

# NESTLÉ S.A.

## 2008 HALF YEAR RESULTS CONFERENCE CALL TRANSCRIPT

Conference Date: 07 August 2008

Chairperson: **Mr James Singh**  
**Chief Financial Officer**  
**Nestlé S.A.**

**Mr Roddy Child-Villiers**  
**Head of Investor Relations**  
**Nestlé S.A.**

### **Disclaimer**

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## James Singh, Nestlé SA, Chief Financial Officer

### Slide 1 – Opening slide

Good Morning, everyone. Welcome to our Half Year conference call.

### Slide 2 - Disclaimer

As usual, I'll take the safe harbour slide as read.

As you know, our roadshow this year is not until the 1<sup>st</sup> September and therefore today's presentation will be a little longer than usual.

### Slide 3 – 2008 First Half Highlights

With the first slide, I would like to clearly demonstrate the high quality of our first half performance. Once again, the first half of 2008 has seen us deliver the Nestlé Model, with an above-target organic growth of 8.9% and an EBIT margin increase of 60 basis point, reduced to 30 basis points by currency translation. This performance demonstrates our ability to deliver even in challenging times.

Our Food and Beverage business continues to be the driver of growth and profitability, with organic growth of 8.9%, and a 50 basis point improvement in the EBIT margin, reduced to 30 by the currency impact.

The catalyst for this performance has been our billionaire brands, continuing to show broad-based above-market growth.

Key drivers included

- Execution of our Nutrition, Health and Wellness strategy
- our focus on Popularly Positioned Products
- and our super-premium businesses.

The major corporate news in the first half was

- The announced sale of 24.8% of Alcon, completed in July
- The accelerated share buyback
- And we expect to divest in 2008 businesses with sales of approximately 1 billion Swiss francs

On the operational side, we continue to drive to higher levels of efficiency and effectiveness, with a focus on speed and discipline in execution.

Finally by way of introduction, we have improved our full year guidance, with a higher organic growth forecast, now to be at least at the level achieved in 2007. We also now expect an improvement in the reported EBIT margin, as well as in EBIT margin constant currency.

### Slide 4 – A strong first half Delivering the Nestlé Model

On this next slide are some key numbers. Not already mentioned

- Absolute sales growth was 3.8% due to the impact of currencies.
- The EBIT improved 6.1% to give a 30 basis points improvement in the margin to 13.8%, or 60 basis points constant currency.
- The same 6.1% improvement in the net profit, gave a 20 basis points improvement to a net profit margin of 9.8%.
- And earnings per share increased 8.6%

We get so used to talking in basis points that it is sometimes worth reminding ourselves of the absolute numbers. After all, we create value for our shareholders not in basis points, but in Swiss francs, which have appreciated considerably against other currencies.

- Sales increased by 2 billion Swiss francs to 53.1 billion.
- The EBIT increased by 400 million to 7.3 billion Swiss francs
- The net profit increased by 300 million to 5.2 billion francs

This demonstrates significant progress despite commodity headwinds, negative currency effects and a difficult economic environment in general.

We believe that the key to success today is sustained profitable growth, rather than a high level of volume or of price. A mix between volume and price, influenced by cost pressures, and also impacted by how you are managing your cost base.

#### **Slide 5 – The Nestlé Model – driving organic growth and EBIT margin improvement**

Today's results demonstrate once again the strength of our Nutrition, Health and Wellness strategy, but also the ability of our markets to adapt their execution to different competitive environments. To be simple, our markets aim to deliver profitable growth through a mix of RIG and pricing. How they do that will depend on the environment in which they find themselves.

As you know, the 1990s and the early part of this decade were characterised by raw material deflation. Not surprisingly, therefore, our markets were very focused on RIG.

The result was that our organic growth has been more weighted to RIG, which has averaged 3.6% over the last 12 years, than to price, which has averaged 2.3%.

Today, however, our markets need pricing to help compensate cost pressures – which they must do. Otherwise their RIG would not contribute to profitable growth. In fact, the result would likely be unprofitable growth.

#### **Slide 6 – Above target organic growth of 8.9% by Group and Food & Beverages**

With that in mind, let's look at the drivers of first half sales. You have seen these numbers in the press release, so I'll just talk Food and Beverage.

- RIG was 3.2% and pricing 5.7% to give the same organic growth as the Group, 8.9%.
- The impact of acquisitions less divestitures was 3.3% positive. The main contributors to the acquisition number were Gerber and Medical Nutrition. The disposals were a basket of canned milk, private label ice cream, frozen food and pasta sauces.

- Currencies were 8.2% negative. The average exchange rates for our key currencies are at the back of the presentation.
- Overall Food and Beverage sales rose 4% to 49.3 billion Swiss francs.

The make-up of the organic growth is slightly different from what some of you were expecting. The important thing is

- It was comfortably above our annual target for the Group of 5 to 6%, and
- It out-performed by 300 basis points our 12 year average of 5.9%.
- This is a strong start to the year which demonstrates the good momentum in our business.

<p><b>Slide 7 – 2008 Half-Year Results</b>  <b>Key factors of margin improvement</b></p>
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Let's now go to the EBIT margin development.

Here is our usual visual on how the EBIT margin has progressed half-one 08 versus half-one 07. Margins are ahead of consensus, though some of the line items differ a bit.

I'll start with the cost of goods. In line with our guidance that we would see significant cost pressure, we have reported a 190 basis point increase. There are two negative influences:

- First, increased input costs, and we stick with our agricultural commodities guidance of approximately 2.2 billion Swiss francs of additional full year cost pressure on a 2007 sales basis.
- Second, we achieved a 20 basis points improvement in the COGS in the first half of last year, as you might remember, because we took pricing ahead of cost pressures. The 2007 comparative is therefore artificially low.

Then there are four positive influences

- First, the effect of our efficiency programmes.
- Second, our pricing
- Third, our ability to leverage our fixed costs, as we grow the business
- Fourth, the mix evolution of our business.

Next Distribution. These costs fell by 30 basis points. This is perhaps the most surprising number. There are a number of points that have enabled us to more than compensate an environment of record oil prices:

- First, more than a third of distribution costs are fixed, so we get a scale benefit from our growth.
- Second, efficiency benefits
- Third, there is a mix effect, particularly as a result of the performance of Water and Ice cream compared to H1 2007
- Fourth, the number is reduced in basis points by the strong pricing element in our sales as there is no commensurate increase in distribution costs

Next Marketing & Administration. This has fallen by 190 basis points to 33.3% of sales. The split is that Marketing is down 120 basis points to 26.1% of sales, whilst Administration is down 70 basis points to 7.2 % of sales.

Our reduced spend as a percentage of sales should not surprise you, as I guess you are now familiar with this positive trend. I know that some people instinctively think that it is a bad thing when a company's marketing spend falls as a percentage of sales and that this

reflects poorly on the numbers. So, let me tell you why I don't have any concerns over the quality of our profit performance.

