2013 FIRST QUARTER SALES CONFERENCE CALL TRANSCRIPT

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Speaker:

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Slide – Title

Welcome to the Nestlé first quarter sales conference call. I am Roddy Child-Villiers, Head of Investor Relations, and I will take you through the details today. First, though, I would like to remind you that the call is being recorded.

Slide – Disclaimer

I will now take the safe harbour statement as read and move to the Group numbers and outlook.

Slide – Introductory Remarks

The sales were CHF 21.9 billion, up 5.4%. This is a similar level of growth to the 5.6% reported in the first quarter of 2012. The organic growth was 4.3%, achieved on the tough 2012 comparative of 7.2%. Real internal growth was 2.3%.

Pricing was 2%, considerably down from last year, reflecting the rather different raw material cost environment.

Acquisitions, net of divestures, added 2%, due to the inclusion of Wyeth Nutrition. Wyeth is not in our organic growth, but its inclusion within the Group means that the emerging markets now represent about 45% of sales.

Foreign exchange was negative 0.9%.

The first quarter of the year has been characterized by volatility, and I will touch on this as I go through my presentation.

Looking beyond the Q1 volatility to our expectations for the rest of the year, we expect our growth to be weighted to the second half of the year, and the same is likely true of our margin. For the full year, we expect to deliver the Nestlé Model, with an improvement in the margin and in underlying EPS in constant currencies, and in our capital efficiency, and with organic growth, likely, coming in at the lower end of our 5-6% guidance. The consensus on organic growth is 5.5% so, clearly, our guidance is confirming what a number of you are expecting.

Slide: Regional Growth

The next slide shows our performance by region for total Nestlé, including our globally managed businesses. I will start with an overview of trading conditions.

The emerging markets have slowed down since the first quarter of last year, and there is volatility in Asia and the Middle East, but they continue to provide opportunities for good growth. The environment in Latin America has also slowed somewhat in recent months, but remains buoyant.

The North American market has picked up a little recently, but it continues to be sluggish. Europe continues to be characterized by the growing impact of austerity programmes, the worsening crisis in Southern Europe, food price deflation, weak consumer sentiment and reduced consumer spending on food.

Our performance is consistent with previous periods in that we have grown in all three regions of the world. I'll now go through the numbers in detail, beginning with Zone Americas.

Slide: Zone Americas

North America continued with the trend seen in 2012, reporting positive real internal growth and pricing.

I'll start with Frozen food. The Pizza market returned to growth in the first quarter, and we saw growth in *DiGiorno*, helped by a strong start from the *Pizzeria!* launch. *Stouffer's* and *Hot Pockets* both gained share. Sales of *Lean Cuisine* fell in the quarter, impacted by continued weakness in the diet category, increased competition and promotional activity. More positive for *Lean Cuisine* is the early performance of the launch of *Salad Additions*.

Ice cream also had volume growth, helped by the *Häagen-Dazs Gelato* launch in the Super-premium segment.

Nescafé continued to perform well, particularly *Clásico. CoffeeMate* achieved share gains in Powder, and *Natural Bliss* remained a highlight.

Confectionery had a very strong start to the year. *Skinny Cow* performed well, and the launch of *Butterfinger Bites* king size pack looks like being a success.

The PetCare market has been very competitive, but we grew overall, and had a strong market share performance in cat.

Turning to Latin America.

We saw high pricing due to currency related inflation. Both Brazil and Mexico continued to grow. *Kit Kat* performed well in Brazil, one year after its launch.

Ambient Culinary and Ambient dairy were highlights in Latin America, contributing to a generally good performance across the region. PetCare was outstanding, continuing to grow double digit.

Slide: Zone Europe

Next is Zone Europe. The Zone continued to deliver growth in Western Europe. It has also seen accelerated growth in Central & Eastern Europe.

I'll start with a few general comments on the environment and the particular volatilities in the quarter. There is intense competition between the players in traditional retail, and between them and the alternative channels and new channels such as ecommerce. This has led to tough negotiations in the quarter between them and us. Aspects of volatility include the number of trading days, the industry horsemeat scandal and our voluntary Pizza recall.

