

Strong performance by Nestlé in 2008

CHF Millions	Reported 2008	Change vs. 2007		
		Reported	Organic Growth	Constant Currencies
Sales				
Group	109 908	+ 2.2%	+ 8.3%	+ 10.0%
Food & Beverages	102 364	+ 2.1%	+ 8.2%	+ 9.9%
EBIT margin				
Group	14.3%	+ 30 bps		+ 50 bps
Food & Beverages	12.8%	+ 20 bps		+ 40 bps
Earnings Per Share				
Reported	CHF 4.87	+75.2%		
Underlying	CHF 2.82	+0.7%		+ 10.9%

All calculations based on non-rounded figures

- **Nestlé Group:** above target 8.3% organic growth, 2.8% real internal growth
EBIT of CHF 15.7 billion, EBIT margin 14.3%, up 30 basis points
- **Food and Beverages:** 8.2% organic growth, 2.3% real internal growth
Resilient performance creates momentum for 2009
- **Net profit:** CHF 18.0 billion (+69.4%), margin +650 basis points to 16.4%
Includes profit on disposal of 24.8% of Alcon to Novartis
- **Proposed dividend increase** of 14.8% to CHF 1.40 per share
Reflects strong performance in 2008 and confidence for 2009
- **CHF 25 billion share buyback programme** on track: CHF 8.7 billion repurchased in 2008

Paul Bulcke, CEO of Nestlé: "Nestlé's 2008 performance reflects its ability to achieve a high level of organic growth together with an improvement in the EBIT margin, even in difficult times. The Group's results in 2008 are broad-based, demonstrate its intrinsic strength and provide momentum into 2009. Nestlé's ability to capitalize on a wide variety of market conditions across the world remains one of its decisive competitive advantages. This will enable the Group to seize growth opportunities worldwide in 2009 by leveraging the company's growth platforms, particularly nutrition, health and wellness and popularly positioned products, whilst also accelerating its cost efficiency initiatives. We believe that the Group will once again be one of the fastest growing food and beverage companies in 2009, in line with the long-standing Nestlé model, and we are committed to achieving organic growth at least approaching 5%, as well as a further improvement of the EBIT margin in constant currencies."

Group sales, profitability and financial position

Vevey, 19 February 2009 – In 2008 Nestlé demonstrated its ability to deliver a solid operating performance in a tough environment, with above-target organic growth and a 50 basis points EBIT margin improvement in constant currencies. 2008 was also a year in which the value of Nestlé's strong balance sheet was proven, enabling the Group to continue to access the debt markets at advantaged rates whilst also pursuing its three-year CHF 25 billion share buyback programme.

In 2008, consolidated sales of the Nestlé Group amounted to CHF 109.9 billion, an increase of 2.2% compared to the prior year, driven by organic growth of 8.3%, including real internal growth of 2.8%. Acquisitions, net of divestitures, added 1.7% to Group sales. The currency effect reduced Group sales by 7.8% due to the strength of the Swiss franc compared to most other currencies. The Group's Food and Beverages business, with sales of CHF 102.4 billion, was the main contributor to growth, achieving organic growth of 8.2%, including real internal growth of 2.3%.

The Group's EBIT grew to CHF 15.7 billion, resulting in an EBIT margin of 14.3%, up 30 basis points reported, and up 50 basis points in constant currencies. The EBIT margin for Food and Beverages was up 20 basis points reported, and up 40 basis points in constant currencies.

Net profit increased by 69.4% to CHF 18.0 billion, resulting in a net profit margin of 16.4%, up 650 basis points. This includes the CHF 9.2 billion profit on disposal from the sale of 24.8% of Alcon to Novartis. Total Earnings Per Share grew by 75.2% to CHF 4.87. The underlying earnings per share increased by 0.7% reported, and by 10.9% in constant currencies.

The Group's cost of goods sold increased by 120 basis points to 43.1% of sales. This reflects the impact of higher packaging and raw material costs, partially compensated by operational efficiencies which contributed over CHF 1 billion of savings. Operational efficiencies, enabled by GLOBE, incorporate areas such as supply chain, factories, administrative costs, product line rationalisation and improved returns on marketing and trade spends.

