

NESTLÉ S.A.

2008 FULL YEAR RESULTS CONFERENCE CALL TRANSCRIPT

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

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

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Mr James Singh, Nestlé SA, Chief Financial Officer

Slide 1 – Opening slide

Good morning everyone. Welcome to our conference call to discuss our 2008 full year results.

Slide 2 - Disclaimer

As usual, I'll take the safe harbour statement as read and move straight to my presentation.

Slide 3 – 2008 Full Year Highlights

2008 was a really good year for Nestlé, particularly in a year when global business conditions deteriorated sharply.

The achievement of 8.3% organic growth was above our October guidance, and significantly above both the market's expectations at the start of 2008 and our Nestlé Model target.

Equally, our improvement in the EBIT margin was in line with consensus. Arguably it was even ahead in terms of operating performance, because we met consensus despite the 20 basis points negative currency impact.

The EBIT margin performance demonstrates Nestlé's ability to overcome challenging market conditions. In 2008 those challenges included significant raw material and packaging material inflation and price volatility, weaker consumer demand, and adverse currency impacts. As some of these will recur in 2009, you can take some comfort from our proven ability to manage successfully through these challenges.

The Food and Beverages business was the key contributor to performance, with 8.2% organic growth and a 40 basis point improvement in EBIT margins in constant currencies. For the second year in a row, this performance was broad-based. Each of the three Zones, as well as Nestlé Nutrition and Other Food and Beverages all achieved a good level of profitable growth. This demonstrates the momentum in our business, and is one of the reason why we remain optimistic for a further improvement in our performance in 2009, despite the tough environment.

The 2008 performance was built on the twin pillars of growth and efficiencies. The Billionaire brands, about 70% of our food and beverage sales, were the key drivers of growth. Many outperformed their markets, driven by our continuing focus on nutrition, health and wellness and by our accelerated targeting of the particular needs of consumers in different economic circumstances, by our significant presence in emerging markets, by near 10% growth with our top 10 customers, and by our multi-channel, multi-price point strategy.

On the efficiency side, we already saw the benefit in 2008 of our accelerated focus on cost savings and higher returns on expenditure throughout the business. This helped compensate the impact of raw and packaging material inflation on our cost of goods sold. It also benefited our distribution, marketing and administration costs.

Slide 4 – Strong Like-for-Like Growth Group and Food & Beverages

The next slide shows the sales progression.

You've seen these numbers already. To save time, I'll just highlight the huge impact of foreign exchange, negative 7.8%, as the Swiss franc strengthened, particularly versus the Euro, US dollar and sterling.

Slide 5 – Significant impact of FX

Staying with foreign exchange on the next slide. Here are the movements of our major currencies. When did you last see a near ten percent move for the US dollar or over 15% for the UK pound? Both the US and UK have good levels of profitability relative to our average.

The translation effect of the currency movements have not only impacted sales, but also our EBIT and EBIT margin, our net profit, the working capital and our cash flow. Unfortunately, therefore, this is not the easiest year for you to make like-for-like comparisons between 2007 and 2008.

Slide 6 – Total Food & Beverages Broad-based performance

Next up is the organic growth of our total food and beverage business. Strong full year performances from all three regions. I'll get into more detail in the primary reporting slides.

Slide 7 – Primary Reporting: F&B

Here is an overview of our reporting on primary food and beverage. There is a recurring theme to Nestlé's 2008 results, and it is clear to see from this slide. Nestlé's performance was broad based. Here you can see that all the primary reporting segments except Nestlé Waters achieved a good level of organic growth as well as improving their EBIT margins.

I will make a few broad comments about this 2008 performance, and what it means for 2009, before going into the detail by Zone.

Slide 8 –Nestlé in 2008

First of all, 2008 was a year that was characterised by a high pace of innovation and renovation. The focus has been on simple-to-understand, consumer-relevant propositions around nutrition; it has been on improving value propositions, and on differentiation from our competitors. There will be no let-up in 2009.

This drive for innovation has been supported by a step-up in marketing spend, 7.5% higher in 2008 in constant currencies. We will continue to build brand equity in 2009, and we will continue to benefit from softer media rates, already apparent in 2008. As an example, TV rates in the UK are the lowest for 15 years.

A major advantage that we have, and we will come back to this on the road show, is being able to offer consumers the ability to trade-up and trade-down, without trading out of Nestlé products. This was a benefit in 2008, and will be in 2009.

We have also been pushing PPP (Popularly Positioned Products) hard in Europe, as well as in emerging markets, and we continue to see considerable opportunity for further growth in this segment. This remains a priority area for 2009.

We continued to pursue our multi-channel strategy. This helps ensure that our products are available wherever consumers shop, but also reduces our direct exposure to private label, whilst enabling us to build added-value relationships with large retailers and hard discounters or indeed with any specific channel, customer or market.

Finally, we have worked diligently, with discipline, to improve our operating performance. This is reflected in savings exceeding 1 billion Swiss francs, achieved in all areas of the business, from factory gate to customer. We will seek a further acceleration in 2009 in our operational performance.

Slide 9 – Zone Europe

Let's look at the detail starting with Zone Europe.

2008 was a good year for the Zone, with positive RIG in both Western and Eastern Europe, and positive organic growth in all the major markets. We told you in October that we had already made third quarter sales of Chocolate for Christmas, normally made in the fourth quarter. Excluding Chocolate, RIG remained positive for Zone Europe in the final quarter.

