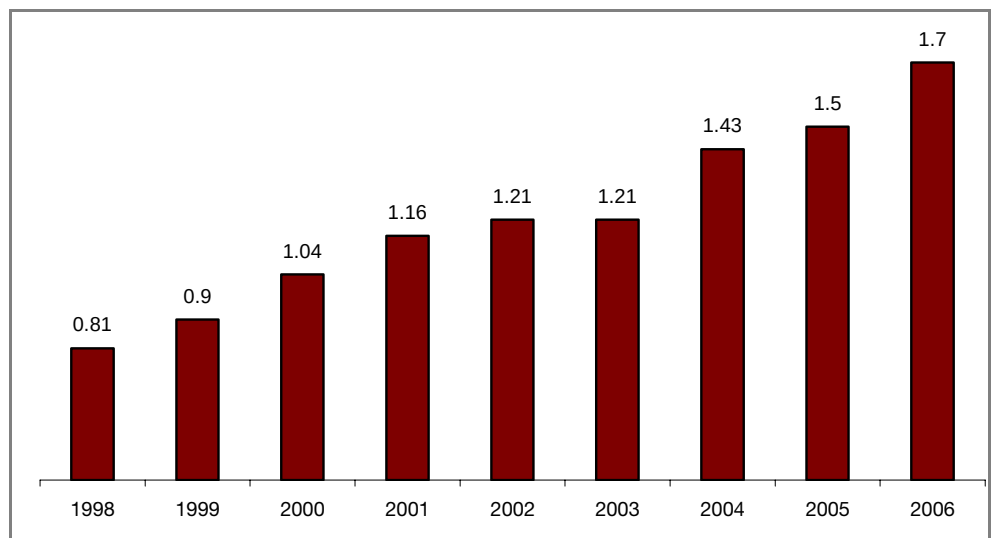
Stronger entry barriers

More defensive market segments

Health food products, such as baby food, offer a more defensive profile. The act of purchasing a health food product requires greater involvement and more confidence on the part of the consumer with respect to the food manufacturer, which reinforces the importance of the scientific claim.

The health positioning becomes a strong differentiating factor, notably with respect to private labels, which will have greater difficulty, or will at least take more time, in copying these health food products.

Nestlé R&D investment trend (CHF bn)



Source: Nestlé

The need for a scientific guarantee is likely to protect market shares

Private label brands are also trying to benefit from the health food boom. In France, after Intermarché omega-3 yoghurts, Carrefour joined forces with pharmaceutical company Forbes Medi-Tech Inc. at end 2006 to launch a specialty milk product line with Reducol to fight against bad cholesterol. However, we believe that the private label business model is not adapted to finance long-term research programmes. We therefore believe that it will be difficult to respect the new legislation requiring scientific proof for health claims made.

A scientific guarantee that is more difficult to copy is thus likely to help industrial groups maintain their market shares longer than they were able to for basic products.

Danone claims that its knowledge can guarantee that a given molecule or bacteria has optimum efficiency right up to the sell-by date. Moreover, even if private label brands buy the right molecule or bacteria, they cannot easily acquire this expertise. In short, it is not just having the right material, but knowing how to use it that is important.

The implementation of new regulations concerning health claims as we have described in detail in the second section of this report, requires industrial groups to increase their investment in R&D, whether to develop new products or to support health claims made for current products.

This need for a greater R&D effort means stronger entry barriers, which is logically expected to benefit the industry leaders.

More comfortable margins

Higher value-added products

For this category of products, the price argument is currently not decisive in the purchase act. Thus functional foods are sold at a higher price than traditional food products: on average functional foods are 20% more expensive than the basic product from which they are derived.

Moreover, it is likely that the product offer continues to be moved upscale.

Price comparison: functional food vs. equivalent standard food

Products	Price per kilo (EUR)
Yoghurts	
Essensis	5.5
Actimel	4.7
Danacol	4.2
Taillefine	3.0
Activia	2.7
Danone plain	1.7
Carrefour plain	1.2
Margarine	
Fruit d'Or Pro activ	12.0
Fruit d'Or	5.5
Carrefour Margarine au Tournesol	2.8
Water	
Volvic Thé	1.1
Volvic	0.4
Fruit juice	
Knorr Vie	7.9
Innocent smoothie	4.3
Tropicana Orange with pulp	2.7

Source: Cheuvreux, OoShop

**A particularly
favourable margin
mix**

We believe that production and marketing costs for health food products are substantially the same as for their traditional counterparts. Product marketing will necessarily have to be adapted in order to better send a health message, which is by nature more complex than the usual promises for mass consumer products. However it will likely remain relatively close to that for standard food products.

Thus in our view the only true extra costs are likely to come from R&D. However, they are expected to be largely covered by higher prices and the competitive advantage created.

In all, these categories benefit from stronger growth and higher margins than group averages, which creates extremely favourable margin mix effects. Lastly, note that the price positioning of this type of product reduces the weight of agricultural raw materials as a percentage of sales and hence the exposure of industrial groups to fluctuations in prices of such raw materials.

Further M&A?

The health orientation has already been the source of reconfigurations of business mixes sought or initiated by most of the major international groups. This trend began ten years ago with Danone, which led the French group to streamline its product portfolio keeping only products with a predominant health aspect, and including the sale of its biscuits branch and the acquisition of Numico announced a few months ago. Health and more broadly speaking nutrition is currently one of the growth drivers at Nestlé and has led the group to carry out recent acquisitions such as Gerber, Novartis Clinical Nutrition and Jenny Craig. The same intentions can be seen at US players such as PepsiCo or Coca Cola who are seeking to remove "junk foods" from their product portfolio to the benefit of products with stronger health connotations.

We therefore believe that the M&A activity linked to this theme is likely to continue in this sector. However, there are no major transactions in sight with regard to listed companies in Europe

In addition, we believe that European industrial groups could also be led to consider forging alliances with pharmaceutical or biotech groups that produce, purify or concentrate the main ingredients.

IV— COMPANY PROFILES

Danone

Nestlé

Parmalat

Unilever N.V.

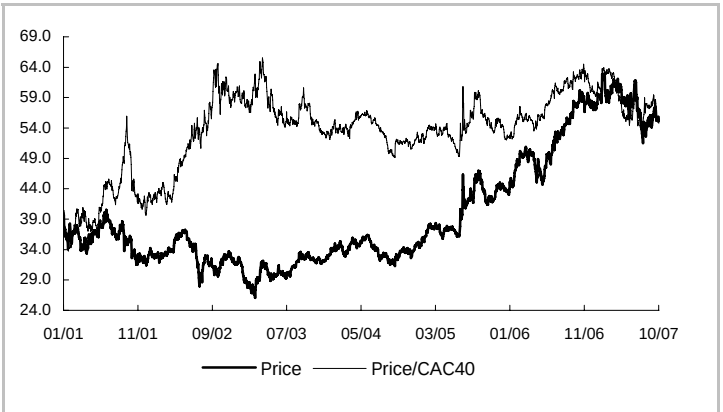
Danone (EUR55.42)

Branded Food - 9 October 2007

Rating: 1/Selected List - Target price: +37.1% EUR76

Virginie Fernandes

To 31/12 (EUR) - IFRS	2006	2007E	2008E	2009E
Sales (m)	14,072.5	12,680.2	17,145.5	18,745.5
Net att. profit, rest. (m)	1,194.0	1,300.3	1,411.1	1,604.3
Free Cash Flow (m)	1,477.0	1,355.4	1,376.2	1,565.9
EBITDA margin (%)	17.0	17.3	18.3	18.7
Clean EPS	2.44	2.75	3.04	3.52
Reported EPS	2.57	9.68	2.69	3.06
P/E (x)	23.5	20.1	18.2	15.7
Attrib. FCF yield (%)	4.1	4.0	4.0	4.6
EV/EBITDA (x)	14.3	17.8	12.5	11.1
EV/EBIT (x)	17.9	22.2	15.2	13.5
ROCE (%)	24.7	8.9	12.9	14.2
ROE (%)	26.3	70.0	15.1	16.8
P/BV (x)	5.7	3.2	3.1	3.0
Net debt/EBITDA (x)	1.2	4.7	3.2	2.8
Net dividend	1.00	1.13	1.25	1.44
Yield (%)	1.7	2.0	2.2	2.6



Market capitalisation	EUR28,914m	CAC40	5861.93	1 month	3 months	12 months
No. of shares, adjusted	521.729m	Reuters	DANO.PA	Absolute perf.	1.5%	-6.8%
Daily volume	EUR143.68m	Bloomberg	BN FP	Relative perf.	-5.9%	-3.7%
					-11.1%	

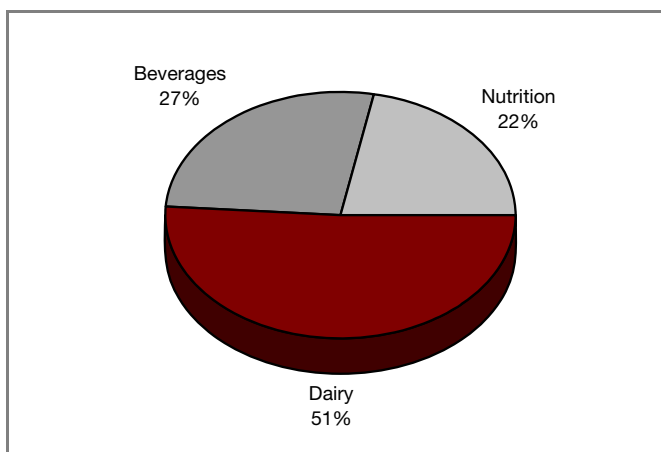
Shareholders: Free float 78.0%, Treasury Stock 7.8%, Eurazeo 5.4%, CDC 3.6%, Sofina & Glaces Moustier 2.0%, Predica 1.7%

Danone: the precursor and only pure player in nutrition

A specialist in active health in just ten years

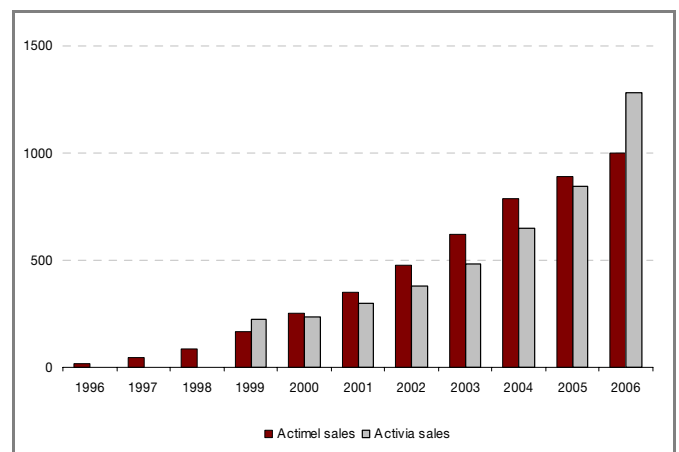
In 1997, the group chose a health-oriented positioning. The French group thus reorganised its product portfolio, which led it to gradually sell off activities with weak health connotations (ending with the disposal of the biscuits business announced in early July 2007). With the acquisition of Numico, the new Danone group will become a player that is entirely focused on health food products, — the only health pure player in the food and beverage industry. The group also indicated that 90% of its future innovations would be on this niche.

