NESTLÉ S.A.

2009 FULL YEAR RESULTS LONDON ROADSHOW TRANSCIPT

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

Slide 1-2	**Nestlé 2009 Full Year Results**

Well good morning everybody and welcome to our 2009 Full Year Results Road Show Presentation. We are video web casting the event; so when it comes to the Q&A please wait for the microphones before asking your questions.

Paul and Jim of course you all know, we also have here today Paul Grimwood who is the Market Head of Nestlé UK. So if there are any local questions I'm sure he'll be delighted to rush to the stage to answer them.

Slide 3	**Disclaimer**

I will just take you through the disclaimer; I'll take it for read.

James Singh, Nestlé SA, Chief Financial Officer:

Slide 4	**Agenda**

Thank you Roddy and good morning to you all. What I'd like to do this morning is to just revisit where we were at the beginning of 2009 and to share our experiences with you in terms of how we manage the business. And of course you're aware of the results, I will not repeat a lot of the figures that you have seen before. But I think what we did achieve and how we did achieve them gave us confidence as we moved forward into this year

So I'll spend some time on the 2009 business environment, how we managed the business, what we achieved, the 2010 business environment as seen generally and some of our thoughts and why we believe that we can continue to make progress in 2010.

Then I want to spend a couple of minutes to talk about a couple of items that seem to crop up now and again.

Slide 5	**The Economic Dashboard as it looked going into 2009**

But, you know, we started the year toward the end of 2009 with the world in the red zone, and especially in the fourth quarter of 2008 we have experienced a crisis and the effects of which the world had not seen in many, many years. And when you look across the board there was basically no exception. Of course, the degree of impact, the degree of adverse impact varied from country to country and the expectations as to how those were going to play out were also equally different.

But what we knew for sure is that the developed markets has some severe issues and as I stand before you here today some of these issues continue.

I think what is very important to note is that in spite of what was happening in the economic and business environment and the fact that the consumers were downtrodden and we have said this before, they were not beaten. And if there was one ray of hope it was the confidence that we saw in the consumers as they continued to purchase our products, whether they were PPP products, whether they were mainstream products, or whether they were super premium products.

What we knew for sure is that the business was not going to be usual, if there is such a thing as business as usual. That conditions have changed and the world has changed in many respects and therefore in our own business we had to first assess what were the market conditions and what we were going to do to make sure that we did get our fair share of growth. And at the same time managing the risks in the environment.

Slide 6 Six levers to manage downsides & exploit upsides - outline

And you might have seen this before because I did this the last time we met - this time last year when we met at the London Stock Exchange. What we said, just to keep things simple, that there was great market uncertainty and there was an increasing degree of limited access to capital. That we knew that our volumes and our pricing would be under considerable pressure, and therefore we need to take actions to mitigate the effects of these.

We also knew that there were opportunities and therefore we needed to take initiatives to exploit the upsides, whether that was gaining market share or leveraging market opportunities in different parts of the world.

In fact, our objective was to make sure that we protect our financial performance and we get as much from our business and the capabilities within them as much as we could, but more importantly we needed to find a way to grow.

Slide 7 Six levers to manage downsides & exploit upsides - detail

So we developed a series of initiatives that were aimed to help us do just that. I think the more important one was how we approach the whole scenario planning process. You know Nestlé is a long term oriented company, and the crisis has not changed that character of our company. As a matter of fact it has reaffirmed it. But more importantly in the short term we realised that we had to shorten our planning horizon and therefore the Executive Board under Paul's leadership every month and even within the period from one month to the next, we looked at the evolution of the business and took actions to make sure that we were making progress.

Now as you know we have dynamic forecasting process that does an 18 month forecast every three months and also 12 monthly and quarterly forecast every month. And we look at this and compare that against the actual results by market and by zone, or by business responsibility. We also have a very active global risk management process in place. And that now has become recognised as approaching best in class standards. And we also set up some gating issues with respect to major capital expenditures.

On the other hand we knew that there were some restrictions in the financial markets and therefore we committed ourselves and the rest of the organisation to align with that to make sure that we took a very disciplined approach to working capital. And you have seen the results.

We knew that we needed to maintain a relationship with our creditors, with our suppliers to make sure they themselves have a chance to survive in the difficult environment.

We also knew that we had to win on the inside, that is where this whole area of Operational Excellence is geared to, winning on the inside; by becoming more efficient, making sure that we adapt business practices that will allow us to get the benefit of every Swiss franc spent in it.

We need to also simplify the business; we're a very large company with lots of brands, with full operations in 130 markets and nearly 450 factories around the world. We need to find ways to simplify the operation, the discipline with respect SKU reduction and to manage our overhead growth relative to our organic growth to make sure it doesn't get out of kilter, because we need the ability to manage input cost volatility because of the pressures of pricing in the market place.

We knew also that the different business models within Nestlé will work for us; in terms of how we develop and introduce new products to market and the discipline around ensuring 60/40 or 60/40 plus. We also knew that we had a very dynamic business model which we call PPP, Popularly Positioned Products that were not only appropriate for emerging markets but also for developed markets because the consumer economic segmentation is also present in the developed markets.

We also knew that there were consumers who were committed to our brands and the values inherent in them, based on the promise of those brands. And therefore our premiumisation I&R programmes were also very active, with very good results particularly in Beverages and in PetCare.

At the end of all of this we knew we had to sharpen our marketing communication. We needed to sure that the messages are clear and that we need to emphasise the nutritional elements in our brands because we were spending a lot of money to improve the nutrition foundation and the nutrition competitive advantages of all our brands and Paul will talk to you a little about that.

As a global company we have markets that are difficult at one point in time and those that provide significant opportunity. The whole focus of the organisation was to make sure that we were making progress where it matters. We had to make some tough decisions with respect to those businesses which have been around and to which there is a fair amount of emotional attachment. But if they are not going to work we get rid of them. On the other hand we need to acquire businesses to strengthen our product portfolio around the world.

Slide 8 Full Year Hightlights

The results are what you have seen, 4.1% organic growth which we believe which is an industry outperformance, building on momentum that was achieved in 2008 and for the last ten years. And you have seen in the presentation and the press conference our journey over the last ten years with respect to our Nestlé Model. And last year was no exception. 30 basis point improvement in EBIT for both the group and Food and Beverage and also a 40 basis point improvement in constant currency.

We over achieved our target for Operational Excellence, delivering one and a half billion plus Swiss francs to the organisation. And this is not a one shot trick, this has been around for a while, we have had programmes geared towards our manufacturing organisation for years. Over the last two years we have extended the discipline across the entire organisation, impacting not only our P&L, but also our balance sheet. And therefore the working capital is also a part of this.

It is with this confidence that we propose a 14.3% increase in dividend. We increased the payout ratio progressively and we announced a new share buyback to start at the completion of the current programme. That completion we believe will get it done in the first six months. And out of this ten billion we will do at least another five this year. So the target this year is to get ten billion of share buyback in 2010 for cancellation.

Now this is of course on top of the 44 billion in a combination of dividends and share buyback that we have given to our shareholders over the last five years.

Whilst we're optimising our returns to the shareholders through business performance we're also managing our credit quality. Because we also have to make sure that the organisation continues to have superb access to the capital markets, giving us the capability to leverage our capabilities in terms negotiations and to develop our business as we see fit.

Slide 9 Total Performance Framework

Now in line we talk about the Total Performance Framework and I'm not going to go through each one of them. But you could see the four pillars of our Total Performance Framework and you could say you could add a fifth which is shareholder value. But driving performance in all areas, the P&L in terms of growth, managing expenses, improving our net profit or operating profit and our EPS and also managing our balance sheet in terms of our working capital.

Capturing the benefits of scale enabled by GLOBE and other organisational arrangements. Working with NCE principles allowing us to capture significant efficiencies in the organisation; at the same time continuing to simplify our business and our business structures around the world. But not forgetting that we need to invest for growth and we have done so in 2009 and we started the year with the acquisition of the Kraft Pizza business. It is not the only acquisition we will do in 2010; we will continue to do the normal bolt-ons that we have talked about in the past.

