NESTLÉ S.A.

2011 FIRST QUARTER SALES CONFERENCE CALL

TRANSCRIPT

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

Opening slide

Good morning everyone. Here we go again, launching another round of reporting, and hopefully demonstrating to you that our momentum that we talked about in 2009 and 2010 is continuing into 2011.

Slide 1 - Disclaimer

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

Slide 2 - 2010 momentum continues in Q1 2011

The key sales highlight from the first quarter is our real internal growth. This is at 4.9%, even above the number in the first quarter of last year, when we still had the benefit of Alcon's accretive contribution. I think this performance is particularly worthy of note in view of the oft-raised concerns about consumer demand.

The growth was once again broad-based. The emerging markets grew double digit, on top of the double digit growth achieved in 2010, and the developed markets also achieved positive growth, again growing on top of growth.

Organic growth is at 6.4%, so pricing is actually below Q1 last year. The pricing should accelerate during 2011, as pricing taken in the first quarter makes itself felt in our numbers, and as we take more pricing during the course of the year. There may, of course, be a compensating slowdown in RIG.

Another key message is on raw materials. Despite the volatility that we have seen in 2011, we are sticking with our guidance of inflation between CHF 2.5 billion and CHF 3 billion in our basket, with a precision that it'll likely be towards the top of the range. I guess that most of you were forecasting in the middle of the range, so not really a meaningful difference. As we said earlier in the year, we are not seeking to recover this cost primarily through price. Rather we are using a mix of increased efficiencies, our procurement capabilities, innovation and renovation, as well as pricing to manage this pressure. This, hopefully, will enable us to minimise the amount of price that we need to take, and will help therefore to create competitive advantage in the marketplace.

Finally, on this slide, we have confirmed that our guidance is unchanged from that which we gave at our full year results, that we will deliver organic growth of 5 to 6%, as well as an improvement in the margins in constant currency. Some of you have asked, so just to confirm, it is the 2010 continuing operations that are the base for this guidance. Also, we agree with the great majority of you, who have commented that our margin delivery will be weighted to the second half of the year, in contrast to 2010, when it was very predominantly driven by the first half.

Slide 3 - Q1 Sales Development

Here you can see the different contributors to our sales development. The number that really stands out is the 9.8% negative impact from currencies. Basically, all currencies have weakened against the Swiss Franc. The impact of divestitures, net of acquisitions is minus 5.9%. This includes the effect of selling Alcon, which some of you hadn't included in your models, as well as the positive contribution from buying Pizza. Excluding Alcon, there would have been a positive 2.2% contribution from acquisitions.

You have the detail of the currency impacts by operating segment in the appendix slides.

Slide 4 - Growth across all geographies

Let's now look at the organic growth from a regional perspective, and this slide is showing the group's growth numbers in each of the three regions.

I said our growth was broad-based, and you can see that clearly on this slide. We have positive Real internal growth and positive organic growth in all three regions, whilst Asia, Oceania and Africa, achieved double digit RIG and organic growth.

The emerging markets achieved about 12% organic growth globally. The growth of our PPPs was at a similar level.

In each region, the globally managed businesses have been accretive to the Zone's growth.

Let's now look at the operating segments, starting with an overview.

Slide 5 - Positive RIG for all operating segments

Once again all the reporting areas have delivered growth. Let's look at the detail, starting with Zone Europe.

Slide 6 – Zone Europe: 2.3% organic growth

The Zone has had a good start to the year, particularly in view of the tough RIG comparative of 3.2% from 2010, and the difference in timings of the Easter season in 2010 and 2011.

There were good performances in most Western European markets, even if the UK was impacted by seasonal timing differences, as demonstrated by the contrast between its weak performance in chocolate and its strong market share performance in that category. It is true, too, that the UK consumer is definitely feeling the pinch in terms of discretionary spend.

Eastern Europe has accelerated in the first quarter, continuing the trend seen in the second half of 2010, even if the Russian impulse market for confectionery remains weak. This is in contrast to categories such as culinary and powdered beverages which grew double-digit in Russia.

France, Italy, the Iberian region and Switzerland were highlights in the West, whilst Czech, Slovak, the Ukraine and the Adriatic region all performed well in the East.

Among product groups, highlights were PetCare, Frozen and Chilled food and Soluble Coffee. I'll dig down on these and the other categories in the product group review. Over 70% of cells in Europe are gaining market share.

The key growth drivers continue to be the recent innovations, which you know well by now, including *Nescafé Dolce Gusto*, *Maggi Juicy chicken* and *Nescafé Green Blend.* Growth momentum here is being maintained through a mix of further market expansions and, in the case of *Maggi*, range extensions. Equally the range of PetCare innovations, including *Gourmet*, *Purina One* and *Felix* continue to go well.

If a company wants to succeed globally, it needs to succeed in the world's toughest markets: Nestlé's performance in Europe proves that we can do that.

Slide 7- Zone Americas: 3.7% organic growth

Next is Zone Americas. The Zone had a strong start to the year in Latin America, but was rather more subdued in North America.

The performance in North America was representative of the market. In fact, 7 out of the 10 biggest cells improved their market share, even if they didn't all show positive growth.

