

NESTLÉ S.A.

2009 HALF YEAR RESULTS CONFERENCE CALL TRANSCRIPT

Conference Date: 12 August 2009

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James Singh, Nestlé SA, Chief Financial Officer

Slide 1 – Opening slide

Good morning everyone, and welcome to the Nestlé 2009 half year conference call.

Slide 2 - Disclaimer

As usual we will take the safe harbour statement as read.

Slide 3 – 2009 First Half Highlights

Our first half 2009 performance is solid and broad-based, achieved in one of the most challenging environments we have witnessed. It is encouraging therefore that we are able to report continued progress in key performance indicators, namely: organic growth, EBIT margin, EPS and cash flow, whilst at the same time increasing the competitive positions of our key brands around the world. Our broad-based performance in this environment is testament to the resilience of our business, and sets us up for an acceleration in the second half.

The Group has once again delivered profitable growth, with 3.5% organic growth combined with a 30 basis point improvement in the EBIT margin, both reported and in constant currencies. The same is true of Food and Beverages, with 3.4% organic growth combined with a 10 basis point improvement in the EBIT margin, or 20 basis points in constant currencies.

Within Food and Beverages, there were strong performances from our operating segments, with five out of six achieving positive organic growth whilst at least holding their EBIT margins.

The highlights of the income statement show that, after a couple of years of pressure on the cost of goods sold, we are again trending better, whilst distribution costs benefited from the lower oil price, efficiency programmes and route optimisation. Much of these savings were successfully invested in pursuit of profitable growth.

Finally on the highlights, there was a strong cash flow performance, influenced primarily by the positive evolution of working capital.

Slide 4 – Sales development Group and Food & Beverages

On the next slide is the picture of our sales development.

Both RIG and pricing were positive, to give organic growth of 3.5% for the Group and 3.4% for Food and Beverages. There was a strong headwind from currencies, 4.3% negative for the Group, 4.7% for Food and Beverages. The sales development was further negatively influenced by a 0.7% impact from disposals, net of acquisitions, for both the Group and Food and Beverages. In total, the Group sales fell by 1.5% in the half, whilst Food and Beverages fell 2%. As usual, our currency slide is included in the appendix.

Slide 5 – Total Food & Beverages
Broad-based performance

Next is our growth by region for our total Food and Beverage business, including the globally managed businesses. Organic growth is positive in all three areas, with RIG positive in the Americas and AOA. Emerging Markets achieved over 7% organic growth. I will get into the detail on the next slide, showing our operating segments.

Slide 6 – Operating Segments: F&B

All segments, except Nestlé Waters continue to enjoy positive organic growth. I think you have a good grasp of the challenges faced by the bottled water industry at the moment. The category is in decline in Europe and North America, reflecting the economic environment. We gained market share in the US and in some markets in Europe. Our emerging market business continued to grow double digit.

Waters had a strong EBIT margin performance, up 110 basis points, despite the impact of the negative organic growth. Europe's margins were unchanged compared to H1 2008 whilst North America and Emerging Markets improved. The main drivers of improvement were the reduced costs of PET and fuel, as well efficiencies in manufacturing, distribution and administration.

The only business to report a fall in EBIT margin was Nestlé Nutrition, but it is still at 17.4%. This performance reflects in part the cost of some major advertising campaigns that started towards the end of the period, but also the negative growth, as well as a currency impact. We would expect a pick-up in the EBIT margin and growth in the second half.

Looking at Nutrition's sales performance, the good news is that each of the four divisions, Infant, Healthcare, Weight management and Performance Nutrition, accelerated in the second quarter. In Infant Nutrition I could highlight improvements in any number of markets: Russia is very strong, as are Brazil and many of the Emerging Markets; in the US we are seeing a very good acceleration from Gerber, and also share gains in Infant Formula, even if the numbers are distorted by the pricing impact of the WIC contracts. Our performance is improving also in Germany, and has stabilised in France. Basically, we are now seeing a recovery from a tough period between October 2008 and March 2009, demonstrated by all the three zones having gained market share in recent months. We expect this trend of improvement to continue in the second half.

Turning to the Zones, Europe reported negative RIG, positive organic growth and flat EBIT margin. The growth trends were broadly in line with the first quarter, with the UK and PetCare, as well as some Eastern European markets, performing well. About 60% of the business cells that we measure improved their market share.

The flat EBIT margin was achieved despite the lack of leverage from growth and with continued investment in consumer-facing marketing, and therefore reflects a strong delivery of efficiencies.