The weather was generally poor, including over Easter when the Ice Cream season would normally start, with the placement of freezers in the impulse channel. So, all in all, a challenging environment for the Zone, but one in which it has performed well, as reflected by both its positive organic growth and its market share performance in many categories. In Eastern Europe, we had a good start to the year, following our reorganization in Russia last year.

Looking at the Zone business in more detail, Ambient culinary had a slow start, but should see improving momentum through the year following customer relistings in March in Germany. The Frozen business was negative for the quarter, and we do not expect to see positive growth this year. Chilled culinary also had a slow start.

Soluble coffee continued to be a key growth driver: the *Nescafé Dolce Gusto* system, the premium Freeze dried *Nescafé* and the refill packs are all doing well. There were strong performances in the big British and Russian markets, among others.

Confectionery also had a good start to the year, with the Russian business continuing to pick-up momentum. France and Germany also performed well.

Ice cream had a slow start to the year generally, in contrast to 2012, with Southern Europe particularly weak. Russia, on the other hand was a highlight. One innovation in Ice Cream was the launch of cones under the *Mövenpick* brand, helping that brand start the year well.

PetCare had a strong start to the year across the zone, including double-digit growth in the emerging markets, due to the continuing impact of our successful innovation and to the expansion of our presence in specialist retailers.

Slide: Zone AOA

Next is Zone Asia, Oceania and Africa.

First a general comment. Our market share performance is mixed by country, as you would expect, but our market shares are up as a whole at the Zone level. In view of our level of growth, this supports my earlier statement that the trading environment in the emerging markets has slowed, even if we still have double-digit growth in some countries, including China.

The most immediate impact of the slowdown has been on our downstream distributors who have found themselves with too much stock. This stock needs to be dispersed before their order levels with us normalize.

A further issue for us has been the destruction of our factory in Syria, which was a supplier for several categories across the Middle East. The Middle East is an important region for the zone. We have put in place our business continuity plan for that region.

The developed markets had a good start to the year: Japan continued to perform well and Oceania picked up momentum after a slow 2012.

Now let’s have a look at the categories.

Ambient culinary, *Maggi*, had a slow start to the year due to some short-term supply disruption in the Central West Africa Region, *Maggi’s* biggest market in the Zone. It was also impacted by the loss of our factory in Syria. More positively, Culinary continued to grow double digit in China and India, and performed well generally.

Ambient Dairy had a strong start generally, with good performances in China, including from Yinlu, and in Indonesia and parts of Africa. There are challenges too in the Zone, including in the Middle East and the Philippines.

Globally, we have real momentum in the Dairy business, and this applies in Latin America too: our innovation, delivering enhanced nutritional benefits and supported by compelling communication, touches the whole range, from kids' offerings to adult nutritional solutions, and is clearly resonating with consumers.

You will be aware that the global milk price has been on the rise. There is a risk that this will impact demand amongst lower income consumers in the coming quarters.

Back to Zone AOA. The Soluble coffee market has been competitive, particularly in the mixes business. On the other hand. *Nescafé Dolce Gusto* performed very well. Amongst other beverages, the Ready-to-drink are growing double digit, and Powdered are also growing but slightly less fast.

Ice cream had a very strong start to the year. Particular highlights included China, Egypt and Israel. A note of caution here, as the lack of foreign exchange in Egypt is likely to impact our growth, as it will be difficult to import raw materials.

Confectionery started the year well, with strong performances in South Asia and China, even if the Chinese New Year celebrations were more subdued than normal. Hsu Fu Chi performed well.

Slide: Waters

Nestlé Waters is next.

You might remember that Nestlé Waters had a very strong start to 2012. Well, not so in 2013. The weather has been poor in Europe and North America, where we have 80% of our sales, and the situation in both regions has been extremely competitive. More positively, we have continued to achieve double-digit growth in emerging markets.

In North America, we grew marginally, despite the tough comparative of near double-digit growth in 2012, and despite increased price competition in 2013. The regional waters were most under pressure, whilst *Nestlé Pure Life* continued to perform well. Just to put my earlier comment on the weather in context: in March 2012, six US states had snow on the ground; in March 2013, 26 had snow. The North American market as a whole is continuing to grow around mid-single digit, and our international brands are performing well.

