NESTLÉ S.A.

2010 HALF YEAR RESULTS ROADSHOW TRANSCRIPT

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James Singh, Nestlé SA, Chief Financial Officer

Slide 1 – Logo slide

Good morning, everyone. Welcome to the first half year results presentation. As you appreciate, this is a new format, combining the conference call with our roadshow presentation in one event. Hopefully, by pulling together the best of both, we will be making better use of everyone's time, in the spirit of Nestlé Continuous Excellence.

Slide 2 - Disclaimer

I'll take the safe harbor statement as read and go straight to the highlights.

Slide 3 – Introduction

Nestlé has again delivered growth at the top and bottom lines. We have done this consistently over ten years and more, and this is the essence of our commitment to our investors, to all stakeholders: that we will focus on total performance without compromise. Our top line performance is broad-based on a geographic basis, in each category, by all management responsibilities. We are seeking to drive the top and bottom line together consistently over time, whilst also investing for the future. We increased spending to support the healthy, competitive positions of our brands, launch new products and expand their geographic reach, and expand our manufacturing and distribution footprints. With strategic alignment and employee commitment, we are driving Nestlé Continuous Excellence and delivering significant savings. Simply, we believe all these actions together produce a multiplier effect in terms of value creation that is a sustainable catalyst for Nestlé, across geographies, across categories.

Slide 4 – Strong Half Year Performance - Group

Looking at the figures, a solid first half performance by the Group.

- Sales at CHF 55.3 billion, growing organically at 6.1%, with real internal growth at 4.6%.
- The Group's EBIT reached CHF 8.4 billion, an increase of 13.6%; margins were up to 15.1%, plus 100 basis points reported, 80 basis points like-for-like and 70 basis points like-for-like in constant currencies.
- Net profit was up 7.5% to CHF5.5 billion, representing a margin of 9.8%, plus 10 basis points.

There was excellent progress in earnings per share, at CHF1.60, up 13.5% over the same period in 2009.

Slide 5 – Strong Half Year Performance - Food & Beverages

For Food and Beverages, there were equally strong performances at both top and bottom lines.

- Sales were CHF 51 billion, with organic growth of 5.7% and real internal growth of 4.2%.
- EBIT reached CHF 6.7 billion, up 10.6%. The EBIT margin is now 13%, up 60 basis points, reported and constant currencies.

These figures highlight once again our focus on delivering profitable growth, a good balance combining top line growth and bottom line improvement. This is an example of what we mean when we say Nestlé is an "and" company, not an "or" company. It is also, of course, in line with the definition of the Nestlé Model.

Slide 6 – Guidance

The economic environment is uncertain, and there will be input cost headwinds and tougher second half comparatives, as we had anticipated. Our first half performance, therefore, allows us to expect an organic growth of around 5% for the full year, reaffirming our earlier guidance for food and beverages. We also expect an improvement in EBIT margins in constant currencies compared to last year.

I'll now hand over to Roddy, who will run through the Zone and product group performance. In response to your feedback to our survey earlier this year, he will go into a bit more detail, so this will be a little longer than before.

Then I will go through the income statement and cash flows and then talk about a couple of topical subjects before opening for a Q&A.

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

Good morning everyone. If this results season has demonstrated anything, it is that the best catalyst for share price performance is simply consistent growth and an improvement in bottom line performance, year after year. Let's have a look at how Nestlé has achieved this once again in the first half of 2010.

Slide 7 – Total F&B:
A strong broad-based performance globally

On my first slide is the regional performance of our total food and beverage business. I'll just give a few key messages before going into the detail by management responsibility.

- All areas of the world are contributing positive RIG and organic growth: this is a truly broad-based performance.
- In the Americas there has been an acceleration during the second quarter, driven primarily by Latin America. Our developed markets in the region are achieving positive RIG.
- In Europe, Western Europe is delivering positive RIG: Growth is there to be had in developed markets if you pursue the right opportunities.
- In AOA, we have continued to see strong growth in the emerging markets, particularly Africa and Asia.

In total our emerging markets grew over 11%, and our BRIC markets were faster.

Slide 8 – Operating segments:
Positive RIG/OG everywhere

This next slide is just a snapshot of the RIG and organic growth by reporting responsibility and it shows that all areas are contributing positively to both the first half RIG and the organic growth. I'll now go through these in more detail, starting with the Americas.

Slide 9 – Zone Americas

The Zone achieved 6.1% organic growth for the half, up from 5.1% at the first quarter. Both North America and Latin America contributed to the improved RIG of 3.1%. This trend is important because it demonstrates that we have good momentum in the business, as we face tougher comparatives in the second half. Pricing was up in Latin America, but slightly less positive in the North than in the first quarter.

In Latin America, there were strong performances from Brazil and Mexico, as well as from the smaller regions. The Caribbean region was the only weak area. The economy there is suffering from smaller dollar remittances and lower tourism; and the region includes Haiti and Jamaica.

Looking at the categories in Latin America, I would highlight the performances of Soluble Coffee and Powdered Beverages, PetCare and Biscuits, as well as Dairy and Chocolate, the two biggest categories.

By the way, this photo is of the Nestlé ship that is selling our products on the Amazon. It is a good example of how we are increasing our distribution in emerging markets.

In North America, PetCare has had a strong start to the year, with market share gains. I'll come back to this in my product group review.

The Frozen meals business continued to be weak, but is trending better. I'll also discuss this further in my product group review.

We are pleased with the first few months' performance from the recently acquired Frozen Pizza business: it is on track on all measures, but the major aspects of the integration are still to come.

The Chocolate and Sugar businesses both achieved double digit organic growth. Catalysts include the extension of the Wonka brand into Chocolate and new variants of Butterfinger and Raisinets.

Ice cream enjoyed positive growth in North America, once again driven by the premium offerings of Haagen Dazs, as well as the nutrition-focused Skinny Cow brand, and by the impulse Drumstick brand. The Dreyer's premium business was weaker, as you will see on the Billionaire brands chart, but maintained its share. The Canadian ice cream business is performing very well.

Soluble Coffee is strong, with Nescafé Clasico the star. We are excited by the Nescafé Dolce Gusto launch in the US starting next month, and we look forward to updating you on that in February.

The Zone's EBIT was down 10 basis points, at 15.1%. The key issue here is the Frozen Food business in North America. Its margin has been impacted by the reduced sales, as well as increased marketing and promotional support in the category. On the positive side, we have seen a further improvement in our cost competitiveness due to Nestlé Continuous Excellence. Also, we have increased our investment in brands across our categories.

Slide 10 – Zone Europe

The Zone achieved 2.2% organic growth for the half, down from 3.4% at the first quarter. This was a solid first half performance in that it was achieved without the usual stimulus of double digit growth in Eastern Europe, where we continued to be held back by the poor dynamics in the Russian Chocolate market. The situation in Russian Chocolate is improving slowly, whilst the other categories in the region continue to perform well.

The RIG was positive for the Zone both for the half and for the second quarter, as indeed it was for Western Europe.

In general in Western Europe, I would highlight the work our people have been doing with our customers, which is reflected in increased distribution – a key growth driver – and in customer service levels that are at all time highs. Also, there was a good contribution from innovation. Overall, our market share performance in the big European markets is good, particularly in France, Germany, Spain and Russia.

Less positive for the Zone were the impacts of a slow start to the ice cream season and of the voluntary recall of certain premium Nescafé products. Nescafé continued to achieve positive growth despite this, in part due to the continued good performance of Dolce Gusto and Green Blend.

The big Western European markets all achieved positive RIG, with the stronger performances in France, particularly culinary chilled, the Herta brand and Nescafé; in the UK, particularly chocolate; and in the regional Petcare business. The Iberia region (Spain and Portugal) was also positive. In Spain, I would highlight as key stimuli for growth in a tough environment:

- the Soluble coffee and PetCare businesses,
- a strong performance by Popularly Positioned Products, allowing consumers to trade down without trading out of our brands;
- and increased distribution at Mercadona, the largest retailer there.

The Zone's EBIT margin has increased by 10 basis points to 11.9%. The improvement was achieved whilst increasing our brand support, and despite the costs of the Nescafé recall. It reflects strong results from Nestlé Continuous Excellence, our efficiency programme.

Slide 11 – Zone AOA

The Zone achieved 9% organic growth for the half, down from 10.3% at the first quarter.

The developed markets in the Zone had a slower Q2 than Q1. This is due mainly to Australia. Some of our big Nescafé products there that include milk have been disrupted by the foot and mouth outbreak that occurred first in our original supply market and then in our replacement supply market. We now have alternative supply arrangements in place.

In Japan, we are achieving positive RIG, with a particularly good performance from Nescafé. For example, our Barista machine sold 100,000 units in 2009; we are expecting to ship 600,000 in 2010. This is further evidence of our strength in beverage systems, and our ability to be flexible with our delivery mechanisms so we can adapt to the needs of different markets.

We have continued to see strong growth across the emerging markets. Those in Asia and in Africa achieved higher RIG than in Q1. In the case of Asia, this was despite a slowdown in China.