Slide 10 The Economic Dashboard at the year-end 2009

Now that was 2009 coming into 2010. There's no doubt that the environment has improved and in some respect considerably, but at the same time there are some issues, there are some prevailing issues in the global economic environment. And what is emerging is that there are two types of growth or growth profile in the developed world and in the emerging markets.

But here again you see the consumer confidence which is for us a very important indicator as we continue to make sure that we build our brands to meet consumer needs and continue to gain their support.

Slide 11 Big Government at centre stage

But there are some underlying issues as I said some of which are good, not necessarily bad. Big government is now back at the centre stage, there is going to be more regulations, there is going to be a much more active and perhaps broader regulatory environment. We know the issues with respect to taxation and revenue sourcing in all markets, but primarily the developed markets.

We know that there is going to be tensions between those who have growth and those who do not or have less. And therefore the international trade environment and protectionism will become more a part of our lives and aligned with that is of course how we conduct our business. How we conduct our business inside the company with others, with our trade partners will continue to be under review.

These are not necessarily all bad, we believe some of this is required to make sure that we operate in an environment where each player behaves responsibly towards our consumers and towards us.

Slide 12 Saving ratios remain mixed around the world

Now what is also encouraging is that, perhaps with a handful of exceptions and especially here again both in the developed markets and the emerging markets, the consumers continue to save. I think a saving ratio of 10% of disposable income, especially in the developed world is very encouraging. I think in the UK we're in negative territory and in Brazil it's pretty low.

Now you're smiling because we're here in the UK and you know what's happening here.

But I think what's interesting is the emerging markets where you see an appreciable level of savings. I think you have to interpret these numbers in terms of the level of income in those markets and therefore the ratios are high, but still very encouraging.

Slide 13 Consumer confidence coming back

Now, what we also see is that towards the end of last year coming into this year, or more or less towards the middle of last year, we saw consumer confidence coming back in the larger markets, but still below where we were in 2005. I think it's very important that we start to see some positive news on employment. Because unless that changes it could have an impact on the direction or the rate of change in consumer confidence in the developed world.

Slide 14 The World Economy is stabilising but recovery expected slow

Now, our assessment of where we are is that we have moved out of a crisis, from an economic performance point of view and we are in a more moderate but cautious outlook stage. As I said there is going to be growth, but there is going to be slow growth because the conditions are weak. And we are getting growth in some of these developed market with no improvement in the unemployment situation. At the same time we know that some of the large developed markets have large trade deficits. And also some of the smaller markets, especially here in Europe that have significant sovereign debt and therefore sovereign crisis in markets like Greece as an example.

Slide 15 Government support programs are expiring

We also know that in the midst of the crisis the governments, especially in the UK and in the US created programmes that minimised the risk of access to market for short term paper. Those programmes have been terminated, or by the middle of this year they will all be gone. And essentially what is happening is that corporates are moving away from short term borrowing.

Slide 16 Industrial Segment Liquidity

Now what you see in the top chart is the commercial paper market for our sector, the industrial sector. And in the US from December 2008 to December 2009 nearly a hundred billion dollars worth of CP on a revolving basis has disappeared from the market. People are still raising money; today our level of CP in the US is about just under 10% of the total market for industrials.

So what you are seeing is that companies are moving out of short term, into longer term and we ourselves started to do that at the end of 2007 coming into 2008. But given our particular liquidity situation we have revisited the mix and we don't see this as necessarily a disadvantage.

Slide 17 Inflation is on the rise & will be difficult to suppress

Now inflation, you have seen what is happening to major commodities, especially some in our basket. And I can tell you there continues to be a high level of volatility. From January to where we are - last week at this time the volatility in our basket is somewhere between 2 and 22%. So we are expecting increased costs in some of our major commodities this year. We know energy on the average will likely be higher this year than last year. We also know that the labour has gotten stronger in this environment and we are going to continue to face increasing demands for improved labour rates.

Our forecast is that interest rates will start to increase towards the end of the year. And you have seen the US has moved on the discount rate, which we don't think is particularly material for Nestlé or generally.

Slide 18	Making Progress in 2010

And it is based on this assessment of the environment and the confidence we have that we believe that in 2010 we will continue to make progress and our forecast is that this year the organic growth achievement will be higher than what we achieved last year and that we will continue to improve EBIT margins in constant currency.

Slide 19	Total Performance Framework

Why? Because we believe what worked for us last year will work for us this year and we will be sharper, we will be more disciplined and we will accelerate the implementation or the continuation of the implementation of initiatives across our market. And therefore we are shaping up this year for another year of total performance.

Slide 20	Nestlé's M&A strategy

Now, that's 2009, where we think we are in 2010 and what we believe we can achieve. There has been a fair amount of discussion on our M&A strategy, whether the guidance we gave was right, or whether it isn't right. We are convinced that we made the best effort to provide the most appropriate guidance. But like everything else you have to look at this over the longer term.

The focus of our M&A is quite clear, Food and Beverage, Nutrition, Health and Wellness on adjacencies to existing business. I don't think this is anything different from what we have told you but I think we wanted to put everything on one piece of paper so that we minimise any misunderstanding going forward.

The criteria for M&A were written about five years ago and has been on our website. M&A over time must enhance our metrics, it must give us strong brands and leaderships positions in the market and it must be companies and organisations that fit within Nestlé. And you have seen most of the major organisations that we have acquired, businesses we have left them alone and then a lot of times we have integrated our business into those businesses because they were successful, that's why we bought them.

Nestlé Purina is a very good example of that. And the business we have today in PetCare is really not the business we had at the time we bought it, the business has been totally transformed to much more higher value added and we have built market shares around the world.

Slide 21	Acquisitions have been in developed & emerging markets

We're looking at M&A activities both in emerging and developed markets. We will buy businesses that fit our strategies and deliver the metrics wherever they are. Because the M&A activities in the company enforces the Nestlé Roadmap and Paul will talk to you about the Nestlé Roadmap

Just as an example, just going back in terms of the number of transactions not the value you could see in 2007 a large part of the M&A activities were in the developed world and today that has started to change in a very significant way.

Slide 22 Alcon disposal

Now on the Alcon disposal, we expect the deal to close in the third quarter, we expect the Food and Beverage - or the continuing business and I saw this note in one of the reports, I think we will report Nestlé SA and Nestlé SA will include predominately our Food and Beverage business and the minor participations we have in Galderma and Innéov.

The focus is to make sure that we preserve our capital and manage our counter-party risk in a way that gives the organisation the greatest flexibility and agility. So we are looking at investment portfolios that will deliver on that. Therefore our treasury management focus will have to change slightly. We have always had eight to nine billion of liquidities that we manage so we can manage liquidity, we could also manage debt; but in the next couple of months things might change slightly more in favour of liquidity.

We will continue the share buyback programme because we think it has a very positive impact on our performance and also a very good way of returning money to our shareholders. And therefore we expect that our underlying earnings will continue to grow and therefore our shareholders will benefit from the dividend of our progress.

Slide 23 Net debt increased by CHF 3.5bn , mostly due to exclusion of Alcon's Net position

Now in terms of cash flow I just want to go back a couple of years before we announced the share buyback programme, or we got into a major part of it in. Just as an example at the end of 2008 we had net debt of 14.6 billion, at the end of 2009 we had 15.2 but because we're treating Alcon as a discontinued operation our net debt without Alcon is 18.1 billion Swiss francs. And between these two periods we have given back to shareholders last year 7 billion and the year before nearly 8 billion, so 15 billion and we have paid in excess of 10 billion Swiss francs.

Slide 24 Net Debt Outlook

Now as we go forward we believe that this year we will have a net debt position with Alcon. And therefore our AA credit rating we believe is a gold standard in our industry and allows us to balance the interests of all stakeholders; the organisation itself and its ability to grow, the people that work within it, the societies in which we work, all our trade partners, our shareholders also. And I must say that the AA credit rating does give us the ability to drive the business with confidence and with discipline.