I have already discussed the environment in Europe, in my Zone comment. Nestlé Waters saw sharply increased promotional activity there from its main competitor, in contrast to our efforts to improve profitability. The sparkling portfolio is performing well in Europe, particularly *Perrier*, in its 150th anniversary year, and we continue to see good growth in the UK.

Slide: Nestlé Nutrition

Next is Nestlé Nutrition.

Infant nutrition has started the year strongly, with double-digit growth, and broad-spread share gains.

The business grew in all three regions, and was double-digit in AOA and Latin America, as well as Russia with Infant formula a highlight. There was good growth too in North America. Infant formula had a strong start there due to the innovations launched late in 2012, whilst, in Meals and Drinks, Gerber Graduates and Gerber organic pouches also performed well. Meals and Drinks also had a good start to the year in France and Russia.

The Infant cereal business continued to grow double digit as the three key innovations were further rolled out. The innovations are around immune protection and incorporating the appeal of yoghurt into infant cereals. The consistent themes in Infant Nutrition are a high level of innovation and renovation, strong, appropriate communication, and a good pace of geographic roll-outs. Infant formula was a particular highlight, with double digit growth in many countries, such as China, the USA, India, Russia and Indonesia. This growth was driven very predominantly by RIG, with only a little price

Performance Nutrition started the year under competitive pressure including an increased presence of private labels. Weight management experienced a further erosion of visitors to its centres and saw a decline in its sales. We are not expecting an immediate improvement.

Slide: Other

Next is Other.

Nestlé Professional is the biggest business within the segment. The business had a strong performance in 2012, as you might remember, with high-single digit growth. The first quarter of 2013 has been rather slower, though growth is still positive. Importantly the two areas of strategic focus: the Beverage systems and solutions business and Food solutions, have held up well: Beverage solutions in particular with continued double-digit growth. The trading environment has been impacted by food safety concerns and quality issues, and by austerity programmes in Europe and Asia. Performance in the Americas and AOA has however remained good.

Nespresso has started the year with growth in all regions, despite having a lower intensity of launches than in 2012, as well as increased competition. The quarter was marked by limited edition capsules celebrating the different coffee cultures in Italy, as well as further boutique openings.

Nestlé Health Sciences had a slow start in terms of growth, but has seen good progress in terms of business development, closing the acquisition of Pamlab and getting approval for the Nutrition Science Partners joint venture.

S**lide: Category review**

Next is the chart summarizing the categories. All are positive except Prepared dishes and cooking aids. I think I have given a full account of their performances as I ran through the Zones. I am happy to discuss them further in the Q&A.

Slide: summary

That concludes my presentation. It has been a challenging quarter in many ways – whether you look from a macro perspective, from the context of the tough 2012 comparative, at the volatility in parts of Africa and the Middle East, or if you just remember the weather and the headlines about food quality. For all that, we have delivered growth in all regions. We will continue to manage the shorter term challenges whilst doing the right things to ensure long term profitable growth.

And, as we look beyond the challenges of Q1, we are confirming our full year outlook for 2013 of delivering the Nestle Model, with a possible second half weighting of both growth and margin improvement.

And that brings us to the end of the presentation. Let’s now open up for questions. .

Q & A Session

Questions on:	**Details on growth in Asia** **Outlook**

Céline Panutti, JPMorgan

My first one is on Asia, earlier on this year you were talking about the normalisation of growth to high single digit. Is that still possible this year? Thanks for your explanation on that. Could you give us a bit more colour on the slowing trading environment? Bit of colour on what happened by country? Where is that. Could you give us more colour by country? I understand that China is still double digit, Oceania and Japan have picked up so are we inferring that South East Asia is weaker and exactly which countries are doing badly? And if you could help us to understand where the destocking is. Is it country or category specific?

