NESTLÉ S.A.

2010 FULL YEAR RESULTS CONFERENCE CALL TRANSCRIPT

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James Singh, Nestlé SA, Chief Financial Officer

Slide 1 – Logo slide

Good morning. Welcome to our 2010 Full Year Results conference call. It is my intention this morning to focus the conversation on our achievements in 2010, as well as to touch on our outlook for 2011.

I will discuss the restated "net, net" 2010 figures in my roadshow presentation on Tuesday.

Slide 2 - Disclaimer

I will take the safe harbour statement as read and move straight to the highlights of our operating performance.

Slide 3 – Strong Full Year 2010 Performance
Improvements in organic growth, EBIT, EPS

In 2010 the group produced a very strong performance on all key metrics. It was another year of industry outperformance. Our results reflect our commitment to driving improvement in all areas of our business, to delivering a total performance. We demonstrated a high level of discipline in 2010, being aligned across the world behind the Nestlé Roadmap of strategic priorities. We also showed our ability to be fast and agile, entrepreneurial and dynamic, in responding with great flexibility to the many challenges we faced in different parts of the world, be they related to the competitive landscape, economic challenges, natural disasters, or political unrest.

We also demonstrated our commitment to the long term, and to creating value for our shareholders.

- Marketing spend was up, our capital expenditure remained at around 4.5% of sales, and will be up in 2011
- We made a number of acquisitions that addressed white spots in various markets, both emerging and developed.
- We exited Alcon, which allowed us to record a net profit of CHF 34.2 billion.
- We bought back for cancellation CHF10 billion of our own shares. This was part of a multi-year commitment to share buybacks, which in total have already exceeded the 2010 proceeds from the Alcon disposal.
- We launched Nestlé Health Science and the Nestlé Institute of Health Science, as a start-point for pioneering a new business between food and pharma.
- We announced that we are using our financial resources and technical expertise to link to the development of communities that are contributing to our development. We are making a multi-year investment commitment of CHF 600 million to encourage sustainable farming and improve the security of supply of key raw materials, coffee and cocoa, as well as to encourage responsible consumption across the supply chain.
- And we continued to make progress in an uncertain economic environment by putting the "consumer first" in our thinking and execution – offering them a range of value added products from luxury / super premium to Popularly Positioned Products.

So, it was a busy year for the Group, and a successful one. Let's now get into the detail, starting with the key financials.

- We had organic growth of 6.2% for the Group, together with a 20 basis point improvement in the EBIT margin. The Group EBIT is not comparable to 2009 due to our disposal of Alcon in August 2010.

- The Group delivered a net profit of CHF 34.2 billion. This includes the profit on sale of Alcon.

- Our underlying earnings per share, at CHF 3.3.2, were up 7.4% and 10.3% in constant currency. This reflects our improved operating performance.

- Our operating cash flow was CHF13.6 billion, down from the 2009 level. This change reflects a normalisation of our working capital after the significant reduction in 2009.

- Our return on invested capital was up 100 basis points excluding goodwill, but down 10 bps including goodwill.

- We are proposing a 15.6% increase in the dividend to CHF 1.85 per share.

- Turning to our continuing operations, they achieved organic growth of 6%, and an EBIT margin improvement of 30 basis points.

- Our trade net working capital improved as percentage of sales.

- We increased our level of market leadership, with share gains in measured channels in many markets around the world. At the same time we deepened our distribution, driving our growth in unmeasured channels in various parts of the world. We also stepped up our level of competitiveness once again, with savings of over CHF1.5 billion, as well as improvements in manufacturing productivity and customer service levels, with lower energy consumption, fewer down-time incidents, and reduced bad goods.

Slide 4 – Sales Development – Group and Continuing

On the next slide are the constituents of our sales growth.

The Real Internal Growth was strong for both the Group, at 4.6% and for the Continuing operations, at 4.4%.

The acquisition/divestiture line for the Group has gone from being positive 0.7% at the 9 months to being negative 0.6% for the full year, reflecting the August sale of our holding in Alcon. The continuing operations acquisition/divestiture line, on the other hand, remains positive 1.8%. Kraft Pizza was the main contributor here, with Vitality in Nestlé Professional also contributing.

The big change in the final quarter has been the impact of currencies. This is -3.6% for the Group, -3.8% for Continuing operations, an increased impact of about 100 basis points for the year over the level at the 9 nine months.

In total, our group sales increased by 2% to CHF 110 billion and our continuing operations sales by 4% to CHF 105 billion.

Slide 5 – Strong RIG momentum maintained

The Real Internal Growth for the Continuing operations was pretty consistent throughout the year, and in fact increased slightly in the final quarter despite the tough comparison of 4.2% from the final quarter of 2009, demonstrating the strong momentum we have in our top line growth as we enter 2011.

Slide 6 – Total Food & Beverages: growth everywhere

I'll focus now on the Food and Beverage business and start with our usual overview of our growth by region – this includes all our F&B and Nutrition businesses and so provides the best like-for-like regional comparison with our peers.

First some words of introduction.

Our top line was strong, as you have just seen. These numbers have been delivered in an environment, characterised by weak consumer demand in developed markets, and stronger sentiments in emerging markets. Yet, we have been able to add about CHF 6 billion to our sales through organic growth.

All product group and geographic reporting areas grew in 2010. Our message to you has been consistent through the last couple of years: that we believed that there were opportunities to grow our business provided that we had properly segmented the needs of our different consumer groups and were driving appropriate innovation to them. These numbers demonstrate that we have been able to do this. They should also give you comfort over our ability to continue to drive the top-line organically in 2011.

Our good growth performance globally reflects a pattern of consistent market share gains by category and by region.

- In Europe we achieved 3% RIG and 3.7% organic growth. This is a clear outperformance versus our industry.
- In the Americas we delivered 3.5% RIG and 5.7% organic growth.
- In Asia, Oceania and Africa, we achieved 8.3% RIG and 10.2% organic growth.

To summarise this slide, our growth is broad-based, and our performance confirms that all markets, developed and emerging, offer opportunities for growth.

Slide 7 – Organic growth: broad-based performance

As you can see on the slide, we achieved 11.5% organic growth in emerging markets and 3.3% in developed markets. This supports another key aspect of our communication with you: that we see opportunities for growth all over world, and that we believe that emerging consumer groups exist globally, not just in emerging markets.

Within the emerging markets, we saw 13.1% organic growth in the BRIC countries.

Slide 8 – Emerging markets Cap-ex:
Major commitments in 2011

Staying with the emerging market theme, I have included next a slide on our capital expenditure in emerging markets. I have just told you that we grew 11.5% in emerging markets, and even faster within the BRICs. If you have been following the news-flow on our web site recently, you will have seen a series of investments announced in Africa, Asia and Latin America in support of our strategy to broaden our distribution and presence in emerging markets.

This slide shows you the level of commitment we are making, which has been running at over a billion francs annually for the last five years, and will step up to around CHF 2.5 billion in 2011. These investments are in areas such as Ambient culinary and dairy, Soluble coffee, Powdered beverages and PetCare, all of which have high levels of profitability and return on capital – in other words we are investing for growth in proven, high return businesses.

Our capital expenditure is running at a higher level as a percent of sales in emerging markets than in developed.

Let's now look at our segment reporting, starting with Zone Americas.

Slide 9 – Zone Americas : 5.9% organic growth

The Zone achieved 5.9% organic growth and RIG of 3% for 2010, with a slight acceleration in RIG in the final quarter. The EBIT margin fell 30 basis points to 16.5%.

In North America, the PetCare business performed well, bouncing back in the final quarter, as we promised on our 9 month conference call, after a third quarter that was impacted by tough 2009 comparisons. I'll go into PetCare in more detail when I get to the product group.

- Confectionery also had a good year in the US. Contributing factors were a strong performance from our seasonal business and *Toll House*, innovation in *Butterfinger* and the *Wonka* roll-out. There was a good performance too in Canada.
- The US emerging consumer business, including *Nescafé Clasico* and ice cream brands aimed at the Hispanic community, had a successful year.
- The frozen food segment continued to experience tough trading conditions. I'll cover this and Pizza in more detail when I get to the product group. There were good performances in Soluble Coffee and Powdered Beverages.

Latin America achieved double digit growth in 2010. Brazil achieved double digit growth for the second year in a row and we look to another good performance in 2011. We are celebrating the 90th anniversary of our presence there.

- Mexico and most of the other regions contributed well. This broad-based performance in Latin America was reflected in the growth of our categories: they all contributed strongly, and most grew double-digit, including the biggest, Ambient dairy, Chocolate and Soluble coffee.

The decline in the Zone's margin, despite operational savings, reflects the dilution from the up-front integration cost of the Pizza business with no benefit until 2012; also, increased brand support generally, including the Nescafé Dolce Gusto launch in the US, and lower sales of *Lean Cuisine*, the sizable prepared nutritional meals business where the market segment is in decline.

Slide 10 – Zone Europe : 2.5% organic growth

Zone Europe achieved 2.5% organic growth and RIG of 1.7% in 2010. The EBIT margin increased by 20 basis points to 12.6%.

