NESTLÉ S.A.

2009 FULL YEAR RESULTS CONFERENCE CALL TRANSCRIPT

Conference Date: 19 February 2010

Chairperson:

Mr James Singh
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Nestlé S.A.

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James Singh, Nestlé SA, Chief Financial Officer

Slide 1 – Opening slide

Good morning. I'm delighted to have the opportunity to present our results to you today.

Slide 2 - Disclaimer

As usual I will take the safe harbour statement as read, and go straight to my remarks.

Slide 3 – 2009 Full Year Highlights

We started the year in a business environment of unprecedented economic turbulence which progressed to a semblance of relative calmness at the end of the year. It was in this environment that the Company, once again, delivered outstanding results, exceeding the expectations on all key metrics of the most recent consensus. Our Organic Growth at 4.1% clearly outperformed the industry.

With a disciplined focus and clear alignment against our strategic priorities and key initiatives, we once again improved our EBIT margins, 40 bps in constant currency, while at the same time increased investment in our Brands and reinforced our capabilities, positioning us for another year of Total Performance improvement.

In these yet uncertain times, we are proposing an increase in dividends of 14.3% to CHF 1.60 per share, a 51.8% payout of the underlying EPS, for a sum of CHF 5.6 billion; a 3.2% return on the year end stock price of CHF 50.20.

We completed a CHF 7.0 billion Share Buyback in 2009; completed CHF 20 billion out of the CHF 25 billion program started in Q4, 2007. We will complete the CHF 25 billion this year and buy and additional CHF 5 billion, as part of the new CHF10 billion programme, making CHF 10 billion of shares to be acquired in 2010. This will result, together with the dividend, in CHF 15.6 billion to be returned to shareholders this year, a record for the Company.

This is the essence of our performance in 2009.

Slide 4 – 10 years of the Nestlé Model
Driving Organic Growth & EBIT Margin Improvement

This next slide shows our performance against the Nestlé Model over the last decade. We continue on average to deliver the Nestlé Model, with an annual average organic growth of 6.2% and RIG of 3.5% and an annual average EBIT margin improvement of 30 basis points. This clearly demonstrates that the Nestlé organisation is quite capable of delivering performance within the framework of our objectives, in spite of the varying economic and business conditions.

Slide 5 – 2010 Food & Beverages Guidance

Our guidance for 2010 is that Food & Beverages will increase its organic growth over the level achieved in 2009. We will also once again deliver an improvement in the EBIT margin in constant currencies.

In relation to the proposed dividend and share buy-back, we expect to return about CHF 15.6 billion to shareholders in 2010.

Slide 6 – Strong Full Year 2009 Performance
Improvement in EBIT, EPS; record Free Cash Flow

Let me now come back to 2009. The sales were CHF107.6 billion. Organic growth was 4.1%.

The EBIT margin was up 30 basis points to 14.6%, and was up 40 basis points in constant currencies. The Food and Beverage EBIT margin was also up 30 basis points to 13.1%, and was also up 40 basis points constant currencies.

The net profit margin was 9.7%. This figure is not comparable to 2008, which benefited from the gain of CHF 9.2 billon on the sale of 24.8% of Alcon to Novartis.

The underlying Earnings Per Share were up 9.6%, or 16.3% in constant currencies.

The average net trade working capital improved by 30 basis points, contributing to free cash flow, up 146% to CHF 12.4 billion.

Slide 7 – Strong growth acceleration in the last quarter of 2009

Let's have a look at the performance in more detail, and start with the quarterly performance. As you can see, RIG was the driver of the acceleration through the year, more than compensating for the declining trend in pricing. All the operating segments contributed to this acceleration.

It is important to note that although pricing was on a downward trend during the year, it remained positive in the fourth quarter as our efforts to engage consumers on the "value" of our brands were successful. This demonstrates that "price" was not our key tool to drive growth, so much as innovation and renovation, communication and a focus on the growth drivers in the Nestlé Roadmap.

Slide 8 – RIG trend rising & very strong in final quarter

On the next slide you can see the cumulative acceleration in the RIG, which resulted in an increasingly volume-driven organic growth for both the Group and Food and Beverages.

Slide 9 – Total Food & Beverages
All regions accelerate

Next is the geographic overview of our total Food and Beverages business for the year.

All three regions accelerated during the year and achieved 3.9% organic growth at year end. In emerging markets, consumer demand remained robust, and we achieved over eight and a half percent organic growth. In the developed markets, both RIG and organic growth were positive for the year.

Finally, on the slide, the Food and Beverages business achieved a 30 basis points improvement in its EBIT margin, 40 basis points in constant currencies. This is in line with

our commitment to achieve a sustainable annual improvement in the EBIT margin. And it was achieved whilst continuing to invest for future profitable growth.

Slide 10 – Zone Americas

I'll now run through the Zones, starting with Zone Americas.

Zone Americas had sales of CHF 32.2 billion. Organic growth was 6.5%. The RIG was 2.8%, above the level achieved in 2008.

In North America, PetCare, Ambient Dairy, Soluble Coffee and Chocolate performed particularly well. Overall, North America achieved higher RIG than in 2008, a great performance in view of the economic turbulence that engulfed the US market at the end of 2008 and continued into 2009.

In Latin America, Brazil achieved double-digit organic growth and there were good contributions also from Mexico and the other regions. There were strong performances from most categories in Latin America, with Chocolate, Soluble Coffee, Ambient Culinary, PetCare, Biscuits and Powdered and Ready-to-drink Beverages all achieving double digit organic growth.