- In China, this time last year, following the melamine milk crisis, consumer demand for milk had fallen dramatically, but supply had not. We were therefore buying significant quantities of milk from farmers and selling it to industrial buyers, who use milk in their finished products.
- Since then, the fall in the milk price has resulted in a reduced supply of milk from farmers, which we are now able to sell under our brands to consumers. The lower supply has impacted RIG, but the good news is that the shares of our core branded milk business have continued to grow and, of course, selling Nestlé branded milk is higher margin than selling bulk milk.
- This issue will run through the current quarter as well. To give you some idea of the scale of the impact, Dairy had low single-digit growth in China, but excluding the impact of the industralised milk, it was in the teens.
- The rest of the China business is achieving double digit growth.

In total, the emerging markets in the Zone are double-digit for both RIG and organic growth, and the popularly positioned products, our PPPS, were accretive to that emerging market growth.

Among emerging markets, I would highlight particularly the performance of:

- The South Asia region, which includes India,
- Indonesia,
- the Indochina region, which includes Thailand and Vietnam.
- And Central/West Africa.

By category, there were strong performances in:

- Ambient Culinary, helped by our innovation in powdered Maggi;
- Ready-to-drink beverages, including Milo and Nescafé. Nescafé ready-to-drink is benefiting from increased investment and deeper distribution since we took it out of the BPW joint-venture.
- Ambient dairy, which is growing double-digit in the Zone despite China. We are seeing a meaningful benefit from our recent packaging re-design, which has brought closer visual alignment across the categories.
- And Chocolate, where our people are executing well behind a very developed PPP strategy.

The Zone's EBIT margin increased by 20 basis points to 16.9%, reflecting our ability to leverage our growth, as well as the faster growth of more profitable categories, and was achieved despite increased investment in brands and distribution.

Slide 12 – Nestlé Waters

Next Nestlé Waters. The bottled water market has experienced a return to growth in many developed markets this year, including France, the UK and the US, and has continued to grow dynamically in the emerging markets .

Nestlé Waters has seen an acceleration in the second quarter, to 3% RIG for the half, with 2.5% organic growth. This pick-up in growth was reflected in good share performances in our European and emerging markets. In North America we are down in volume share, but up in value.

In Europe, we have seen continued positive growth, and we know that our sponsorship of the Tour de France in July has extended that trend into Q3, as we build on the share gains already achieved in France. There is double-digit growth in the UK, and good performances too from Germany, Spain and Switzerland.

In North America our accelerated growth resulted from our response to the private label pricing initiatives in Q1. These initiatives saw a continued good performance from the value-priced Pure Life, but also an improved performance from regional brands, especially Poland Spring.

Organic growth in emerging markets is near 20%. This performance is consistent across Asia, the Middle East and Latin America.

This category is a good example about how we can benefit from our exposure to the different market segments. The PPP offering, Nestlé Pure Life, is growing double digit; the mainstream brands such as Poland Spring are also growing, and the super-premium, San Pellegrino and Perrier, are also enjoying strong growth.

I think this is an important point generally, and not just for water. Consumer goods companies are not going to win in developed or emerging markets by making choices between premium or value-priced offerings in any given category. They will win by having offerings across the price points, allowing greater consumer choice, supported by appropriate business models and cost structures.

A business model in PPP is quite different from mainstream, as indeed is a mainstream business model from one for a super-premium business.

The Water's EBIT margin improved by 10 basis points, despite increased oil-related costs and the reduced pricing in North America. Key to the improvement were the growth, good discipline in areas such as fixed and overhead costs, the positive impact of Nestlé Continuous Excellence, and improved distribution management. The cost situation will be tougher in the second half of the year than it was in the first.

Slide 13 – Nestlé Nutrition

Moving to Nestlé Nutrition.

The business is demonstrating that it is back on an improved growth track after the weakness in 2009.

In Infant Nutrition, all three divisions (infant formula, baby food, and infant cereals) are performing well, leading to high single digit growth for the division. RIG is positive in all three Zones, and double digit in AOA. Stand-out performances include the US and Canada amongst developed markets; whilst amongst many strong performances in emerging markets, I would highlight Russia, China, South Asia, Indochina, the Middle East and the Bolivarian region. The improved growth was a contributing factor to the increased Infant Nutrition EBIT margin, which is above the Nestlé Nutrition level.

Healthcare Nutrition is also growing faster than in 2009 and achieving a higher EBIT margin. This reflects the benefits of the sku and customer rationalization programme that we have carried out since the acquisition of the Novartis business.

Performance Nutrition is also showing an improved EBIT margin performance, following a closer alignment of the business to its core customer base and retail channels.

Weight management continues to be held back by a reluctance of female consumers to spend on themselves, rather than on their families, in the current economic environment. This is the same dynamic as we are seeing in the Frozen Food area with Lean Cuisine. That said, the in-home business is performing well, and is compensating somewhat for the weaker performance of the Jenny Craig Centres. The recent launches in France and the UK are showing positive early signs, but it is too early to read much in to this.

Finally on Nestlé Nutrition, there has been a good EBIT margin progression from the business, up 160 basis points to 19%. This reflects the benefit of the higher growth, good cost management, and delivery of acquisition synergies. Again, there will be additional cost pressures in the second half.

Slide 14 – Other Food & Beverages

Finally in the operating segments is the important catch-all Other Food and Beverages. There is good news here from both the main constituents, Nestlé Professional and Nespresso.

Nespresso has once again delivered above 25% growth. I hope that the doomsayers about the impact of the increased competition in France will be reassured by this performance. Especially as there has been no slowdown in Q2. The situation in France is much as we expected: existing customers are trialing the competitor products, but repeat purchase levels are not impacting Nespresso's growth.

The boutique openings around the world continue, with about 30 planned for 2010, including one in Shanghai opening today. And the investment announced in Avenches will double our capacity by 2012 to 9 billion capsules a year.

Nespresso's margin increased in the period.

Nestlé Professional, our business serving the out-of-home consumption market, achieved mid single digit organic growth.

It is performing well in AOA and Latin America, achieving double-digit growth, helped by a rebound in the economies there, as well as expansion by restaurant chains in those regions.

In Europe, the frozen and chilled business is performing well. Davigel is benefiting from the widening of its focus from institutional customers, such as schools and hospitals, to include commercial customers, such as restaurants. The North American food business is flat in a depressed market.

Looking from a divisional aspect, the beverages business grew over 6%, driven by our proprietary Nescafé solution business. It grew strongly in all regions, though the European growth was compensated by our decision to reduce our participation as an ingredient supplier to vending operators. The integration of Vitality in the US, acquired in 2009, is on track and the performance is to expectation.

The key drivers in the food business which grew about 5% were Culinary and Milk. Zone AOA, particularly China, and Latin America performed well. Europe was also positive, but North America remained weak here as well.

The Nestlé Professional EBIT margin improved, driven by lower raw material costs, as well as the benefits of the sku and customer rationalisation in 2009.

Cereal Partners Worldwide had mid-single digit growth, and gained share around the world.

There was a dramatic improvement in the EBIT margin of Other Food and Beverages, up by 250 basis points to 18.6%. Each of these businesses contributed to that improvement.

I'll now turn to the product group reporting. First is Powdered and Liquid Beverages which also includes Nespresso.

Slide 15 – Powdered & Liquid Beverages

The Soluble coffee category is achieving mid single digit growth. This is lower than in 2009, although the RIG is almost twice as high as in 2009. Pricing is positive, but not materially.

Recent innovations are continuing to drive volumes, particularly Nescafé Dolce Gusto and Green Blend. The European performance is strongest in Germany and the Iberian region. The UK growth rate has been held back by the recall of some of the super-premium lines. In the Americas, Nescafé Clasico continues to be a growth driver in the US, and is moving increasingly to mainstream from its Hispanic roots.

The soluble coffee business continues to grow double-digit in Latin America. In AOA, we are seeing, good growth in many of the emerging markets, including Indochina and China, as well as in Japan.

Powdered Beverages are growing high single digit, with good performances from Milo, in AOA, Nescau in Latin America and Nesquik in Europe. Nestea Litro is also going well, with launches in Indochina and elsewhere. Among countries and regions to highlight are Africa, Indonesia, Indochina and South Asia, Mexico, France and Oceania.

Ready to drink beverages are growing double digit. The business is performing well in AOA, particularly Nescafé which is benefiting from increased brand support and distribution, but also Milo. The business is also growing double digit in the Americas.

The EBIT margin for Powdered and Liquid Beverages increased by 20 basis points to 22%. The second half will see increased spend on Nescafé Dolce Gusto ahead of the peak Christmas season, also relative to 2009, and increased input costs, including cocoa.

Slide 16 – Milk Products, including Ice Cream

Next is Milk products including Ice Cream.

First Milk, which is the key growth driver. It has high single digit organic growth, driven mainly by RIG. The growth is coming from the Nido affordable PPP range, which is growing double digit, and the growing up milk category, as well as innovations such as liquid in Brazil, Fruit Vitality in China and lactose-free in Mexico. In AOA, the growth is being driven by Indonesia, the Philippines and Africa. I've already touched on the situation in China. In Latin America, Brazil is performing well, as are some of the smaller regions.

I've already discussed Ice cream in my earlier comments on the Americas and Europe.

Overall, the product group improved its EBIT margin by 50 basis points to 11.5%. Both Milk and Ice Cream contributed.

Slide 17 – Prepared Dishes and Cooking Aids

Next prepared dishes and cooking aids.