My second question is on the outlook. Earlier on, in March, you talked about the impact of the leap year which I assume would be 1% on Q1 which would mean the underlying trend is 5 ish for Q1. Is that what we should be looking for in coming quarters or effectively there would be issues that would recur in the second quarter that you are already seeing in April

Roddy Child-Villiers

So AOA first of all. We have said we expect the long term growth in Zone AOA to be around high single digit, as you know Q1 is a very tough comparative, actually I think Q2 is an even tougher comparative for AOA, and then the comparatives ease off somewhat. We would certainly expect to see a good acceleration in AOA from where we are today. My one caveat on that is last year we had some quite considerable pricing even if that also eased during the year but we don’t have the same cost pressures in 2013 so we may not have the same level of pricing contribution to our growth but we certainly expect to see a pick up in RIG and a meaningful higher level of OG than today.

Where have we slowed? By region, let’s start with Africa, South Africa has been quite weak I think you are aware there have been some issues down there. CWA, Central West Africa region, this is a region where we have been doing comfortable double digit growth but in Q1 we are struggling for any growth. We think this will pick up as the year goes on as a result of us changing some distribution networks in the region. North West Africa region is continuing to perform well. If you look at the Middle East, I mentioned the loss of our Syrian factory. This was a major regional manufacturing centre for us, and we have had to put in place continuity plans to replace the lost volumes and that clearly will not be an immediate recovery. Middle East was actually growing around 20% at the last Q1, this Q1 we hardly any growth at all and we expect that growth to pick up for the rest of the year as things improve.

Asia we had a slightly slower start in India related to our chocolate business and bringing new manufacturing on stream. Philippines were very tough and very competitive, China continues to perform double digit and growing well. There has been some slowdown even in China relative to Q1 last year. Indonesia is continuing to perform well. Indonesia seems to be, maintaining its momentum. Indochina on the other hand rather weaker. I think that covers all of the zone.

In terms of outlook, yes the trading day has an impact on Q1, but there are lots of Q1 impacts, some positive, some negative and we’ve factored them into the guidance for the rest of the year.

I hope that answers the question, Céline

Céline Pannuti, JPMorgan

Just one thing on the destocking. Was there any particular country that this happened? Was it in Africa or in Asia as well that you saw destocking and which country was that?

Roddy Child-Villiers

In CWA the issue was changing our distribution over, not destocking. The destocking came in those countries where there has been a slowdown in consumer demand where the middle men have effectively bought stock assuming a similar level of consumer demand. Consumer demand has come off a bit. They are holding more stock than they would expect. They need to move that stock downstream before we start to re-supply them.

Questions on:	**Pressure on Nespresso** **Input cost – Skimmed milk powder** **Margin Phasing**

Warren Ackerman – Societé Générale

My question is around Powdered and Liquid beverages, grew 4.4% in the quarter. Usually we expect that to be high single-digit, or maybe low double digit in a decent year. You talked a little bit on the call about more competition, I think you mentioned that in reference to Nespresso. I wonder if you could just elaborate a bit more on what are you seeing, the quantum of price competition and whether you are able to give us an indication, I know you don't give the numbers out on Nespresso, but could you give an indication on the direction of growth? Where are you seeing pressure?

Secondly your comment about input cost. Obviously we are seeing the skimmed milk powder prices up very significantly in recent months and you did say that may have some impact on demand particularly on zone AOA where milk powder is a big part of the portfolio in some countries. Can you maybe give a bit more colour as to how you see that playing out? What you expect to do in terms of your pricing strategy and how big a drag might that be, come the second half of the year.