The frozen food business has seen improving trends in Lean Cuisine, helped by the Market Creations launch, whilst we also gained share in Pizza.

PetCare had a slow start to the year, following its strong finish to 2010, but will accelerate in the coming quarters. Its entry into the ultra-premium market has started well. This market segment is characterised by a focus on natural ingredients, somewhat akin to organic. The *Purina One beyOnd* range is backed up by communication around responsible manufacturing, around its 92% recycled packaging and around a contribution from its sales helping homeless dogs.

In Ice cream, we continued to see a good performance in our snacks, cones and cups business, with brands such as *Skinny Cow*, *Drumstick* and *Häagen Dazs*, but slower growth in the *Dreyer's* premium take home business.

Nescafé grew well. *Tasters Choice* and *Clasico* were the key drivers.

In Latin America there was double digit growth in most of the regions, as well as high single digit growth in Mexico. Brazil also grew, but at a lower level due to Easter falling later than in 2010 and impacting chocolate. Brazil did achieve strong growth in a number of other categories.

There were good performances in the Zone from Powdered Beverages, Soluble Coffee, Ambient Culinary and Dairy. Those categories and PetCare also performed well in Latin America

Slide 9 - Zone AOA: 11.8% organic growth

Next is Zone AOA. It has been an extraordinary start of the year for this zone, as we highlighted in our press release. Faced with an unusual number of unforeseen events, its performance is a significant achievement.

Key emerging markets such as China and India, the Middle East and Africa, Indonesia and Indochina have continued to deliver double digit growth. We also had a good start to the year in Japan, with *Nescafé* continuing to perform well, and there was good growth in Chocolate. Australasia was rather weaker, however, having been impacted by the floods and typhoon.

Among categories, I would highlight the big three, Ambient Dairy,Soluble Coffee and Ambient Culinary, as well as Ready-to-drink Beverages.

Slide 9 – Nestlé Nutrition: 8.9% organic growth

Nestlé Nutrition reported another strong quarter.

Now that HealthCare Nutrition has joined Nestlé Professional and Nespresso in our category “Other”, Infant Nutrition is about 90% of Nestlé Nutrition’s sales. It is also the fastest growing part of the division, with double-digit growth in the quarter, very predominantly due to RIG, though pricing will likely pick up as the year goes on.

The growth was particularly strong in Zone AOA, with both the cereals and formula businesses contributing. The North American business continued to make good progress with growth in the mid-single digit range. Our decision to roll the Gerber brand across all categories is clearly resonating with mothers, as is our innovation in the space.

We also grew in Europe, with France and Russia the highlights, both of them achieving double-digit growth.

The Performance Nutrition business has had a good start to the year. Jenny Craig is also going well in Europe following its launch in France and the UK. The growth in the US, where discretionary spend remains weak, has slipped back, however, as competitors respond to our 2010 market share gains with increase communication and promotional activities.

Slide 10 – Nestlé Waters: 4.4% organic growth

Next is Waters.

The growth that returned to the market in 2010 is continuing in 2011, and the division has continued where it ended 2010, with 4.4% organic growth. The business achieved double digit growth in emerging markets, mid-single digit growth in North American retail and high single digit growth in France, gaining share in all its key markets.

In North America, *Pure Life* continued to perform well, whilst the premium brands, *S. Pelegrino* and *Perrier*, both grew double digit. There was also a good performance from many of the regional brands, including *Ozarka*, *Ice Mountain* and *Zephyrhills*.

Slide 11 – Other: 10.8% organic growth

Turning now to Other. This category includes those businesses that used to be in Other Food and Beverage, as well as Nestlé Health Sciences and our Pharma joint ventures.

Nestlé Professional has had a good start to the year. A third of its business is in emerging markets and is enjoying double digit growth. The business in the developed world is accretive to the growth of our retail business, even if the market for out of home consumption remains weak in developed markets.

Nespresso has continued to perform at a high level in the first quarter. It is growing well in Western Europe, and is enjoying really strong growth in its newer markets, including in the USA. Boutique openings have continued and the latest machine launch, the Pixie, has also been well received.

Nestlé Health Sciences, the former healthcare nutrition business, achieved double digit organic growth. The **Food and beverage joint ventures** and **Galderma** also performed well.

Slide 12 - Product segments

Turning now to the product groups, I will start with Powdered and Liquid Beverages.

This category has had a strong start to the year, with double digit growth, weighted to RIG.

I have already mentioned **Nespresso's** performance.

Nescafé is also growing double digit overall. It is double digit in AOA and the Americas, high single digit in Nestlé Professional's out-of-home channels and mid single digit in Europe.

Nescafé Dolce Gusto has accelerated in 2011 from its already high level of growth, and is running above 50% organic, as it benefits from the additional 2,000,000 machines that were sold in 2010. YOU may have seen that we are expanding our capsule capacity.

The **Powdered Beverages** business has also started the year well, with near double digit growth, weighted to price, reflecting increased input costs. The business is performing particularly well in Latin America, as well as Africa. The key brands here are *Milo*, *Nesquik* and *Nestea*.