Among categories I would highlight the performances of Petcare, with many of the brands, such as *Bakers*, *ONE* and *Fancy Feast*, contributing. Soluble Coffee was also strong, with the many *Nescafé* variants performing well, and *Dolce Gusto* continuing to roll-out rapidly. Its sales tripled in 2008. Powdered Beverages also grew well, in particular *Nesquik*, with its broadened nutrition offering.

Pricing firmed up in the final quarter due to Chocolate and Soluble coffee.

Looking into 2009, we expect consumers to have a cautious approach to spending. We believe we can benefit from this. Coffee at home can take share from coffee-shops, culinary products, frozen and chilled food from restaurants, for example. And we are also offering smaller formats of our regular products with lower cash outlays for consumers, as well as driving our PPP strategy of daily-affordable products. In fact, we are running many PPP projects in the Zone. These comments about the defensive nature of our categories, by the way, are equally applicable to Zone Americas, covered on the next slide.

Slide 10 – Zone Americas

Zone Americas had a strong 2008, with double digit organic growth. Both North America and Latin America reported positive RIG, despite significant inflationary pressure, reflected in their reported pricing.

The good level of growth in North America was unchanged in the final quarter. Among categories, I would highlight the performance particularly of PetCare and Ambient dairy, both of which have been strong throughout the year. Frozen Food recovered during the course of the year, accelerating in the second half. This bodes well for 2009. Within Frozen Food, *Hot Pockets* achieved over 7% organic growth, a return to form. Ice cream's growth was negative, reflecting a focus on value growth at the expense of volume, with a number of lower end SKUs and less profitable direct-store-delivery routes discontinued. The good news for Ice cream is two fold: we held share against our number one competitor and we improved our EBIT margins. In North America both *Häagen Dazs* and *Skinny Cow* performed well.

Latin America slowed a little in the final quarter, but remained double digit. This was due to easing of pricing in the milk business rather than any broader economic issue. The other categories generally performed well, particularly chocolate, soluble coffee, petcare and biscuits.

Slide 11 – Zone AOA

Zone AOA achieved double digit organic growth in 2008.

China's performance is over-shadowed by the milk issue, which resulted in the milk market falling at one stage by 50%. Our shares are significantly up. We have continued to support our dairy farmers by buying their milk and selling it into the industrialised milk market. The rest of our business is doing well, demonstrated by the fact that the organic growth of total Nestlé in mainland China was 18% in 2008.

The rest of the Zone had a robust end to the year, suggesting that our PPP strategy, our deep distribution and broad category offering, as well as our continued focus on relevant innovation and renovation and on our nutrition, health and wellness strategy are resonating with consumers. Examples of relevant innovation for the current environment include the roll out PPP *Nido* milk in Africa, PPP *Nestea* and *Maggi* in the Philippines, and PPP *Nescafé* in Indonesia.

Among markets, I would particularly highlight the South Asia region, specially India, as well the Philippines and Indochina. By category, I could highlight many that achieved double digit organic growth, but soluble coffee, culinary, powdered beverages and petcare, in particular, all also achieved high levels of RIG.

The final quarter was a bit slower both for RIG and pricing. Greater China and Japan both had a slow quarter, and together account for the slowdown.

Looking to 2009 for the Zone, it is clear that it will be tough in the developed markets, Japan and Oceania. Equally there is risk in markets that are supported by remittances from ex-pats. There are two noteworthy positives, however. One is the significant focus of governments in the region on aid packages to drive domestic consumption. Our business is all about domestic consumption. The second is that our products and strategy are well-aligned to cope with an environment in which consumers are looking for value, and are looking for minimal daily cash outlays.

Turning to the EBIT margin performance for the three zones. We achieved EBIT margin improvements in all three, despite both the significant raw and packaging material cost pressures felt in many categories, and the negative currency impacts resulting from the strong Swiss franc. The key drivers of the improved performance were operational efficiencies, the benefits of mix and of rationalising underperforming SKUs, and the leverage of strong organic growth. We aim to push harder, to accelerate our efficiency initiatives in 2009.

Slide 12 – Nestlé Waters

Next Nestlé Waters. The trends and issues seen earlier in 2008 in the waters category continued throughout the year, resulting in an exceptionally tough trading environment. Our business performed well, relative to the market, in the USA, and well relative to the branded players in Europe. The emerging market business continues to grow double digit.

The decline in the EBIT margin was despite good work in accelerating efficiencies, and is the result of reduced sales, increased cost pressures, particularly oil-related, and the underperformance of the European Home and Office delivery (HOD) business.

Actions taken in 2008, beyond several cost reduction measures, include exiting our UK HOD business, completed early in 2009. Nestlé Waters also reduced their capital expenditure in view of the changing needs of the business. This has been further reduced in the 2009 budget.

For 2009, we do not see any change in the challenges faced by the business. We are not therefore expecting any significant recovery in the business performance. We will focus on protecting our market shares and EBIT margins.

Slide 13 – Nestlé Nutrition

Next is Nestlé Nutrition.