The downward trend in Marketing costs as a percentage of sales reflects three key influences. These are efficiencies, mix and leverage.

- First, efficiencies. For example, the focus on our billionaire brands and the drive for bigger, better, bolder innovation brings greater focus to marketing spend. Beyond that, we are achieving cost efficiencies in all areas. This is clearly a good thing and we still have room for improvement. An example is that we are working with customers and others on mutually beneficial ways to improve our returns on trade spend.
- Second, mix. There are obvious influences like near 40% organic growth at Nespresso, more than 20% organic growth of our PPP products, 11% organic growth in Nutrition, all with little or no trade spend; 18% organic growth in emerging markets which tend to have below-average trade spend. But there is also the benefit of our SKU rationalisation programme which continues. This targets under-performers, and these will most likely have higher-than-average trade spend.
- Third, leverage. We have quite significant fixed costs, and we are focused on controlling these costs. We therefore get leverage from our growth. Also, our organic growth is 300 basis points above our 12 year average, whilst our RIG is in line with average. That means the difference is due to pricing, at over 5% in 2008. At the risk of stating the obvious, you do not increase your marketing spend in line with your pricing.

Turning to consumer-facing brand support, that is our media spend and consumer promotions. This spend increased by 7% in constant currencies, reflecting significant activities in support of our brands in the markets.

To conclude on Marketing, I am comfortable that today's results demonstrate that our people around the world are giving our brands the support that they need to win in the market place and to deliver a sustainable strong performance.

Turning to Administrative costs. The 70 basis points improvement is a good achievement. It reflects

- Efficiencies and
- Leverage of fixed costs and the impact of our pricing.
- This remains a focus area for cost savings as part of our War On Waste.

Moving to R&D. We continue to increase our investment. You may have heard that we are opening an R&D centre in China this year.

The result of all this is a 30 basis points improvement in our reported EBIT margin to a record first half number of 13.8%.

I've already mentioned the 30 basis points currency impact on the Group's EBIT margin. I'm not going to detail the impact on the individual Zones or product categories, but the biggest impact is on Zone Americas and those product groups with big, profitable businesses in North America, such as Nutrition, Waters and PetCare.

In summary, on the EBIT margin, these are good quality numbers. The EBIT margin is up 60 basis points before the currency effect, achieved while continuing to invest in the development of our brands and ensure the longer term sustainability of the Nestlé Model.

**Slide 8 – Total Food & Beverages  
All geographies contribute well**

I'd like now to dive down into the business performance, starting with our total Food and Beverage business. We continued to perform well in all areas of the world, with Europe achieving 5.2% organic growth, Americas 9.9% and AOA 14.2%. Our emerging markets achieved organic growth of 18%, with the developed markets mid single digit. These are strong numbers relative to their respective markets. Let's look at them in more detail through our traditional primary reporting.

**Slide 9 – Primary Reporting: F&B**

This overview slide demonstrates the strength of our performance across the world, with everywhere, bar Waters, achieving organic growth at least within our 5 to 6% target range. In addition, all the Zones achieved higher organic growth than last year, as did Nestlé Nutrition. Let's go into the detail starting with Europe.

**Slide 10 – Primary Reporting: Europe**

Zone Europe achieved 5.8% organic growth and 2.3% RIG. These are strong numbers, reflecting the continued improving performance of this Zone. There were good first half performances in particular from Soluble coffee, Confectionery, PetCare and Culinary.

By market, the Great Britain region was the stand-out performer, with high-single digit organic growth. France, Germany and the Iberia region are achieving higher organic growth than in 2007. Eastern Europe continued to deliver double digit organic growth.

Turning to the Zone's EBIT margin, there was a 30 basis point improvement to 11.7%. The main contributors were leveraging our growth, as well as efficiencies and efforts to reduce structural costs.

On the roadshow on the 1<sup>st</sup> September, Luis Cantarell, Executive Vice President Zone Europe, will give you background into the key drivers of the Zone's improving performance, as well as touching on some of the issues that seem to be front of mind for you, such as the retail environment, private label, and demand trends. Hopefully, however, today's numbers have reassured you that our European business is in good shape and making progress..

**Slide 11 – Primary Reporting: Americas**

Next is Zone Americas. Zone Americas achieved 11% organic growth and 3% RIG. There were strong performances from PetCare, Shelf stable Dairy and Soluble Coffee, as well as from the smaller categories, such as Ready-to-drink Beverages and Biscuits. Slower performances were recorded by Ice cream and Frozen food.

In North America, the organic growth momentum was maintained, with the acceleration in PetCare compensating the slowdown in Ice cream.

Latin America continued to deliver very good growth, and our RIG is strong.

Turning to EBIT, there was a 40 basis point improvement in Zone America's EBIT margin. The main drivers were the strong organic growth, at 11%, as well as efficiencies.

#### **Slide 12 – Primary Reporting: AOA**

Zone AOA reported 13.1% organic growth and 4.5% RIG. These are strong numbers, above the Full Year 2007 level for both RIG and pricing.

The bigger categories all achieved double digit organic growth. Major emerging markets such as Greater China, Indochina, South Asia, Africa and the Middle East are all double-digit, as are the Philippines and Malaysia.

Japan slipped into negative territory after a positive start to the year. This is a reflection of the 2007 comparisons, and we expect a bounce-back due to a strong launch programme in soluble coffee, including *Nescafé Dolce Gusto*, and in Confectionery.

I'd also highlight our Popularly Positioned Product strategy, known as PPP, affordable products for consumers at the base of the income pyramid. This will be a growing market as incomes increase and more consumers start to buy branded products for the first time. For the moment, however, PPP is proving to be an effective defensive strategy. Some consumers are migrating to Nestlé PPP brands from Nestlé non-PPP brands. Our PPP products are effectively a "safe haven" for our consumers as they migrate, offering them known quality, taste and nutritional content. We recorded 40% organic growth in PPP in the Zone in the first half. There was a good performance also in Zone Americas from PPP.

Additionally, in Zone AOA, our nutrition, health and wellness strategy, designed to benefit from a growing consumer awareness of the importance of healthy eating, is also showing strong defensive qualities, with consumers reluctant to give up on recognised brands that contribute to a healthy lifestyle. Equally, premium products are proving resilient with middle and higher-income consumers who are better able to cope with the rising cost of living.

Turning now to Zone AOA's EBIT margin. It was unchanged relative to H1 2007. This was a good performance given the significant cost pressures and the dilution from foreign exchange. They've done a great job capturing scale benefits from growth, working on their overhead structure, their factory costs and trade spend efficiencies.