The main engine of Nestlé's growth is the continuous innovation and renovation of its products and brands. In 2008, an additional 15% of Nestlé products were successfully tested for superior nutritional benefits and taste characteristics over competitors' products. Innovation was driven by a 15% increase of Nestlé's Research and Development investment in Food and Beverages. Furthermore, the Company's commitment to growing its brands is demonstrated by a 7.5% increase in consumer-facing marketing expenses in constant currencies. Nestlé brands with annual sales of more than CHF 1 billion ("billionaire brands") accounted for over 70% of Nestlé's Food and Beverages sales in 2008 and were the main drivers of organic growth.

The Group's operating cash flow was CHF 10.8 billion, while free cash flow was CHF 5.0 billion. Cash flow was impacted by the decline in value of most currencies relative to the Swiss franc, and also a higher level of inventories as a hedge against the higher cost of certain raw materials. The Group's net debt decreased to CHF 14.6 billion thanks also to the proceeds from the sale of 24.8% of Alcon, as well as from cash flow generation. The return on invested capital (ROIC), including goodwill, was 12.3%; excluding goodwill, it was 22.2%.

Share buyback programme and proposed dividend

The share buyback programme launched in September 2007 is on track and will be completed, subject to market conditions and strategic opportunities, within the 36-month period originally planned. In 2008, the Group spent CHF 8.7 billion on buying back its own shares which brings the total amount of repurchased shares to CHF 13.1 billion. In 2009, the Group is giving preference to a dividend increase, as evidenced by a

14.8% rise in the proposed dividend to CHF 1.40, and intends to invest around CHF 4 billion in repurchasing its own shares.

Sales and EBIT margins by management responsibility and geographic areas

In 2008, the organic growth of Nestlé's total Food and Beverages business, including globally-managed businesses such as Nestlé Waters, Nestlé Nutrition, Nespresso, the Food and Beverages joint ventures, as well as the Zones, amounted to 5.3% in Europe, 8.8% in the Americas and 13.1% in Asia, Oceania and Africa.

	2008 Sales in CHF millions	2008 Organic Growth (%)	EBIT margins	
			2008	Change vs 2007
Food & Beverages				
• Zone Europe	28 153	+ 5.6	12.2%	+20 bps
• Zone Americas	33 134	+ 10.3	16.5%	+20 bps
• Zone Asia, Oceania, Africa	17 130	+ 12.2	16.5%	+20 bps
Nestlé Waters	9 589	-1.6	6.0%	-220 bps
Nestlé Nutrition	10 375	+ 7.7	17.3%	+10 bps
Other Food & Beverages	3 983	+ 23.5	17.5%	+170 bps
Total Food & Beverages	102 364	+ 8.2	12.8%	+20 bps
Pharma	7 544	+ 8.8	34.1%	+80 bps
Group Total	109 908	+ 8.3	14.3%	+30 bps

All calculations based on non-rounded figures

In all three Zones, EBIT margin improvements were achieved despite significant packaging and raw material cost pressures in many categories and despite the strength of the Swiss franc. The key drivers of this improved performance were faster growth of more profitable categories and markets in line with Nestlé's nutrition, health and wellness strategy, operational efficiencies and the benefits of rationalising underperforming product lines.

Zone Europe: sales of CHF 28.2 billion, 5.6% organic growth and 1.4% real internal growth. The Zone's EBIT margin increased by 20 basis points. The Zone experienced double-digit organic growth in Eastern Europe, and positive organic growth in key Western European markets, such as France and Great Britain, as well as in the pan-European PetCare business.

Zone Americas: sales of CHF 33.1 billion, 10.3% organic growth and 2.7% real internal growth. The Zone's EBIT margin increased by 20 basis points. There was high single-digit organic growth in North America and double-digit growth in Latin America.

Zone Asia, Oceania and Africa: sales of CHF 17.1 billion, 12.2% organic growth and 3.7% real internal growth. The Zone's EBIT margin improved by 20 basis points. All the Zone's major emerging markets continued to achieve double-digit organic growth, with South Asia doing particularly well. Popularly Positioned Products continued to achieve an outstanding performance in the Zone with 27.4% organic growth.

Nestlé Waters: sales of CHF 9.6 billion, -1.6% organic growth and -3.9% real internal growth. The decline in sales reflects the continued slowdown of the bottled water category, particularly in Western Europe and North America. The emerging market businesses achieved organic growth close to 20%. Despite significant cost

savings, the EBIT margin fell by 220 basis points as the impact of lower sales was compounded by a significant increase in the business' two main cost drivers, PET and distribution.