Danone sales breakdown post Numico acquisition



Source: Danone, Cheuvreux

Sales trend of Danone's two iconic EUR1bn brands



Source: Danone, Cheuvreux

In the health food segment, Danone has been both pioneer and growth engine. The group launched its first major health-oriented innovations in its core business of fresh dairy products. The Activia yoghurt, which facilitated intestinal transit, was launched in 1987, but the 1997 launch of Actimel (which strengthens immune defence systems) really marked the group's entry into functional fresh dairy products. Danacol, which helps reduce cholesterol, was placed on the market in 2005. Lastly, in February 2007, Danone launched Essensis, which claims to 'hydrate the skin from within'.

In the beverages division (excluding Asia), Danone has decided to accelerate its development on the following segments: 1) flavoured waters (Volvic Fruit and Volvic Thé, launched in 2001 and 2003); and 2) functional drinks (Taillefine Fiz, launched in France in 2005 and in Spain in 2006, and which is set to be marketed in other countries). The contribution to divisional sales of these two categories would thus rise to 40% in 2009E (vs. 20% currently), symmetrically reducing the proportion of bottled water. Hence 60% of the division's growth outside Asia is expected to come from the development of these segments.

In addition to in-house developments, the group has strengthened its health presence by acquiring Frucor in New Zealand, signing of a long-term agreement with Yakult and of course the recent acquisition of Numico.

Danone's R&D

Danone's in-house R&D department consists of 900 employees, of which 700 scientific experts. The group has also developed numerous public and private sector scientific partnerships, such as the Eurostarch programme for research into the body's digestion and use of different types of starch, and the EU Childhood Obesity programme, which tests the existence of a link between the amount of protein consumed when very young and the incidence of obesity in children.

In 2006, 30 patents were filed by Danone Research, of which 20 for fresh dairy products, and 18 clinical tests were launched, of which eight for Actimel and four for Activia. Over the past four years, the budget for clinical tests has increased tenfold.

Clinical tests are carried out in collaboration with independent research laboratories and with quality standards identical to those in the pharmaceuticals industry. Thus, Danone verifies that the consumption of its products is compatible with the possible uses of medicines (eg. for diabetes with Danacol) but also that the product is clearly active until the end of the sell-by date. Moreover, the use of additives requires prior examination by Danone's food safety department, which carries out tests to establish that the product is harmless and its possible interactions with other products or in certain situations.

Given its involvement in health R&D, Danone naturally supports the EU health claims Directive. The group wishes in particular that any claims have to be backed by the results of clinical tests, which is the only guarantee for the group to lastingly win over the consumer. As a result, communication is tightly controlled. In the case of Activia, advertising messages highlight the beneficial effect of the product on intestinal transit, but in no way focus on digestion, purification or detoxification.

At present, the group's research efforts are focused essentially on immunity functions, digestive comfort, the interaction of probiotic bacteria with the body's intestinal flora and the ability to produce active molecules that are beneficial to man (e.g. vitamins). The transfer of Numico's research function will enable Danone to explore new fields such as the development of mental processes or Alzheimer's disease.

Danone									
IFRS									
FY to 31/12 (Euro m)	2002	2003	2004	2004	2005	2006	2007E	2008E	2009E
Profit & Loss Account									
Sales	13 555.0	13 131.0	13 700.0	12 273.0	13 024.0	14 072.5	12 680.2	17 145.5	18 745.5
% Change	-6.3%	-3.1%	4.3%	-10.4%	6.1%	8.1%	-9.9%	35.2%	9.3%
Staff costs	(1 938.4)	(1 913.2)	1 933.3	1 729.0	1 793.0	1 807.0	1 628.2	2 201.6	2 407.0
Other costs	(9 305.6)	(9 014.8)	(13 439.3)	(11 913.0)	(12 601.0)	(13 485.5)	(12 120.7)	(16 213.1)	(17 644.9)
EBITDA	2 311.0	2 203.0	2 194.0	2 089.0	2 216.0	2 394.0	2 187.7	3 134.0	3 507.7
% Change	-3.1%	-4.7%	-0.4%		6.1%	8.0%	-8.6%	43.3%	11.9%
Depreciation	(612.0)	(515.0)	(489.0)	(481.0)	(478.0)	(480.0)	(428.0)	(546.6)	(618.6)
EBITA	1 699.0	1 688.0	1 705.0	1 608.0	1 738.0	1 914.0	1 759.7	2 587.4	2 889.1
% Change	-3.4%	-0.6%	1.0%		8.1%	10.1%	-8.1%	47.0%	11.7%
Goodwill amortisation before OP	(109.0)	(84.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Goodwill amortisation [impairment test]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non recurring operational items	0.0	0.0	0.0	(49.0)	(32.0)	(40.0)	0.0	(15.8)	(15.8)
EBIT	1 590.0	1 604.0	1 705.0	1 559.0	1 706.0	1 874.0	1 759.7	2 571.6	2 873.3
Net financial items	(110.0)	(70.0)	(73.0)	10.0	(110.0)	(68.0)	(24.4)	(421.5)	(428.7)
Non recurring financial items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other exceptional items	458.0	(60.0)	(105.0)	0.0	0.0	0.0	0.0	0.0	0.0
Tax	(490.0)	(488.0)	(457.0)	(428.0)	(473.0)	(360.0)	(485.9)	(591.1)	(684.5)
Associates [contribution]	17.0	37.0	(564.0)	(550.0)	44.0	(40.0)	68.3	71.7	75.2
Discontinuing activities	0.0	0.0	0.0	46.5	504.0	154.0	3 950.0	0.0	0.0
Goodwill amortisation	0.0	0.0	(92.0)	0.0	0.0	0.0	0.0	0.0	0.0
Net profit [loss] before minorities	1 465.0	1 023.0	506.0	637.5	1 671.0	1 560.0	5 267.7	1 630.6	1 835.3
Dividend to preferred shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	(182.0)	(184.0)	(189.0)	(189.0)	(207.0)	(207.0)	(217.4)	(230.0)	(241.5)
Net attributable profit [loss]	1 283.0	839.0	317.0	448.5	1 464.0	1 353.0	5 050.3	1 400.6	1 593.8
Restatement [impairment test]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adj. for exceptional items	(455.0)	0.0	600.0	461.5	(433.0)	(159.0)	(3 750.0)	10.5	10.5
Net attrib. profit [loss], restated	937.0	923.0	1 009.0	910.0	1 031.0	1 194.0	1 300.3	1 411.1	1 604.3
% Change	0.9%	-1.5%	9.3%		13.3%	15.8%	8.9%	8.5%	13.7%
Cash Flow Statement									
Cash flow	1 578.0	1 460.0	1 628.0	1 574.0	1 716.0	1 891.0	1 877.4	2 121.3	2 394.5
% Change	-2.0%	-7.5%	11.5%		9.0%	10.2%	-0.7%	13.0%	12.9%
Change in WCR	42.0	232.0	203.0	120.0	131.0	278.0	96.8	95.0	90.0
Capex	(603.0)	(543.0)	(526.0)	(520.0)	(607.0)	(692.0)	(618.8)	(840.1)	(918.5)
o/w Growth capex	0.0	0.0	(526.0)	(520.0)	(607.0)	(692.0)	(618.8)	(840.1)	(918.5)
Net cash flow	1 017.0	1 149.0	1 305.0	1 174.0	1 240.0	1 477.0	1 355.4	1 376.2	1 565.9
Financial investments	(1 280.0)	(1 456.0)	684.0	684.0	889.0	(145.0)	(7 115.0)	0.0	0.0
Net buyback of treasury shares	(786.0)	(368.0)	(213.0)	(213.0)	(558.0)	(587.0)	(500.0)	(500.0)	(500.0)
Disposals	3 410.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend paid	(404.0)	(432.0)	(456.0)	(456.0)	(489.0)	(610.0)	(580.8)	(633.1)	(678.6)
Capital increase	0.0	0.0	38.0	38.0	61.0	52.0	0.0	0.0	0.0
Other cash flow	(241.0)	0.0	79.0	(2 943.0)	(177.0)	483.0	34.0	(64.0)	(91.0)
Dec. [inc.] in net debt	1 716.0	(1 107.0)	1 437.0	(1 716.0)	966.0	670.0	(6 806.4)	179.1	296.4
Balance Sheet									
Shareholders' equity [group share]	5 087.0	4 824.0	4 577.0	4 256.0	5 280.0	5 823.0	9 740.2	9 962.2	10 298.3
Minority interests	729.0	704.0	717.0	250.0	341.0	246.0	467.4	697.4	938.9
Pension provisions	272.0	259.0	403.0	328.0	324.0	147.0	248.0	248.0	248.0
Other provisions	492.0	361.0	277.0	859.0	551.0	687.0	1 164.0	1 164.0	1 164.0
Net debt [cash]	2 269.0	2 730.0	1 385.0	4 538.0	3 572.0	2 902.0	10 233.4	10 054.3	9 757.9
Gearing [%]	39.0	49.4	26.2	100.7	63.5	47.8	100.3	94.3	86.8
Capital invested	8 849.0	8 878.0	7 359.0	10 231.0	10 068.0	9 805.0	21 852.9	22 125.9	22 407.1
Goodwill	3 140.0	2 143.0	2 297.0	4 340.0	4 120.0	4 145.0	15 463.8	15 463.8	15 463.8
Intangible assets	1 493.0	1 523.0	1 400.0	1 590.0	1 654.0	1 558.0	2 741.0	2 741.0	2 741.0
Tangible assets	2 992.0	2 734.0	2 682.0	2 636.0	2 944.0	3 020.0	2 744.9	3 038.5	3 338.4
Financial assets	1 966.0	3 582.0	727.0	754.0	876.0	964.0	1 239.4	1 239.4	1 239.4
Associates	0.0	0.0	1 468.0	1 468.0	1 256.0	1 093.0	1 173.3	1 244.9	1 320.2
Working capital requirement	(742.0)	(1 104.0)	(1 215.0)	(557.0)	(782.0)	(975.0)	(1 071.8)	(1 166.8)	(1 256.8)
WCR as a % of sales	(5.5)	(8.4)	(8.9)	(4.5)	(6.0)	(6.9)	(8.5)	(6.8)	(6.7)
Capital employed	8 849.0	8 878.0	7 359.0	10 231.0	10 068.0	9 805.0	22 290.5	22 560.8	22 845.9