- All the big Western European markets contributed positive RIG for 2010, a tremendous achievement by the Zone's management during a year that has seen consumer spending under pressure. We have improved our market shares in our big markets and big categories.
- Among categories, I would highlight the growth of PetCare, Chocolate, Soluble coffee, and Frozen pizza and Chilled food. Market shares were good in Ice cream and ambient culinary, as well in the faster growing categories I just mentioned.
- Eastern Europe has had a mixed year in general, impacted by the economic situation and weaker demand for our more impulse and indulgent categories.

- Both Western and Eastern Europe contributed to the final quarter acceleration in the Zone's RIG, which was achieved despite tough comparatives in 2009. The acceleration, therefore, speaks to good momentum in the Zone as we go into 2011.

- The Zone's EBIT margin improved by 20 basis points. This reflects our growth and significant savings in manufacturing, distribution and administrative costs, and was struck after increased investment in brands and promotional spend.

Slide 11 – Zone Europe : Key drivers of growth

Our ability to drive growth in Western Europe is a clear differentiator. How do we do it? Let's have a look at this performance in a bit more detail.

- <u>First</u>, successful innovation. You heard about some of these before – *Nescafé Dolce Gusto*, *Nescafé Green Blend*, *Maggi Juicy Chicken*, to name three of them. The reason you have heard about these before is that these are innovations that started in a few markets, and are now increasingly pan-European. And that is what successful innovation is about: it is not a one-quarter story, it is a multi-year build. Our pipeline for 2011 is strong too.

- *Nescafé Dolce Gusto* is the fastest growing coffee system in Europe. It sold 2 million machines in 2010, 400, 000 in the peak Christmas season. Those 2,000,000 new machines are the enlarged base for our 2011 capsule sales… and the European (and global) roll-out continues. *Nescafé Dolce Gusto's* sales were about CHF450 million in 2010, mainly in Europe, and its organic growth is over 50%.

- *Nescafé Green Blend* has also continued its successful roll-out in Europe. An interesting side-effect of the roll-out has been a beneficial impact on the *Nescafé* brand as a whole from *Green Blend*'s messaging around nutrition, health and wellness.

- *Maggi Juicy Chicken* is the leader in its market. Its roll-out continues, and we have new innovations coming in 2011. *Juicy Chicken* already has annual sales over CHF100 million.

- <u>Second</u> reason. Consistent and appropriate levels of brand support. Ours increased in 2010.

- <u>Third</u>. The ability to drive category growth and increase category value, and to create new consumption occasions. We have been cited by one major customer as one of the only two FMCG companies that can do this.

- <u>Fourth</u>. Market share gains, and the ability to grow faster with our trade partners, helping them improve their competitiveness. This is important: relationships are easier if you are a winning supplier, creating value for both parties. This is particularly relevant in times of increasing cost pressure.

- <u>Fifth</u>. A highly efficient operating structure. In 2010, we reduced our fixed distribution costs and our administrative costs, as well as improving our manufacturing efficiency. During 2010, we opened a pan-European shared service centre in L'viv in the Ukraine.

- <u>And sixth</u>. Customer service levels. We are hitting world class levels in many European countries: 99.6% in the UK for example.

- As I am sure you have realised, these six areas are all closely linked to each other. Increased efficiency drives customer service levels. Innovation, brand support and the ability to enhance the value of categories drive growth and out-performance in those categories.

The Zone Europe performance is a great example of what we mean by a total performance approach at Nestlé.

Slide 12 – Zone AOA: 8.7% organic growth

Zone AOA achieved 8.7% organic growth and RIG of 7%. The EBIT margin improved by 20 basis points to 16.9%.

2010 was a good year for the zone.

- It outpaced the GDP growth of its emerging markets, to grow double digit in them.
- It grew in all of its developed markets.
- It approached 20% growth in PPPs.
- It improved its market shares in key categories and countries.
- And it is managing a significant step-up in capital expenditure as it plans for future growth opportunities.
- One example of that growth potential is the Zone is targeting an additional one million retail outlets by end 2012.
- The 2010 growth reflects good momentum in all areas of the Zone. Within Asia, I would highlight Greater China, Indonesia, Indochina, and India. Africa also had a strong performance. By category, the performance was broad-based, but Ambient dairy, Ambient culinary and ready-to-drink beverages stand out, with good performances also by Powdered beverages, Chocolate and Ice cream.

Slide 13 – Nestlé Nutrition: 6.7% organic growth

Next is Nestlé Nutrition. Nestlé Nutrition achieved 6.7% organic growth and RIG of 5.5%. The EBIT margin improved by 70 basis points to 18.1%.

Let’s have a look at the divisions, starting with Infant nutrition, which had a good year, with about 9% organic growth.

- From a brand perspective, there was double digit growth from the three big brands, *Nestlé NAN, Cerelac* and *Gerber*.
- From a divisional perspective, there was double digit growth in the infant cereals and infant formula businesses.
- From a geographic perspective, there was double digit growth in Zone AOA, and in emerging markets such as Brazil and Russia. Also a good performance in the US and in Canada, where we have taken leadership in formulas. As you would expect, the emerging markets delivered the bulk of the growth in the division.
- Our market share performance has also generally been good, and it improved during the year in our key markets. We have seen a turnaround to share gains in France, and an improvement in the situation in Germany, though we don’t consider it “job done” in either market. We gained share in all categories in Spain, our other big European market.

Jenny Craig's growth was flat in 2010.

- This actually represents a good year relative to its listed competitive set and the weight management industry in North America. There were two drivers of this out-performance: first, *Jenny Craig* is being successful in keeping its clients for longer periods and, second, its smaller at-home telephone-based service is growing double-digit.

- The European launch is meeting our early expectations. The launch costs have impacted the division's EBIT margin.

Healthcare Nutrition built on the improving momentum seen already in 2009, with positive growth and an improved EBIT margin. The recent launches, such as *Resource Activ*, are performing well. The 70 basis points improvement in Nestlé Nutrition's EBIT margin reflects the benefits of portfolio mix, as well as efficiency gains, and was achieved despite increased brand support.

Slide 14 – Nestlé Waters: 4.4% organic growth

Nestlé Waters achieved 4.4% organic growth and RIG of 4.8%. The EBIT margin improved by 40 basis points to 7.4%. There was growth in all three Zones, with momentum building throughout the year, as growth returned to the industry in the developed world and continued to be very strong in emerging markets.

- In North America, the market was helped by hot weather in the summer but there was underlying growth driven by bottled water's improved value proposition, by promotional activity and by consumers switching from other beverages. In this positive environment, we improved our market shares. Among brands, the regional waters such as *Poland Spring*, *Ozarka, Deer Park* and *Ice Mountain* were highlights, as well as *Nestlé Pure Life*.

- In Europe, all markets improved their growth levels over 2009, and it was double-digit in the UK. France, where *Vittel* and *Contrex* performed well, saw mid-single digit growth. We gained share in Europe as a whole, and in our key markets there.

- The emerging markets achieved double-digit growth and now represent 15% of Water sales, up from 12% last year. Again, we gained share in most counties where we are present. The acquisition in China, announced early in 2010, is performing well.

- I have already mentioned a few of our brands. *Nestlé Pure Life*, the biggest water brand in the world, had another year of double digit growth globally. There were good performances also from premium brands, *Perrier* and *San Pellegrino*.

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

- 2011 looks like being a tough year for the beverage industry, with the oil price impacting distribution costs. Also, there is a shortage of capacity in PET, as well as increased demand for PET from non-beverage industries, which is driving prices up and resulting in a decoupling of PET from the oil price. The one positive in this is that our industry-leading light-weighting capabilities are even more of a bottle-by-bottle competitive advantage in a time of high PET costs.

Slide 15 – Other Food & Beverages: 9.8% organic growth

Finally among our segments is Other Food and Beverages. This includes

- Nestlé Professional, with about CHF 6.1 billion of sales in 2010,
- Nespresso, with about CHF 3.2 billion of sales,
- and the joint ventures, CPW and BPW, with about CHF 1.5 billion of sales between them.

In 2010 Other Food and Beverages achieved 9.8% organic growth and RIG of 8.5%. There was a slight acceleration in the final quarter in both RIG and pricing. The EBIT margin increased by 70 basis points to 16.4%.

Nestlé Professional delivered mid-single digit growth, and grew in all three zones. Its growth was double digit in Zone AOA, mid-single digit in the Americas and slight in Europe. The business is out-performing its industry, and so has set its own objective to be accretive to the Group's organic growth: it achieved this in emerging markets, with growth in the low teens, and in North America.

- The beverage business has performed well, with good growth in its proprietary *Nescafé* system solutions. The recent launches of premium and super-premium machines have been well received by customers. The Vitality acquisition in the US has got off to a good start, confirming itself as a highly complementary addition to our beverage business.
- The Food business performed well in the emerging markets. The customer innovation centre in America is proving to have been a very worthwhile investment, and we are looking to replicate the concept in Europe. Growth in food was led by *Maggi* and the *Nestlé* milk brand

Nespresso has another year of above 20% organic growth, and passed CHF 3 billion in annual sales for the first time. Growth was strong around the world, and continued to be double-digit in its first tier markets, France, Germany and Switzerland.