Ready-to-drink has started the year with double digit organic growth, weighted almost wholly to RIG. There are strong performances in China and other Asian markets, as well as parts of Latin America. The BPW joint venture also grew near double-digit.

Next **is Dairy, including Ice Cream**. The **Milk products** business grew double-digit, with growth balanced between RIG and pricing. The performance was particularly strong in Zone AOA, including China, Indonesia, India, and Africa, as well as in the out-of-home channels globally and some parts of Latin America.

The recently launched value-added liquid milks continued to build momentum in Brazil and Mexico.

Coffee-mate is growing mid single digit, but is being challenged in the liquid category in the US. We have a new range under the *Café Creations* banner that is designed to address the issue here.

The **Ice Cream** business had a flat start to the year as a whole, but did achieve high growth in France and in a lot of its smaller markets in Zone AOA and Latin America. As I have said, there was a mixed picture in the US, with good growth in snacks and cones, and weaker growth in premium. Overall in the US our shares improved.

The dynamics in **Prepared Foods and Cooking Aids** are somewhat similar to 2010, though growth is higher. The **Ambient Culinary** business continues to grow at a high level in emerging markets, with a good contribution from PPPs, and from the Central and West Africa region. *Maggi* has also gained share in Western Europe.

The **Frozen and Chilled** businesses performed well in Europe, particularly Buitoni and Wagner pizzas in Frozen, and the Herta brand in Chilled in France. In the US, the market for Frozen remains tough, particularly the nutritional segment, but we are no longer seeing anything like the level of decline that we saw in 2010. We have some new launches in the market, and have been renovating the range, but we still expect the real bounce to come next year, rather than in 2011.

The **Confectionery** business had a slow start to the year, as expected in view of the tough 2010 comparative, resulting primarily from the seasonal timing differences, but also from the sell-in of the Wonka launch in the US. We would hope, therefore, to see a pick-up in the second quarter.

A good read-through to our underlying performance in confectionery comes from our market shares, which are up in 70% of our big markets. Also, we have continued to see strong growth in PPPs in Asian markets, such as India and China, and in parts of Latin America.

Finally on this slide is **PetCare**.

The slow start to the year is driven mainly by the strong finish to 2010, particularly in North America, demonstrated by the fact that the March 2011 growth was running at around the mid-single digit level, well above the level for the quarter. The business has performed well in emerging markets, particularly Latin America and Eastern Europe, as well as in Western Europe. In Europe, the performance was driven by Wet Cat Single Serve, *Purina ONE* and *Pro Plan*. The recent launches there, such as *Felix Sensations* and *Gourmet A la carte*, are performing well. In North America, the strongest performance was in the Treats segment, helped by the recently acquired Waggin' Train business delivering double digit growth.

Slide 13 - Conclusion

To conclude: Input costs remain within our range, and we are pushing hard at improving our efficiency and effectiveness to help manage this pressure. Equally, we'll see price tick up during the rest of the year, perhaps with some impact on the RIG.

Our strong start to the year, building on our momentum from 2010, both in terms of top line and in terms of efficiencies, enables us to reconfirm our guidance for 2011.

I'd be happy now to take your questions.

Q&A Session

Questions on	Impact of FX on reported earnings L'Oréal comments at AGM

Warren Ackerman, Evolution:

Roddy a question on currency, I wouldn't usually ask but obviously the impact is now at extreme levels, down 10% in the quarter and probably will wipe up most of your reported earnings growth this year. Just wondering whether you could walk us through what Nestlé are doing to try and mitigate this and whether you could help us out on the full year impact, if we've to assume current spot FX, what full year impact would you expect on revenues and on earnings. I know historically you have always had some very good natural hedges in the business, but are you now considering any kind of FX hedging? And is there any kind of thoughts on the transactional impact?

Secondly, I know this is a Q1 sales call, but I would be interested whether you could clarify what Peter (Brabeck) said about L'Oréal at the AGM yesterday, and specifically why the decisions being pushed out to 2014? Thank you.

Roddy Child-Villiers:

Thanks very much Warren. The currency one, I think, is a good question and unfortunately I haven't got good answer. Fundamentally we do not spend lot of time forecasting full year outcome at current spot, because we know that the full year outcome will not be at current spot, nor do we attempt to hedge the translation impact into Swiss francs at either the sales or earnings line.

Now in the business itself there are obviously some transactional impacts, some for better, some for worse. I'll give you an example, in Brazil the currency has been very strong. Brazil is a big chocolate market as you know. And in fact the strength the Brazilian currency has more than mitigated the increase cost of cocoa. So you do get positives and negatives from these currency swings. But in terms of translation, I can't help you. And in terms of how we run the business, we are running the business locally in the local currencies and the guys are motivated and rewarded for delivering on their targets in those currencies; and I think the underlying numbers for RIG and organic growth demonstrate that they are doing a good job. But you are right, I mean, near ten percent is, certainly in my 10 – 11 years here, a record and certainly not anything we have seen before

On L'Oréal, I think the Chairman did a good job of doing what some people have been saying we haven't done, which is to give clarity. What he has said is that we are happy with the status quo and the status quo will stay as it is until at least 2014 when we will review our holding in the context of our overall strategy. Of course, the contract we have in place is still in place in 2014, so in the happy circumstance Mme Bettencourt is still with us, we couldn't buy any shares but we could either sell shares or, of course, carry on the status quo, but that's what he said: the status quo until 2014, and so hopefully that gives the market clarity.

