

NESTLÉ S.A.

2014 FIRST QUARTER SALES CONFERENCE CALL TRANSCRIPT

15 April 2014, 08:30 CET

Speaker:

Wan Ling Martello, Chief Financial Officer, Nestlé S.A.

This transcript may have been edited for clarity, and the spoken version is the valid record. This document is subject to the same terms and conditions found at <http://www.nestle.com/Footer/Pages/TC.aspx>.

Wan Ling Martello, Nestlé S.A., Chief Financial Officer

Slide – Title

Good morning and welcome to Nestlé's first quarter of 2014 conference call. Time has flown by, it seems like it was only yesterday I was here with Paul presenting the 2013 Full year results.

This morning I'm going to take you through a review of our sales figures for the first quarter of 2014 and then we will open up for questions.

Slide – Disclaimer

I will take the safe harbour statement as read, and move straight into the numbers.

Slide – Key elements of sales

So the first slide. You will see there are 3 points that I want to highlight in these results.

First, we delivered a solid organic growth performance of 4.2% in Q1, in line with our expectations, in what was a tough trading environment.

Second, both Developed and Emerging Markets contributed to our growth, by posting positive performances.

Third, these results are consistent with the Nestlé roadmap, and position us well for the remainder of the year.

Now, to the key elements of our sales.

The business delivered RIG of 2.6% and pricing of 1.6% in Q1. I would describe our RIG performance as solid, with pricing in line with our expectations.

The organic growth was achieved despite a slowdown in the Emerging Markets, no meaningful pickup in the Developed Markets, and seasonal variations that you all would be aware of.

With challenges across many markets, including reduced consumer demand, deflationary pressure and competitive activity, 4.2 % organic growth for Q1 2014 shows that we have the capabilities to deliver in today's tough environment.

This performance has been supported by successful new launches, innovation in both developed and emerging markets, and good execution across the value chain, from PPP (Popularly Positioned Products) to Premium.

The strengthening of the Swiss franc against our currency basket has again taken a heavy toll on our reported sales of 20.8 billion CHF, an impact of minus 8.6%. Divestitures also reduced sales, by minus 0.7%.

Looking out towards the rest of 2014, we continue to expect our growth to be weighted to the second half of the year. For the full year we are confirming our outlook, with performance weighted to the second half, outperforming the market, with organic growth around 5%, and improvements in margins, underlying EPS in constant currencies and capital efficiency.

With that in mind, let's now review how our various regions have contributed to our growth so far this year.

Slide – Regional growth

This slide outlines the performance by region for total Nestlé, including our globally managed businesses. It captures the challenges and opportunities in a nutshell.

The emerging markets, which represent 45 % of our sales, or 9.4 billion CHF, had organic growth of 8.5 %, but momentum has slowed slightly in Q1. The slowdown we saw in China and India was partly offset by Africa and the Middle East. Which, if you recall, lost a production facility in Syria last year.

Looking at developed markets, we continued to see growth from our businesses in a no growth environment, even if at a more subdued pace of 0.6 %. Despite some signs of economic recovery in some of the developed markets, unemployment in general remains high, consumer confidence fragile, many markets have deflationary pressures and the competitive intensity has not diminished.

However, I want to reiterate that we don't just sit here and accept this. The tough macro situation drives us to innovate, to challenge, to out-think our competitors, and to deliver results. Q1 was tough, but we've worked to lay down the foundations for the 2014 full year.

Let us now take a look at each of these areas in more detail through our Zone and Globally Managed Businesses. Starting with Zone Americas.

Slide – Zone Americas

Zone Americas grew at 4.1 % in the first quarter. Both the North American and the South American business had their own challenges. On the positive side, where we have driven innovations we have seen great traction and growth.

Starting with North Americas. As you all know, North America faced some really extreme weather in the first quarter. This affected not only consumer behaviour, but also the infrastructure - factory operations, transport links and retail. So that had an impact on our performance too.

Looking at our categories, Frozen Pizza had a good quarter with California Pizza Kitchen, due to the launch of the renovated *Crispy Thin Crust* – a must for all you pizza lovers out there. Lean Cuisine grew on the back of the recent launches of *Stuffed Pretzels* and *Lean Cuisine Morning Collection*, although this was helped by easier comps. Stouffers and *Hot Pockets* had a more difficult quarter. And to wrap up Frozen, Ice Cream had a strong quarter in super-premium, with a weaker performance in snacks and premium.