- During 2010, Nespresso opened 36 new boutiques, taking the total to 215, grew its share of the coffee system market to about 20%, and increased its club membership by 35%.
- It also started its expansion of the Avenches facility to be able to meet future demand for its capsules in a segment which now represents 8% of the total coffee market and continues to grow rapidly. To give some idea of that growth, the consumption of Nespresso capsules increased from 10,000 a minute in 2009 to 12,300 a minute in 2010.
- Importantly, Nespresso's commitment to sustainability continues: in a backdrop of significantly increased purchases of green coffee, the share of that coffee that was sourced from the *Nespresso AAA Sustainable Quality*™ Program grew from 50% in 2009 to 60% in 2010

Cereal Partners Worldwide and **Beverage Partners Worldwide** both achieved good growth in 2010. The core CPW global brands such as *Nestlé Fitness*, *Nesquik* and Cheerios, grew three times as fast as the market; the business achieved double digit growth in many emerging markets, as well as strong performances in more developed cereal markets such as Mexico, France and Australia.

- BPW achieved mid-single digit growth and share gains in many of its markets.

Slide 16 – Product Groups

I'll turn now to the product groups.

Slide 17 – Powdered & Liquid Beverages: 8.5% OG

Powdered & Liquid Beverages had another strong year for growth, with 8.5% organic growth and 6.8% RIG. Those numbers lap 9.5% and 5.6% respectively in 2009, so this is a great example of driving growth on top of growth. Also, I hope the acceleration in the final quarter of 2010 allays the concerns that some of you had at the apparent slowdown in the third quarter.

The 2010 growth was strong across all the segments:

Soluble coffee grew mid-single digit in 2010, very predominantly due to RIG. I would like just to highlight the consistency of our performance in soluble coffee: over the last five years the RIG of our retail business has been between 4.6% and 5.3% every year. The secret of success here has been a compulsive focus on doing the basics right, continual renovation, disruptive innovation and consistent brand support. In 2010 the growth was truly broad-based around the world, being positive in both developed and emerging markets, where the PPPs are growing double-digit. I'd highlight Latin America, the Middle East and Greater China amongst emerging markets, as well as France, Japan and the US amongst developed markets.

- Our market shares were up in our biggest five markets, as well as many others.

- Innovations included the launch of 3-in-1 in the UK, initially only into the discounter channel; the launch of a super-premium *Nescafé* in Japan with bean micro-grinds; the further geographic roll-out of *Nescafé Green Blend* and of *Nescafé Dolce Gusto*, as well as a new *Dolce Gusto* machine, the Piccolo. There are more innovations and roll-outs lined up for 2011.

- The Japanese business had a good year, with our two coffee systems, *Barista* and *Dolce Gusto,* selling about half a million coffee systems there.

- Globally, *Nescafé Dolce Gusto* exceeded our expectations in 2010. I'm also pleased to report that in January of this year we passed CHF1 billion of cumulative sales since its launch at the end of 2007. This is a great achievement by the *Dolce Gusto* team at the Centre and in the 39 markets where it is now present.

Powdered beverages grew near double digit, slightly weighted to price. Growth was almost double-digit in Zone AOA and was double-digit in the Americas and in Nestlé Professional. There was growth, too, in Europe.

- *Milo* continues to perform well in its key, primarily emerging markets, such as Central/West Africa and Asia.

- France continues to be a highlight for *Nesquik*, which is also performing well in the US and UK, as well as Russia, amongst others.

- *Nestea Litro*, a PPP, also continues to perform well, and is gaining additional momentum through its geographic roll-out.

The Ready-to-drink business grew in the mid-teens, very predominantly due to RIG.

- The business is growing double digit across Africa, Asia, China and Latin America. *Nescafé* ready-to-drink is performing really well, as is the Brazilian business, brands such as *Nescau* and *Alpina*, which we have launched in PET. The Japanese business is also performing well, again predominantly the *Nescafé* brand.

The key brands in the product group performed well. *Nespresso*, *Milo* and *Nestea* grew double-digit, whilst *Nescafé* was mid-single digit and *Nesquik* grew low single digit, as you will see on the billionaire brands chart. By geography I would highlight in particular Africa and Latin America.

The Powdered and Liquid Beverages' EBIT margin fell 70 basis points to 21%.

- The EBIT margin in soluble coffee was down. This reflects the continuing success of the mixes products (cappuccinos, 3-in1s, and so on) which are growing faster than pure soluble and are higher value products. Their EBIT margin is below that of pure soluble, but higher than the group average.

- The reduction in the Product Group's margin also reflects increased support for our brands across Powdered and Liquid beverages, as well as launch costs including for Dolce Gusto going global.

Slide 18 – Milk Products & Ice Cream: 6.6% OG

Next is Milk Products & Ice Cream which achieved organic growth of 6.6% and RIG of 3.9%.

Our Milk products business achieved organic growth of almost 10%. There was more modest growth in ice cream and cereals.

Milk, which is predominantly an emerging market business, saw double digit growth in both Latin America and AOA, as well as in Nestlé Professional. Its performance was weighted meaningfully to RIG, though pricing has being picking up during the year.

- We increased our market share in *Nido* and its regional brand variants on a global basis, enhancing our global leadership in shelf stable dairy.

- *CoffeeMate* maintained its leadership in its key markets, with mid-single digit growth. There has been increased competition in the US from private label. Its response saw its performance pick up during 2010, and there are further initiatives to be rolled out in 2011.

- *Carnation* and *La Laitière* are performing well, supported by strong communication around the retail culinary milk sector, where they offer 95% less fat than there is in cream. "Culinary Milk" is a good niche category, which we lead globally.

- Our "all-family" cereals business is also performing well, generally growing double digit.

- The roll-out of fortified liquid milk, alongside powdered, in Brazil, has been a great success, with sales exceeding CHF 100 million in its first year as a national offering. We have plans to take the product broader in Latin America, as well as to extend the range offering.

- PPPs performed well with growth in the high teens.

- Among markets, I would highlight Brazil, Central/West Africa, Indonesia, India and Pakistan. We are building new capacity to support our growth.

The ice cream business had a good year overall, with positive RIG and organic growth, an improvement in the EBIT margin, and increased market shares on a global basis. This was despite a difficult year for the ice cream industry, both from a weather perspective in Europe and due to pressure on the bulk market from private label in the US.

Let's look regionally, starting with the Americas.

- The EBIT margin improved in North America.

- The *Dreyer's* brand didn't grow, as you will see on the Billionaire Brand chart, though it held its market share. The total Dreyer's business did grow however, and has increased its market leadership, with a particularly strong performance from our snack business which grew double digit. Snacks include our *Drumstick* cones, as well as better-for you products such as *Nestlé Fruitbars,* which are high in anti-oxidants, and the low calorie *Skinny Cow* brand.

- There is good traction also at *Haägen-Dazs*, helped by the profile-raising *Haägen-Dazs Five* and *Haägen-Dazs Honey Bee* extensions.

- Another success has been our roll-out of cups, which are single-serve variations of existing products. These provide a more affordable eating opportunity and also encourage sampling from potential new consumers; their growth is a positive for our mix. This "cup" model is also working well in Europe.

The performance in Latin America has been strong, and I would highlight in particular Brazil, where we are seeing double digit growth. One innovation there has been the launch of *Molico* into the Ice Cream market. *Molico* is a very strong brand in the Chilled Dairy Market.

In Europe, the picture remains much as it was earlier in the year.

- The trading environment is tough in some of the Southern European markets, where the consumers are under pressure and spending less on discretionary pleasures such as ice cream. Equally, tourism was down in a number of those countries.

- Our shares performed well in our key markets, Switzerland, Germany and Austria, even if the market demand was subdued.

- We had a very good year in France. Again, our cone business was a highlight, this time under the *Nestlé Extrême* brand, which is becoming the leading ice cream brand in that market. Growth was particularly strong in *Extrême Naturels*. Also going well is *La Laitière*, another brand that straddles dairy and ice cream. The ice cream brand was relaunched with reinforcement around its brand promise of "natural pleasure", as well as recyclable packaging and variants focused specifically at nutrition, health and wellness.

- Finally in Europe, there was a good performance in Russia. As you know, there was a heat-wave, but we believe that there was a good underlying performance as well.

The business in AOA achieved good growth, and I'd highlight Indochina, Israel, and Egypt among the countries there.

The Product group's margin improved by 90 basis points to 12.9%. Dairy, Ice cream and CPW all contributed, with ice cream's improvement the strongest, despite its tough year from a growth perspective. Marketing spend was up in all areas. There was a good level of efficiency achievements and positive mix in both Ice cream and Dairy, as well as leverage from growth in Dairy.

Slide 19 – Prepared Dishes & Cooking Aids: 2.6% OG

Prepared dishes & Cooking Aids achieved organic growth of 2.6%, with RIG of 2.1%.

This reflects a slower final quarter after positive momentum earlier in the year. Key to the quarter were the closure of our big *Maggi* factory in Cote d'Ivoire during the unrest there, increased competition in Ambient culinary in Europe and tough comparatives from 2009 in China.

- Looking now at the year as a whole, we have discussed earlier this year the issues around the nutritional single-serve segment of the US Frozen Food, which has been suffering as a result of the weak economic environment and category decline. We gained share in the family and value segments of the market with *Stouffer's*, but lost share in the nutritional area with *Lean Cuisine*. We are working on a number of initiatives to address the issues in US Frozen, and we expect a gradual turnaround.

- More positive in the US is the performance of *Buitoni*, a relatively new entrant to the market at the premium end. It is growing share in both the chilled and frozen markets. Also positive is the development of our PPP range in Frozen, dishes like lasagne and macaroni cheese, which grew well in 2010.