Warren Ackerman, Evolution:

The reason it was 2014, Roddy and not for 2015 or 2013?

Roddy Child-Villiers:

Because it's 2014, no particular reason. The one thing that happens in 2014 is that the right of first refusal expires, that's I think the reason. That's the one change to the contract in 2014.

Warren Ackerman:

Okay. Thanks.

Questions on;	**US Market trends** **Input cost details**

Marco Gulpers, ING:

(gap in audio)...... A little bit more granularity on the market trends in the US and maybe highlight the two swing factors, on the one hand and on the other hand of positive and negative? And the second is maybe you can give some more granularity on the input costs trends, you're still sticking to your guidance of between 2.5 and 3 billion, but slightly more towards the upper end of the range. Since the full year results, what has basically change let's say within the soft commodities that has now basically made you move towards the higher end of that range? What particular soft commodities are you seeing changing within your portfolio? Thanks

Roddy Child-Villiers:

Thanks Marco. Starting with the situation in North America, I think that I would characterize it that the whole market is broadly somewhat subdued, somewhat slow. And as I said on the call, that is supported by us not having a very dynamic organic growth and yet gaining share in the vast majority of our categories. So our performance which might be a bit lacklustre in terms of growth is still an outperformance. So as I said, therefore, the market as a whole is quite weak.

I think looking at the bigger categories, in PetCare we had a very strong final quarter. And I think bit of that was because of upcoming pricing coming through, so people were obviously buying ahead of the pricing. And we do expect to see, PetCare pick up as the year goes on. And our PetCare people are very good at delivering on their promises. So I am sure if they say it's going to pickup, it will pickup.

In the Frozen food business, the nutritional segment Lean Cuisine, as you will recall last year, it was down about double-digit. It’s no longer down anywhere like that that level. And we are starting to see some consumer response to some of the innovations that are in the market, not just from us, but also from our peers. So I think that's a positive from the market as a whole.

Ice Cream is very much the same as we saw last year, what the Americans called Premium, which is what we would probably call mass, in other words the big tubs of vanilla or strawberry ice cream, is clearly under pressure, private label is performing well in that space. However the more differentiated cones business, the cups, the Super Premium Häagen Dazs business is continuing to do very well, growing double-digit as it was last year. And we are gaining share in that segment, but also in Ice Cream as a whole. So again, relatively lacklustre organic growth number, but market share gains regardless.

Ambient Diary, the Coffee-mate business, Coffee-mate is going mid single-digit. So it's performing quite well, but is actually losing a bit of share in its Liquid business. And as I said in the call, we've launched these Café Creations, with fantastic packaging as well, which we think will tackle the issue in Liquid.

Chocolate, for US it's really just a comp issue. We, in the first quarter of last year we took the Wonka brand into chocolate from sugar. We had therefore, as you would imagine because of the loading of a launch, massive growth in the first quarter of last year. So it's a comp issue even before you talk about Easter. And then after that, it's just small categories. So I think that gives you a view of the overall market. I think our performance is subdued but our performance relative to the market is pretty good.
And your second question was on --.

Marco Gulpers, ING:

Input cost within that.

Roddy Child-Villiers:

Yes, I mean I think what we've seen is quite a lot of movement earlier in the quarter upwards and then more recently downwards. But the net of all of that is that we think that the guidance is still good. It's more high-end than low-end. But as I say, I think we were probably all assuming middle of the guidance, so adjusting to the high-end of the guidance is talking about may be 100 million more on 3 billion. So, that's not a big difference frankly.

Marco Gulpers, ING:

Okay. Thanks very much, Roddy.

Questions on;	**Impact of late Easter on Ice Cream sales**

Jeff Stent, Exane:

Good morning, Roddy. Are you able to ,sort of on aggregate, give us any steer of the impact that Easter may have potentially had on the quarter. I mean you've commented on a lot of areas, my guess is probably some Ice Cream as well in Europe, would you be able to sort of guesstimate what the group impact is?

Roddy Child-Villiers:

Morning, Jeff. I am sure with your past career, you know, there is an Ice Cream impact from late Easter. But we haven't worked it out. We're not going to work it out. Nor are we going to work out the benefit of the hot summer or anything else when it comes along. I mean this thing always evens itself out over ....

Jeff Stent, Exane:

… hot summers coming along Roddy?

Roddy Child-Villiers:

These things always even out in the sales over the half or over the year. But it is – it's a difficult one because just as a one example, if you ask a Polish retailer about March. Now it has been a complete disaster because the Poles have a great tradition of having massive Easter parties and family get-togethers. So the Culinary business in Poland was basically pretty awful in March because they have had Easter yet. So it goes in Culinary, it goes in Ice Cream as you say, it goes in Chocolate, it goes in Beverages business as well. In Ice Cream, in the impulse business, the refrigerators don't get put out until the Easter weekend. So it goes to Ice Cream. So its pretty broad spread but we haven't worked it out.