There was a strong year for Infant Nutrition, with near double digit growth, including growth in the teens for infant formula, clearly out-stripping its market growth rates. The R&D pipeline is full for the division, and 2009 will be another strong year for launches. We need to improve our performance in Western Europe, and this is a priority for us. In general, however, this division is performing well.

The integrations of Gerber and Medical Nutrition are on track for cost efficiencies, and their integration led to some SKU rationalisation in the latter part of the year, impacting 2008 RIG.

Jenny Craig clearly out-performed the weight management industry in 2008. It also improved its EBIT margin. This demonstrates the strength of the business model, and underlines our confidence in its longer-term potential for profitable growth. That said, it was progressively challenged during the year due to the US economic environment, and we expect 2009 to be a tough year for the division.

Nestlé Nutrition reported an improved EBIT margin in 2008, though it was another that suffered from currencies in translation.

Nestlé Nutrition expects 2009 to be a challenging year, with Weight Management and Performance Nutrition both relatively cyclical businesses, but they expect to see a further improvement in the performance overall, with above-market growth.

Slide 14 – Other F&B

Finally in the primary reporting is Other Food and Beverages. There was a continued very strong performance from this category. Nespresso continued its meteoric growth and passed CHF 2 billion of sales for the first time in 2008. The two joint ventures both performed well. Cereal Partners Worldwide achieved high single digit growth, whilst Beverage Partners Worldwide was well into double-digit.

Slide 15 – Secondary Reporting Powdered & Liquid Beverages

Let's look at the product categories, and I'll go quickly as we've covered much of this already. I'll start with Powdered and Liquid Beverages. All the billionaire brands achieved good levels of growth. We continue to drive competitive advantage and differentiation through nutritional innovation and extensions. We have also accelerated our PPP strategy for many of these products. The EBIT margin was impacted by raw material costs, as well as increased marketing support for the accelerating international roll-out of *Nescafé Dolce Gusto*.

Slide 16 – Secondary Reporting Dairy Products, including Ice Cream

The Dairy business achieved double digit organic growth in 2008, due to its successful implementation of its PPP strategy in emerging markets and good price segmentation aligned with clear consumer benefits. There was also a strong performance from *CoffeeMate*.

Ice cream's growth remained at a low level, but its EBIT margin improved. The growth was impacted by a strategy of exiting underperforming lower value products, some US DSD routes that were not sufficiently profitable and moving a couple of smaller European markets to distributor models. These initiatives were all drivers of the margin improvement. The premium brands continued to perform well, as did those with a "better for you" profile.

Slide 17 – Secondary Reporting Prepared Dishes and Cooking Aids

In Prepared dishes and cooking aids, the highlight once again was *Maggi*, benefiting from its emerging market exposure, and ready adaptability to our PPP strategy. Also, noteworthy was the promised improved performance from *Hot Pockets*, which achieved organic growth of 7.2%. The other parts of the US frozen food business had a slow start, but accelerated during the year. The European Pizza business and *Herta* both performed well. The Product group's EBIT margin fell due

to cost pressures, particularly relating to wheat. However, the year end EBIT margin performance reflects a strong recovery during the second half of the year. The other notable news here was the sale of the Buitoni dried pasta business in Italy.

Slide 18 – Secondary Reporting: Confectionery

There was a good performance by our confectionery business, with 8% organic growth and a 150 basis points improvement in the EBIT margin to 13.1%. That is a level of margin comparable with any in the industry. I hope that this performance puts to rest the view that we are below scale in this industry. We are the most global of any confectionery business, demonstrated by the fact that we have over 150 products that are number one or two in their market. We also have a very strong emerging market business, which achieved organic growth of 19% in 2008.

The improvement in the EBIT margin reflects the benefits of growth in many parts of the world, as well as of the restructuring in Europe.

The *KitKat* innovation continued to gather pace during the year, and the brand ended with over 13% organic growth driven mainly by the relaunched four-finger bar.

The launch of *KitKat* Senses is also going well, and is being extended to new markets.

Looking to 2009, the industry is likely to be challenged by high raw material prices, as well as the economic environment. We will continue to drive those initiatives that have contributed to our strong performance, including a focus on quality, on distribution, on innovation and renovation and on PPPs.

Slide 19 – Secondary Reporting: PetCare

Next is PetCare. All regions achieved a high level of organic growth, with a strong base of RIG. The product group's EBIT margin improved to 15.7%. Many brands achieved high single digit or even double digit growth, driven by compelling health propositions for dogs and cats. This business continues to reap the benefits of a full pipeline of innovation, applicable around the world, and closely aligned to the concerns of pet owners.

The challenge for the product category has been raw materials. Initially it was grains, but more recently it has been the minor raw materials, such as vegetables, meats and vitamins that have been increasing and actually becoming quite material to the business. The extent of the EBIT margin improvement was held back by the US dollar on translation to Swiss francs, but this was a very good performance after being behind 2007 at the half year.

Slide 20 – Secondary Reporting Pharmaceutical Products

Finally is Pharmaceutical Products. There were good performances from all three constituents with Alcon, Galderma and innéov all contributing to both the EBIT margin improvement and the strong growth.

Slide 21 – 2008 Full Year Results Key Factors of ;Margin Improvement

Next is the EBIT bridge, showing the movements between 2007 and 2008. The bridge has a similar shape to that at the half year. The impact on COGS has reduced, but remains significant, reflecting the fact that we were already experiencing cost pressure in H2 2007. We had a strong performance with our cost savings, achieving well over CHF1 billion. These savings benefited all areas down to EBIT, but were most significant in COGS.