Danone									
	IFRS								
FY to 31/12 (Euro)	2002	2003	2004	2004	2005	2006	2007E	2008E	2009E
Per Share Data (at 9/10/2007)									
EPS before goodwill	1.72	1.73	1.97	1.79	2.07	2.44	2.75	3.04	3.52
% Change	4.9%	0.4%	13.7%		15.9%	17.8%	12.8%	10.5%	15.8%
EPS, reported	2.34	1.55	0.59	0.84	2.76	2.57	9.68	2.69	3.06
% Change	NS	-33.5%	-62.0%		NS	-6.8%	NS	-72.3%	13.8%
Goodwill per share	0.20	0.16	0.18	0.00	0.00	0.00	0.00	0.00	0.00
Dividend per share	0.56	0.58	0.68	0.68	0.85	1.00	1.13	1.25	1.44
Cash flow per share	2.89	2.73	3.17	3.08	3.44	3.86	3.97	4.57	5.25
% Change	1.9%	-5.7%	16.2%		11.8%	12.4%	2.8%	15.0%	14.9%
Book value per share	8.7	8.4	7.9	7.3	9.1	10.1	17.5	17.8	18.3
No. of shares, adjusted	548.800	539.920	536.191	536.191	530.184	525.670	521.729	521.729	521.729
Av. number of shares, adjusted	548.760	539.920	536.191	536.191	530.184	525.670	521.729	521.729	521.729
Treasury stock, adjusted	32.160	33.640	34.847	34.847	38.108	41.420	49.203	57.536	65.870
Share Price [Adjusted]									
Latest price	32.05	32.35	33.98	33.98	44.13	57.40	55.42	55.42	55.42
High	37.60	34.25	36.68	36.68	48.13	60.55	64.17	-	-
Low	27.35	26.05	31.10	31.10	33.88	42.60	51.30	-	-
Average price	33.13	30.76	33.92	33.92	39.91	51.18	58.04	-	-
Market capitalisation	17 587.8	17 466.4	18 197.0	18 197.0	24 310.0	30 334.2	28 914.2	28 914.2	28 914.2
Enterprise value	21 512.8	20 200.3	21 490.1	24 568.1	28 593.2	34 266.4	39 018.9	39 235.4	38 939.1
Valuation									
P/E	21.1	20.6	19.0	19.0	21.3	23.5	20.1	18.2	15.7
P/E before goodwill	18.6	18.7	17.3	19.0	21.3	23.5	20.1	18.2	15.7
P/CF	11.1	11.9	10.7	11.0	12.8	14.9	13.9	12.1	10.6
Attrib. FCF yield [%]	4.9	5.5	6.0	5.4	4.2	4.1	4.0	4.0	4.6
P/BV	3.7	3.9	4.3	4.7	4.8	5.7	3.2	3.1	3.0
Enterprise value / Op CE	3.1	3.8	4.2	3.1	3.6	4.4	1.9	2.1	2.0
Yield [%]	1.8	1.8	2.0	2.0	1.9	1.7	2.0	2.2	2.6
EV/EBITDA, restated	9.3	9.2	9.8	11.8	12.9	14.3	17.8	12.5	11.1
EV/EBITA, restated	12.7	12.0	12.6	15.3	16.5	17.9	22.2	15.2	13.5
EV/Sales	1.59	1.54	1.57	2.00	2.20	2.4	3.1	2.3	2.1
EV/Debt-adjusted cash flow	11.0	11.2	10.4	13.3	12.9	14.8	18.0	13.4	12.0
Financial Ratios									
Interest cover	NS	NS	NS	NS	NS	NS	NS	7.4	8.2
Net debt/Cash flow	1.4	1.9	0.9	2.9	2.1	1.5	5.5	4.7	4.1
EBITDA margin [%]	17.0	16.8	16.0	17.0	17.0	17.0	17.3	18.3	18.7
EBITA margin [%]	12.5	12.9	12.4	13.1	13.3	13.6	13.9	15.1	15.4
Net margin [%]	10.8	7.8	3.7	5.2	12.8	11.1	41.5	9.5	9.8
Capital turn [Sales/ Op. CE]	2.0	2.5	2.7	1.5	1.6	1.8	0.6	0.9	0.9
Gearing [%]	39.0	49.4	26.2	100.7	63.5	47.8	100.3	94.3	86.8
Payout ratio [%]	24.1	37.5	114.2	80.7	30.8	38.9	11.7	46.4	47.2
Return [%]									
Pre-tax RoCE	24.7	31.9	33.0	20.1	21.9	24.7	8.9	12.9	14.2
RoCE after tax	15.5	20.0	32.9	20.0	21.8	24.7	8.8	12.9	14.2
ROE [%]	28.9	19.0	7.2	11.1	32.2	26.3	70.0	15.1	16.8
Return on equity, restated	17.7	19.0	22.3	23.9	21.6	22.8	14.3	15.2	16.9

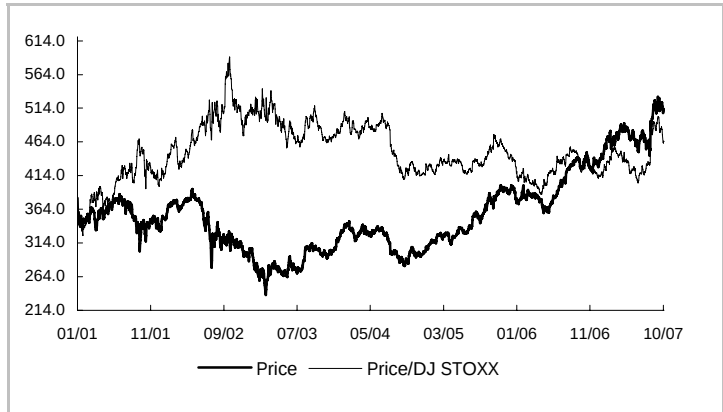
Nestle (CHF513.00)

Branded Food - 9 October 2007

Rating: 1/Selected List - Target price: +12.1% CHF575

Virginie Fernandes

To 31/12 (CHF) - IFRS	2006	2007E	2008E	2009E
Sales (m)	98,458.0	107,604.6	116,621.6	123,601.8
Net att. profit, rest. (m)	9,444.6	10,786.5	11,795.6	12,598.2
Free Cash Flow (m)	10,767.0	10,881.3	11,131.6	11,624.0
EBITDA margin (%)	16.6	18.1	18.3	18.4
Clean EPS	23.71	27.80	31.75	35.29
Reported EPS	23.74	27.93	31.97	35.47
P/E (x)	18.3	18.5	16.2	14.5
Attrib. FCF yield (%)	6.0	5.2	5.3	5.4
EV/EBITDA (x)	10.5	10.8	10.1	9.7
EV/EBIT (x)	12.9	14.0	12.9	12.2
ROCE (%)	22.4	21.4	23.4	24.6
ROE (%)	19.8	22.0	25.1	27.7
P/BV (x)	3.6	3.9	3.9	3.9
Net debt/EBITDA (x)	0.7	1.0	1.1	1.1
Net dividend	10.60	12.90	14.70	16.30
Yield (%)	2.4	2.5	2.9	3.2



Market capitalisation	CHF201,645m	DJ STOXX	387.84		1 month	3 months	12 months
No. of shares, adjusted	368.05m	Reuters	NESN.VX	Absolute perf.	1.3%	8.6%	16.4%
Daily volume	CHF813.91m	Bloomberg	NESN VX	Relative perf.	-4.5%	11.6%	3.8%

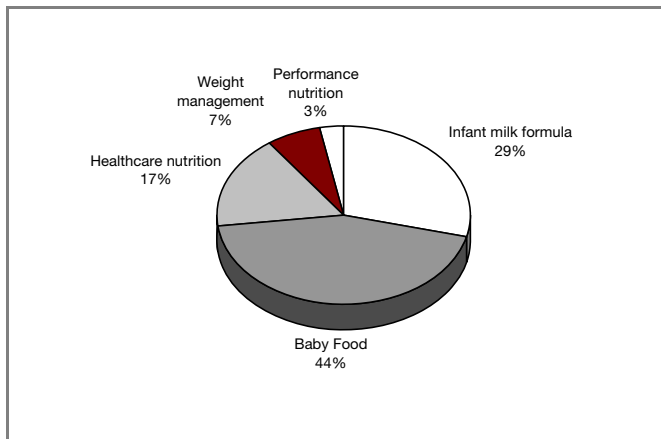
Shareholders: Bettencourt family 3.0%

A stronger health image***Health profile reinforced***

Nestlé made health a strong strategic focus starting in 2003. The strategy is being implemented in three areas:

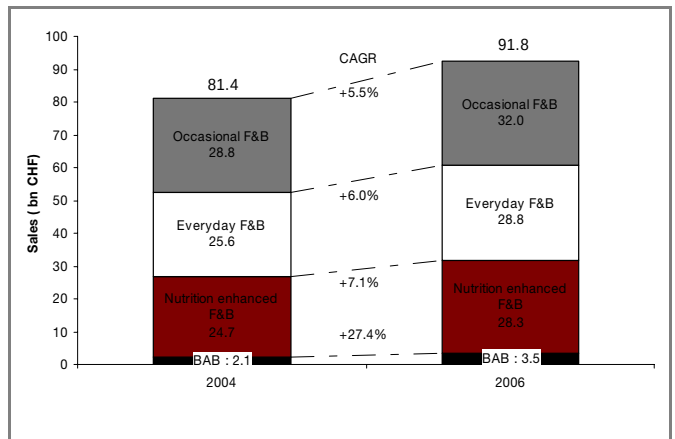
- The nutrition division, which represents 10% of the group's sales, spearheads the group's health strategy. It includes the categories addressing people with specific nutritional needs: baby food, healthcare nutrition, performance nutrition and weight management. The specific feature of these products is that they are primarily functional. Moreover, the prescribers and the distributoin networks (hospitals, clinics, pharmacies) differ from those of traditional mass consumer products Taking account of these factors, the group decided to make it a separate division starting in 2006. Note that this division was recently strengthened by the acquisitions of Jenny Craig, Gerber and Novartis Medical Nutrition. Nestlé's objective for the nutrition division is to deliver sustainable organic growth of 10% and an EBIT margin of 20%. These targets compare with the group objective of 5%-6% organic sales growth. Thus the nutrition division will clearly be one of the engines driving Nestlé's future growth.
- Products enriched with "branded active benefits" (BAB), i.e., ingredients having a beneficial effect on health (for example, Prebio for digestive comfort; Actigen-E, which helps free the energy in foods; and NutriActive-B, which promotes growth in children). In 2006, products enriched with BAB represented sales of CHF3.8bn (i.e., 3.9% of consolidated sales), up 20% over the previous year.
- The "60/40+" programme, which is a product testing system that combines a scientific nutritional evaluation and a taste preference test. The aim is to improve the nutritional profile of the group's products. Products passing the 60/40+ programme already account for one-third of Nestlé's sales.

