NESTLÉ S.A.

2009 HALF YEAR RESULTS LONDON ROADSHOW TRANSCRIPT

Conference Date:	13 August 2009
Chairperson:	**Mr James Singh** **Chief Financial Officer** **Nestlé S.A.** **Mr Roddy Child-Villiers** **Head of Investor Relations** **Nestlé S.A.**

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

Slide 1 - Introduction

Good morning everybody and thank you very much for turning up to see us effectively two days in a row.

Slide 2 - Disclaimer

We will as always take the disclaimer as read. And without further ado I will pass you over to Jim to really go into a much more detailed business review building on the highlights that we covered yesterday.

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

Slide 3 - 2009 First Half Highlights

I believe it is necessary to revisit some of the highlights we talked about yesterday in the conference call, because they deal with the very essence of our performance. The successful delivery of profitable growth, 3.5% organic growth combined with an EBIT margin improvement of 30 basis points both reported and in constant currency is in fact building on a tradition of progress.

If you go back over the last 12 years or so you will have seen that over the last 12 years up to the end of 2008 Nestlé delivered an organic growth of about 6% with a reasonably good mix of volume and price, albeit slightly more weighted, other than 2008, in terms of volumes. So our performance this year so far is building on that. And I think it's very important to note that we are coming from a solid performance not over the last six months or the last 12 months but over many, many years of consistent delivery of improvement.

Within our Food and Beverage business we believe our performance is resilient, here again 3.4% organic growth combined with an improvement in EBIT margin in constant currency of 20 basis points. Five out of our six operating segments achieved positive organic growth and either improved or held their EBIT margin evolution.

Efficiencies incorporating our Nestlé Continuous Excellence, which we presented to you at our last analyst investor conference when we had a meeting in Vevey about 18 months ago, is now being fully implemented across the company and delivering good savings in all the areas of our operations, whether it is cost of goods, distribution or within our fixed cost structure. And those savings are being invested in increased research and development activities and consumer facing marketing expenses, especially in our Food and Beverage business.

Consequently our key brands, which we refer to as our Billionaire Brands, most of those brands are significantly - all of them are in growth mode. And they are also improving their competitive positions.

One of the key foundations or pillars of our Nestlé model is capital discipline and we have clearly demonstrated that we can do this in Nestlé, delivering a strong improvement in our working capital position and overall cash flow performance. Therefore I would characterise our first half year performance as solid, as improving and a broad based performance.

Slide 4 - Total Performance Framework

You know if Paul Bulcke were here he would tell you that Nestlé is not an 'or' company. It is not this or that, it is based on a total performance framework because I think that is what good companies should do. It is not only me that thinks so, our strategies and the way we implement our strategies are all focussed on the total performance framework, driving our performance through a profitable growth.

Profitable growth is a fundamental aspect of the way in which we manage the company. Driving for operational efficiencies, managing our working capital to meet the needs of the business and no more and improving our relationships with our key customers around the world, regardless of which channel they operate in. Those are key aspect with respect to our focus on driving performance.

In terms of enabling the organisation to be fit and fitter and nimble and responsive we have GLOBE, we have GNBS and we have Nestlé Continuous Excellence. Therefore a clear strategic and operational framework is necessary for us. It has not only helped to clarify our thinking but it is very important to enable the communication inside the organisation and eventually, if we do things right, we will continue to deliver the Nestlé model in the longer term.

We have even clearer strategies and this year at the beginning of the crisis we have selected a few very significant initiatives within the group to help us deliver within a total framework - a total performance framework.

Scenario planning, we are engaging more actively in scenario planning, not only at a corporate level but in the markets and in the product categories in order to give us the ability to respond and to adapt to the changing environment.

A key investment in this company over the years has been GLOBE. GLOBE today is enabling us to manage a complex business in a very challenging environment. It has enabled us to share best practices and improve our information technology to provide accurate and timely information so the decision makers can respond to the changes that are occurring at a rapid pace and with a great degree of volatility in their respective environments.

NBS - Nestlé Business Services or Global Nestlé Business Services is about aggregating service bundles, basically our back office services. And we are more internally focussed on in-sourcing rather than outsourcing, or you could call it outsourcing but in the company. In other words setting up regional centres where we can aggregate activities providing services to several markets and therefore minimising the duplication that occurs in each of the markets if you had not have done that.

An important part of our day to day execution is to achieve simplicity. We are a large company, 100 billion Swiss francs. And therefore a 1% or 1 basis point increase in our sales is 10 million Swiss francs. A 1% in our sales is 1 billion Swiss francs. So a 3.5% increase in our sales on an annualised basis is 3.5 billion Swiss francs. Therefore we are a complex organisation, especially for someone looking from the outside. And therefore we have to find ways to simplify the way we manage this company.

Therefore SKU rationalisation it seems simple, the first time around that you do it it's easy. In 2007 we took out 10% of our SKUs, it does not necessarily mean 10% of our sales, because the reason why you get rid of these SKUs is because you don't have anything material but they drive a lot of complexity. They do have revenues and some times it's difficult. So the first time you do it and the first 10% is easy.

Last year we only did 5% and now we're getting to the tough part. And this year so far we have done nearly 9%. So that effort in the organisation continues and it is an important part of what we do every day.

Over the last three years we have reduced our legal entities around this company by one third. That is also not easy to do, because you do the first 10% and then you get into a lot of issues. A lot of them have to do with legal, tax planning and also some accommodating organisations that have been set up in order to help Nestlé grow in the different parts of the world.

By the end of this year we will operate somewhere between 25 and 30 less factories than we had at the end of 2007. And it is one of the reasons why we can accelerate improvement in our cost of manufacturing. But it also has an impact on your entire supply chain, on the cost of operating that. And as you have seen over the years we have continued every year to dispose of under performing or non-strategic businesses where we really don't have a chance, or is isn't worth the effort to turn these businesses around. So far at the end of June we have sold businesses with annualised revenues of nearly half a billion Swiss francs.

We continue our quest to look for bolt on acquisitions. This year we have guided the market to an investment of around 1.5 to 2 billion Swiss francs.