#### **Slide 13 – Primary Reporting: Waters**

Nestlé Waters reported -1.1% organic growth and -3.1% RIG, against a 10% organic growth comparative in H1 2007. This performance reflects a slowdown in the category in our bigger markets in part due to economic conditions and in part to perceived environmental issues around bottled water. That said, we expect to see an improvement during the rest of the year, as new initiatives benefit performance.

In North America, branded products lost share in supermarkets, but Nestlé brands continued to do well in Mass, particularly *Nestlé Pure Life* in Wal-Mart. *Nestlé Pure Life* is now established as a national brand and is taking share from regional waters.

In Europe, the industry suffered in France particularly, for the reasons already mentioned.

Our emerging market businesses continued to achieve organic growth above 20%.

The two billionaire brands, *Poland Spring* and *Nestlé Pure Life*, achieved positive growth.

The healthy hydration offered by bottled water is an ideal fit with the Group's nutrition, health and wellness strategy. The US market is growing faster than the more mature European markets, and per capita consumption is 20% lower than in Western Europe. So, there continues to be significant long-term growth potential in North America, as well as elsewhere in the world.

Turning now to Nestlé Waters's EBIT margin. It would have been a tough year even if the only challenge had been a lack of growth. Unfortunately, it is also challenged by increased PET and distribution costs. That said, the result would have been worse but for good work on efficiencies across all cost lines and some excellent work by the PET buying teams, as well as our industry-leadership in light-weighting bottles.

#### **Slide 14 – Primary Reporting: Nutrition**

Next is Nestlé Nutrition. This division achieved 11.1% organic growth and RIG of 5.5%.

Growth is in line with our target of 10%, and above last year. It was achieved despite SKU reductions as we merged portfolios between our existing and acquired businesses. We expect growth to stay around the target level at year end.

This strong performance was driven by outstanding growth in Infant Nutrition, double digit in the Americas and AOA, and reflects positive share trends. Particularly impressive is that the RIG, not just the organic growth, is double digit in many emerging markets, including China, Africa, South Asia, Brazil, Mexico and others.

Jenny Craig has returned to sustainable growth levels after an outstanding start to the year.

The 20 basis points EBIT margin decline for the division is less than the dilutive effect of the acquisitions, Gerber and Healthcare Nutrition. They improved their EBIT and are ahead of our merger expectations. The base business continued its trend of improving margins.

#### **Slide 15 – Primary Reporting: Other F&B**

Other Food and Beverage achieved 23.3% organic growth and 20.3% RIG. The EBIT margin was up 150 basis points to 20.4%. There were good performances from all the constituents, Nespresso, Cereal Partners Worldwide and Beverage Partners Worldwide.

#### **Slide 16 – Primary Reporting summary**

I'll summarise quickly on the Primary Reporting: Back in June, the financial market was focused on a slowdown in emerging markets; in July it was focused on a slowdown in Europe. What do our first half numbers show?

- In Europe, organic growth is almost twice the level at the end of last year
- In Zone AOA and the Americas, it is significantly above last year.
- Nestlé Nutrition is also ahead, with only Nestlé Waters weaker.

I'm sure you recognise that Nestlé is differentiated on several fronts

- Our chosen product groups

- The strength of our billionaire brands
- The productivity of our R&D
- The depth of our presence in markets around the world.

Nestlé is uniquely positioned, more resilient, with momentum and agility to progress in spite of the current conditions.

### Slide 17 – Secondary Reporting

Let's move to the product groups. Even just a glance at this slide reinforces what I've just said. It also gives you two key messages:

First,

- Nestlé's strong organic growth performance is broad-based
- All categories bar one are positive
- Most are at high-single-digit or double-digit organic growth

Second

- Regardless of one of our traditional high-growth businesses, Nestlé Waters, being negative, our organic growth is at one of its highest levels ever
- This demonstrates that Nestlé combines the characteristics of a resilient defensive play with those of a potent growth play

Let's go into a bit more detail.

### Slide 18 – Secondary Reporting Powdered & Liquid Beverages

Powdered and Liquid Beverages achieved 14% organic growth with 9.4% RIG. The Product Group's EBIT margin increased by 20 basis points to 22.9%.

All the categories reported double digit organic growth, based on RIG that ranged from mid- to high-single digit.

Soluble coffee reached double digit organic growth in the Americas and AOA and high single digit in Europe. Growth in Europe was broad-based across our portfolio, from value to premium *Nescafé*, as well as mixes. Successful launches in the second half of last year provided momentum, whilst the relaunch this year of our freeze dried premium and super premium variants should provide continued impetus. *Nescafé Dolce Gusto* continued to develop well with over 1 million machines sold, and new markets will be entered later this year. In Asia, our *Nescafé* variants, *Protect* and *Body Partner*, with functional benefits, performed well.

Powdered Beverages was double digit in AOA and high single digit in the other two zones, also helped by the strong nutritional benefits of *Milo* and *Nesquik*. Nesquik's accelerated growth in Europe is the result of the launch of lower sugar variants, in line with our Nutrition, Health and Wellness strategy.

*Nespresso's* organic growth remained near 40%, and its first half sales reached CHF 1 billion for the first time.

**Slide 19 – Secondary Reporting**  
**Dairy products, including Ice Cream**

Milk products, including Ice Cream, achieved 12% organic growth, with RIG of 1.8%. The EBIT margin improved 70 basis points to 11.2%.

The driver of growth was the Milk business at about 20% organic growth, double digit in all three zones.

There was a solid foundation of RIG, above 6%, based on a strong innovation and renovation programme. It was particularly strong in Latin America.

Our business in North America, primarily *CoffeeMate* and *Carnation*, continues to grow rapidly. *CoffeeMate* is benefiting also from its roll-out into new markets, and is now in over 50 countries around the world.

Turning to Ice Cream. Overall, the RIG moved from being about flat earlier in the year to being negative. The US ice cream market is down, and has seen higher pricing and pack down-sizing. In Europe, we had an increasingly tough half, in part because of the 2007 comparison. Our global shares have held up generally well, however, with our top 3 markets, including the US, improved.

The smaller business in this category, Cereal Partners Worldwide, our JV with General Mills, achieved organic growth of around 7%.

**Slide 20 – Secondary Reporting**  
**Prepared dishes and cooking aids**

Prepared Dishes and Cooking Aids reported 5.4% organic growth, with 0.9% RIG. The EBIT margin was down 70 basis points to 11.4%.

The Culinary business, mainly *Maggi*, was outstanding with near double-digit organic growth and strong performances in all three zones.

In Frozen Food, the slowdown in North America is related to different pricing strategies between us and our competitors. We have moved up prices for *Stouffer's* and *Lean Cuisine* in response to raw material pressures. On the other hand, *Hot Pockets* is starting to see the benefits of the new strategy following the change in team back in February 2007. Its growth is positive, with seven new launches this year.

We expect the North American Frozen Food to improve in the second half, driven by market initiatives that have already been launched.