There has been an acceleration in organic growth in the second quarter to 3.4%, driven wholly by RIG, with pricing actually slightly lighter than at Q1.

The drivers of this acceleration are

- the inclusion of the frozen pizza business, acquired in March,
- a further acceleration in Frozen and chilled Food in Europe.
- and a continued good performance in Ambient Culinary in Europe, Asia and Africa.

In Europe, I would highlight

- in Ambient culinary, market share gains for Maggi in Germany, and the continued progress of Juicy Chicken across Europe. Juicy Chicken will hit sales of over CHF100 million within 3 years of its roll-out.
- In Frozen, the continued good performance in Buitoni and Wagner Pizza, with strong innovation. Also, the strong performance by Nestlé Professional.
- In chilled, good innovation in filled-pasta in Italy
- And also, increased distribution in Lidl.

In North American Frozen Food, we are seeing a change in trends from the last few quarters:

- Stouffer's family and value packs are solid, as are the Hot Pockets multi-packs. The change in trend here is that there is some improvement, even if the category dynamics are lackluster.

- the Lean Cuisine and Lean Pockets brands are struggling in a weak category. We launched late in the half a new range of Steamed offerings under the Lean Cuisine Market Creations brand and, whilst it is early days, these are going well, and should bring some improvement to the H2 performance. Despite the segment challenges, Lean Cuisine is out-selling its competitors by two to one.

- The good news in North America is the strong start by the newly acquired pizza business.

The Product Group's EBIT margin declined by 90 basis points to 11.3%. This is the only category where we saw a margin decline. Key to the decline was the negative growth in the frozen business in the US. Also, we are spending behind the frozen brands to try to get more excitement into the category, including in support of the recent new Market Creations launch. The margin decline also reflects increased brand support for the other brands in the category.

Slide 18 – Confectionery

Turning now to confectionery.

The strong performance already seen in the first quarter, and helped then by the early Easter, has continued for the first half, with RIG of 4.3% and organic growth of 8.4%.

Much of the trends seen in Q1 remain consistent for the half:

- We are seeing good growth in the UK, and the market overall is growing. Western Europe, as a whole, is achieving positive RIG.

- The extension of the Wonka brand into Chocolate in the US has created an inflated short-term RIG in that market. The true success of the launch won't be clear until after the Autumn season.

- The emerging markets generally are achieving double digit growth. We are investing in new capacity in China, the Middle East, India and Brazil to meet the demand in those regions. The PPP model is working very well in countries such as India and China. Chocolate has about half a billion of sales from PPPs on an annualized basis.

- The Russian market continues to be weak, even if there are some signs of recovery. We are confident that our market segmentation strategy leaves us well placed to exploit the recovery.

In general, the competitive environment has been very promotional. The category is also facing increased raw material costs in the second half, with cocoa around all time highs, and we expect to give back much of the H1 margin improvement in the second half. Equally, there is always the risk that pricing could impact volume.

That first half margin improvement was 70 basis points to 12%.

Slide 19 – PetCare

The PetCare business has performed well in the Americas and Europe. AOA had a difficult first half due to some import issues, but these have since been resolved.

The key drivers of the North American growth, which accelerated in the first half, were *Beneful* , including the *IncrediBites* launch, *ProPlan*, with double-digit growth, including the *Shredded Blends* launch, as well as *Fancy Feast Appetizers*. The new super-premium brand, *Chef Michaels*, targeted at small dogs, also continued to gain distribution.

There was also mid single-digit organic growth in Europe, with good performances in Russia, Spain, and France amongst others, as well as strong performances from premium brands such as *Gourmet*, including the “a la carte” innovation, *Felix Sensations* and *Purina ONE*.

The growth in Europe and North Americas been achieved despite an on-going sku rationalization programme that has seen the business shed around a billion francs of sales on a global basis since 2003. We have shed private label production that came through acquisition, as well as much of our exposure to less value-added areas such as bulk wet-dog. The benefit of this is that we have been able to switch our capacity from this low-value production to high value-added premium and super-premium products and brands rather than having to build new factories. The benefits are there to see in the margin progression that the product group has reported over the years, but are also felt in the return on invested capital.

In the first half, the product group increased its margin by 190 basis points to 17.6%. Contributing to the improvement were mix, just discussed, but also raw materials and cost savings. Marketing spend was up in the half.

Slide 20 – Performance of Billionaire Brands

Next is the billionaire brands chart. I’ll just pick a few as we’ve already discussed our growth performance.

Three topical areas are Nutrition, Nespresso and US Pizza.

- It is good to see the NAN Infant Nutrition brand back at a high single digit growth level.
- Also, with all the brouhaha about Nespresso, I’m pleased to report that it is performing above its target, which was set before the new entrants launched their products. Those products were launched in France, and, in France, Nespresso continued to enjoy double digit growth.
- The newly acquired Digiorno pizza brand is achieving double digit growth.

In Chilled, the low Herta organic growth reflects negative pricing as RIG is mid-single digit, a good performance.

Also, the strength of our petcare business is demonstrated by its billionaire brands all being in the 5 to 20% growth bracket.

In our milk business, Nido is back to double digit growth, with PPPs performing very well.

Slide 21 – Summary

I think the key take-away from that run-through is how broad-based our performance is:-

- Positive real internal growth in emerging markets, and positive real internal growth also in the developed markets. As I said at the start, we are growing in Western Europe and we are growing in North America, and the emerging markets are enjoying double digit growth..
- And the EBIT margin improvement is also broad-based, with all the categories bar one contributing. And it has been delivered whilst also increasing our media spend and brand support.
- So to conclude on Food and Beverage: 5.7% organic growth; 6o basis points improvement in the EBIT margin.

I'll now hand back to Jim.

Slide 22 – Nestlé continues to deliver total performance

For some time now we have been sharing with you our view of the market conditions. These remain uncertain with a fair degree of volatility in currencies, commodity costs, and a general weakness in certain major geographic groupings, particularly Europe. This environment is not, in general, a surprise to us, although different elements emerge from one period to another. We have also shared with you, the nature of specific actions that we continue to take to improve performance. Today, again we have clearly demonstrated that our strategies are delivering good results, a broad based performance by Nestlé.

By leveraging our competitive advantages, particularly R+D, and aggressively supporting our brands, we have improved our market shares, globally. Our competitive performance, measured by our "business cells" is at its best position since we introduced this metric in June 2006. And we expect to continue to improve.

We capture growth and leverage our scale, which enable us to continue to achieve significant savings, well in line with our target to deliver another CHF 1.5 billion this year.

I think it is important to recognise the degree of focus within the company and the discipline with which we remain aligned to our strategic framework, even in these uncertain conditions. This commitment and determination is key to the delivery of our performance.

Slide 23 – Total Performance Framework

As I have just mentioned, our Performance Framework is an "AND" agenda; it is not being compromised by making "either/OR" choices. It is about "Driving Performance", and about enabling "Scale Benefits", and about driving "Simplicity" and about "Investing for Growth" in the future.

Slide 24 – EBIT Margin improvement: +100bps/80bps

I will review the first half numbers, then will talk about our international presence and about GLOBE, which is celebrating its 10^{th} anniversary.

Here you can see the usual EBIT bridge slide.

- There was a strong positive influence from the 'cost of goods sold' at 160 basis points. The key driver here was the savings from Nestlé Continuous Excellence, as well as the leverage benefit of the organic growth, partially offset by the increase in raw and packaging materials and in conversion costs. For the second half, we continue to see volatility in some raw materials and increased cost pressures.

- I have added a one-off element to the bridge. This is the 20 basis point benefit that accrues from the fact that under IFRS 5 we are no longer able to depreciate the Alcon assets as the Alcon business is treated as discontinued. This 20 basis points is included in the COGs mainly, and contributes to the 180 basis points, reported.

- Distribution costs also fell by 40 basis points. Much of the benefit relates to savings resulting from good work by the operations in all the different zones. The Waters business has also been very actively realigning and reducing its distribution structures; this brings a collateral benefit of improving its environmental performance. Looking to the second half, we will have higher oil costs than in the first half.

- Marketing costs have increased by 140 basis points. We have accelerated our promotional activities on all fronts, particularly in consumer facing initiatives, with more product launches and the faster global roll-out of products.

- The Administrative costs are down by 20 basis points. We are expanding Nestlé Continuous Excellence beyond operations to include administrative areas, and are leveraging our scale through our business services and best practices initiatives.

- R&D spend was unchanged.

- And that gives the 80 basis point improvement in the EBIT margin like for like which, combined with the IFRS requirement on Alcon depreciation, resulted in 100 basis points as reported.

The 80 basis points is a more accurate portrayal of the Group's performance, or 70 basis points in constant currencies.

Slide 25 – P&L: Earnings per share up 13.5%

Next is the income statement from EBIT to Net profit.

Three main comments:

- The increase in financial expenses reflects significantly higher net debt in the period due to the impact of the accelerated share buyback over the last twelve months, as well as the acquisition of the Pizza business.

- The increase in taxes reflects geographic mix in the business.

- The increase attributable to non-controlling interests reflects the improved performance of Alcon.

The net profit for the period is CHF6.3 billion, 11.4% of sales, an improvement of 40 basis points, and the net profit attributable to shareholders of the parent is CHF 5.5 billion, 9.8% of sales, up 10 basis points. The earnings per share are up 13.5% to CHF 1.60 per share.

