Press release

Strong 2010 performance: 6.2% organic growth and increased EBIT margin
Growth in all regions and categories, continued momentum for 2011

Group:

- Group sales of CHF 109.7 billion, 6.2% organic growth, 4.6% real internal growth
- Extraordinary net profit of CHF 34.2 billion including Alcon disposal
- Underlying earnings per share in constant currencies +10.3%
- Proposed dividend increase of 15.6% to CHF 1.85 per share
- CHF 15.5 billion cash returned to shareholders

Continuing operations:

- Sales of CHF 104.6 billion, 6.0% organic growth, 4.4% real internal growth
- EBIT margin +30 basis points to 13.4%
- Growth in all regions and categories, market share gains around the world

Paul Bulcke, Nestlé CEO: "In 2010, we delivered another year of strong top *and* bottom line growth, outperforming the market. We increased investment in our brands, our operations and our people. We continued to drive efficiency and effectiveness in both developed *and* emerging markets while at the same time accelerating innovation, serving well over a billion consumers a day across the world. We are starting 2011 with continued momentum, well placed to face uncertainties ahead, including volatile raw material prices. We are therefore confident of achieving the Nestlé Model in 2011: organic growth between 5% and 6% and an EBIT margin improvement in constant currencies."

Vevey, 17 February 2011 – The Group achieved organic growth of 6.2% and an EBIT margin improvement of 20 basis points. The EBIT margin is not comparable to that of 2009 due to the disposal of Alcon in August 2010. The continuing operations achieved organic growth of 6.0%, real internal growth of 4.4% and an EBIT margin improvement of 30 basis points.

Food and Beverages achieved good growth with market share gains in all categories and regions. Organic growth in emerging markets stood at 11.5% which underlines the increasingly important role they will play in the future. Organic growth for Food and Beverages was 5.7% in the Americas, 3.7% in Europe and 10.2% in Asia, Oceania and Africa.

Our performance was driven by continued investment in our growth pillars in line with our strategic roadmap. These include increasing distribution of Popularly Positioned Products (PPPs) and the continued roll-out of premium products in both emerging and developed countries; our focus on adding nutritional value to our products; expanding our reach in the out-of-home market; accelerating innovation and increasing our consumer–facing marketing spend. We also continued to strive for operational excellence from farm to fork, resulting in significant improvements in efficiency and effectiveness. These actions contributed significantly to our 2010 results and, at the same time, laid the foundation for a good performance in 2011.

Full-Year Results

Group

- For the full year 2010, organic growth was 6.2%, including real internal growth of 4.6%. Foreign exchange impacted sales by -3.6%, whilst divestitures, net of acquisitions, reduced sales by 0.6%. Overall, Group sales increased by 2% to CHF 109.7 billion. The **EBIT margin** increased by 20 basis points to 14.8% of sales. As stated above, the EBIT margin is not comparable to that of 2009.

- **Net profit** was CHF 34.2 billion, up from CHF 10.4 billion in 2009, and our earnings per share were CHF 10.16, up from CHF 2.92. These extraordinary increases in 2010 over 2009 reflect the net profit on disposal of CHF 24.5 billion resulting from the divestiture of our remaining holding in Alcon.

- **Underlying earnings per share** rose by 7.4% to CHF 3.32 and by 10.3% in constant currencies. These increases reflect the like-for-like improvement in the Group's performance.

- **Operating cash flow** was CHF 13.6 billion. The working capital increased following the extraordinary low levels of 2009. The Group's **return on invested capital** was 15.5% including goodwill, and 36.1% excluding goodwill.

Continuing operations

- Organic growth was 6.0%, with real internal growth of 4.4%. The foreign exchange impact on sales was -3.8%, whilst acquisitions, net of divestitures, added 1.8%. Overall, continuing operations' sales increased by 4.0%.

- The **EBIT margin** increased by 30 basis points to 13.4%, both reported and in constant currencies. This improvement was delivered at the same time as we increased the investment in our brands: our marketing expenses increased by 100 basis points, with **consumer facing marketing spend** up 13.2% in constant currencies. The improvement in EBIT margin was driven by our sales growth and business mix, as well as by the achievement of operating efficiencies of over CHF 1.5 billion through Nestlé Continuous Excellence, which had a positive impact on the cost of goods sold, distribution and administrative costs.

- The **cost of goods sold** declined by 40 basis points. Our savings, procurement strategy and leverage from growth more than compensated the cost pressures during the year, which increased in the second half. Our efficiency and effectiveness also contributed to an improved environmental performance in areas such as energy, water and packaging usage.