Market share improved in over 60% of the Zone's measured business segments and at the same time, in some markets we accelerated development of sales forces to sell PPP products directly to consumers.

The EBIT margin increased by 20 basis points to 16.8%, reflecting the benefits of the strong growth and mix, as well as efficiencies.

Slide 11 – Zone Europe

Next is Zone Europe.

Europe was the region most affected by the economic crisis, and some markets continue to be under considerable pressure. In that context Zone Europe, with CHF 22.5 billion of sales, was able to hold its business base, with organic growth of +0.3%, and to maintain its EBIT margin at 12.4%. This was a resilient EBIT margin performance during a year in which the zone had increased marketing investment against key initiatives, and reflects a great job in terms of efficiencies throughout the business.

Great Britain, France and Switzerland achieved good growth in Western Europe. Germany accelerated during the year after a weak start. Amongst the categories, there was strong growth in PetCare, Soluble Coffee, Powdered Beverages and Sugar Confectionery.

Eastern Europe achieved mid-single digit organic growth despite the tough economic environment in many countries. Soluble Coffee, Ambient Culinary and Powdered Beverages all contributed well.

Market share improved in several measured business segments in the Zone, and the Zone's organic growth momentum improved during the year to end the year at 0.3%.

Slide 12 – Zone AOA

Next is Zone Asia, Oceania and Africa.

The Zone had sales of CHF 15.9 billion. Organic growth was 6.7% and RIG was 4.6%.

This was a strong performance, built on RIG that accelerated through the year to end above the level achieved in 2008.

Increased marketing support drove market shares, which improved in over 60% of the measured business segments in the Zone, and we continued to build direct-to-consumer sales networks in the emerging markets. Among emerging markets, Africa, Greater China, South Asia, the Philippines and Indonesia, in particular, performed well. Australia was the best of the developed markets. Amongst the categories, Soluble Coffee, Ambient Culinary, Chocolate, PetCare, Ready-to-drink and Powdered Beverages had particularly strong growth.

The EBIT margin increased by 20 basis points to 16.7%. The Zone's EBIT margin benefited from the strong growth, particularly in emerging markets, and was achieved whilst increasing our investment in brand support.

Whilst the level of capital expenditure overall for the Group in 2009 was lower than in 2008, we actually increased the investment in AOA to a record level. This reflects the great opportunities that we have in AOA to further expand our business.

Slide 13 – Nestlé Waters

Next is Nestlé Waters.

Nestlé Waters had sales of CHF 9.1 billion. Organic growth was -1.4% and RIG was -1.5%.

These full year sales numbers reflect positive RIG and organic growth in the final quarter of the year. The performance was similar in Europe and North America, with both regions improving.

The emerging market had a strong year, once again delivering double-digit growth.

Continued brand investment drove market share improvements in 75% of business's segments globally. North America improved its market share, France was flat and our market share improved in the emerging markets.

Nestlé Pure Life, the biggest water brand in the world, present in both emerging markets and North America, achieved 14% organic growth.

There were good performances also from Perrier and S. Pellegrino, both with positive organic growth.

The EBIT margin increased by 100 basis points, benefiting from management's focus on optimisation of its cost base, particularly in the supply chain. There was a significant improvement in working capital and a meaningful rationalisation of SKUs. Capital expenditure was also at a lower level to optimise output from existing facilities.

We exited the HOD business in the UK, but acquired growth platforms in Brazil and China.

To conclude on Water, the division achieved its 2009 priorities of increasing margin whilst defending or building shares and right-sized its structures and capital base.

Slide 14 – Nestlé Nutrition

Next is Nestlé Nutrition. Nutrition had sales of CHF 10.0 billion. Organic growth was 2.8% and RIG was flat.

The segment's improving momentum seen earlier in the year in all four divisions continued in the final quarter.

Infant Nutrition had a good year generally, achieving double digit growth in many emerging markets in Latin America and AOA. It also had a great year in Russia, with 30% growth. Its global share of total infant nutrition improved. Finally, its Q4 growth was strong against any benchmark.

For Healthcare Nutrition, 2009 was a year of finalising the integration of the Novartis Medical Nutrition business, a process that started late in 2007. Over that time, we have addressed product overlaps, have rationalised SKUs and discontinued less profitable customer relationships. We have also delivered on the promised cost synergies of 5% of sales. In 2009, Healthcare Nutrition achieved a good improvement in its EBIT margin and delivered accelerating momentum in organic growth. Of greater importance, the division is now well positioned to accelerate top and bottom line performance in 2010 and beyond.

Jenny Craig, the weight management division, which was impacted through the year by lower consumer spend in the US, saw an improvement in the later part of the year.

Nestlé Nutrition's EBIT margin increased by 10 basis points to 17.4% despite a significant increase in marketing spend. There were good contributions to the improvement from Healthcare Nutrition and Performance Nutrition. Overall, Nestlé Nutrition is well placed for a better performance in 2010.

Slide 15 – Other Food & Beverages

Next is Other Food & Beverages. This segment had sales of CHF 10.2 billion. Organic growth was 6.8% and RIG was 3.6%.

Nespresso had another dynamic year, its over 25% growth driven by innovations and market expansions. It has almost CHF 3 billion in sales, 7 million members in its club, and is approaching 200 boutiques. We made a major capacity investment in 2009 to meet the continuing high level of demand.