Zone Americas achieved a good level of growth whilst also improving its EBIT margin by 20 basis points. North America had a strong first half, with Frozen Food, Soluble Coffee, Ambient Dairy, PetCare and Chocolate all contributing. Latin America also started the year well, but the growth was predominantly from Brazil and Mexico, with the smaller markets

struggling with various economic challenges, such as lower oil revenues, fewer tourists and currency issues. The margin improvement reflects the benefit of growth, as well as savings from Nestlé Continuous Excellence.

Next is Zone Asia Oceania and Africa, Organic growth was 5.9%, just above the Q1 level. There has been an acceleration in RIG over the first half to reach 2.2% for the period. On the other hand, pricing has fallen back to 3.7%. The main drivers of the RIG acceleration in the second quarter have been Africa, the Middle East and Greater China. It is good to report that both India and mainland China are achieving double digit RIG. The Zone's EBIT margin improved by 60 basis points.

Turning to pricing, this is lower across the zone, with Milk pricing negative and the positive levels in the other categories on a downward trend.

Other Food and Beverage achieved 6.1% organic growth and a 20 basis point increase in EBIT margin. Nestlé Professional's growth was basically flat, reflecting a weak market for out-of-home consumption, but its performance was supported by increased demand in markets such as Greater China and the Middle East. Nespresso continued to achieve organic growth above 25%. Growth and efficiencies contributed to the EBIT margin improvement for the segment.

Slide 7 –Product Segments

Moving now to the product segments.

First is Powdered and Liquid Beverages. It had an excellent start to the year from a sales perspective, with 9.7% organic growth; however, EBIT margin was 110 basis point lower, impacted by currencies, raw materials, the roll-out of Nescafé Dolce Gusto and by the scale-up cost of new manufacturing facilities. The biggest contributors to the strong growth were Nescafé, Nespresso and our Ready-to-drink business. Powdered Beverages' growth was slightly more subdued following the heavy pricing in 2008.

Next is Milk Products and Ice Cream.

The good news is that we believe we have seen the bottom in terms of consumer demand in Ambient Dairy. The acceleration in RIG in the second quarter looks to be sustainable through the rest of the year. Pricing is lower after the extreme high prices of recent times.

In Ice Cream, market conditions generally have been tough, with private labels gaining share, the out-of-home business subdued and competition being very promotional. That said, we are generally doing well versus our branded competition with share gains against them in a number of markets, including the US. The organic growth in Ice cream is impacted by our withdrawal from various value-destroying European markets, including Benelux and Hungary.

Overall, for the Milk products and Ice Cream product group, the EBIT margin fell 20 basis points. This reflects a decline in the Ambient Dairy margin and an improvement in Ice Cream. Ambient Dairy's margin was impacted by the need to realign our pricing, as well as the up-front commissioning costs of the Anderson factory. It should improve in the second half of the year. Ice Cream's margin improvement was due to lower raw material costs and improved efficiencies in our factories, distribution and administrative costs, specially in the US.

Next is Prepared dishes and cooking aids. We achieved the promised acceleration in Frozen Food in the US, particularly through Stouffer's family meals and Hot Pockets. Chilled also performed well in the US.

Maggi achieved double digit growth in Emerging Markets in all three zones.

Western Europe has been tough for the product group due primarily to category softness on frozen prepared meals and reduced out-of home dining. Key brands such as Maggi, Herta and Wagner posted growth at retail.

There is good news on the EBIT margin, with a 90 basis point improvement. The key drivers are the leverage from growth in Emerging Markets, cost efficiencies and the disposal of two value destroyers, dried pasta in Italy and Mayonnaise in South Africa.

Turning to Confectionery. The business had a good start to the year with 4.3% organic growth and 60 basis points of margin improvement. The UK has continued to perform well. The US has also had a good start to the year. Brazil accelerated in the second quarter due to the late Easter. Weaker performances in a number of markets partially offset the significant progress in others.

The key contributors to the improved margin were the US and Australia, both of which are seeing the benefit of reorganisations and restructurings.

PetCare continued to perform at a high level, with organic growth of 9.1% and an EBIT margin improvement of 120 basis points. You might remember that the 2008 half year margin dipped slightly as a result of increased raw material cost. The 2009 margin performance shows the benefit of volume leverage and pricing actions in June 2008 and thereafter.

Growth in PetCare remains resilient in all three Zones: we are also rationalising underperforming and mainstream products that are being replaced with products delivering improved nutritional benefits to pets.

Slide 8 – “Billionaire Brands” achieve faster than Group average organic growth

Here is our usual chart showing the growth of our billionaire brands. As you can see on the chart, a significant majority are in positive territory, with 16 growing above the Group average. Overall the billionaire brands grew about 6%.

I think I have already explained the brand performances in my comments on the product groups, but we can come back to any in the Q&A. I will just say on Buitoni, which is negative that this is a reflection of the poor category development, particularly in both its biggest markets, Spain and Italy.