Already announced of course is the sales of Alcon, the balance of our holdings for about 28 billion, Kraft Pizza which hopefully we will do very shortly, the dividend which has been proposed to the shareholders and the share buyback programme. I think in execution we will end up in a net debt at the end of this year and progress towards where we ended the year last year in 2012 and 2013.

Slide 25	Priorities for use of cash

So priorities for cash, just to repeat capital expenditure and investment to support our growth, M&A activities, Kraft so far this year and others to come small bolt on acquisitions, dividends, share buyback and as we said the net debt should return to the 2009 level in 2012 / 2013

Slide 26	Dividends

I think it is important for us to all understand that Nestlé over the years has consistently shared the dividend of its progress with its shareholders. And you can see from 2005 to 2009 the underlying EPS has increased slightly under 10% and the dividend payout has increased on an annual basis of nearly 15%. Causing our payout ratio of the underlying earnings to increase. That is the principal; the principal is dividends consistently distributed on the basis of the underlying performance of the business.

Slide 27	Conclusion

In summary what I'd like to say is that our performance last year was broad based, with every operating segment without exception contributing and we exceeded our targets for winning on the inside. We are focused on a very Total Performance Framework and it's not either this or that. Our EBIT margin improved, the increased brand investments, our underlying net profit improved, ROIC and cash flow also improved.

It is on that performance and the confidence going forward that we announced an increase in dividends of 14.3% and a new share buyback programme to start upon the completion of the current programme this year. And in 2010 we intend to increase further. Thank you.

Paul Bulcke, Nestlé SA, Chief Executive Officer

Slide 28	Title slide

Well good morning ladies and gentlemen, also good morning to everybody who is watching through the webcast. It was just a year ago that I was standing also in front of you here and during that year a lot of water has gone under the bridge. This was indeed a turbulent challenging, fascinating and I would say interesting year. Jim has shared with you these results; they were a good set of strong results.

He has framed also 2010 and how we see some lesser headwinds but still headwinds. He spoke about Total Performance, Total Performance that was actually driving top line and bottom line together. Also last year we were able to deliver that.

He spoke how we are simplifying our structure so that we can be more effective. How we are also scaling our benefits, scaling up our strength so that we can be more efficient. And he spoke about investment for growth. And actually the whole exercise, our success as a company, is going to be intimately linked with how we can drive and where we can look for profitable growth.

Slide 29 The Nestlé Roadmap: driving profitable growth

And actually this is linked with our Roadmap, we have shared this Roadmap with you and it says what we have to do and it creates an alignment in a complex company as we are. Nestlé stands for Good Food Good Life. And Good Food Good Life has in it the ambition to be the world leader in Nutrition, Health and Wellness. It is offering actually pleasure, balanced and healthy nutrition to people, to our consumers everywhere in the world. And doing that while delivering also - and that is where the Total Performance comes in, profitable growth and doing that steadily every year.

You see here in the Roadmap how we want to go about that, what we're going to leverage to get competitive advantages. How we can create gaps versus the competition and create value for the company. And these are linked with our portfolio, our portfolio of products and brands and I'm going to come back to that. It is linked with our R&D capabilities, our platform that has a uniqueness in driving innovation, renovation. It has to do with our global presence in the world and it has to do also with our people, culture and values. These are the competitive advantages that we have to be aware of, embrace and leverage to be successful.

This Roadmap also defines very clearly where we want to look for growth, where we do exceptional growth coming in for the company. And it is intimately linked with our Nutrition, Health and Wellness agenda. There is a lot of value to be created just by bringing additional nutritional arguments into our product portfolios and driving the agenda with the increasing signs and knowledge and insights that we get through our R&D capabilities.

Growth is going to be in the emerging markets and this is much clearer today than yesterday. But there is a big part of our growth that is going to come from emerging markets so we're going to look into that today very fast to see how we are going to go about that.

A lot of growth is also going to come from out of home. That was a whole part of the food consumption that was slightly depressed this year, but this is definitely in the longer term a very positive trend that we have to capture and it has to do also with growth. We're going to look for growth in premiumisation and also there we're going to share some examples.

So we have defined what we want to be, what we're going to leverage to be competitive, where we're going to growth and also how we're going to organise to be effective and efficient. And these are the four operational pillars and that has to do again with the consumer in the middle of all our activities. It is all about understanding the consumer, what his needs are and how we can fulfil them.

It has to do with driving the innovation renovation through that cycle and inside, do it efficiently. That is again the Total Performance, do it effectively and efficiently and that is where Nestlé Continuous Excellence comes in where we drive waste out of the system.

It has to do with bringing the products to where the consumer is looking for them, wherever, whenever and however. And it has to do again with communicating, connecting with the consumer in a meaningful way from the company to them to say what we have for them, but also understand and listening to them so that we can reinitiate the whole cycle.

It also defines very importantly how we connect with society at large as a company. We have called this Creating Shared Value. That means that we are totally convinced that our company can only be successful as a company - and that is creating shareholder value successfully over time, when we also connect very meaningfully and positively with society at large.

That means that everything we do should be long term inspired, yet short term in action, but long term inspired. If we do that then every action we do connects and creates value for society at large. And that is how we go about our corporate citizenship.. We call it Creating Shared Value and that is all in that Roadmap. That is the Roadmap that inspires all actions of the 280,000 plus people that we are in Nestlé worldwide. It creates and amazing amount of strong alignment that aligns all the energy of everybody who is working in Nestlé.

Slide 30 Nestlé – Good Food, Good Life

Now Nestlé Good Food, Good Life, what does it mean? What does the agenda of Nutrition, Health and Wellness mean for us? And actually the words Nestlé Good Food, Good Life capture very well the essence of what we are as a company. It stands for the promise that we have for ourselves to our consumers, that is to bring every day, everywhere Nutrition, Health and Wellness to the people.

Slide 31 Nutrition is about pleasure

Now what does Nutrition Health and Wellness mean? Nutrition has different facets and different aspects. And the first one is that nutrition, and food in general, has to be about pleasure. People look for pleasure over time; they want to enjoy what they eat. And this is a very interesting challenge that we have captured in 60/40 where we go about testing our products and looking to have them preferred by the consumer. Because only what people like to eat, they are going to eat. And that is one of the very important factors of our R&D set up to really look for enjoyable food.

And yet at the same time combining that - and that's where again R&D comes in, combining that preference and enjoyment with nutritional arguments, bringing these two together is the challenge that I think that we are uniquely placed to bring.

Slide 32 Nutrition is about balance

Nutrition has also to do with balance, people want to choose, they want to differentiate, they want to have variation in their diets and food and pleasure. And that is again very intimately linked with our strengths. We do indeed have lots of products that can bring the choice and selection that people can vary in their lives.

Slide 33 Nutrition is about understanding

Nutrition has also to do with understanding. Nutrition has to do with diets that are decided by the consumers. This has to do with education of the consumer; this has to do also with transparency from our side to have the information on our packs. Actually we have now on 98, close to 100% of our packs we have the nutritional compass, sharing information with our consumer. We have also our website, sharing information and helping the consumer to make these healthy choices.

Slide 34 Nutrition: three dimensions

In other words Nutrition has basically three dimensions. Nutrition, Health and Wellness or Good Food, Good Life has three dimensions. Food should be pleasurable, it should be balanced and give choice and it should be understood.

Slide 35 Good Food, Good Life across categories

And that is what we see in our agenda of Nutrition, Health and Wellness and that's why we feel as a company that you can only be meaningfully part of people's lives on the Nutrition, Health and Wellness agenda when you have and when you are present in different categories and when you drive through all these different categories the nutritional agenda.

Bringing in the science and understanding through R&D and making sure that you are connecting with the consumer in a meaningful way so he understands. So we have a broad portfolio and that is intentionally so; because we want to be a meaningful part of people's lives, on a nutritional basis, throughout their whole life, every moment of their life.

Slide 36 World population

Now that combines very well with certain underlying trends that we see. Growth is going to come because population is growing firstly. You see here we have seen dramatic growth in the last years bringing us to above 6 billion people in the world. And we project also in the future that in the next 25 years, 30 years we’re going to see 3 billion more people coming to live on the planet.