In Soluble Coffee we gained market share with both *Nescafé Clasico* and *Taster's Choice*. *CoffeeMate* continued its momentum, helped by the launch of new flavours; you can see an example on the slide here.

Moving on to confectionery, our chocolate business was impacted by the shift in the Easter holidays. Early Easter last year contributed to a double digit growth in 2013. However I'm happy to say that our most recent launch of *Butterfinger Cups* is really performing well.

Innovations and line extensions in PetCare continued to drive our growth across the category. *Dog Chow* and *Friskies* were two of the highlights. Our launch of Lightweight Litter and our re-introduction of *Waggin' Train* in snacks have both been a great success. Many of you will have heard John Vella talk at CAGE about the long term potential for this great business.

Turning now to South America.

On a regional perspective, all of our key categories grew, with Ambient Dairy, PetCare, biscuits and cocoa and malt beverages being the highlights. Chocolate was clearly affected by the late Easter.

Looking at our two biggest markets in the region, Brazil and Mexico. Brazil had double digit growth in the majority of categories. The value added milks, such as Ninho and Molico were especially strong.

Our cocoa and malt beverages, with *Nescau*, grew well.

And Ice Cream had a very strong performance thanks to our focus on leaner operations and from the good weather down there.

Chocolate is one of our biggest categories in Brazil, in fact our biggest Confectionery market globally, so you can imagine the swing factor we see on seasonal sales.

Mexico had a more challenging quarter, the changes in tax legislation further dampening consumer sentiment. Soluble Coffee with *Clasico*, and *Nido* in Dairy were two of the stand out performers for the quarter.

Some of you may recall my talking about PetCare in South America last year. It is growing to a meaningful size, and the performance is good.

In summary, there is plenty in America's for us to be encouraged by, and enough for us to work on.

Slide – Zone Europe

Let's move on to Zone Europe. RIG was 0.7%, while organic growth turned negative OG for Q1, though it should not come as a surprise to most of you. Recent developments in the Ukraine have contributed to a slow down across Central and Eastern Europe. Overall, across the Zone, consumer confidence remained low and the deflationary trend continued.

In that context, the positive RIG achieved by the Zone and increased Market Share in Q1 is a testament to the high quality of our people delivering in a difficult environment. Innovation

and premiumisation continued to underpin growth. This is best demonstrated by *Nescafé Dolce Gusto*, the ongoing roll out of *Papyrus*, the range of innovative seasoned cooking papers, and Purina PetCare.

In Western Europe the slow start to the year in France, Germany and UK was a contrast to encouraging signs of recovery from Spain and Portugal. Greece however remained a challenge.

Buitoni and Wagner frozen pizzas had double digit growth in nearly all markets.

Ambient Culinary had a weak start to the year, especially in Germany, although innovations like *Papyrus* also continued to do well in that market

Confectionery had tough comparisons versus 2013 due to seasonal timing of sales, particularly in key Western European markets.

Ice Cream, on the other hand, had a good start to the year, particularly Moevenpick, with double digit growth in both Germany and Switzerland.

In Eastern Europe the growth was driven primarily by Russia. Confectionery and Ice Cream were the two strongest performers. This is growth on growth, as we saw these two categories begin to gather momentum this time last year. Soluble Coffee and Ambient Culinary also contributed to Russia's performance.

Across the Zone, *Nescafé Dolce Gusto* continued to grow double digit with increases in machine market share. The growth in PetCare, on the back of a strong performance last year, was again driven by innovations and continued roll out of *Felix*, *ONE* and cat snacks. By market, PetCare had especially strong growth in Russia, Germany, Poland, Italy and Spain.

Overall it was a tough first quarter in Europe but Innovation and roll-out were the major drivers. Our team has worked very hard to deliver.

Slide – Zone AOA

Next up is Zone Asia, Oceania and Africa, which achieved RIG of 2.9 % and organic growth of 5.3 % despite slower economies. A number of markets have seen currency devaluations which resulted in us taking pricing action, Indonesia specifically. While competitive intensity remained high across the zone we gained market share overall on our basket of products.

In our emerging markets, the Philippines, Pakistan, Turkey and Africa delivered double-digit growth. In other parts of the Zone, large markets such as China, India and Malaysia saw weaker trading conditions – due in part to slower economies, lower consumer sentiment and seasonal timings. But nonetheless we saw market share gains in many of our categories.

The developed markets in Zone AOA had a mixed start to the year with Japan continuing to perform well, but the trade pressure and slower economy in Oceania has affected our business there, especially after a good comparable start to last year.