Roddy Child-Villiers

Powdered and liquid first. This is a big category and incorporates the Nescafé coffee business, the Powdered business such as Milo and Nesquik, the liquid business and also Nespresso. I'll start with Nespresso. Yes, Nespresso did have a slower start this year compared to last. You know about the competition generally in Europe but the difference between Q1 12 and Q1 13 is the introduction of competitor capsules in Migros in Switzerland which is obviously a big market for Nespresso. Nespresso does expect pick up growth in the course of the year and to deliver in line with the targets that we talked about in the past of around an incremental half a billion in sales in 2013. Moving to Nescafé there are 3 aspects to the Nescafé business; Dolce Gusto is continuing to performing very well growing double digit, Out of Home, we have seen a marked slowdown in the legacy Out of Home business, which is the spoon and jar ingredient business, albeit that we are still seeing good growth in systems business, Nescafé Milano, Alegria and the such like. So a slow down in the big ingredient business, out-of-home Nescafé. Then retail Nescafé, as I mentioned some highlights in my speech, some challenges too. Quite competitive in the Philippines as well as Western Europe. We had a relatively flat start of the year in China but interestingly our market share there is at an all-time high so we expect that to pick up again in the rest of the year. The Liquid business is performing well, for example the Nescafé Smoovlatte in China and Nesquik Ready to Drink in other markets. Then we had a slightly slower start in the Powdered beverages business. As a whole, this is a category that has less pricing than it had last year.

Turning to milk, the thing worth mentioning here is that we have adapted our sourcing strategy since the last peak in the milk price 3-4 years ago. In those days we were very weighted towards New Zealand in terms of our milk sourcing for AOA. In the years in-between we've increased our sourcing capabilities to include Latin America to allow a broader geographic source. That is good news going into the current inflationary environment in milk.

You will see us start to take some pricing, we're not concerned about it at the moment from a profit perspective but we have seen it in the past, and hence my note of caution, when you take pricing you see the PPP's come under pressure in terms of volumes.

Warren Ackerman, Societé Générale

To clarify on the margin phasing being second half weighted and a bit lower in the first half, is that purely an input cost reflection that the comps get easier in H2 or is it also an issue because the growth is a bit lower, you're going to have slightly lower operating leverage in the H1. What is behind that comment?

Roddy Child-Villiers

The latter point on leverage is the key driver in the guidance.

Questions on:	**Organic growth guidance** **Dividend** **Horsemeat issue** **Infant Formula in China**

Jon Cox, Kepler

I think at the start of the call you said that you seemed to guiding organic sales growth at the lower end of the 5-6% range. Then you said you were comfortable with consensus, which is 5.5%. I'm just trying to square the circle there.

Secondly on the dividend issue announced at the AGM last week. I wonder if you could give us an update or some sort of clarity on the company's thinking on that. I think it looked like Peter Brabeck gave a board view that the pay-out ratio should come down from where it has been towards 55% from over 60%.

And just the last one on the whole horsemeat issue. You talk about Frozen in Europe likely to be weaker or down this year. Is that really on the back of the horsemeat issue? Maybe you can give us some sort of granularity on that horsemeat issue from

Roddy Child-Villiers

On the guidance, what I said was that consensus is 5.5, therefore clearly for the consensus to be 5.5 a number of analysts are already expecting us to have organic growth at the lower end of the 5-6 range, thus below 5.5%. That was what I was saying, I didn't say I was happy with the consensus, I said that the consensus is 5.5%. A number of you are expecting us to have organic growth a little bit above 5%.

On the dividend, first of all my apologies for the mistranslation that happened on the instantaneous translation to English. It's clearly confused a lot of people including the wire services. We'll do our best to ensure it does not happen again. But on our dividend policy, our intention is to have a sustainable dividend policy, such that we can continue to have a year on year improvement in the absolute CHF pay-out. Which of course has been the case for over 50 years.

The ratio might come down, but each year the dividend will be proposed by the Board in view of our results, our prospects, the external environment and the relative competitiveness of our pay-out. Our focus is very much increasing the absolute rather than running a specific ratio.

Your third question was on Frozen. The Frozen business in Europe was down high single digit in Q1, relating both to the horsemeat scandal and also our pizza recall. If you combine those two issues you have a fairly big impact in Europe. All credit to the team in Europe who still manage to produce growth, despite these issues. We have to be realistic. In the case of pizza, the factory involved supplied all of Europe apart from France and it is going to take us a while to rebuild stocks in the retailers in Europe.

In the case of the food quality issue we have to accept it is going to take time for consumers to rethink their purchasing position. We're not expecting positive growth in the Full Year. This also impacted Nestlé Professional, the Davigel Frozen Business we have in Nestlé Professional. It is a fairly meaningful impact. .