Slide 37 Growing prosperity

This is by number a huge growth potential. Additionally we see also that there's growing prosperity and you have seen maybe this chart before, we have used it before. That you see there in the brackets of $2,700 to $14,000 income per year we see a dramatic growth. And that's the span where we see also people coming into the cash economy and who are then starting to buy our products every day. This is the 1 billion new consumers that we see in the next ten years who are going to be able to be one of our consumers of our products.

On top of that you see on the higher end, the 30,000 plus incomes, is also growing dramatically. 400 million are going to be added to that part of purchasing power.

Slide 38 Higher incomes lead to higher added-value

And that's where our agenda for premiumisation comes in and plays very well. And you see this combines very well with this chart that we have shared with you also, where you see how through the income classes and how people with increasing income are changing their consumption habits.

It is true that with higher income you have first an upsurge of people spending money on food and nutrition. And then it should be or it would be expected that that flattens off over time and yet it doesn't. People are spending then increasingly more money per calorie of purchase of food and that's where premiumisation comes in. So that curve gives an upswing in the higher income classes and that's why we speak about premiumisation so intensively. That's where the higher added value, linked with Nutrition, Health and Wellness, comes in.

Slide 39 The trends are positive for Nestlé

So these trends are definitely positive for Nestlé. The population is growing, there are more consumers, there is increased consumption linked with that, the incomes are growing so we have more affluence in the emerging market so we see a whole set of consumers coming in that trends into PPP and also on the higher end to premium. And people are increasingly aware and they are more educated through governments, and the healthcare spends of governments are starting to be more intimately linked with food. So Nutrition, Health and Wellness starts to be much higher on the agenda worldwide.

And that's where we see the Nestlé opportunity for profitable growth. How we use these basic trends, linked with our agenda and as I said, how we go about Nutrition, Health and Wellness through this balance, through this pleasure, through this understanding. How we can connect with these two equations and create very profitable growth in the future.

Slide 40 The Developed World – Nestlé is accelerating its innovation

Let me first walk you through a few examples in the developed world. Let us say that there are no mature markets. Actually there may be some tired managers but indeed we see a lot of growth potential in the developed market, also in the depressed environment that we actually feel now in the developed markets.

You see it has to do with acceleration of innovation. Nutrition, Health and Wellness is very new in the world. This nutritional science is quite new in the world. This is just starting. And you see how we in the markets, through insightful innovation , through mastering additional opportunities; distribution out of home, customer service and so on, we can create value and a lot of value. And that is what has driven our growth in the developed markets, Europe but also in the United States, quite importantly last year where we had very meaningful growth there.

Nutritional, Health and Wellness, that we have mentioned, to combine that with taste again, bring pleasure to people's culinary habits. Premiumisation again, a lot of value to be created in the developed world. And we have some examples here. The best example is Nespresso but we have Dolce Gusto, we have other products that bring additional value to our products.

But also in the developed world the PPP initiative, the Popularly Positioned Products that we have is an initiative that we have been driving very fast and strongly in the developing world. Actually we see a lot of learning and business modelling that we have taken back to the developed markets.

Slide 41	NHW: Specific need-state: Resource Senior Activ

Just an example of premiumisation around Nutrition, Health and Wellness. In the developed world we see the population ageing. Ageing population has specific nutritional needs. They swallow less easily, they have less appetite and with that they're undernourished because they eat less. We are bringing with Resource Senior Activ, a solution to both of these, I would say, inefficiencies. Because lots of older people, because of these two characteristics, are undernourished.

Resource Senior Activ is just bringing that. And the Healthcare Nutrition business has launched that in Switzerland and is rolling it out now in Europe. But this is a product that's very high in calories. It's calorie intense so you don't need quantities to take it because older people eat less. It has quite a few branded active benefits as you know, these branded benefits that are proprietary to Nestlé that are built in in this project, for example Acti-3 that is combining proteins, vitamins, calcium so that you strengthen the bones and you support the muscle development. We have Prebio1 that's actually also promoting digestive health and we have omega-3 for cognitive health.

So in other words we have a product here that is geared and organised or structured around specific needs of an older population. This is just starting. This is a huge growth opportunity that we're just starting to open up and explore. We have launched these products already and are rolling it out in Europe.

Slide 42	NHW: Taste & Pleasure : The Skinny Cow

Another product, Ice Cream, Nutrition, Health and Wellness and Ice Cream, how does that fit? Well Ice Cream is one of these categories that actually scores well if you give the right solutions from our agenda of what we mean with nutrition, pleasure, balance, understanding. And with our brand Skinny Cow we are just doing that.

Skinny Cow has an offering of sandwiches, cones and also the bars that have substantially fewer calories. We are rolling this product out, it is very strong in the US, we're also rolling it out here in the UK and also in Oceania. And this brand in Ice Cream has known a growth last year, specifically in the developed world, of more than 25%, because of these additional nutritional arguments that we have built into the products.

Slide 43 NHW: Popularly Positioned Products in Europe

I have been mentioning the PPP, the Popularly Positioned Products that were geared towards the emerging consumers in the emerging markets, how we see important growth potential also in the developed market. In the USA we have an initiative that we call the Hispanic Initiative. Where we organise and define the whole marketing mix, that means product distribution, communication and nutritional needs, to specific parts of the population; to 50 million plus Hispanics in the USA. We are doing the same thing in Europe and you see a few examples here of the different parts of society where we geared a special specific offering.

For the Muslim part of Europe, 4 to 5 million people, we have halal products specifically geared up for religious reasons. We are the major halal producer in the world. We have 50 factories that are certified halal, who are gearing products towards these specific parts of society. Then you have also the Africans or Asian people in Europe where we go and bring products from their countries and actually bring some nostalgia. The buying motivation for these products is their flavours, again pleasures, but also they buy home. And these are motivators that can be leveraged also dramatically in Europe.

Slide 44 NHW: Another breakthrough innovation in Soluble Coffee

Nescafé, it’s a 70 plus year old brand and yet it is younger than ever. Last year Nescafé has grown 7%. That is quite interesting to see how true innovation, and I would say game changing innovation in certain areas, combined with permanent renovation of the brand - flavour, aroma capturing and new ideas, we can bring permanent momentum behind this very important brand. It was first launched in 1938 and today actually there are 4,000 cups of Nescafé drunk every second. So that's quite a lot. And yet at the same time still a lot of potential.

Slide 45 Nescafé: Three linked global priorities

Here you see how with Nescafé and the products we have built under that brand, we actually combine different platforms like premiumisation. Dolce Gusto that we launched two, three years ago in Europe, that is now already giving turnover of more than 300 million and growing fast. And we have still to roll out in many other countries, not only in Europe but worldwide.

Our premiumisation under the Nescafé brand combines also with Nutrition, Health and Wellness with for example the Green blend. The Green blend that combines green beans with roasted beans and actually it delivers three times more antioxidants than tea. That is definitely driving the Nutrition, Health and Wellness growth agenda.

At the same time we have the Popularly Positioned Products with smaller offerings like the three-in-one sticks in markets like in Asia and so on.

Also out-of-home where we drive, and are going to drive even further, the Nescafé brand through vending machines. Nescafé is definitely one of these brands that through permanent innovation, breakthrough innovation like Dolce Gusto, but permanent renovation, is keeping that momentum of profitable growth through the world.

Slide 46	**The emerging markets**

Now that was a few examples of how you can drive in the developed world the profitable growth agenda. And that's why we last year, even last year with many economies with negative growth; we have been able to show growth in many parts of it and in general.

Now the emerging markets are the second part. It's definitely also driven by the basic trends that I just mentioned before: population is growing, people are becoming wealthier, the emerging consumer, the 1 billion new consumers that we are expecting to buy our products every day. You see also there that we are very well established there with many years of experience there. It's one of our competitive advantages that I mentioned before.

Our presence in the world is not only physical. It is long standing expertise of how the logistics work, how we have factories in these countries, we are linked up with suppliers. This is the competitive advantage, but also our brands. Our brands are linked with the consumer. They're part of their lives already. We have huge brand platforms to build Nutrition, Health and Wellness on.