Distribution costs were unchanged from the first half, down 30 bps. Two key factors here are the negative growth of Nestlé Waters, which is distribution intensive, as well as efficiencies in the supply chain.

The reported marketing spend is down by 80 basis points in 2008. As you know, this line of the income statement includes all expenditure relating to marketing, not just the consumer-facing spend.

The reasons for the 80 basis point decline are the same as at the half year: We have continued to work on efficiencies in the non consumer facing expenditure, as well as on improving the effectiveness of our marketing costs; and our reported pricing was up 5.5% - obviously, we don't increase these costs in line with pricing, and that creates a significant leveraging of these costs.

Importantly, consumer-facing marketing expenditure increased by 7.5% in constant currencies, slightly more than the 7% reported at the half year, and this was despite some softening of media rates. This demonstrates our commitment to build our brands. We will continue to do so in 2009.

In line with our comments at the first half, the administrative costs have shown a good improvement over the course of the year, down 50 basis points. GLOBE, GNBS and several other initiatives are contributing, but we also benefit from leveraging our growth on our fixed costs. Administrative costs continue to be an area of focus for us.

Finally R&D spend increased by 10 basis points. We also opened our second R&D centre in China, as well as one for Nestlé Professional in Switzerland.

Overall, therefore the Group's EBIT margin improved by 30 basis points, or by 50 basis points constant currencies. We believe that this reflects a strong operating performance in a tough environment. We also think that this performance reflects the fact that we have good momentum in our business in terms of efficiencies and excellence in execution, key areas of focus for the current year.

Slide 22 – P&L: EBIT to Net profit

Next the income statement to the net profit.

The net other income includes the profit on our partial disposal of Alcon. Net Other expenses include the impairment taken against our European HOD Water business, and our restructuring costs. The detail is available to you in our full audited financial statements, published on our web site today.

The net financing costs are in line with guidance at CHF 1.1 billion.

The profit before tax was up significantly due in part to the tax free gain on Alcon. The underlying tax rate was 27.3%, up from 2007 due to geographic mix.

The share of results of associates fell. This is primarily due to an exceptional gain by L'Oréal in 2007 on its holding in Sanofi.

The net profit is up 69.4% to CHF18 billion. The underlying earnings per share are up 10.9% in constant currencies.

Slide 23 – Financial Position

Next the Financial position. The strong Swiss franc has significantly distorted year-on-year comparisons.

Our net debt fell quite significantly during the year despite the buy-back, helped by the cash from the Alcon partial disposal, cash flows from the business, and the currency profile of our debt. We will continue to favour a strong balance sheet in 2009.

The cash flow numbers are down from 2007, reflecting mainly currency impacts and increased levels of working capital.

Working capital, on a cash basis, went up mainly due to inventories and reduced accounts payable. I would stress that in today's environment the quality of a company's working capital is important. The inventory build-up was partly due to our growth, and partly to a tactical "hedge" in certain commodities. But we have also increased inventories in response to de-stocking by customers in the 4th quarter, as part of our strategy to ensure supply to them in the face of more volatile demand patterns.

We have also adapted our payables strategy, focusing on ensuring the sustainability of our own supply.

We completed CHF 8.7 billion of the share buy-back in 2008. This was a slight acceleration but, all things being equal, we still expect to take the planned 36 months to complete the CHF 25 billion franc programme. We expect to spend about CHF4 billion in the buy-back in 2009.

Slide 24 – Total cash returned

As you can see, our continued commitment to our share buy-back, as well as our increased dividend payment back in April 2008 have led to a significant increase, of 58%, in the cash we returned to shareholders during 2008. I hope this underlines our commitment to continue to focus on shareholder value creation, even despite the tough market conditions.

Between 2005 and 2008 we have returned CHF 32.3 billion through a combination of dividends and share buybacks. In 2009, we are likely to return a further CHF 9.1 billion to our shareholders. There is a change of emphasis in 2009 in that the balance has been more weighted towards share buybacks in the period 2005 to 2008, but it will be more weighted to the dividend in 2009.

It is interesting to note that, based on last night's closing share price, our proposed dividend gives a yield of 3.8%.

Slide 25 – Total Performance Framework 2008

This next slide pulls together many of the achievements in 2008. Strong financial discipline reflected in areas such as operational efficiency, trade spend effectiveness and management of administrative costs. It was also reflected in 10% growth with our top ten customers.

We continued to achieve scale benefits in areas such as GLOBE and GNBS, which are contributing to reducing complexity in our organisation. Divestments, fewer factories and legal structures are examples, as is our on-going programme of SKU rationalisation.

And, of course, we continue to invest for growth, whether through our increased R&D spend, our capital expenditure, fill-in acquisitions or our increased investment in consumer-facing marketing.

Slide 26 – Summary

Next I'll quickly summarise before opening for the Q&A.

2008 was a very strong year for Nestlé.

We exceeded our organic growth guidance and achieved a level that was significantly above the market's expectations at the start of the year.

We have also delivered a sustainable improvement in our EBIT margin, despite the dilutive impact of currencies and the tough trading environment.

2008 was a good operating performance with six out of our seven primary reporting segments achieving a good level of organic growth and EBIT margin improvement.