I want to take this opportunity to clarify one thing, Nestlé is a large company as I said, geographically diverse with many portfolio products, we don't need any big acquisition to make progress. We believe organic growth is a priority of the company and therefore I do not see any need to go out and spend a lot of money buying businesses. It does not mean that if there are businesses out there, that make sense for us, with a focus on Food and Beverage, to help us increase our portfolio along the Nutrition value chain, that we will not look and we will perhaps acquire.

But we do not have any plans for any major acquisition this year or next year. And we do not need to sell Alcon to buy any business. The sale of Alcon is not linked to any M&A activity. It is a decision, a strategic decision made on its own. It was a decision made on the basis that we believe at Nestlé that we can no longer add strategic value to Alcon and vice versa.

So please don't link the potential proceeds of Alcon to any M&A ambitions of the company, because today we are focused on bolt on acquisitions. We believe it is necessary to accelerate our growth either on a geographic basis or also help our product categories where there is need for those smaller acquisitions.

So I would say that the organisation today is in a mode of acceleration, with initiatives, that as we implement them across the company, would lead to permanent and lasting changes, enabling us to focus on driving profitable growth, driving efficiency initiatives across the company and improving our competitiveness.

Slide 5 - The Essence of Nestlé's Performance – Drivers of profitable growth

As I said an important part of our model and an important part of our performance year to date is based on profitable growth. Our Billionaire brands are growing about 6% year to date on the whole.

Our Emerging Market businesses are growing slightly above 7%. Our PPP (popularly positioned products) products are growing at 11%. Our growth with our top ten customers is about 6% and Nespresso continues to grow beyond 25%.

In order to get this growth we need to continue to invest in R&D and in building a relationship and loyalty of our brands with the consumer. And therefore we will spend more.

We recognise that there are certain parts of our business where we need to restore the business to a track of growth, because they have grown, they have the capability of doing so. Nestlé Waters wherever there is growth we are getting our fair share of growth and wherever there is no growth or declining growth we want to make sure that we are improving our competitive position and that is our strategy on Water.

On Out of Home we all know the condition of the industry relating to consumption out of your home. It is an industry that has been decimated by the economic downturns and closures of plants around the world. But we know that we have products and multi serve proprietary systems in both Food and Beverages that we need now to accelerate in terms of introducing to the markets. And we are doing - there are examples of this execution in different parts of the market and we are intending, during the next half of the year, to accelerate those things that are working or those initiatives that we believe have a very high chance of success.

We also need to accelerate the growth in Nestlé Nutrition and we have seen an improvement on all the pillars in this business in the second quarter.

Slide 6 - The Essence of Nestlé's performance – Drivers of EBIT Margin

So therefore driving our EBIT margin as profitable growth, operating efficiencies and we believe that our drive towards simplicity are also contributing to give us the flexibility to do better.

As I said we continue to make divestitures of businesses that don't perform. At the same time we're driving a high level of financial discipline in the organisation with a very high focus on managing our working capital and re-gating major capital expenditures for the first half of this year, our capital expenditures are down 12% versus last year.

Slide 7 - Zone Europe

Now, if you look at the businesses, our business in Zone Europe 0.2% positive organic growth, having to overcome a negative 1.5% real internal growth.

We know the situation, particularly in Western Europe, remains subdued. I think this morning there was some good news in terms of the economic performance of France and Germany and recently in Italy. However, the consumers in Europe remain very subdued. Having said that in three out of the four larger markets in Europe we are experiencing very positive volume growth or RIG, here in the UK, in France and our PetCare business across Europe.

We have seen some improvement in Eastern Europe with RIG performance very encouraging particularly in Poland and the Ukraine and in our Soluble Coffee business across the region. The EBIT margin is flat, which is also a testament in terms of how we focus managing the business. There were increases in costs in pensions; there were softer volumes and therefore the loss of leverage in those. But they did not dissuade the management of Europe to continue to invest, to launch new products and to expand the rollout of Dolce Gusto. And therefore we had to find savings in our efficiency programme led by Nestlé Continuous Excellence to offset those investments and the other shortfalls of the business.

Slide 8 - Zone Europe

We are competing for volume and we know that it is going to be more expensive than we have experienced in the past. You notice that in first six months we have increased our investment, especially in marketing. Because there is intense competition in an environment of low or no growth, and therefore we believe that we can eke out some improvement on the volume side through innovation. And here we have on this chart a picture of Nescafé Green which is a combination of roasted coffee and green coffee beans, processed in a way that retains a significant level of antioxidants that are inherent in the coffee bean to deliver the benefit to the consumer.

I think in spite of the RIG performance in Zone Europe I want to let you know that our brands continue to improve their competitive position and we measure 100 cells, by brands, by market in the entire zone and 60% of those cells have improved their competitive position.

Slide 9 - Zone Americas

When you look at Zone America - 6.6% organic growth, 1.9% RIG, plus a 20 basis point improvement at EBIT. Strong performances in the US, our businesses in the US are growing both in terms of RIG and organic growth. Organic growth is approaching the high single digits.

In Brazil and in Mexico. There were some difficulties in some smaller markets in Latin American, Central American and the Caribbean, smaller businesses and despite the organic growth being low they are not significant in terms of the overall zone performance but they are significant because in this environment whatever benefits that you can get do add up at the end of the day.

Our PetCare business remains at double digit growth in the Americas. Ambient dairy and Coffeemate continue to improve their performance and our chocolate business both in the US and in Brazil, which are two large markets have done relatively well in the first half. Our EBIT margin improvement reflects the benefit of growth, operating efficiencies and also increasing our investment to get growth even in the smaller markets.

Slide 10 - Zone Americas

Growth is coming by virtue of several innovations in most of the categories. So I think with a focus on trying to get growth where growth is and improving our market positions where there is no growth and driving our efficiencies is all being adapted in each of the zones to make sure that we make progress.

Slide 11 - Zone AOA

I think in AOA it is a similar story, organic growth of 5.9%, improving RIG 2.2%. I think we are seeing encouraging signs of recovery in the emerging markets, however there is some mixed performance.

In some markets, for example the Philippines our RIG and our organic growth is close to or slightly above double digit, whereas in Malaysia it's marginally negative. The difference is Malaysia and Singapore are markets that depend heavily on exports.

We expect that the Dairy prices or the Dairy business - the ambient Dairy which represents about 25% of the business in the zone will continue to reflect lower pricing as we pass on the benefit of lower Dairy costs. Overall we are encouraged also by the performance of India and China where our markets are achieving double digit RIG. Africa is very strong and the Middle East is improving.