Nestlé Nutrition: sales of CHF 10.4 billion, 7.7% organic growth and 1.8% real internal growth. The EBIT margin improved by 10 basis points to 17.3%. The successful integration of Gerber and Novartis Medical Nutrition reinforced Nestlé Nutrition's position as the global leader in nutrition. Infant Nutrition performed well, supported by a highly productive innovation and renovation pipeline. *Jenny Craig* achieved double-digit organic growth.

Other Food and Beverages: sales of CHF 4.0 billion, 23.5% organic growth and 20.1% real internal growth. The EBIT margin was up 170 basis points to 17.5%. The three constituents, Nespresso, Cereal Partners Worldwide and Beverage Partners Worldwide, all performed well. Nespresso's annual sales exceeded CHF 2 billion for the first time.

Sales and EBIT margins by product group

	2008 Sales in CHF millions	2008 Organic Growth (%)	EBIT margins	
			2008	Change vs 2007
Powdered and liquid beverages	18 885	+ 12.8	22.1%	-30 bps
Nestlé Waters	9 589	-1.6	6.0%	-220 bps
Milk products and ice cream	20 561	+ 9.2	11.5%	+40 bps
Nestlé Nutrition	10 375	+ 7.7	17.3%	+10 bps
Prepared dishes and cooking aids	18 117	+ 6.1	12.8%	-20 bps
Confectionery	12 370	+ 8.0	13.1%	+150 bps
PetCare	12 467	+ 12.1	15.7%	+20 bps
Total Food & Beverages	102 364	+8.2	12.8%	+20 bps
Pharmaceutical products	7 544	+ 8.8	34.1%	+80 bps
Group Total	109 908	+ 8.3	14.3%	+30 bps

All calculations based on non-rounded figures

Powdered and liquid beverages: sales of CHF 18.9 billion, 12.8% organic growth and 7.4% real internal growth. The EBIT margin declined by 30 basis points. This excellent sales performance confirmed the dynamism of Nestlé's billionaire brands *Nescafé*, *Milo*, *Nespresso*, *Nesquik* and *Nestea*. These brands benefited from a strong pipeline of nutritionally enhanced products, including new PPP offerings for lower-income consumers. In Asia and Australia, soluble coffee benefited from its continuous focus on products with improved nutritional profiles such as *Nescafé Body Partner*, *Nescafé Protect* and *Nescafé Greenblend*. The successful roll-out of *Nescafé Dolce Gusto* continued and allowed Nestlé to increase its market share in Europe in the fast-growing portioned coffee segment. Following a successful launch in Mexico, *Nescafé Dolce Gusto* was extended to Japan and the US. *Nespresso* continued to achieve an outstanding performance with more than 30% organic growth. The decline in the product group's EBIT margin reflected increased support for the accelerating *Nescafé Dolce Gusto* launch and raw material cost pressures.

Milk products and ice cream: sales of CHF 20.6 billion, 9.2% organic growth and 1.2% real internal growth. The EBIT margin increased by 40 basis points with both milk products and ice cream contributing. The dairy category benefited from a multi-tier strategy with products adapted to different affordability levels and nutritional needs, reflected in the *Nestlé Nido Nutrition System*. Ice Cream's organic growth was impacted by

the decision to discontinue less profitable products and distribution routes. The super-premium portfolio with brands such as *Mövenpick of Switzerland* and *Häagen Dazs* performed well, as did health-focused offerings such as *Skinny Cow* in the US.

Prepared dishes and cooking aids: sales of CHF 18.1 billion, 6.1% organic growth and 1.1% real internal growth. The EBIT margin declined only slightly, by 20 basis points, due to a strong recovery of the category over the second half of the year, particularly in frozen food, in spite of cost pressures. Culinary products in Asia and Eastern Europe achieved double digit organic growth, especially the *Maggi* brand. In the US, the three billionaire brands *Hot Pockets*, *Stouffer's* and *Lean Cuisine* accelerated during the course of the year. In Europe, the *Wagner* and *Buitoni* pizza business continued to perform well, as did *Herta* in France due to launches of products with nutritional advantages.

Confectionery: sales of CHF 12.4 billion, 8.0% organic growth and 1.4% real internal growth. The EBIT margin improved by 150 basis points reflecting in part the successful reorientation of the European business. The relaunch of the "Best Ever" *Kit Kat* and the launch of *Kit Kat Senses* continued successfully in Western Europe. These initiatives, as well as a continued strong performance in emerging markets, resulted in this product category's strong performance. The category continued to focus on both the lower income and the premium and super-premium segments. The upmarket move resulted in the roll out of dark chocolate products and a new range of chocolates designed by Pierre Marcolini sold exclusively in *Nespresso* boutiques in Switzerland and France.