The European Frozen and chilled businesses benefited from good performances by *Wagner* and *Buitoni* Pizzas.

**Slide 21 – Secondary Reporting: Confectionery**

Confectionery reached 7.7% organic growth with 1.7% RIG. The EBIT margin has improved across all Zones, and is up 180 bps to 10.8% of sales.

The UK market performed well, with double digit organic growth and a good improvement in EBIT margin. This reflects the success of our focus on the Magnificent Seven brands, as well as the resizing of our big facility in York.

We are now going through a similar brand review in our big US business, and this has an impact on the product group's growth as we focus on fewer SKUs and brands.

Elsewhere, the relaunch of *Kit Kat* in Western Europe has been a great success, demonstrating the importance of renovation in this category. *Kit Kat* is also performing well in emerging markets such as India, the Middle East and Russia, and has achieved 15.4% organic growth globally.

Our focus on nutrition, health and wellness saw the launch of *Nesquik* bars with calcium in Mexico, Chile and Turkey, as well as the launch of *Combina Com* wholegrain cereal bars in Brazil. *Rowntrees* and *Bon Pari* jelly ranges, meanwhile, continued to show good growth, benefiting from communication on 25% fruit content.

On the EBIT margin, we expect a similar trend to last year, due to raw material pressures and seasonal effects.

#### **Slide 22 – Secondary Reporting: PetCare**

PetCare continues to perform well, accelerating to 10.9% organic growth, equally split between RIG and pricing. The EBIT margin declined 40 basis points, mainly due to raw material pressures in the US. The margin development will be better in the second half as we get the benefit of first half pricing and other actions.

There was double digit organic growth in both the Americas and AOA, and high single digit in Europe.

This is a strong, broad based performance, driven by key brands, such as *Beneful* which has 28% RIG and *Bakers* with 18%. Many other brands, including super-premiums like *Fancy Feast* and *Gourmet*, are in the 7 to 8% range. There was also a series of successful launches such as *Cat Chow Healthful Life* in the US, which validate our nutrition, health and wellness strategy in this category.

The business in Zone AOA is worth a particular mention. Following a clean-up of the product mix in 2007 and a decision to focus on six key markets, we are seeing very strong volume growth, as well as double digit organic growth.

#### **Slide 23 – Secondary Reporting Pharmaceutical Products**

Pharmaceutical products, primarily Alcon, reported 9.6% organic growth, with RIG of 8.5%. There were good growth and EBIT performances by the key constituents, Alcon and Galderma. The gain from the partial disposal of Alcon will be booked in the Full Year numbers in "Net Other Income". The contribution to minorities will increase to reflect the larger percentage of Alcon now held by shareholders other than Nestlé.

## **Slide 24 – Secondary Reporting**

I'll say a few words about our FoodServices business, Nestlé Professional. It's not on the slide as the sales of Nestlé Professional are included in the relevant product groups. It achieved 7.6% organic growth, with RIG of 2.1%. This RIG is impacted by a global refocusing of the business's priorities and accompanying significant SKU rationalisation programme. Our AOA business is performing very well, with double digit growth in markets such as China, India and South East Asia.

We are not seeing any material impact on this business from the economic situation. We are the largest branded manufacturer in this industry, but only a small player in a very larger market. We therefore believe that we have sufficient new business opportunities to more than compensate for any economic slowdown.

Finally on the Product groups. As I said, a brief glance at this slide shows you the strength of our portfolio today.

## **Slide 25 – F&B “Billionaire brands” Over half grow double digit**

That strength is also very evident in the performance of our billionaire brands. I've already covered this in my product group review. The picture here is very positive, with over half our billionaire brands achieving 10% and more in terms of organic growth. Also, every category except Prepared dishes and cooking aids has at least one brand growing over 10%. In Nutrition, Milk Products and Powdered & Liquid Beverages all the billionaire brands are double digit.

Our commitment to managing for the longer term means that our portfolio is only going to get stronger as we continue to invest in our products and brands, in R&D and innovation, in new distribution channels and business models.

So, whether you're a bull or a bear on economies, Nestle is doing the right things to create shareholder value in the shorter and longer term.

## **Slide 26 – P&L: EBIT to net profit**

Briefly, the P&L down to the net profit. There are one or two lines to comment on. Financial income is down reflecting a lower level of liquidities. The benefit in taxes is a mix of a lower rate at Alcon and a greater weight to one-off tax credits rather than one-off tax expenses relative to the first half of last year.

Overall, the net profit increased by 20 basis points to 9.8%.

## **Slide 27 – Financial position**

I'll finish my review with a brief look at the financial position. Our operating cash flow is 3.5 billion Swiss francs. This number is down from last year, reflecting increased working capital. This increase was primarily as a result of higher raw material costs. Additionally there are increased stocks held as part of line and factory restructurings. These are only first half numbers and there are some good reasons for this working capital performance, but I'm not satisfied, and I will be looking for a better outcome by the end of the year.

Our net debt position, seasonally high at the half year at 25.8 billion Swiss francs, will reduce during the second half to below the level prevailing at the end of 2007.

We are accelerating our share buyback, and we expect to spend about 2 billion Swiss francs more by the end of 2008 than would have been the case if we were running it on a straight- line basis over the three-year period. This means that by the end of the year we will have completed about 13 of the 25 billion Swiss francs programme.

## **Slide 28 – Outlook & improved guidance**

I know that many of you will devote your energies to working out approximate Q2 organic growth numbers and will draw your own conclusions. For me, however, energy is better rewarded by focusing on our initiatives to drive sustainable profitable growth across the entire portfolio.

Any given quarter's numbers are influenced by comparatives, the timing of marketing initiatives, and by events such as an early or late Easter. They do not necessarily sign-post for us either a deceleration or an acceleration.

What matters is that the first half organic growth numbers, above the level achieved throughout 2007 and comfortably above our long term targets, demonstrate that we have strong momentum in our business.

Furthermore they have been achieved whilst also achieving a 60 basis point improvement in our EBIT margins, reduced to 30 by currencies. High top line growth combined with a strong EBIT performance – that's the Nestlé Model.

We said in our Full Year Results press release that we have moved far beyond the traditional food industry and that our success is more driven by our ability to innovate and launch new added value products and services in line with our nutrition, health and wellness strategy than it is by raw material prices or the economic environment. I think today's numbers demonstrate the truth of that statement.

To end, we have slightly raised our outlook. We expect organic growth to be at least at the level achieved in 2007. We also expect to achieve an improvement in our reported EBIT margin, as well as constant currency.

## **Question and Answer Session**

**Questions on;      Organic growth in Nutrition  
                                 Cost savings**

**David Hayes, Lehman Brothers:**

Firstly at the risk of doing what you just said in terms of breaking down the first and second quarter, just focussing on Nutrition. It looks like the RIG there went from about 10.2% in the first quarter down to 1.3%, quite a big drop for an area that perhaps you might expect to be stronger from a volume mix perspective. Can you just talk us through whether there was any specific drivers in the second quarter there and whether you'd expect the shape of that to revert back in the second half?