- The US Pizza business grew during the year, and gained market share, but growth in the in-home market slowed during 2010 due to increased price-led competition from home-delivered pizzas.

- A quick word on the distribution synergies between the pizza and ice cream businesses. We will not see any cost benefits until 2012, and are actually bearing integration costs in 2010 and 2011 with no corresponding benefit. We expect the growth synergies to come through in 2012. This is in line with our expectations at the time of the acquisition.

- European frozen is a good story, with growth led by *Buitoni* and *Wagner* pizzas, and share gains. Also in Europe, the chilled business, which includes *Buitoni* pastas & sauces and *Herta*, had good growth.

- In Ambient culinary, we again saw double digit growth for *Maggi* in Zones Americas and AOA, despite the issues I mentioned earlier in Africa and China. Among regions in the emerging markets, I would highlight Central/West Africa, even despite the Q4 slowdown, India, where we saw really strong growth despite having over 90% market share, and Brazil.

- Innovations in emerging markets were very focused around PPPs which are often locally adapted products. Overall, PPPs grew in the teens during the year. *Maggi Juicy Chicken* was launched outside Europe into some emerging markets during the year, and is performing well.

- There was growth in Ambient Culinary in Europe as well. We gained share in key markets including Germany and France. There were good performances also in Switzerland and the Iberia region, as well as in Poland, the Ukraine and Russia. The regional brand, *Thomy*, performed well in Switzerland and Germany.

- Innovations in Europe have been meaningful contributors to growth. These included *Maggi Juicy Chicken,* as well as jellied bouillons, again under the *Maggi* brand, which has become market leader in this segment in France.

The EBIT was down 60 basis points to 12.3 %. This was partly due to the reduced volumes in Frozen US and increased brand support, both in Frozen and Ambient. It also reflected integration costs related to the pizza acquisition.

Slide 20 – Confectionery: 7% organic growth

Confectionery achieved organic growth of 7% in 2010 with RIG of 3.5%. The growth was balanced across the segments, all performing well, with share gains in many markets.

It is interesting to note that the confectionary market in countries such as the UK and US enjoyed mid single digit growth in 2010 despite the tough economic environment. This supports our view that affordable treats have a big role to play in consumers' lives in the developed world, regardless of the economic environment: – perhaps, in tougher times, confectionery is a source of affordable pleasure.

I've already touched on most of the drivers of the product group performance in my Zone comments. A few additional points:

- The UK had a strong year end, and also a good performance during the year from *Kit Kat,* which was bolstered by activities around its 75th anniversary.
- We had growth in excess of 20% in India and 30% in China, driven by strong PPP activities around respectively *Munch* and *Shark*. PPPs generally are a great success for the product group.
- In Russia, towards the end of last year, we sold our generic confetti business. This business had been dilutive to growth and EBIT margin in that market.

The Product group's EBIT margin improved by 20 basis points to 13.8%. Again, it is a story of good cost management in the business, leverage from growth and increased marketing spend.

Slide 21 – PetCare: 4.9% organic growth

Next is PetCare.

It has been another good year. The PetCare business accelerated in the final quarter to achieve 4.9% organic growth for the year and 3.6% RIG. It is noteworthy that this growth was achieved whilst discontinuing some lower value brands: this discontinuation had a negative impact of 180 basis points on the organic growth.

In North America all our segments, Dry Dog and Dry Cat, Wet Dog and Wet Cat, Dog Snacks and Cat Treats, as well as Golden Products, grew during the year. Snacks, Treats and Golden Products were all double-digit.

- Among brand performances in North America that I would highlight are: *Friskies Wet Cat, Pro Plan, Tidy Cats* and *Beggin'*. Successful innovations in the US included *Purina ONE Shreds* and *Fancy Feast Gravy Lovers.*

In Europe there was strong growth in the UK, Spain and France, and double digit organic growth in emerging markets, including Russia. Our market share performance has been good, with gains in key markets and categories.

- Among brand performances in Europe that I would highlight are: *Gourmet Wet Cat, Purina ONE Dry Cat, Pro Plan* and *Felix Wet Cat Single Serve*. Successful innovations included *Felix Sensations* and *Gourmet à la carte,* as well as *Purina ONE Actilea* which helps reinforce cats' natural defences.

I would also like to highlight our strong growth, 7%, in Cat Food and Treats globally as these are higher value, higher margin segments which represent about half the overall petfood category by value.

The 2010 PetCare EBIT margin increased by 100 basis points to 17.3%, reflecting the strong delivery of efficiencies around the world, our improved product mix, raw material savings and increased investments in our strategic brands.

Slide 22 – PetCare: positive short & long-term outlooks

So it was a good performance in 2010, confirmed by the fact that it is the fourth year in a row that we have increased our global market share, based on Nielsen, IRI data.

Looking forward, things continue to look positive for our PetCare business:

- Globally we are number one in three segments which together represent 79% of the Category value: Dry Dog, Dry Cat and Wet Cat; and we are number two in the two other segments, Wet Dog and Treats. Our 2010 acquisition of Waggin' Train should strengthen our competitive position in Treats.

- Our global market shares increased in all areas in 2010, demonstrating the good momentum in our business.

- As I have just said, we are number one in Wet Cat and number two in Wet Dog: the Wet Cat segment is almost twice as large as Wet Dog, is significantly more profitable and growing faster than Wet Dog.

- The Dog food business is 75% Dry, 25% Wet, and, again as I have just said, we are the leader in Dry Dog. So, in essence we lead the more exciting segments of the category.

- The pet population continues to increase, running at about 2% growth per annum, for both dogs and cats.

- Our portfolio optimisation, that has been going on since our Friskies/Purina merger, is complete, so there will no longer be a hindrance to growth from pruning of our products; indeed we are now better able than ever to leverage our capabilities for profitable growth globally.

- Our exposure to emerging markets continues to grow, supported by substantial capital investments in Brazil, Mexico, Russia, China and the ASEAN region.

- In conclusion, therefore PetCare is a great business with a great future.

Slide 23 – Billionaire Brands: 7.1% organic growth

I will now wrap up the business review with a quick look at the billionaire brands.

We had a good performance from our billionaire brands in general. I have touched on this in my product group review, so just a few general comments.

- Nine grew double digit,

- Eleven grew between 5% and 7.5%

- Three did not grow in 2010, but with initiatives in place should improve in 2011.

- So good performances by the great majority of our billionaire brands and, as a group, they achieved organic growth of 7.1%, ahead of the continuing operations number.

Slide 24 – Central innovation initiatives deliver 80 bps OG

On this slide is a selection of 2010 innovations, either new products or products that have been launched into new markets, all aligned with our growth pillars.

Our major 2010 corporate innovations contributed 80 basis points to the organic growth. The 80 basis points includes

- Only the sales of those innovations that we monitor from the centre and that were launched during 2010
- and, if a product such as *Dolce Gusto* entered a new market in 2010, the sales that it achieved in that new market.
- The 80 basis points does not include any of our local innovations and renovations launched in 2010.

Slide 25 – Summary: F&B operating performance

So to summarise on our segment performance, it was strong pretty much across the board.

- The market conditions have been uncertain and raw materials volatile. Our response has been to deliver at the top line, and in terms of EBIT margin improvement.
- We have done that by focusing on optimising our operating performance in our markets, to better leverage our scale and exploit our competitive advantages everywhere we operate.
- Our ability to do this has resulted in market share gains around the world in the measured channels. We have also deepened our distribution in non-measured channels, for example in rural communities in emerging markets.
- And, of course, whatever those challenges have been, and they are not the same in each category or every country, our people have remained aligned behind the Nestlé Roadmap so that we could deliver the Nestlé Model, making progress globally.

Slide 26 – EBIT performance: Continuing Operations

Let's now look at the financials, starting with the EBIT bridge for continuing operations.

- The **cost of goods sold** improved by 40 basis points. This is smaller improvement than at the half year, reflecting the increase in raw material costs in the second half, particularly over the levels in H2 2009. The impact of cost increases were more than offset by the ongoing benefits of our savings programme, product mix and pricing actions.
- We also reduced our **distribution costs** by 20 basis points, again a smaller improvement than at the half year. Good work here during the year by Waters and PetCare, as well as Ice Cream, all of which have relatively high distribution costs.
- **Marketing spend** increased by 100 basis points during the year and it increased in Swiss francs both for the second half and the year as a whole. Our spend on **consumer-facing media** was up 13.2% in constant currencies for the full year, a similar level to the first half increase.

- **Administration costs** were down by 70 basis points. The main contributors are the leverage from growth combined with a rigorous management of our fixed costs. We also had a reduced pension cost, somewhat compensating the increased cost in 2009.
- **R&D costs** were unchanged for the year.
- All of the above gave an improvement of 30 basis points in the continuing operations EBIT margin.

You have all heard about **Nestlé Continuous Excellence**, our drive for more efficient and effective operations at all steps along our value chain. We beat our CHF1.5 billion savings target in 2010. This benefited all the cost items that I have just discussed. Importantly, the benefits go beyond cost, with for example, reductions in our environmental performance in areas such as energy, water and packaging usage. Equally, at the same time as achieving those cost savings, we have reduced our level of bad goods, improved our freshness levels and our customer service levels, and reduced our lost time injury rate: this is why we talk about efficiency <u>and</u> effectiveness. Our aim is not just to be more efficient; it is to combine improved efficiency with increased effectiveness. This is how we are targeting sustainable competitive advantage at each stage of the value chain.