PetCare: sales of CHF 12.5 billion, 12.1% organic growth and 5.2% real internal growth. The EBIT margin increased by 20 basis points with a strong second half performance. Strong organic growth was driven by resilient demand for key premium and super-premium brands across all Zones which benefited from new product launches such as *Fancy Feast Elegant Medley's*, *Cat Chow Healthful Life* and *ONE Natural Balance*.

Pharmaceutical products: sales of CHF 7.5 billion, 8.8% organic growth and 8.4% real internal growth. This was the result of high single-digit growth by Alcon and double-digit growth by Galderma and Innéov. The EBIT margin increased by 80 basis points to 34.1%.

Popularly Positioned Products

Nestlé's Popularly Positioned Product (PPP) strategy, one of Nestlé's four growth platforms and a specific business model which focuses on lower income consumers by offering them relevant and high-quality nutritious products at daily-affordable prices, is proving particularly beneficial in these turbulent economic times. Nestlé's Food and Beverages business in emerging markets achieved organic growth of 15% on sales of CHF 35 billion. With an increasing number of consumers trading down in the current economic environment, PPPs and other initiatives providing lower-priced products are proving particularly popular, also in developed countries. PPPs achieved organic growth of 27% overall, with hundreds of separate initiatives worldwide.

Nestlé Professional

Nestlé Professional, the company's division dedicated to the out-of-home food and beverage market, was organised as a globally managed business unit in 2008 with full profit and loss responsibility as of 1 January 2009. In 2008, Nestlé Professional achieved organic growth of 6.1% with sales of CHF 6.2 billion.

Outlook

The global business environment in 2008 was affected by a number of unforeseen events, especially in the latter part of the year. Economies around the world have significantly weakened over the last few months and it is likely that developments could further impact consumer demand. However, Nestlé believes that it will once again be one of the fastest growing food and beverage companies this year, in line with the long-standing Nestlé model. For 2009, Nestlé is committed to achieving organic growth at least approaching 5%, as well as a further improvement of the EBIT margin in constant currencies.

L'Oréal

The conditions of Nestlé's agreement with L'Oréal are public. The main point of the agreement states that the Bettencourt family and Nestlé will keep all of their L'Oréal shares until at least 29 April 2009 and not increase their respective stakes in L'Oréal during the lifetime of Mrs. Liliane Bettencourt and six months after that. This is a commitment which Nestlé will honour whatever the circumstances. Consequently, Nestlé does not need to take any action or decision regarding its stake in L'Oréal next April.

The future of Nestlé's participation in L'Oréal is an important topic for the Group which the Nestlé Board of Directors is addressing with great attention in the framework of the Group's global nutrition, health and wellness strategy. Nestlé's participation in L'Oréal has been beneficial to both companies for many years and Nestlé will continue to take a long-term strategic view in shareholders' best interest.

Appointment to the Executive Board

The Nestlé Board of Directors has appointed Petraea Heynike as Executive Vice President in charge of Strategic Business Units, Marketing and Sales, and Nespresso, effective on 1 March 2009. Mrs. Heynike, currently Head of the Chocolate, Confectionery and Biscuits Strategic Business Unit and a former Nestlé Canada CEO, has more than 36 years of experience with Nestlé in 6 countries and, over the past three years, was responsible for the successful reorientation of Nestlé's confectionery business, giving the category new strategic direction and delivering strong business results. Her international experience combined with her deep product, market and communications expertise make her ideally suited to help define the strategic direction of Nestlé's different product categories.

Board proposals to the Annual General Meeting

The strong performance in 2008 will enable the Board to propose to shareholders a dividend increase of 14.8% to CHF 1.40 per share.

The mandate of Professor Günter Blobel, who first joined the Board in 2005, expires in April 2009. The Board wishes to express its gratitude to Professor Blobel for his highly-appreciated services over the years. Finally, the Board will propose the individual re-elections of Ms. Carolina Müller-Möhl as well as Messrs. Kaspar Villiger and Daniel Borel.

The General Meeting of Nestlé S.A. will take place on 23 April 2009 at 14:30 at the *Palais de Beaulieu* in Lausanne. The management report will be available from 12 March 2009, while the fully-audited financial statements are now posted on the Nestlé corporate website (www.nestle.com). The dividend will be payable from 29 April 2009.