Then the second question is on cost savings. Should we assume that the cost savings are being achieved pretty evenly through the year? So I'm guessing based on previous comments 500 million-ish CHF of cost savings in the first half and then similar for the second half?

**James Singh, Chief Financial Officer, Nestlé S.A.**

I would say with respect to Nutrition the anomaly was more or less Q1. The previous quarters were all around 10% organic growth. We are now around 10%. That makes the first half year another strong period for Nutrition. We expect the year to end at around 10%. The business is in great shape and it's improving towards the 10% organic growth top line and progressing towards the 20% EBIT target.

In terms of your question on cost savings, I would say that our cost saving programme is on track to achieve the billion CHF that we had indicated before, but slightly more heavily weighted towards the end of the second half more or less.

**David Hayes, Lehman Brothers:**

Just going back to the Nutrition part, in terms of the shape of Nutrition we should assume that 10% is achieved with kind of a skew towards price rather than RIG, so RIG 2% and price 8% - that kind of shape. Is that fair to say in terms of comparing first quarter versus second quarter shape?

**James Singh:**

No, I wouldn't get into splitting the elements of organic growth. I would say that the business is on track to deliver about 10% organic growth for the year.

**Roddy Child-Villiers, Head of Nestlé Investor Relations, Nestlé SA:**

Just to be clear not all of the savings got into the COGS (Cost of goods sold) line.

<b>Questions on;</b>	<b>Pricing for second half Regional performance in Nutrition Update on Jenny Craig and Performance Nutrition</b>
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**Marco Gulpers, ING:**

The first question is what are your expectations with respect to pricing for the group in the second half? Do you still need to recover further pricing into the second half?

The second question is again on the Nutrition business. You are expecting indeed organic growth around the target for fiscal year '08. Could you take us through what happens with respect to the regions on Nutrition? Where did you see the slowdown occurring in the second quarter versus the first quarter? And also can you provide a bit of an update on Jenny Craig and Performance Nutrition. Where was the slowdown specifically coming from?

**James Singh:**

I would say with respect to your first question, you know we're trying to emphasise the point that the focus is on profitable growth versus volume or pricing. We believe the key to our success is profitable organic growth, and dependent on the circumstance the mix will change, as you have seen during the course of the last 18 months. So we will not give you any kind of split between pricing and RIG for the second half.

On Nutrition, I would say we have seen very good performance in most of the key markets, with some slight softness in France and Germany. Other than that I think the business is doing very well, in a very balanced way.

On Jenny Craig we started the first quarter pretty close to 40% and that's not a performance we expect from this business on an annualised basis. So the slowdown was anticipated and we are trying to achieve a level more sustainable for the business.

**Marco Gulpers, ING:**

A follow up question if I may, have you seen any inventory build up ahead of price increases in your business within Nutrition? That's the last question, thanks.

**James Singh:**

No.

**Roddy Child-Villiers:**

Just to be clear on this, you know we do not see Q2 as a slowdown, we see Q1 as an unsustainable level of growth and Q2 a normalising effect on the Nutrition business. This is not a slowdown trend, simply a normalising effect and we think we are around the level now, in terms of organic growth, where we'll be at the year-end, around the 10% target level.

<b>Questions on;</b>	<b>Trends in consumer habits Working Capital</b>
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**Jon Cox, Landsbanki:**

Just to start on some of the trends, you're saying that premium is holding up pretty well but you're obviously reporting some sort of down trading into PPP (Popularly positioned products). Can I take that to mean that there is some pressure on the middle ground as it were in some of the markets and I wonder if you could just talk us through - particularly maybe in Europe and the US?

The second question is on inventory. I think previously you've talked about potentially an absolute decline in working capital, obviously with today's figures, that was not the case. I'm just trying to get some guidance for the year as a whole on working capital? Should we be plugging in that sort of one billion additional that you seem to have pointed to in H1?

**James Singh:**

In terms of trends; where our PPP offers our consumers an opportunity to move from the traditional Nestlé products to PPP - for us that's very positive in the sense that we get the benefit from any trading down that is taking place there. But you know although there is some elements of that what we are noticing is that new consumers are the key driver to the growth in our PPP products. So yes there are areas where there is a degree of trade down but I don't think it's material to really describe it as a trend as such. What we are happy about is the fact that we have the business model to allow our consumers to do that.

On the inventory, there are two elements to the inventory, first of all there is the cost impact on our inventories. Now you will recognise that this time last year the full effect of the costing, that took place over the last 12 months, had just begun at the beginning or perhaps April or May of last year. So there was virtually no acceleration of the cost effects in our six months inventory last year.

This year we're seeing 12 months impact of those increased prices in our inventory levels. So there is going to be increased costs in our inventory. Now there is a temporary build up because in some areas, for example in Europe where we are restructuring one of our major manufacturing facilities, we have had to do a temporary build up in some areas to facilitate those changes. That is the area where we will work very hard to reverse in the second half.

What I must say however is that if you look at our total inventory, which as I said is significantly influenced by cost increases, the total inventory is lower by 10 basis points relative to our sales and where they were last year. So there is an element of inventory build up where we have to be diligent, during the course of the next four or five months, to remove it from the current pool.

**Jon Cox, Landsbanki:**

Just as a follow up, can we roughly say that maybe half of the inventory build is caused by the higher commodity prices, etc, and half from the restructuring in the industrial network? Is it roughly half/half or is it maybe two thirds costs and one third on the factories?

**James Singh:**

Well I won't be able to give you that information. What I could tell you though is that the element that relates to the build up will not be there at the end of the year.

**Roddy Child-Villiers:**

Can I just add one thing on the PPP? Jon talked about pressure on the mainstream business, in the press release we tell you that the PPP products overall grew about 20%. These are obviously primarily in emerging markets. We also told you that our emerging market business has grown overall about 18%, so clearly we're achieving a lot of growth outside PPP in the emerging markets.

We've also told you in the past that our PPP business has profitability in line with the non-PPP products in the same categories. So we don't see this as anything other than a positive trend and it demonstrates that we're doing the right things strategically.

**Julian Hardwick, ABN AMRO:**

I was just wondering if we could go back to the marketing development. Would you be able to help us by isolating the impact of some of the trends that you commented on as lying behind that, particularly how much came as a result of mix and how much was reduction in trade spend? And consumer marketing looks as though it is still down meaningfully in basis points terms; I would guess we're talking about something like a 60 basis points decline. Is that broadly right and within that what was the evolution of the media spend?