Jon Cox, Kepler

I just wonder if I could have a quick follow up on Infant Nutrition. You talk about double digit growth there in China. I was just wondering about Wyeth. You talk about things going "as expected" , can you give us an indication of Wyeth in China I guess that is growing very strongly? I'm guessing that is included in M&A rather than in Organic sales because you have only just started to integrate that?

Roddy Child-Villiers

Infant formula in China has performed extremely well. If you look at the total infant formula business in China, including Wyeth, total sales in China at Q1 in Infant Formula are bigger than the total sales of the FY in China last year in Infant Formula, so the business has been significantly changed by the acquisition of Wyeth.

Now when I talk organic growth, the organic growth in China of infant formula relates only to the legacy Nestlé business. The growth is around mid double digit, almost only volume driven. We have also seen extremely strong growth from Wyeth as well, but this is not included in the organic growth.

Questions on;	**Destocking in Zone AOA** **Weight management performance**

Eileen Khoo – Morgan Stanley

Just a couple of follow ups really from the earlier question. The first one is on the destocking that you've mentioned. Could you tell us in which countries you're seeing this issue and how long might you expect this to last.

On Nutrition, as you just quantified you said that it is mid double-digit. Does this imply a really big weakness in the rest of the total performance of Weight management? Was there some kind of impact there from the discontinuation of some businesses or was that purely organic?

Roddy Child-Villiers

To be clear, the mid-double digit is on Infant formula. Infant nutrition also includes Infant cereals, the baby food business. It's a much bigger business than just Infant formula. Infant nutrition thus including the other businesses, they also grew double-digit. But having said that, yes, you're right, there's clearly a weak performance from the Weight management business.

The destocking touches the countries I referenced earlier where we have had a slowdown in growth, so it's fairly broad across the zone.

Eileen Khoo, Morgan Stanley

How long would you expect this to last?

Roddy Child-Villiers

Well hopefully it will resolve itself in the coming quarter. But as I say we still have a tough comp in that quarter so I wouldn't expect an immediate bounce back.

Eileen Khoo, Morgan Stanley

Then just on the performance of weight management, so that was not because of some of the businesses had been discontinued or phased out. I think in the UK you ended the Jenny Craig business there. So that wasn't what was driving that big weakness then?

Roddy Child-Villiers

No the Jenny Craig business was only started last year. Maybe even late the year before but I think last year. So it was tiny so it didn't have any particular impact on the overall number. The weakness is very much in North America

Questions on;	**Growth in Latin America and development in Brazil** **Health Science growth**

Alain Oberhuber, MainFirst

Two questions. First question is about Latin America coming back again. Specifically did you see double digit growth in Latin America and could you elaborate on the development in Brazil. The second question is about Health Science, could you let us know what happened, why the growth was weak, was it specifically because of Europe, or did you lose some tenders with your customers?

Roddy Child-Villiers

On Health Science, the issues that are most relevant to the performance are the on-going reimbursement situation in Southern Europe and also there's been a change in the competitive set for Carnation Instant Breakfast in North America. With the entrance in the market of two branded players, Kellogg's and General Mills and that's clearly impacted the shelf space availability. So there are two particular issues for Health Science.

In terms of Brazil and Latin America, the Latin America growth as a whole is heavily weighted towards price and this is also true for Brazil. But we are seeing positive volume growth in Brazil, positive volume growth in Latin America. In fact the real internal growth in North America and Latin America is fundamentally about the same level, low single-digit and then you have got heavy pricing in Latin America and you got a little bit of pricing in North America.

In Brazil more specifically, the big business there, Dairy is performing well, double-digit growth, strong pricing. Biscuits, slightly weaker. Chocolate had a good Easter so performed well. The market share performance is pretty mixed.

Question on:	Infant Nutrition in Europe

Alan Erskine, UBS

I wanted to go to the back of the envelope calculation, the difference between Zone AOA and the geographical region. Would I be right in thinking that the Infant Nutrition business in Zone AOA grew, you mentioned double-digit but maybe even beginning with a two. If that was the case can you give us any colour on what happened to Infant Nutrition in Europe because you implied the US also had a reasonable performance as well? So was Infant Nutrition negative in Europe?

