Press release

First half of 2009: Nestlé delivers 3.5% organic growth combined with a 30 bps EBIT margin improvement

CHF Millions	Reported Jan.-June 2009	Change vs. Jan.-June 2008		
		Organic growth	Reported	Constant Currencies
Sales				
Group	52 267	+3.5%	-1.5%	+2.8%
Food & Beverages	48 313	+3.4%	-2.0%	+ 2.7%
EBIT margin				
Group	14.1%	__	+ 30 bps	+ 30 bps
Food & Beverages	12.4%	__	+10 bps	+20 bps
Earnings Per Share				
Underlying	CHF 1.46	__	+3.5%	+8.5%

All calculations based on non-rounded figures

- **Nestlé Group**: 3.5% organic growth, 0.5% real internal growth
  EBIT margin 14.1%, +30 bps both in reported and constant currencies
- **Food and Beverages**: 3.4% organic growth, 0.1% real internal growth
  EBIT margin 12.4%, +10 bps reported, +20 bps in constant currencies
- **Net profit**: CHF 5.1 billion, 9.7% of sales
- **Underlying earnings per share**: CHF 1.46, +3.5% reported, +8.5% in constant currencies
- **Operating cash flow**: CHF 6.4 billion, up from CHF 3.5 billion in the first half of 2008

Paul Bulcke, CEO of Nestlé: "With 3.5% organic growth and a 30 basis point EBIT margin improvement, Nestlé delivered a combination of growth and increased profitability in the first half of the year, and this in a very challenging business environment. The success of our efficiency initiatives enabled increased investment in consumer-facing marketing and R&D, which leads me to expect an acceleration in organic growth in the second half of 2009. Furthermore, Nestlé's healthy cash flow over the first half allowed us to return about CHF 6.5 billion in cash to shareholders. The Group remains committed to its strategic direction focused on sustainable, long-term profitable growth and is well placed to capture opportunities as economic conditions improve."

Group sales, profitability and financial position

Vevey, 12 August 2009 – In the first six months of 2009, Nestlé achieved organic growth of 3.5%, including 0.5% real internal growth. Divestitures, net of acquisitions, reduced Group sales by 0.7%, whilst the currency effect resulted in a 4.3% reduction due to the strength of the Swiss franc compared to many other currencies. These factors resulted in a decline in Nestlé Group sales of 1.5%, to CHF 52.3 billion. Food and Beverages' sales reached CHF 48.3 billion, with organic growth of 3.4%, including real internal growth of 0.1%. This builds on the strong first half of 2008 when Nestlé achieved organic growth of 8.9%.

The Group's EBIT grew to CHF 7.4 billion, resulting in an increased EBIT margin of 14.1% of sales. This represents a 30 basis points improvement, both in constant and reporting currencies. Food and Beverages' EBIT margin was up 20 basis points in constant currencies and 10 basis points reported, to 12.4%.

The acceleration of Nestlé Continuous Excellence, the Group's efficiency programme, contributed to a 30 basis points decline in both the cost of goods sold and distribution costs. The Group's commitment to brand building, including innovation and renovation, is reflected in the 10 basis points increase in consumer-facing marketing and a 20 basis points increase in Research and Development.

Nestlé's net profit margin reached 9.7% of sales. Underlying earnings per share grew by 3.5% to CHF 1.46, up 8.5% in constant currencies.

On 30 June 2009, the Group's operating cash flow was CHF 6.4 billion, significantly up from CHF 3.5 billion in the first half of 2008, reflecting its commitment to capital efficiency. The Group's net debt was CHF 17.4 billion, down from CHF 25.8 billion at the end of June 2008. The continuing share buyback programme and the payment of the dividend together resulted in about CHF 6.5 billion of cash returned to shareholders in the first half of 2009.

Share buyback programme

On 28 July 2009, Nestlé completed the first stage of its CHF 25 billion share buyback programme, amounting to CHF 15 billion. A second stage of this programme, amounting to CHF 10 billion, will start on 13 August 2009. Nestlé's CHF 25 billion share buyback programme is foreseen to be completed by end of 2010.

Sales and EBIT margin by operating segment

In the first half of 2009, the organic growth of Nestlé's overall Food and Beverages activities amounted to 0.5% in Europe, 4.6% in the Americas and 6.6% in Asia, Oceania and Africa.