**James Singh:**

First of all our marketing - what we call marketing - is a bundle of marketing related costs. It includes our trade spend; our advertising and consumer spending. It includes our marketing administration, our marketing department sales forces, etc. So there is a basket of activities in that pool and that is why it is nearly 26% of sales.

What I would say is that we are convinced that we are spending in a very focussed way, a very creative way to support our brands. And I could assure you that the activities to do that are increasing. So specifically with respect to what we call advertising and consumer promotion our activities are increasing but we are finding better ways, creative ways to get better value for money and we are very focussed on what brands, where and how and when we support.

Now what I could also assure you is that we will continue to drive for efficiencies in this entire bundle of costs. And so on one hand I would like to assure you that we continue to drive for efficiencies and this area is no exception. But on the other hand we are fully supporting our brands to make sure they remain competitive. We did several launches of new and innovative products, so in the end we continue to win in the marketplace.

**Roddy Child-Villiers:**

Julian I don't know if you missed the number, but we said on the call that our consumer facing spend is up 7% in constant currencies. And you know I would just say again this whole talk about percentage of sales, when you've got over 5% pricing it's the wrong comparison, completely the wrong comparison. There is no increase in your marketing spend because you've got 5% pricing in your sales line. You know this is not the right comparison to be making.

**Julian Hardwick, ABN AMRO:**

Right I take your point on that, but this is a relative game and some of your peers are increasing their consumer marketing as a percentage of sales. So I mean if you're reducing yours there maybe good reasons as you say in terms of improving efficiency, but it would be helpful to have some sort of numbers just to sort of support the reassurance that you've given us.

**James Singh:**

I can't speak for our peers but what I could say is for us it's not how much you spend it's what you get for it. And clearly you're looking at the performance of our larger brands; I mean these are outstanding performances by our key brands that drive the performance of this business. So you know we are very happy with where we are and what we continue to do to drive the competitiveness of our brands.

**Roddy Child-Villiers:**

I would even go further and I would say if it hadn't been for all the marketing that we put behind our brands we wouldn't be able to get the 5% pricing. You know we clearly are giving our brands the support they need.

**Julian Hardwick, ABN AMRO:**

I appreciate you don't want to talk about how pricing and volume split is going to evolve in the second half. But can you just talk to us about the scale of further price activity that you need to take to offset your commodity cost increases as far as the second half is concerned?

**James Singh:**

I think that, this is a very general statement, we have implemented to a large extent most of the pricing that we need to take this year. However, we continue to take pricing because as you would have seen in the marketplace commodities continue to go up. And we must take price increases or find a way to offset the commodity cost because that represents the quality of the performance of our business. So I would say most of our pricing actions are today in place, but I do not want to tell you that you know we are not going to take further price increases this year. We will if we think that that's the right thing to do.

**Julian Hardwick, ABN AMRO:**

So that would probably suggest as we roll through the second half that the contribution from price is not going to accelerate from where we are in the first half.

**James Singh:**

Well that's your conclusion Julian.

**Julian Hardwick, ABN AMRO:**

Well would you care to comment on my conclusion?

**Roddy Child-Villiers:**

We've already said we're not going to break this down into two pieces, but I mean your conclusion seems to have a good degree of logic to it. And there are categories, I mean in PetCare we took pricing in June for example, so that will clearly work its way through the second half of the year. You know it's very category specific what we're doing in terms of pricing.

**Alex Molloy, Credit Suisse:**

Just a quick one on input costs, at your seminar in June you talked about stabilisation of input costs in the second half. The index which you showed in your presentation - of course that's spot prices, also looks still as though it's off nicely. And I think comments earlier in the year - you've said you expected input cost pressure to be more in the first half and then in the second half. Is that still the case?

**James Singh:**

I think what we said to you with respect to agricultural commodity costs we still maintain that for this year the impact, the additional cost to our business this year will be about 2.2 billion CHF, slightly more heavily weighted to the first half. But I think the focus will be on the annual amount. We believe that's the number we will be pretty close to at the end of this year.

**Alex Molloy, Credit Suisse:**

Thanks and just a follow up on the marketing questions that have been asked. Does the way you account, compared to peers, have quite an impact on these percentage of sales comparisons. In other words if peers reduce their promotional activities we won't see it because it's netted off on sales. But with you guys you see it in lower volumes and lower costs in marketing?

**James Singh:**

Yes, there is a major difference - as I said in our bundle of marketing costs is all of our trade promotions. And I think when we talk about you know promotions we need to differentiate for our purposes, what is trade and price promotions and what are brand and consumer promotions. In our trade promotion we are gaining efficiencies, I explained in the first part of the conference call what are some of the drivers of that, the mix in the different parts of the world, different businesses, etc. So that's why we are showing significant efficiencies due to many activities, many actions, mix, efficiencies, etc in that part and it's having an influence in the total numbers we're reporting.

**Alex Molloy, Credit Suisse:**

On that 7% increase in constant currency on what you call consumer facing promotions, what proportion of that 26% is that? I think you've indicated in the past that pure media spend is about 5% of sales, is that what you mean or is it a larger bundle of costs?

**Roddy Child-Villiers:**

Good try Alex; we haven't gone there before but good try. That 7% is on consumer promotions and media spend. But we haven't broken out how much that is.

**James Singh:**

One thing you can be reassured Alex, it's not coming down.

<b>Questions on;      Trading down by consumers in Europe and US Organic growth mix in Dairy</b>
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**Alain Oberhuber, MainFirst:**

In Europe, mainly here in Western Europe, have you already seen a trading down from the consumers and on the other side in the US, as the economic environment is even worse there, have you seen a trading down in the US? And in Europe again a private label increase?

The second question is about the Dairy organic growth mix between price and volume; it was heavily based to price increases. Are you expecting for the second half that the price volume mix will change more in favour of volume as we have seen powdered milk commodity prices come down?

**James Singh:**

Let me just deal with the first question. You know our business reflects progress overall in all our brands, in our mainstream products, our PPP, our super premium products and also our out of home business. But I would say in one or two categories there is evidence of trading down. For example in the US and in Western Europe in particular I would say there is a bit of trading down in the water segments as people move to more affordable water products from the mainstream or premium price products. And that is why you know we have lost share in the US, in retail, and marginally in retail in Europe.

However, the partial offset to that is Nestlé Pure Life where the brand is growing in high double digit, where people are moving now to Nestlé Pure Life and we have had remarkable performance in the mass merchandising areas, especially Nestlé Pure Life in the US at Wal-Mart. So there is an evidence of trading down in the water business.

Also in the US I think frozen food is more of a value story in these times. And what we have seen is that particularly in that category; the frozen food category in the US, consumers have traded down - not to a lower quality, high quality but lower price points. And you know that has impacted the performance of our Stouffer's businesses in that market. Now we have implemented changes and adjusted our price points and we're starting to see some good results in that area. So yes, there are evidences in some areas of trading down. But generally as you've seen our business is in pretty good shape.