Roddy Child-Villiers.

No I think from my back of the envelope I think you will find that Infant Nutrition is mid-teens in AOA. Water was also very strong in AOA. In Europe, Infant Nutrition was between 4-5% positive organic growth. So it performed well everywhere

Questions on:	Destocking Southern Europe Performance

Jeremy Fialko, Redburn

First of all on this destocking plan, can you tell us how much visibility you have got on your distributors inventory so that you will know when they are back at what you would term a normal level.

The second question is on Southern Europe. I know it’s a very difficult market but would you say it’s kind of stable but difficult at the moment or have you seen a further deterioration on that during the first quarter?

Roddy Child-Villiers

I think the only way I can add to my previous destocking comment is it will take as long as it takes for Consumer demand to exhaust the existing stocks. I think we will see a little bit of benefit in the current quarter but we have tough comps. Then I hope things will be normalized for the rest of the year.

On Southern Europe, if you’re talking specifically about Portugal, Italy, Greece and Spain, Greece we’re about flat and for the picture as a whole we were down about 5% in the first quarter. So a worse performance than you’re used to from us. I would highlight here again the Frozen food issue and Pizza issues I mentioned and the Ice Cream performance was the poor weather.

Jeremy Fialko, Redburn

So basically you’d look for that 5% not to be repeated in subsequent quarters

Roddy Child-Villiers

Well it is clearly very difficult and I said that the frozen business issue is not going away. I think it is credit to the team that they are delivering growth in Europe despite these issues and a flat performance in Greece is outstanding in this environment.

Question on:	Strong momentum in key emerging markets

Outlook for North American business

Patrick Schwendimann - ZKB

I have two questions regarding your outlook. You are mentioning that you see some strong momentum in key emerging markets, which emerging markets do you mean here? Secondly you are mentioning in your outlook that you are seeing some progress in the North American business. What was the organic growth in Q1 in the US compared with last year and what to expect from the US for the full year? Do you see an acceleration in growth and why?

Roddy Child-Villiers

Our outlook in the emerging markets, we hope to see a pickup in the Middle East as our continuity plans pick up momentum and we would hope to see a recovery in CWA as our distribution comes on stream. Those are the two big swing factors.

On the US we had positive organic growth as I have said, but we're not expecting any particular acceleration in the U.S. Its positive, our share gain performance is improving, the environment remains tough so think we're expecting in our guidance a similar performance as with Q1

Patrik Schwendimann, ZKB

But that means really low single digit

Roddy Child-Villiers

Yes. And as I have said, it's positive both for RIG and for price as well in North America.

Questions on;	Performance in France North American Performance

R**obert Waldschmidt – BAML**

A couple of questions if I may. Coming on to Europe again, you've mentioned France is seeing some slowdown, is that still in positive territory and how do you see the shape of France trending over the upcoming quarters?

Then secondly when you speak about Ice Cream and the impacts we have from weather can you speak more specifically about the US in particular, we know that the market environment has been pretty competitive and perhaps a bit less impacted by weather, what's going on there?

Roddy Child-Villiers

France as a whole was slightly positive. The big issue in Q1 was that we had some tough negotiations with retailers. They have been resolved so hopefully things will pick up a bit following those negotiations, through the rest of the year

In US the environment is tough. In Water, we are currently seeing price competition from private label players. Frozen, the issue I think for Frozen is Lean Cuisine. The rest of the business has picked up pace. The whole diet segment is struggling and Lean Cuisine has lost share.

Ice Cream there is a bit of a change in the trend there and that we're seeing some share gain in premium, where last year we lost share. We need to gain momentum in the super-premium, hence the Gelato launch, which is going well. We still have a competitive advantage in terms of the snacks channel with our cones business and the other activities we are doing there.

On Soluble coffee there has been a change in the competitive set with the entry of a new branded player and I think that has been good for the segment and we are looking at our communication strategy around Nescafé to see how we can continue to benefit from growth in that category.