So we are accelerating these trends. We are accelerating also the investments there. We have to build in the technical capabilities in our factories but also the capacities. And growth is going fast in these countries. It is indeed very clear and clearer than yesterday that we have a world where there is a lot of positive momentum in these countries, in spite of the perception that the world is slowing down when you look at it from the European part.

Slide 47	**Staying ahead of the trends in emerging markets: Increasing our R&D capabilities to drive growth.**

Now I spoke about capabilities, we see a fundamental shift that is linked with the emerging markets, the developing markets; they're going to start developing on their own terms. And that you see also in the need of R&D capabilities in these countries, not just importing western solutions to these countries.

And that's why we have built up quite importantly our R&D and innovation renovation capabilities in these countries, and only to talk about the last two years in China when in Beijing we have opened our R&D centre. Think about the Chinese medicine, that is intimately linked with Nutrition too. All the learnings that we can take out of there to drive that towards the Chinese consumers and also leverage that knowledge worldwide.

In Cote d'Ivoire, in Abidjan, we have opened our R&D centre for cocoa and local ingredients. Cocoa is under stress and there we are, with the cocoa plantations, driving better yields, giving them our plantlets that we are multiplying in our Tours R&D centre. That's a pretty interesting match.

But they are also working with local ingredients, to bring them through our factories instead of importing ingredients. Like cassava, that is one of these ingredients that we are starting to use in our culinary factories, like also the blue onions and so on. These are local ingredients that we didn't use before that we've started using. And it helps to drive cost down but also it helps to drive the economies of these countries.

Then in Chile with our biscuit R&D centre and a project also in India.

Slide 48	**Investing for growth in emerging markets through increased capital expenditure**

Very importantly also we have to increase our production capabilities, capacities in the emerging markets, not only in quantity but also in quality, in the sense of driving and bringing new technologies in these countries. And you see we have a very strong investment budget for these countries. So definitely we are playing the emerging markets but strongly combined with the developed markets.

But the emerging markets are going to be a big part of our growth as it is going to be part of the growth of the world. And we have to invest in capacities there with new operational models. Again we are adapting our operations to the local realities. So we have flexible industrial set-ups there with bigger factories that are serving smaller packaging factories closer to the consumer, so that we can adapt packaging to the local possibilities and needs. And bringing products closer to the consumer - to bring fresh products to the consumer in the emerging markets where distances are sometimes very important.

And you see also the M&A activity and which Jim has talked about just before.

Slide 49	**NHW: Another breakthrough innovation in Soluble Coffee**

Another example of products, Milo, Milo is a very classical product. That standard that always has stood for nutritional dimensions. We have actually increased, enhanced the nutritional qualities of Milo with another Branded Active Benefit, ACTIGEN-E that allows the release the energy over time to not only give you a boost but actually - and this is quite important for children, to have a more controlled release of energy. Milo is a very strong brand; it's a billionaire brand. It's actually 1.3 or 1.4 billion in sales already and has grown again last year importantly.

Slide 50	**NHW: Enhanced nutrition in traditional diets Maggi (Africa)**

Here is another example. We have been speaking about micronutrients. This is a very interesting dimension, we are selling more than 1 billion products a day in the world and many of them are very good carriers of micronutrients. Micronutrients or the deficiency of micronutrients, account for more than 7% of incidents of diseases. And that percentage goes up dramatically in the developing world.

If we can combine our science, our R&D through innovation with our physical presence in selling these millions of products in these markets, we can drive profitable growth and yet at the same time link up with society in a meaningful way.

And you have this example in Africa where we are selling close to 100 million bouillon cubes, fortified with iodine.

Slide 51	NHW: Balanced diets for low income families: Maggi Magic Sarap (Asia)

Another example is how we bring that in Asia through a granulated offering of seasoning. And you see the figures; penetration of that product went up in a few years from 10% to 70% in households. But also the volumes, the market share went up to half, 50% of the market, but in the volumes you see what growth means; 400 tonnes to 10,000 tonnes just in three / four years. And these things are being rolled out because the learnings from the Philippines we can drive through other countries. And the ingredients we put in there help it to be part of a healthy diet.

Slide 52	NHW: Nido: Enhanced milks for low-end consumers

Nido, another a classical brand. And that's another billionaire brand. How we have been driving the Nido agenda, that 20 years ago was just plain milk, full cream milk powder. We have been driving, adapting the offerings, more formats with micronutrients, Branded Active Benefits. This product has been rolled out now in 67 countries and still counting, and growing quite importantly again last year, a brand that is classical.

Slide 53	NHW: Balanced diets for low-income consumers (Brazil) – driving deeper distribution, creating wealth

And then distribution also in emerging markets, we have to go about new business modelling in distribution. And one of these examples is in Brazil: the 6,000 independent saleswomen who are going directly to the consumers in the slums, from house to house; they’re working in their environment because they are from these parts of the cities. They have an additional income and they sell these combinations, we call them the combo packs, which offer a balanced diet to consumers in these parts of the cities. And again they can do there because we have a broad portfolio and they can stay with Nestlé products and yet have a balanced diet.

Slide 54	Nestlé: Opportunities for growth for years to come

In conclusion I would say, and these were only a few examples of how we go about Good Food, Good Life, Nutrition, Health and Wellness is the biggest growth driver of Nestlé apart from the emerging consumer, apart from the out of home and premiumisation.

I have touched on a few examples in different areas but these are only a few examples of the Nutrition, Health and Wellness agenda. But the strength of Nestlé is driving that agenda with a worldwide presence. And the world is growing. And the world is going to continue to grow. The emerging markets are emerging.

The Nestlé Roadmap is aligning the whole organisation towards these opportunities, also operationally aligning the company to do that effectively and efficiently. And in that sense we do believe that R&D science knowledge is going to be driving the value agenda for profitable growth and not only volume growth.

Slide 55	The Nestlé Roadmap: Driving profitable growth

That is the Roadmap. That is the Roadmap that aligns us in what we have to do, what we want to be as a company. That stands for Good Food, Good Life. What we're going to leverage, very important. And you're all aware of our competitive strength to create gaps with competition. Where we're going to grow and I have mentioned these four growth platforms and I have shared some examples with you too. And then how we are going to organise ourselves effectively and efficiently. And very importantly also the creating shared value. A company can only be successful when it links up positively with society at large. So that's what we are, Nestlé, Good Food, Good Life. Thank you very much.

Q&A Session

Questions on:	Guidance for cost savings Transformational M&A activity

David Hayes, Nomura:

Just picking up on your comment about the cost savings, obviously higher than you kind of guided to historically in 2009; you made the point that it was not a one trick. I mean just in terms of what we're looking at moving forward is the new guidance and the new level of cost savings 1.5 plus or do we expect the one billion to still be the underlying level?

And then just picking up on the M&A comments that you made - not requiring a transformational deal, can you just define what you see as a transformational and is what you're trying to tell us is that between now and 2012 that's something that Nestlé wouldn't be looking for or open to? Thanks very much.

Paul Bulcke:

Firstly I'll answer and then Jim is going to take over on this. Efficiency, the Nestlé Continuous Excellence drive - we had programmes in the past that were driving specific agendas in a more narrow way. The Nestlé Continuous Excellence is a holistic, integrated view on how we go about driving waste out of the system, of being more effective and efficient.

So it is not only in our operations, I mean operations in the narrower sense of factories - it embraces the whole value chain. And not only our internal value chain, it means from purchasing to shipping to the customer, but also integrating the whole value chain. That's why this is covering more than it was in the past.

We have indeed over delivered on our targets there and I would say we should aim for the 1.5 billion, because also, as it is more holistic, it embraces more.

Now the very strength of this Nestlé Continuous Excellence is that it locks it into the system. So I'll explain myself, before you can have a project in a company like ours, you have a project and you do that centrally - you organise that and you go after, through best practice and learnings, you go after a few benefits.

