NESTLÉ S.A.

2009 NESTLE INVESTOR SEMINAR QUESTION AND ANSWER SESSION TRANSCRIPT

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

Slide 1 – Opening slide

We'll now move to the last part of the seminar; both Paul Bulcke and Jim Singh are with me. Paul will make some comments on the business environment and current trading. We'll then open the line up for questions.

Slide 2 - Disclaimer

First though we will take the safe harbour slide as read and I'll pass it over to you Paul.

Paul Bulcke, Chief Executive Officer, Nestlé S.A.:

It's a pleasure to have you all here, I should say there, as it is a webcast and I hope you had a very interesting afternoon with us. With Hans Joehr we saw a little bit of how we are organising our upstream there, especially the agricultural raw materials which, with CHF 23 billion, are accounting for quite a lot of our cost base, especially milk, coffee and cocoa. And how we are linked up with 600,000 farmers in a direct way and actually in that way we secure quality of our raw material, but also a fair price and sustainability.

That helps two things, first of all it gives our food security, to secure our production for the future, and also at it is fitting in quite nicely in with what we call creating shared value. And that is the combination that we want to see upstream.

Then with José Lopez, how we go about accelerating the performance improvement, how we continue locking in saving and lean thinking in our organisation through our Nestlé Continuous Excellence, and how we train the people for the future for that.

And then also with Laurent Freixe, who took over Zone Europe a few months ago, how he goes about his Zone, how he sees the challenges, but also the opportunities. And how he sees also the growth evolution in Eastern and Western Europe.

Now, let me walk you through a few general concepts. I want to walk you through where we are, to make you feel how we feel about the situation of this year.

First of all a general overview. You see that we are living in turbulent times, turbulent times I would say with interesting changes. You see consumer patterns or demand patterns changing quite drastically. You see the retailers acting differently; you see the private label coming up. There is definitely an increased intensity for the consumer from all angles.

We see also some inflationary pressures coming up for raw materials later on, if you see it long term. Definitely we are going to have to live with certain inflationary pressures in the future. And also we see more volatility with currency. But all that is linked again with certain opportunities, opportunities that we see coming, trying to identify and how we want to be organised around those.

It is clear that the challenges of today are beholding a lot of opportunities and that is how we want to see, in the different categories, how we want to organise around it. We want to accelerate behind these opportunities our innovation renovation. We've a certain focus on affordability because there comes into play also the quest for increased efficiencies in our systems and it is to a certain extent an answer to the growth of some private label.

We are definitely also very strongly focussed on distribution, how we deepen our distribution worldwide into capillar dimensions so that we can go for the emerging consumers and, in spite of the turbulences of today, they are definitely emerging.

So, in other words we want to go and organise ourselves around these times of today so that we come out stronger out of these times.

Now let me walk you through some dimensions of our business in a very fast way before we get to the question session. Now Laurent Freixe has already walked you through how he sees Europe. It is clear that the first quarter trends are to a certain extent continuing. We have shown some better than average industry results, but still quite linked with the general pressure and downturn that's in Western Europe and Eastern Europe. Eastern Europe is pretty much linked with quite important devaluations in certain countries that are affecting the economy overall.

But we do see good performance in certain categories, be it Soluble Coffee, PetCare and Chocolate, strong traction. And that is definitely clear when you speak about the initiatives or innovations like Dolce Gusto, that is showing very deep acceptance in Europe overall and gives us quite strong results.

But the challenge is to gain share and not just from competition but also now with this increased reality of private label.

We have also in Europe global initiatives, over 100 initiatives linked with what we call the PPP, the Popularly Positioned Products in Europe. Showing quite interesting traction in all parts, Western and Eastern Europe and that is also quite promising.

So we have to prioritise differentiation. It is a matter in these times even more than before to differentiate be it in efficiency, in linking up with customers or different new offerings. We have to gain the maintained interest of the consumer - our consumers towards our brands. And that is asking and that is a call for also increased support behind our brands, support behind our innovation. And that is what we are going to see in Europe and what we are seeing in Europe, that we have increased the support behind our brands.

Slide – Zone Americas

In the Americas, the trend of the first quarter is continuing, specifically in the USA with good performance, especially in PetCare where PetCare in general proves to be a very strong, defensive category. And that is also pretty much driven by a lot of innovation that is consumer relevant and that is actually moving this whole category into value creation. And that is relevant in good times or bad times.