- The **distribution costs** fell by 20 basis points. This is another area of focus of efficiencies, particularly in our more distribution intensive businesses such as Nestlé Waters and ice cream. These savings are pursued as part of our ongoing drive for continuous improvement in both our financial and our environmental performance.

- The **administrative costs** fell by 70 basis points. There was a rigorous control of fixed costs, enabling leverage from growth.

Business Review

Zone Americas

Sales of CHF 34.3 billion, 5.9% organic growth, 3.0% real internal growth; EBIT margin 16.5%, -30 basis points.

- In North America, we saw a continued strong performance from the Purina petcare business which grew its market share and achieved growth in all its segments, double-digit in snacks. Innovations included *Purina ONE Shreds* and *Fancy Feast Gravy Lovers*. Chocolate also had a good year, helped by a strong performance from our seasonal business, the launch of *Wonka* into the chocolate category as well as innovations such as *Butterfinger Snackerz*. Frozen prepared meals, particularly *Lean Cuisine,* continued to suffer from weak consumer demand for the category. There was a positive performance from our frozen pizza business in the first year of ownership, with market share gains for *DiGiorno*. The integration process is on track. Ice cream performed well in a tough market, achieving share gains. Strong performances came from brands such as *Skinny Cow* and *Nestlé Drumstick* which grew double-digit. Other successes included *Häagen-Dazs* as well as our new cups business which offers consumers a single-serve snacking occasion and provides them with the opportunity to try our brands. Soluble coffee also had a good year, with *Nescafé Clásico* continuing to be the key growth driver.

- In Latin America, growth was double-digit for the year. Brazil, where Nestlé will be celebrating its 90^{th} anniversary in 2011, had a very strong year, with good performances across its categories, particularly in milk. In Mexico, soluble coffee, chocolate and powdered beverages were among the highlights. Across the region, all our categories grew, many of them double-digit, including the big three - dairy, chocolate and soluble coffee. There was also a very good performance from ready-to-drink beverages, in part due to the launch in Brazil into PET of brands such as *Nescau* and *Alpino*.

- The Zone's EBIT margin fell by 30 basis points, reflecting increased investment in brands, distribution and innovation, not fully compensated by efficiency gains.

Zone Europe

Sales of CHF 21.6 billion, 2.5% organic growth, 1.7% real internal growth; EBIT margin 12.6%, +20 basis points.

- In Western Europe, our growth in all major markets was driven by strong innovation and was achieved despite difficult economic conditions and a tough competitive environment. France and Great Britain had particularly positive years, and there were resilient performances in Germany, the Iberian region, Italy and Switzerland. This reflects market share gains in many countries including Greece where the market declined.

- In Russia, soluble coffee and ambient culinary continued to do well. Impulse-driven categories, such as chocolate, which were impacted by the tough economic environment, showed signs of recovery.

- Amongst the Zone's categories, soluble coffee, petcare, frozen food, in particular *Wagner* and *Buitoni* pizza, and chocolate, especially *Kit Kat*, stood out. The Zone's big three regional innovation platforms, *Maggi Juicy Chicken*, *Nescafé Dolce Gusto* and *Nescafé Green Blend*, all performed well in 2010 and were key contributors to growth.

- The EBIT margin increased by 20 basis points as efficiency gains and the leverage of growth more than compensated the increased brand support and investment in innovation and product launches that drove the market share gains.

Zone Asia, Oceania and Africa

Sales of CHF 17.4 billion, 8.7% organic growth, 7.0% real internal growth; EBIT margin 16.9%, +20 basis points.

- The Zone's emerging markets achieved double digit growth, with strong performances across the Zone: from Africa, Asia, including India and China, Indonesia and Indochina, and the Middle East.

- The developed markets, Japan, Australia and South Korea, also achieved growth. Particularly notable was the performance of *Nescafé* in Japan, where we sold about 500,000 coffee systems, either under the *Nescafé* barista or *Nescafé Dolce Gusto* brand, and where we also enjoyed success with the relaunch of our super-premium variant of pure soluble *Nescafé*.

- There were strong performances by most categories in the Zone. Ambient culinary, primarily *Maggi*, ambient dairy and ready-to-drink beverages, including brands such as *Milo* and *Nescafé*, all grew double-digit. Other categories, such as powdered beverages and chocolate enjoyed high single-digit growth. Innovation highlights included the roll-out in Africa and South Asia of a new flavour enhancer by *Maggi,* and PPPs across the Zone, including for confectionery in China, India and Indonesia.