Nestlé Professional, previously Nestlé Food Services in the markets, became a globally managed business at the beginning of 2009. This coincided with the global foodservice industry experiencing significant declines, the steepest in recent times. It was in this environment that the business refocused on two growth pillars, branded beverages and food solutions, and managed a significant reduction in its SKUs, cleaned up its portfolio and optimised its cost base. At the same time, it delivered positive growth in the Americas and AOA, and accelerated through the year to achieve slightly positive organic growth overall. Its EBIT margin also improved.

Cereal Partners Worldwide enjoyed mid-single digit growth. It now has total sales of over CHF 2 billion, operations in over 130 countries, and accounts for nearly a quarter of total cereal sales outside North America. .

The Other Food and Beverages' EBIT margin increased by 80 basis points to 15.7%.

Slide 16 – Product Groups

I'll now run through the product groups.

Slide 17 – Powdered & Liquid Beverages

First is Powdered and liquid beverages. The Product Group had sales of CHF 19.3billion. Organic growth was 9.5% and RIG was 5.6%.

Soluble Coffee achieved good growth in all three zones. It benefited from the continued roll-out of renovated Nescafé brands such as Alta Rica, innovations such as Nescafé Green Blend and initiatives such as PPP in Asia and Latin America, and targeting Hispanic consumers in the US with Nescafé Clasico .

Powdered Beverages brands such as Milo and Nesquik and also grew well around the world. Nesquik enjoyed a resurgence in Europe following a renovated recipe with an improved nutritional profile and accompanying communication. Nestea powder had as strong year, with launches such as Nestea Litro in the Philippines.

The Ready-to-drink business, incorporating those same brands, also performed well with good growth in the US, Mexico, Brazil and China amongst others.

The Product Group's EBIT margin was at 21.7% after increased levels of brand investment for new products in Soluble Coffee and Powdered Beverages and the continuing investment in the successful roll-out of Nescafé Dolce Gusto, now in 24 countries.

Slide 18 – Milk Products, including Ice Cream

Next is Milk products and Ice Cream. The Product group had sales of CHF 19.6 billion. Organic growth was 2.0% and RIG was 1.3%.

In Ambient Dairy we adjusted our prices in early 2009 which allowed for increasing growth momentum during the year, with double digit growth in PPP. Growth was supported by increased investments to launch new products under Nestlé Idéal and Nido, and the launch of a broad range of innovations, including nutritional milks for elderly consumers in China and elsewhere. In North America, CoffeeMate continued to contribute strongly, and is expanding its international presence.

The rationalisation of Ice Cream in some non-core markets in Europe positions the business for improved performance in 2010. The North American business extended its leadership position, with accelerated growth compared to 2008.

The Product Group's EBIT margin increased by 50 basis points to 12.0%. There were savings from the lower dairy costs in the milk business, which allowed for lower prices and

increased investment in brand support. The Ice Cream business achieved a good improvement in its EBIT margin, with most markets contributing.

Slide 19 – Prepared Dishes and Cooking Aids

Next is Prepared Dishes and Cooking Aids. It had sales of CHF 17.2 billion. Both the organic growth and the RIG were 0.8%.

There were particularly good performances from Ambient and Chilled Culinary. The frozen business serves both the retail and out-of-home markets. Its retail business enjoyed some benefit from consumers eating at home, particularly in the US, but conversely, the out-of-home business suffered from the same trend. Consumers in the US favoured the value proposition exemplified by Stouffer's family meals and Hot Pockets, both of which performed well over single-serve dishes, such as Lean Cuisine and some Stouffer's products. In Europe, Pizza was the most dynamic category.

The Nestlé Toll House dough business performed well in the US. Herta had a strong year for RIG.

The Ambient Culinary business, predominantly Maggi, enjoyed double digit growth in the Americas and Zone Asia, Oceania and Africa due partly to its PPP range, as well as to nutritional innovation in areas such as noodles. In a highly competitive European environment, volumes improved during the year.

The Product Group's EBIT margin increased by 20 basis points to 12.9% after all the segments increasing their marketing investment.

Slide 20 – Confectionery

Confectionery had sales of CHF 11.8 billion. Organic growth was 4.3% and RIG was RIG -1%.

In Europe, excellent performance in Great Britain, France and Switzerland. KitKat had another strong year, achieving organic growth of over 7%. Category performance in Russia was impacted by the weak economy, but we maintained our market shares in Russia. Excluding Russia, the product group's RIG would have been positive.

The Chocolate business grew rapidly in the Americas and Zone Asia, Oceania and Africa. The US business performed well, driven by innovations such as cranberry Raisinets, as well as a continuing good performance by Toll House.

Biscuits had a strong year in its main Zone, the Americas, with double digit growth in Brazil.

The Product Group's EBIT margin increased by 50 basis points to 13.6%.

Slide 21 – PetCare

PetCare had sales of CHF 12.9 billion. Organic growth was 7.9% and RIG was 3.1%. The Nestlé Purina business, supported by increased brand investment and a very active innovation pipeline, outperformed its market, with mid-to-high single digit organic growth in all three zones.

Innovation in key brands such as Bakers, ONE, Friskies and Beneful continued to drive growth, whilst new launches such as the super-premium Chef Michel's, targeted at smaller dogs, achieved encouraging momentum. It is great to be able to report that the annual sales of the Friskies brand exceeded $1 billion in the US alone for the first time.

The Product Group's EBIT margin increased by 60 basis points to 16.3% due primarily to strong growth and the mix benefit from the faster development of premium and super-premium products, particularly in Europe and AOA.