Now in Dairy here again we're not going to get into the mix of price or volume. But I think most of the Dairy prices, I think the cost impacts we have seen manifest themselves and therefore we have taken significant pricing. That's why pricing is so high in this category. I would think pricing will more or less abate in terms of new pricing action for the next half.

But please bear in mind that the pricing that has been taken will continue for the year.

**Roddy Child-Villiers:**

Alan you mentioned private label and obviously Luis will talk about this in more detail on the road show. I've seen some statistics that show that private label has gained about 0.2% I think it is, share points from an organisation called Planet Retail. But you can see from our

performance both our RIG and pricing is above last years level so we're clearly not being impacted by that.

<b>Questions on;</b>	<b>Risks for 2009</b> <b>Tax rate for full year</b>
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**Patrik Schwendimann, Zurcher Kantonalbank:**

What do you see as the biggest risks for 2009 for Nestlé? And secondly regarding the tax rate you had in the first half at 24.2% what's your best guess here for the full year for the tax rate?

**James Singh:**

I would say we do not see any catalyst for change with respect to the external environment. There is the expectation that things will start to improve early next year. But you know the risks that prevail in our business today are those that we have to manage with the expectation that it would likely continue well into next year. So what we're doing as we've said earlier is that we have a good defensive posture but also a very aggressive growth stand. And I think we're able to demonstrate that we can make progress based on the momentum we have in our business and on our ability to deal with the different things that occur outside of our control. So the risks you see today we are expecting those to continue well into 2009.

In terms of our tax rate I would say the tax rate for the first half is influenced primarily by tax saving measures implemented by Alcon and to a lesser extent to the holding company level. Last year we had some tax expenses, this year we have some minor tax credits. So in a company of our size you will see that tax credits this year versus expenses in 2007.

**Patrik Schwendimann, Zurcher Kantonalbank:**

Will the full year be similar to last year which was at 25% roughly?

**James Singh:**

At the last year end it was 23.5%.

Now for the whole year I would say given the impact of the proceeds from the Alcon disposal that our tax rates will be high teens but below 20%.

**Patrick Schwendimann, Zurcher Kantonalbank:**

And without Alcon?

**James Singh:**

And without Alcon - the underlying tax rate will be I would say about 27%.

<b>Questions on; Administration costs Share buyback</b>
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**Warren Ackerman, Dresdner Kleinwort:**

I'm just wondering whether we can go back to the administration costs within the P&L and the 70 basis point improvement. I'm just wondering Jim whether you'd give to me some examples of what you've actually done to improve that line and what you actually think the optimal administration costs as a percentage of sales could be for Nestlé i.e. you know should we be expecting to see an ongoing benefit from that line.

And second one just a point of clarity really on the share buyback. What is the reason for the acceleration this year and is it simply a pull forward from '09 to '08 or could the 25 billion number in totality be exceeded?

**James Singh:**

On admin cost this was one area, as was said before, it's an area where we needed to experience better performance. Remember last half year performance Paul (Polman) made that comment. Now we have always focused on managing our admin costs but with the growth rates that have been occurring I think we might have slipped a little. What we are doing now, we are targeting the growth of our admin expenses well below the organic growth targets.

So as we continue to grow we will continue to target lower levels of evolution of our fixed cost. And we're doing that in admin and in other areas where there are fixed costs. So I would say that we will continue to experience a positive trend in this area. We don't really have a target; obviously the absolute level will depend on the size of our business as we progress over the next years.

**Warren Ackerman, Dresdner Kleinwort:**

But presumably you get diminishing returns. I mean would something like a 5% admin to sales - would that be realistic or would there be structural constraints to get to that kind of number?

**James Singh:**

Well a lot of it will depend on the mix of the business too you know. So that's only the product mix but the regional mix. But I would say that our focus is to make sure that our admin expense does not grow at the same rate as our organic growth.

**Warren Ackerman, Dresdner Kleinwort:**

And share buybacks?

**James Singh:**

On the share buyback, the point here is that you know we had said before that the 25 billion CHF would be acquired evenly over the 36 month period. And what we're saying is that, given the acceleration or the increased level of acquisition of buyback programme, we will, at the end of this year, be closer to 13 billion out of the 25 versus if you took a 36 month

running average you would be about 11 billion. So that's where we get to the two billion. Now it is part of the 25 billion and yes, if we do this, we will likely finish earlier than the 36 months and when we get there we'll have to look and see what needs to be done beyond that.

**Warren Ackerman, Dresdner Kleinwort:**

Could you remind me of what your authority is on share buybacks? Do you have the authority if you wanted to, down the line, to increase that or would you need to get approval for that?

**James Singh:**

This is a matter for the board.

**Roddy Child-Villiers:**

There is a legal limit which I think is 10%.

**Warren Ackerman, Dresdner Kleinwort:**

10%. Okay thank you.

<b>Question on;            Organic growth for emerging markets</b>
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**John Parker, Deutsche Bank:**

Did you give a figure for organic growth for emerging markets overall? Did I hear you or if not can you do that?

**James Singh:**

It was 18%.

**John Parker, Deutsche Bank:**

18% for organic growth in the emerging markets. Thank you. And would you care to venture a RIG pricing split for that 18% or presumably pricing is somewhat higher but are you able to give any sort of guidance there?

**James Singh:**

I think we will stick to our original guidance in terms of total organic growth. And it's - I don't think the key area is that we are making excellent progress in the emerging markets as we are in developed markets. You know mid single digit organic growth numbers in the developed market is an exceptional performance in these times.

**John Parker, Deutsche Bank:**

I just wondered why you're a little bit reticent about giving any sort of second half guidance on the RIG pricing split. I mean this is something you've been relatively happy to do at times in the past. What's kind of holding you back here?

**James Singh:**

We're not holding back we're just being sensitive to the different economic environment in which we currently operate. You know the pricing is driven by what's happening in areas that we don't control, especially in pricing, in commodities, in fuel and fuel by-products. So our focus is really what is the character of the growth we need to drive the Nestlé model, the business performance? And therefore trying to get into a discussion as to what is price and what is mix as a guidance I would say is difficult and perhaps not value added.

**John Parker, Deutsche Bank:**

I see so it's because it's not predictable in the current climate but your message is what is predictable is delivery of the overall numbers. Fine, understood, thank you.

**Roddy Child-Villiers:**

I think John it's also - you know it's very complicated. when we have PetCare with evenly split RIG and pricing. And then you've got Dairy with a very heavy weight to pricing. And every other category has its own different mix. And they are all evolving and then out will pop the average which is the group number. But it's a very difficult thing for us to forecast accurately, even in times of low volatility and this is now high volatility. So I think there's not much to gain from it, particularly when the focus is on profitable growth which is a combination of both.