Slide 27 – P&L: EBIT to Net Profit: Group

Next is the income statement from EBIT to net profit and, obviously, I am now talking the Group numbers.

- As I have said the Group EBIT isn't comparable, but it increased to 14.8%.
- The net income and expenses includes the profit on disposal of Alcon of CHF 24.5 billion. Other points of note are restructuring charges up to CHF 469 million from CHF 222 million in 2009, and an increased impairment of goodwill, of CHF 337 million, up from CHF 57 million. The key impaired items are the European HOD water business and *PowerBar*.
- The net financial income and expense shows a 10 basis point increase in expenses, so is basically unchanged from 2009 despite our significantly lower year end net debt. This is because we significantly geared up the balance sheet in the first 8 months of the year through the share buy-back, increased dividend and acquisitions, including Pizza, before receiving the Alcon proceeds in August.
- Taxes are up slightly. Nothing much to say here; it's just the business mix, as well as increased corporation taxes in some countries.
- The share of results of Associates, basically L'Oréal, is up 10 basis points.
- The profit attributable to non-controlling interests, or what we used to call "minorities" fell by 30 basis points, as a result of Alcon being consolidated only until August.
- The net profit increased enormously due to the profit on the Alcon sale. Our underlying earnings per share increased by 7.4% to CHF 3.32, and by 10.3% in constant currency.

Slide 28 – Cash flow and working capital

Next cash flow and working capital.

Operating cash flow was CHF 13.6 billion compared to CHF 17.9 billion in 2009. The big impacts here were working capital normalisation after 2009, currency, and fewer months contribution from Alcon.

We improved our trade net working capital as a percentage of sales and reduced our cash conversion cycle by 3 days.

Slide 29 – Trade Net Working Capital continued to improve

Here you can see the trade net working capital trend in our continuing businesses. We have been consistently improving or performance as a percentage of sales. It currently stands at 7.5%, measured quarterly.

Slide 30 – Trend of net debt in 2010

On the next slide the evolution of our net debt. This is mainly self explanatory. I'd just point out that the net debt of CHF 3.9 billion excludes CFH2.6 billion of Alcon proceeds that have been invested in longer term bonds, so including this our net debt is CHF 1.3 billion.

Slide 31 – Increasing dividend and payout ratio

Here you can see the trend of our dividend and our payout ratio, both of which have been consistently increasing. The Board of directors will request shareholder approval for a dividend of CHF1.85 per share; this will represent a 55.7% payout ratio based on our underlying earnings per share, and is a 15.6% increase over the dividend paid in 2010 of CHF 1.6 per share. This proposed increase reflects the confidence we have in our company's prospects.

Slide 32 – Total cash returned to shareholders

Next I've summarised our cash return to shareholders, which amounts to CHF 60 billion between 2007 and 2011, assuming our proposed dividend is approved and that we complete our current share buyback.

I think it is important to look at this in conjunction with the earlier slide I showed highlighting our increased cap-ex.

- We spent about CHF 10 billion on cap-ex and acquisitions in 2010, as well as CHF10 billion on the share buy-back.
- In 2011, we expect to spend an additional CHF 1 billon on capital expenditure over the amount spent in 2010, bringing the total spend in 2011 to about CHF 5.5 billion.
- So we have been returning cash to shareholders at the same time as taking opportunities, organically and through acquisition, to strengthen our market positions around the world, and to grow the business profitably in the long term.

Slide 33 – Alcon disposal: value-creation

The gradual disposal of Alcon allowed for significant value creation (approx CHF45 billion).

Through our share buyback programmes started in 2005, we will have returned CHF39 billion, or close to 90% of the Alcon proceeds, when we complete the current programme.

Slide 34 – The share buy-back programmes contributed to improvement of EPS

Over the last 5 years we repurchased 718.9 million shares. The four share buy-back programmes have contributed about CHF 0.37 centimes to the earnings per share in 2010.

Without the share buy-back the CAGR would have been 6.5%, rather than the 9% achieved.

Slide 35 – Summary: Total Performance Framework

I am coming to the end now, and this slide really pulls together much of what I have been talking about.
Simply put, we have been focused in 2010 on getting the basics right, efficiently and effectively.

- We continued to work on simplifying our business
- We continued to invest for growth
- We continued to achieve scale benefits
- And we delivered an improved performance in each of the elements of the Nestlé Model.
- We created Nestlé Health Science, and sold Alcon, creating significant value for our shareholders.

Slide 36 – 2010: Summary and conclusion

So to summarise 2010, we started the year with a good understanding of our challenges, and we met those challenges successfully.

Our people did so by staying aligned with our roadmap of competitive advantages, growth drivers and operational pillars, whilst also being fast, flexible and entrepreneurial in their individual markets all around the world.

We delivered on the financials, top line and bottom, and did so whilst continuing to give our brands and innovations the appropriate level of support.

This performance was reflected in a very strong showing in our market shares.

So, in conclusion, we outperformed our industry in 2010, and that has set us up well for 2011.

Slide 37 – 2011: another set of challenges; another opportunity to outperform

Let’s have a quick look at 2011.

2011 is of course another year of challenges. And the good news is that every challenge brings the opportunity for outperformance, for differentiation from our competition. And this will be our aim – to outperform our peers.

One particular issue in 2011 that I know you are keen to hear about is input costs. Our expectation is to have an additional cost of between CHF 2.5 billion and CHF 3billion in the year.

We will manage this cost pressure again in 2011 by a continuation of several action including driving our cost savings deeper across the company, benefiting from value-adding innovations, leveraging our growth on our fixed cost base, and benefiting from market and product mix and pricing.

Finally, we carry strong momentum into 2011. You could see that from the final quarter of 2010 where, despite the tough 2009 comps, our growth performance prevailed. Also, the growth of our more profitable geographies and categories is out-pacing the growth of the less profitable ones.

In conclusion, therefore, it is our objective to deliver the Nestlé Model in 2011.

I'd now like to take your questions, and Roddy is here too.

Q&A Session

Questions on	**Margin expansion in Food and Beverage** **Reasons behind increase in organic growth in Powdered Beverages** **Drop in margin in H2 in Powdered Beverages**

Mario Montagnani, NZB:

I just had two questions. The first one is about this raw material inflation. You mentioned about 2011 and just looking back at your margin expansion in your core activities, it has continued in Food and Beverage, just a clarification on this one, can you confirm you had roughly 60 basis points expansion in H1 2010 whilst in the second half of the year we had something flat on a continued basis?

Also in Food and Beverage, just looking at Food and Beverage, can you confirm you had 60 basis points in H1 and minus 4 basis points in H2? Probably related to this in your key division, Powdered Beverages, we saw a massive acceleration in organic growth, I think close to 10% in Q4, was this related to a sales push, a new channel, do you see that's sustainable for 2011? And also probably you can elaborate on that division on the margin drop by nearly 160 basis points in H2?

James Singh:

First of all raw material inflation, we did say that we expect an acceleration in the cost increases in the second half. Now, as a general comment I want to say that we manage the business for the long term and the actions we take are not looking at managing the bottom line quarter by quarter. Whatever we do in our business is for long term sustainable growth. So there are going to be times when in one quarter and one half year there is going to be higher profits or lower profits. I mean our focus is making sure that we drive momentum year after year which is our Nestlé model.

So the raw materials inflation, we had a significant uptake in the second half of the year. As you know, in the first half it was virtually marginal. We did guide the market at the beginning of the year that our input cost basket will go up at about 3% and in fact that is about where we ended up.

On Powdered Beverages in Q4 I think, yes, we had a good performance coming to the end of the year, driven primarily by innovations; innovations across the category in different product format and including our systems execution in the geographies around the world. So, you know, here again it's bringing products to market as fast as we can possible do, regardless of what time of year.

Roddy Child-Villiers:

Yes, the Powdered and Liquid Beverages piece, the acceleration in the final quarter was consistent in that it was in each of the three zones and it was in each of the sub segments of the product groups; so Soluble, Powdered, and Nespresso, they all contributed in the final quarter. So it wasn't a particular push in an area, it was just a general good performance across the group.

Mario Montagnani, NZB:

And the drop you had to the margins - on a divisional basis was on the back of gross margin pressure on the divisional basis mostly in that case? It was not in marketing costs heading up sharply?

James Singh:

This is an area where we have spent significantly to support the brands, primarily to launch innovations across the world. I would say that in this category we have seen a significant step up in consumer facing marketing spend towards the second half of the year when the innovations became available.

Roddy Child-Villiers:

One example of that would be the October or November launch of Dolce Gusto in the US for example. Clearly that's going to be a major expense and we're not going to see the benefit coming through in 2010.

Mario Montagnani, NZB:

Right, otherwise on the margins Food and Beverage and continuing operations, you can confirm the flattish margin in H2 and the minus four basis points in Food and Beverage in H2 of the same period?

James Singh:

Mario, I'm not going to comment on quarterly mixes. You've seen the guidance we've given. Again, in 2011 we expect to progress our margins across the company.

Roddy Child-Villiers:

There's no material difference between Food and Bev and continuing operations in the margin, no material difference whatsoever. But all you've done is a rule of two and divided the full year to get your conclusion. We'll go to the next question.