Taking a look from a category perspective, Powdered and Liquid Beverages had a great start to the year, this is essentially our *Milo* brand. *Nescafé Dolce Gusto* kept its growth

momentum and Ambient Dairy, with our Growing Up Milks, such as *Bear Brand*, had a strong quarter.

Premium products showed good growth and we continued to develop opportunities such as *KitKat Baked* in Japan. Oh, by the way, again achieved double digit growth in Zone AOA.

In short, AOA continues to offer great growth opportunities, but it's a competitive environment, and we take nothing for granted.

Slide - Waters

Looking at our globally managed businesses, let's start first with Nestlé Waters.

We saw a pick-up in demand for bottled water in general in both Europe and North America. In Europe this was due to the very mild winter. In the US it is more a factor of consumers switching to healthier hydration. There also may have been some stockpiling of water due to the bad weather there. Overall though the RIG was positive across all regions and we continued to grow double digits in Emerging Markets.

Specifically in North America where competition remains intense, the growth was driven by both our International Sparkling Waters, *S. Pellegrino* and *Perrier*, and by all of our Regional Spring waters. All of which were positive for RIG and organic growth. *Deer Park*, *Arrowhead* and *Ozarka* being the highlights.

Looking at our European Waters business. Market share gains delivered positive growth in a highly competitive environment. Buxton continued to be a great performer in the UK and both *Contrex* and *Vittel* had strong performance in France.

Our Emerging Markets, which represent around 20 % of our sales in Waters, accelerated. China, Turkey, and Egypt were particularly strong. *Nestlé Pure Life*, as well as local brands like *Erikli* in Turkey, were the key drivers.

Overall, these numbers reflect our ongoing investment in our leading brands.

Slide - Nutrition

Next is Nestlé Nutrition.

Nestlé Nutrition achieved good growth in the first quarter but at a slower rate in the context of tough comparisons. The drivers were Infant Formula and Cereals. Meals and drinks were soft as that category is more exposed to developed markets.

Emerging markets were the key driver of the first quarter growth, notably China, with double digit RIG, and the Middle East. The premium and the super-premium offerings, such as *NAN* and *Illuma* delivered outstanding growth. In fact, *NAN* achieved double digit growth globally in the first quarter, helped by continued success with recent innovations including our new easy scoop packaging.

In Infant Nutrition in the US, we took a strategic decision to compete more selectively on individual contracts, focusing on value generation and optimizing use of our assets. Exiting some of these contracts has had an impact on the figures you see here. Our renovated packaging in Gerber cereals met with strong consumer demand and that part of the category was a highlight.

Overall market shares continued to improve globally.

Slide – Other

Let us now take a look at what we call ‘Other’ in our reporting, and includes our Nestlé Professional business, Nespresso and Nestlé Health Science. Together they grew at 6.4 %, the main contributor being RIG.

For Professional the operating environment continued to be difficult. In Western Europe the out of home segment is still under a lot of pressure as quite simply people are not eating out. Something that was not there last year was also the extreme weather in North America. This is obviously having an impact on dining and consumption habits, on top of subdued consumer sentiment.

On the positive side, our business in South America continued to grow, although at a slower rate than last year. And AOA delivered a good performance with a pickup in China. Overall our Solutions business delivered good growth both in Beverages and Desserts.

Nespresso grew well in all markets. This global growth was supported by continued roll outs and a new machine, Inissia, as well as the extension of the permanent range of *Grand Crus* coffees with a new lungo offering. We also introduced a limited edition, *Colombian Terroirs*, to celebrate the expansion of *Nespresso* into the Colombian market. On that note, we continued our geographic expansion with new boutiques around the world.

In the US we are very excited with launch of *Virtuoline*. A revolutionary new system for long-cup and short-cup coffees, tapping into the significant opportunity of the portioned coffee market in North America. It is very early days, but so far we’re very encouraged by the market reaction.

Nestlé Health Science grew in all regions and businesses despite continued pressure on public healthcare budgets. Key brands that drove the global growth included *Boost*, *Nutren Senior*, *Peptamen* and *Alfamino*.

In summary, our Other category continues to make its valuable contribution to Group performance.

Slide – Category Review

On this slide you see the breakdown of our products, as usual we won’t spend much time here as I don’t want to repeat my Zone reviews.

In Powdered and Liquid beverages you have already heard that both *Nespresso* and *Nescafé Dolce Gusto* did well. Happy to report that *Nescafé* soluble accelerated and contributed to the growth as well.