<b>Questions on;      Volume thresholds</b>
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**Jeff Stent, Citigroup:**

Just sort of following on from that, on your focus on sustainable profitable growth, do you have any sort of volume thresholds for the group as a whole or by category? I'm just thinking about as we move forward as you sort of play the balance between securing volume and having to increase price to maintain/increase margins.

**James Singh:**

You know our guidance is on organic growth. We have said as a company our longer term objective is to deliver sustainably 5 to 6% organic growth. We are not likely to go back to the area where we were targeting RIG as an objective. As we said in the earlier part of the discussion, in times when agricultural materials were at a deflationary level for an extended period of time we had to focus on making sure that our volume evolution was robust.

Today we do not believe that we're going to get into a deflationary agricultural commodity environment any time soon, and therefore we have to focus on profitable growth, and I think that's the essence of our discussion this morning, that our focus is on driving growth profitably with a combination of volume and price recovering increases in commodity costs, or other elements of cost that are having significant impact on our cost base. So that's why

we do not want to be drawn into a discussion of pricing versus volume. I think we want to focus on total growth and total profitable growth.

**Roddy Child-Villiers:**

Your question is a very good question and the way that we manage the group is that this issue is handled locally in the markets by the market heads and then by the individuals running the categories in those markets. And it is their job to find the right balance between pricing and RIG, market shares and profitability, to ensure that they deliver on their top line and bottom line targets that they've got. And to do it in a way that protects the sustainable profitable growth of the business in that market.

And that's what they're paid for and that's what they do. And that's how we run it here, we don't run it from the top down and set some sort of volume threshold as you called it, this is very much devolved to the markets where they are able to execute.

<b>Question on;</b>	<b>Margin Guidance</b>
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**Alan Erskine, UBS:**

Jim when you talked about the margin guidance for the year, was my interpretation right that you said that you now expect an increase in reported EBIT margin, in other words that previously you'd been confident of an improvement in constant currency but now you're confident of also an improvement in reported.

And if that interpretation is right can I just ask as a follow up why if as you say the restructuring is going to be more weighted to the second half but the input cost inflation was more weighted to the first half. Would it not be reasonable to expect that you should do better in the second half in terms of margin evolutions than in the first half?

**James Singh:**

We didn't talk about restructuring in the second half but be that as it may what we have said in terms of our guidance is that we are now saying that our EBIT margin will improve on a reported basis as well as in constant currency. You will recall that our previous guidance as we have always done is in constant currency. And you have seen in the first half that we have delivered on both. And therefore the first half performance has given us the confidence to now come to you and say that we expect not only an improvement in constant currency but also an improvement in reported margins.

**Alan Erskine, UBS:**

Can I just ask I think consensus is for 30 basis points improvement for the full year which I would assume is on a reported not a constant currency basis. Are you comfortable with that consensus?

**James Singh:**

I think the consensus was about right for the first half on both organic growth and EBIT margin. We have slightly outperformed EBIT margin. But it varied from what we reported on the points in between. So in as much we believe the consensus was about right for organic growth and EBIT there were differences in the line items between sales and EBIT.

And therefore sure that you will all want to review your numbers after today's discussion. A number of preview notes highlighted that the second half will be less impacted by input costs than the first. Some even described it as a 'sweet spot'. When we coin the phrase a 'sweet spot' in the first half of last year it was to describe the time lag before the rising material cost impacted our goods. That time lag is there also when raw materials start to fall.

So we don't believe in the second half 'sweet spot' nor do we see a catalyst for any improved economic environment in the rest of the year. However as I said we are confident in our own performance which as we have demonstrated today is enabled by Nestlé differentiating qualities and strategy and its speed and discipline in execution. Our guidance is clear therefore; we have good momentum and will achieve organic growth at least at last year's level. We will also deliver an improvement in reported EBIT margin as well as in constant currency.

So based on this analysis I would like to conclude therefore by saying that I believe that our full year EBIT margin and our organic growth will not be materially different from the current consensus. However I need to say it that we do not see any catalysts that will change what is being projected currently.

**Alan Erskine, UBS:**

Basically what you're saying is that you're not going to see a reversal of the very beneficial circumstances you had in the first half of last year. The second half of this year is going to be another challenging year but one that you are comfortable with in terms of what market expectations are.

**James Singh:**

Currently, yes.

<b>Questions on;</b>	<b>Foreign Exchange rates</b> <b>Packaging and oil related costs</b> <b>Efficiency savings</b>
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**Nick Sochovsky, Merrill Lynch:**

Just a couple of point of clarification as well: the FOREX to margins of 30 basis points negative in H1, assuming current exchange rates would that be the similar sort of hit you're expecting for the second half? And then the second point you talk a lot about your agricultural costs being at 2.2 billion. What about when you take account of packaging and oil related costs? What sort of figures should we be looking for because I imagine they're set to still inflate H2 on H1? So could you give us a sense there as well please for more of a total cost inflation figure?

**James Singh:**

On the foreign exchange Nick, we believe that the currency impact in the second half will be significant, all be it slightly lower than the 30 basis points that we experienced in the first half. So you know because the Swiss franc remained one of the strongest currency in the world and in a lot of situations we are seeing that continuing and I think it will hold up for the

balance of the year. But we believe that the impact will be marginally lower in the second half.

On agricultural commodities as we've said before the annual impact on agricultural commodities, based on 2007 sales level, will be about 2.2 billion. There are of course other increases based in other areas, packaging, PET and so on but I think all major focus, plus our efficiency programme, I think we are managing those parts very well, and also the agricultural commodities as you seen with respect to pricing. But I would not want to get into the details of packaging and all the elements at this stage.

**Roddy Child-Villiers:**

We have obviously taken that into account in our guidance.

**Nick Sochovsky, Merrill Lynch:**

Then just finally, the billion of savings that you're talking about, those efficiency savings, does that include the efficiency savings you're seeing within the marketing line?

**James Singh:**

Yes all over the company. All lines of our P&L.

**Closing slide**

**James Singh:**

Thank you for your questions. It is clear that our focus on value creation is working. Evidence by profitable growth with margin expansion, leveraging scale and scale for greater efficiencies in all areas of our operation. The billionaire brand; strong performance is driven by R&D influence, innovation and renovation. Excellent all round performance, organic growth in emerging markets at 18%, mid single digit in developed markets. Investing where growth is, for example an R&D centre in China close to one billion consumers and with access to top local talent. Increased cash returns to our shareholders through the accelerated share buy back programme. All these and more contributing to sustainable value creation and to making Nestlé the reference for financial performance.

With respect to performance outlook we have guided to high levels of performance with organic growth at least at the 2007 level with EBIT margin improvement both reported and in constant currencies. Of course all these add up to progress to another year of delivering the Nestlé model. I would like to thank you very much for your interest in Nestlé and goodbye.

END OF TRANSCRIPT