Questions on;	**Cost saving performance in 2011** **Reduced emerging market tailwind in 2011** **Margins in Beverages for 2011**

David Hayes, Nomura:

Firstly on the cost saves, I just wonder if you could be a bit more specific about the 2010 level, you said it would be at 1.5 billion. And I guess looking forwards to 2011 I see your restructuring charges were up from 222 million to 469 million in 2010. Does that mean we should expect an even bigger performance on cost saves in 2011 and could you try and quantify that?

And then just on the emerging markets, we've heard other companies talking about emerging market tailwind in terms of macro and consumer sentiment perhaps being a little bit less helpful this year versus last year. Is that something that you would say is something we should be aware of in terms of the development - obviously there's strong performance in emerging markets?

And just following up on the first question on that Beverage margin - 160 basis points down in the second half, up 20 I think in the first. Just to kind of put together what you just said about investment phasing, etc, for 2011 is it more like the minus 160 because the investment continues, or with the benefit of that coming through - to your point Roddy, do we assume margin in Beverages should be flattish as in the first half?

James Singh:

On the restructuring, if you take the average restructuring over the last five years it's about 50 basis points and that's basically where we ended up this year. Last year it was a bit lower and this year is more or less in line with the average going forward.

Now, surely the restructuring allows us to have greater productivity as we go forward and we expect that the investments, the provisions we've made, will help us to continue to achieve the benefits of restructuring that we have done in the past.

In terms of the margins on Beverage, we believe that this category will continue to be a high margin business. Of course the swing in margin from one period to the other period is influenced, I would say primarily by two things. By the input costs, the timing of the input costs and the timing of the investment to support innovations and different brands across the world.

I'd like to say that we do not manage our costs of goods on a six months basis, we have a total annual view of our costs of goods and that is what drives our pricing decisions. And in terms of consumer facing marketing we will spend the money wherever we see the opportunity during the course of the year.

I think overall no business category is exempt from the Nestlé model; we expect each of our categories to perform on an annual basis, continually improving. However, in Beverages we also have to understand that there are some cases where you already have a margin business in the 20s, there are going to be opportunities where the margin in a particular segment may be dilutive to the category, but accretive to the Group. So we have to look at both the benefits to the category and to the Group, but at the end of the day it is putting the consumer first in our thinking and execution. We have to deliver good value in order for our categories to grow profitably.

David Hayes, Nomura:

Just going back to the productivity, I mean in terms of the cost saving, that 1.5 that you beat, I mean was that 1.6 and you think it'll be more than that in 2011? I'm just trying to see if there's any quantification on that. And then there was the emerging market question as well.

James Singh:

I think we will likely do about another 1.5 billion this year, in 2011.

Roddy Child-Villiers:

The emerging market, I mean the previous comment that I picked up on in a conference call on emerging markets was about the macro numbers and the macro numbers are what they are. So we issue the same macro numbers as everybody else does. But you can see from our reported numbers that our momentum in emerging markets remains very strong. And as we said on the conference call, we have been significantly out pacing GDP growth in the emerging markets - more than double GDP growth in some emerging markets. So you know this is really about - even in emerging markets, growing value in our categories, as well as having a lot of success with the PPPs.

David Hayes, Nomura:

Just to finally come back on the quantification on the cost savings. You're obviously guiding for raw materials that you gave, I just want to make sure - my understanding is that that's about 7 to 9% inflation, because I've got the base on the raw materials correct. Is that about right?

James Singh:

Well the base of our raw materials - the input costs, I'll be careful, it's the input costs basket is about 30 billion. So we're saying that we're going to have about 2.5 to 3 billon increased costs on that basket.

Questions on;	**Share buyback** **Slow down in Q4 in Zone AOA** **Issue of restatement for non-trade spend**

Jon Cox, Kepler:

The first question is just on the state of the buyback, etc? Jim I think you previously have said you've got no desire to go back to a AAA credit rating and have said that - you know consummate with that you need net debt somewhere around 25 to 30 billion francs. Obviously you're now at net debt around a billion odd, I was just wondering what your plans are on that and it just seems inevitable that you need to actually do more buybacks in the future? That's the first question.

The second question, a little bit of following up on the emerging market story. When I do the backing out on the AOA it looks like there was a slowdown in Q4, I think about 7% growth from around 9% in Q3. I wonder if there's anything behind that at all?

And then last, just more of a nuts and bolts question - I'm wondering when you're going to give us the restatement for the non-trade spend, will that be issued today at all, or will that come out closer to Q1 figures?

James Singh:

First of all the restatement. As I stated at the beginning that we will provide those numbers at our road show presentations, next week - Tuesday in London. And immediately after that it will be put on the website.

Let me come back to the buyback, you know we have - we completed in 2010 the 25 billion we started in 2007. And then we started a new programme which we announced was 10 billion. We did slightly more than 5 billion in the second half of last year, so we have slightly under 5 billion to do this year to complete that programme.

So when that is finished then the board will have to make a decision as to what we do. But let's finish that first and then we will deal with that perhaps at the half year.

Yes, the AA, AA+ rating - we said we always wanted to be a Gold Standard credit quality as a company and we believe - we have guided the market that by the end of 2012 our net debt should be somewhere between where we were at the end of 2009, which was about 15 - 18 billion CHF. So I think we are on track to achieve that. You know I don't - the numbers, whether it's 15 or 18 billion - those are the numbers we're working to Jon, not 25 to 30 billion. And you have seen that we have been very responsible in managing our balance sheet over the years and that will continue.

Roddy Child-Villiers:

Well just on AOA, the big change on AOA Jon, or the big impact is simply the comparative. We have about 4.5% RIG in Q3 of 2009 and about a 9.5% RIG in Q4 of 2009. So not surprisingly with that comparative the number looks a bit slower. But that is not reflective of a slowdown in AOA.

James Singh:

It's growth upon growth essentially.

Roddy Child-Villiers:

Yes, exactly.

Jon Cox, Kepler:

Thank you for that. I wonder if I could just push a little bit on the - to get to 18 billion francs of net debt by the end of next year. It seems obvious that there has to be some way to give cash to shareholders, whether that's a buyback or a dividend. I just want to make sure you're leaving those options open, because some people seem to be taking today that there wasn't an announcement on a new buyback like once this programme is completely currently that's it, there'll be no more. And I'm sure that's not what you intended.

James Singh:

Well Jon, first of all as I said we have about 5 billion of buybacks yet to complete. So let's complete that and then we will tell you what we're going to do. At the half year the board will have to consider - what we do moving forward. And in terms of dividends, if you look at our dividend pattern over the last four years, every year it has been 15%. If you take the last four year dividends our dividend has increased by 15% per year.

And this year ago we have asked the board and the board will present to the general assembly another increase of 15.6%, which is nearly 56% payout ratio of our underlying earnings per share. So I would say we have been a bit aggressive in terms of our returns to our shareholders. I mean 50 - 1.85 CHF per share will be about a 3.5% return on the weighted average share price last year, which I think is a very good, highly competitive return to our shareholders.

So we'll continue to do what we think is right for our business, organically and through M&A activities around the world. And we're also going to be responsible on how we manage returns to our shareholders. So it is that balance we have to maintain. And you're right we are not ruling out anything at this stage, we have to consider it as we progress.

Roddy Child-Villiers:

I think also if people are taking no comment on the share buyback as a negative they should look to our pattern of communication. We've never announced a share buyback when we're only halfway through a current share buyback and I don't suppose any other company has either, frankly. So you know we are simply communicating on this the way we've always communicated on it, we're not setting a precedent. That's it.

Questions on;	**Performance in each of the BRIC markets** **Dividend payout ratio** **Working capital 2011**

Warren Ackerman, Evolution:

Could you flesh out the performance in each of the four BRIC markets, obviously a very good performance and I remember meeting you and you were saying in China it was still work in progress as it was in India. But I'd be interested to hear your views on each of the BRIC markets?

And secondly, just going back to this dividend payout issues, obviously you're now up to a 57% payout ratio, but if you keep paying a dividend of 15% increase a year you quickly get to a situation where the payout ratio exceeds 60%, a few years down the track. Is that a percentage that you're comfortable with?

And just finally on working capital, in 2009, we had a 2.4 billion inflow in working capital. I'm just looking at the cash flow statement; you've got a 600 million outflow in 2010. I'd just be interested in your views on the working capital for 2011 given the current state in commodities?

James Singh:

First of all Roddy you have the numbers on the BRIC markets?

Roddy Child-Villiers:

I'll just run you through the BRICs quickly. Brazil as we said - I mean double digit growth and double digit growth in the big category Dairy there. We mentioned in the conference call the launch of fortified liquid milk alongside the powdered milk going very well. A strong performance both in the Chocolate business, Nestlé and Garoto and Biscuits and really throughout all the categories a very good performance in Brazil. So double digit growth in Brazil.

China, Greater China including Hong Kong double digit, if you exclude Hong Kong even higher double digit as you would expect. Again, very strong growth really across the big categories, I'm just talking the zone businesses here, not the globally managed businesses, very strong growth across all the big categories there.

India we report as part of South Asia, we mentioned on the call 20% growth in Chocolate in India, but double digit growth in the big categories, Culinary, Dairy, Chocolate as well as in sugar. So again, very broad based.

Russia was if you like the laggard of the BRICs and we had mid single digit growth in Russia, really this relates to the economic environment there and to weaker performances in the impulse categories, particularly Chocolate. Good performances though in Dairy and Soluble coffee in Russia.