Frozen food also, actually benefiting from a certain tendency away from out of home consumption. People are staying at home more. They go out less for dining. And that is a huge opportunity, we are tapping into that. And you will see interesting growth from that angle too, actually also combined with market share gains. And then also the ready-to-drink beverages and Soluble coffee are also strong. And our inauguration of our factory in Anderson is definitely helping there too.

Latin America is a mixed picture, I would say the big parts of Latin America, Mexico and Brazil, are showing good resilience, they are holding up pretty well, especially in Beverages again and ready-to-drink beverages. In Brazil there is good traction behind our biscuit business which is quite sizable.

And the other smaller countries it is definitely a mixed pictures, some countries with quite important evaluations are seeing some decreases in traction. But in general I would say the categories that we are focussing on are showing good traction in the whole continent.

Slide – Zone AOA

Zone Asia, Oceania and Africa, as we call it AOA, is also a mixed picture. But in general a very promising second half to look for.

Mainland China, India, the much bigger part of Africa is showing growth. It is basically the export dependant economies like Japan, but also Singapore and some others that are seeing some direct effect of the economical turbulence overall.

Again, innovation towards affordability linked with very deep distribution is showing good results for Nestlé and that is the agenda we have set forward. We are intensifying that but definitely we are looking forward to growth in the developing world. Definitely the developing world is developing. I was a few days ago in the Oceania region and I must say the traction you feel, they believe tomorrow is going to be better than yesterday is definitely there. And there are some links with the global turbulence but I feel quite confident that that region is going to give us growth in the near future.

Slide – Nestlé Water

Nestlé Waters, a category - the whole water category is affected, specifically in the developed world, the western world, be it in North America or Europe. We are a part of that category so we have some figures that are showing this decline there. But we are gaining market share. And in North America we see a renewed traction. So we see some improvement, definitely gaining market share overall. And I would say Nestlé Pure Life which is now the biggest brand in the USA is still showing very strong growth figures at over 10%.

In Western Europe, also the category is affected, the whole category. And that is still unchanged. But also there we are gaining market share which is a good sign.

So definitely there we have to focus on cost and efficiencies, that is exactly what we are doing. We have to engage more in discussing the environmental footprint of water. There is an interesting discussion going on, as you know about this category. But we are engaged there and we are looking confidently that, in that discussion, rationality is going to get to the middle of the table soon.

So 2009 in Nestlé Waters I would say a year of consolidation, specifically in the Western World.

Now if we move to the developing world it is a totally different picture. Very good growth figures, basically based on our Nestlé Pure Life brand which is getting double digit growth there, confirmed and promising, very promising for the future.

Slide – Nestlé Nutrition

Nestlé Nutrition, a category that is under pressure. Infant Nutrition has been affected since quarter one and Europe specifically continues to be tough. But there are signs of improvement and in Europe specifically I would say these signs of improvement they invite me to take a longer view, to call it really a recovery. But there are many actions that we have implemented short term now to revert the tendency we saw there.

We see also a higher level of competitiveness in the market, which is actually good. So we are driving our actions behind that more competitive, deeper competition in the market.

In the United States Gerber is performing well and in the emerging markets and overall performance is strong specifically in Infant Nutrition.

Healthcare Nutrition is trending better, specifically on the growth margins. We have been going through a major SKU rationalisation affecting some volumes, but at the other side giving some interesting margins that are again going to be used to fuel growth with our portfolio for the future.

Jenny Craig affected in the first quarter for two reasons, basically because it has to compare to a very strong first quarter last year. But also this is definitely an area of spending that consumers are looking at twice when there is a downturn. But we do see some softening in the negative trend and that gives us some good feelings for the future.

So, in conclusion I would say a tough first half, but we see the second half trending better because of quite a lot of actions and support that we are putting behind Nestlé Nutrition in the months to come.

Slide – The Roadmap to Value Creation

In general that completes my quick walk through the businesses. It is important you see here this road map, the road map to value creation that has created a very strong alignment in our organisation. This road map is even more valid than before, even in the downturn or the economical turbulence that we have today. And also the vision that we have defined of being the recognised leading Nutrition Health and Wellness Company as well as being trusted in performance and nutrition.