Milk products and Ice Cream has seen a slight RIG deceleration, but there has been more pricing taken on the back of currencies as well as commodities, this is especially the case in Zone AOA. And to repeat, we had excellent growth in the Value-added milks.

It is clear that growth in Prepared dishes and Cooking aids declined in the quarter. I have outlined why by Zone, particularly given the challenging Frozen category in the US. Bottom line is we have very strong brands and we will continue to drive innovation. Where we have done this successfully, we have seen the benefits.

In Confectionery, the overall performance of the first quarter suffered from the timing of festivities, most notably Easter and, to some extent, the Chinese New Year. We expect comparable growth to come back in the course of the year, with an element of increased pricing due to both currencies and commodities.

As I have already outlined by Zone, PetCare had another good quarter. There was a slightly lower pricing contribution following the increase of prices last year related to input costs.

This, Ladies and Gentlemen, wraps up our business review.

Slide – Summary

Before we move on to the questions, let me summarize our Q1 performance.

We delivered a solid organic growth in what was a tough trading environment.

AND

Both Developed and Emerging Markets posted positive performances.

AND

These results position us well for the remainder of the year.

This is why we describe ourselves as an AND company. It is testament to the women and men we have in our markets around the world that we grew in both developed and emerging markets.

You have heard both Paul Bulcke and myself on our Full Year webcast and subsequent roadshows reiterate our strategic direction through the Nestlé Roadmap. And just as a reminder, these are our 4 growth drivers, our 4 strategic pillars, and our 4 competitive advantages. They are as relevant now as they have ever been.

The roadmap drives alignment across an organization of over three hundred thousand people. And it ensures that we have the investment behind the right products, right brands and geographies, to deliver profitable growth from PPP to Premium.

We believe our Q1 performance represents a solid start to the year, and it provides us a base for us to confirm our outlook for 2014:

Performance weighted to the second half

Outperforming the market, with organic growth around 5%

And improvements in margins, underlying EPS in constant currencies and capital efficiency

Thank you very much for listening. Let's now open up the phones for questions.

Q & A Session

| | |
|----------------------|---|
| Questions on: | Emerging market slowdown Commodity inflation and pricing |
|----------------------|---|

Jon Cox, Kepler :

Yes, good morning, Wan Ling. I hope all is well. I have just a question on the emerging market slowdown and you specifically allude to obviously India, China and Eastern Europe. Can you give a bit more granularity on that? I'm wondering how much is seasonal, and how much you think there is something of a re-emergence of a slowdown going on given the fact we saw acceleration in emerging markets towards the tail end of last year. And now we seem to have decelerated by 250 basis points or so.

Just a second question for you, given the fact that we're starting to see commodity inflation, I put it to you – do you think you'll start to see some more positive pricing towards the end of the year just on the back of what's happening in the commodity space? Thanks very much.

Wan Ling Martello:

Thank you, Jon. I hope you're well, too. Yes, emerging markets, like I said represent 45% of our sales in Q1. And there are different dynamics going on.

Clearly, currency devaluation in some of our emerging markets.

Second, in China for instance, it has slowed down, but if you look at the comparison against last year, China started to slow down as we progressed in 2013. So if you look at our growth rate in China for this year, the comparison should become easier for the balance of the year. So that one dynamic that will also help us for the balance of 2014.

But the good thing is with China and India slowing down, like I said, in my presentation earlier, we're seeing markets in Africa, markets in Middle East. Even in Latin America, Brazil continues to do well and continues to grow very well across almost all categories in Brazil.

And Russia did really well in Q1.

Clearly, Eastern Europe markets like Ukraine, in Poland, they were tougher in Q1. But so many different dynamics going on in emerging market but we should continue. Our expectation is that emerging markets should continue to do okay.

In terms of your second question, which is commodity costs and the implication in terms of pricing. We have guided and we're not changing our guidance from commodity cost perspective. It still should be in the low single digit but it will be higher than 2013. And so we should see some pricing impact going into H2 of this year. So we should see a positive impact in terms of that.

And again, as you know, we do not guide on pricing. Pricing is something taken locally and I've always said this and Paul has echoed the same sentiment. Nestlé, when we see commodity price increases, we are never in a hurry to pass that along to our consumers. Our

first line of defence always is our NCE, which is Nestlé Continuous Excellence, we do everything we can to try to offset that from an efficiency standpoint. And so the times that we pass on pricing is where we see innovation and new product launches, but no. And clearly, there's also the inflationary pressure in developed markets especially in Europe but we do, generally speaking, with commodities going up in H2, we do expect some pricing pick up for the balance of the year.