Japan is a bit of a challenge in terms of growth but we believe that with new products being introduced like the one you have here, Nescafé Charge which is a refill package will help us mitigate the situation in Japan.

Slide 12 - Zone AOA

As I said part of the drive in these markets is really linked to innovation and PPP in the zone. The PPP businesses continue to perform above the level of the group in the zone and it remains a key driver in this area. And we continue to reinvest the savings from cost of goods to make sure that we can support the performance of the business given the reducing price that we are seeing in some of the categories, but also driving growth and improving the margin.

Slide 13 - Nestlé Waters

When you look at Nestlé Waters we believe the water market is stabilising but also accelerating our growth in the emerging markets and we are getting our fair share of it. So the organic growth of the business at minus 2.9% but we continue to experience negative volume evolution, primarily in the US and here in Western Europe.

I think our focus here as I said is capturing market share where the category is in decline and improving our margins. And we have had a very healthy improvement in margins in the first half which I'll talk a little more about. I think our business with some of the key customers, driven primarily by Nestlé Pure Life and some of our bigger brands are really helping the performance of the bottom line and making sure we don't give up entirely the volume growth that we are experiencing in the emerging markets.

Slide 14 - Nestlé Waters

I think Asia, our business in Asia is growing at 13% and Nestlé Pure Life, which today is one of the largest water brands around the world is growing at 17%. The EBIT margin improvement in spite of the negative leverage effect on volume our overall growth has been delivered, reflecting some benefit of what I call energy related costs, packaging, primarily the PET and distribution.

Our Nestlé Continuous Excellence has made a tremendous contribution here, but in some markets in our business we have done a fair amount of resizing of the business, especially in the US where we have also adjusted routes and overhead structures and that is providing a good return this year. And of course we have inflation in the other areas, so net 110 basis points for the first half year is a very encouraging sign.

Slide 15 - Nestlé Nutrition

Nestlé Nutrition, organic growth of plus 1.5% I think in the first quarter we were break even and RIG has improved to negative 2.4%. I would say the performance here is broad base, all divisions improved organic growth in Q2 and we have seen an acceleration of the Infant Nutrition business in zone AMS and AOA.

The growth in Jenny Craig which as you know had tremendous growth last year, the negative evolution this year is starting to slow. So we expect as we get into the back half of the year we will continue to see some relative improvements in performance. The EBIT margin is down, primarily because we have now gone back to advertising, increasing our promotional - especially our consumer related marketing spend, advertising, consumer promotions, etc, in the category. And that took place towards the end of the second quarter so we should get the benefits of that coming into the balance of the year.

Slide 16 - Nestlé Nutrition

Here again innovation is very important. And after a period of loss in Europe we are seeing some recovery based on the introduction of NaturNes, which we started last year in France, already this year the situation has stabilised, improving in Germany and we continue the rollout of NaturNes across Europe.

In the US the story is the same as Q1, we have good volumes and are gaining share but we have a negative impact on pricing related to the government sponsors programme. We believe the US baby food business will grow faster because Gerber, the business we acquired from Novartis, is performing very, very well. And the product shot you see here, Graduates, is growing close to 20%. It’s a business that’s about a quarter of a billion US dollars but it is growing very fast.

Healthcare Nutrition, we have seen growth here more or less improving in the second quarter but also encouraging is the EBIT margin in this sector also improving. Jenny Craig as I said, the negative outturn is reduced every month.

Slide 17 - Other F&B

On the other Food and Beverage area we have, Nestlé Professional which is our Out of Home business. Given what is happening in the market I think we’re encouraged that we’re basically able to hold our revenue progression in terms of organic growth. But we have some measures that we are implementing now and we hope to see an improvement in this area.

Also we have Nespresso in this category, as I said Nespresso continues to grow above 25%. And CPW had a very good performance, mid single digit organic growth. Overall there was an improvement in margin of 20 basis points driven really by good management of cost and the overall efficiency programme across the piece.

Slide 18 - Product Segments – Powdered & Liquid Beverages

Now, if you look at the segments we see more or less the same thing coming through. Where we are getting reasonably good growth in some categories but we continue to invest in most of them. In Powdered and Liquid beverages, the RIG was 4.7% and an organic growth of 9.7%. An excellent performance from all constituents, Soluble Coffee, Ready-to-Drink and Nespresso. Nescafé had a good level of RIG in all zones, benefiting from strong innovation programmes, including PPP.

Powdered Beverages mainly Milo and Nesquik saw a mid single digit organic growth but with a slightly higher improvement in Latin America and AOA.

Our RTD business is strong in North America or in the Americas in general and we're seeing some improvement in Asia. The EBIT margin was lower because we continued to spend to rollout Dolce Gusto, to expand Nespresso and to introduce several innovative products in the market. In addition to that we have just commissioned one of the largest investments in factories in manufacturing this company has ever made and there were some upfront commissioning costs for that factory that had to be taken in the first half.

Slide 19 - Powdered & Liquid Beverages

Now the new Dolce Gusto machines, different machines, different flavours are now widely distributed in Europe. We are expanding the rollout in some markets in Asia and we have introduced the business in Canada and Mexico. And the early results in those new markets are very, very encouraging. Dolce Gusto is growing in excess of 60%.

Nescafé Green, as I said it is a unique innovation and so is Nestea Litro. And Litro is a powered flavoured tea for kids. Each pack makes one litre and it has been a huge success with parents looking for healthy and convenient alternatives to carbonated beverages. It was launched in the Philippines and is now being rolled out to several markets and we're also at the same time expanding the flavour options.

So through innovation we continue to drive growth in this category close to double digit, close to 10%.

Slide 20 - Renovation /SKU Rationalisation

Now we talked a little bit about SKU rationalisation and SKU rationalisation for us it's not only tactical but it can be strategic. Here is an example of our Nescafé speciality coffees. You see we had four SKUs in the UK and we had another four in Continental Europe. What we did, we reduced the SKUs from eight to four, by 50% and now we have four offerings, four SKUs to all consumers in Europe, which as you know will drive a lot of efficiency, minimise confusion because the products are good, they have won 60/40 preference tests and they minimise the complexity that comes with SKU rationalisation.