	Jan.-June 2009 Sales in CHF millions	Jan.-June 2009 Organic Growth (%)	EBIT margins	
			Jan.-June 2009	Change vs Jan.-June 2008
Food & Beverages • Zone Europe	10 791	+ 0.2	11.8%	0 bps
• Zone Americas	15 197	+ 6.6	15.2%	+20 bps
• Zone Asia, Oceania, Africa	7 733	+ 5.9	16.7%	+60 bps
Nestlé Waters	4 723	- 2.9	8.3%	+110 bps
Nestlé Nutrition	4 995	+ 1.5	17.4%	-110 bps
Other Food & Beverages	4 874	+ 6.1	16.1%	+20 bps
Total Food & Beverages	48 313	+ 3.4	12.4%	+10 bps
Pharma	3 954	+ 5.0	34.6%	+80 bps
Group Total	52 267	+ 3.5	14.1%	+30 bps

All calculations based on non-rounded figures
Globally managed Nestlé Professional activities have been taken out of the Zones and included in "Other Food & Beverages". 2008 comparatives have been restated.

Zone Europe: sales of CHF 10.8 billion, 0.2% organic growth and -1.5% real internal growth. The EBIT margin was 11.8%, the same level as a year ago. Savings from the acceleration of the Nestlé Continuous Excellence Programme compensated temporary volume softness, additional pension costs and continued investment in marketing. Great Britain and Eastern Europe, particularly Russia and the Ukraine, as well as the regional petcare business and soluble coffee, achieved high organic growth.

Zone Americas: sales of CHF 15.2 billion, 6.6% organic growth and 1.9% real internal growth. The EBIT margin improved by 20 basis points due to growth and significant cost savings from the Nestlé Continuous Excellence Programme. Both North and Latin America experienced strong organic growth, particularly the US, Brazil and Mexico. Soluble coffee and beverages, frozen food and petcare did particularly well.

Zone Asia, Oceania and Africa: sales of CHF 7.7 billion, 5.9% organic growth and 2.2% real internal growth. The EBIT margin improved by 60 basis points due to growth leverage and operational efficiencies. There were good performances across the emerging markets with Africa, China, India and the Philippines, amongst others, achieving double-digit organic growth. Soluble coffee, ambient culinary, powdered and ready-to-drink beverages, petcare and chocolate all delivered strong organic growth. Popularly Positioned Products (PPPs), aimed at emerging consumers, continued to achieve double-digit organic growth.

Nestlé Waters: sales of CHF 4.7 billion, -2.9% organic growth and -3.7% real internal growth. The EBIT margin increased by 110 basis points, benefiting from lower oil-related costs, efficiencies and supply chain optimisation. The organic growth reflects the current environment in the bottled water industry as a whole, particularly in Western Europe and North America. The emerging market businesses achieved double-digit organic growth. *Nestlé Pure Life* maintained good momentum around the world and drove market share gains in the US.

Nestlé Nutrition: sales of CHF 5.0 billion, 1.5% organic growth and -2.4% real internal growth. The EBIT margin decreased by 110 basis points, reflecting upfront investments in media campaigns and increased support for the accelerating *NaturNes* launch in Europe. All divisions accelerated during the first half from their first quarter performance. The infant nutrition business showed signs of improving momentum in Europe and the US during the period, and maintained good organic growth in Latin America, Asia, Oceania and Africa, supported by a strong innovation and renovation pipeline.

Other Food and Beverages: sales of CHF 4.9 billion, 6.1% organic growth and 2.4% real internal growth. The EBIT margin increased by 20 basis points due to growth leverage and operational efficiencies. Cereal Partners Worldwide and Nespresso continued to perform well. Nestlé Professional was affected by a softer out-of-home market in developed countries but delivered strong performances in many emerging markets such as Greater China, Philippines and the Middle East, resulting in virtually flat organic growth.

Pharma: sales of CHF 4.0 billion, 5.0% organic growth and 5.1% real internal growth. The EBIT margin improved by 80 basis points, mainly due to growth, operational efficiencies and a positive product mix.