Slide 26 – Operating cash flow: positive long term trend

And now the cash flow. The important message here is the trend of improvement that we are seeing over time, because both 2008 and 2009 were impacted by the raw material situation, firstly by the steep cost rises and then by the correction in those costs, as well as by quite significant currency movements, period-end over period-end.

As you can see on the slide, our operating cash flow had improved from 7.9% of sales in 2004 to 8.4% in 2007, before the volatility in 2008 and 2009, swinging between 6.5% and 12.3%. Today it stands at 10.4% of sales, demonstrating that the trend of improvement over time is still continuing.

Slide 27 – Working capital: positive trend as % of sales

Supporting this trend is the improvement in our working capital, which has improved from 9.4% of sales in 2005 to 7.4% of sales in 2010. The 2010 performance is a 100 basis points improvement over 2009.

On an absolute basis our operating cash flow is down by CHF 600 million due to the increase in working capital needed to support the growth in the business.

The cash conversion cycle has also improved.

Slide 28 – Net Debt Outlook / Use of cash

This is an update of a slide I showed at the full year that highlighted the cash impacts in 2010. The short term gearing level is temporary and we will manage back to an appropriate level of debt in the near term. This, in our view is a responsible approach, with flexibility both to support our strategic priorities and to achieve competitive returns for our shareholders.

Slide 29 – Alcon disposal

Just a quick update on Alcon. Nothing has changed since February. We still expect the deal to close in the current quarter.

We have been preparing for the cash in-flow in terms of treasury management and counter-party risk.

We believe that the continuing strong performance of the Food and beverage business, combined with the positive impact of the share buy-back, will be sufficient to compensate any dilutive impact from the Alcon disposal.

That concludes my run through the financials. I would like to talk a bit about Nestlé's global presence and growth profile.

Slide 30 – Nestlé's Growth Profile: H1 2010

Our growth profile is broad-based as you can see from this chart.

It is important to note the specific performance globally and by geographic segments combined with some of the key drivers of growth, such as geographic presence, PPPs, innovations and R&D, and the billionaire brands, all improving our competitiveness globally.

Slide 31 – Billionaire Brands

Our billionaire brands represent approximately 75% of our food and beverage sales and, as you have seen, are growing at 7% organically so far this year. More than half of these brands are growing above 7.5%, and 90% are showing positive growth. Only three brands out of 29 are not growing. And these are improving and gaining shares in declining markets.

Buitoni and Poland Spring are not currently billionaire brands, but with about half a billion of sales each at the first half and growth of 11% and 6% respectively, they likely will be again soon.

Slide 32 – Innovation & Renovation
2010 launches add 60bps to H1 RIG

Innovations launched in 2010 have contributed 60 basis points to this year's RIG. And we are at about 80% of our planned launches for the year. We should see a bigger impact from 2010 innovation in the second half.

Innovation is not just about giving a short term push to growth. Innovation is about building brands quickly and sustainably. Look at billionaire brands that didn't exist ten years ago, such as Beneful and Pure Life, for example. Or Nescafé Dolce Gusto, likely a 400 million brand within four years of launch.

This is a core competence at Nestlé – an area where we stand out: our ability to create, nurture, build and sustain new brands.

Slide 33 – Current M&A is a future growth enabler

Our current M&A activity is a future growth driver in both developed and emerging markets, across a number of categories and distribution channels. So far we have announced transactions with annualized sales of about CHF2.5 billion, primarily smaller strategic bolt-on acquisitions as previously discussed. Our focus is on Food and beverages, particularly nutrition, health and wellness, in both emerging and developed markets.

**Slide 34 – Emerging Markets: 82% of global population
CHF 35 bn of Nestlé Sales**

As you are aware, Nestlé was one of the pioneers of emerging market development, nearly 140 years ago. During the last 5 or 6 years, we have set out to you our assessment of the emerging market opportunity, incorporating about 1 billion new consumers. We've also told you that we are adapting business models to capture growth across the economic landscape of consumers globally. Hence, our integrated PPP business model (targeting specific income groups), our leadership in Halal foods and our US Hispanic initiative (targeting cultural preferences), as well as premiumisation across categories and value added disease specific nutrition. These are the plans that we are executing today, creating and embedding capabilities to achieve competitive leadership positions in the developed world and in emerging markets.

Slide 35 – Nestlé: The leader in Food & Beverage

There has been a lot written recently about emerging markets. Much of the research has tended to focus on the relative exposures of the companies as a percentage of their sales, and has suggested that Nestlé is under-exposed to the emerging markets, despite the fact that we have more Food & Beverage sales in those markets than any other company.

I think there is a danger of people under-estimating the value of scale, and of first-mover advantage. If one company has $2 billion of sales in China and the other has $200 million, then it is clear who has the greater presence, and who will be better able to leverage their scale, even if the $2 billion is less than 2% of the first company's sales, and the $200 million is more than 4% of the second company's sales.

Slide 36 – A focus on % presence in any given market raises questions...

What are the advantages of scale? One way of answering that question might be to look quickly at what a percent of sales-driven approach doesn't tell us. The percentage approach tells us nothing about:

- the absolute scale of a company in any given market
- whether it manufactures locally, whether it has the scale to do local R&D.
- how long it has been in a market
- its market presence or market shares or leadership, or the strength of its brands
- It gives us no insight into whether a company has understood the intricacies of local distribution, the trade environment or of a country's traditions.
- It tells us nothing about a company's ability to attract local talent…
- or about a company's risk profile in that market and, of course…

it tells us nothing about a company's financial performance

Slide 37 – A focus on absolute sales in any given market answers those questions...

The single, simple, most important thing to do is to look at a company's actual scale and organic development in any market. This will give you an insight into what really matters.

A company with meaningful scale

- will have consumer relationships dating back over decades – and well-entrenched brands
- Will have a meaningful presence, in terms of market shares and of physical duration in the market
- Will be able to manufacture locally, and to adapt products to local tastes, even to have fully-fledged local R&D
- will understand the local challenges, whether logistic, cultural or political
- And, critically, it will be able to leverage that scale to optimize the growth opportunities in the market.
- And from a financial perspective, a company with meaningful scale, which has been in a market for decades, will have a lower risk profile than a newer entrant, and sustainable returns, whether in terms of EBIT or capital.
- And, of course, it will be seen as a meaningful player, able to attract the best talent

Speaking personally, if I was looking to invest in a business, this is just the sort of information I would want to have. Sure a company's overall exposure to emerging markets is an interesting snap shot, but I'd want to get in deeper behind those percentages.

Slide 38 – Leadership: Scale – all over the world

Let's have a look at Nestlé in particular. We have CHF35 billion of F&B sales in emerging markets, about 35% of our F&B sales. Our size and scale in Food & Beverages are unmatched and reflect our long-standing commitment to this geographic area.

What does that mean in terms of our portfolio?

Slide 39 – Emerging Market Presence - Geographic

On this next slide you can see our biggest emerging markets. In total, we have 18 emerging markets with annual F&B sales in excess of CHF 500 million. You can also see where we rank in terms of sales in each country compared to all the other local and international F&B players. We are in the top 3 in 13 of the 18 countries.

- It is interesting to note that Brazil is already our fourth largest market in the world, with sales over CHF 5 billion. And it is one of 4 emerging markets that have sales over CHF 2 billion
- India, the only BRIC not above CHF 2 billion, has comfortably over CHF 1 billion of sales and double digit organic growth. We have the second highest level of F&B sales in India after a local co-operative.

- Seven of the 18 markets are in Asia; five are in Latin America, including 3 of the top 5; four are in Europe; two are in the Middle East, and one is in Africa. Our scale is broad-based.

These eighteen markets show clearly the bench-strength that Nestlé has in emerging markets. They represent an amazing platform for growth, already achieving a good level of EBIT margin and return on capital. And, of course, below these eighteen, are many more markets with equally exciting potential.

Slide 40 – Emerging Market Presence – Product Groups

On this next slide, you can see our categories. For each category you can see what percentage of sales in the category is achieved in emerging markets, as well as how many of the category's top ten markets are emerging markets.

The product categories divide into two subsets. First are those that have a strong emerging market presence. Many of these are dehydrated in one way or another, easily transportable, easily portion-able, safe and shelf stable: infant formula, ambient dairy, soluble coffee, powdered beverages, culinary. Confectionery and ready to drink beverages are the exceptions, not being powdered, though they are shelf-stable, portionable, and more for impulse consumption. These generally were the pioneering emerging market categories for Nestlé.

The second subset is categories such as ice cream, water, PetCare and Frozen and chilled culinary, which I would classify as our follow-on categories. These represent opportunities which are being captured as the routes to market are being developed.

- Milk stands out, with 80% of its sales in emerging markets. 9 out of Milk's top ten markets are emerging.

- Powdered Beverages has 65% of its sales in Emerging markets, with Milo, Nescau, Nestea and Nesquik. Five of its top 10 are emerging markets.

- Infant Nutrition, Ambient Culinary and Soluble coffee have half their sales in emerging markets. Six of Infant Nutrition's top ten markets are emerging, as are four of Culinary's and Nescafé's.

- The Nescafé and Maggi brands both originated in Europe. This trend of European brands being adopted in emerging markets is one which we will see more of in years to come, with brands such as *KitKat*, *Nespresso*, *Friskies*, *Dolce Gusto* and, eventually, *Special T*, building their presence in emerging markets.