Slide 21 - Milk Products & Ice cream – Ambient Dairy

Now milk products I want to talk a little bit and start with Ambient Dairy. Here organic growth was more or less flat, negative 1.3%. And the story here is about pricing. The significant pricing that was taken last year, albeit deservedly so, given the accelerated costs in Dairy has hurt the volume evolution in this category. However, since late last year and then during the course of the first half year we continue to adjust our pricing to reflect, sometimes ahead of the benefits of commodity cost reduction and we are starting to see an improvement in this category.

Nido for example was significantly negative at the beginning of the year, over the last two months Nido organic growth was in excess of 20% in each of those months.

Slide 22 - Roll-out of affordable milks: 9% RIG

Another innovation that we are launching in this area is what we call affordable milk. And this is basically milk fortified with vitamins and other Branded Active ingredients. It is a lower price but it is processed in a way that maintains the nutritional benefits and in some cases the milk fat is being reduced, to some extent, with vegetable fat. It is also tailored to differentiate, to deliver different nutritional needs of the emerging consumers in different parts of the world. It is about 70% in terms of price of the standard milk.

In 2006 we started this initiative in ten countries, in 2008 we're in 40 countries and by the end of this year we will be pretty close to 67. For the first half so far this business has delivered a RIG of 9%.

Slide 23 - Milk Products & Ice Cream – Ice Cream

Now in Ice Cream I think virtually unchanged from the first quarter, we had more or less a balanced performance in Europe, but here in Europe we are withdrawing from some under performing markets, Benelux, Hungary and Czech for example. That is having an impact on the organic growth of this category.

In North America it is sort of much like Europe. Here I think the category has more or less stabilised and we have improved our market share position in the super premium and in the snacks category. We remain the leader in this category in the US which as you know is the largest ice cream market in the world. But our second and third competitors are virtually on top of each other and one of those is private label.

We have a PPP strategy in place for the business and that is - the product shot you see there which is the Dairy product launched in China, it is sort of a sorbet product, with good results. And depending on the success there we are likely to extend the launch of these products, the introduction into different markets in the zone.

The EBIT margin for the product group, including Dairy is down 20 basis points. I think here is an example where we are taking prices, especially on the Dairy side, ahead of the reduction in cost of milk, because we have a timing difference in our contracts and in addition to that we continue to invest in these new programmes. So I think we will see an improvement in the margin performance of this business and also in the top line as we go through the second half.

Slide 24 - Prepared Dishes & Cooking Aids

On Prepared Dishes and Cooking Aids 1% organic growth, zero RIG. I think if you look at the retail versus the out of home you'll see that our retail business is doing fairly well whereas the out of home is reflecting the downturn in that segment.

In the emerging markets the business is doing very well, in the developed markets there is a fair amount of stability. But as I said in retail, even here in Europe we are doing fairly well, we are making progress, however there is an offset because of the out of home consumption.

The EBIT margin has increased 90 basis points due to mix, regional mix in particular, some benefits in the raw materials but we are getting the benefit of growth at retail. And we have also disposed of some loss making business which was the Buitoni dry pasta business and the mayonnaise. The Buitoni dried pasta business in Italy and mayonnaise in South Africa.

Slide 25 - Prepared Dishes & Cooking Aids

Here again we continue with innovation whether it's the US or with PPP in Asia. Maggi is doing well in the emerging markets as I said. The environment in Germany and France, the category is down for frozen prepared meals and especially in two markets not only France and Germany but Italy and Spain which are larger markets for these, for Buitoni in particular.

Herta in terms of RIG is doing well, however we had to adjust the pricing both in France and in Germany. Stouffers in the US performed particularly well and here is an example where the family size is doing better than the single serve. Hot Pockets continue to do well, you have known over the last 18 months this business sort of fits the need for this environment, smaller servings, lower price but excellent value.

The Lean Cuisine segment is sort of soft but we are outperforming this segment and we are gaining share with a positive organic growth.

Slide 26 - Confectionery

On Confectionery organic growth of 4.3%, I think if you look at our growth it is a very competitive performance, our RIG negative 1.1% is isolated to a few markets and action plans are in place to improve those. KitKat continues to do well benefiting from the innovations last year.

In the US our Confectionery business is doing well, especially on the margin side, given the restructuring that took place last year and bringing really the focus to a handful of brands in the US rather than the multitude that we have had in the past.

In Brazil we had an improvement relative to the first quarter because they had some benefits of the Easter rollover. However, one of the challenges we have - as I said one or two markets where we are having some difficulties, in Japan for example and in Russia we're experiencing a very tough environment there.

The EBIT margin however improved because of the reorganisations we have done in the US and Australia and our continuing drive in terms of efficiencies in this product category.

Slide 27 - PetCare

On PetCare this category remains resilient with organic growth of 9.1% and RIG of 2.7% and this is a global performance in all three zones. In North America the key drivers are premium, cat and dog food brands and the premium brands such as Beneful and Cat Chow. In Europe the main drivers are dry and single serve and premium products.

The EBIT margin increased 120 basis points and reflects not only the benefit of growth but also in this category and in this business we also have cost improvement programmes.

Slide 28 - Outlook

Now coming to the outlook, I think we are entering into a more stable economic environment. We are seeing that in some parts of the world the government impact, their incentive programmes or their stimulus packages are starting to have an effect. If you look at global trade and credit markets around the world they are improving and I think for us our comparatives as we get to the second half will be slightly better than we had in the first half.

We believe that our focus on accelerating our efficiencies and investing those gains to improve or to accelerate the rollout of innovations, for example NaturNes, Dolce Gusto, PPP, and to drive our core brands around the world will help us deliver better volumes in the second half.

The other benefit we have is that with a more stable commodity cost environment I think we don't have the protracted discussions with our trade customers on pricing and that will help us to focus more on driving our brand performance in the various channels.

However, we need to see an improvement in asset values, especially the real estate, the personal real estate values and an improvement in the employment situation before we really see a sustainable improvement in the confidence of the consumer. We believe that there will be an opportunity, and a continued opportunity to increase our investment in our brands for growth which we must do, because in a market of low or no growth we believe innovation and creative communication will make the difference. And that will be our focus. But growth is also going to cost more than we've had to spend in the past.