Jeff Stent, Exane:

Okay. Thanks. And enjoy that hot summer
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Questions on:	**Details of North America results** **L'Oréal**

Alan Erskine,UBS

Good morning, Roddy. Couple of questions. One just trying to get a bit more granularity on North America. I think roughly speaking for the PetCare, Confectionery, Frozen and Ice Cream are probably about half the sales in North America. Were each of those four actually negative in the quarter? That's my first question.

And my second question is, just to go back to this L'Oréal thing. I see something on the screen where it says that Nestlé will decide if the personal care sector is compatible. The Board will look at the long-term strategy of Nestlé and then see if L'Oréal fits into this long-term strategy. Could we conclude then that if Nestlé hasn't sold the stake at the end of 2014 that the Board has concluded that it is compatible or what exactly will be the conclusion, or what would be the outcome of that discussion really?

Roddy Child-Villiers:

Going to your first question, those categories, PetCare, Frozen, Ice Cream, and Chocolate are significantly more than half of the North American business. But they were either flat or negative across the board.

On L'Oréal, I think it's really quite simple. You don't make a decision about selling a holding of that value other than within a strategic context, which is what Peter said. If we haven't sold it by the end of 2014, it doesn't therefore mean that personal care is something we want to be in. Obviously not, because if we're going to sell the business, there need to be any number of conditions in place that enable us to do so. And selling that holding is not necessarily the most simple thing. So, no, I don't think it does mean that at all.

And the nice thing is that we're talking about 2014. So in the meantime everybody can relax, the status quo is going to be in place and we have plenty of time between now and then, and particularly nearer to then than now, to talk to you about how our strategy is evolving and where we are going in terms of the Nutrition, Health and Wellness strategy and any adjuncts to it. At the moment, however, as we have said again and again, our focus is on Food & Beverage, Nutrition, Health and Wellness. I hope that helps.

Alan Erskine,UBS

So at the end of 2014 we can still have the status quo?

Roddy Child-Villiers:

Choosing the status quo is a decision. It's been a decision for 30 years. So keeping the status quo is a decision. You decide you want to hold on to your holding: that's a decision.

Alan Erskine,UBS

Okay. Thanks a lot.

Questions on;	Pricing strategy Nespresso growth in USA

Susanne Seibel, Barclays Capital:

Good morning Roddy. I have a question regarding your pricing strategy, firstly in the first quarter and also throughout 2011. It seems to come in a little bit below the consensus expectations, could you give us some explanation what the background to that is, are you taking pricing slowly and why exactly is that the case? And what are the drivers for pricing going forward? How are you going to implement it? That is the first question.

The second question is on Nespresso, you alluded to quite strong growth, could you give us an update on Nespresso growth in the United States, where some new competition has emerged and made quite some noise more recently? Thank you.

Roddy Child-Villiers:

Thanks Susanne. Starting then with the pricing, I think the answer fundamentally is really just one of phasing. Because we've taken pricing in Q1 it doesn't really come into the Q1 numbers and it's clear that when we announced the first half you're going to see a meaningfully bigger number for the pricing than we've seen in the first quarter. And there is no really generic pricing strategy, or pricing sort of execution answer to this. The different markets are taking their pricing as they need to.

I talked about Brazil and Confectionery earlier on and how the Brazilian currency has helped mitigate the cost of the cocoa price increase. That would be very different in other countries, so other countries would be taking more pricing perhaps in Confectionery than Brazil would be. So you know they will all be doing what they need to do, they are doing it and in my rounds of talking to all the zone heads, and all the SPU heads before this call, the vast majority of them were talking about how they were going to see pricing coming through and the challenge that they had is to do as good as job as possible to balance the necessary increased pricing with any impact on their real internal growth and their market shares.

Also as I said on the call and as we've been saying on our Full Year Roadshow as well, we are not just trying to manage the whole of this cost pressure through pricing, we're also trying to manage it through stepping up our efficiencies, through our expertise in procurement, our hedges, and also through innovation and renovation.

And actually the innovation piece is important, because don't forget that if we are launching a new SKU and we may be launching it at a higher price than we had previously planned to that will not come through in price it will come through in RIG because there is no price on a new SKU. So you know some of that pricing is perhaps in that sense not visible.

And also I think to our minds, whilst pricing is absolutely necessary if we are able to do a better job than other people are at all the other things to compensate for cost increase and we therefore have to take less price in the market than our competition do then we're in a very good position. And that will be appreciated equally by our customers and our consumers.

Susanne Seibel, Barclays Capital:

Can I just ask on that one when you talk to your heads of zones and divisions and when you talk about this balance between RIG and pricing going forward, what is the feedback you get? Do you they feel it is a challenge? Are they very confident about the pricing sticking? Is the sort of slower pricing in Q1 perhaps a reflection of a conservative approach, a careful approach?

Roddy Child-Villiers:

Certainly it's a measured approach. It's different - I mean talking to the people in Zone AOA, you know their concern is very much about the ability of the consumers to bear higher prices, their concern is very much about where you have price point products, be it at five rupee or something, a price point product - if you go above the price point, above the coinage price point your volume can fall off very dramatically. So the question there is what can we do around renovation to avoid having to go above the price point, you know the individual coin price point.