Jon Cox, Kepler:

Okay. Can I just follow up on the developing world with the emerging world question, so you think, maybe Q1 was the worst of it in terms of that figure which is sort of decent figure by the way, but some – and you expected that to sort of slowly get better as we go through the year?

Wan Ling Martello:

Yes. It's, again, many dynamics going on in emerging market. But like I said, the comparison in China that should become easier for the balance of the year. And big markets like Russia and Brazil, we continue to be very encouraged by that and so, we'll see. We're encouraged by Q1, so, we'll see.

Jon Cox:

Okay. Thanks very much.

Wan Ling Martello:

Because emerging market is always volatile, so, I hate to make a definitive statement. Suffice it to say we're encouraged by what we've seen in Q1.

| | |
|----------------------|--|
| Questions on: | North American performance Organic growth in Europe |
|----------------------|--|

Warren Ackerman, Société Générale:

Good morning, Wan Ling. Also a couple of questions. The first one is on the Americas region, 4.1 OG and 0.9 on the RIG, I'm just wondering whether you can maybe split it for us between North America and Latin America, just want to get a feel for was North American RIG positive in the quarter, was LatAm pricing double digit? Just a bit more granularity as to the two very different dynamics in the region, I just want to get a feel for whether you think the U.S. is actually really turning a corner fundamentally?

And then just secondly on Europe, organic growth, negative 0.8. % so we've got a situation now where Southern Europe is improving, which is obviously nice, but now Northern Europe is slowing. So just wondering why you think UK, France, Germany has had a tough start. If I look at the UK, the economics basically look pretty decent at the moment. So, I'm a bit surprised that some of these markets that are quite so weak. Russia is holding up so far but Eastern Europe is weakening. Is that going to continue in Russia? Just want to get a sense

whether you think organic growth in Europe overall will actually be positive this year, given it started the quarter, negative in OG terms? Thank you.

Wan Ling Martello:

Hi, Warren. I hope you're well. Let me just give you some colour in terms of North and South America. North America RIG and OG were subdued, and it's impacted by both late Easter, as well as weather issues. In Frozen food, I've touched on that going through sort of like the categories both in *Lean Cuisine*, *Stouffer's*, *Hot Pockets*, acceleration in PetCare.

So, the thing is, I was just in visiting North America with Chris Johnson and Patrice Bula a few weeks ago. And if we talk about Frozen as a category, it's very encouraging that it's not a structural issue that we are facing. And we're very encouraged by all the innovations that we have in the pipeline that should be coming, that should be launched sooner than later.

And so, in terms of Latin America, we did see a slowdown and I touched on that, it was late Easter. Brazil being a big confectionery business, biggest in fact for us. But Latin America good organic growth driven by pricing but slowing a bit compared to last year. And the overall performance was clearly impacted by slow economies, Brazil had good growth, Mexico was partly impacted by the newly enacted fiscal legislation, but PetCare continues to be really strong. So again, it's a different dynamics in both North and South Americas. In terms of Europe...

Warren Ackerman, Société Générale:

The North American RIG and OG were actually maybe slightly negative in the first quarter for the Easter and the Frozen food reasons?

Wan Ling Martello:

It was subdued for North America. In terms of Zone Europe, its RIG slowdown was impacted obviously by late Easter, a big chunk of it you touched on the big market like France, Germany, UK confectionery business is big in those big markets. And so clearly, that Easter shift plays a big role. But even Ambient Culinary to some extent, was also impacted by late Easter.

And so by region the slower performance UK, Germany, France but in the developed parts of Europe, Switzerland, Austria was strong from a product category. I already said Confectionery was slow, Culinary was off to a weak start, PetCare good growth, *Nescafé Dolce Gusto* great growth, Pizza driven by Germany, France, Spain, Italy and even Ice Cream was held by a good weather after a week prior to *Mövenpick* being a really strong performance. And Southern Europe was improving. I talked about the two driven by Iberian region and Italy. Spain benefited from strong growth in *Nescafé Dolce Gusto* and good growth in chocolate actually, thanks to *Kit Kat*, tablets. And Italy, strong growth in *Nescafé Dolce Gusto*, and *Pizza Bella Napoli* improved. And so Greece remains challenging but – and we saw market share gains also in Spain and Portugal. So that's to give you some colour in terms of Europe.