I know you are all now focused much more on 2009. So are we.

It is clear that in the prevailing market conditions we will grow slower in 2009 than the high levels achieved in 2008. We need to compensate by pushing harder on the cost side of our business, and our good performance on cost savings in 2008 provides momentum for 2009.

In a climate where growth might be scarce for some, we are also pushing harder for growth by accelerating the roll-out of new launches and by pursuing relevant category strategies for the current climate. Our popularly positioned products are an obvious example of that.

Our guidance reflects the more difficult environment in 2009. We stick with our traditional guidance of improving the EBIT margin in constant currencies. For growth, due to our very strong start to 2008, we expect that we will pick up pace during the year such that by the year end we at least approach 5% organic growth.

Question and Answer Session

I will now open the call for questions and Roddy (Child-Villiers) is here.

Questions on; Volume recovery in Waters, Nutrition and Zone Europe Input costs outlook

Marco Gulpers, ING:

I have two questions. Three divisions, by our calculations, posted negative volume growth in the fourth quarter. You highlighted some things already during your remarks. But do you expect a quick recovery in volumes in each of these three divisions, Water, Nutrition, but also in Europe?

The second question is on the outlook with respect to input costs. Could you share with us your view on whether and how much you will see a benefit with respect to easing of the input costs in or for Nestlé?

James Singh:

First of all your first question in terms of recovery. In the Water business as we indicated in the call this morning, our business is making progress, it has started to make progress in the US by regaining share on some key brands. And our business in the emerging markets are growing. However, the segment remains particularly difficult. And as I said we are trying to maintain our competitive positions in the marketplace, as we have demonstrated relative to our major competitors, we are making progress in a difficult marketplace.

So, our position would likely improve, but whether we return to positive growth for the whole year - at the start of the year it is difficult to predict, because the segment is weak.

As I said also we expect to have some improvement in the overall performance, but whether we return to positive growth early in the year will depend a lot on the industry performance in general.

In Nutrition the fourth quarter performance was influenced by a slowdown in *Jenny Craig* and also by SKU rationalisation, particularly in our Healthcare Nutrition. The *Jenny Craig* situation again is an industry segment issue. *Jenny Craig* continues to perform well, as a matter of fact out performing all competitors in the segment. But there again we have to see how the segment evolves, particularly in the first quarter of 2009.

In Europe I think the explanation we gave is – and as a matter of fact we told you this in October, that in the UK and in most of Europe retailers were buying chocolate earlier in the year, in the third quarter in particular to get a good start for the Christmas season.

That had a sort of swing effect in our RIG for Zone Europe. But if you put that aside the zone was positive.

On your next question on input cost, we believe that given our current experience and I could talk about what has happened in the months of December and then again in January. We are seeing a slight uptake in our major agricultural commodities. As a matter of fact in January this basket was up nearly 5%. Our forecast is that, for the overall basket, we should see an increase in line with global inflation. So you know 2% of so will not be out of line. But we do not see a material decline in our basket of agricultural commodities. There may be mix, but I think overall we are forecasting an increase in raw materials in line with global inflation.

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

Marco if I can come back on your Europe question. As Jim said it was all to do with chocolate. And just to remind you all that a further complication to your forecast for Q1 is that in 2008 we had an early March Easter. In 2009 we have an Easter sometime in April. So we had a very strong chocolate season in Q1 in '08, so that might also have a further implication as you work out your numbers.

Questions on; Input costs and gross margin improvement in 2009 Impairments and provisions
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Jon Cox, Kepler Equities:

I wonder if you can just follow up on the raw material question there firstly. So you're basically saying you don't really assume that there will be any improvement in the gross margin in 2009, or are you saying that although the raw materials maybe you know a shade higher or flat you can maybe get some savings elsewhere through the operational efficiencies? That's my first question.

The second question, I'm just digging into this other income line where I assumed you'd have more of a contribution from Alcon. And I see there are some impairments and others stuck in there as well, I've not quite got to the note. But I wonder if you could just elaborate on what's going on in that other income line there?

James Singh:

Just on raw materials, as I said you know there is going to be mix. I mean we have several items in our basket. But overall based on what we're seeing of late we don't believe that raw materials will come down significantly. As a matter of fact we are projecting that raw materials, - our agricultural basket of raw materials, will increase in line with inflation.

We don't want to get into the gross margin effects or so because we don't publish that, we don't get into those discussions. On operational efficiency, we are committed to do this. We have done it for many years. You are aware of the several projects that have been undertaken by this company in this area. We're seeing good benefits and with our continuous Excellence programme which got in motion late last year, we want to drive this further.

As a matter of fact in the environment which we have, we must drive this hard to get good results. So we are committed to this. The entire organisation is aligned. It is an important part of our strategy, how we manage the business in good times, but much more important in these times.

On the below the line items, yes there were some impairment charges on our Water business and we have made some provisions, increased provisions for litigation in some parts of the world. These are all in our published financial statements.

Questions on; Organic Growth guidance
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Martin Dolan, Execution UK:

I just had a question trying to clarify in relation to the guidance, because on October the 23rd you pretty much reaffirmed in the Nestlé Model of the 5 to 6% revenue growth and EBIT growth in constant currencies for every year, not just for 2008. Yet now obviously we've pulled away from the 5 to 6% to approaching 5%. Is there something you've seen in November, December and January that has sort of led to a marked deterioration in growth rates that has made you pull back from that? Or is it your anticipation of what might happen later on in 2009?