On the other hand if you talk to the guys in Zone Europe, they'll say well the issue for us is much more working with the retailers to make sure that we're getting the right level of pricing through, we're doing it at the right time, rather than necessarily worrying so much about the consumer spend side of it. So it is different in different part of the world. But you know these guys are executing what they need to do in the markets.

On Nespresso, yes the business is continuing to perform at the sort of levels that we would expect. In North America, I there aren't really any new competitors in North America; I think they just become a bit more vocal. The only new entrant in North America is really the Nescafé Dolce Gusto business; the other players have been there for a long time.

Nespresso in North America is growing somewhere in the mid double digit percentage organic growth, so it is performing very, very well indeed; significantly above the average for Nespresso as a whole. And we're very pleased about that.

Susanne Seibel:

Does it mean 15, or does it mean 50?

Roddy Child-Villiers:

No, no. Mid double-digit, so nearer to your second number than your first.

Questions on;	**Situation in Germany** **Pricing in bottled water**

Alain Oberhuber, MainFirst.

Yes, good morning Roddy, two questions. … What happened in Germany per se, we didn't hear a lot about the different categories as well the overall mood from that side?

And the second question is about pricing in bottled water. One of your competitors has positive pricing, you obviously were still on negative, could you highlight that as well, could we expect positive pricing throughout the year as you just stated for the Group?

Roddy Child-Villiers:

Yes for sure, Alain thanks very much. Germany has in general terms performed well, the Ambient Culinary, the Maggi business is probably experiencing the toughest environment in

Germany of our various categories. But as I said its share is up overall, so it's performing well, albeit that the environment is tough. Otherwise I mentioned Wagner Pizza is doing well in my speech, that's the German business. Frozen Food overall is doing very well. Soluble Coffee, high single digit growth, as is Frozen by the way, high single digit growth. Soluble Coffee being driven by the innovations I mentioned, Dolce Gusto, Green Blend and others.

Even Chocolate was positive, despite the late Easter. They are really the big categories there, Culinary Chilled also was positive as well. So Germany is going okay, I think it's a somewhat tough environment, but the business is doing okay as a whole, Ambient Culinary the biggest category in Germany somewhat under pressure.

On Water of course our competitor and us have very different geographic spreads of our business. We had positive pricing in the Emerging Markets in Water, as I guess they did too. The Emerging Markets for us are around 17% of sales, so that's not enough to obviously swing the whole piece positive. But in line with my earlier comments on pricing we would expect to see the pricing number improve over the year and it should probably go positive.

Questions on;	**Operating margin in H1 Earning per share outlook.**

Patrick Schwendimann BKZ.

Good morning Roddy, you were mentioning regarding the operating margin that it will be H2 weighted, what does that mean for H1 as a best guess, that your operating margin will be down in H1? That's my first question. And secondly you were reconfirming the outlook for 2011, but you haven't mentioned the EPS outlook, but I guess this is also valid that you want to increase EPS in constant currency?

Roddy Child-Villiers:

Morning Patrik, that's very much. I'm not going to give you any guidance on the first half EBIT margin, but clearly it's going to be less impressive than the second half EBIT margin. I mean that's our guidance, it will be, the EBIT margin performance in 2011 will be driven by the second half of the year rather than the first half.

Don't forget we had 60 basis points …

Patrick Schwendimann BKZ.

Less impressive would mean it could be also down?

Roddy Child-Villiers:

As I say I'm not going to guide on the first half, I'm not going to tell you whether it's going to be up, down, or flat. But it's not going to be as impressive as the second half of the year. But remember that we had 60 basis points improvement in the first half of last year, so you know it's a very tough comparative, even without the challenges we face in 2011, it's a tough comparative.

On the underlining earnings per share, our guidance is that we would like to improve the underlying earnings per share in constant currency - and we'll have to see how that comes out. But that's our guidance that we want to do that.

Patrick Schwendimann BKZ.

That's valid for the current year, I guess.

Roddy Child-Villiers:

Well, that's -- that's what we intend to do. We try to do each year.

Questions on,	**PetCare competition and market share** **Strength of Japanese results and likely impact of current situation** **Dolce Gusto sales**

David Hayes, Nomura.

Good morning Roddy, just going back to the PetCare volatility in RIG, are you seeing increased competition in that category, and I guess specifically in the US you talked about most categories getting market share gains, I just wonder if you could confirm that PetCare is one of those categories you had a market gain in the first quarter?

And then secondly on Japan, you make the specific point that Japan was very strong in the first quarter, obviously there's been some difficult events there in the backend of the first quarter. Can you maybe quantify how strong Japan was, was it double digit growth? And then will we see in the second quarter the impact of the situation in Japan, will there be some costs associated with recovering that situation? Thanks very much

Roddy Child-Villiers:

Thanks David. Yes, we did certainly gain share in PetCare in North America in the first quarter. So that's aligned with my comments that generally even if the performance was a bit lacklustre in terms of growth the share gain was positive and PetCare was an example of that. And so you know I think we're still well placed and well positioned to carry on out performing the market in PetCare.