- The EBIT margin increased by 20 basis points, again reflecting the benefits of growth and increased efficiencies.

Nestlé Waters

Sales of CHF 9.1 billion, 4.4% organic growth, 4.8% real internal growth; EBIT margin 7.4%, +40 basis points.

- Nestlé Waters achieved growth in all three Zones, with momentum building throughout the year, as growth returned to the industry in the developed world and continued to be very strong in emerging markets. We gained market share in Europe and North America, as well as in most emerging markets. *Nestlé Pure Life*, the biggest water brand in the world, had another year of double-digit growth. There were good performances also from *Perrier* and *S. Pellegrino,* as well as many regional brands.

- In North America, there was underlying growth driven by bottled water's improved value proposition and helped by sunny weather conditions and consumers switching from other beverages. Among brands, *Poland Spring*, *Ozarka, Deer Park* and *Ice Mountain* were highlights.

- In Europe, all markets improved their growth levels over 2009, and it was double-digit in the UK. France, where *Vittel* and *Contrex* performed well, saw mid-single digit growth and a gain in market share.

- The emerging markets achieved double-digit growth and now represent 15% of water sales.

- The EBIT margin improvement was driven in part by the return to growth in the developed world. Significant improvements in efficiencies both in manufacturing and distribution also contributed, enabling increased brand support despite increased input costs and reduced pricing.

Nestlé Nutrition

Sales of CHF 10.4 billion, 6.7% organic growth, 5.5% real internal growth; EBIT margin 18.1%, +70 basis points.

- Infant nutrition, the biggest division, had a very positive year, particularly in infant formula and infant cereals. There was growth in all three Zones, double digit in Asia, Oceania and Africa and market share was up on a global basis. The business performed well in the US and Canada, with high single-digit growth, as well as in Latin America, particularly Brazil. The trading environment was tough in Western Europe, but in the East, Russia again achieved double-digit growth. The division's three biggest brands, *Gerber*, *Cerelac* and *Nestlé Nan* all grew double-digit, benefiting from increased brand support.

- Healthcare nutrition had a positive year both for growth and EBIT margin. All the key strategic platforms, such as critical care and pediatrics, performed well. Growth was particularly strong in emerging markets but also in France and Spain. Performance Nutrition also made good progress in the year, particularly in Europe and Oceania.

- Jenny Craig outperformed its market which remained subdued by the tough economic environment in the United States. Growth in Jenny Craig At Home (the Home delivery business) compensated the lower number of visitors to Jenny Craig Centers.

- Nestlé Nutrition's EBIT margin increased by 70 basis points, reflecting the benefit of a high level of growth, of mix, and a good contribution from efficiencies.

Other Food and Beverages

Sales of CHF 11.0 billion, 9.8% organic growth, 8.5% real internal growth; EBIT margin 16.4%, +70 basis points.

- Nestlé Professional had a good year relative to its market, with mid single-digit growth. This reflects double-digit growth in the emerging markets of Asia and Latin America, as well as a good performance in the US. The beverage business saw strong growth in its proprietary *Nescafé* systems, bolstered by successful machine launches such as *Milano* and *Viaggi* in the premium and super-premium segments. The Vitality acquisition in the US performed to expectation, proving to be a highly complementary addition to our beverage business. Growth in the food business was led by *Maggi* and the *Nestlé* milk brands.

- Nespresso had another year of above 20% organic growth, and passed CHF 3 billion in annual sales for the first time. It opened its 215th boutique during a year which saw 36 openings, including in New York, Munich, and Sydney, and increased the share of coffee it sourced from the *Nespresso* AAA Sustainable Quality™ Program from 50% in 2009 to 60%. 2010 also saw the first expansion of the Avenches facility to meet anticipated demand for *Nespresso* capsules. In 2010, with the combined performances of *Nespresso* and *Nescafé Dolce Gusto,* Nestlé strengthened its leadership in the dynamic portioned coffee market.

- Cereal Partners Worldwide's global brands such as *Nestlé Fitness*, *Nesquik* and *Cheerios*, grew three times as fast as the market with the business achieving double-digit growth in many emerging markets, including Russia, Brazil and Turkey, and strong performances in more developed cereal markets such as Mexico, France, Greece and Australia. Beverage Partners Worldwide achieved mid-single digit growth in 2010 and share gains in many of its markets.

- The EBIT margin increased by 70 basis points, with all constituents contributing.

Pharma

Sales of CHF 6.0 billion, 10.8% organic growth, 9.0% real internal growth; EBIT margin 38.7%, +520 basis points, +220 basis points like-for-like.