And those comments are broadly true of globally managed businesses because the Nutrition business grew double digit in all of the BRIC countries. The Water business where we have a Water business in the BRIC countries did well. It was very strong in Brazil where we launched Nestlé Pure Life. We mentioned the Nestlé Professional business growing double digit in AOA, it was also double digit in China and India. I don't have the Brazil performance for Professional in my head. So very strong performance by the BIC - a weaker performance by Russia but Russia is coming back quite well at the end of the year.

James Singh:

Just on the question on dividend yes, I think where we are is a good level, I think where do we go beyond that we'll have to see at the end of next year. But you know the reason why we have granted this increase at this time - really two reasons. First of all we have great confidence in our company to continue to perform well in spite of the general economic conditions, which vary from market to market. And secondly we have a very strong balance sheet.

So I think this is a reflection of the continuation of what we have done over the last three or four years. As we go forward then we will have to think. But we are not targeting as such a dividend payout ratio. I think we would like to have an increase in the dividend, the absolutely dividend year after year to our shareholders. And yes that may have a creep in the payout ratio, but that is not really the objective. The objective is to give our shareholders a dividend gradual increase year after year reflecting a good return on their investment in the company.

Warren Ackerman, Evolution:

Jim, the payout ratio is not a million miles away from - you know tobacco companies these days?

James Singh:

Well we are a Food and Beverage company focused on Nutrition, Health and Wellness. I don't want to comment on another industry, I think we do what we think is right for the company and our shareholders and I'm sure you appreciate that Warren.

On working capital, yes your observation is right, our working capital did increase marginally 600 million in 2010. I think that is in line with our growth. As a matter of fact, when you take the five quarter average per year, our trend is down and our focus is trying to get that trend even lower. So yes in 2009 we did have nearly 2.5 billion of inflows, by significantly reducing our working capital. But we said at the time that there would be a correction as we moved forward and that is what you are seeing - a marginal correction in the working capital.

Warren Ackerman, Evolution:

But Jim, you know given commodity inflation is running in the high single digits, would you not expect that working capital outflow to be exceeding a billion CHF in 2011?

James Singh:

I think the way we manage our working capital is based on standard coverage and days. And yes I mean it depends on where our inventories are valued at the end of the year. So yes, if the commodity costs go up, we would likely have a higher value. But our objective is every year to be able to report a reduction in terms of percentage cover, or percentage holding of inventory - of working capital to sales. So yes both may go up and hopefully the ratios will at least stay at a constant level and not necessarily go up.

Questions on;	**Guidance on acquisitions** **PPP revenues**

Alain Oberhuber, MainFirst:

Two questions. The first is could you give us guidance for potential acquisition, I remember that in the past you said two to three billion of transaction. And in that where do you still see weak categories? Where could we expect - where you're obviously focusing on to improve some of your categories by external growth?

And the second question is on PPP. Can you tell us how much was it overall in CHF the revenues in PPP?

James Singh:

Yes, first of all on the M&A guidance, we're not going to give you a number. I think given our existing presence in the various markets we still see some opportunities to do some fill in acquisitions, as we have done over the last couple of years. Wherever there's an opportunity we surely want to pursue them. But last year we spend 5.6 billion CHF on acquisition, primarily the bigger one being Kraft Pizza which was about 3.8 billion CHF. So there are going to be some smaller acquisitions around the world that we can do. You know, we have to do acquisitions in a way where we retain value for our company - so wherever there are opportunities we will.

I think our focus would be driving M&A activities in the area of nutrition, anything that gives us - reinforces our position along our strategic pathways of Nutrition, Health and Wellness. I would say with the announcement of Nestlé Health Sciences we're surely going to be looking for opportunities there. And we are, we're very active - you've seen we've already announced some very small deals. But we are actively looking for opportunities in those areas.

So you know wherever there are good acquisitions that advance our strategic agenda in the various categories we will be looking at that.

On PPP our PPP total revenues in CHF is about 11 billion at the end of last year and it grew approximately 13% around the globe.

Questions on;	**Pricing in Coffee** **Cost of net debt in 2011** **How close ended is the share buyback**

Alan Erskine, UBS:

A couple of quick questions. One just going back to the Coffee business, I just want to get a feel for where you are in terms of taking, I guess the inevitable pricing. And I'm just wanting to double check that some of the growth wasn't a function of the trade buying in ahead of pricing?

My second question is, can you give us an indication Jim what we should be using as a sort of cost of net debt when we look into 2011, because obviously you've got a relatively small net debt, but behind that - you know a gross debt number and a cash number and probably different rates of interest on those. So maybe if you could do that?

And then thirdly, I think in the report and accounts last year the 10 billion became at least a 10 billion buyback. And I just wonder just how close ended is this existing buyback, or have you the opportunity to roll it on?

James Singh:

On Coffee pricing, as you know the pricing actions are taken at a local market level. We are very clear and transparent and frequent in our communication in as much detail as possible. So the pricing actions are being implemented around the world in the various markets, depending on the timing and the magnitude of the pricing that is taken. I don’t think our Coffee sales were influenced by potential price increases that are coming down the pipe. So I don’t think there was a significant impact on our performance in the 4th quarter.

Using the cost of debt, in the past we would say it's about a billion CHF, or slightly under. I think over the last two years you've seen the cost of debt around 6 to 700 million. We may be slightly below because of our net debt position but I don’t want to give you a number here but I would say it will be somewhere around you know 5 to 600 million CHF.

Roddy Child-Villiers:

I think on the share buyback, I haven’t got the annual report with me but I think the ‘at least’ was our commitment in 2010 to buy at least 10 billion, and our commitment in 2011 to buy at least 5 billion. I think that was the ‘at least’ rather than the actual share buyback amount itself.

James Singh:

Yes.

Alan Erskine, UBS:

Sorry just to go back to the debt thing, so is that a function of you not getting as high a rate on your deposits as you’re paying on your debt, and that's why despite the big reduction in net debt you’re not seeing that big a reduction in the interest payable?

James Singh:

No I think as we explained in 2010, you know the first thing we didn't get the proceeds from Alcon until perhaps in the eighth month of the year, and during the first eight months we saw the heavy up on the share buyback and of course we paid the dividend. So you had a significant increase in your debt and therefore the cost went up. So that's a reason why we still have slightly higher debt in 2010 versus 2011.

But going forward I think our objective, to the extent that it is possible, is to replace third party debt in our markets by inter-company debt, and which I'm sure you understand there is an advantage of doing that both for the markets and for the Group. I don't really necessarily want to get into the details of that but it is part of our funding strategy. And yes the objective in the end is to reduce the net after tax cost of our debt for the company.

Roddy Child-Villiers:

The other point Alan just to remember is you know where we do have third party debt, if it's in emerging markets, if it's in Brazil for example, the interest rates there are double digit, it's not a European interest rate. So when you think about the gross debt we have, the ticket we're paying is perhaps higher than you might imagine.

Questions on;	**Achievability of Price increases** **EBIT margin target for 2011**

Patrik Schwendimann, Zurich Kantonalbank:

Regarding price increases for 2011 - to cover these input cost increases you probably would have to do price increase of 2.5% to 3%. Do you think this is achievable in this environment of still quite high unemployment at least in the western hemisphere?

And secondly, regarding your EBIT margin target for 2011, you want to increase again it in local currencies, bearing in mind the current Forex headwind. What do you think is possible in CHF for the EBIT margin? Thank you.

James Singh:

First of all the price increase in 2011, we have always said that we do not or we will not only depend on pricing to deal with input cost pressures. There's no doubt that there will be pricing. But we have said, as I said in the conference call, we are deepening our cost savings initiatives across the company, not only in manufacturing and supply chain. And here again we expect to see the benefits of that coming through during the course of 2011.

In addition to that I think our product mix, our product and geographical mix in the business itself is contributing a significant amount of leverage, beneficial leverage, in our margin structure. The other thing is that we have a very active R&D platform that yes does require relocation or reallocation of our consumer facing marketing spend, but they tend to be higher margin businesses.

So we have other options in addition to pricing, to deal with the cost pressures as we have done in the past. So I would not be able to tell you what the pricing will be. The pricing decisions will have to be at a market level, category by category, in a way that preserves the value of our business, our products to the consumer.

On the EBIT target, of course Patrik you know the EBIT guidance we give you is in current constant currency and it is in CHF.

Patrik Schwendimann, Zurich Kantonalbank:

But bearing in mind the current headwind from Forex, would you say it could be also achievable in CHF or would you say that's rather an optimistic estimate?

James Singh:

No I think the guidance we give is in constant currency so we feel comfortable with the guidance we give.

Yes and we do consider the impact of the currency volatility.

Roddy Child-Villiers:

Patrik there was amazing volatility in 2010 in currencies and yet there is no currency impact on our margin in 2010.

James Singh:

For the continuing business.

Roddy Child-Villiers:

For the continuing business. So you know it's not as simple as just because there is currency volatility our EBIT margin gets hit, it depends on what happens with the currencies. And what we saw in 2010 was weakness in the dollar and euro against the Swiss franc, and because they were both weak there was no impact on the EBIT margin for the continuing operations. So far in 2011 we're seeing what we are seeing, but it all depends on what happens for the year as a whole, and if we have weakness in both those currencies for the year as a whole the impact is going to be very different than if we have a strong dollar and a weak euro for example.