Nutrition: a CHF10bn business (10% of group sales)



Source: Nestlé

Orienting the product portfolio towards healthier nutrition is driving growth



Source: Nestlé, Cheuvreux

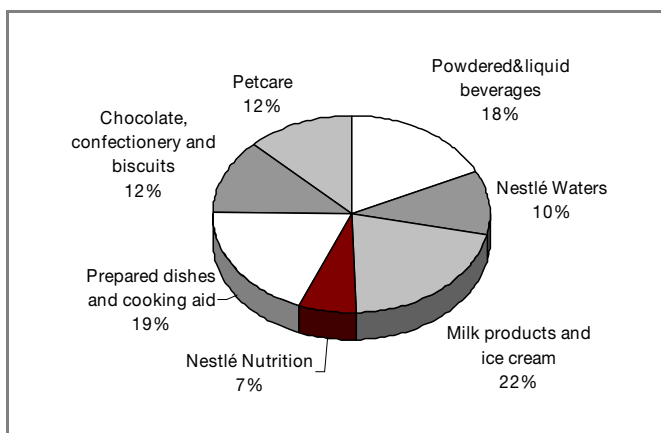
Research: Nestlé's main competitive advantage

Given its size, Nestlé has one of the largest research efforts in nutrition, devoting an annual budget of around CHF2bn and employing 4,500 people. The company does not disclose any specific data for R&D for food or patents.

A strong health image that does not necessarily reflect the diversity of the group's product portfolio

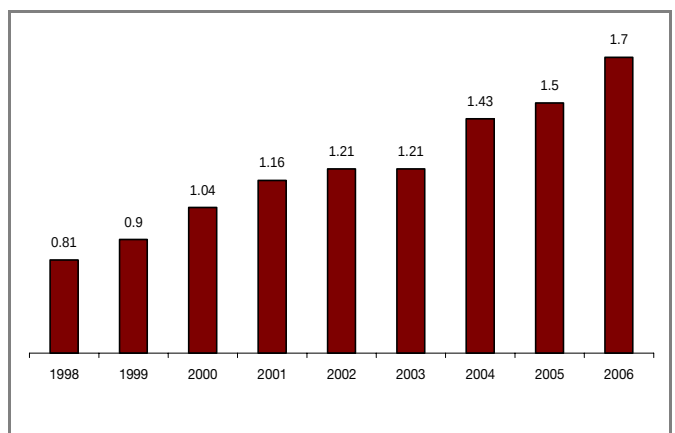
Nestlé started several years late compared with Danone, but has a product portfolio with good potential and, in particular, a strong health image, underpinned notably by its presence in baby food and mineral water, categories that are naturally perceived as healthy. Since 2003, the group has clearly strengthened its health profile. However, we believe that in spite of the substantial efforts made, Nestlé will never be able to claim the status of a pure player, as it will be difficult support health claims for some categories, such as sweets or ice cream.

Sales breakdown by division (Food & Beverages stand-alone)



Source: Nestlé

Trend in R&D expense (CHF bn)



Source: Nestlé, Cheuvreux

Nestle									
IFRS									
FY to 31/12 (Swiss Franc m)	2002	2003	2004	2004	2005	2006	2007E	2008E	2009E
Profit & Loss Account									
Sales	89 160.0	87 979.0	84 690.0	84 690.0	91 075.0	98 458.0	107 604.6	116 621.6	123 601.8
% Change	5.3%	-1.3%	-3.7%	0.0%	7.5%	8.1%	9.3%	8.4%	6.0%
Staff costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other costs	(75 489.0)	(74 310.0)	(71 146.0)	(71 130.0)	(76 482.0)	(82 095.0)	(88 095.9)	(95 276.5)	(100 830.1)
EBITDA	13 671.0	13 669.0	13 544.0	13 560.0	14 593.0	16 363.0	19 508.7	21 345.1	22 771.7
% Change	7.5%	0.0%	-0.9%		7.6%	12.1%	19.2%	9.4%	6.7%
Depreciation	(2 731.0)	(2 663.0)	(2 784.0)	(2 784.0)	(2 728.0)	(3 061.0)	(4 401.2)	(4 529.3)	(4 681.8)
EBITA	10 940.0	11 006.0	10 760.0	10 776.0	11 865.0	13 302.0	15 107.5	16 815.8	18 089.9
% Change	9.5%	0.6%	-2.2%		10.1%	12.1%	13.6%	11.3%	7.6%
Goodwill amortisation before OP	(1 438.0)	(1 571.0)	(1 583.0)	0.0	0.0	0.0	0.0	0.0	0.0
Goodwill amortisation [impairment test]	(839.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non recurring operational items	1 686.0	(534.0)	(690.0)	(690.0)	(920.0)	(516.0)	(538.0)	(583.1)	(741.6)
EBIT	10 349.0	8 901.0	8 487.0	10 086.0	10 945.0	12 786.0	14 569.5	16 232.7	17 348.3
Net financial items	(665.0)	(594.0)	(669.0)	(669.0)	(587.0)	(681.0)	(748.9)	(985.3)	(1 109.8)
Non recurring financial items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other exceptional items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax	(2 295.0)	(2 307.0)	(2 404.0)	(2 404.0)	(2 643.0)	(3 293.0)	(3 652.9)	(4 116.8)	(4 384.4)
Associates [contribution]	504.0	593.0	1 588.0	1 588.0	896.0	963.0	1 076.0	1 166.2	1 236.0
Discontinuing activities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Goodwill amortisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit [loss] before minorities	7 893.0	6 593.0	7 031.0	8 630.0	8 604.0	9 849.0	11 243.8	12 296.8	13 090.1
Dividend to preferred shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	(329.0)	(380.0)	(410.0)	(410.0)	(523.0)	(652.0)	(712.6)	(772.3)	(818.5)
Net attributable profit [loss]	7 564.0	6 213.0	6 621.0	8 220.0	8 081.0	9 197.0	10 531.2	11 524.5	12 271.6
Restatement [impairment test]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adj. for exceptional items	(368.1)	256.0	(769.0)	(769.0)	327.0	247.6	255.3	271.1	326.6
Net attrib. profit [loss], restated	8 633.9	8 040.0	7 435.0	7 451.0	8 408.0	9 444.6	10 786.5	11 795.6	12 598.2
% Change	13.0%	-6.9%	-7.5%		12.8%	12.3%	14.2%	9.4%	6.8%
Cash Flow Statement									
Cash flow	9 461.0	10 813.0	10 032.0	10 032.0	11 945.0	14 060.0	16 145.6	17 271.1	18 003.6
% Change	-6.2%	14.3%	-7.2%		19.1%	17.7%	14.8%	7.0%	4.2%
Change in WCR	981.0	(143.0)	509.0	509.0	(1 709.0)	514.0	636.9	(403.6)	(395.7)
Capex	(4 267.0)	(2 069.0)	(838.0)	(838.0)	(8 448.0)	(3 807.0)	(5 901.2)	(5 735.9)	(5 983.9)
o/w Growth capex	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net cash flow	6 175.0	8 601.0	9 703.0	9 703.0	1 788.0	10 767.0	10 881.3	11 131.6	11 624.0
Financial investments	154.0	2 158.0	(2 033.0)	(2 033.0)	(4 080.0)	(4 122.0)	(11 626.7)	(700.3)	(542.1)
Net buyback of treasury shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend paid	(2 484.0)	(2 705.0)	(2 786.5)	(2 786.5)	(3 121.3)	(3 496.3)	(4 138.7)	(4 739.0)	(5 186.0)
Capital increase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other cash flow	(586.0)	7 450.0	699.5	699.5	(6 019.3)	4 554.7	4 194.4	8 366.9	8 379.2
Dec. [inc.] in net debt	3 259.0	15 504.0	5 583.0	5 583.0	(11 432.6)	7 703.4	(689.7)	14 059.2	14 275.1
Balance Sheet									
Shareholders' equity [group share]	34 819.0	36 880.0	39 236.0	39 236.0	49 847.0	50 991.0	53 216.9	51 669.0	50 421.3
Minority interests	813.0	943.0	1 063.0	1 063.0	1 588.0	1 857.0	2 178.4	2 523.1	2 878.2
Pension provisions	3 147.0	3 363.0	3 234.0	3 234.0	3 794.0	5 415.0	5 918.0	6 414.0	6 797.9
Other provisions	4 288.0	3 946.0	3 778.0	3 778.0	4 197.0	4 111.0	4 472.0	4 815.1	5 080.4
Net debt [cash]	14 959.0	14 355.0	10 171.0	10 171.0	9 565.0	10 971.0	20 049.5	22 724.1	25 207.5
Gearing [%]	42.0	38.0	25.2	25.2	18.6	20.8	36.2	41.9	47.3
Capital invested	58 026.0	59 487.0	57 482.0	57 482.0	68 991.0	73 345.0	85 834.8	88 145.3	90 385.3
Goodwill	25 718.0	26 745.0	23 854.0	23 854.0	26 990.0	28 513.0	34 013.0	34 013.0	34 013.0
Intangible assets	1 242.0	1 575.0	2 028.0	2 028.0	2 852.0	3 773.0	4 046.1	4 347.8	4 659.7
Tangible assets	17 025.0	17 439.0	17 052.0	17 052.0	18 834.0	20 230.0	26 451.3	27 022.5	27 754.5
Financial assets	5 464.0	4 862.0	4 807.0	4 807.0	5 883.0	5 554.0	6 759.6	7 093.3	7 351.6
Associates	2 561.0	2 707.0	4 091.0	4 091.0	7 073.0	8 430.0	8 356.7	9 057.0	9 599.1
Working capital requirement	6 016.0	6 159.0	5 650.0	5 650.0	7 359.0	6 845.0	6 208.1	6 611.7	7 007.5
WCR as a % of sales	6.7	7.0	6.7	6.7	8.1	7.0	5.8	5.7	5.7
Capital employed	58 026.0	59 487.0	57 482.0	57 482.0	68 991.0	73 345.0	85 834.8	88 145.3	90 385.4