- These numbers are not comparable to 2009 due to no longer being allowed to depreciate the Alcon assets held for sale in 2010 by IFRS5, and due to the disposal of Alcon in August 2010.

- All constituents (Alcon, Galderma and Laboratoires innéov) performed well.

Corporate highlights 2010

- Sale of our remaining stake in Alcon to Novartis for USD 28.3 billion.
- Creation of Nestlé Health Science S.A. and the Nestlé Institute of Health Sciences to pioneer a new industry between food and pharma.
- Acquisitions of more than CHF 5 billion including Kraft's frozen pizza business, Vitaflo (clinical nutrition products) and Waggin' Train (dog snacks).
- Investment of CHF 4.6 billion in operations across the world with strong emphasis on emerging markets such as India, Indonesia, the Philippines, the Equatorial African Region and Poland.
- Opening of a R&D Centre for biscuits in Chile and groundbreaking of a R&D Centre for PPPs in India.
- Following the announcement of the Nestlé Cocoa Plan in 2009, launch of the *Nescafé* Plan, announcing investments of CHF 500 million over ten years in coffee projects and doubling of direct coffee purchases, thereby strengthening our commitment to rural development.
- Completion of our CHF 25 billion three-year share buy-back programme and launch of a new CHF 10 billion programme.
- Change of our sales recognition policy as from 2011.

Board proposals to the Annual General Meeting

At the Annual General Meeting of 14 April 2011, the Board of Directors will propose a dividend increase from CHF 1.60 to CHF 1.85 per share to shareholders, representing an increase of 15.6%. At the same time, it will propose the cancellation of shares which Nestlé bought back under the CHF 25 billion buyback programme completed in June 2010 and the ongoing CHF 10 billion programme to be completed during 2011.

Furthermore, the Board of Directors will propose the individual re-elections of Messrs. Paul Bulcke, Andreas Koopmann, Rolf Hänggi, Jean-Pierre Meyers and Beat Hess as well as of Mrs. Naïna Lal Kidwai, each for a further term of three years, as well as the election of a new member: Ms. Ann Veneman, a U.S. citizen and former Executive Director of the United Nations Children's Fund (UNICEF). She also served as Secretary of the United States Department of Agriculture (USDA) and is a member of the Nestlé Creating Shared Value Advisory Board, with extensive experience in areas such as children's health and education.

Outlook

We are starting 2011 with continued momentum, well placed to face uncertainties ahead, including volatile raw material prices. We are therefore confident of achieving the Nestlé Model in 2011: organic growth between 5% and 6% and an EBIT margin improvement in constant currencies.

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Annex

Full-year sales and EBIT margin overview

	Jan.-Dec. 2010 Sales in CHF millions	Jan.-Dec. 2010 Organic Growth (%)	EBIT margins	
			Jan.-Dec. 2010 (%)	Change vs Jan.-Dec. 2009
By operating segment				
Food and Beverages • Zone Americas	34,301	5.9	16.5	-30 bps
• Zone Europe	21,580	2.5	12.6	+20 bps
• Zone Asia, Oceania, Africa	17,409	8.7	16.9	+20 bps
Nestlé Waters	9,095	4.4	7.4	+40 bps
Nestlé Nutrition	10,366	6.7	18.1	+70 bps
Other Food & Beverages	10,971	9.8	16.4	+70 bps
Nestlé Food and Beverages	103,722	5.9	13.4	+30 bps
Pharma (incl. Alcon)	6,000	10.8	38.7	+520 bps
Total Group	109,722	6.2	14.8	+20 bps
By Product				
Powdered and liquid beverages	20,612	8.5	21.0	-70 bps
Water	9,101	4.5	7.4	+40 bps
Milk products and ice cream	20,360	6.6	12.9	+90 bps
Nutrition	10,368	6.7	18.1	+70 bps
Prepared dishes and cooking aids	18,093	2.6	12.3	-60 bps
Confectionery	12,097	7.0	13.8	+20 bps
PetCare	13,091	4.9	17.3	+100 bps
Pharmaceutical products (incl. Alcon)	6,000	10.8	38.7	+520 bps
Total Group	109,722	6.2	14.8	+20 bps

Nestlé Waters, Nestlé Nutrition and Other Food & Beverages (including Nestlé Professional) are not included in the Zones. The slight difference in the figures for water and nutrition between the "Sales by operating segment" and "Sales by product" tables is due to the fact that some water and nutrition products are also sold by operating segments other than Nestlé Waters and Nestlé Nutrition.