Japan, the story there really is that we were fortunate in the location of our facilities and we moved a sales office, or the people from the sales office, but otherwise the manufacturing was fundamentally unaffected. And if you remember we already had very positive momentum in Japan at the end of last year and that has continued into the first quarter. And one of the things we talked about at the full year was the selling of about half a million coffee systems into Japan and clearly that increase in the system base is very good news for the coffee business, both for the pods and also for the Barista system.

We would not expect to see Japanese customers buying a lot of white goods at the moment, so we're not expecting necessarily to see a big continued growth in the coffee systems in the first half. But the underlying coffee business, which is clearly where we make our money - has been performing very well.

Now there may have been some safety stock buying by consumers in Chocolate and Coffee because of the environment there. And certainly the Japanese growth, it is around double digit and obviously that's not the sort of level that we would expect Japan to sustain, albeit, as I say it has been performing well.

In terms of any costs involved, I mean when you look at not just Japan but obviously also the Côte d'Ivoire where we have suffered some damage to one of our facilities, there are very evidently costs involved. We are not however looking to build any padding into our quarterly, or our first half / second half margin guidance because of that. We will just try and manage through it.

David Hayes, Nomura:

Just very quickly on the Dolce Gusto, obviously it's been a big driver - 50%, can you just remind us of where that is in terms of absolutely sales on an annualised basis, is that a number that you're able to give?

Roddy Child-Villiers:

Last year it was around 450 in the old accounting. So it's probably more like 400 odd in the new accounting.

David Hayes:

Okay. Thank you very much. Thank you.

Questions on;	**Promotional environment** **Guidance on restructuring charges**

Robert Waldschmidt, Bank of America Merrill Lynch.

Good morning, two questions - one can you give us an update on the promotional environment that's out there, we're continuing to hear from the retailers that there's a bit of a price war going on, particularly in some of the European markets. Perhaps you can also inform us how it is in the US because we've seen what appears to be some significant promotional activity coming through in the Nielsen data?

And then two, in terms of looking forward into 1H and I appreciate it's a 1Q sales call, but in terms of the trading operating profit and what it means in terms of consensus is there going to be any guidance in terms of the line items that come after operating but before trading operating profit in terms of restructuring, or otherwise, because it appears that consensus had various ways of thinking about trading operating profit and it doesn't make a lot of sense to me as I look at it now?

Roddy Child-Villiers:

Thanks very much Rob. I don't think we have anything other than a consensual view on the promotional environment, it is what is it, it continues to be tough in Europe and equally in North America. Again, there are differences in difference categories obviously. But it is clear that people - companies are still using promotions as part of their mix, even despite the tougher raw material environment.

On the consensus we have already guided on the restructuring charges, we said factor in around 500 million for the current year. We've had a lot of conversations with different people about the consensus. It is odd to us that some people have got a smaller number for those lines than the restructuring number, that seems a bit sort of illogical to us. And the only thing that I would say, in talking to the people is that it seems that a number of people are working up from their underlying EBIT margin line, rather than working down from sales to get there. And you know if you work down from sales to get there you get rather a different number than if you work from the bottom up, where your number is clearly impacted by what you put into those two lines between the trading and the operating.

So we haven't got any further guidance to give, we thought we might just send out an email to the sell side ahead of doing the next consensus just to seek your input and then send out the consensus request thereafter. So when we send out that email we'll look at obviously the feedback we get and then we'll send out the consensus. But at the moment I have nothing else really to say about that.

Questions on;	**A&P in first and second half of last year** **Pricing in 2010** **Share buyback programme**

Pablo Zuanic, Liberum:

Good morning Roddy, three questions. Given that there was a change in accounting and that your EBIT margin for the full year last year was 14.4 as opposed to 13.4, if there was a significant difference in A&P within the first half and the second half it might help if you could provide us with the restated margins for each half, because we may be projecting from the wrong comms, or would you say that the A&P was similar within both halves so it's not something we should worry about? That's the first question.

The second question, at the end of the day we never really had a good feel - or I did not, for 2010 in terms of what was your pricing under the new accounting system, I mean was it flat, was it negative?

And the third and last question, given that we did not hear after your AGM about a new buyback programme, does that mean that we will not hear any news on that front until at least April next year? Thanks

Roddy Child-Villiers:

Thanks Pablo. On the old versus new accounting, we have already distributed the Q1 and the nine months sales under the new accounting and also the first half and the full year income statements under the new accounting. So you've got that already. If you haven't found it, it's at the back of the Full Year Roadshow presentation. And we haven't given an H2 because we never give H2 numbers, so we're not going to suddenly start giving H2 numbers.

On the pricing we did tell you again at the full year that the pricing under the new accounting would have been positive in 2010, not flat or negative.

On the buyback, we do not need an AGM to make a buyback announcement, we need the AGM to cancel the shares because that has to have shareholder approval. But we can make the buyback announcement whenever we want and we have said that we'll make the buyback announcement as we get to the completion of the current buyback.

Pablo Zuanic, Liberum:

Which would by the end of first half,

Roddy Child-Villiers:

Mostly likely.

Pablo Zuanic, Liberum:

Okay, if I may just one quick follow up, what's the Nespresso growth globally, you gave North America, but what is the Nespresso growth globally and remind us what was the base, in terms of what were the sales for 2010?