Slide 22 – Performance of Billionaire Brands

On the next slide are our billionaire brands. It is interesting to note that the fastest growing 12 brands come from 7 different categories. This again reflects the broad-based performance I mentioned earlier and as evidenced by the outstanding growth achievement of our larger brands.

The best news on this slide is the addition of two new brands, both in PetCare: Beneful and Purina ONE. Beneful was launched in 2001, and joins the billionaire brands less than 10 years later. ONE was launched in 1986. This is a great achievement by both brands, not least as they have had to overcome significant currency headwinds over the last few years to become Swiss franc billionaires.

Slide 23 – Nestlé Continuous Excellence…
"Accelerating our performance improvements"

I'd like to remind you that Nestlé Continuous Excellence is more than a cost savings programme. Its objective is to improve our performance in all areas of the value chain. Clearly that includes improved efficiencies in our factories and supply chain, but it also includes improving everything from environmental KPIs to bad goods, working capital to customer service. So the cost efficiencies and improvements in working capital that we are reporting today are only a part of it. Another example is our customer service levels, which improved by 40 basis points in 2009.

Key principles of Nestlé Continuous Excellence include Lean thinking and Lean activities, zero defects, 100% achievement of objectives, and a one-team approach with goal alignment and people commitment. It is supported with leadership skills training involving 170,000 employees. This initiative is already building momentum, as evidenced by savings of over CHF1.5 billion in 2009, and that is a good link to our next slide, the EBIT bridge.

Slide 24 – EBIT performance: Continuous year after year sustainable improvement

The Nestlé Continuous Excellence efficiencies touch all areas of the income statement. A big beneficiary was the cost of good sold and, as a result, our gross margin rose 110 basis points. The savings achieved from our NCE programs allowed us to more than overcome inflation on input cost.

There was a 40 basis points improvement in distribution costs. This is the result of a mix of efficiencies, improved route management in Water, and optimisation in our route-to-markets in other categories.

We continued to increase our investment in our brands in 2009. Consumer facing marketing spend was up 10.1% in constant currencies. Administrative costs increased as a result of

increased pension costs and the impact of the strength of the Swiss franc. R&D was up 10 basis points.

Overall, we moved the EBIT margin up by 30 basis points to 14.6%, or up 40 basis points in constant currencies.

Slide 25 – P&L EBIT to Net Profit

On this next slide you have the bottom part of the income statement.

I'd like just to touch on a few areas.

2009 restructuring costs were lower, at 200 million Swiss francs.

The level of goodwill impairment was significantly lower in 2009 than 2008.

The net financing cost was lower, at CHF 0.6 billion. Clearly we benefited from the lower interest rate environment in 2009.

Overall the tax impact was lower driven primarily by market mix.

The 2009 net profit is not comparable with 2008 due to the CHF 9.2 billion net profit on the 2008 sale of 24.85% Alcon holdings.

The underlying Earnings Per Share were up 9.6%. In constant currencies they were up 16.3%.

Slide 26 – Very strong Cash Flow performance

We had a terrific year in terms of our cash flow performance.

The operating cash flow increased by CHF7.2 billion to CHF 17.9 billion. The working capital improved in all areas, as shown on the slide. This reflects an outstanding operational and financial performance, characterised by a high level of discipline and a particular focus on operational efficiencies.

Our cash conversion cycle improved by 3 days.

Our capital expenditure in 2009 was CHF 4.6 billion, down about 5% from 2008. This reflects lower cap ex in Waters, as well as a group-wide review early in 2009 of all major projects.

Slide 27 – Total Cash Returned to Shareholders

I'm staying with cash on the next slide, but turning to the cash returned to shareholders.

Between 2005 and 2009 we have paid out over CHF 20 billion in dividends and spent over CHF 24 billion in share buy backs, making CHF 44.3 billion in total.

In 2010 we will likely spend a further CHF 10 billion on our share buyback and will likely pay out a further CHF 5.6 billion on the proposed 2009 dividend.

We will do this whilst maintaining our gold standard credit rating in the industry in terms of our balance sheet, and we continue to believe that the credit rating we had at end 2009 is appropriate for the group longer term.

Slide 28 – Total Performance Framework

As I start to wrap up my presentation, I'd like to show you our total performance framework, which you are already familiar with. There are four areas: driving performance, capturing scale benefits, simplicity and investment for growth. We have delivered in each of the four.

Starting with Driving performance. We achieved organic growth of 4.1%. Popularly Positioned Products have delivered well, with nearly 13% growth, and we have continued to grow with our key customers. Equally we have a strong delivery of efficiencies and a good working Next Scale benefits. GLOBE continues to facilitate efficiencies, as well as provide improved transparency, enabling faster decision making. We continue to roll-out shared services under GNBS.
capital performance.

Next simplicity. We have divested non core or underperforming businesses with annualised sales of CHF 0.8 billion. We reduced SKUs by 16%. Our factory number is down by 7 in total to 449, despite having acquired or opened 10; and we have reduced legal entities by 4%.

Finally investment for growth. We have made bolt-on acquisitions that bring annualised sales of CHF 2.3 billion, primarily Kraft Pizza announced earlier this year. Our capital expenditure was CHF 4.6 billion. R&D spend was about CHF2 billion, and we increased our media spend by 10% in constant currencies.

Now to conclude my comments.

I hope you recognise these results for what they are: a great achievement in a tough economic environment. I talked to you just now about our total performance framework. This means not making compromises. It means driving improvement in all areas with discipline. It is what we have done in 2009.