James Singh:

I think Martin, just for a point of clarification. The Nestlé Model is a long term model. And if you look at our performance over the years you can see that we have delivered over the last 10 years, over the last 13 years the Nestlé Model. But it is a long term model.

The other thing is that what we told you in October and perhaps you are very much aware of this, the world has changed. And we're trying to take a sensible approach to how we provide guidance to the market, making sure that there is some degree of commitment, firm commitment in terms of what we are committed to doing. But also recognising that the environment is one in which it is very unpredictable.

Given what we know of our business, given our own experience, given our strategies and the alignment of our people in the organisation behind them, we continue to believe that we will make progress. But in 2009 I think we have given the most sensible guidance that we could give in the circumstance. So that is what I would say on the guidance.

Roddy Child-Villiers:

Martin, just to be clear - I mean the guidance is not approaching 5%. It is, at least, approaching 5%. That's the guidance in the statement.

Questions on; Pricing in 2009 Organic Growth in the first quarter 2009

Julian Hardwick, RBS:

I just wondered if you could tell us how much residual pricing you have taken in 2008 is still to come through to benefit your pricing in 2009? And as you sit here today what are your expectations for additional pricing that you might take?

James Singh:

Well it's difficult to sort of calculate what are the pricing effects flowing over into 2009 because of the mix of the business. And given the market conditions, we believe that the performance mix will change from market to market. So I think it will not be wise for me to even try and give you any kind of guidance in terms of how prices would evolve.

What you have seen though is, that given our business models, in terms of providing value to our consumers and also allowing consumers wherever, in whichever economic circumstances they find themselves to still be able to buy our products. Therefore given our strong brands we believe we can take pricing to at least recover any cost inflation.

Julian Hardwick, RBS:

So you would expect to do at least enough to recover the 2% - cost inflation?

James Singh:

Yes, we expect that we should be able to recover the cost of increases. But as I said before pricing is only one area in which we try to recover inflationary cost impact. I mean we look at all areas in our operation, efficiencies, etc. So, it is an environment in which we operate, we have been there for many years now. We have been there particularly for the last two years and we continue to demonstrate that we can deliver good results in these times.

Roddy Child-Villiers:

I could be a bit more specific on some of the categories. We have taken pricing late in '08 in obviously Chocolate, also in Soluble Coffee and PetCare and Powdered Beverages. So you know there is certainly pricing that we've taken that will roll forward. The difficulty is always, as Jim says, to precise what the actual amount will be. But we've certainly taken pricing in those categories, so that will clearly have an effect into '09.

Julian Hardwick, RBS:

And just in terms of the first quarter. I mean you've flagged the phasing of Easter and I think you also made reference to a sort of progressively improving organic growth trend over the year because of the tough comparative in the first quarter. Should we assume that the first quarter is going to be significantly below the 5% level in terms of organic growth?

James Singh:

Well you know the reason why we made this statement is that fact that we are facing some difficult comparisons compared to last year, the first quarter was very, very high. And it is the reason when you look at the performance this year how we will trend - with performance last year, and relative to how we will trend to get to at least approaching the 5%. It's likely going to be - you know it's a build during the course of the year but I would not use the word significant.

Questions on; Underlying EPS growth Participation in L'Oréal
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John Parker, Deutsche Bank:

I don't think you've taken us into underlying EPS, where we've seen basically zero growth. Could you just talk us through that, you've got growth in EBIT and progress higher up the P&L, but no growth at underlying EPS. Could you just explain that?

The second question, I don't know whether you can throw any further light on how to interpret the comments you've put in the statement on L'Oréal. They say the participation is important for the group and the Nestlé Board is addressing, with great attention, in the framework of the group's Nutrition, Health and Wellness strategy. Can I take that that the Board hasn't really made up its mind as to whether L'Oréal fits within the framework of the strategy?

James Singh:

Let me just deal with the underlying EPS. John our underlying EPS in the press release was 0.7% reported but 10.9% in constant currency. And when you look at our performance in constant currency I think it explains the difference and the tremendous impact, as I said, of foreign exchange impact on our performance.

The other reason is of course we sold 33% of our income stream from Alcon, on one hand - and yes we had the cash for half a year but we also had a share buyback programme of 13 billion during the course of 2008, which impacts our net financing cost.

And also the change in the underlying tax rate which is impacted by the geographic mix and where we are - earning our income. So when you put all those together, I would say that our underlying EPS, especially considering the significant impact on FOREX, is a very, very sound performance.

Now the comments on L'Oréal, I really don't want to go into much more. We spent a fair amount of time to make sure that we provide you with some clarity in terms of our position on L'Oréal and basically what we're saying is that we all know what the agreements says with respect to April 29th 2009, but our commitment to maintain our position, our relationship with the company during the lifetime of Madam Bettencourt remains and we will not change that under any circumstance. So I think that's as much as we want to get into. I don't want to get into where the board is or where the board isn't. I think we've given you all we think that we can give you at this time to enable you to understand that we are not in a hurry to do anything.

Roddy Child-Villiers:

So no news in April.

James Singh:

Yes, no news in April.