- Confectionery has 45% of its sales in emerging markets. Ready to drink has beverages 40%, and 6 of its top ten are emerging markets.

- The biggest of the second set is Ice Cream, with 20% of its sales in emerging markets.

- PetCare is interesting for a couple of reasons. Firstly, its presence in emerging markets is small, but growing very rapidly, and 10% equates to sales of over CHF 1 billion. Secondly, PetCare is one of our fastest growing categories, with consistent six percent or more organic growth, despite being predominantly a developed market business so far.

Other fast growing businesses with predominantly developed market presence include Jenny Craig, even if its recent performance has slowed; and, of course, Nespresso and Nescafé Dolce Gusto. This demonstrates that there is more to high growth than just being present in emerging markets. This too is a point that is sometimes overlooked – developed market businesses can be growth drivers too.

Slide 41 – Nestlé in emerging markets

I hope I have demonstrated that Nestlé does not lack scale, relative either to the international or local competition, in the emerging markets. In fact the opposite is true. Our scale is unmatched.

- We have long said that our geographic presence is one of our competitive advantages. It is, and not just because of our scale, but also because of our longevity in those markets.

Today these markets have sales of CHF35 billion, about 35% of our F&B sales, as I said. Over the last five years to end 2009, they have averaged 11.5% organic growth, so we're rich with potential for further growth in those markets.

Slide 42 – The developed markets

The research written about emerging markets concludes not surprisingly that the company with a higher percentage of its sales in emerging markets will have a higher overall growth profile. But what the research doesn't generally do is seek to make any analysis of the companies' non-emerging market businesses.

It is almost as if the assumption is that all developed markets are equal and that the performance of all companies in all developed markets is equal. This, self-evidently, is not the case.

Slide 43 – Nestlé in developed markets

Again let's look at Nestlé.

- Over the last 5 years, North America has averaged 6% organic growth. I think we can all agree that this is a strong performance from a developed market. Certainly, it is out-performing the overall F&B industry in North America, helped by the category choices we have made.

- Nestlé has CHF29 billion of sales in North America, before consolidating pizza. This is no accident, and we are proud of this achievement. We have long been bulls of the North American consumer, and we continue to believe that the demographics there and the trends in our particular categories remain very positive for us.

Western Europe has averaged 2.5% organic growth over the five years. This is rather slower than North America. You might say that's not a great number, and we too would have liked to have done better, but it has been good enough to see the EBIT margins moving forward meaningfully.

Slide 44 – Nestlé in Western Europe: H1 2010

- And by the way, even in the current environment we are achieving real internal growth in Western Europe:
  Germany is positive, PetCare is positive, France is positive, the Great Britain region is positive, and so are the Iberia region and Italy. And the globally managed businesses were enhancing to the region's growth.

- The other point about Western Europe, which I have already mentioned, is that it has been the launch pad for many of our brands that are driving growth in the emerging markets today, and it will continue to be in the years to come. This shouldn't be under-estimated. Emerging market consumers will continue to aspire to buy international brands. This has been true for a while of mainstream brands, and is increasingly so of premium brands as well.

In total our developed markets have averaged 4% annual organic growth over the last 5 years. Think about that for a moment. If 65% of our business is growing at 4%, you can appreciate the degree of commitment to investment in capabilities, brands and people that we are making to enable the remaining 35% to grow to reach 45% of our sales, our target by 2020.

It is absolutely critical that our evolution, both in the developed world and in emerging markets is well understood. We do not want to be under-valued for growing our developed markets as well as the emerging ones.

Slide 45 – Nestlé the leader globally

Whether as a business, or as an investor, you need to understand your risks as well as your opportunities.

- The emerging markets are certainly an opportunity to enhance performance.
- Those who are able to optimize those opportunities whilst managing the attendant risks will be the winners there – and Nestlé has a head start.
- The developed markets have challenges, but they also offer opportunities.

We have demonstrated our ability to navigate around the difficult environment in developed markets and to optimise the opportunities there, as proven by our positive organic growth in the developed world, even in 2009 and which continues in 2010.

Slide 46 – Winning – means winning globally

So, let's not forget:

- we're all running global businesses…
- the winners, those who create the greatest value for their shareholders on a sustainable basis…

will be those who win on a global basis, not those who only progress in emerging markets.

Slide 47 – GLOBE: 10 years on

And "Winning" is the theme of the next part of my presentation.

When we talk internally at Nestlé about winning, we mean

- driving competitive advantage all along the value chain;
- creating performance gaps between us and the competition,
- and increasing our own level of competitive intensity within our operations.

It is our ambition not just to create gaps, but to be ahead of the competition permanently. A key enabler to doing this is GLOBE. This year is the 10th anniversary of GLOBE, so it is fitting that we revisit it.

I want briefly to remind you what our ambition was 10 years ago, and then to talk in more detail about what GLOBE means to Nestlé today, and what our ambition is for the future.

And, not surprisingly, the best is still to come.

Slide 48 – Launch of GLOBE

This is a statement Peter Brabeck made when he launched GLOBE. You can see it for yourself. His message was that we needed to leverage our size as an advantage and to do so without being held back by the problems size can bring, such as complexity, slow decision-making and inertia.

Slide 49 – GLOBE Initial Objectives

GLOBE had three objectives initially:

- To harmonise best practices (remember, the GLOBE acronym stands for “Global Business Excellence” – this aspect of GLOBE continues today to be a key driver of operational and financial performance).
- Second, to create one set of data standards (and by the way, we reduced our data as a result by 65%)
- and to put in place a common IT system –we chose SAP as the main software platform.

We accepted the fact that, given our global scale, we would always be complex, but we believed that, with GLOBE, we could break the rule that complexity necessarily meant inefficiency. We believed that we could create a new dynamic of complexity <u>with</u> efficiency. I believe today that we are well on course to do that.

Slide 50 – IS/IT Cost Evolution. Inflation prior to 200, flat since.

This chart shows our IS/IT spend. A couple of points to make.

- First, in common with many, we were experiencing significant inflation in these costs in the 1990s.
- When we announced GLOBE we undertook to keep costs for the first years to 1.9% of sales and then 2%. We did this, including the depreciation costs. This in itself was a good cost avoidance achievement.

Without GLOBE, we would probably have costs running 30 or 40 basis points higher today.

Slide 51 – GLOBE implementation status after 10 Years

Where are we today, ten years after the launch? Some statistics tell part of the story.

GLOBE is in 90 countries, 2,500 facilities and is being used by 160,000 people.

More significant is that we have just done a major upgrade of our whole operating system globally, and we did this without any disruption to our business. That was a major achievement by our people. But what is really exciting about it is that we are now set to move to even higher levels of performance over the rest of the decade, with the benefit of the latest technology.

Slide 52 – After 10 years

We are moving now from focusing on what Peter Brabeck described as “unlocking our potential” to focusing on using GLOBE to keep us “one step ahead” – in other words to enhance competitive advantage, and drive competitive gaps all along the value chain. Let's have a look at some of the ways we will do this.

Slide 53 – Nestlé Continuous Excellence & GLOBE

The start point is to understand how linked GLOBE is to Nestlé Continuous Excellence. Nestlé Continuous Excellence took its name from Nestlé's inspiration of continuous improvement and GLOBE's focus on business excellence. Hence Nestlé Continuous Excellence. Today the combination of the two, NCE and GLOBE, combines to create a way of driving improved performance that goes beyond any standard efficiency programme.

Slide 54 – GLOBE & Nestlé Continuous Excellence will enable sustainable profitable growth

There are three new objectives for GLOBE as enabler, linked to Nestlé Continuous Excellence; two on this slide, one on the next.

- The first is all about operational performance – driving synergies, optimizing skus, improving our ESG (environmental, social & governance) performance which, by the way has a direct link to the financials as you will see later. Increasing traceability, and so on. Of course, you will say, we and everyone else has been doing all these things for years.

  I am not talking about doing them. I am talking about becoming the best at doing them.

  If I take traceability as an example. After the melamine crisis in China, we were the first company that was able to put the "melamine-compliant" sticker on our milk. That was a clear competitive advantage at that time and contributed significantly to our good market share performance.

  If I take cost savings as an example. For 10 years we have averaged CHF1 billion a year in savings. We are now targeting CHF1.5 billion a year. Think about that – after 10 years and 10 billion of savings, it ought to be getting harder not easier. The fact is that by using an end-to end process from supplier to customer, we have been able to increase significantly the cost base that we are targeting for savings.

- The second objective is all about Business Excellence, which has always been at the heart of GLOBE and of Nestlé Continuous Excellence.

  Just think about the expertise that resides in those 160,000 people who are using the system. Simply put, we are pulling together the best of everything in Nestlé and we are sharing it around the organization. This has a huge multiplier effect because, regardless of how good somebody is at something, nobody is the best at everything – so everyone, every factory, every distribution centre, every sales team, every administrative function, every R&D centre, has room for improvement. They all have the ability to drive efficiency, enhance growth, to accelerate innovation, to improve whatever KPIs they have

  Of course, there is structure behind the concept. That structure includes our shared service centres, the GNBS and NBS, as well as our operational teams. And, of course, there is data as well. The data is key to measurement, to rapid, informed decision making, to accountability and to delivery against targets, as well as to control.