Slide 29 - The Roadmap to Value Creation

Now, as I said our performance is consistent with our strategies, because we believe the roadmap to value creation that we set out and you have seen this chart before is still applicable even in this environment although we have perhaps to change the emphasis from one circle to the next. I just wanted to remind you of this. And it is clear to us that this remains as relevant today as ever, our progress is consistent with this roadmap and we're pushing all the buttons to do so.

As I said before we have created a sense of unity and focus on these initiatives on a global basis and I believe that both in the short term and the longer term we will continue to drive acceleration in our performance with a focus on a smaller number of initiatives that are truly differentiating that will enable us to make prominent and lasting change for the good, so in the end we can continue to contribute to the long term delivery of the Nestlé model.

Slide 30 - Summary

So as you have seen a very solid improving and robust performance in the first half, organic growth combined with EBIT margin improvement, with accelerated brand investment. Our earnings per share are on a constant currency basis, our underlying earnings per share up 8.5% and we have had a good cash flow result in the first half based on improving the discipline in how we deploy capital in the organisation.

We believe as we go forward into the year - we firmly believe that we will improve from where we are today, 3.5% and that we will deliver - we will continue the trend of the improvement in our EBIT margin in constant currency.

Q & A Session

Questions on:	Categories with share losses Use of proceeds from Alcon

Julian Hardwick, RBS:

Could I have two separate questions? One, you highlighted in the presentation on Europe and the Americas share gains in roughly 60% or so of your categories. If you look at the areas where you didn't gain share, is there a common theme at all across those categories and in particular does your relative price position account for much of the share losses that you've seen and is that something which you're now moving to address?

And secondly just coming back to Alcon, clearly assuming that the second tranche of the disposal goes ahead, you do have a balance sheet issue to contemplate. Can we assume that the board is not going to take the view that they would want to return to a capital structure which you had going back sort of three years ago when you had the triple credit rating, and therefore it is going to want to redeploy the proceeds from the Alcon in some shape or form? And is that a decision that you would expect the board to want to exercise rapidly?

James Singh:

Okay now coming back to the first question on share gains. I think in some markets you look at the markets and we're gaining share in all or most of the categories. So you may be gaining share, take for example in Waters. We're gaining share in the US, primarily driven by Poland Springs and Nestlé Pure Life. In Western Europe in France, our position is improving especially with Perrier. But Perrier may be gaining market share in France but not gaining market share in another market.

So it's a mixed performance other than PetCare where we are gaining share basically in most markets of the world. So that's why we're looking at cells and we add the cells up. So you could have Maggi in India and Maggi in Germany as two cells. When you look at brands like Maggi, we're gaining share in the traditional grocery channel in some markets and in others we're not.

So it's a mixed bag of performance. I think that this is not new, the challenge for us is that how do we make what works in one market work faster in another market. And you know that's always been the challenge. And at this stage we're looking for learnings and hopefully we will improve even our competitive positions as we go forward.

On Alcon, we all know before this crisis everybody is saying leverage in the balance sheet, you have to have leverage, you have to get rid of cash and today we know cash is king. At the end of the first half our net debt position was 17 billion. We still have after this year close to 8 billion of the share buyback to be done in 2010. So we're not wanting for opportunities to deploy the cash that we are going to get from Alcon.

The board will have to make a decision as to what leverage they want in the balance sheet, but my recommendation today is to increase the liquidity until times really get better and then we decide to do what we have to do.

Roddy Child-Villiers:

I think just on the market share point it's also worth remembering that if you take a global brand like Maggi or one of the milk brands in very few markets is it actually the same competitor. You know in the emerging markets it's a different local competitor in almost every market so it's very difficult to draw a one rule for every market conclusion.

And that is always something that's worth remembering when you look at us against our listed peers. Very often they're not our competitors in those different markets around the world. Some exceptions obviously like in the Water business or - actually even the Water business it's not going to be the listed competitor in the US. So even there it varies.

Questions on:	**Acquisition interests** **Shift in mix between developed and emerging markets through acquisitions**

Chris Wickham, MainFirst:

Just moving onto the comments about M&A, I was wondering perhaps if you could put a bit more sort of flesh on areas of bolt on acquisition where you might be interested. And how material could we expect to see the contribution of M&A or bolt on acquisitions being to a significant shift in the mix between the developed markets and the emerging markets where at the moment - in the past 20 years your M&A has led to you actually having a smaller portion of emerging markets business than you did at the start of that programme. I was wondering if we could expect a significant reversal in that because of your bolt ons.

James Singh:

I would say that our priority is Nutrition. We would like to build a business that has a wider Nutrition value chain and I really don't know what that can be. But businesses that offer us technology or brands in the Nutrition area, or business systems in the Nutrition area, is a high priority for us.

Now when you look at the other businesses on a regional basis, we said this morning we acquired businesses with about 150 million in sales during the first half. Most of the acquisitions that we are doing today are in the emerging markets in the Water category. Now you've seen we have done a couple of deals in Brazil and one or two deals in Asia. So we believe that the emerging markets present a real opportunity for growth in Water.

Now we're also looking at opportunities in certain geographic regions, especially emerging markets where we believe that we need to accelerate our business performance in those markets and expand our portfolio. And you know we're looking at these opportunities around the world. But I could tell you that there are not a lot of businesses that are out there that would be prepared to sell 100% control in some of these emerging markets.

And therefore in Chile for example you would have read that we increased our participation in a venture with CCU which is the largest beverage company or one of the larger beverage companies in Italy. There we had to take a minority position. We took 20% at the first shot and then another 29% thereafter. So this is not likely going to be a situation where we go out and buy 100%. It will be making investments and try to really bring true value to the partners and then hopefully there is a path to control over time.

And this is what I'm saying, that these deals are not likely to be mega bucks deals; they're going to be smaller transactions. The businesses in Brazil were less than $100 million. That is what we are looking at, small investments or participations or acquisitions that help us to foster our agenda for development.

Question on:	**Second half margin performance**

Jeremy Fialko, Redburn Partners:

Could you talk a little bit about your second half margin performance? Obviously back in June you spoke about there being quite a decent acceleration in your second half margins. So I just wanted to check that is still the case and is that applying more specifically to the Food and Beverage business or on a group basis? .