Slide 9 – 2009 Half Year Results Key Factors of Margin Improvement

On the next slide is our profit bridge, explaining the 30 basis point improvement in EBIT margin.

The cost of goods sold, as a percentage of sales, have decreased by 30 basis points. Total input costs are up, but they have been over-compensated by the benefits from our accelerated efficiency programmes.

Distribution costs also showed a 30 basis point fall. The key factors here were efficiencies, fuel costs and mix.

Our Marketing costs were unchanged as a percentage of sales, but our consumer-facing spend was up. For Food and Beverages, our consumer facing marketing spend was up 10 basis points.

Our administration costs are up 10 basis points, reflecting increased pension costs, whilst R&D is up 20 basis points, partly reflecting the openings of new R&D centres and increased spend by the pharmaceutical product group.

This increase in both marketing and R&D spend for Food and Beverages is in line with our consistent, year after year commitment to give our brands necessary support and to invest for future growth, demonstrated by the multi-year trend of increasing investment in these areas.

Overall, the Group's EBIT margin is up 30 basis points to 14.1%, reported and in constant currencies.

Slide 10 – Investment in Consumer-Facing Marketing Spend Outpaces RIG

This next slide comes back to the important area of consumer facing marketing spend. As you know, marketing dollars are spent locally, so we have excluded the currency impacts from this chart to show the real like-for-like trend of that spend. As you can see, we have consistently invested at a level above that of our RIG. Of course, this is only one aspect of brand-building, and you are aware, for example, that our R&D spend has also been trending upwards.

Slide 11 – P&L: EBIT to Net Profit

On the next chart I'm returning to the income statement, and going from EBIT to net profit and EPS.

Other income and expenses are unchanged. Within these lines are our restructuring charges and impairments, at similar levels in both years. Our guidance for restructuring charges remains at half a percent of sales.

Our net financial expenses have come down, reflecting the combined effects of our reduced debt and lower interest rates. Our guidance for the year for net financing costs is to be a bit lower than in 2008.

The profit for the period reached 11% of sales, up 50 basis points, reflecting the net benefits discussed above being only partly reduced by a lower contribution from Associates, down 10 basis points.

The income that is attributable to non-controlling interests (what we used to call "minorities") has increased by 60 basis points, reflecting the sale of about 25% of Alcon to Novartis in

the second half of 2008, resulting in net profit attributable to Nestlé shareholders of 9.7%. Our underlying EPS rises 3.5% to CHF 1.46 per share, or 8.5% in constant currencies.

Slide 12 – Financial Position

Turning now to our financial position and starting with working capital. There has been a reduction in the evolution of inventories, as well as improved management of payables and receivables, significantly contributing to a strong cash flow performance. Operating cash flow is up about CHF3 billion to CHF6.4 billion, and free cash flow is up about CHF 2.9 billion to CHF4.4 billion.

Our share buyback continues on track, with CHF1.5 billion bought in the first half and a target of CHF4 billion for the year. We remain committed to completing the buyback within the previously announced three year timeframe.

Finally on this slide, our net debt is CHF17.4 billion, up from the full year as usual due to the dividend payment, but down about CHF 8 billion from H1 2008.

Slide 13 – Summary

That brings us to the Q&A, but first a quick summary.

I'd classify our organic growth in the first half as robust and balanced in view of the environment, especially as it is building on a strong performance in the first half of 2008. This is particularly true as it has been delivered whilst also achieving an improvement in the EBIT margin, both reported and constant currency, and whilst increasing our investment in our brands, both through marketing and R&D. In other words, in keeping with the Nestlé Model, we have delivered both on the top line and on the EBIT margin. We have also delivered a solid performance in terms of cash flow.

For the rest of the year, we will continue to focus on accelerating those initiatives that generate efficiencies and those that drive growth, such that we expect to see an acceleration in organic growth, driven by volumes, from the current level.

Q & A SESSION

**Questions on: Emphasis on acceleration rather than 5%
Input costs in H2 and renewed input cost pressure**

Marco Gulpers, ING:

Two questions if I may. What has changed in the second quarter that you now no longer expect approaching the 5% - but are talking now about acceleration? Maybe you can give us some clue on that.

The second question I have is on the outlook for the input costs in the second half of '09. In the first half there was a benefit to gross margins of about 30 basis points, how do you see that progressing in the second half of the year and how do you align that with the comments you made during the last investor seminar where you were talking about a renewed inflationary environment?

James Singh:

Well just on the first question which I think is dealing with our guidance. I would say Marco that we are at 3.5% organic growth, with an improving real growth component, first quarter versus second quarter. We expect to improve from where we are today and I think that the improvement and the direction of the improvement is in line with what we said previously.