Questions on; Share buy-back programme Alcon agreement

Polly Barclay, Cazenove:

Just a question please on the share buyback programme. In August of last year you accelerated the share buyback and from that accelerated rate it will now slow in 2009. Obviously I appreciate that you've increased the dividend. But perhaps you could just give us a bit more colour on this decision making and whether or not it relates to the price that Novartis will eventually pay for Alcon? Again, I appreciate that a great deal can happen over the course of the next year, but if Alcon remains at its current valuation could you possibly comment on whether the agreement might be renegotiated or whether you'll exercise a put option at a 20% premium? Thanks.

James Singh:

Polly you have two questions the way I interpreted it. One was on the share buyback programme and why did we change from what happened in 2008. And the other one with respect to the Alcon agreement. So first of all where we found ourselves at the end of 2008 gave us a lot of flexibility as to how we conduct the share buyback programme to achieve the objectives of 25 billion Swiss francs in 36 months.

Also, given the current economic environment I think it is a prudent approach to continue the share buyback programme so that we remain committed to delivering value creation for our shareholders. But at the same time maintaining some flexibility given the financial markets we currently face.

That is the reason why we switched the weighting slightly to dividend relative to what had happened in the last four years. So that is the reason why - it is a matter of being prudent and then we'll see how the financial markets develop. But our commitment, given where we are today, is to complete the programme within the timeframe, albeit 2009 being a little on the lower end.

Roddy Child-Villiers:

Really reflecting the credit markets, to be precise within the financial area.

James Singh:

Now on the Alcon, now there is no intention to renegotiate the deal. And by the way Alcon is a very strong company, you have seen their results. We believe the underlying value of Alcon is sound and therefore there is no intention to negotiate any words at this stage. Not at all.

Questions on; Destocking impact in North America and Europe Emerging markets in 2009

Sara Welford, Bank of America Securities:

First of all can you shed some light on; have you seen any destocking impacts at all, either in North America or in Europe? And secondly, perhaps you can walk us through how you see the emerging market consumer evolving in 2009? There has obviously been a lot of speculation that there'll be a large slowdown and how do you see it?

James Singh:

The first question on destocking, destocking has become more or less - especially in the developed world, a behaviour of all the major trade partners. So we have seen it in North America, we have seen it here in Western Europe. On the Emerging markets we feel very confident that there will continue to be significant growth opportunities in the emerging markets.

For one thing, these markets do not have the same issues with their financial institutions. Their issue is trying to keep consumption at an appreciable rate. And therefore their focus, in terms of their stimulus packages, is to maintain a level of consumption in those markets. And therefore we continue to feel confident that in 2009, although there maybe some slowdown, some pockets of slowdown in different parts of the world, we believe the emerging markets will continue to represent an opportunity for us.

On the other hand our strategies with respect to making sure that we offer consumers, not only in the emerging markets, but consumers around the world at different points of the economic scale value through our brands, for example our PPP products. These are I would say differentiating competitive advantages we have to continue to get growth in these markets.

Sara Welford, Bank of America Securities:

Okay, and just to follow up on the destocking. Do you see any further impact coming through in 2009, or do you think it is now broadly done?

James Singh:

I really don't know. I would assume that once you destock once, it's likely to get to a level that it is a little difficult to get significantly further from where they are.

Roddy Child-Villiers:

If I can just add, also, I think if you look at our numbers, particular in AOA and the Americas where many of the Emerging markets are situated a quick glance might suggest that there is a somewhat broad slowdown. But the reality is that in AOA the slowdown is much more to do with Japan and then China with specific issues that we talked about. And in the Americas the slowdown is really wholly based around our ambient dairy business, which had a very strong final quarter last year and we're now seeing the pricing easing there. So these are quite specific issues to specific markets or businesses rather than broader issues.

I think also on the point about growth, whether you're talking about emerging markets or the developed world. The growth opportunities that exist are quite different from a few years ago. But there are still some quite significant growth opportunities.

And on the road show Paul Bulcke is going to talk - focus very much on what those opportunities are and how we're going to realise them, to help you understand why our guidance is where it is.

Questions on; Promotion levels in 2009 Real Internal Growth in 2009

Patrik Schwendimann, Zurcher Kantonalbank:

Firstly regarding promotions cost. I mean you have reduced it quite significantly in terms of sales in 2008 like I would say everybody else. But it seems now that the environment is getting tougher, I mean the retailers are more active and the consumer wants to get lower prices, what do we have to expect for 2009? I would assume that we will see some major increase in promotions as we have already heard from some competitors, what is your view on this one?

And secondly on the RIG side, which on the whole you're still strong with 2.8% 2008, but in Q4 it came down to 1.2%. Given the economic environment for 2009 would it be a fair assumption to say that we will see something between 1 to 2%?

James Singh:

You're looking at our marketing spend I suppose, because that includes promotion, consumer facing expenditure, sales, product managers, administration, etc. So you know our commitment is to two things, 1) to continue to support our brands by being very creative in the way we spend our money. Secondly, we are going to remain competitive in terms of our relationship with our trade partners. But we will continue to drive for efficiencies in the other areas of that expenditure line.

So I mean we are committed to doing that. And I would not be surprise if again we make progress in 2009 because we expect to.