James Singh:

Well let's talk about Food and Beverage. In the first six months our Food and Beverage margin improved ten basis points, reported 20 basis points in constant currency. I believe that our guidance for the whole year of an improvement in margin in constant currency still holds. Because I know that we are likely going to get a better volume performance in the next six months and perhaps a more stable commodity environment, but I also know that we will have to invest more than we did in the first half to get growth.

And it's important for us to do that because we have a fair amount of products in the pipeline that we would like to introduce to the markets and there are products in the markets that are very successful. You saw NESCAFÉ Green as an example, some KitKat products that we would like to roll out in other markets. So I believe that we will actually increase our investment in driving growth in the second half. Having said that I think we still stay with our guidance of an improvement in EBIT margins in constant currency.

Questions on:	**Price deflation** **RIG performance details**

Warren Ackerman, Evolution:

Some of your competitors have been talking about price deflation by the time we get to Q4 and into 2010. You've said that pricing will decelerate from the Q2 levels, but can you envisage a situation where we actually see price deflation?

James Singh:

In the milk, in the Dairy area which is really large businesses in the emerging markets especially in AOA and Latin America, what you're seeing is a reduction in price to reflect two things; one the competitiveness in the marketplace and secondly the reduction in Dairy costs that are now flowing through the system.

In our case and particularly in Latin America we have started to take pricing some time before we start to get the milk - the response in the market place is not how your costs flow through to your P&L, it's what the consumers are seeing. And we had a lag effect on milk and that's why we're a little ahead in terms of the reduction and the - I do not call that deflation.

I believe that we're going to have a stable commodity environment for the next six to eight months. But beyond those I find it difficult to project that we are going to have further declining commodities. You have seen what happened to sugar. Sugar today is at the 30 year highs and everybody is thinking that sugar costs should be going down. The volatility in Coffee, just a discussion about possible options programme for the South American producers sent the Coffee market up $3 a pound. And there is still a fair amount of speculation in the commodity markets. In some areas some of these funds are up there representing about 40% of the transactions that are being done.

So I would think in the longer term I cannot see the entire commodity basket going down. I think they are more inclined to go up over the long term, but I would say that we are entering into some degree of stability over the next six to eight months. At least for Nestlé, that's the way we see it.

Warren Ackerman, Evolution:

When we look at your RIG performance in the first half, obviously we're not comparing like for like in terms of volumes versus other companies because you include the mix within the RIG, I was just wondering whether you could split out what the mix is doing and how you see that going forward.

James Singh:

The way we report the numbers is price, and volume mix as real internal growth. We don't really look at volume. You look at Nestlé to calculate volume, and water versus dairy; I don't think that's the real essence of our performance. Because even in a category you have liquid, you have syrup, you have dehydrated. If you look at our Food and Beverage business, in our first quarter we were negative 0.1%. In the second quarter we were 0.4% positive. In our RIG for the company we were 0.3% in the first quarter, we were 0.7% in the second quarter.

Questions on:	**Timing and impact of Dairy price reduction** **Drivers of expected performance improvement in H2**

Alan Erskine, UBS:

Firstly just following on from the last question, in specific to the Ambient Dairy side on the way up, if I recall, the price increases were close to double digits so can we look for the mirror image of that and exactly when will they fall through, which quarters will we see those fall through?

And then secondly more conceptually, if your market share was broadly steady in the first half and your RIG was broadly flat, can we imply from that that the markets in which you operate were basically flat in H1? And if you're then expecting a better volume performance in H2 how much of that is driven by an expectation that the markets will improve, and how much is driven by an expectation that you will be a net share gainer in the second half because of the innovations etc.?

James Singh:

Well let's look at Dairy. First of all the prices are not entirely based on the commodity. The price reflects your total costs. And I would say that the pricing element linked to the commodity will, assuming that Dairy prices remain low and I don't think they will - there will be a marginal increase, I would think that a large part of what we took relative to the commodity itself would be returned to the consumer. As a matter of fact if you look back since the fourth quarter or the middle of the third quarter of last year our Dairy pricing has started to decline. And it continues to decline as we speak. So I would say most of that increased link to the milk cost would be returned by the end of this year.

Now on market shares and market, I think we are - there are some categories that are growing and there are others that are not, and there are others that are in decline. Take Waters for example, the market has stabilised more or less in the US but it continues to decline in some markets here in Western Europe. Our focus in those situations, especially with respect to Water, is to improve your share position.

Now I think Water will stabilise, we are seeing signs of that. As I said the emerging markets, the market is in growth and we are getting our fair share of that. But overall you have seen a step down in demand globally. If you look at our charts that are on our billionaire brands you could actually see, if you look at the chart this time last year and where we are today, in as much as we are growing there is a step down in demand. So the consumer demand globally is down from where they were 18 months ago.

Now we are starting to see some category growth in some areas and it is a mixed performance. We are seeing the step down is not as steep in emerging markets. Our business in the US, our Food and Beverage business, is growing close to double digit. So it's not a uniform global situation, it's very mixed from market to market. Our emerging markets were still growing 7 plus %. They represent about 35% of our business. But even the developed markets there are mixed performances for our business and it doesn't necessarily match what is happening in the general economic environment in each of those markets.

Alan Erskine, UBS:

Can I just quickly follow up, just on the Dairy side, where you have taken prices down, and in your experience over the past, do you get a pretty immediate volume response?

James Singh:

You do get a response, but it's not necessarily immediate. If you look at the performance of NIDO where we started this year was double digit organic growth negative. And over the last two months it's plus 20%. So it does take time to come back.

Roddy Child-Villiers:

Can I just add on your first Dairy question. The Dairy price, the milk price, has not gone back down to the levels from which it went up. So there's different end point than the start point, if you see what I mean.

And also I think just comparing RIG to market share, particularly if you look at it from the broad group perspective, the market share is what it is; but in a different RIG performance it is obviously weighted by sales when you get to the group average. So I would be very cautious about making too direct a link from one to the other.

Questions on:	**Initiatives to improve growth in slower moving Brands** **Financing costs**

Simon Marshall-Lockyer, Jefferies:

I just wondered whether you could give us some maybe tangible examples of the initiatives you're taking to reignite growth on brands such as Buitoni, which was roughed up in the first half; but also on brands such as Carnation and more broadly the Ice Cream business which seems to have been very tough for you. Some of your competitors reported more favourable growth rates in the second quarter. Can you give us a little bit more tangible indications of what you're actually doing there, maybe in terms of pricing initiatives, and balance that with innovations and new products coming through?