The 200 basis point range of the consensus for organic growth suggests that our earlier guidance wasn't well understood, so to some extent we are simplifying it. We think the consensus number itself is a good interpretation of our guidance.

On the other question in terms of commodity cost - or input costs, in the first half year our input costs were up about 3% or 2% of cost of goods. Let me just go over that to make sure we understand this. Our input cost which includes raw materials, the basic agricultural commodities, packing materials, which for the first half was about 14 billion CHF, those number have increased by about 3%, so 3% on the base and 2% on our total cost of goods.

I think what we have seen is in line with our earlier discussions where we believe that the agricultural materials will be more or less flat which we have experienced in the first six months. But the other raw materials and packaging materials would be the challenge this year, which we are also experiencing.

We however have been able to offset the impact of those significantly more by our continuous efficiency programme and by the changes in the mix of the business.

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

On the comment at the seminar about the return to a more inflationary environment, that was a longer term comment looking into 2010 and beyond.

<p>Questions on: Improvement in water margins Finance costs guidance for FY</p>
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David Hayes, Nomura:

My two questions - the first is on the water margin, clearly a marked improvement in the margin despite the top line still being tough. I assume that's some pretty significant cost saving activity that has been going on there by the looks. I just wondered whether you can talk about whether that is the case and exactly where those costs have come from and also how sustainable they are in terms of will all that cost saving kind of level progress through the second half of this year and into next year or were they kind of one off in nature?

And then secondly just a detailed question if you like in terms of the finance costs, previously you've been kind of vaguely guiding towards a billion finance costs for the full year. 321 for the first half is quite low, I mean is that guidance slightly less now for the full year or is there one off benefits in the first half that will drop out in the second half so it's used in the second half?

James Singh:

Let's come back to Water. We are making progress in Water in spite of the negative organic growth. And the performance at the top line is really a reflection of the softness of the industry, both in the US or in North American and in Europe.

So our focus there is really to improve our competitive positions in those markets and we are. We have gained share in the US and we have gained share in some of our brands in Western Europe and we are making good progress in the Emerging Markets.

So the other focus is really on improving the operating efficiency in the business. And a lot of work has started in terms of route rationalisation, reduction of fixed costs and we are getting the benefits of that. In addition we have gotten some tailwinds in the fuel related costs, for example on the PET and on distribution costs. I think other than the fuel costs which you see has some degree of volatility I think we feel very assured that we will continue to see an improving profit performance in this business relative to what was achieved last year.

Now on the finance costs, yes I think that the earlier guidance we gave that the total cost will be closer to a billion Swiss francs I think that's a reasonable estimate for the performance this year. You have to also understand that the dividends were paid later in the second quarter and the share buyback would accelerate also in the second half.

David Hayes, Nomura:

You mentioned the PET costs but in the pervious question you talked about packaging costs still challenging. Can I just come back on input costs ...

James Singh:

Yes the packaging cost is a net number.

David Hayes, Nomura:

Just to clarify the last question on the input costs generally you're still say net, net on agriculture and packaging you're still looking at an inflationary level uplift this year. Is that still the same guidance or is that going to change?

James Singh:

No, we believe that it will be - we had said 2 to 3%, we believe it will be likely towards the 2% level.

David Hayes, Nomura:

2%, okay thank you.

<p>Questions on: Volume decline in Europe Nespresso in Q2 Promotion activities, particularly in Europe</p>

Jon Cox, Kepler:

I have a couple of questions for you. I'm just wondering what's going on in Europe where it appears that the volume decline worsened in Q2 versus Q1 and I wonder if you can just give a comment on the sort of competitive environment and the situation with private label there?

The second question is on the other F&B that seems to have slowed down quite markedly in Q2. I wonder if you'd just give us an idea of what's going on with Nespresso there?

James Singh:

Well Nespresso continues to do very well. As a matter of fact the organic growth is in excess of 25%. Now you know Europe is a very difficult market and this year in particular what we are seeing is that the difficulties are across the entire Euro zone, both East and Western Europe.

What I must say is that we continue to invest in this region; we continue to rollout Dolce Gusto and launch new products, especially in Beverages. And we have improved our market shares in about 60% of the sales we are tracking. So our competitive positions have improved, our margins have not suffered because in spite of the lack of volume leverage and continued investments in the business we were able to maintain our margin because of significant efficiency programmes in the business across the zone.

So I think Western Europe will remain difficult. I think some of the issues that kept us back in the first half are now resolved, especially issues with customers with regard to pricing and so on. And I think we look forward to seeing some improvement in the second half.

Jon Cox, Kepler:

I wonder if I could just have a bit of a follow up there in terms of pricing, because pricing looked weaker than anticipated. You guys obviously saw the consensus. Is it fair to say that actually you're promoting pretty heavily and maybe particularly Europe is where you're suddenly having to promote more heavily than originally expected?