What we do with this programme is we make it owned by the people, they own the drive for waste detection and bringing the waste out. This is keeping the savings stronger into an organisation. So in other words repeating a 1.5 billion saving is a very ambitious target but that is what we want to do in 2010 too.

Now on the other point about mergers maybe you can answer Jim?

James Singh:

Yes, David - when we talk about transformational M&A activity we're referring to very large new pillars for growth that are very large in a particular market with significant potential for global growth. That's what we mean.

Paul Bulcke:

But you see Nestlé sells over one billion products a day and we have operations in over 140 countries where we have people on the payroll, not only factories, factories we have in 80 / 85 countries. So we are built up with very small things that are added up and so I don't see small and big acquisitions. Every acquisition has a meaning and is very big for the reality of where it is done. And so in that sense the strength of our company is that we are built up with 280,000 people going about their business in a very aligned way, producing these so many units a day which is a strength in all of these countries.

So in a sense also it's sometimes hard to be excited by consistency, how do you make that exciting? But that is what we are and that is our strength and that is the excitement that we have in our organisation when you got to a country the reality of that country is where we're living, we are sometimes agglomerating all these things strategically, globally and all that. The strength is the reality that all day we're selling to hundreds and thousands and thousands of stores; but also when we buy locally small activities or smaller brands that are very complementary that is a big deal for the local consumer.

So if you bring it to the consumer there are no small deals or big deals, it's always a big deal.

Questions on:	**Capital investment in emerging markets and cash flow generation** **Expectations for media and A&P investment**

Bob Waldschmidt, Bank of America Merrill Lynch:

Cash flow generation in 2009 was very healthy, you're calling for significant investment in CAPEX in emerging markets, could you give us some colour on what you expect for developing markets and also do you expect the level of cash flow generation to continue at 2009 rates?

And then two, in terms of A&P there's good reinvestment of the savings that we saw in terms of lower inputs, can you make a comment about expectations for investment in media and A&P in 2010 and any colour in terms of where media rates are going at this point in time, thanks?

Paul Bulcke:

Well you saw we have mentioned the emerging markets, they account now for 35% of our sales, that's how we classify it, 35% of our turnover of our sales figures are done in the emerging markets. So we see growth there. And in such a way, with all things being equal, that moves to 45% in the next ten years.

So to be able to do that we are going to have and we are projecting, and I mentioned with you a few examples of how we go about our capital investments in these countries; so we are definitely going to build up higher capacity capabilities. But also R&D, you see we are really not driving it from here, we are driving it there to adapt our offerings to the local needs.

It is clear that the cash flow in these countries and because of the higher risk that you have in these countries - the margins are higher. So actually driving the emerging markets and making them a bigger part of our mix is helping also to drive the bottom line and indirectly also the cash flow.

On A&P we have increased our consuming facing marketing spend by 10% last year. The agenda of innovation renovation is an agenda that invites more investment because you have to connect. The agenda, and I have explained to you that part of our growth is going to come with added value nutritional arguments - you have to connect more and communicate more with the consumer on this. So definitely also this year we are going to increase our consumer facing support behind our brands.

Is that linked with media? Yes, if you see media in the broader sense, yes media is changing. There are different ways of connecting now, it is a fascinating world out there and to really see how we connect with the consumers. We have to connect with the next generations and the future generations. They have a totally different way of going about that; there are all kinds of media that have to be explored. There's lots of trends there that have to be confirmed to be part of that. So it is going up, it is going to be more important because of our growth agenda.

James Singh:

Just going back to the capital. The capital that Paul showed is really a change in the mix. As a matter of fact - you would have seen that also in 2009 where our capital expenditure as a percentage of sales is higher, so the higher rate in the emerging markets. So our overall guidance for capital of about 5% or slightly under will not change, it's just the mix that will change.

Now in terms of our capital or our cash flow we believe we will continue to source cash flow primarily from the operations as you saw last year. The operations of the company, without getting into the balance sheet, generated in excess of two billion cash flow. We believe that the company - the continuing business of the company can deliver increase in cash flows year after year at the operating basis.

I think we made significant improvement last year in managing our trade working capital. And we are very pleased with what we have achieved. Now having said that, we're not finished. I mean there seems to be an interpretation that we're happy with where we are, we're happy with what we achieved but we still believe that if we truly apply Nestlé Continuous Excellence principles that we should continue to make progress in our net trade working capital.

Now, on the input cost, I think Bob you asked the question or a view on input costs - I think we are continuing to - we are seeing today increases in some of the major commodities, cocoa and sugar are at all time highs. And so also on coffee, but there is a blend in coffee, you know the Arabic is much more so than the Robusta. But we will continue also to see increased inflation in raw and packing materials. So we believe overall we will experience another 2 to 3% in our input costs this year.

Questions on:	**Targets for Nutrition** **SKU rationalisation**

Jeremy Fialko, Redburn Partners:

A couple of questions, the first one is on your Nutrition division and the targets there - we've not heard much about the 10% growth, 20% margin targets recently for that division. Can you tell us do they still exist and would you expect to get there on a realistic timescale?

And the second question is on your SKU rationalisation, some great progress in reducing the number of SKUs - can you talk a little bit about what sort of drag you think that might have had on your top line growth in 2009 and what sort of SKU rationalisation you might expect in 2010; or whether you think you're sort of much more towards where you want to be on that metric, thank you?

Paul Bulcke:

Well the Nutrition division at 10/20 was something that was set up there and we didn't do it. We didn't do it because the whole environment was not there. We have to admit that in certain areas which were very important in the mix, like France and Germany, we had some very strong headwinds and some changes of competition landscape and all that that we have to answer.

The fact is we reacted at the beginning of last year already. We have had some pricing wars that we didn't want to engage in, in certain parts of that business and I'm speaking about Infant Nutrition specifically. But we saw very strong momentum coming back at the end of the year. At the same time we have been - after the acquisition of Healthcare Nutrition and Gerber, we have been driving the synergy agenda of cleaning up and cleansing some SKUs that were double.

So we had a little bit of a step back to jump better, now we're in the jumping mode.

So that jumping should bring us back to the 10% growth that's definitely in the more added value part of that business, we should have 10% and at the same time 20% margin because there is a lot of added value to be brought into that category. So definitely I think this is the line that we have to aim for.

Now does that mean we're going to have that tomorrow? No, we have to work for that, we have to clean certain parts of the portfolio that are dragging it down,that don't have the same margins. And that is what we are doing. So this is the line that we are aiming for that part, the highest driven added value Nutrition Health and Wellness part of our agenda.

On the SKU rationalisation which was actually already part of what I said before in the Healthcare Nutrition we have been rationalising a few SKUs that were dragging us down a little bit that makes actually the agenda and portfolio of Healthcare Nutrition much healthier.

The SKU rationalisation is something that in a company like ours if you don't do that you get like a forest with too many trees. And the trees are growing but they're asphyxiating each other. So what you do is actually you take out the trees - some trees out of the forest so that the trees that you leave are breathing better.

Now it's all a matter of efficiency. The complexity that you build in an organisation by adding an SKU is exponential. That is linked with complexity on the machines, the change over times, it has to do with transport, it has to do with SKU management in the warehouses and even more so it has to do with SKU management with your customers who are selling space on their shelves.

So this is going to be a permanent drive. I call it social entropy, an organisation tends to disorder, you have to put energy in and maintain simplicity. And that is the whole SKU rationalisation; it's not easy because every SKU has a mother or a father. But that's what you have to do and that's why we always put it very high on the agenda.

Now last year we have done quite substantial cleaning, 16% and that on top of already a few years. Now that's also because GLOBE, that system that we have now allows us to really have total transparency on all SKUs we have. And that's why we have been in an accelerated mode, cleaning - we see that coming down, that's clear because you need SKUs to sell.

We have a lot of innovation renovation so we see an increase in SKUs and a cleaning of SKUs. So I would say you're always going to have clean certain things and there are still some to go but not at the rates that you have seen 'till now.