James Singh:

Let's start with Buitoni. First of all the category is in decline, especially in the Buitoni key markets - Italy and Spain. And in Italy we launched a multiple pack pizza - four pizza in a box, at a price point that is slightly less than multiplying four singles. And you would think that in this market and in that environment that a multi-pack Buitoni for three and a half times would never work, but it does.

I was with one of the key customers talking to the purchasing director, and he said that innovation has helped the entire Frozen Food category. And it's things like that we're doing - whether it's frozen pasta in Italy or whether it's chilled Buitoni business in the US. And we have plans to expand the offering for Buitoni - chilled Buitoni in the US - and also some frozen. I really can't get into them, but there's some specific action plans on Buitoni.

Now with Carnation it's the same thing. It's in each of the products. We have execution that is linked to driving the brands - Carnation, Coffee-mate. With the Anderson factory now being commissioned give us the ability to streamline the operation and therefore drive performance in that business. When you start up a new factory, and you're moving from dairies to your own manufacturing, there is a lag effect that sometimes keeps you back. And I would say that in the next couple of weeks the factory will be up and running - as a matter of fact it is - and we can see some improvement in those two areas.

On Ice Cream, there's been a fair amount of innovation in Ice Cream this year. Given where we are - we still have a couple more months - but– look at what we have done with Häagen-Dazs - five flavours, zero fat. It's basically the concept of the innovation that is driving performance of Dreyer's in the US. But it's not apparent in the Dreyer's brand, but it's Häagen-Dazs.

Look what we have done here in Europe with cones, with Extrême; that has done fairly well. And several new Mövenpick products. So in each of our categories there are innovations that are driving performance; even in Dairy you see the execution with respect to the adult milks. We've just bought a factory now in Brazil, ex-Parmalat factory, so that we can expand our production capability to faster expand that business in Brazil.

So in each of our categories there is a focus in terms of making progress in this environment.

Simon Marshall-Lockyer, Jefferies:

Can I just have a follow up question, and that's coming back to the conference call yesterday and the net financing costs which was down significantly compared to expectations in the first half. I still can't quite get my head around how you're maintaining your one billion guidance for the year, given how significantly lower that first half number is in terms of net financing expense - because it would imply effectively that the second half would be double the net financing expense than the first. Can you just walk us through that again, please?

James Singh:

One of the reasons why we have lower net financing costs is not only the rates but the levels that we're borrowing were low. We didn't pay the dividend until some time in May - about 5 billion CHF that didn't need to be financed in the first four and a half, five months of the year. That will now have to be financed for the rest of the year. Our share buyback programme up to the end of June/July were about one and a half billion and for the balance of the year we're going to go to four billion. So I would say there is about seven or eight billion more on borrowing that will take place in the second half that you didn’t have in the first.

So that why we're guiding to a slightly higher number relative to the first half. But you just can't compare the two periods.

Roddy Child-Villiers:

I think our guidance will be approaching a billion rather than a billion - our original guidance was similar to last year which was 1.1 billion, so we are saying it's going to be a bit lower than last year.

Question on:	**Increasing market share and volumes without price increases**

Joceline Gaudino, Société Générale:

It seems that in this tough environment the consumer price sensitivity increased sharply. You mention the step down in demand. Your main focus is to protect margin, so is it that your equation is to stabilise or increase your market share and at the same time to boost volume? It seems to me that this equation has no solution without a strategic decision to cut prices. You mention the fact that with NIDO in most markets when you cut price, you had a lag but very positive market reaction volumes. So how are you going to manage this situation without the decision - in some big markets, to cut price sharply?

James Singh:

Well, as we said yesterday we are not an 'or company', so we're not focused this next half year or this year to make the bottom line alone. But we're also not focused on just growing the top line alone. It's a total performance framework.

On pricing, surely if you reduce your price, usually there is the elasticity benefits of increasing volume. But we are not only about price. The consumer is not necessarily only about price. They still are prepared to pay money for good value. There's a reason why Nespresso is growing at 25% plus; there is reason why consumers are adopting Dolce Gusto; and there are reasons why our pet food businesses are doing so well, and it's not only about price. It's about bringing renewal, bringing value - creating value that includes more than price to the consumer.

If we were selling block cheese or meat parts or milk powders alone, then that perhaps would have been our model; but we're about innovation, value-added. Most of our products are beyond mainstream, and we are doing okay. So there is no need for us to start on a programme of reducing prices across the board - no, that's not our business model. Because that's not our product category.

Our challenge - what we have to do, is to engage the consumer in a way that convinces them that their loyalty to the Nestlé brands are deserving, because the brands do deliver what they expect the brands to deliver, and at a reasonable price.

So I think that is something, when you compare us with other competitors, it's an important difference, the way the Nestlé portfolio is and the way we are developing the business and developing the relationship with the consumer.

Questions on:	**Wal-Mart business in US** **Increase in Trade promotions** **Infant Nutrition in China** **Dolce Gusto category and market share potential**

Pablo Zuanic, JP Morgan:

Can you comment on the Wal-Mart business in the US? There was a slide there where you said you're gaining share in the US, but apparently Great Value, their private label brand, is growing in Water. Just comment in general - how is Nestlé faring or adapting to Project Impact?

Can you give us by how much trade promotions increased in terms of basis points the first half '09 versus the first half '08?

Just general comments on your Infant Nutrition business in China. What's happening in market share? How big are you there? Have you gained share? What's happening with the local brands?

James Singh:

Now let me deal with the Wal-Mart question. I'm not prepared to discuss in any detail our operating strategies or trading policies with Wal-Mart on an open basis.

We have a very dedicated and focused team on this account; it is one of the largest customers of Nestlé. There is a value-added relationship with Wal-Mart. There are initiatives and programmes that we have started many, many years ago that add value to both customers, and our business with Wal-Mart is doing fine.

We have no problem with our major trading partners having their own private label, because we can compete with private label. You've seen what we have done with Nestlé Waters in the US. Wal-Mart is a major partner in the development of Nestlé Pure Life in the US. And they will be a major partner in developing Nestlé Pure Life in Europe.