James Singh:

No, I think pricing as you see first of all it's the roll off of the heavy pricing that we were taking in the first half of last year. And we have had to adjust our pricing to be competitive in this market place. So I do not see a significant upturn in pricing but we do expect that the volume element of our organic growth will improve.

Roddy Child-Villiers:

Jon, the bigger pricing declines are in particularly AOA and then in the Americas rather than in Europe. Europe's pricing is pretty much flat from quarter to the first half. Just coming back to the other Food and Beverage, as Jim said Nespresso, actually accelerated slightly in the second quarter, so the reason that the other Food and Beverage was weaker was because of Nestlé Professional and the Cereal Partners Worldwide Joint Venture being a slower.

And just also in Europe, even though you are right there is a slow down Q1 to H1 in RIG in Europe three of our four biggest European markets and the big four are Germany, France,

the UK and the regional PetCare business, three of those four businesses are still posting positive RIG. So we're not in a situation of big markets going backwards at all. They are still growing positively in the current year.

**Questions on: Cash flow performance in H1 and expectations for H2
F& B RIG in Q2 and expected acceleration in H2**

Warren Ackerman, Evolution Securities:

Jim a very impressive cash flow performance in the first half of the year with the free cash flow not far off doubling sort of H1 on H1. You've given us some feel for the drivers behind that could you maybe walk us through in a bit more detail in terms of what's happening in terms of the cash conversion, you know inventory, debtors, creditors, what the underlying picture is and what you expect going forward into the second half of the year?

And then just secondly the Food and Beverage RIG overall was only flat in the second quarter broadly in line with the first quarter. Was that in line with budget, or were there things in the second quarter that actually were slightly behind budget and what would be a reasonable expectation for the Food and Beverage RIG into the second half of the year?

James Singh:

Well first of all you will recall that the Food and Beverage RIG was negative 0.1% in the first quarter. In the second quarter the Food and Beverage RIG was 0.4%. So we are seeing a continuing improvement in our RIG performance in Food and Beverage and as I said we expect that to improve as we progress into the second half.

Now coming back to the cash flow, I would say that first of all the business looking at the cash flow from operations - which is your profit for the period and the add back of the non-cash items, that improved by 450 million CHF. The increase - the evolution of our working capital was down 1.6 billion. So those two items alone explain about 70% of the improvement that you are seeing. In addition to that our capital expenditure was down 12%.

So it is really what we talked about as part of our model, that capital efficiency is an important pillar in our performance. And we have delivered against that in the first half of the year.

Warren Ackerman, Evolution Securities:

Just coming back on the first question on the Food and Beverage RIG. What in the second half of the year do you expect to see in terms of the acceleration? I mean previously you've said that looking into the second half of the year you expect a better economic environment and the comps will get a bit easier, lack of destocking, perhaps as Nutrition gets better. Are all of those things still valid or there going to be other drivers that are going to improve in the second half?

James Singh:

Yes, I also believe that we have taken some pricing adjustments over the last three months and that will put us in good stead for the second half of the year. So you know we are not

anticipating any significant price increases and therefore the traditional difficulties in terms of taking price increases we don't have those issues coming into the second half.

So I think overall we are looking at a more stable situation, a more positive outlook on the cost side, especially given by the acceleration in our operational efficiency programme across the group. And I think that gives us the ability to continue to invest against the business. And as you rightly said we expect that businesses like Nutrition will be considerably better in the second half of the year.

Roddy Child-Villiers:

We are also seeing a pretty sharp acceleration in Zone AOA as you will have noticed and we expect that to continue through the rest of the year. And of course we will also have in AOA somewhat easier comps following the milk issues last year.

I think the other thing that is probably worth mentioning is in Zone Europe. As you will appreciate in the environment that we've been in of apparently perceived lower raw material costs, this has been quite a challenging time for negotiations with retailers. And that is obviously all behind us now. And so we can now really focus on working with the retailers to growth both their businesses and our business. So also I think in Zone Europe we would see perhaps a slightly better second half than first half in terms of RIG.

<p>Questions on: PetCare deceleration in Q2 Confectionery volume trend in H2</p>

Alain Oberhuber, MainFirst:

A question on Pet Food, what we saw is still a good organic growth for H1 but there was some deceleration in Q2. Is there a specific trend or could that reverse in the second half or on in Q3 again? And secondly where did you see this deceleration in Q2 - in which areas or which regions?

Roddy Child-Villiers:

You might remember that this time last year there were some quite significant price increases. So there was a lot of buying in by the retailers this time last year, in Q2 last year ahead of those price increases so we had quite a tough comp in PetCare from last year. So we're not expecting the Q1, Q2 trend to continue through the rest of the year. We would expect it to be more stable from now going forwards. And that's also supported by our market shares which are up all around the world in every category apart from one which is either - I can't remember, it is either the treats or it's the litter, so it is one of the small categories where we are down.