Our organic growth was well-balanced within the context of the prevailing economic environment. As RIG accelerated, we were able to maintain pricing levels based on the clear value proposition in our brands.

We increased our brand investment to drive volume, but also delivered a meaningful EBIT margin improvement. The underlying net profit, the return on invested capital, our cash flow and working capital all showed the benefit of our continued drive for acceleration in all areas of our operational performance.

All areas of the world contributed well. The Americas and Asia, Africa and Oceania were growth drivers, and improved their margins, whilst Europe and Waters suffered from more subdued consumer demand, but did a great job on maintaining their businesses, managing efficiencies and working capital.

Most important, we are converting our good performance into returns for our shareholders through our plan to return to shareholders about CHF 15.6 billion in 2010 through the dividend and our share buy-back.

To conclude: 2009 was a great year for the Group. We delivered a well-balanced, strong broad-based performance across all parts of the world and in all aspects of financial performance, truly a credit to our employees around the world.

Looking ahead to the current year, for our Food and Beverages business, we expect to deliver a further improvement in our EBIT margin constant currency, as well as an improvement in our organic growth from the level achieved in 2009.

Q & A Session

Questions on;	**Clarity on status of Nestlé model** **Gross margin improvement** **Working capital as a percentage of sales**

Jon Cox, Kepler Capital Markets:

Good morning and congratulations on a very strong set of figures there. I have a couple of questions for you; my first question is you've made no mention of your long term target of 5 to 6%, but I know Paul Bulcke a couple of weeks ago was saying this remains a sort of long term goal. I wonder if you can just clarify Jim, that this remains a long term goal but you don't want to just go ahead and say you're going to do it this year given the uncertain environment?

The second question, just on the gross margin - I'm wondering what part of that is, say gains as a result of efficiencies in the production set up and what proportion was from lower commodity prices. And obviously what I'm trying to get at is what can be maintained and what may disappear if commodity prices move higher?

And I wonder if I can just as a third question just on the working capital, great work there. I'm wondering how much further can that go or do you think now in terms of say working capital to group sales we're now at a fair level, or do you think we can still see further improvements there?

James Singh:

First of all the Nestlé Model you have seen clearly over the last decade and even if you go back beyond that - that over the years we have delivered organic growth of 6.2% on average, on average as we proceed and 3.5% real internal growth.

The Nestlé Model is our long term objective. In some years we do very well and other years we fall slightly below. But it is the way we guide our performance - our objective is to achieve our Nestlé Model as we progress the business over time. And you've seen that delivered in spite of varying economic and business conditions.

Now, your other question on gross margin; here I would say that we had on the positive side, we had considerable benefit from our efficiency programme in our factories around the world, plus very favourable market mix which together more than offset the increase in input cost which we told you that we expect this year would be somewhere close to 2% and that's what we actually experienced. And an increase also in other areas of the conversion cost.

So looking forward I think we are looking in an environment where we believe that we are going to once again experience a 2 to 3% increase in our input cost, but we are determined to continue to drive our efficiency programme. As I said Nestlé Continuous Excellence is

not a programme that starts and ends, it is a behaviour that is being driven across the company. So we have a very high level of confidence that we will continue to extract significant cost savings from our operations as we go forward.

Now in terms of working capital, what I would say is that we have adjusted working capital in a very disciplined way at a level that now allows us to continue to improve on servicing our customers. And that is the level in terms of our inventory, especially with respect to our inventories where we believe we have reached a level that allows us to have a best in class service level with our trade partners around the world - this is a global objective.

So I would say that our objective is to make sure that our ratios, as we progress in the future, do not get out of kilter. And it was a significant improvement this year, as you would recall in 2008 we told you, given the environment in which we were, we had to increase slightly our working capital. We have taken that out of the system, plus significant improvement in efficiencies to drive to lower standards in terms of coverage; but also very much linked to our ability to service our customers.

Questions on;	**Pricing** **Billionaire Brands below 0% growth** **Factors in improved RIG in Q4 in Zone AOA** **Buitoni – no longer a Billionaire Brand**

Warren Ackerman, Evolution:

Also a couple of questions, the first one is on pricing. Obviously we saw a further deceleration in Q4, I'd value your input on pricing looking ahead into 2010. Do you think pricing can decelerate further from here or do you think that pricing in Q4 represents the trough in the cycle?

The second question is on your Billionaire Brands you showed five brands below zero. I was just wondering whether you can talk about that and what plans you have to improve the performance of those brands below zero?

And then just finally on AOA we saw a very nice acceleration in RIG in Q4. I think it was almost double the levels of Q3. I'm just wondering what's driving that and do you think that's sustainable at these kind of elevated levels?

James Singh:

I notice you went to the bottom of the chart on the Billionaire Brands. But let me just come back to the pricing, pricing is a reflection of the value you create in your brands and also influenced by major commodity costs. We are in an environment where that is very volatile with respect to commodity pricing. And in the last couple of weeks, in the last month or so the volatility was somewhere between 2% and 23%.

So we will take pricing that justifies the value in our brands to the consumers. We will also continue to extract efficiencies in our operations that help mitigate the need for significant price increases. So as you would recall Warren I said before that pricing is not the only action we take to manage input cost pressures. But it's surely an option that we exercise from time to time, not forgetting that at the end of the day our challenge is to make sure that we do not destroy the value of our brands to the consumers.

And as you would you have seen in 2009 we did not play the price game. We did not play the price game and we maintained the value of our categories and our brands. And that is important and an important part of our strategy going forward.