Our competitive advantages are even more relevant in the actual situation. The growth drivers that have been defined in our Nutrition, Health and Wellness agenda, in value creation, in the emerging markets, in premiumisation or in out of home are still valid. There are certain shifts of intensity behind these growth drivers, adapting to the situation today.

And then the strategic pillars and you heard already from José Lopez, we are still organised behind these four pillars, consumercentric, linking up to innovation/renovation, efficient operations, distribution, I mentioned that several times. These are standing.

So this road map is valid, we do have some adjustments in this road map, but definitely it is giving us the alignment that we're looking for in our company.

Slide – Conclusion/Outlook

So in a nutshell we are living in interesting times, tough times with challenges but also with lots of opportunities. And we want to see it from the angle of opportunities and we are organising ourselves around these opportunities. And we see the first signs of certain accelerated actions we put behind these opportunities, giving us already some returns.

We stay focussed on accelerating our actions behind these growth opportunities, accelerating our actions to look for efficiencies and to really drive waste out of our system. And that is going to give us the margins. In other words we stay to our guidance that we have given and we do see though a performance weighted towards the second half where we have growth coming in less from pricing and more from volume growth.

So that is a very short snapshot - I wanted to give you a feeling about our feeling, how we see the situation and where we are, where we see the strength we have and the traction we get and where we see some weaknesses and what we do about them.

With that I will open up now for questions, so may I have the first question.

Q & A Session

Questions on **Effect on margins of wider PPP rollout and input cost inflation**
Nestlé Water margins

David Hayes, Nomura:

Firstly you talked about more affordability being quite a focus it seems, the rollout of PPP perhaps more aggressively, wider distribution as well in terms of reaching more consumers. And you also mentioned the input cost inflation coming back into next year. I just wondered whether if you put that all together does that mean as a business model Nestlé goes through a period of lower margins, as those elements come through and the scale gets built up as you develop those new areas increasingly?

And then secondly just in Water, just focussing on that division and the comments you made. Clearly not huge amounts of change in top line trends. Big margin decline last year against that weak top line of 220 basis points. You talked about stability in Water, do you think stability would include margin, is margin going to be 6% again this year or is that something which is going to be difficult to see given the top line dynamics? .

Paul Bulcke:

First the affordability, I have used the word several times and it is true that the affordability opportunity was something we have been looking at for a long time. You may remember PPP is not new. The Popularly Positioned Products that we defined many years ago we intensified our activities behind it several years ago and now with the downturn and with consumers trading down this proved a very timely action.

Actually it was inspired to look for the emerging consumer - the consumer that starts to get into the cash economy to be able to buy these products. But it also starts to look like a very timely initiative when the consumer also trades down.

Now the PPP is not something that is low price / low margin. Low price doesn't mean low margin. So we are definitely looking into these initiatives, whatever we try to do that is going to drive growth for the future it should be margin accretive

Now the margin is linked also in how you organise around it. It is not only the price; the whole PPP initiative has to do with first of all defining the product. And the product should be defined for the specific needs of the consumer. That in the emerging market is a consumer with less disposable income or different purchasing patterns. Now that is linked with daily purchasing, so you go for your lower unit sales, unit products. Then you go for specific distribution and you go to capillar because these consumers they buy in the Mom and Pop store.

Then you go for different communication which is linked with how you link up with these kinds of consumers. So that's the whole marketing mix that has changed and that we adapt to the specific consumer or the specific new consumer needs.

So by doing that - the whole business model efficiently, that is not equivalent with low margins. So I repeat whatever initiative we have for the future it should be as a business driving margin growth for the company.

Then on Water, I think the stability, do you refer to the stability of the environment or the stability - what is that going to create for the Water. I didn't really understand the specific of your question there?

David Hayes, Nomura:

I think you've mentioned in previous presentations that the focus this year is on stability in Water. And I don't know whether that meant top line and the margin or whether the top line isn't as stable as you first hoped when you made that comment and therefore the margin won't be as stable. It was more the economic or the financial performance of Water, whether you define stable as being flat growth at margin or how that plays through?