So I think this is a slightly special case because of the comp from last year and we expect a performance of this level for the rest of the year.

Alain Oberhuber, MainFirst:

The second question is on Confectionery, to look at it you showed good organic growth again but low volumes. Could we expect a similar trend in the second half with lower

volumes or because cocoa price has more or less stabilised will we see an improved volume in Confectionery in the second half?

James Singh:

I think we expect to see Confectionery improve its RIG performance. As a matter of fact we have had good progress made in the US and in some markets in Europe, especially the UK. The challenge in Confectionery for us is in Eastern Europe, particularly a handful of markets. But we believe that things will get slightly better in the second half.

I think 4.3% organic growth in Confectionery in the first half is in fact I would say a very, very competitive performance.

<p>Questions on: Pricing in H2 Margin development for Beverages and Milk in H2 Tax rate for FY</p>

Patrik Schwendimann, ZKB:

Regarding again pricing, in Q1 you have the price effect of 3.5%, Q2 2.5% would you say it would be a fair assumption to see a further slow down in H2 in pricing?

And the second question regarding the margin development of the Beverages and the milk products, both product categories have declined in margin. You are mentioning higher raw material costs. Would it be a fair assumption to say that we should see some improvement here in H2?

James Singh:

Well let's take Beverages. I think the Beverage business was affected on the commodity side by coffee, coffee prices in terms of our cost of goods went up, relative to last year.

We are also investing in Beverages, launching several new products, the rollout of Dolce Gusto and I would say it is a combination of investments and commodity costs that had the impact in the first half year.

I think we will continue to invest in the business, we expect the commodity side to be slightly better in the second half, particularly with respect to this category. Yes I think other than investment aside we should see some marginal improvement in our Beverage profitability.

Roddy Child-Villiers:

On the milk business we certainly - the H1 margin impact on the milk business within milk and Ice Cream should reverse itself. It is really just a reflection of our pricing in the market place coming down faster than our cost base coming down. And that is now more in a sort of equilibrium situation. So that should reverse itself in H2.

And your first question on pricing, yes we would continue to see the pricing element of the organic growth come down a bit in the second half of the year. It is just basically the 2008 pricing working itself out of the numbers.

Patrik Schwendimann, ZKB:

Maybe lastly regarding the tax rate, the reported tax rate was just 24% would you say that this would be a fair assumption also for the full year or is there any extraordinary effect in this tax rate?

James Singh:

Now Patrik if you look at the tax rates last year it is pretty close to the same amount. As a matter of fact it was 24.2%. So you know our guidance for the effective tax rates of about 27.5% is what stands for the year.

Patrik Schwendimann, ZKB:

But the reported tax rate will be clearly lower than?

James Singh:

For the first half, I mean if you look at what happened in the first half last year it is just a timing issue. You always know - you know last year our first half year tax rate was about 24% and at the end of the year it was about 27.5%. So it is the same pattern that you will see again this year.

<p>Questions on: Volume growth and pricing in H2. RIG for FY AOA improvement Alcon</p>
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Pablo Zuanic, JPMorgan:

Just a couple of questions. I want to really be clear on the guidance front. On June 29th, and I think today, you implied that in the second half volume growth would be better than pricing growth. Is that the right way to interpret that and if that's the case you know your first half is 3.5, you're guiding for a consensus for the year which is 4.2, that means 5.5 for the year. So if volumes are going to be better you're really saying that the RIG is going to be close to 3% or higher in the second half, which seems a big jump from almost flat in the first half. Can you comment on that?

And then the second question is if you can just give us some colour in terms of what is happening in Emerging Market second quarter versus the first quarter. Do you see things getting better? In particular my question concerns the big improvement in volumes in AOA whilst Europe and the Americas was relatively unchanged quarter on quarter in terms of the declines or growth. Is that because in Emerging Markets, particularly in Asia, you're becoming more price aggressive and the strategy in Emerging Markets is not so much as in the past about taking pricing and passing on currency devaluation but it is more about driving volumes. If you can comment on that please?

James Singh:

On the guidance I think what we are saying is that as we move forward into the second half we believe that the growth will be more influenced by improvements in real growth. So the mix will change in favour of volumes. So I just want to make sure - I think your interpretation - I'm not going to give you the exact number but the change in the mix will be on the direction as I described.

On the Emerging Markets. Our emerging market business in the second quarter performed better than in the first quarter. As a matter of fact the Emerging Markets grew 7% for the first half. And it was slightly above 6% in the first quarter.