Nestle									
IFRS									
FY to 31/12 (Swiss Franc)	2002	2003	2004	2004	2005	2006	2007E	2008E	2009E
Per Share Data (at 9/10/2007)									
EPS before goodwill	21.43	19.91	18.46	18.46	21.04	23.71	27.80	31.75	35.29
% Change	13.2%	-7.1%	-7.3%		14.0%	12.7%	17.3%	14.2%	11.1%
EPS, reported	19.55	16.04	17.08	21.15	20.79	23.74	27.93	31.97	35.47
% Change	13.1%	-17.9%	6.5%		-1.7%	14.2%	17.7%	14.5%	11.0%
Goodwill per share	3.57	3.89	3.93	0.00	0.00	0.00	0.00	0.00	0.00
Dividend per share	7.00	7.20	8.00	8.00	9.00	10.60	12.90	14.70	16.30
Cash flow per share	23.48	26.78	24.90	24.85	29.89	35.29	41.61	46.49	50.44
% Change	-6.1%	14.0%	-7.0%		20.3%	18.1%	17.9%	11.7%	8.5%
Book value per share	82.8	88.1	93.0	92.9	119.2	121.5	131.7	131.7	132.4
No. of shares, adjusted	387.640	387.020	388.450	388.810	388.810	385.990	368.050	352.890	339.010
Av. number of shares, adjusted	387.010	387.330	387.730	388.630	388.630	387.400	377.020	360.470	345.950
Treasury stock, adjusted	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Share Price [Adjusted]									
Latest price	293.00	309.00	297.50	297.50	393.00	433.00	513.00	513.00	513.00
High	397.00	346.00	346.00	346.00	404.25	449.25	534.50	-	-
Low	271.00	233.25	276.00	276.00	298.25	355.00	426.50	-	-
Average price	342.86	302.64	316.78	316.78	346.10	400.92	475.55	-	-
Market capitalisation	118 231.4	124 687.7	120 047.2	120 047.2	158 583.4	173 520.4	201 644.9	201 644.9	201 644.9
Enterprise value	120 383.9	127 652.4	120 273.5	119 238.5	155 787.1	171 497.6	211 344.5	216 283.9	220 950.0
Valuation									
P/E	16.4	19.3	20.5	16.1	18.7	18.3	18.5	16.2	14.5
P/E before goodwill	13.7	15.5	16.1	16.1	18.7	18.3	18.5	16.2	14.5
P/CF	12.5	11.5	11.9	12.0	13.1	12.3	12.3	11.0	10.2
Attrib. FCF yield [%]	5.1	6.7	7.9	7.9	1.1	6.0	5.2	5.3	5.4
P/BV	3.5	3.5	3.2	3.2	3.3	3.6	3.9	3.9	3.9
Enterprise value / Op CE	2.4	2.5	2.5	2.5	2.8	2.9	2.9	2.9	2.9
Yield [%]	2.4	2.3	2.7	2.7	2.3	2.4	2.5	2.9	3.2
EV/EBITDA, restated	8.8	9.3	8.9	8.8	10.7	10.5	10.8	10.1	9.7
EV/EBITA, restated	11.0	11.6	11.2	11.1	13.1	12.9	14.0	12.9	12.2
EV/Sales	1.35	1.45	1.42	1.41	1.71	1.7	2.0	1.9	1.8
EV/Debt-adjusted cash flow	11.8	11.1	11.1	11.0	12.2	11.3	12.1	11.4	11.1
Financial Ratios									
Interest cover	NS	NS	15.1	NS	NS	NS	NS	NS	NS
Net debt/Cash flow	1.6	1.3	1.0	1.0	0.8	0.8	1.2	1.3	1.4
EBITDA margin [%]	15.3	15.5	16.0	16.0	16.0	16.6	18.1	18.3	18.4
EBITA margin [%]	12.3	12.5	12.7	12.7	13.0	13.5	14.0	14.4	14.6
Net margin [%]	8.9	7.5	8.3	10.2	9.4	10.0	10.4	10.5	10.6
Capital turn [Sales/ Op. CE]	1.8	1.7	1.7	1.7	1.6	1.7	1.5	1.6	1.7
Gearing [%]	42.0	38.0	25.2	25.2	18.6	20.8	36.2	41.9	47.3
Payout ratio [%]	35.8	44.9	46.8	37.8	43.3	44.7	46.2	46.0	46.0
Return [%]									
Pre-tax RoCE	21.9	21.2	22.1	22.2	21.2	22.4	21.4	23.4	24.6
RoCE after tax	16.7	15.3	15.3	15.4	15.8	16.3	15.6	17.1	18.0
ROE [%]	24.4	18.4	18.4	23.4	17.6	19.8	22.0	25.1	27.7
Return on equity, restated	23.0	19.2	16.1	21.0	18.4	20.4	22.6	25.8	28.6

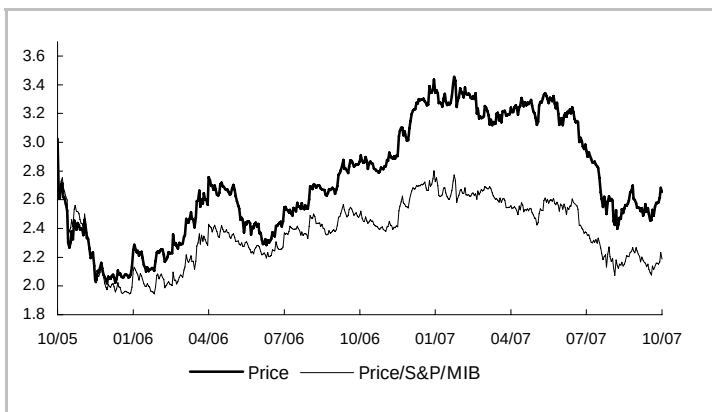
Parmalat (EUR2.65)

Branded Food - 9 October 2007

Rating: 2/Outperform - Target price: +33.8% EUR3.55

Marco Baccaglio

To 31/12 (EUR) - IFRS	2006	2007E	2008E	2009E
Sales (m)	3,881.0	3,839.0	4,047.0	4,206.0
Net att. profit, rest. (m)	89.8	161.7	195.7	208.2
Free Cash Flow (m)	(24.1)	130.6	189.2	214.2
EBITDA margin (%)	9.0	9.8	10.3	10.5
Clean EPS	0.05	0.10	0.12	0.12
Reported EPS	0.12	0.18	0.11	0.13
P/E (x)	60.7	27.8	23.0	21.7
Attrib. FCF yield (%)	NS	2.9	4.2	4.7
EV/EBITDA (x)	0.4	11.1	10.1	9.6
EV/EBIT (x)	0.5	15.6	14.2	13.3
ROCE (%)	9.6	11.1	12.1	12.6
ROE (%)	10.0	13.6	8.4	9.1
P/BV (x)	2.7	2.1	2.0	2.0
Net debt/EBITDA (x)	0.5	(0.8)	(0.7)	(0.8)
Net dividend	0.03	0.10	0.07	0.08
Yield (%)	0.8	3.6	2.5	2.8



Market capitalisation	EUR4,381m	S&P/MIB	41074	1 month	3 months	12 months
No. of shares, adjusted	1651.5m	Reuters	PLT.MI	Absolute perf.	3.0%	-11.1%
Daily volume	EUR22.96m	Bloomberg	PLT.IM	Relative perf.	-3.5%	-7.9%
					-13.2%	

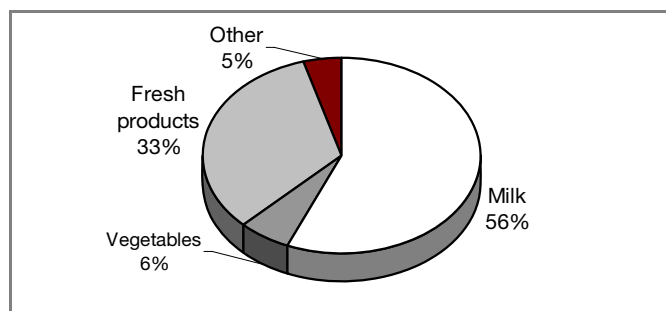
Shareholders: Free float 100.0%

Expanding into the functional milk business

Fully engaged in the milk business

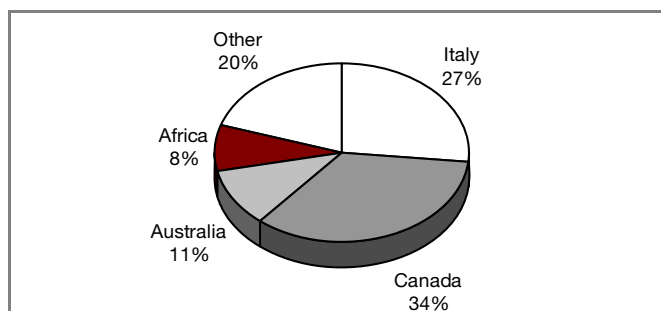
Parmalat is mainly engaged in the packaging and sale of milk, which represents roughly 60% of its sales. The remaining portion of sales is still concentrated in the dairy market and consists (35%) of fresh products such as cheese and yoghurt.

Sales breakdown by product (2006A)



Source: Parmalat

Sales breakdown by region (2006A)



Source: Parmalat

A long track record in product innovation

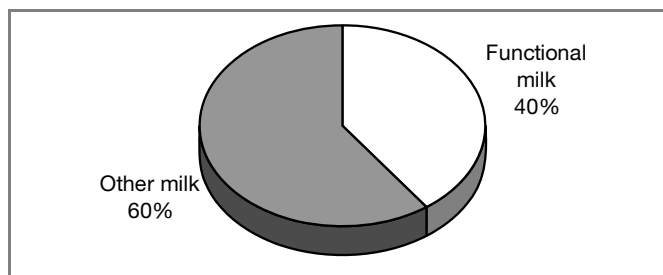
Milk is the company's historical core business, which claims a number of achievements over the years, in terms of both packaging (Tetrapak in 1962) and development of new products.

In greater detail: 1) Parmalat developed the first vitamin-fortified (vitamin C) milk in Italy in 1964; 2) In the following years, the company launched and achieved world leadership in UHT milk (1966). The development of functional products continued in 1968 (easily digestible milk, called Zymil, which is still on the market). In 1973, it launched a 7-vitamin milk and in the early 1980s launched some products promoted under the Weight Watchers brand. From the mid-90s, the development of functional milks accelerated: the company launched iron-fortified whole milk; in 1998 a semi-skimmed milk with omega 3; in 2000 a low-fat (1%) milk; in 2001 Fibress (milk enriched with fibres); in 2004, the Jeunesse brand (milk, yoghurt and fruit juice) with a scientifically-tested anti-oxidant effect; and in 2006 it re-launched calcium-added products.

Functional milks now account for 20% of Italian milk volumes

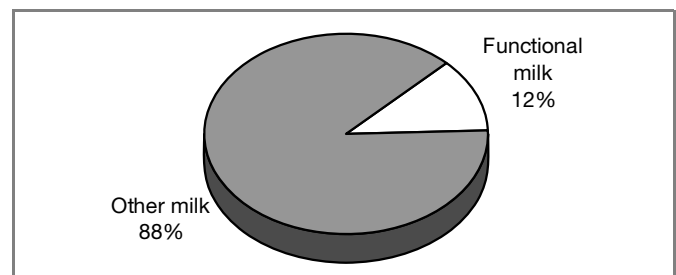
While there are no official figures available, the so-called functional milks are rapidly increasing their weight in Parmalat's milk business: they now represent 20% of total Italian milk volumes and 40% of the UHT milk category. This strategy is now also implemented outside Italy, exploiting the growth trend for these products (3-4% vs. 1-2% for plain milk). Given the early stage of development of these products in the other two key markets (Canada and Australia), we calculate that the penetration of functional products on Parmalat's total milk volume is in the region of 12%. This would imply a total weight of functional milk in consolidated sales of 7-8%. The key categories of Parmalat's functional milk are: weight management, heart health, anti-ageing, bone health, children's 1st and 2nd growth, digestive health, intestinal regularity and the immune system.

Weight of functional milk in total UHT milk (Italy)



Source: Cheuvreux

Weight of functional milk in consolidated volumes



Source: Cheuvreux

Aggressive development plan

The strategy is moving in two directions: 1) to extend the functional milk concept into the pasteurised milk category; and 2) to export these products to Canada and Australia. According to Parmalat, the weight of functional milks might double (towards the 25% mark) over the coming years, enabling a significant increase in profitability. These targets are currently factored into our forecasts.