Patrik Schwendimann, Zurich Kantonalbank:

Sure. It's just I mean because the impact 2011, if the currency stays at the current levels then the impact will be much more negative than 2010, that's why I'm asking it.

James Singh:

Yes Patrik the other thing is that the margin is a percentage of a percentage. So yes last year we lost nearly 4 billion in top line sales because of the negative currency effect. So the margin is a percentage of the percentage.

Unfortunately I have to leave for a press conference but Roddy will stay on for another ten minutes to take your questions and we will catch up with most of you next week. Thank you.

Question on;	**Purchasing of Treasury shares**

Julian Hardwick, RBS:

Hi Roddy. Just in looking through your financial statements, am I correct in saying that in addition to your buyback you also bought back 2 billion CHF worth of stock which you've put into treasury?

Roddy Child-Villiers:

Yes. I think it's 1.7 billion but yes.

Julian Hardwick, RBS:

Okay. And how active should we expect you to be in that sort of repurchase above and beyond your share buyback this year?

Roddy Child-Villiers:

Well I can't comment on that. If you remember we used to always buy treasury shares before we were doing share buybacks and you know that's what we're doing. We're just using it as part of the management of the proceeds from Alcon but I'm not going to guide on the level of treasury purchasing we're going to do in the current year.

Julian Hardwick, RBS:

But we should assume that that's likely to be an ongoing activity?

Roddy Child-Villiers:

Well yes it's part of the way we're managing our capital structure at the moment, yes.

Questions on;	**Details EBIT margins in 2011**
	Pension expense

Jeremy Fialko, Redburn Partners:

The first one is on the EBIT margins in 2011. You've given the margin bridge for 2010. I was wondering whether you could just qualitatively talk through a few components and in particular whether you'd expect the gross margins to be down and sort of lower marketing as a percentage of sales? And then also anything on the margin phasing of the year in particular, whether you think it's likely margins will be down in the first half?

Then the second question is on your pension expense. What sort of benefit to margins did you get from the lower pension expense in the year and again is that likely to be a positive or a negative in 2011?

Roddy Child-Villers:

I unfortunately don't have the 2011 EBIT margin bridge yet. But on the marketing side if you remember in 2008 we had this discussion as well, but it's clear that if there's an environment of higher pricing then one's marketing spend might fall as percentage of sales. Because, you know, you don't increase your marketing because you're taking pricing, you marketing is more driven by your volume than your pricing.

So the marketing spend might come down as a percentage of sales. But as Jim said earlier on these marketing decisions are made in the markets, not by us in the centre, so frankly I don't know.

What I do know is that there's no reason why the absolute spending in marketing should come down, or why marketing, the consumer facing media spend in CHF, that would give you 13.2% in 2010, why that should come down. So in terms of what we are doing to give our brands appropriate support in the markets, there's no reason why that should diminish.

I'm not going to through and guide on all the individual lines of the P&L for 2011. But on the raw material piece since you mentioned the gross margin, I mean obviously a lot of the conference calls recently have been focused on raw materials and on the percentage inflation that the different companies are going to suffer on their raw materials. I do think this is slightly academic because we're telling you we're going to have 2.5 to 3 billion of raw material costs increase, increased raw material cost pressure in 2011. Now that is a number that we worked out through our procurement people and our forecast of raw materials and through our treasury people and their forecast on currencies and how that's going to impact our raw material bill.

Now if I'm sitting in the UK managing our Chocolate business that number's totally irrelevant to me. I care about my cocoa bill; my sugar bill, my milk bill and I care about the UK sterling, that's all I care about.

What matters to me is that I have been given good advanced warning of what's happening in those commodities, that I know what I'm doing with my pricing, that I know what I'm doing with my innovations and I'm going to price my innovations at the right price in view of the coming wave of increased cost pressure. Is my timing in those innovations right and so on and so forth? And is that guy in the UK getting his chocolate decisions right with his colleagues in milk in Pakistan and everywhere else around the world getting their decisions right that will drive our operating performance and will drive our margin improvement. Not whether or not the 2.5 to 3 billion is precisely the right number or not. It's what the guys in the markets are doing to manage the cost pressure that will drive our operating performance.

And on the pension bit, there was a marginal contribution, it was about 10 basis points but it was a much greater negative the year before than it was a benefit in 2010.

Jeremy Fialko, Redburn Partners:

And anything on the phasing of the margins?

Roddy Child-Villers:

No, I mean we've said we will deliver Nestle model for the year as a whole and that's what we'll do.

Jeremy Fialko, Redburn Partners:

Okay, thank you very much.

Questions on,	**Input cost guidance and other cost increases** **Pizza business in North America**

Robert Waldschmidt, Bank of America, Merrill Lynch:

One on your input cost guidance, the 2.5 to 3 billion - is that inclusive of packaging as well? And secondly what inflation are you seeing in wage bills and the rest of the cost base? Also can we get some comment on the North America business in terms of Pizza, you've mentioned dilution in terms of that and the cost savings being pushed into 2012? Can we get some colour in terms of why the savings are taking so long to come through?

Roddy Child-Villers:

The 2.5 to 3 does include packaging, yes. In terms of the wage inflation, this varies enormously around the world and I don't have a group average number for it. But again that's something that the business managers do locally rather than from the centre.

In terms of Pizza I'm glad you asked the question because I think that deserves some clarification. What we've said is that the Pizza business was dilutive to the zone Americas margin. Zone Americas margin is 16.5%, or at least it was 16.8% the previous year, so it's diluted to 16.8%. We're not saying it's diluted to the group margin. And, you know, it is not diluted to the group margin. So the dilution is simply against the very high margin we have in The Americas. That's the first point.

Second point, the distribution synergies, the big piece of this story if you remember was we were going to merge our direct store delivery of Ice Cream and Pizza. Now, not surprisingly to do that you need to have bigger trucks for example because the trucks aren't running half full. So we have costs up front of merging this distribution.

Now what we're saying is we're going to see the full benefit of that investment in 2012. We're not saying there's no benefit in 2011. The full benefit, the job will be done if you like in 2012.

Equally as you would expect, if you buy a business there are acquisition costs, there are integration costs related to the cost synergies that we are also attributing.

But there's nothing that has happened that has changed our expectations or our message on this business from the time of the press release and the presentation that we did. We always believed it would be accretive to the Group and dilutive to The Americas.

Has that answered the question?

Robert Waldschmidt, Bank of America, Merrill Lynch:

That's helpful on that. So just on the input costs, just to come back and make sure I confirm, so the total inflation here is going to be around 8 to 10% on the cost base if we look at about a 30 billion cost base?

Roddy Child-Villers:

Yes, it's 2.5 to 3 billion on 30 billion yes.

Question on; Tax rate in 2011 and beyond

Sara Welford, Citi:

Just one quick question in terms of the tax rate, you've indicated that it did go up in 2010 because of corporation tax rates going up in various places and because of business mix. Do you see that trajectory continuing for 2011 and beyond?

Roddy Child-Villers:

Well we're not changing our guidance on the underlying tax rate. And the business mix is frankly, you know, to some degree anyone's guess because it does vary year to year, but our guidance 27/28% on underlying to continue operations.

Questions on ; Financial impact of Nestlé Health Science
M & A transactions in emerging markets

Chris Wickham, Matrix:

I was just wondering on NHS (Nestlé Health Science) at what point you'll be giving us sort of more information or when we might be having a sort of look at sort of the financial impact of that. And I was just wondering also given some of the comments that Jim made about a year ago, talking about some of the frustrations of M&A in emerging markets, whether or not you've see perhaps any shift in bargaining power either way from vendor or to purchaser?

Roddy Child-Villers:

NHS, I'm not really sure what you mean by the financial impact. Basically what is happening is that we are taking the Healthcare Nutrition business that have sales of 1.7 billion in 2010 and that is the kernel from which we will grow in the Nestlé Health Science business.

So it's an existing business, it is making money. Onto that business we will bolt on acquisitions that we make in this space and you saw we made a small one a couple of weeks ago. So there's no financial impact as such.

Now when we see you, or when you dial in to listen to us on Tuesday, when we talk to you about the whole net - net sales, we will also show you how we're change the operating segments to take what is currently Healthcare Nutrition out of Nestlé Nutrition and put it in the other area, other Food and Bev area and what else we're doing. So you'll get a bit more clarity there.

But fundamentally our communication plan on Nestlé Health Science for the moment is to let them get on and build their business. And as and when they have something to say to us then and to you that is material in terms of the investment community, to communicate it.

On M&A and emerging markets, I'm not sure whether it's frustration, I think it's just the fact that it takes longer to build. Emerging market M&A tends to be much more relationship built than developed market M&A is. And it takes longer to build those relationships.

And then of course, yes there are people who want to sell businesses who have curious ideas of value relative to our idea of value. But you saw we made an acquisition in China, an acquisition in the Ukraine last year, an acquisition in one of the Latin American countries last year. So we are making them but it just takes a bit longer.

Roddy Child-Villers:

I think that's all we have time for. Thank you very much for your questions. Just one little technical point I've been asked to point out to you. Those of you have seen our app but cannot download it because you aren't using an iPhone or an iPad, we have now launched an android version of the app so that's now also available for those of you who use android based systems.

Thank you very much indeed.

END OF TRANSCRIPT