  Equally, the high quality, timely data enables us to manage extreme complexity with incredible efficiency. For example the on-going double digit growth of our PPPs and the associated increases in our distribution create immense challenges. Just think about the number of individually packaged items we are manufacturing, all of which need to be to the same quality, think about the hugely complex supply chain and distribution challenges, as well as the challenge of managing the cash flows. Yet, we are doing it, and it is accretive to earnings.

Slide 55 – GLOBE & Nestlé Continuous Excellence will enable sustainable profitable growth

- The third objective is all about effectiveness and efficiency.
  It is about reducing cost, about being the low cost operator.
  It is about capital avoidance through increased efficiency, about increasing returns on invested capital.
  It is about reducing inventories at the same time as increasing customer service levels.
  And, it is about continuing to control our IS/IT costs.

Slide 56 – Some GLOBE & NCE-related KPIs

I hope I have given you an overview of what GLOBE and NCE mean to us today. We will probably come back on this with you in more detail at another time. For now though, here are just some of the KPIs that we look at when measuring GLOBE's success as an enabler, and the impact of NCE.

From an operational perspective, these include:

- Cost and capital savings
- Our records on safety and on quality incidents
- Demand planning accuracy & customer service levels
- Working capital

These KPIs tend to feed into Product benefits, such as

- Freshness and reduced bad goods
- And, of course, we are very focused on 60/40+ to ensure we have the best products in the market.

These and other product KPIs also feed into our growth performance.

- SKU optimization is key to healthy growth. This is perhaps a little bit counter-intuitive but the fact is that by optimizing your SKUs you are freeing up resource, financial, manufacturing and human, to put behind your winning SKUs. This will accelerate growth.

The same is true of simplicity . Again it frees up everyone's time to focus on the RIG, on profitable growth.

Slide 57 – Manufacturing productivity has continuously improved over the last 5 years

A couple of examples on KPIs. First manufacturing. We have increased our tonnage per factory by 23% over the last 5 years. This is a great example of capital avoidance.

Slide 58 – Strong performance on the major environment and safety indicators

Despite the tonnage increase shown on the previous chart, we have reduced our usage of water and energy by 21% and 15% respectively over the last five years, and our green house gases are down by 18%. At the same time our lost time injury rate is down by over 70%. Again, this feeds directly to financial performance: think about the cost savings related to that 15% reduction in energy usage, for example.

Slide 59 – Business Excellence Awards

We hold annual business excellence awards. This is not just an awards ceremony however.

It is a wonderful way to share in the business the best of what different teams all around the world at Nestlé are doing. Last year, we were able to make available to the organization 140 examples of best practice, together with implementation guidelines and contact points. This year we already have a further 100 examples. This is a really effective way of encouraging and seeding further performance improvement.

Slide 60 – GLOBE driving profitable growth for years to come

That completes my overview on GLOBE. The first ten years saw real commitment, excellent execution and good progress. But the best is yet to come. GLOBE, more than ever, with Nestlé Continuous Excellence will be an enabler of future profitable growth. It will raise our standards in terms of cost and capital efficiencies and working capital performance, but it will also free up resource to drive growth. It will be a catalyst for outperformance.

As Paul Bulcke says, GLOBE will create sustainable competitive advantage by creating performance gaps between us and our competitors all along the value chain, from supplier to customer. And this is a really key point: Paul is not talking about achieving a particular competitive advantage somewhere in the business – which very likely will soon be matched by someone else. He is talking about creating competitive advantage everywhere in the business. And that is something that will be incredibly difficult for others to match. That is a truly sustainable competitive advantage.

Thanks very much for your attention. I'll now just wrap up my presentation before going to the Q&A.

Slide 61 – Summary

So to summarise:

- Nestlé delivered very strong top and bottom line in the first half of the year. Accelerating our investment in our brands and capabilities around the world, we have prepared the company for a more challenging second half. This allows us to reconfirm our earlier guidance for the year that we are expecting to achieve around 5% organic growth whilst also improving the EBIT margin in constant currencies over 2009.

- We are focused on winning all around the world – not just in emerging markets; not just in developed markets. Every market in the world has opportunity. We are going to win wherever the opportunity lies. These opportunities are a catalyst for Nestlé.

- GLOBE has been a fantastic enabler of performance for Nestlé in the last decade. I believe, however, that as we move from implementation to exploitation of the GLOBE capabilities, the best is still to come. GLOBE is another catalyst for Nestlé.

And finally, since I am talking about catalysts, I believe that, regardless of what the latest topical theme might be, the best catalyst of all is simply consistent year after progress in operating performance. And that is our focus – in every product group and every operating segment.

Slide 62 – Conclusion

So to conclude, Nestlé is focused on year after year performance improvement, in line with our total performance framework, and aligned with our strategic priorities. Performance without compromise. Thank you. Let's now go to questions.

Q&A Session

Questions on; Preparations for more challenging second half
Slow down in growth in Europe and role of Ice Cream in slow down

Warren Ackerman, Evolution:

Two questions, the first one Jim, you said you're preparing the business for a more challenging second half of the year; can you just expand on that comment please? And then secondly, more specifically, on Europe, Europe grew I think in Q2 organically at 1% versus 3.5% in Q1; I'm just wondering what's behind that slowdown and how much of a role did Ice Cream play in the slowdown in Q2? If you ex out Ice Cream would there still have been a slowdown? Thank you.

James Singh, Nestlé SA, Chief Financial Officer:

In terms of preparing the business, as I said in the presentation, during the course of last year and especially the beginning of this year when we announced our results I showed you a chart about the recognition of the market conditions. And one point in that chart was marketplace uncertainty that will result in increased pressures on pricing and volumes.

I also explained that we were taking several initiatives to make sure that the organisation was ready and prepared and to take early action in order to achieve flexibility, to deal with conditions that sometimes are not easily predictable. Those actions have been put in place.

We talked about accelerating our promotion activities to make sure that our brands remain competitive and well supported in the minds of the consumer, building relationships with them. We talked about using all vehicles for communicating with our consumers and increasing the activity in that area. And we also talked about actions that we will take to help protect from the volatility in our input cost basket. And if you can recall we did guide you to an increase in our input costs, somewhere between 2 to 3%.

Those are the things we were talking about in terms of how we are preparing the organisation for the second half, for the first half - for all of this year and perhaps next year as we go into next year.

So when we say this is not a surprise to us, it's a sense of confidence in the organisation that we recognising that the environment, especially certain parts of the world, are difficult. But we need to make progress and you've seen we've made progress. So that's what we mean when we said we have prepared the organisation. It's not something that we started to do last month or in May. It's something we've been doing since last year in trying to implement initiatives, some that are top driven and some that are adopted, initiated by the markets to make sure they make progress, as we've done in the first six months.

Just coming to the other question in Europe. First of all the numbers may say the second quarter is lower than the first quarter. But I would not characterise our experience as a slowdown, because if you look at first and second quarter whether you look at first or you look at the second, or you look at them together for the first half I think we're making good progress in Europe. Sure, it's a more difficult market environment. If you go back four years, or five years, North America grew 6%, Europe grew 2.5%; the whole developed world grew 4.5%. In fact what you're seeing is a step down in growth and Europe is relative to that.

All our major markets in Europe had positive growth in the first six months. And all our categories also have positive growth in the first six months. So yes, it is one of the difficult areas of the world, but we are doing everything possible to make sure we get growth wherever growth can be had.

Warren Ackerman, Evolution:

Sorry Jim, just to clarify; on Ice Cream, did Ice Cream have a very significantly negative impact in Q2, that was the question?

James Singh:

Well I think Ice Cream was slower yes, I think we had a slower start to the season, but Ice Cream in total has positive organic growth.

Question on;	**Factors influencing second half guidance**

Julian Hardwick, RBS:

I'll just follow on from that and perhaps you could just help us to understand, has anything about the outlook for the second half changed in your thinking over the last three months or so, specifically are you still looking for 2 to 3% raw material cost increase for this year? Have you changed your view about what the pricing environment is going to look like or the competitive market? I think that would be quite helpful, to understand how your thinking has evolved about the second half.

James Singh:

Thanks Julian. Yes, I think we are maintaining our guidance in terms of our input cost basket, 2 to 3%. The first half was at the lower end of that range, as a matter of fact slightly below 2% and therefore we're expecting a higher level of cost impact in the second half. And to the extent that we can protect against that we are and we continue to do so. But this is the guidance we gave you at the beginning of the year and we're sticking with that for the rest of the year - for the full year.

I think the volatility that we're seeing in some of these commodities will lead to some pricing action later on in the year. And we are engaging with all the parties concerned about what are the implications for sustained volatility and how we can work together to make sure that we minimise the impact on the consumer.

As you know, we don't only depend on pricing to manage input cost pressures. We have a very aggressive, a very successful savings programme and this is why we need to be successful in these areas. And we are, we're trending very well in terms of achieving our CHF 1.5 billion again this year, which will help us deal with some of these issues.

Our pricing, when you look at first quarter second quarter, is trending down. What I would say, given what pricing actions are likely to take place this second half, you'll likely see a more of a stabilisation of that price level. I see our pricing more at a stability level rather than continuing to decline because it's a sort of carry on effect from last year. But instead of seeing this gradual decline you'll see more stability in our pricing going forward for the balance of the year.