R&D activity with EU contribution

R&D activity is carried out centrally in three areas: milk and fruit juices in Italy and cheese in Canada. Parmalat has started several partnerships with universities and research centres. While there are no figures available, Parmalat requested European contributions for several research projects. At the end of 2006, the contributions to be cashed in totalled EUR22m. In addition, Parmalat filed another request for EUR8m (vs. a total investment of EUR18m), split over six projects to be completed by end 2008. Based on our forecasts, Parmalat's R&D expenses amount to roughly 1% of sales. From 2006 onwards, Parmalat's strategy is to develop patented products with clinical tests and unique composition.

Parmalat					
IFRS					
FY to 31/12 (Euro m)	2005	2006	2007E	2008E	2009E
Profit & Loss Account					
Sales	3 706.0	3 881.0	3 839.0	4 047.0	4 206.0
% Change		4.7%	-1.1%	5.4%	3.9%
Staff costs	(459.6)	(477.9)	0.0	0.0	0.0
Other costs	(3 003.1)	(3 052.4)	(3 463.0)	(3 629.4)	(3 765.1)
EBITDA	243.3	350.7	376.0	417.6	440.9
% Change		44.1%	7.2%	11.1%	5.6%
Depreciation	(101.7)	(105.5)	(108.0)	(119.0)	(124.0)
EBITA	141.6	245.2	268.0	298.6	316.9
% Change		73.2%	9.3%	11.4%	6.1%
Goodwill amortisation before OP	0.0	0.0	0.0	0.0	0.0
Goodwill amortisation [impairment test]	0.0	(45.0)	0.0	0.0	0.0
Non recurring operational items	(2.3)	99.3	107.0	(15.0)	0.0
EBIT	139.3	299.5	375.0	283.6	316.9
Net financial items	(71.8)	(69.8)	6.0	11.0	14.0
Non recurring financial items	0.0	0.0	0.0	0.0	0.0
Other exceptional items	(35.0)	0.0	0.0	0.0	0.0
Tax	(47.3)	(34.2)	(87.6)	(103.1)	(115.8)
Associates [contribution]	0.0	0.0	0.0	0.0	0.0
Discontinuing activities	(4.7)	(0.1)	0.0	0.0	0.0
Goodwill amortisation	0.0	0.0	0.0	0.0	0.0
Net profit [loss] before minorities	15.5	195.4	293.4	191.5	215.1
Dividend to preferred shares	0.0	0.0	0.0	0.0	0.0
Minorities	(5.0)	(2.9)	(4.9)	(5.9)	(6.9)
Net attributable profit [loss]	10.5	192.5	288.5	185.6	208.2
Restatement [impairment test]	0.0	0.0	0.0	0.0	0.0
Adj. for exceptional items	(2.3)	(102.7)	(126.8)	10.1	0.0
Net attrib. profit [loss], restated	8.2	89.8	161.7	195.7	208.2
% Change		NS	80.1%	21.0%	6.4%
Cash Flow Statement					
Cash flow	0.0	243.7	269.7	304.6	332.2
% Change			10.7%	13.0%	9.0%
Change in WCR	0.0	(165.1)	(39.0)	(10.4)	(8.0)
Capex	(23.1)	(102.7)	(100.0)	(105.0)	(110.0)
o/w Growth capex	0.0	0.0	(50.0)	(50.0)	(50.0)
Net cash flow	(23.1)	(24.1)	130.6	189.2	214.2
Financial investments	(370.0)	185.3	0.0	0.0	0.0
Net buyback of treasury shares	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	44.5	210.0	0.0	0.0
Dividend paid	0.0	0.0	(41.0)	(156.9)	(111.4)
Capital increase	0.0	0.0	0.0	0.0	0.0
Other cash flow	(10.8)	(6.0)	218.0	0.0	0.0
Dec. [inc.] in net debt	(403.9)	199.7	517.6	32.3	102.8
Balance Sheet					
Shareholders' equity [group share]	1 848.7	2 014.1	2 261.5	2 290.2	2 387.0
Minority interests	29.0	37.6	40.6	43.6	46.6
Pension provisions	113.0	122.1	122.1	122.1	122.1
Other provisions	425.1	384.3	384.3	384.3	384.3
Net debt [cash]	369.3	169.5	(298.1)	(280.4)	(333.3)
Gearing [%]	19.7	8.3	NS	NS	NS
Capital invested	2 785.1	2 727.6	2 510.4	2 559.8	2 606.8
Goodwill	0.0	0.0	0.0	0.0	0.0
Intangible assets	1 567.6	1 290.0	1 290.0	1 290.0	1 290.0
Tangible assets	698.3	728.1	536.7	575.7	614.7
Financial assets	181.6	164.1	99.3	99.3	99.3
Associates	0.0	0.0	0.0	0.0	0.0
Working capital requirement	337.6	545.4	584.4	594.8	602.8
WCR as a % of sales	9.1	14.1	15.2	14.7	14.3
Capital employed	2 785.1	2 727.6	2 510.4	2 559.8	2 606.8

Parmalat					
	IFRS				
FY to 31/12 (Euro)	2005	2006	2007E	2008E	2009E
Per Share Data (at 9/10/2007)					
EPS before goodwill	0.01	0.05	0.10	0.12	0.12
% Change		NS	77.8%	19.8%	6.1%
EPS, reported	0.01	0.12	0.18	0.11	0.13
% Change		NS	49.6%	-36.0%	11.6%
Goodwill per share	0.00	0.00	0.00	0.00	0.00
Dividend per share	0.00	0.03	0.10	0.07	0.08
Cash flow per share	0.00	0.14	0.16	0.18	0.19
% Change		NS	10.5%	13.3%	8.4%
Book value per share	1.1	1.2	1.3	1.3	1.4
No. of shares, adjusted	1640.056	1641.500	1651.500	1661.500	1671.500
Av. number of shares, adjusted	1640.056	1640.778	1646.500	1656.500	1666.500
Treasury stock, adjusted	0.000	0.000	0.000	0.000	0.000
Share Price [Adjusted]					
Latest price	2.06	3.26	2.65	2.65	2.65
High	3.18	3.33	3.46	-	-
Low	1.95	2.05	2.32	-	-
Average price	2.26	2.62	3.03	-	-
Market capitalisation	89.7	-	4 381.4	4 408.0	4 434.5
Enterprise value	391.8	-	4 184.8	4 234.2	4 210.6
Valuation					
P/E	NS	60.7	27.8	23.0	21.7
P/E before goodwill	NS	60.7	27.8	23.0	21.7
P/CF	NS	22.8	16.8	14.9	13.6
Attrib. FCF yield [%]	NS	-	2.9	4.2	4.7
P/BV	1.8	2.7	2.1	2.0	2.0
Enterprise value / Op CE	0.2	0.1	1.6	1.8	1.8
Yield [%]	0.0	0.8	3.6	2.5	2.8
EV/EBITDA, restated	1.6	0.4	11.1	10.1	9.6
EV/EBITA, restated	2.8	0.5	15.6	14.2	13.3
EV/Sales	0.11	0.0	1.1	1.0	1.0
EV/Debt-adjusted cash flow	18.2	0.4	15.5	14.0	12.8
Financial Ratios					
Interest cover	3.4	5.0	NS	NS	NS
Net debt/Cash flow	NS	0.7	NS	NS	NS
EBITDA margin [%]	6.6	9.0	9.8	10.3	10.5
EBITA margin [%]	3.8	6.3	7.0	7.4	7.5
Net margin [%]	0.4	5.0	7.6	4.7	5.1
Capital turn [Sales/ Op. CE]	1.4	1.5	1.6	1.6	1.7
Gearing [%]	19.7	8.3	NS	NS	NS
Payout ratio [%]	0.0	21.3	54.2	59.8	59.8
Return [%]					
Pre-tax RoCE	5.4	9.6	11.1	12.1	12.6
RoCE after tax	1.6	8.1	8.6	7.9	8.2
ROE [%]	0.6	10.0	13.6	8.4	9.1
Return on equity, restated	0.4	4.6	7.4	8.9	9.1

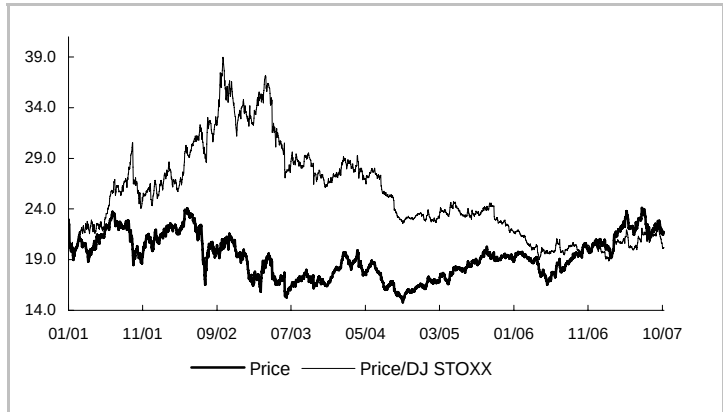
Unilever N.V. (EUR21.74)

Branded Food - 9 October 2007

Rating: 2/Outperform - Target price: +15.0% EUR25

Paul Hofman

To 31/12 (EUR) - IFRS	2006	2007E	2008E	2009E
Sales (m)	39,642.0	40,798.0	42,722.5	44,757.4
Net att. profit, rest. (m)	3,415.0	3,785.3	3,946.7	4,408.2
Free Cash Flow (m)	3,498.0	3,662.0	3,822.1	4,288.2
EBITDA margin (%)	16.8	15.2	15.8	16.5
Clean EPS	1.18	1.34	1.40	1.56
Reported EPS	1.65	1.34	1.40	1.56
P/E (x)	17.5	16.2	15.5	13.9
Attrib. FCF yield (%)	5.4	5.5	5.8	6.5
EV/EBITDA (x)	11.2	11.9	10.7	9.5
EV/EBIT (x)	13.7	13.9	12.5	11.0
ROCE (%)	22.9	22.3	24.3	26.8
ROE (%)	53.6	39.7	35.1	33.9
P/BV (x)	7.1	6.6	5.6	4.8
Net debt/EBITDA (x)	1.2	1.2	0.8	0.5
Net dividend	0.96	0.74	0.77	0.86
Yield (%)	4.6	3.4	3.5	4.0



Market capitalisation	EUR61,324m	DJ STOXX	387.84		1 month	3 months	12 months
No. of shares, adjusted	2820.8m	Reuters	UNc.AS	Absolute perf.	-1.6%	-5.6%	10.4%
Daily volume	EUR195.05m	Bloomberg	UNA NA	Relative perf.	-7.3%	-3.0%	-1.5%

Shareholders: Free float 100%

Vitality strategy incorporates Health, Nutrition and Sustainability**Unilever launched its Vitality strategy in 2004**

Although Unilever has been elected the sustainability leader in the Food and Beverage sector in the Dow Jones Sustainability Index, for nine years in a row, the specific focus on food and health has gained more emphasis since 2004, thereby lagging Danone and Nestlé. Unilever's Vitality mission, launched in 2004, is all about "meeting everyday needs for nutrition, hygiene and personal care with brands that help people feel good, look good and get more out of life". The mission also forms an integral part of the Unilever 2010 strategy, which targets sales growth of 3-5% and an operating margin exceeding 15%.

