

GLOBAL CORPORATE REPORT

Nestle's 1st-Half Profit Edges Up; Sales Stagnate on Woes Abroad

By ERNEST BECK
Staff Reporter

Nestle SA reported a slight gain in pretax profit and unchanged sales for the first half of 1999, but said recovering economies in Asia would help raise earnings for the full year.

The world's biggest food company said pretax profit edged up to 2.08 billion Swiss francs (€1.3 billion) from a restated 2.07 billion francs for the year-earlier first half. The restated figure, up from an original 2.03 billion francs, follows a change in accounting practices at the end of 1998.

Sales were unchanged at 35.3 billion francs, because of what Nestle called a "dramatic deterioration" in the economies in Eastern Europe and Latin America that began in the second half of 1998. This was offset by an upturn in Asia and a strong performance in Nestle's major markets in the U.S. and Western Europe.

Nestle, the maker of famous brands including Nescafe coffee and Perrier mineral water, said internal sales-volume growth surged to 4.7% in the second quarter, for an

average of 2.1% for the first six months of the year. Nestle's internal growth target is 4%, although the company failed to reach that in 1998 — when the figure was 3.3% — because of economic woes in Asia, Latin America and Eastern Europe.

Nestle said sales growth was above average for several product categories, including bottled water, pet food, pharmaceuticals and its breakfast cereals joint venture, Cereal Partners Worldwide, with General Mills Inc. During the emerging-market downturn, Nestle has been sacrificing margins by keeping prices steady and increasing marketing spending, in a bid to gain market share.

The results were largely in line with expectations. James Amoroso, an analyst at Bank Julius Baer in Zurich, said he was "cautiously optimistic" that Nestle would post earnings growth for the year and that the share price would rise as investors seek a safe haven in Nestle.

In trading on the Swiss Exchange on Friday, Nestle fell 1.1%, or 33 francs, to 2,925 francs.