Paul Bulcke:

Now you have seen and you refer to what we have communicated that Water was volume wise and margin wise under pressure and that was last year. And you are asking now - stability is that going to come through? Well basically these two are very intimately related. So whenever we see and we start to feel some traction again in Water, definitely in the United States, the developing markets are still maintaining strong growth for now. Europe, we believe has to come back. And then definitely also the margins are coming back.

Now, we focus short term definitely also on driving cost out of the system. So the volumes are not - in Western Europe specifically - are not giving us tailwind there so we go definitely for driving the efficiency of the whole business up so that we can secure the margin for the future. So whenever the volumes are going to come up again in Europe that's going to have a double effect on margins.

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

Can I just go back to the margin on Water you know in the first quarter we announced the organic growth of minus 4%. And the last half of last year Water margins were lower than we had seen in the past. What we expect to see during the course of this year is an improvement in the organic growth performance of Water as we progress. And along with that an improvement in margins. So that is our expectation and we're surely going to have more at the half year to share with you.

Roddy Child-Villiers:

Okay, the next question please.

James Singh:

Now there was a question on inflation that David asked on input cost inflation, I think that was the question.

Roddy Child-Villiers:

No, that related to PPP.

Questions on:	**Performance weighting to 2H** **Outlook on input costs**

Martin Dolan, Execution:

I just have a question on the guidance of the business performance being more heavily weighted to the second half. Does that apply to revenues and to margins, or does that just apply to revenues?

And the second question, perhaps if Jim could just complete the outlook he was going to give us here for input costs?

James Singh:

Well let me answer the last question first. At the beginning of the year and in the first quarter results we gave you the guidance that the total input costs would likely go up by about 2%. And our experiences would indicate that the tendency is in support of that guidance. We have not seen anything that has changed to warrant a change in the guidance that we had given previously.

Roddy Child-Villiers:

The other question was on the H2 weighting.

James Singh:

Well we believe that our performance, our overall performance both organic growth and EBIT margin would be second half weighted. It doesn't mean - you know we continue to improve, in the first half as you've seen the first half organic growth of 3.8% on top of what has been achieved in previous years.

Roddy Child-Villiers:

First quarter.

James Singh:

The first quarter. We believe that the general economic conditions would likely improve in the second half; as a matter of fact you have seen that the credit markets are opening up a little and the stock market has reflected some degree of stability.

In addition to that our own people in the various markets around the world are indicating that the second half performance would likely be better than the first half. And they are starting to see improvement in some areas.

Now additionally the comparison in the second half versus the first half will be much easier relative to our performance last year and the way the business evolved during the course of the year. So, we expect to see that our second half performance will be slightly better than the first half.

Paul Bulcke:

So that's three reasons. The economical environment and we believe there are some positive signs there. Also the first half - actually it started the last quarter of last year, destocking, etc, is over so a little bit of a better environment there. Certainly comparison based it should give some tailwind and also we truly believe our actions in the markets that we have implemented already are getting more and more traction. So we have supported our brands more strongly in the first half so that should also deliver, so that's why.

Questions on:	**Organic growth expectations in Nutrition and plans for Infant Nutrition in Europe** **Biggest risks to optimistic outlook**

Patrik Schwendimann, Zurich Kantonalbank:

I have two questions, the first regarding the Nutrition Division. You mentioned that you also do expect to trend better in H2. In Q1, the organic growth was 0%, so I was a little bit disappointed, does this mean that in Q2 we shouldn't expect any improvement, what do you think here? And could you touch a little bit more and be a little bit more precise on Infant Nutrition Europe, what are your plans for here and what are your expectations there?

And secondly what do you see as the biggest risks to your quite optimistic scenario overall, do you see big risk probably that emerging markets would slow down or do you see more risk from private label?

Paul Bulcke:

The Nutrition division we see also there the second half coming in better than the first. What we said before in general that counts also for Nutrition. The Nutrition division has been impacted also quite strongly by the Jenny Craig part so it's a bag of different activities there. So quite a lot of hard comparisons in the first quarter. So that has been affected there too.

So your specific question on Infant Nutrition for Europe, we definitely there had several effects coming together and one of them was our baby food launch that was one step back to become better, some basic changes for creating future opportunities, but that needed some time to really get traction.