I think those are the key points are talked about earlier on. Infant nutrition is doing very well at that covers Infant Formula, doing very well and the Baby Food business, also doing well. Then of course the other business is Purina. As you know we have had a number of years of very strong market share performance in North America. And we've seen the inevitable fight back by competitors and that has brought shares under pressure in Dog but we have plans in place to address the balance.

In Cat we are still gaining share and in fact had mainly double-digit growth in Cat in North America. So that's a more detailed review of the US business.

Questions on:	**Infant Milk Formula in China**

Jeff Stent, Exane

Just a quick one, you said when talking about Chinese Infant Milk Formula that this legacy Nestlé business grew around mid double-digit and you achieved share gains. Can I take then that your view of the market is that the Chinese Infant Milk Formula market grew less than mid double digit in Q1?

Roddy Child-Villiers

I guess so, we grew share.

Jeff Stent, Exane

Should be aware that some of your peers are making some pretty lofty comments in terms of sales growth in China

Roddy Child-Villiers

Well, I think mid double-digit is quite lofty but I think that the thing to appreciate is that we are present in all segments of the market. So we are seeing growth. Everyone talks about the super-premium end, but we are seeing growth in all categories, not just in the super-premium. We are comfortable that the market is growing nicely and we are growing faster.

Questions on	**Australian retailer negotiations** **Chinese New Year benefit** **Rationalization of Prepared dishes portfolio**

David Hayes, Nomura

Two quick follow-ups. Just on the AOA region. I think one of things at end of last year that you had an issue with was the Australian retailer negotiations. Just wonder if you could clarify if that has been resolved and that you are fully restocked. Also just about the Chinese New Year, clearly said it was a less exuberant celebration this year. But I just wonder whether there was some kind of benefit from the timing of the New Year which we obviously saw impacting others in the quarter.

Then second on the prepared dishes side, I know there's been some plans generally to rationalize the portfolio and maybe a little bit there in some areas, in the U.S. specifically. I just wonder whether that was taking place and had a little bit of impact in Q1 and whether timing-wise means that recovers through the rest of the year.

Roddy Child-Villiers

The Australian business grew in Q1 so I think we've resolved the issues and hopefully we can continue to work constructively with the retailers.

Chinese New Year, clearly the fact that we have one is a benefit. But it wasn't as big a benefit as one might have hoped. But it was certainly a benefit

Prepared dishes – I wouldn't think if there's anything that's going on in terms of business re-organization above the normal so I wouldn't say there is any impact. Clearly there are some sub-lines that have come out. There's new innovation coming in. There's nothing out of the normal going on and I don't think in North America.

Question on	**Maggi business and distribution network in CWA region**

Binta Drave, Exotix

I have two questions regarding your business in the Central and West African region. First of all I would like a little more colour on what's happening currently. You mentioned Maggi, there was a bit of slowdown in the uptake of Maggi and you mentioned that you faced some challenges surrounding the re-organisation of the distribution network, so I was just wondering when you expect to pick up in the CWA region?

The second question is regarding the possible impact, inflationary pressure of milk, is having on that region. My understanding is that milk is mainly sourced locally. Is that the case? If not, would you be able to give us a little bit more colour on the impact on that region

Roddy Child-Villiers

In Central and West Africa region the two issues are related. The reason Maggi is struggling in Q1 CWA is the reorganisation of the distribution in the region. So the two are the same issue effectively. As I say we would hope to see that pick up in the current quarter and thereafter.

In milk, it's not entirely correct to say that most milk is sourced locally. We have spent many years building milk districts in a range of countries. However, we still source a lot of milk from New Zealand. Fonterra is the biggest supplier of milk in the world.

So there are two different dynamics, you have the global milk price, on the one hand then you have the local milk prices on the other. The two are not entirely disconnected but the rate of change and the trends can be a little bit different, but they are connected.

So as I said what we have been doing over the last few years is increasing our own milk-sourcing capabilities, particularly in Latin America and this has reduced our exposure to that global milk price and to New Zealand.

End of Q&A session

Roddy Child-Villiers

Thanks for your questions. My team and I are looking forward to seeing many of you in our coming road shows. Thanks for your interest in Nestlé. Good bye.

END OF TRANSCRIPT