The Billionaire Brands, clearly our larger brands are driving growth. And you have a range of performances and it's very important to look at those brands above the group performance, which are significant in number. And in addition to that as I said we have added two new Billionaire Brands this year in our PetCare business.

Yes, there are brands that are below zero in 2009, I mean Herta and Nido who are pricing related. We have had to take price reductions in those brands. But in both brands we had a positive RIG. So we believe the strategies there are very clear. In Ice Cream the rationalisation of the business in Europe, positions us for better performance in 2010. And our business in North America and the rest of the world continues to improve. So plans are in place to deal with Ice Cream on a global basis.

On Stouffers and Lean Cuisine any negative performance in these two brands relates to the single serve dishes. And yes we have plans in place to restore those brands to positive growth.

Now AOA you mentioned the acceleration in AOA; I think part of it in the fourth quarter has to do with the comparison to the China situation in 2008. But generally across the zone we are seeing a momentum in our growth and you know we have objectives this year that hopefully will build on that momentum.

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

Just on AOA - to really underline what Jim says, basically every single product category improved in the final quarter and almost every single market as well. So basically it really is a very broad based general improvement, as well as the China situation that Jim mentioned.

And of course on the Dairy business, don't forget that the China situation did actually impact our broader Asian and AOA Dairy business, not just China. So there is a fairly big positive impact there.

Warren Ackerman, Evolution:

Jim, just going back on the Billionaire Brands, the Buitoni brand has that dropped out of the Billionaire Brands I can't see that on the charts and I think it was there previous?

James Singh:

Yes, it was and I think there was - the Buitoni non-frozen prepared meals continue to do very well. And it's not on the chart because the frozen prepared meals part of the business is not doing well recently and we're addressing the issues there.

Roddy Child-Villiers:

But equally we did sell our dried pasta business and that's the main reason it falls out, because of the sale of the dried pasta business.

Questions on;	**Guidance vs consensus** **Guidance on dividend payout ratio in the future** **Changes to non-allocated items after Alcon sale**

Marco Gulpers, ING:

Maybe I can push you a bit further on your outlook, at least I'm going to try and bring that into perspective in light of consensus, maybe you want to bridge that in your outlook statement. Currently consensus is looking for 4.6% on the organic growth and 20 basis points of margin expansion to 13.3, are you feeling comfortable with that consensus at the moment?

The second question is indeed on your dividend policy going forward, a good surprise there - solid improvement to up 14%, what would we be expecting in terms of the payout going forward? And the last question is a more technical one; it's on the non-allocated items. We saw that slightly moving up to 1.6% of sales, now that Alcon is out, what are your expectations for the non-allocated items in terms of sales?

James Singh:

The outlook, what we just said we are not going to change. We have seen the consensus but our outlook is that we will improve our organic growth performance above the level achieved in 2009. And we will continue to improve our EBIT margins in constant currency. So that's our guidance. We're not going to be saying much more than that. I think that is a fair, objective and very clear guidance from our company.

The other question was on dividend policy, you should look at the way we have distributed dividend in the past. It is really a function of the underlying performance of the company. And we will continue to pay dividends based on the underlying performance of the company. We have increased our dividend every year by an average annual growth of about 15%. Last year was slightly under 15% and this year is 14.3%.

So that is the guidance and that is the guidance we use to decide on our dividend - the way we pay dividend to our shareholders. It is the result of the performance of the business, which you have seen over the recent years.

On the non-allocated items …

Roddy Child-Villiers:

There isn't much impact on that from the disposal of Alcon because the - the cost items that Alcon has are attributed to Alcon. The non-allocated items are really the essential costs, R&D which we don't allocate to individual businesses. Clearly Alcon's R&D costs are attributed to Alcon. So there's no impact on those non-allocated items from the disposal of Alcon.

Questions on;	**Infant Nutrition in France and Germany** **Free cash flow**

Julian Hardwick, RBS:

I wondered if you could just talk a little bit about the Infant Nutrition business and specifically what steps have you taken to address the issues in France and Germany which give you confidence that that business will improve its performance in 2010?

And secondly, could I ask a question about the impact the deconsolidation of Alcon on your cash flow. I can see the operating cash flow from the note to the accounts - but could you just talk at the free cash flow level, what proportion of your free cash flow in 2009 did Alcon represent?

James Singh:

Just on the Infant Nutrition in Germany and France. We have implemented changes early in 2009; we have introduced new products - not only in those two markets but in other markets with good performance. And the business including those markets continues to improve. So I do not want to get into the specific actions, but I can tell you that in both markets we expect an improved performance in 2010, based on the actions that we have taken in 2009 and also the progress we have made, especially in the second half of the year.

On cash flow, the Alcon contribution to our cash flow is about CHF 2.6 billion in terms of the operating cash flow.

Roddy Child-Villiers:

We haven't got the information with us on the free cash flow Julian which was your specific question.

Julian Hardwick, RBS:

Okay, I mean is it cash flow dilutive for you do you think?

James Singh:

I don't think so because as the company this year our cash flow from our operations was about CHF 2.7, 2.8 billion over last year. We believe that as we continue to drive our performance we should be seeing some improvement around that range. I do not think by selling Alcon our cash flows will be diluted.

Question on;	**RIG and price improvement in Europe in Q4**

Polly Barclay, JP Morgan:

Could we please talk a little bit more about Europe. It looks like you reported positive RIG and price in the fourth quarter. Can you just talk through that you're doing to drive volume growth specifically in Europe and what your thoughts are for this year, both in terms of price and volume in Europe?