Now also we have increased dramatically our support behind Infant Nutrition in Europe. We are working and putting plans into action with our customers on Infant Nutrition. We saw an intensified competitive landscape there and so we are now putting in the actions to answer that renewed aggressiveness, which is very healthy. But we have to give some time to our actions to get some results and that is what we truly believe we're going to have in the second part of the year.

Now you say what is the major risk there the emerging markets or what is the major challenge we see in the future? Do we feel the emerging markets are going come to a lesser growth? Or the Western world is that going to continue in the turbulence it is today? Well it's hard to say. About the Western world I believe, as we mentioned before, we see some stability coming in and that is going to create some confidence again. Although there are challenges always still ahead but we feel some positives of increased stability. It doesn't mean complete stability but increased stability or confidence at least and we are tapping into that.

But what I truly believe is that the emerging markets are going to grow. It is true that some economies that are more vulnerable still because they don't have the strength or the safety nets are more flexible. In the downturn they go down very fast but then they rebound very well and much faster too. So the emerging markets, the developing world is going to develop.

We see good figures coming out or being projected for China. Now China is a huge market potential, that is showing growth. India is the same, and now with new elections there is stability. As I mentioned before I was in the Oceania region with 600/650 million people. Some economies were affected true, some because they were much linked with exports, but they are very flexible looking for new markets. And as the emerging markets, which are their neighbours, are growing they definitely are engaging there too for growth. So I'm definitely positive for future growth in the emerging markets.

Patrik Schwendimann,Zurich Kantonalbank:

Nutrition - so we shouldn't expect much improvement in Q2, it's more H2 or later then?

Roddy Child-Villiers:

That was on H2 not Q2.

Questions on:	Impact of lower media rates on increased marketing Importance of innovations in second half recovery

Marco Gulpers, ING:

First is on the build up of consumer/customer support in general. How does lower media rates help you out here? Do you see an offsetting factor from a step up in promotional activity offset by a lower media rate? How does this work out?

And the second question is on your second half recovery. Is it fair to say that that would be driven by more innovations hitting the market in the second half as well, driven by more support?

James Singh:

First of all you know it is a fact that media rates have come down. But we are taking advantage of that and continue to spend aggressively in support of our brands. And therefore I would not let you believe that we will be spending less in support of our brands. I would say you will see the same trend continuing that on a constant currency basis we would likely spend more in support of our key brands. This is one of the reasons why we believe that all the initiatives that are in place, including consumer facing spending plus the other initiatives in the markets, would help us have a more buoyant performance in the second half of the year.

Paul Bulcke:

But let me add to this. The lower media rates or costs actually is to a certain extent helping us to find what we are looking for, which is that we need to engage more with the consumer now than before. There is a certain dimension there of with more innovation, you have to communicate more, but also the private label issue. We have to gain; we have to win the consumer on a more intense base.

So that is what we're doing with more support behind our brands, behind telling more of the stories about new products, and actually doing that on a lower rate can only intensify in other words our support. So we don't take this just as a tailwind that is for free, we use it to invest for the future behind our brands. And it is clear that we have intensified that in the first half and that should give us some results definitely in the second half.

Marco Gulpers, ING:

And would it also be fair to assume that innovations are more second half weighted as well?

Paul Bulcke:

No I would not say that. We have a very strong innovation renovation pipeline. In the past we have been intensifying certain dimensions and PPP definitely is one of these where we intensify our innovation renovation pipeline or action. But we have been quite strong and one of the drivers of our past success has been innovation renovation, so we maintain that and intensify when it is meaningful.

Questions on:	**Q1 trend continuing into Q2 in Europe** **Nestlé position with Alcon** **Share Buy-back programme** **Working capital improvement**

Warren Ackerman, Evolution Securities:

Could I come back to Europe? We had quite an upbeat outlook on Europe and I think you said in the presentation that you expect the Q1 trend to continue into Q2 in Europe. If I look at the comparison in Europe it's much easier in Q2 versus Q1. I guess you should also benefit from a later Easter in Confectionery and probably some build up in Water given the better weather. Am I missing any kind of near term negatives on Europe in the second quarter? Just wondering whether you can clarify that comment about the Q1 trend continuing into Q2. That's the first question.