Question on;	**Deceleration in margin expansion in second half** **Cost savings and marketing spend in second half**

Nico Lambrechts, Bank of America, Merrill Lynch:

For the second half should we expect a significant deceleration in the margin expansion, following quite an impressive 60 basis points increase in the first half?

James Singh:

We have said in our guidance that the EBIT margin in 2010 will reflect an improvement in constant currencies over last year. That's our guidance and we're sticking to it.

Nico Lambrechts, Bank of America, Merrill Lynch:

You have commented on cost pressures, could you maybe give us some insight then into should cost savings in the second half accelerate and would the increase in marketing spending not be as big as in the first half? And maybe then some insight into the moving parts and the bridge into the second half if you could?

James Singh:

Well yes, if you look at the input costs, we said the first half was slightly lower than the range we gave you and the second half will be higher.

Our savings programmes tend to be greater in the second half, because the first half you start implementing, rolling over plans and this is why we said that we are well on trend or on track to achieve the 1.5 billion.

On promotions, including consumer facing promotions, we will do what it takes to be competitive. So we're going to be launching new products, as I said we have 80% of our programme this year on innovation already introduced to the markets, now that is being phased in. And as you launch new products, new innovations or you extend the reach of existing innovations to new markets that requires an increase in advertising and brand support to make sure you have a good start. And that is the way we'll be managing the company. You'll the first half this year is an acceleration in terms of what we're spending against the support of our brands relative to last year for the first part.

You may see some tapering down because in fact what we're spending at a level somewhere between where we are today and where we ended the average of last year. So you could look at the numbers and see it for yourself.

So we are going to spend what it takes. I think there were some questions last year on whether we were slow to act. In fact, we have not been slow to act; we are very consequent in terms of how we spend money to support our brands. And it's not only spending, advertising and promotion it's what is the value we're building into our brands in terms of increasing the value to the consumers and the business models we're using to make sure that we have brands at a value that consumers can afford.

So within our categories, in addition to our PPP model we have segmented products in terms of value within our brands so you can trade up or trade down without having to trade out of the Nestlé brands.

Nico Lambrechts, Bank of America, Merrill Lynch:

And then just a follow up from that, you indicated GLOBE and your potential acceleration of cost savings and tie that into your revenue performance in a difficult market period. Do you think '11 going forward we could see similar growth rates that we saw in the previous five years, or an acceleration, or a step up from that?

James Singh:

Well, we talked about Nestlé's ability to continue to make progress. Most of the second part of our discussion this morning is about what are the core competencies and capabilities of Nestlé to continue to perform in the emerging markets and in the developed markets; in terms of our brands, our global presence, our R&D set up and the productivity of our R&D and the 260,000 people we have around the world.

These are the four competitive advantages we have that have taken us through one of the most difficult periods over the last 40 or 50 years, and we are highly confident as we are doing this year that we will continue to perform, given whatever the market conditions are. And surely we are not immune, but I think we have the defensive capabilities to make progress, even if things get difficult.

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

I think there are a number of questions around the same subject, in terms of H2 and into 2011. And I think if you look at the first half income statement it tells you what we're doing to manage the business and to prepare for 2010 H2. You know the cost of goods sold is under control, savings are coming through, you've seen an increased investment behind the brands and it's clear that we will spend more in 2010 than we did in 2009 on brand support.

And we've said before, you know, as we put more and more nutritional arguments behind our brands you need to spend to make the arguments. So that trend is a trend that will continue. Equally distribution costs are coming down, R&D is flat, it's up a little bit in terms of absolute spend. But you can see in the income statement exactly what we're doing to prepare ourselves from the challenges ahead and to continue to drive growth. And that's all aligned with the Nestlé model.

Question on; Working Capital and Consumer Facing marketing spend

Xavier Croquez, Cheuvreux:

I need clarification on two technicalities; the first one is the working cap. You showed us this chart that presents a trend down, but in the financial report the working cap swing is massively negative so what's the technical difference? And the second point of clarification, when you say consumer facing marketing spend, is consumer facing promotional pricing included in this or not? Thank you.

James Singh:

The working capital numbers you see are the absolute numbers at the half year, going back 12 months sales. So you could actually do that calculation. So those numbers are in the financials. The absolute working capital has increased and we told you the reason is that we are back to a normal level of working capital to support the business in absolute terms. The business is growing 5.7%, 6.1% and that increase requires additional working capital around the world. And as you launch new products it does have some volatility in your working capital. And a seasonal business like Ice Cream and Water in this season, I think they have some seasonal impact on your working capital. But the fact is that in absolute Swiss francs our working capital values have increased consistent with the growth requirements of the business.

Roddy Child-Villiers:

If you're talking about the difference between the cash flow and the balance sheet, then the difference is simply that the cash flow is done at December 31 exchange rate and the balance sheet is not. So there's a difference that you won't be able to read across through. The consumer facing marketing question?

James Singh:

The consumer facing marketing is what we spend directly to benefit our brand and benefit our consumers. When we talk consumer facing we do not talk about price promotion kind of price related promotions - they are not included in that categorisation.

Questions on;	**Cost saving targets** **Details of other Food and Beverages performance**

Simon Marshall-Lockyer, Jefferies:

Can I just ask you on the cost savings, at the end of the presentation relating to GLOBE Jim you were indicating that 1.5 billion. I think so far the 1.5 billion you'd talked about was an increase from the 1 billion in the 2010 context. Are you saying in that GLOBE and Continuous Excellence programme that the target is effectively being raised now to 1.5 billion on a recurrent basis? That's my first question.

The second question is really more understanding and granularity on the other Food and Beverage performance during the first half with the 250 basis points improvement in margin there. Yet, the powdered and liquid beverage margins were up 20 basis points. So my question relates to Nespresso with Nestlé Professional, should we take it that it was Nestlé Professional that drove most of the increase in margins in other Food and Beverage during the first half?

James Singh:

Let me deal with the first question on cost savings. There are three savings out of GLOBE categorisation. One is the cost avoidance, if we - and I personally believe this, if we did not have a more holistic approach to information systems management, to data management and managing what technological platforms you embed in a company, so complex and so large, that the 2% that you're seeing, that we're experiencing today, would have been at least 30 to 40 basis points higher per year.

You take that, that's about CHF 300 to 400 million in cost avoidance. And if you capitalise that, you'll get a value in excess of CHF 4 billion, on an after tax basis. So that's a big benefit that we're getting from having GLOBE the way it has been configured and deployed in the organisation.

Yes, the 1.5 billion is what we achieved last year, slightly more or less. This is the target this year. It has been 1 billion in the past. And as I said you have a company, a billion a year, ten billion over 10 years it should be a little more difficult to get the next billion. But with GLOBE we have not only maintained the 1 billion a year we have increased the target.

Now GLOBE is an important enabler of that, there are other things we're doing in the company; but GLOBE is an important enabler there.

The other one is capital expenditure. And that is where the ability to have visibility on what the organisation is doing, how we're managing every selling unit in the company. Since the implementation of GLOBE and the adoption at the higher level of operating efficiency of GLOBE over the last three years - over the last four years we have reduced the data population in Nestlé by 65%. We have reduced our SKUs by 35%. You see the increase in the production, or the productive capability of our factories by 20 to 30%, which means that we're producing a lot more products in the same factory relative to what we've done in the past.

So when you look at GLOBE and how it is driving value creation in the company and how it is enriching the lives of the people that work within Nestlé, it is a value that you can't simply attribute to it. But you know it is one of the catalysts in Nestlé. And that is why we said GLOBE is a catalyst for performance.

Now the other question on other Food and Beverage, yes, I would say that all the element in the other categories, the joint ventures, Nestlé Food Service, or Nestlé Professional and Nespresso have contributed significantly, you see 240 basis points improvement. It's a smaller base but it's an important improvement.

But Nestlé Professional is not the key, it's an important contributor, but it's not the dominating contributor in that area.

Roddy Child-Villiers:

If you look at the Powdered and Liquid Beverages, first of all remember that both Nespresso is in Powdered and Liquid, but so are the coffee sales made by Nestlé Professional in Powdered and Liquid. So both of them have done well and both of them have contributed to that 20 basis points improvement. Thus the obvious question is, something must have gone down and clearly within Powdered Beverages, we have the malt beverages, high cocoa content - there's some raw material pressure there. And in soluble coffee we mentioned Dolce Gusto about 400 million of sales this year. We're continuing to roll that out, we have a lot of markets that therefore are not yet making a profit, let alone a soluble coffee margin profit.

And on that theme when we go out in the US in September and we go nationwide in a huge number of Wal-Marts, marketing support behind that, that trend of investment in the future profitable growth of Dolce Gusto is going to increase.

So there are things going on in those businesses that are impacting the margin if you like. One is raw materials, the other is investment. But within the globally managed businesses we're seeing very strong performance from Nespresso, a very strong performance from Professional. So I hope that's helped there.

Question on;	**Organic growth in Europe**

Polly Barclay, JP Morgan Cazenove:

Just coming back to Europe please. On the Q1 call you commented that performance of organic sales growth, I think it was 3.4% in the Q1 period, could be roughly what you would deliver for the full year. Can you just update us on your thoughts on that in the light of the performance in Q2? Thanks.