James Singh:

Well Europe like all other markets accelerated during the course of the year; with actually positive RIG and organic growth in the fourth quarter. We expect to continue to experience a positive organic growth in the region. Last year was a difficult year for Europe - not only in Eastern Europe, but in Western Europe. So I think we will continue to see improvements based on some of the initiatives that were introduced last year, including the introduction of several new products in several categories. So I am confident that we will continue to see a positive momentum in Europe for the year.

Roddy Child-Villiers:

I think also Polly some of the things that we talked about on the conference calls earlier in the year have reversed. So for example we talked about - earlier in the year tough negotiations with some of our customers; they have all been put behind us and that clearly is always a positive for growth. We talked about issues with Mercadona in Spain; they're now back stocking a number of branded goods, including a lot of our branded products. That's clearly a positive.

So a number of these issues that we talked about earlier in the year have reversed, which means that - you know it's good news for our distribution and if our distribution is broader then clearly that's good news for growth. So I would add that to Jim's comments.

And since you mentioned the fourth quarter it is perhaps notable that every operating segment in every product group that we report had positive volume in the fourth quarter. So Jim mentioned the broad based performance and the acceleration and that's clearly the case.

Questions on;	**Pricing** **Tax outlook post Alcon sale** **Biggest risks in 2010**

Patrik Schwendimann, Zurich Kantonalbank:

Regarding pricing for 2010 what's your best guess there? You're mentioning that you want to keep your brand value; but what does this mean? Would you really say that this 1.1% in Q4 was the lowest level, or what do you expect for 2010?

And secondly regarding the tax rate which was extraordinarily low at the published rate at 23.4% and now excluding Alcon what's your best guess here for 2010? And lastly what do you see as the biggest risk for 2010?

James Singh:

First of all on pricing - our focus on is on organic growth which as you know includes a component of pricing. And as I think we answered that question earlier in the conference call; we believe as I said the organic growth for our Food and Beverage business will be at a level higher than what we achieved this year.

I don't think it is value adding to get into trying to split it up so early in the year. We believe that we will continue to maintain the value of our brands in our relationship with consumers and that is part of our strategy. So I would not get into separating the elements of our

organic growth, but to commit to you that we will continue to improve our organic growth next year.

On the Alcon divestiture we had said last year that the underlying tax rate going forward for the continuing business will be somewhere between 27 and 29%. We're sort of narrowing that guidance to closer to between 27 and 28%.

And the risks for 2010, well you know every day you come to work there is risks. We have assessed the risks as you have seen at the beginning of this year and late last year looking at the market and of course I think today we are in a sense of some degree of calmness although there are some other pockets of difficulties in some markets and we are very well aware of those and on top of them. But when we give you our guidance we have considered existing risks and probable risks in our business and in the business conditions.

Overall at the end we will have to do the best we can as we have done again last year in perhaps one of the most turbulent economic environments we've experienced. So I hope we have demonstrated our ability to manage risks in the business environment.

Questions on;	**Pricing** **Margin improvements in Milk, Ice Cream and Water**

Alex Smith, Nomura:

Apologies for going back to pricing, but just for a clarification, the deceleration at the back end of the year which Warren referenced is that just a lapping of last year's price increases or were there actually some categories in the fourth quarter where you did take pricing points lower. I think you referenced milk as being one of them, but I was just wondering if there are other categories where pricing might have followed some commodity costs going down?

And then I had another question on your margins by division. In H2 I think you saw very strong margin progression in Milk and Ice Cream and Nutrition, compared with declines in H1. Is that again input costs coming off in those divisions, or is that where you've seen what looks to have been accelerated cost savings in the second half of the year?

And similarly the H2 margin in Water up again very strongly, I know you stated that that was a focus to take costs out of that business, to right size the cost base there. Is that job done now or can we expect further margin progression in the next year in Water as well?

James Singh:

Just on pricing, the trend in pricing in 2009 of course had the effect of phasing out prices that were taken in 2008. So I would say that was a major contributor to the trend. But where it is necessary, where it is necessary for us to take pricing - to manage our value and our margin, we will. And that has been our model and we will continue to do that.

The improvement in margins in the Milk and Ice Cream category has to do with two things. First the decline in prices that we have implemented following a reduction in dairy costs during the course of the year. But also - an improvement in the mix of the business in terms of product categories and also market mix. So that explains the margin improvement in that category.

On Water a lot of the actions that were implemented in 2008 and early 2009 really benefited us in the second half of the year. In addition I think, coming into the second half of the year the Water business had better volume performance.

So yes, we expect a continuing trend of improvement in the Water business.

Roddy Child-Villiers:

You also asked about Nutrition, I think you need to reread the press release or conference call from the first half of the year, because we explained the reason the first half of the year margins were down was because of the timing of launches and various other things we were doing in that business. I can't remember the precise wording and we said then that we'd see the benefit in the second half of the year and we thought that margins would come back to be at least flat and in fact they're up ten basis point. But I can't remember the exact explanation.

But as you know we don't spend a lot of time analysing our second half margins, we tend to look at the margins for the first half accumulatively.

Questions on;	**Pension costs** **Impact of marketing costs on margin** **Water performance in emerging markets**

Alain Oberhuber, MainFirst:

I have a question on pension funds. Do you think we'll see an improvement in 2010, or will there be an additional negative impact on margins in the current year overall; If we look at the last quarter and expect that the capital markets are more or less stable?