Roddy Child-Villiers:

I think just on the Nutrition business, just to add. There has been a huge amount of debate during the course of 2009 about our business. And I think we would agree that was an annus horribilis - but even so the margins still moved forward 10 basis points. So I think you know for the doubters even in that environment they were able to improve their margins. So I think that underlines Paul's comment about no holiday from the targets.

Paul Bulcke:

But also you can add that because we are so geared to a few big markets where we were weaker but in all other markets we gained market shares and are driving the nutritional agenda in the markets, so we have leadership there. But it's all a matter of what's behind the numbers. So we have two big markets that are bringing it down, globally we are doing quite well and had some interesting growth there.

Questions on:	**Coupon rate on proceeds** **Impact of Starbucks VIA on Nescafé**

Jamie Isenwater, Deutsche Bank:

Two questions, one for Jim first of all can you just tell us what coupon you think you think you'll get on your gross cash once the Alcon proceeds arrive?

And then the second question, coming back to Nescafé, particularly in the US with the launch of Starbucks VIA, have you seen any impact on the business there or has it actually grown the market?

Jim Singh:

Jamie, the coupon rate on the proceeds I think we still have a significant amount of debt and the debt in the emerging markets are quite expensive. You look at the average cost last year. So our objective is the extent that we can pay down the debt. We will be better off because we will get a differential in terms of cost than what we can have with that money in terms of the short term. But overall our objective is to make sure that we get a return on our liquidities that has a premium - that is a premium to the best credit on the market - that's the government issues three year T-bills plus the premium. That's our target.

Paul Bulcke:

Now on Nescafé in the United States, I'm not going to talk about competition but it must have helped us because Nescafé is doing very, very well in the United States.

Actually when I was responsible for Zone Americas that was something that, having lived in some many other countries where Nescafé was strong, I felt we should do something there.

And we had a plan also with driving Nescafé to the Mexicans. In Mexico Nescafé is very strong and we wanted to drive also the Nescafé agenda with the Mexican's in the United States. So we could start leveraging the brand much better. We had Nescafé Taster's Choice which was doing quite okay but not really inspiring okay; and ever since Nescafé Classico ,ex Mexico, is driving the Nescafé agenda in the United States.

Last year we had double digit growth in the United States and Nescafé. So again, you speak about the competition with one product but then you see the presence that we have in a country like that, that if we want to drive the agenda and go about it with meaningful arguments, how we can drive very fast growth in a product that has been part of the landscape there for a long time. So double digit growth, in Nescafé, in the United States is boding well. The brand starts to get its own momentum and is snowballing.

And if we go then with Dolce Gusto in the United States these are offerings that are geared with the latte dimension that Dolce Gusto brings, that is more geared toward the style of drinking coffee in the United States. So I see it very well. We are actually starting to write the book of Nescafé in the United States now.

Question on:	**Premiumisation**

Mike Dennis, MF Global:

I was wondering if you could talk about premiumisation within your business in terms of percent of sales growth rate and also in context to the chart you put up, because it shows that I think for the next ten years we've got 5% growth per annum in the population with over $30,000 income. So I was wondering if you could talk a bit about premiumisation trends?

Paul Bulcke:

You see, premiumisation -what do we mean by it? We use Nespresso, this is a very good example, but it's so isolated, it's a standalone business, it's a whole business model. It is the best example we have, but we have many other examples. Like Perrier in Water is actually premiumisation. We have certain Ice Creams like Häagen-Dazs in the United States, that's premiumisation. We have that with Movenpick in Europe and elsewhere in Asia, that's premiumisation.

Dolce Gusto is moving on that circle. It's not only Nespresso which is I would say the most clear example. It shows where the drive of premiumisation is, it is not volume based - it is value based. We are never going to promote, or we don't want to promote Nespresso. And we want to drive this in a meaningful way through the whole product portfolio we have.

If you go for an ice cream and you go for Häagen-Dazs in the United States or for Movenpick, again you don't put it into your classical structure. You put it into a separate structure where the dynamics is totally different. Now how big is that, well we don't isolate it, but it is clear that this is an increasing percentage of our total sales. Where do you split the line of premium like Nescafé Gold is premium, well we see that still as traditional. But yet where do you draw the line? But to have it in a nutshell we have already Nespresso with two or three billion of our sales, 3%. I would add it up it comes to between 5 and 10% and it's going to increase.

It is not only that, it is also how you go about dematerialising part of your business portfolio. I'll explain myself. Actually you may have two axis, you dematerialise you give additional service to a product. A good example is Jenny Craig, Jenny Craig is all about weight management. They do have Jenny Craig products, frozen products and yet what do you sell? Well you sell frozen products but you sell personal counselling. So part of the value creation you have there is on top of the tangible. It is service.

And you go on the other axis, so dematerialising your service or your product and you go also in individualising. You go from mass to individual. Actually that is where you start to move when you start to talk about premiumisation. So is Jenny Craig a premium? To a certain extent it is, it is a premium because you give premium service to somebody with a specific issue.

So if you would add that up, then that part starts to grow. And it's the whole concept that is behind it, we say premiumisation is linked with that axis, personalising and Nespresso is about personalising, it is my cup of coffee, my choice, I prepare it myself. And it is dematerialising to a certain extent because you build value on top of the material cost that you have intrinsically in the product. And we have many examples. If you would add that up then you get to a higher level, to 10, 15% of our sales.

Roddy Child-Villiers:

Paul showed you the Nescafé chart with the PPP, the Nutrition, Health and Wellness and the premiumisation aspects. Every product group has a specific strategy for premiumisation, for PPP, for Nutrition, Health and Wellness. So it does run across the product groups. And some of the examples Paul gave you, Dolce Gusto, the premium Nescafé, Häagen-Dazs, San Pellegrino, Perrier, premium chocolate in Switzerland. They all have positive RIG this year. So you know the premium strategy is really driving the growth agenda.

Questions on:	**Maintenance CAPEX** **Development of Nespresso outside Europe**

Simon Marshall-Lockyer, Jefferies:

I just want to come back to the capital expenditure question earlier on and you talked about the shift of capital expenditure towards the developing and emerging markets as a natural process as those develop. Can you maybe Jim give us an indication of how the trend of maintenance CAPEX presumably has been declining in the group and therefore the proportion of expansion CAPEX of the total CAPEX number has been rising. Can you give us some sense of trend and where we are in the maintenance CAPEX level currently?

There's a second question which is relating to Nespresso, I think about 75, 80% of Nespresso is still European. But you've been putting a lot of investment in your North American platform and elsewhere. Can you give us an indication when you would estimate, Paul maybe, you know the shift to start moving away from Europe to some of the investment markets that you've been building for Nespresso, thank you?

Paul Bulcke:

Well one has a little bit to do with one question or the other. CAPEX, you spoke about a shift toward the emerging markets. It's clear we don't shift, we don't say, well we now start investing here and we stop investing in the developed market *de facto.* We're still maintaining because of the agenda of innovation, renovation - there's new platforms to be built in, in our industrial capabilities in the industrialised or the developed world.

Examples of that are Nespresso where we opened a new factory in Switzerland for Nespresso. These are huge investments. We have opened up in Anderson in the United States a huge factory of aseptic ready-to-drink products which is an ideal platform again of bringing nutritional solutions or nutritional products. So we are still investing in the developed world, clearly - because we have to and that's why I shared with you some examples of how we go about growth in the developed world. And there's an amazing amount of growth there. So that is one.

Now what we see is because of the other trends that are clear in the emerging markets and we are there, that we're going to have more capital needs there and it is going to be more capacity needs. And that answers the second part, how do you see the shift? Well our capital investments are partly classified by additional new capacity of the existing technologies, or innovation, renovation technologies, new capabilities in existing factories. Maintenance is part of that but also environmental investments, which are motivated only by the environmental and sustainability issues. So we do have different classification for CAPEX. The biggest part is bringing new capabilities or production but that is intimately linked with our growth agenda.

Now additionally on that, our Nestlé Continuous Excellence is bringing so much excellence, additional excellence into our factory that it reduces to a certain extent your investment needs. So if we have investment needs today they're actually more because they come on top of freeing up capacity through efficiencies.