And then just quickly moving to Alcon. Obviously the Alcon window opens in six months time. There's been some speculation that Novartis may want to renegotiate. I was wondering whether you could clarify your position. I mean should we expect Nestlé to exercise the put option? And would it be a reasonable expectation that once we get through to the middle of 2010 that Nestlé may extend the 25 billion share buyback, which if I'm right in thinking actually comes to an end in mid 2010? Thanks.

Paul Bulcke:

Warren just a small comment from my part. Well you say in Europe Q1 and Q2, well what we say basically is that the tendency that we saw in Q1 was extended to Q2. It is a little bit European like. Europe is never so flexible in things so certain tendencies are just taking longer to revert. So that's what we've said and that way we're going to then comment in a few weeks time a little bit more deeply on that. But may I give it now to you Jim for some additional comments if you want to on Alcon.

James Singh:

On Alcon we have said before that the transaction that has been negotiated stands. As a matter of fact the business continues to do well and therefore improves its underlying value. And therefore there's no need to negotiate any of the contractual arrangements with Novartis. So we firmly believe that the business continues to deliver excellent results and therefore there is no need for us to renegotiate any of the contractual terms of the agreement.

On the point of the share buyback programme, we had guided generally that we will spend about 4 billion Swiss francs this year and we are well on the way to do that. We see no reason to change that. And yes we are continuing the programme basis based on what has been initially contemplated, and therefore it is our expectation that we will complete the programme in 2010.

Warren Ackerman, Evolution Securities:

And Jim would you be able to comment in terms of Nestlé's medium term use of cash flow? Because obviously the balance sheet is very strong, the working capital is improving, in terms of where the cash is going to be going in the business.

James Singh:

Well we continue to invest in our - as we said before, that our capital investment will be in line with what we spent last year, somewhere about 4.5% of our sales. This year we increased the dividend from 4.6 billion to 5.1 billion so we returned additional cash to our shareholders. We have set aside some money for smaller M&A transactions. So when you put it all together as a matter of fact I think this year our net debt would improve, primarily because of the share buyback programme.

Paul Bulcke:

And in the times of today having cash is not a bad thing.

Roddy Child-Villiers:

Warren just a reminder, when we made the comment in Q1 about chocolate and the late Easter the comment was really about Brazil where the sales are made very, very much up until Easter. It wasn't about Europe so much.

Questions on:	**Trading down and development in Ice cream business** **Shared service centre**

Alain Oberhuber, MainFirst:

I have two questions. The first question is about your Ice cream business. Could you elaborate a little bit if we still see a trading down in the Ice cream business in particular in Europe and the US, and where you expect development for the second half?

And second question is more in the range of cost cutting. Jim mentioned one about the shared service centre, where we currently stand there and what we could expect from reducing costs and processes please?

Roddy Child-Villiers:

Alain sorry could you repeat the second question.

Alain Oberhuber, MainFirst:

The second question is about the shared service centre. I think there is one where has been created a new one. If you could elaborate if that's all or if you are focusing to have another shared service centre? And an add on on that, do you already see improved process despite a shared service centre?

Paul Bulcke:

Let me take the first question then Jim of course for the second one. Ice cream, the trading down you're referring to the USA and Europe, well when we mention trading down to a certain extent it's adapting the ice cream our portfolio so that people can stay in our brands and yet find different price points.

And we have quite a few initiatives especially in Europe and in Eastern Europe of giving some ice cream offerings that are more adapted to the emerging consumers, but also to the trading down. That is the whole concept of PPP that we do have over all the categories. So in that sense that is more relevant today than yesterday, we continue doing that.

But at the same time we're also adding more value added products in the Ice cream business. You see with the whole initiative of Mövenpick in Europe it's actually doing on the other side - a super premium ice cream with a different I would say marketing mix, a different distribution.

So it is never one answer. We are trying really with our brands to offer the whole range of price points. And that I would say is the strength so people can stay with the Nestlé brands and yet find answers on different price point. And that goes for every category in our portfolio.

We have been showing also in the past how we do it for Coffee and Nescafé, how we do it for pet food, how we do it for milk products. It's the same in Ice cream and that is in USA and Europe and in every part of the world we are working. Also definitely in Latin America we do have many offerings that are going to that specific price points in Ice cream too.

So on the shared services Jim may I give that to you?