On the RIG, I'm sure you would appreciate Patrik that having a positive RIG in the fourth quarter when we are in the middle of the storm is a positive performance for Nestlé. And we think that we can continue to deliver organic growth even in difficult times. I don't want to get into what is the split between RIG and pricing, but we will manage the business as we see fit and appropriate given the situations we find ourselves in, in different parts of the world. You know our people are there, they are making decisions locally and they've done a tremendous job so far. There is no reason to believe that they will not continue to do that.

Patrik Schwendimann, Zurich Kantonalbank:

But it seems in Q4 the environment in the emerging market was still quite well overall, Asia was still good, Latin America was still good - and it seems at least if you look at the IMF estimates for 2009 that we should expect a much more difficult environment for the emerging markets overall in 2009 and especially for Eastern Europe, which will have a negative GDP probably and Latin America which will come significantly down. What is your view on this one?

James Singh:

Well we said the general business conditions will remain difficult. They are difficult around the world. Some markets will do better than others, even in the emerging markets. And therefore we believe we have the right strategies, we have the right alignment to the people and that we will continue to make progress.

This is why you can see the guidance we're giving takes into consideration what is likely to happen in these markets.

Patrik Schwendimann, Zurich Kantonalbank:

Okay, but the guidance is based on the current environment I assume?

James Singh:

Well we are hoping things will not get worse.

Questions on; Pricing policy for the next months Performance of the Nutrition division in Q4

Pierre Tegner, Oddo:

The first question is concerning pricing policy in several markets for the next months. Are you preparing specific activities or for specific categories some promotional actions and could you elaborate on this point? Or do you think that you have still the leadership and the good position to maintain prices or premium offering?

And the second question is concerning Nutrition. On the Q4, could you elaborate a little bit more category by category the performance in Q4 specifically for infant milk formula in the different geographies where you operate?

James Singh:

Pierre we don't really want to get into product category by various markets. I think for Nutrition, so I'll take that question first. I think we said in the fourth quarter that a couple of things happened. We saw some softening in the weight management sector and Jenny Craig's performance did soften during the last part of the year in fact, but for the whole year they had a very stellar performance.

In the Healthcare and Nutrition we had some SKU rationalisations by virtue of merging the businesses that we acquired during the course of the year and took out a fair amount of SKU.

We know we have to improve our performance in our Infant Nutrition business in Europe, in Western Europe, particularly in Germany. With the launch of NaturNes in France we have started to improve our position there and it is our intention to roll that product out in the other markets in the region. So I think we feel pretty confident that Nutrition will have another good year in 2009.

Coming back on the pricing policy, I would say as we have said before, you know these are decisions that are made by our local management, given the particular circumstances they face. And they have done well; you know 2007 was a year of significant cost increases. 2008 was a year of significant turbulences, not only from cost but other issues. But they have continued to do a great job and we feel highly confident that they are very sensitive to the market place in which they operate and they will continue to make the right decisions.

Questions on; Input costs Real Internal Growth and margin at Nestlé Professional Details of underlying earnings

Jeff Stent, Citigroup:

Firstly just to ask you on the input costs, you made reference to a 5% increase in the basket through January, I'm just wondering how the basket would compare to January last year and also maybe to the middle of last year?

The second question is on Nestlé Professional, you've given us the organic growth rate there, I was wondering if you could perhaps add a little bit more flavour in terms of RIG, margin and also whether you'll be publishing restated comps on that? And then finally if I can just chance my luck with a third one. Just to build on John Parker's question on the underlying earnings. Are you able to give us the underlying associates number and the underlying minorities number? Thank you.

James Singh:

Let's talk about commodities. I would say the commodity position, price position, at the end of January was below where we were this time last year. So during the course of the year commodities did come down but remain higher than last year on average. But if you look at point to point January was lower than last year.

The other question on the information you asked for below the line are in our financial statements that we publish, minority interests and all those costs. If you check our published financial statements you should see those numbers.

Roddy Child-Villiers:

Just on the Nestlé Professional. Yes we will restate the Zones and other Food and Bev '08 numbers to be comparable with the '09 numbers that we publish. So you will see the like for like comparison. But Nestlé Professional will not be a standalone primary reporting; it will be primary reported within Other Food and Beverages alongside Nespresso and the joint ventures.

Just on your raw material question, it is worth adding to Jim's comment that the commodities that are driving pricing in January '09 are not the same that are driving pricing necessarily in '08. So it is different product categories having pricing pressure. So the pricing pressure is very real in those categories.

Questions on; Goodwill impairments
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Marc Deuster, Bank am Bellevue:

I have a question with regards to goodwill; you noted that you took some impairments on the Waters business. I was just wondering how comfortable you are with the potential goodwill impairments should the economic environment not improve or even deteriorate? .

James Singh:

We have done tests on all our major goodwill during the course of the year. And especially for the final book closing. And we have taken provisions where we thought there was a requirement to do so. And at this point in time we don't feel that we are at any particular risk. So we feel - and the sensitivities on the goodwill - the evaluations that we have done are also in our financial statements.

James Singh:

Thanks very much for your questions.

It just remains for me to remind you that 2008 was a vintage year of performance. And it provides momentum for 2009 and that we believe that this year once again Nestlé will be amongst the fastest growing and most successful companies in our industry.

Thank you very much.

END OF TRANSCRIPT