Unilever's Vitality strategy and focus on sustainability is not restricted to foods alone, but includes home and personal care as well, e.g. the Lifebuoy soap brand targets reducing diarrhea and respiratory infections. We will focus on foods, though, in these pages.

Unilever focus on three health-related markets in foods

For Unilever's Foods branch, representing sales and EBIT of EUR21.3bn (54% of the company total) and EUR2.9bn (53% of total) respectively, the Vitality strategy basically means increasing the share of healthier foods in the portfolio. Unilever distinguishes three sub-segments within healthier foods, firstly Positive Choice, secondly Inherent Goodness and thirdly Functional Health.

NEP and Choices programmes cover the vast majority and over a third of Unilever's nutrition portfolio, respectively.

Unilever addressed the Positive Choice market with its Nutrition Enhancement Programme (NEP) and the Choices programme. These programmes are basically to improve the nutritional profile of the company's current product range.

The NEP assesses Unilever's products using benchmarks that are based on international dietary guidelines for saturated fats, trans fat, sodium and sugar. Although NEP is a continuing process, it already includes all retail products and more than 50% of Unilever's foodservice products. The concept itself, although implemented rapidly and successfully, is rather basic as it does not differentiate Unilever versus peers in terms of product development and/or innovation in the functional foods area.

Over a third of the company's products are in line with mentioned international guidelines for sugar, salt and fat, and as such they are qualified for the Choices stamp. This programme, which was launched in 2006, uses a front-of-pack stamp complemented by back-of-pack nutrition information to make it easier for consumers to identify healthier options. Choices aims to become an independent, international standard used across the food industry. Choices will be rolled out in all Unilever's major markets (>40 markets) by the end of 2007. In the Netherlands there is a competing system in place, initiated by retailer Ahold. Overall, similar to Unilever's NEP, the Choices programme is a good step, but it is more about reducing certain ingredients than introducing functional foods.

Innovation targeting five key ingredients and five key benefits

Unilever's innovation and R&D efforts for these segments concentrate on five key ingredients: tea, fruit & vegetables, milk, oils and soy. Furthermore, these and other ingredients as well are intended to deliver five key benefits: heart health, beauty, weight management, brain and immunity & strength. We summarise below Unilever's latest efforts in the five ingredients and the five benefits.

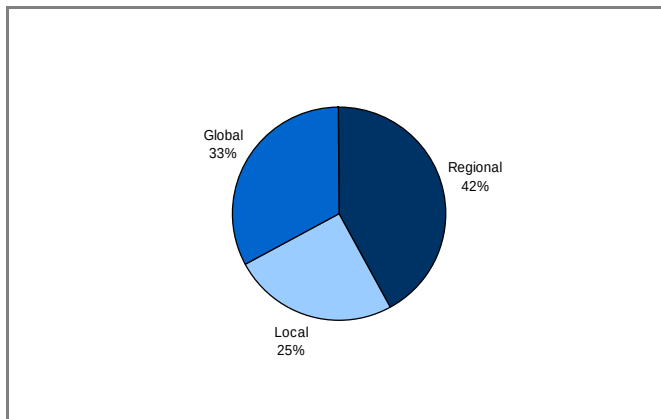
Examples of Unilever's five key ingredients and five key benefits

Ingredients / Benefits	Innovation	Description
Fruit & Vegetables	Knorr Vie	Smoothie-style fruit shot drink in 100ml bottle, delivers half of minimum daily intake of fruit & vegetables recommended by WHO
Heart health	Pro.activ range	Becel/Flora/Promise pro.activ range, cholesterol lowering drinks, yoghurt and spread products
Immunity & Strength	Annapurna	Annapurna salt and other food products fortified with nutrients addressing key deficiencies in D&E markets
Milk	Moo	Children's ice cream, delivers same calcium as a 200ml glass of milk, feeding bone development
Oils / Brain	Rama Ideal	Low fat spread with added nutrients (DHA, ALAL, B Vitamins) that stimulate and support mental development for children
Oils / Weight mng	Hellmann's	Hellmann's extra light offers low fat (6% only) mayonnaise based on new citrus fibre technology
Soy	AdeZ	Soya-based drink with fruit juices, delivers 35% of daily recommended intake of vitamins B6 and C, magnesium and calcium
Tea / Weight mng	Lipton range	Includes Lipton Linea slimming teas, Lipton green tea and Lipton sustainable teas certified by Rainforest alliance
Tea / Health	Lipton range	Health benefits of tea including antioxidants to fight free radicals
Weight mng	SlimFast	Ready-to-drink shakes, nutrition bars and other meal replacement products that help consumer losing and/or controlling weight

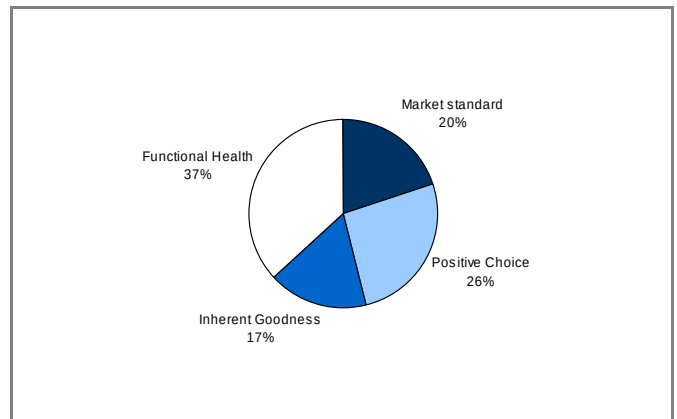
Source: Unilever

More focus on fewer, but bigger, projects in healthier foods

R&D expenses amounted to EUR906m in FY-06, or 2.3% of company sales. Note that these expenses have declined y-o-y and also on a relative basis. Unilever has restructured its R&D departments and narrowed its focus on fewer, but bigger, projects. While innovation at a local scale (40% of all innovation efforts) was still dominant in 2006, this has changed this year. In 2007, innovation projects have predominantly a regional (42% of total) and global (33%) character. Additionally, 80% of Unilever's R&D is being carried out in projects with a health claim.

**Focus innovation more on global and regional levels
(% of R&D in terms of platform)**


Source: Unilever

**Focus innovation less on market standard
(% of R&D in terms of segments)**


Source: Unilever

Functional Health still relatively small in Unilever's portfolio

Unilever does not disclose sales amounts realised by its products targeting the Positive Choice, Inherent Goodness and Functional Health segments. Occasionally, though, it has provided data to illustrate its progress. We believe that the company's largest functional food is the Flora/Becel pro.activ range. Four years after its introduction it achieved estimated sales of EUR325m, or some 1.5% of sales in Foods. Unilever's mini-drinks, including Knorr Vie and pro.activ, achieved sales of EUR100m in 2006, we estimate. In Inherent Goodness, tea is a major segment. One of Unilever's largest single brands is Lipton brand tea, realising sales of approximately EUR3bn, or 14% of Food sales and nearly 8% of total company sales. The Bertolli oil brand claims to be the largest word-wide, with estimated sales of EUR600-700m. In conclusion, Unilever's largest exposure is still in the Positive Choice and Inherent Goodness segments, not necessarily supported by health claims.

Unilever N.V.									
IFRS									
FY to 31/12 (Euro m)	2002	2003	2004	2004	2005	2006	2007E	2008E	2009E
Profit & Loss Account									
Sales	48 760.0	42 942.0	37 168.0	37 168.0	38 401.0	39 642.0	40 798.0	42 722.5	44 757.4
% Change	-6.6%	-11.9%	-13.4%	0.0%	3.3%	3.2%	2.9%	4.7%	4.8%
Staff costs	12 185.0	10 096.0	(8 025.0)	(8 025.0)	(9 078.0)	(9 486.0)	0.0	0.0	0.0
Other costs	(51 293.0)	(44 224.0)	(24 149.0)	(24 149.0)	(23 380.0)	(23 804.0)	(34 595.3)	(35 989.1)	(37 382.9)
EBITDA	9 652.0	8 814.0	4 994.0	4 994.0	5 943.0	6 352.0	6 202.7	6 733.4	7 374.5
% Change	-2.6%	-8.7%	-43.3%		19.0%	6.9%	-2.4%	8.6%	9.5%
Depreciation	(2 598.0)	(2 042.0)	(1 013.0)	(1 013.0)	(869.0)	(944.0)	(906.2)	(959.6)	(1 015.9)
EBITA	7 054.0	6 772.0	3 981.0	3 981.0	5 074.0	5 408.0	5 296.5	5 773.8	6 358.6
% Change	0.3%	-4.0%	-41.2%		27.5%	6.6%	-2.1%	9.0%	10.1%
Goodwill amortisation before OP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Goodwill amortisation [impairment test]	(1 261.0)	(1 143.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non recurring operational items	(702.0)	(100.0)	0.0	0.0	0.0	(300.0)	0.0	0.0	0.0
EBIT	5 091.0	5 529.0	3 981.0	3 981.0	5 074.0	5 108.0	5 296.5	5 773.8	6 358.6
Net financial items	(1 173.0)	(847.0)	(569.0)	(569.0)	(560.0)	(462.0)	(426.4)	(394.3)	(328.5)
Non recurring financial items	108.0	(166.0)	(54.0)	(54.0)	(53.0)	41.0	67.0	67.0	67.0
Other exceptional items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax	(1 605.0)	(1 527.0)	(725.0)	(725.0)	(1 181.0)	(1 146.0)	(1 152.6)	(1 416.1)	(1 585.3)
Associates [contribution]	34.0	25.0	95.0	95.0	55.0	144.0	208.0	223.6	240.4
Discontinuing activities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Goodwill amortisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit [loss] before minorities	2 490.0	3 038.0	2 969.0	2 969.0	3 975.0	5 015.0	4 068.5	4 254.0	4 752.2
Dividend to preferred shares	(42.0)	(27.0)	(28.0)	(28.0)	0.0	0.0	0.0	0.0	0.0
Minorities	(312.0)	(249.0)	(186.0)	(186.0)	(209.0)	(270.0)	(283.2)	(307.3)	(344.0)
Net attributable profit [loss]	2 136.0	2 762.0	2 755.0	2 755.0	3 766.0	4 745.0	3 785.3	3 946.7	4 408.2
Restatement [impairment test]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adj. for exceptional items	1 724.0	1 134.0	(241.0)	(241.0)	(640.0)	(1 330.0)	0.0	0.0	0.0
Net attrib. profit [loss], restated	3 860.0	3 896.0	2 514.0	2 514.0	3 126.0	3 415.0	3 785.3	3 946.7	4 408.2
% Change	16.0%	0.9%	-35.5%		24.3%	9.2%	10.8%	4.3%	11.7%
Cash Flow Statement									
Cash flow	4 794.0	4 256.0	5 547.0	5 547.0	4 353.0	4 511.0	4 686.7	4 898.3	5 415.6
% Change	35.6%	-11.2%	30.3%		-21.5%	3.6%	3.9%	4.5%	10.6%
Change in WCR	372.0	(200.0)	0.0	0.0	0.0	0.0	(4.8)	(8.1)	(8.5)
Capex	(1 295.0)	(1 038.0)	(978.0)	(978.0)	(914.0)	(1 013.0)	(1 019.9)	(1 068.1)	(1 118.9)
o/w Growth capex	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net cash flow	3 871.0	3 018.0	4 569.0	4 569.0	3 439.0	3 498.0	3 662.0	3 822.1	4 288.2
Financial investments	(86.0)	(3.0)	(312.0)	(312.0)	(162.0)	(299.0)	0.0	0.0	0.0
Net buyback of treasury shares	0.0	0.0	0.0	0.0	(500.0)	(500.0)	(500.0)	(500.0)	(500.0)
Disposals	1 988.0	1 039.0	910.0	910.0	1 396.0	2 222.0	0.0	0.0	0.0
Dividend paid	(1 611.0)	(1 742.0)	(1 720.0)	(1 720.0)	(1 804.0)	(2 602.0)	(2 051.3)	(2 111.5)	(2 255.2)
Capital increase	9.0	(8.0)	(332.0)	(332.0)	(1 276.0)	98.0	(1 500.0)	0.0	0.0
Other cash flow	(4 237.0)	(3 350.0)	(3 137.0)	(3 137.0)	(1 734.0)	(3 472.0)	0.0	0.0	0.0
Dec. [inc.] in net debt	(66.0)	(1 046.0)	(22.0)	(22.0)	(641.0)	(1 055.0)	(389.3)	1 210.6	1 533.0
Balance Sheet									
Shareholders' equity [group share]	4 702.0	5 920.0	7 264.0	7 264.0	8 361.0	11 230.0	11 433.4	13 209.4	15 193.1
Minority interests	619.0	440.0	365.0	365.0	404.0	442.0	442.0	442.0	442.0
Pension provisions	3 936.0	3 759.0	5 454.0	5 454.0	5 581.0	3 080.0	1 163.0	1 163.0	1 163.0
Other provisions	1 578.0	1 645.0	3 149.0	3 149.0	3 076.0	3 689.0	3 689.0	3 689.0	3 689.0
Net debt [cash]	16 966.0	12 555.0	9 663.0	9 663.0	10 502.0	7 523.0	7 209.5	5 490.8	3 449.3
Gearing [%]	318.9	197.4	126.7	126.7	119.8	64.5	60.7	40.2	22.1
Capital invested	27 801.0	24 319.0	25 895.0	25 895.0	27 924.0	25 964.0	23 936.9	23 994.2	23 936.4
Goodwill	15 328.0	13 457.0	12 083.0	12 083.0	12 963.0	12 425.0	12 425.0	12 425.0	12 425.0
Intangible assets	4 946.0	4 256.0	4 924.0	4 924.0	5 092.0	4 781.0	4 633.6	4 490.7	4 352.3
Tangible assets	7 436.0	6 655.0	6 181.0	6 181.0	6 492.0	6 276.0	6 537.1	6 788.4	7 030.0
Financial assets	679.0	199.0	752.0	752.0	841.0	874.0	874.0	874.0	874.0
Associates	679.0	199.0	752.0	752.0	841.0	874.0	874.0	874.0	874.0
Working capital requirement	(419.0)	(221.0)	373.0	373.0	900.0	166.0	140.2	89.0	(71.7)
WCR as a % of sales	(0.9)	(0.5)	1.0	1.0	2.3	0.4	0.3	0.2	(0.2)
Capital employed	28 649.0	24 545.0	25 065.0	25 065.0	27 129.0	25 396.0	25 483.9	25 541.1	25 483.6