The second thing is on marketing, could we expect an additional, with all the initiations you have taken - an additional negative impact on margins as well for the marketing, or i.e. an increase in marketing expenses again versus this year?

And the last question is, how much further is bottled water in the Emerging Markets?

James Singh:

Okay, let's talk about the first question on pension funds. We had to take a step up in our costs in 2009 to reflect the realities of the financial markets. And I think you're right, if there is stability in the financial markets we believe our pension costs will remain stable at last year's level.

We have a sense of what those costs are already this year and I can tell you that we are not forecasting an increase in our pension costs relative to last year.

On marketing we will continue to invest in our brands. I cannot say where in terms of the products and geographies because the focus is on building our brands, driving real internal growth in all geographies are the world. So we have - increased our spending, especially in the second half as you would have seen. And we continue to maintain a high level of support for our brands.

I do not think you should look at our marketing spending, especially our consumer facing marketing as necessarily margin dilutive. Because they drive growth, they drive margins

that pay for this support. I mean it all doesn't happen on a monthly basis, but over time that is the expectation.

Now, your last question was Water in the Emerging Markets. I would say the Emerging Market which at double digit growth is faster than the developed markets. Today our business in the emerging markets is somewhere between 11 and 12% of the total business.

Questions on;	**Market mix contribution to margin** **Outlook for dividend payout ration**

Jeremy Fialko, Redburn Partners:

… market mix there, could you just go into some more details on that? And then the second question, just coming back to this point on the dividend; obviously your payout ratio is getting relatively high now, particularly once you exclude Alcon from the earnings. So could you just talk about where you see your dividend pay out ratio going from here?

James Singh:

Jeremy I didn't get your first question.

Jeremy Fialko, Redburn Partners:

Yes, the first question on was market mix and you mentioned that was very favourable towards your gross margin and I wanted some more detail on that, thank you.

James Singh:

The market mix is basically that we are growing faster in those markets where or margins are slightly higher. And that's what we mean by market mix. And within the markets there are of course - different product categories. So you know you have different product categories influencing the mix in the markets. So when we talk about market mix we're talking about category and geographical mix within the respective zones.

On dividends as I said earlier the dividend is based on the underlying performance of the company. It's not necessarily influenced in particular by a payout ratio. Based on the performance during the last decade, you have seen relative to the Nestlé model - we have made considerable progress, year after year. And therefore over the last four years we have shared that improvement in our progress with our shareholders. Part of it was the dividend policy. So based on our confidence on the underlying improvement performance of the business you will see us continuing to pay a very competitive and reasonable competitive dividend that delivers a very competitive return to our shareholders.

Questions on;	**Growth performance of Europe** **PPP as a percentage of sales**

Sara Welford, Citigroup:

I have two questions, firstly going back to Europe. In the past you've actually given the growth rate for Europe as a region and not just as a zone. So I wondered if you could give us this? And secondly you talked about PPP could you possibly give us a percentage of the sales that are now from PPPs?

James Singh:

I'll answer the last question first. PPP today represents about 8% of our food and beverage sales. And in Europe do you have a particular market you're interested in?

Roddy Child-Villiers:

Total Food and Beverage Europe the organic growth was 1.2% and the RIG was minus 0.2% for the year.

Questions on;	**EBIT margin in Zone AOA in H2** **Nutrition performance excluding China**

Pierre Tegner, Oddo Securities:

I have two questions; the first one is concerning the decrease of EBIT margin in AOA in H2 if my calculations are correct. It is the only zone and the only area where you have a decrease in margin in H2. Is there a specific reason, did you need to be more aggressive in terms of A&P or was there less cost savings to generate in this zone? That's the first question.

And the second question is could you give us an idea of the RIG we had in Nestlé Nutrition if we exclude China, to take into account the difficulties and issues you had in this activity?

James Singh:

Well Pierre, well first of all in AOA, you know we don't manage the profitability by half year or by quarters. I think we invest to grow our business wherever there is an opportunity to do so. And any variation in the margin is because of the variation of the level of investment against out business. And you would have seen on the chart the acceleration which also includes zone AOA in a very significant way. So I do not get distracted if there is a change in profitability between one period to the next. At the end of the day we look at the performance on an annual basis to make sure that what we are achieving and what we are doing drives sustainable improvement over time.

And I don't have the RIG on Nutrition excluding China. So I'm sorry Pierre I don't have the information.

Pierre Tegner, Oddo Securities:

Okay, but excluding China we have at least positive RIG in Q4?

James Singh:

I could tell you that our Nutrition business, especially our Infant Nutrition business had very, very good performance throughout the year in Emerging Markets. And I know we did improve in China because of issues late last year. But our Nutrition and Infant Nutrition business has had a very good year in the Emerging Markets.

Roddy Child-Villiers:

The RIG trended meaningfully better in Q4 in Europe and the Americas as well as AOA. So I mean I haven't got the maths whether it was positive or not, but it trended significantly better in both - in all three zones. So I suspect the answer to your question, is yes it was positive, because it was certainly significantly better.

End of Q&A Session

James Singh:

Thank you very much for your questions. You have heard Paul Bulcke talking about the need for acceleration and about how we have our people aligned behind the Nestlé Roadmap; these results demonstrate the benefits of that acceleration and of that alignment behind a clear strategy.

You will hear more of that from him in the press conference as well as on the road show next week. I intend on the road show to look in more detail at our performance framework and how we're managing our business in the current environment; as we did in 2009 and what we're doing in 2010 to drive continued profitability. Thank you very much.

END OF CONFERENCE CALL