Sales and EBIT margin by product

	Jan.-June 2009 Sales in CHF millions	Jan.-June 2009 Organic Growth (%)	EBIT margins	
			Jan.-June 2009	Change vs Jan.-June 2008
Powdered and liquid beverages	9 242	+ 9.7	21.8%	-110 bps
Water	4 726	- 2.9	8.3%	+110 bps
Milk products and ice cream	9 628	0.0	11.0%	-20 bps
Nutrition	4 997	+ 1.5	17.4%	-110 bps
Prepared dishes and cooking aids	8 221	+ 1.0	12.2%	+90 bps
Confectionery	5 118	+ 4.3	11.3%	+60 bps
PetCare	6 381	+ 9.1	15.7%	+120 bps
Total Food & Beverages	48 313	+ 3.4	12.4%	+10 bps
Pharmaceutical products	3 954	+ 5.0	34.6%	+80 bps
Group Total	52 267	+ 3.5	14.1%	+30 bps

All calculations based on non-rounded figures
The slight difference in the figures for water and nutrition between the "Sales by operating segment" and "Sales by product" tables is due to the fact that some water and nutrition products are also sold by management segments other than Nestlé Waters and Nestlé Nutrition.

Powdered and liquid beverages: sales of CHF 9.2 billion, 9.7% organic growth and 4.7% real internal growth. The EBIT margin declined by 110 basis points, mainly due to the increased support for the enlarged *Nescafé Dolce Gusto* roll-out and raw material cost pressures. The strong growth confirms the dynamism of Nestlé's billionaire brands *Nescafé*, *Nesquik, Nespresso, Milo* and *Nestea*. These brands benefited from a strong pipeline of new products, ranging from PPP offerings to super-premium. The successful roll-out of *Nescafé Dolce Gusto* continued and allowed Nestlé to increase its market share in the fast-growing portioned coffee segment. Nespresso continued its outstanding performance with organic growth over 25%. Overall, the product segment achieved double-digit growth in Eastern Europe, the Americas, Asia, Oceania, the Middle East and Africa.

Milk products and ice cream: sales of CHF 9.6 billion, 0% organic growth and -1.3% real internal growth. The EBIT margin declined by 20 basis points due to lower pricing in ambient dairy in anticipation of falling raw material costs. The EBIT margin in ice cream increased due to efficiencies and the exit from underperforming markets. There were the first signs of a pick up in consumer demand for ambient dairy in emerging markets after the high prices seen in 2008. Ice cream's organic growth improved over the first half of 2009 thanks to innovations such as *Häagen Dazs 5* in North America and the successful launch of *Nestlé Extrême all natural* in Switzerland.

Prepared dishes and cooking aids: sales of CHF 8.2 billion, 1.0% organic growth and 0% real internal growth. The EBIT margin improved by 90 basis points due to product range rationalisation. *Maggi* achieved double-digit organic growth in Africa, Asia and Eastern Europe. In the US, *Hot Pockets*, *Stouffer's* and *Lean Cuisine* frozen prepared meals delivered a good first half performance. In Europe, frozen prepared meals were weak while the pizza business continued to perform well.

Confectionery: sales of CHF 5.1 billion, 4.3% organic growth and -1.3% real internal growth. The EBIT margin increased by 60 basis points due to efficiencies and product lines streamlining. *Kit Kat* continued its excellent performance with strong organic growth and market share gains. The UK business continued to perform well with its focus on its seven key brands, as did the US. Overall, the emerging markets in Asia, Africa, the Middle East and Latin America continued to deliver strong organic growth.

PetCare: sales of CHF 6.4 billion, 9.1% organic growth and 2.7% real internal growth. The EBIT margin increased by 120 basis points due to continued growth of high value-added strategic brands, together with pricing to offset input cost pressures. The global petcare business' excellent performance was driven by resilient demand for key premium and super premium brands such as *One*, *Beneful*, *Cat Chow*, *Pro Plan* and *Friskies*.

Outlook

Nestlé's first half performance of 3.5% organic growth combined with a 30 basis points EBIT margin improvement reflects the Group's strength in challenging times while making it fitter for the future. Indeed, Nestlé's successful efficiency programmes enabled it both to invest for growth and deliver this EBIT margin improvement. The Group expects volume-driven organic growth to accelerate in the second half as well as an EBIT margin improvement in constant currencies for the full year. The Group remains committed to its strategic direction focused on sustainable, long-term profitable growth and is well placed to capture opportunities as economic conditions improve.