Unilever N.V.									
	IFRS								
FY to 31/12 (Euro)	2002	2003	2004	2004	2005	2006	2007E	2008E	2009E
Per Share Data (at 9/10/2007)									
EPS before goodwill	1.32	1.34	0.88	0.88	1.07	1.18	1.34	1.40	1.56
% Change	16.7%	1.7%	-34.6%		22.5%	10.2%	13.3%	4.2%	11.7%
EPS, reported	0.73	0.95	0.95	0.95	1.29	1.65	1.34	1.40	1.56
% Change	27.9%	30.3%	0.3%		35.7%	27.3%	-18.5%	4.2%	11.7%
Goodwill per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Dividend per share	0.57	0.58	0.63	0.60	0.66	0.96	0.74	0.77	0.86
Cash flow per share	1.64	1.46	1.93	1.93	1.50	1.57	1.66	1.74	1.92
% Change	36.4%	-10.5%	31.6%		-22.4%	4.7%	6.1%	4.5%	10.6%
Book value per share	1.0	1.5	1.9	1.9	2.2	2.9	3.3	3.9	4.5
No. of shares, adjusted	2930.100	2906.700	2890.200	2890.200	2913.000	2883.300	2820.800	2820.800	2820.800
Av. number of shares, adjusted	2930.100	2906.700	2890.200	2890.200	2913.000	2883.300	2820.800	2820.800	2820.800
Treasury stock, adjusted	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Share Price [Adjusted]									
Latest price	19.52	17.28	16.44	16.44	19.28	20.70	21.74	21.74	21.74
High	24.17	20.03	20.05	20.05	20.30	20.92	24.64	-	-
Low	16.00	15.12	14.68	14.68	16.01	16.51	18.89	-	-
Average price	21.15	17.23	17.38	17.38	18.15	18.91	21.79	-	-
Market capitalisation	57 188.3	50 237.8	47 523.3	47 948.8	56 204.5	59 659.9	61 324.2	61 324.2	61 324.2
Enterprise value	81 848.3	71 019.7	64 921.7	65 978.3	75 289.6	74 296.0	73 866.7	72 148.0	70 106.5
Valuation									
P/E	14.8	12.9	18.7	18.7	18.0	17.5	16.2	15.5	13.9
P/E before goodwill	14.8	12.9	18.7	18.7	18.0	17.5	16.2	15.5	13.9
P/CF	11.9	11.8	8.5	8.5	12.9	13.2	13.1	12.5	11.3
Attrib. FCF yield [%]	6.3	5.5	9.0	8.9	5.7	5.4	5.5	5.8	6.5
P/BV	18.9	11.9	8.7	8.6	8.7	7.1	6.6	5.6	4.8
Enterprise value / Op CE	3.0	2.9	2.8	2.8	3.0	3.1	3.2	3.2	3.1
Yield [%]	2.9	3.4	3.8	3.6	3.4	4.6	3.4	3.5	4.0
EV/EBITDA, restated	7.0	7.1	13.0	13.2	12.7	11.2	11.9	10.7	9.5
EV/EBITA, restated	11.6	10.5	16.3	16.6	14.8	13.7	13.9	12.5	11.0
EV/Sales	1.68	1.65	1.75	1.78	1.96	1.9	1.8	1.7	1.6
EV/Debt-adjusted cash flow	13.8	13.6	10.3	10.4	15.0	14.3	13.7	12.9	11.5
Financial Ratios									
Interest cover	8.2	10.4	8.8	8.8	10.6	13.7	14.5	17.1	NS
Net debt/Cash flow	3.5	3.0	1.7	1.7	2.4	1.7	1.5	1.1	0.6
EBITDA margin [%]	23.8	23.4	13.4	13.4	15.5	16.8	15.2	15.8	16.5
EBITA margin [%]	14.5	15.8	10.7	10.7	13.2	13.6	13.0	13.5	14.2
Net margin [%]	5.0	7.0	7.9	7.9	10.4	12.7	10.0	10.0	10.6
Capital turn [Sales/ Op. CE]	1.8	1.8	1.6	1.6	1.5	1.7	1.7	1.8	1.9
Gearing [%]	318.9	197.4	126.7	126.7	119.8	64.5	60.7	40.2	22.1
Payout ratio [%]	78.2	61.0	66.1	62.9	51.1	58.3	55.1	55.0	55.0
Return [%]									
Pre-tax RoCE	25.8	28.0	16.9	16.9	19.9	22.9	22.3	24.3	26.8
RoCE after tax	18.1	20.5	13.2	13.2	14.8	17.4	17.2	18.0	19.8
ROE [%]	58.8	60.9	46.8	46.8	58.1	53.6	39.7	35.1	33.9
Return on equity, restated	NS	98.1	41.9	41.9	46.0	35.9	39.7	35.1	33.9

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CRÉDIT AGRICOLE CHEUVREUX – AMSTERDAM BRANCH

HONTHORSTSTRAAT 9
1071 DC AMSTERDAM
TEL: +31 20 573 06 66
FAX: +31 20 672 40 41

FRANCE

CRÉDIT AGRICOLE CHEUVREUX S.A.

9, QUAI PAUL DOUMER
92400 COURBEVOIE
TEL: +33 1 41 89 70 00
FAX: +33 1 41 89 70 05

GERMANY

CRÉDIT AGRICOLE CHEUVREUX – FRANKFURTER BRANCH

TAUNUSANLAGE 14
D-60325 FRANKFURT AM MAIN
TEL: +49 69 47 897 100
FAX: +49 69 47 897 530

ITALY

CRÉDIT AGRICOLE CHEUVREUX ITALIA SIM S.p.A.

VIA BRERA 21
20121 MILAN
TEL: +39 02 80 62 83 00
FAX: +39 02 86 46 15 70

SPAIN

CRÉDIT AGRICOLE CHEUVREUX ESPAÑA S.V. S.A.

PASEO DE LA CASTELLANA 1
28046 MADRID
TEL: +34 91 432 78 21
FAX: +34 91 432 75 13

SWEDEN

CRÉDIT AGRICOLE CHEUVREUX NORDIC AB

REGERINGSGATAN 38
10393 STOCKHOLM
TEL: +468 723 5100
FAX: +468 723 5101

SWITZERLAND

CRÉDIT AGRICOLE CHEUVREUX – ZÜRICH BRANCH

BAHNHOFSTRASSE 18
8001 ZÜRICH
TEL: +41 44 218 17 17
FAX: +41 44 212 25 50

UNITED KINGDOM

CRÉDIT AGRICOLE CHEUVREUX INTERNATIONAL LIMITED

12TH FLOOR
MOORHOUSE
120 LONDON WALL
LONDON EC2Y 5ET
TEL: +44 207 621 5100
FAX: +44 207 621 5101

DISTRIBUTION CENTRES

JAPAN

CHEUVREUX

CALYON CAPITAL MARKETS ASIA B.V., TOKYO BRANCH
SHIODOME SUMITOMO BUILDING, 15TH FLOOR
1-9-2 HIGASHI-SHIMBASHI
MINATO-KU
TOKYO 105-0021
TEL: +81 3 4580 8522
FAX: +81 3 4580 5534

UNITED STATES

CRÉDIT AGRICOLE CHEUVREUX NORTH AMERICA, INC.

NEW YORK

1301 AVENUE OF THE AMERICAS
15TH FLOOR
NEW YORK, NY 10019
TEL: +1 (212) 492 8800
FAX: +1 (212) 492 8801

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