Pablo Zuanic, JP Morgan:

So can you comment on the pricing question Jim, is there a change in strategy, more focus on volumes than in the past?

James Singh:

No it's just the reality of where we are. Last year the prices were significant. If you look at our pricing evolution last year we had 5.4% in the first half. So we are not seeing the same level of pricing activity because we don't need to this year. And that is why you are seeing a gradual slow down in the pricing because the impact of last year's pricing actions are being worked out in the system. There has been some new pricing this year but we are not changing our strategy, our strategy is to be competitive. And that is what we have been doing and you have seen the importance of focussing on driving our competitive position. And globally our brands are doing better on the whole.

Pablo Zuanic, JP Morgan:

If I may just have a very quick follow up on the Alcon situation. Your guidance officially is for M&A of 1.5 to 2 billion a year and that is what you have repeated in most of the conference calls. So that said, can I make the assumption then that if you are going to give roughly 30 million Swiss francs in proceeds once the exercise is put - that that money will either go to a deal in or buybacks because your guidance officially is for 1.5 to 2 billion M&A so why put that money in the bank?

James Singh:

No, no the 1.5 to 2 billion is this year Pablo, we're not talking about M&A activity into the future, we're talking about this year. The Alcon options are not exercisable until the beginning of next year.

Pablo Zuanic, JP Morgan:

Right, thank you.

Roddy Child-Villiers:

I'm just going to come back to a couple of things. Just on the guidance I just want to differentiate, what we are talking about is RIG accelerating and the price slowing down a bit. We are not making any judgement call about whether there's going to be more RIG than there is pricing for the full year. We're just talking about RIG accelerating and pricing

decelerating, we're not making a judgement call on what the balance is going to be. But clearly if that happens organic growth will be more weighted to RIG than it is at the moment. That doesn't mean to say it will be more weighted to RIG than to price, just more weighted to RIG than it is at the moment.

And on the Emerging Markets, I think that what we saw last year - and from 2007 into last year, was some very significant pricing. And that clearly impacted volumes not just in AOA but also in the other Emerging Markets. What we're seeing in the current year now with pricing having come off quite significantly and us putting a lot of money - spending a lot of time reengaging with consumers around their perception of value. We're now seeing volumes beginning to pick up again in those Emerging Markets. And that is particular true in Dairy which was of course the most significantly hit by pricing and is obviously a very big category for us in Emerging Markets and is also true in Culinary as well. So I think that is really what is going on in the Emerging Markets.

And also on this question about Alcon, you know we have never ever in our history done deals in one direction because we've got deals going in the other direction. We do whatever deals are there because they are there and they are available at the right time. And despite in this current environment everybody assuming that there would be lots of businesses for sale and we'd be buying them all up, we're not buying anything up because there simply is nothing available that's of any interest to us at the right price that's strategic.

Questions on: Water performance worldwide Trends in Eastern Europe

Jeremy Fialko, Redburn:

A couple questions for you, the first one is on the Water business. At the investor seminar at the end of June you suggested that Q2 was going to be a little bit better than Q1 driven by North America but it seems to have been a little bit worse. Does this mean that some of the non-American markets had quite a sharp deceleration in the second quarter?

And the second question is if you could just talk a little bit more about Eastern Europe, how there are some quite conflicting trends going on within that region and if you could give us a bit more detail that would be excellent.

Jim Singh:

Yes, coming to the Water business first of all the category continues to get weaker. As a matter of fact the category in the US and in Western Europe in particular has continued to decline. Our share gains in the US, we were up two percentage points in shares led by our two major brands Poland Spring and Nestlé Pure Life.

In Europe, in France for example some of our major brands continue to do well. Vittel is improving its competitive position and Perrier is plus 4%. But we are improving our market shares in a category that is declining and continues to decline.

Now on the Emerging Markets our business there is in double digit growth and I think it continues to do well. So our issue is not really in the emerging market, but our challenge is to find opportunities in North American and some of the key markets here in Western Europe.

Roddy Child-Villiers:

On Eastern Europe more broadly we're seeing strong performances in Soluble Coffee and in Culinary, chocolate is a bit weaker and I think that is really the premium end of the chocolate business that's struggling a bit. Also our Nutrition business is performing very well in Eastern Europe and extremely well in Russia, taking share there.

I think by geography Russia is enjoying good organic growth although it is quite price weighted. Poland and the Ukraine are doing very well and that is very much volume driven. So I think broadly we're doing pretty well in Eastern Europe. Slightly different trends in different markets but broadly performing well.

Question on: Details of increased input costs
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Jeff Stent, Citi:

Just a quick question on the comments you made about the input costs. You said that input costs in the first half were up 3% but that agricultural materials were flat. You've also commented about PET being down. Could you just give us a few examples of those items that I guess must have been up quite materially outside agri commodities and PET that are driving the increase in the 3%?