Roddy Child-Villiers:

That was me wasn't it so I better answer. I think we would have to say we were a little bit over optimistic in terms of the organic growth number but we do continue to believe that we will deliver positive organic growth and RIG. I won't say that the first half number is a good guide for the rest of the year because you probably won't believe me as I got it wrong last time. But we are still very positive about or very committed to delivering a positive performance in both Western Europe and in the Zone.

Questions on;	**Benefit to margins from pensions financing** **Reporting of revenue**

Jeff Stent, Exane BNP Paribas:

Two questions if may. The first one's a little bit technical but if you could quantify the benefit to margins from the pensions financing? And the second one is there was a lot of talk about sort of meaningful absolute comparisons. I guess it would be even more meaningful if your sales recognition was more aligned with peers. Are there any plans on that front? Thanks.

Roddy Child-Villiers:

On the first one there's no material impact from the pension costs on net net.

James Singh:

First of all I just want to make one thing clear, it's that our reporting of revenues is consistent to what we have done for many years, we have not changed anything. And by the way if we change the reporting on net net sales it will not change - as a matter of fact it will have a very positive impact on our margin structures. And we have shared that with you before.

But it's not going to change the absolute numbers in terms of what we achieve in margins, how much we spend against our brands, our earnings per share, our net profit, our cash flows. But we recognise that that is something that we look at from time to time and there is a new IFRS exposure bulletin that has recently been issued and we are looking at that to see what will be required when those new standards are implemented. So we're studying that now and we'll get back to you if and when we decide to change anything.

Roddy Child-Villiers:

And I think you phrased your question very well. We're talking about comparability; we're not talking about performance. And you know over the last five years we've returned, including 2010, 60 billion to shareholders and that doesn't change if you change how you report your sales. So we are talking about comparability, not about performance.

Questions on;	**Marketing spend increase in second half** **Signs of slowdown in emerging markets**

Jeremy Fialko, Redburn Partners:

A couple of questions. The first one is on marketing in the second half. Obviously your consumer facing marketing was up quite strongly in the first half. Would you expect a similar sort of increase in the second half?

And the second question is on your emerging markets more generally. It certainly seems quite a sort of default view that the emerging markets will continue to grow at a pretty rapid rate. Are there any sort of major emerging markets where you are seeing any signs of a slowdown at the moment? Thanks.

James Singh:

Marketing spending first half versus second half, yes the first half our consumer facing marketing was up 14%. As I said we continue to increase spending in this area and I have no forecast that would indicate that we will reduce the level of support we give our brands for the balance of the year.

In emerging markets, we believe that emerging markets will continue to be an important aspect of our growth. We have not seen any indications of any slowdown in any one of the major emerging markets. As a matter of fact you see the BRIC markets, which are the larger of the emerging markets, growing faster than our total emerging markets growth. So we don't have any indication of any slowdown in any one of those larger markets.

Questions on;	**Eastern European performance** **Clinical Nutrition margins** **Main contributors to margin improvement in Nutrition**

Alan Erskine, UBS:

Few quick questions. One, can you tell us was Eastern Europe negative in the quarter? Secondly you said in the presentation that the Infant Nutrition if I heard it right, the Infant Nutrition margins are above the margins for the Nutrition division as a whole. I could take it from that that the clinical nutrition margins are below the 19% reported. And thirdly can you give us some granularity as to the contributors to the margin improvement in the Nutrition division. Was it mainly the clinical side or was the Baby Food part of that as well? And if so what was helping to drive that? Thank you.

Roddy Child-Villiers:

On Infant Nutrition your assumption is correct. And on the Healthcare side the margins are lower but they are improving across the board, driven mainly by the work we did last year even though we talked about that when we were getting out of some unprofitable customer relationships, we were doing the synergies post acquisition, we were rationalising the brands. So we now have a much more focused business in terms of product and in terms of customers and we're seeing the growth coming through quite nicely and the margins also improving.

And in Europe we were positive in the quarter. In fact Russia improved a bit over where it was in the first quarter. We said it was, you know there were some signs of some improvement. But the numbers were nothing to write home about but it did improve a bit.

James Singh:

Yes both Eastern and Western Europe had positive numbers in the second quarter.

Question on;	**Net profit and Earnings Per Share figures** **Chocolate performance in Russia**

Deborah Aitken, Bryan Garnier:

Could you help us to understand the issue behind not releasing the net profit figure on a continuing basis for half one and the EPS there versus giving us the consensus or the adjusted number for half one '09? Thank you.

Roddy Child-Villiers:

We didn't give a continuing EPS at the full year either. And the reason we won't do it is because if you take Alcon out of the earnings you then need to put the $28 billion cash into your numbers somewhere and also extract from that some benefit from having the different net debt or even the cash position. You can't do one without doing the other. And you know first of all to do that you need to know when it's going to happen and then you need to have the assumptions. And to our minds it's a totally meaningless number.

So once we do it then you know obviously we're going to report, but there's no point in us trying to guess some number that will bear no relation to anything. It won't be comparable to the 2011 number either; it won't form a comparable basis to 2011. It just seems that to us it's a meaningless number so we're not doing it.

Deborah Aitken, Bryan Garnier:

Okay I thought that it was there available for comparison on the half one '09 that you sent around …

Roddy Child-Villiers:

No we gave you an underlying earnings per share number for the group as a whole and this morning we've sent out the spreadsheet with that on it so if you hadn't had it then apologies.

Deborah Aitken, Bryan Garnier:

No I haven't.

Roddy Child-Villiers:

We'll send it to you but it has been sent out this morning, the underlying earnings per share number for the group.

Deborah Aitken, Brian Garnier:

Could I ask a second question please about Chocolate in Russia? And you've said that that's progressing, could you just explain when you would expect to see mid single digit growth there again, how long it's taken and what exactly are the issues still outstanding?

James Singh:

Well I think one category that is sort of difficult in the market as a whole is the Confectionery category in Russia. And the business is recovering but recovering slowly. As a matter of fact the category remains in negative territory. But our business in the market is gaining share. So we're making progress competitively but it is a market where it is difficult to predict the improvement in the category as a whole. I think given the nature of the category, which is impulse, it will depend a lot on the recovery of the Russian economy in general. We're seeing some progress in our business in terms of growth and in terms of market share and we expect that to continue for the balance of this year and hopefully well into next year.

Roddy Child-Villiers:

I mean obviously you heard the impact last year of the ruble devaluation, cocoa price in US dollar going through the roof so sort of double whammy there for the consumers as well. So there are some pretty major macro issues.

Questions on;	**Raw material costs** **Pricing in second half**

Joseline Gaudino, Société Générale:

I want to come back on the raw material situation. In fact due to the category you are involved in it's easy for you to be hedged so you have more long term vision than a short term. You have probably six to 18 months lag between what happens on the market, so I don't understand what has changed really in the situation for the second half why you are so cautious?

And you mentioned that the price effect is going to be more stable in the second part. You very often mention that you need to stay competitive for me as soon as a company starts to say we need to stay competitive it means I'm going to cut price. So what's really the situation or meaning, you need to pass onto consumer in the second part of the year the situation of raw materials in the first half?

James Singh:

Well let's deal with the first one. And I know you're talking about arrangements with key suppliers and the timeframe and the lag timeframe. That has not changed. And there is no doubt that Dairy is one of the areas where we are seeing an escalation in pricing, in cost. And therefore it's one of the areas where you're likely to see some pricing action.

Now when we say we are going to remain competitive we have said before that we do not believe in Nestlé, in our model, that price is the major competitive weapon we have, or the major go-to action when you have competitive cost structures. We build competitiveness in our products by increasing the value; especially the whole focus on 60/40 and 60/40+ is about putting more benefits to our products, that are meaningful and relevant to the consumers. And therefore if you are only competing on price there is no price low enough. And if you are only competing on price promotions then there is no price promotion level high enough.

And so if you get into the price game you behave differently than if you were looking and focused on increasing the value to the consumer. And that's the whole PPP business model, the whole focus on improving the nutritional foundations of our products. These are all geared towards delivering better value to the consumer.

Roddy Child-Villiers:

On the raw material bit your question suggests that you thought something had changed dramatically but it hasn't and our guidance is the same the guidance has been, 2 and 3%. So you know nothing has changed dramatically so far as we're concerned in terms of our guidance to the market.

Okay I'm afraid that we need to wrap up there. My apologies to the people on the phone who didn't get a chance to ask a question.

James Singh:

Well thank you very much for your interest. I hope this has been a very useful session and as usual we are open to your feedback. I just want to summarise very quickly. As we said we talked about the opportunities that are being pursued both in emerging markets and the developed markets. And you have seen our performance is broad based. It's broad based both in the emerging markets and the developed markets and by reporting responsibilities and by categories.

We also said one of the catalysts of growth for Nestlé or catalysts of Nestlé's performance is GLOBE, but in the end we say the catalysts for our performance and our valuations should be our consistent performance time and time, year after year and that's the Nestlé model, that is our focus. And based on our performance so far this year we have reconfirmed our organic growth, now a bit sharper at around 5%, and we have maintained a guidance on the EBIT margin being EBIT margin improvement in constant currencies over last year. Thank you very much for your questions and for being here.

Roddy Child-Villiers:

Thanks very much.

END OF ROADSHOW PRESENTATION