If you have a hand over a machine that takes one hour and you bring it down to eight minutes that frees up a lot of capacity. If you do SKU rationalisation and instead of running five or ten SKUs you run two SKUs on a machine it brings capacity increase. So that comes on top. It is a shift to a certain extent in the mix, but it doesn't mean that we take money from one side and pull it into the other side.

On Nespresso it is indeed very European centric still, but we're rolling it out in the United States and many other countries. You see Europe is still growing. So actually the rollout in other markets, they go against something that is still growing very fast too. But in the proportion it's still very geared to Europe.

Now, as I said Nespresso is not about a race for volume. This is a business that is about quality, you have to have the beans, you have to find them, etc, so this is not a race for volume, the volume just comes because it is a very successful business model. But it is about quality and that is the first priority. And so when we go to a country, we have to secure that we can bring the quality, that we can have a shop that maintains the quality, that the service has the quality, that we have the distribution with the quality and that limits to a certain extent our wanting to be in all countries. Until we get that in order and until we have a stable presence in the countries.

So it is clear that the non-European dimension is growing, but it is growing as a mix against something that is growing also. So it's a very interesting phenomena we have in Nespresso.

James Singh:

Just to add to the first point, you know if you go back to the end of 2007 to 2009, we have closed 24 factories. We have sold or closed, so we have less factories. And therefore the maintenance in itself has gone down, the maintenance component of capital.

Question on:	**Constraints on Share buyback announcements**

Xavier Croquez, Cheuvreux

I'd like to go back to slide 24 and 25 and notably the last sentence, net debt could be 2009 level by end 2012. I understand it's could so it's not a target; let's take it as an assumption. Three years ago you gave us a three year target for buyback, you choose to make it differently this time. On my calculation if you assume you have the same debt end 2012 and the cash flow forecast that we all have in Alcon money and everything there is something between 15 and 20 billion that you have available to have a debt in 2012 close to 2009.

So assuming this 15, 20 billion is roughly right, I understand you keep your cards close to your chest, vis-à-vis us; but is there something technically that prevented you to announce a buyback of a bigger size over a longer period, just like you did three years ago? Thank you.

James Singh:

The number as I said it's 2012, 2013 to get back to a net debt of about 15 billion which is where we ended with Alcon. So I don't have your numbers, but be that as it may that is where we're trending to. Now in terms of the share buyback I didn't understand the question, we announced a 25 billion, we said we would get it down in three years; we'll get it done slightly shorter. This ten billion is in addition to that, so - I didn't understand the question, what was the question around the timing of the share buyback?

Xavier Croquez, Cheuvreux:

The question is you announced ten billion extra over basically 18 months, was there a technical reason that prevented you to announce a bigger sized buyback even on a longer timeframe, for instance 30 billion over the next three years? Was there a technical constraint?

James Singh:

No, we announced what we think was important and appropriate at this time.

Paul Bulcke:

The technical constraint was that we thought you would have been happy already.

Roddy Child-Villiers:

But just to remind you, when we announced the 25 billion we then later on defined the 25 billion as a 15 billion and a 10 billion. Because there is this technical aspect under Swiss stock market regulations - and to announce a 25 billion buyback in one hit is too big a buyback according to their rules, which is why we then talked about doing the 15 and then doing the 10. And so beyond Paul's exceptionally wise words there is also a technical reason.

Questions on:	**Type of growth in Pizza category** **Motivation behind Kraft Pizza acquisition**

Jeremy Richardson, First State Investments:

I've got a couple of questions on the Kraft Pizza acquisition if I may. The first is I've got some concerns that there might be some confusion between structural category growth and cyclical growth and I'm just hoping that you might be able to provide me with some reassurance on that?

And the second one is I'd be curious about the motivation for the deal, 'cos the US Frozen Foods category has been characterised by perhaps too many large players leading to aggressive pricing and promotions and I was wondering whether your acquisition of the Kraft Pizza goes some way to address those disadvantageous issues?

Paul Bulcke:

Now on this first of all you speak about structural growth and cyclical growth and it's true that with a certain crisis the Pizza category has grown quite interestingly in the last years. But if you see it over the timeframe of ten years this category has been growing above general food categories in the United States, we see the same also in Europe to be very honest. So Pizza is definitely a very strong category per se, so it is structural strength of growth. So that is underlying the growth that we saw accelerated with the circumstances.

But the motivation of having Pizza, if you see how we see Nutrition, Health and Wellness, because that was also part of the questioning a little bit, how we go about Nutrition Health and Wellness, we talk about pleasure, balance. And pizza is one of the best nutritionally balanced carriers of food and nutrition that you can have. Because you have dough and you can have wholegrain, we can bring in lots of knowledge and nutritional understanding into this category. Actually the people of Kraft have done that already to a big extent but there is still a lot of things that we can leverage that we have been doing in Europe. The natural ingredients, the combination, the trans fats, actually it is the best way of cooking, it is dry oven cooking.

So we have lots of arguments, you can size it, you can portion it better and so this definitely we see. If we would ask who likes pizza in this room the majority in all honesty would say we like it. And we truly believe that food has to be likeable, people should like it. Nutrition cannot be a sacrifice, it should be combined and that's where our strengths come together. Now that's one part, so there is a strategic fit there.

On the other side we have - the frozen food, we have lots of capabilities already; we are in the frozen food also in the frozen snacks. And there was a third pillar which is the pizza where we were not in. And it makes all the sense to go to that part of the store and have a presence in these different areas. On top of that there are synergies, operational synergies which are meaningful. And we have expressed our ambition there which is linked with factories to a certain extent, although these are specialised factories. There are synergies of knowledge as I said also with the European business. There are synergies within the United States on DSD the direct store delivery.

Even if you combined our actual business that we have already in Stouffers and Lean Cuisine and then Hot Pockets, but you add that up with what we have as DSD capabilities with Dreyer's then that makes really a very, very strong distribution powerhouse. And in fact if we combine our DSD capabilities in the United States we are the third biggest DSD system in the United States, Nestlé, and that's after big players like Coke and Pepsi.

So this in that sense it makes just operational sense too. So we have the combination of strategic and operational fit that is so compelling that this was something that was always quite high and interesting on our agenda.

Roddy Child-Villiers:

Just to remind you that when we made the presentation on Kraft we made it clear that we did not assume the 2009 levels of growth in our financial assumptions for justifying the transaction. We assumed more normal levels of growth than the stellar year it had in 2009.

Okay before I ask Paul to sum up, I'd just like to give you a quick plug for the Consumer Analyst Group of Europe on the 9th and 10th of March where Paul will be talking about our Nutrition, Health and Wellness strategy in rather more detail and hopefully we'll see you there for that.

Paul Bulcke:

Well I'll sum, very shortly saying that 2009 was terrible but we have been able to deliver again a combined top line, which we actually say, with a certain pride, was above industry average but also combine that with our continuing quest and driving the bottom line which is the strength of these results. And that we did on top of 2008, so these you have just to put on, it's on top of 2008.

But what is important too apart from that combination of these two, top and bottom line, is that we have at the same time continued investing quite importantly for the future. And that brings me to the future, in the sense that last we had invested strongly behind our brands, consumer facing investment; but also in R&D we have increased our R&D capabilities and you have seen how we are starting to also play very strongly in the developing world on R&D.

And we have also driven our capabilities of production. Because at the end of the day you have to produce and yet at the same time driving as Jim has mentioned a total performance framework which is aligning this company very strongly behind our road map. That is again the whole dynamic behind our projection for 2010. That is saying that we project growth faster than the numbers of last year and again we're going to be able to deliver an increased bottom line.

Now that is a strength of Nestlé, I call it the force tranquille because it is something - well it's consistent. But there is a lot of energy and a lot of initiatives behind this force tranquille but it is strength of alignment that gives us these results and that's what we do.

So 2010 I would say is not going to be an easy year and here in the UK you feel that for 2010. But there are so many, many opportunities, we see it and that is the place where we are I would say responsibly optimistic. So thank you very much for your time.

END OF TRANSCRIPT