James Singh:

Well you know last year we opened - or just under two years we opened a new shared service centre in the Philippines, starting with about eight markets in Zone AOA. Our focus this year is to try and stabilise the processes, but at the same time open up the shared service centre to provide support for additional markets, including Africa and other parts of Asia.

In Brazil we have a shared service centre, we are doing the same. But our focus right now in terms of priorities is to make sure then in each of our major markets we have what we call a Nestlé business services organisation that first of all allows us to aggregate services in the local market.

So we're taking a step stage approach to this, starting with the local markets and then moving up to regional centres, and then on some service bundles we have already started to aggregate at the global level. So it is part of a journey to create - to give us the ability to leverage and bundle services so that we can provide not only at a low cost but a highly efficient service organisation.

Questions on:	Destocking Advantages of global scale of Nestlé Professional

Sara Welford, Bank of America:

First of all going back to what you were saying on destocking. You said that you think that is over, do you see any possibility of any of the retailers going through and actually restocking or do you think we've not reached a level from which they are happy going forward?

And secondly in terms of putting Nestlé Professional on a global scale, perhaps it's a little bit early but can you talk about any of the tangible advantages that you've seen of putting it together? And do you think there can perhaps be more categories that you can do this for?

Paul Bulcke:

Well indeed I spoke about certain destocking that we saw actually in the last quarter of last year and some of that still going forward in the first quarter of this year. Your question is do we have some possibility of restocking or is it just like that and happy go lucky for the future?

Well first I think destocking is not a bad thing. Maybe sometimes we have too much stock in the market and that is then giving some false impression of how the business is going. So if we go for a lean thinking in the whole value chain, working with the customers, trying to have very efficient supply chains, basically it's not a bad thing to have some destocking there. And that is over. It always hurts when it happens but when you're there then it's not a bad thing to have.

So I rather go for an efficient supply chain, engaging with the customers to maintain the efficiency in the supply chain and then share also the benefit from that. And then also linking up with a better platform of prices with the consumer.

So I would say restocking is not so much of something we are counting on to have growth so I don't feel this is real growth. So we try to measure our growth of the uptake by consumers that is really a better measurement for what we're looking for.

On Nestlé Professional you see out of home is definitely a very strong important growth potential for the company. We have established a global managed business around this opportunity because the whole dynamics of the business model is so specific that we feel this is to be organised like that.

On your question about going forward like this with other categories? I'm not going to answer that specifically yes or no because we are a very pragmatic company so we feel that that was the opportunity, that was the time to organise for this specific kind of business in a global managed business way, and that is what we have done. We see our structure is well established to go for the opportunities as we are but we are very dynamic and always evaluate but there is no specific programme to go further in that direction.

Although Nestlé Professional is starting, it's not the ideal time from one point of view and yet at the same time it is the ideal time. Out of home consumption is being affected by the economical environment overall. People are staying at home more, going out less for dinner, or you see also the dimension of less offerings in the offices or in the factories. A factory is closing or an office that has less people working; is consuming less of our beverages. That's a direct effect.

But at the same time it's a good time to really organise and we are organising as we mentioned before. We are taking all the activities we have in Out of Home - and it's quite a sizeable business already, worldwide 6 billion plus. We are organising and focusing behind two major initiatives. The first one is the Branded Beverage Solutions, and there we are realigning, refocusing and streamlining all activities. And we are working on very promising proprietary solutions for the future. So that is really building the base for the future and in the meantime driving the business.

Then with Customised Food Solutions. Yet again there we are looking at helping our customers, working together for driving cost out of the system. And with the efficiencies that the whole Out of Home market has, the opportunities are huge to drive more efficiency and that is what we're focusing.

So actually I would say again the headwinds we see in the Out of Home market is actually driving or accelerating our actions to come out of this stronger. And it is in that sense timely that we set up our Out of Home business on the 1st of January.

Question on:	**Credit Crisis – commercial paper rates, borrowing, pension impact**

Thomas Russo, Gardner, Russo & Gardner:

Jim the question for you was I was glad to see the share purchase underway and I wondered if you could give us any additional colour about how Nestlé travelled through this credit crisis, your commercial paper rates, your longer term borrowing rates and then finally your pension fund stability through these choppy credit markets?