Roddy Child-Villiers:

Sales base of Nespresso was 3.2 billion and the growth was around 20%.

Pablo Zuanic, Liberum:

Thank you.

Roddy Child-Villiers:

Sorry the only other to say about the buyback is that the announcement of a buyback will be preceded by a board meeting, the board needs to decide the level of any buyback.

Questions on;	**UK market** **Iberian region**

Jamie Norman, Evolution.

Good morning Roddy, if you've got the stamina having been at the crease for an hour, a couple of geographical questions. First is the UK, you talked about consumers feeling the pinch, how is that manifesting itself, what categories are being hit? That's the first question.

And second is that you said that you didn't have too bad a start to the year in Iberia, which is a very intriguing given some of your staples counter parts have had a pretty tough time, so some colour on that would be very helpful?

Roddy Child-Villiers:

Thanks very much Jamie for the questions - I think the UK market as a whole is pretty subdued and I think that's reflected also in one of the previous questions about the level of competitive activity in the retailers and promotional spend and so on and so forth.

As I said the Chocolate number is hugely distorted by Easter, but otherwise the business really is pretty subdued across the bigger categories. The exception being the Maggi business, interestingly we didn't actually have a Maggi business in the UK, apart from in specialised channels dealing with particular consumer groups who have been buying imported Maggi products. But we launched the Maggi Juicy Chicken into the UK and that's going very well. But otherwise it's pretty much subdued across the board. Our growth in the UK is negative but that's primarily because of the Chocolate business.

Iberia, I mean funnily enough we could talk this story about Portugal, Italy, Greece, Spain as a whole - we are doing very well in the Iberian region. The Iberian region curiously is the stand out success story in Europe and therefore in the world for Dolce Gusto, the Iberian and the Spanish consumers have really taken to Dolce Gusto, despite that it's a premium product and you know they've clearly got some challenges.

Ditto PetCare, PetCare has been going really well in the Iberian region. So you know we're performing reasonably well across the board. I didn't mention Greece in my speech, but also we're positive in Greece as well, after a tough year last year but we gained share, this year we're actually delivering positive RIG and organic growth.

I did mention Italy, Italy is one of our strongest markets in Europe at the moment, I think beaten only by France in terms of growth overall. So yes I mean we're doing very well in these countries. And I think what this comes down to is our focus on segmenting our consumers. You know we've got products at the premium, products at the mass, products at the low PPP end, we've got good distribution in the hard discounters as well as in the big retailers and the Mom and Pops. So I think we've got very good execution fundamentally doing the basics in these markets. And as we keep on saying wherever you are in the world there are opportunities for growth if you can just find them. And I think our guys in the Iberian region have done a fantastic job of doing just that.

Jamie Norman, Evolution:

Roddy was there a relisting in Mercadona, Danone spoke about that - or to an extent had you been hit by that and it has already been sorted?

Roddy Child-Villiers:

That was more of a 2010 benefit actually. But you're absolutely right, we were - you know they axed almost all brands, back in 2009 I think it was, and then we were relisted back in 2010 in a big way. Now there may have been some more into 2011, but the big story there was more in 2010 than ' 11.

Jamie Norman, Evolution

Very helpful, thanks a lot.

Question on;	**Pricing for full year**

Patrik Schwendimann, ZKB.

As a follow up on pricing which was 1.5% in Q1, you were mentioning a pick up during the year, but just as a best guess, I know it's not that easy but just to help us maybe a little bit, what do you have mind when you're mentioning a pick up for the full year. Does it mean 2 to 2.5%, or 2.5 to 3%, or even more, what do you have in mind? Thank you.

Roddy Child-Villiers;

Patrik I'm sorry, but our guidance is on organic growth, we're not going to guide on the individual - on the RIG and the pricing piece of it as well. You know we said we're committing to delivering our 5 to 6% organic growth, that's our guidance. It's incredibly difficult to forecast pricing because of how it's taken, every market - well it's not even every market, it's every category in every market making their own pricing decisions; and trying to forecast the impact of that across Nestlé as a whole is very, very difficult.

But you know if you go around and you talk to all of the zone heads and all of the product group heads and the vast majority of them are talking about pricing they've either taken, or are about to take, or a bit of both, it's very clear the pricing is going to go up over the course of the year. But I can't give you any more detail than that I'm afraid.

Patrik Schwendimann:

But with the price increases already done in Q1 what would this mean for H1, already at 2% something, or still below 2% in H1?

Roddy Child-Villiers:

As I say Patrik I'm not going to go into the individual organic growth it's for guidance, if I get the pricing wrong it means I get the RIG as well doesn't it, I'm just giving myself more options to be wrong. And our guidance is anyway on the full year, full year 5 to 6% organic growth is our guidance and I'm not going to dig down deeper than that.

It's a good try, thanks very much Patrik and very clever of you to get onto the call twice, which obviously demonstrates that there are no more questions. So thanks very much for your questions and I hope that we've demonstrated that Nestlé has got the year off to a good start and that we're well placed to once again deliver on our guidance in 2011, thanks very much indeed.

END OF TRANSCRIPT