James Singh:

Just to talk about the agricultural commodities. I think what we have experienced in the first half is an increase in most of the agricultural commodities except Dairy. I mean I'm talking the material changes. So the improvement in Dairy has helped us manage the input costs related to agricultural commodities at more or less a flat number.

The areas where we are experiencing increase are two. It is on the other raw materials, all the meat and the vegetables, the vitamins and the stabilisers - these elements continue to go up at significant rates. And on the packaging side, although we're getting some relief on the energy related packaging, for example PET the other packaging materials for example, tinsplate is going up at a very, very high rate. I think this year our tinsplate cost will be you know close to 20 to 25%.

So it is in line with what we had explained during our previous discussions and that is what we are seeing. So the impact of the total input cost increase on that basket was about 3% which translates to 2% on our total costs of goods.

Jeff Stent, Citi:

Apologies for labouring that but I think that has been tremendously helpful, thanks very much.

Roddy Child-Villiers:

Just to give you some scale, I mean the other raw materials that Jim talks about that are up significantly is around a 9 billion spend so it's a ...

James Singh:

13.

Roddy Child-Villiers:

Sorry I'm being corrected, a 13 billion spend so it's a significant amount of money as well.

I think also one of the reasons we sometimes appear to be struggling to be credible is I think you guys tend to focus on the highs of last year and that therefore assumes that we paid the highs of last year which isn't necessarily the case. So our start point isn't necessarily as high as your start point when we're looking at our half and half comparisons.

<p>Questions on: Weak areas in Confectionery Aggressive competition in H2</p>
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Andreas von Arx, Helvea:

Just a follow up on the Confectionery business. I'm a bit surprised by the second quarter organic growth. I mean you have profited from Easter, also you have mentioned at first quarter the positive effect you were expecting from Brazil in the second quarter and the UK as well. Could you give some more details on whether this has been impulse products that have been weak or give specific product names where you think you struggled in the second quarter? Thank you.

James Singh:

I think the Easter impact was more or less felt in - the major market was Brazil, because the structure of the trade is different. Easter was not a big mover in the second quarter in the countries where you have more of a concentration of the larger traditional grocery stores.

So Brazil had a benefit, albeit small about a week benefit, for Easter in the beginning of April. And we have seen that in Brazil the business has done very well. I think there are two areas where our Confectionery business faced some challenges. First of all it is on the premium side where we have seen consumers trade down to lower price products. And in Russia where, given the high devaluation that has taken place there and the need to take pricing, we are taking pricing but our real internal growth, our RIG number, is negative.

So there are a couple of markets but I would say overall our business is doing competitively well. Particularly in the US and the UK and Brazil.

Andreas von Arx, Helvea:

Sorry may I quickly ask in Russia, the weaknesses were these your local brands or your global brands?

James Singh:

Well it's a total overall, it's a market condition. You know where we have taken it that way - our organic growth is positive, it is the RIG that is weak in Russia. And it is a general business condition.

Andreas von Arx, Helvea:

Maybe one more, it seems to me that some of your competitors have been much more aggressive in terms of marketing and they are showing lower profitability increases than you at first half stage. Do you think in hindsight you should have been more aggressive and do you think that there is a risk that there will be even more aggressive price competition in the second half? Thank you.

James Singh:

Andreas we can't speak for the competition. But you know our first half results as I said are solid and improving and it is a combination, it's focussed on profitable growth. And we are investing in our brands. So we are not cutting back our brand investments or investments in our relationships with our trade and the launch of new products, we are not. As a matter of fact we are spending more, as we have communicated earlier in this conference call. So I really can't speak for the competition. But we are very focussed on a total performance framework for our company. That is our strategy and that is the way the company is being managed.

And by the way our market share positions across the world continue to improve.

End of Q&A Session

James Singh:

Well thank you very much for your patience. Just as a quick summary I would like to classify our organic growth in the first half as robust and balanced in view of the environment, especially as it is building on a strong performance in the first half of 2008. This is particularly true as it has been delivered whilst also achieving an improvement in EBIT margin, both reported and constant currency. And whilst increasing our investment in our brands both through marketing and R&D. In other words in keeping with the Nestlé model we have delivered both on the top line and on the EBIT margin.

We have also delivered a solid performance on cash flow. I think it is therefore very important to put our overall performance in this perspective in terms of a balanced, profitable growth where you have strong organic growth combined with improvement in margins and also an improvement in our cash flows.

For the rest of the year, as we said before, we will continue to focus on accelerating those initiatives that drive both growth and efficiencies, such that we can expect an improvement in our organic growth for the second half of the year from where we are currently.

Thank you.

End of transcript