James Singh:

First of all I must say that we have managed through the crisis in terms of managing our liquidities and access to the capital markets very well. You have seen that over the last year or so we have issued several billion Swiss francs of longer term paper at very, very competitive or I would say advantageous rates. So we have had no bad experience in raising money or protecting our liquid assets during the last 18 months.

Our pension plans however like all other pension plans, and you have see the disclosures in our annual report, I would say today our pension plan continues to perform better. Our funding ratio has improved marginally from where we were at the end of the year. So we are quite pleased with the way things are working out for us.

Questions on:	**Milk product volumes** **RIG in Q2**

Alan Erskine, UBS:

Two questions. Firstly on the milk product area and two questions there. One I just wanted to check that now that you're lapping some of the big price increases that you took, are you now seeing the volume come back? I noticed the last year you were seeing mainly that sales growth being driven by price and I just wanted to see were you seeing the volume growth come back now that you're not seeing incremental pricing?

And following on from that are you actually seeing any deflation in that category given where the spot milk price has gone in Asia?

And then my second question is on RIG. You sort of indicated that you had hoped to see a better RIG performance in the second half. But I was just wondering in Q2, if we look at the food and beverage business RIG was flat in Q1 but you do seem to be seeing some signs of improvement. Should we look for a positive RIG number in Q2?

Paul Bulcke:

Milk products, it is true that last year and that started actually in 2006/2007, we had to increase prices quite strongly for our milk products. And then the price went down. Do we have now to reduce certain prices? We did in certain areas but we don't have a price policy worldwide on this because we are so entrenched in the local market. We do have in many markets local production of fresh milk that is used as a base so there's totally different dynamics there. We do have markets that are linked with imports and then we have devaluations of the markets. So where we should expect a price decrease then devaluation has taken that out.

So it’s very hard to say what kind of price policy we have on a global base, so it is really adapted locally. It is fact though that the price of milk worldwide in dollar terms has decreased. Now to a certain extent the price we had to put on milk in the past did have a certain effect on total volumes. So in many areas the milk category has been suffering or has been affected to a certain extent by a new price point. In others not so much because it was more linked with fresh milk intake that had a different price.

So it is very hard to answer there but if you have, as we saw, the milk price tripling or more than tripling, that has an effect in certain markets on volumes. And these are still remnants because these markets are not just moving with the raw material price that was so hectic, these markets they always have a little bit of a tendency of going after the facts on raw materials. So that is what we saw.

And again in many markets the lower milk price didn’t really come true because of major devaluations in certain markets. So you have to combine the two. But over time the milk prices are still low. We see that the prices that we had in the past that peaked at $5,000 a tonne.

We never priced on that peak price because we tried to see trends through our raw material pricing, our costs so that we can meaningfully align ourselves with these trends instead of reacting every day on price volatility. As we have seen in the past year or two higher price volatility, we have to adapt our systems to that. But we don’t foresee price or price nerviness to the same level. We try to flatten it out over time.

You say the RIG the first quarter, second quarter, second half. I will not go into details there. In a few weeks time we’re going to be communicating on this but we definitely speak about second half. So these tendencies are not just nervous, the economical turbulences are a little bit longer than we thought, but these tendencies are not just one month or two months bad and then good. So we’ll see in second half more traction.

Roddy Child-Villiers:

I'm afraid that's all we have time for. So I’ll pass you back to Paul just to wrap up. Thank you.

Paul Bulcke:

All right so now thank you very much for your interest and for your time. I hope you felt this was a good use of your time. It was definitely for us. It’s always good to connect and I must say your questions are always inspiring because then we really feel where the interests lay.

And I hope we have conveyed again that our objectives are very clear. We have our strategic direction, strategic means it is not nervous over time yet we test our strategic direction with the realities and the expectations. And again I must say that our roadmap is more valid than ever. We are adjusting certain actions, we are accelerating in certain areas and pulling back a little bit on others because we feel it’s not the right time. But overall I would say the roadmap is standing and relevant and tested against these turbulent times and confirmed.

It creates an amazing alignment in our company. We are 280,000 people singing from that song sheet and driving rather our actions and reactions and proactive initiatives behind this roadmap, and that has given us the confidence for the future. Future being tomorrow, after tomorrow, second half and next year and that is our agenda.

So with that I'm confident that we are going to deliver. Once more thank you very much for your time, for your interest and for your interesting questions.
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