So there is a partnership and a value-added relationship with Wal-Mart that we are satisfied with, and I would say that they are too. There is always room for improvement, and as I said we have a dedicated and focused team managing the Wal-Mart relationship to make sure that we both exploit opportunities that exist. So that's all I want to say about Wal-Mart.

On trade promotions, we do not give out that information, but I can tell you in some categories we have had to increase our spending, and we will do what is necessary to be competitive, including not only spending money with our trade partners, but more importantly for us, increase our spending in improving our relationship with our consumers, which is long-lasting and, as I said, very permanent.

In terms of our business in China, last year not only our Nutrition business but all the Dairy-based businesses in China were impacted by virtue of the Melamine crisis - so much so that the markets for these products were significantly reduced, as both mothers and consumers in general moved to other alternatives, to fresh milk.

This year, as we move into the second quarter or the second half, we're going to have better comparisons. But more specifically our Nutrition business in China is improving. It is one market in particular where our growth remains very, very significant. So - yes, there has been a setback of our performance in China - relative not to Nestlé products but to the industry. And therefore we have had to share some of that burden. But our products were not implicated in any way, not only in China or anywhere in the region. But our business is improving, including delivering very impressive organic growth.

Pablo Zuanic, JP Morgan:

Just one quick follow up, if I may. We're hearing a lot about Dolce Gusto these days. Nespresso used to have its own niche, but with Dolce Gusto it seems to me that you've launched it to cater to a segment that maybe Sara Lee's Senseo and Kraft Tassimo is catering to. So you're facing larger competition that's already established there. But having said that, how big is Dolce Gusto in the category globally, and is there a big market share opportunity?

James Singh:

Well I think the whole single serve Coffee business is an important opportunity in that segment. Dolce Gusto is doing fine. You know the competitors who have been around before Dolce Gusto - we have no indications that they're not going to be there next year this time. But Dolce Gusto is growing in excess of 60%, albeit in a small volume basis, but it is doing well. And we are very encouraged by the performance of Dolce Gusto, especially in Europe where we started.

Now we've introduced it in Canada, in Japan and one or two other markets. So it is a - it is a sort of a premium price single serve coffee, and I can tell you Dolce Gusto delivers one of the better coffees that you can have relative to what's available generally. And, I'm Nestlé, so I'm supposed to say that, but I really, truly believe that, and I encourage you to try it yourself.

Roddy Child-Villiers:

Just a bit more granularity. One number we can give you on Wal-Mart is that our group organic growth was 3.5%. Our growth with Wal-Mart in the first half was almost three times that level. So I think our performance with Wal-Mart is pretty strong.

On China, on a first half, first half run rate, our sales in '09 are ahead of our sales in '08.

And on the portioned coffee business, the market leader is Senseo, then Nespresso, then

Dolce Gusto, then Tassimo - in Western Europe. And the two fastest growing and biggest share gainers are Nespresso and Dolce Gusto. So I think you're absolutely right - we've launched Dolce Gusto into a market where there's competition, but we are performing pretty well against that competition, bearing in mind how recently our product was launched.

End of Q&A Session

Roddy Child-Villiers:

I'd like to say one thing before I pass it over to Jim to wrap up.

I think, you know, we have always at Nestlé striven to achieve a good balance between the shorter-term performance and the longer-term performance, and it may be that the market perceives we've gone too much in the direction of long-term performance in the first half of this year.

But that remains our focus to find the right balance between short term and long term. Now unfortunately you have to take the long term a bit on trust, but what I can say to you is that over the last 12 years, as Jim said, the RIG has averaged about 3.6%, and in five of those 12 years the RIG has been over 4%, and it's off that level of growth that we're performing at the moment. Equally over that 12 year period our sales are up about 57%, our EBIT margin about 118% and our dividend about 300%.

And you don't do that by focusing either on organic growth or on EBIT margin. You do that by focusing and driving both at the same time. That has been our intention forever and will continue to be our intention in the current environment. And I think it's important that everybody remembers that that is our intention - to achieve both short term and long term profitable growth.

James Singh:

Well, thank you again for coming, and we value these discussions because it's very important for us to hear your perspective on what's happening, especially in the global business environment. I do read your reports; you can rest assured that I do.

I just want to sort of summarise this morning's discussion. What we tried to do this morning is to give you some perspective, more in terms of how we're operating in this environment. It is tough. We believe that there's some important improvements that need to take place before we return to the pre-2008 business environment. But it is in that environment that Nestlé is making progress. And we are making progress in terms of a total performance framework, because we believe that for our company that we cannot be an ‘or’ company. We have to be profitable growth and all the other things that good companies should do, so that we'll be around for another 140 years. You know, this year Nestlé will be 142 years old. And we will want to be around for another 142 years - perhaps longer.

So we have a long-term view, but we are very consequent in terms of focusing on what makes the difference now - today, tomorrow, the next hour. And we have initiatives in place that are helping us to manage through this difficult period. Because in the end the 'and approach', the total performance framework approach, will make us a better company - a leaner company, a very focused company and a fitter company, to capture the benefits even in this environment, but even much more so when things get better.

So I hope that we have been able to share with you that perspective. I want you to know that we are committed to profitable growth. Profitable growth does not only mean profit; it means profitable growth; it means growing strategically that helps us build a company that is sustainable to travel through the storm and to be better at the end.

RIG is important for us, and our focus - we know that our focus in the second half, that our performance will have to be weighted towards RIG performance relative to pricing, which was a bit of a difference versus last year.

However, both RIG and organic growth, whatever we are achieving this year, is on top of solid performance over the last three years. In 2006 - 6%, 6.1%. 2007 - 7.4%. 2008 - 8.3%. And this year so far - 3.5%. So we are operating on solid foundations and we are making progress in a total performance framework.

I think you have seen the benefits of acceleration in the company, trying to do things faster and quicker. And yes, we will slip here and slip there a little, but we have the ability to make progress. And we dared to take the chance, because that's what we have to do. There are several innovations that are in the marketplace today, and we are not going to slow down. We will continue to invest in our brands and our ability to faster innovation in the company in a way that makes sense for the consumers.

Someone described losers are those who see problems and opportunities; and the winners who see opportunities and problems. We are cautiously optimistic, and therefore we are focused on delivering an improvement from where we are today in the second half of the year.

So thanks again for being here. Thanks for your comments, and I'm sure we'll see each other from time to time.

END