Warren Ackerman, Société Générale:

Okay. That's great. Thank you very much. Cheers

Wan Ling Martello:

And in terms of the balance of the year – Yes, thank you. Cheers

| | |
|----------------------|--|
| Questions on: | Nutrition contracts in US Impact of stockpiling in Waters |
|----------------------|--|

Eileen Khoo, Morgan Stanley:

Good morning, Wan Ling. I hope you're well. Two questions for me. The first one was on Nutrition. It was encouraging to see commentary around optimizing the use of your assets. I was wondering if you could give us a bit more colour on these contracts that you exited in the U.S. and what the impacts on growth was on Q1 for this business in Nutrition?

And then secondly in Waters, I think you mentioned the impact of stockpiling. Would you be able to quantify or give us a bit more colour on that impact and what you expect to be a more sustainable level of growth in waters going forward?

Thanks very much.

Wan Ling Martello:

Good morning, Eileen. I hope you're well. In terms of Nutrition, I talked about a slowdown in Q1 was partly because of the comparison, a tough comparison against last year. But in the U.S. specifically, we walked away from what we call weak contracts. In the U.S., we had, I think, three states where we walked away from that weak contract, trying to be strategic about it and making sure that growth is profitable. So it affected our Nutrition, Infant Nutrition business in the U.S.

In terms of Water, my comment about possibly also there's parts of stockpiling in the U.S. I don't have specific numbers in terms of how that dynamic impacted our first quarter sales number for our U.S. Water business but I'm sure that played a part. But in general, in the U.S. it's a fact that consumers are shifting to healthier alternatives.

Eileen Khoo, Morgan Stanley:

So just a follow-up in that case, in the first quarter, Water's RIG was 8.1%. Would you say that's probably – that should be sort of reversed to an extent in the second quarter then? And then in the Nutrition as well, 6.4% like-for-like is that the run rate for the rest of the year as well?

Wan Ling Martello:

Yes, we don't guide by business for the balance of the year. We just guide by the group that it's around 5%.

Eileen Khoo, Morgan Stanley:

Okay.

Wan Ling Martello:

Yes. But in Nutrition a lot of the dynamics are because of the comparison against 2013 also.

Eileen Khoo, Morgan Stanley:

Okay. Thanks very much.

Wan Ling Martello:

Thank you.

| | |
|----------------------|---|
| Questions on: | Pricing in Emerging Markets Market Share in Baby Food in China |
|----------------------|---|

Jeremy Fialko, Redburn:

Hi. Good morning. I have two questions, first one is on pricing in Emerging Markets. Can you talk a little bit about the elasticities you're experiencing there when you put price rise through. You gave the example of Indonesia as somewhere you have put quite a lot of price rises through. So what sort of volume reaction you're seeing as you put those price rises through? Perhaps whether consumers are more sensitive to price rises now versus what they were maybe six months or a year ago?

And then the second question is just focusing on your China Baby Food market shares. Can you talk about that? Has there been any change in the rate of what you've been taking market share? Obviously, with your competitors recall, whether you can give us any sort of sense on whether you're not taking market share at the same sort of rates as you were towards the back end of last year? Thanks.

Wan Ling Martello:

Good morning, Jeremy. In terms of pricing in emerging market, that very much depends on the specific market, as well as the categories. So if I talk about Brazil, for instance, even with inflation, our business in Brazil was able to take pricing in addition on top of the inflation impact. Whereas in certain markets in Asia, for instance, the ability to price might not be as good, so a lot depends on categories, a lot depends on market, and obviously, goes without saying a lot depends on the competitive landscape. And so it's hard to make a general statement in terms of elasticity in general. And so that's pricing and emerging markets.

In terms of your second question which is Infant Nutrition in China, Infant Nutrition in China grew double-digit in Q1. And Wyeth specifically also had an excellent performance, as well as NAN, so we continue to be very encouraged by our Infant Nutrition business in China both in terms of growth and in terms of market share performance.

Jeremy Fialko, Redburn:

Thank you very much.

Wan Ling Martello:

Thank you, Jeremy.

| | |
|----------------------|--|
| Questions on: | Currency impacts on sales and margins Pricing in Europe |
|----------------------|--|

Alain Oberhuber, MainFirst :

Good morning, Wan Ling. A question on the currency. I mean, the impact was higher than people were expecting. So if we play it like that constant currency at the moment, what could be the impact to current level of currency? What could be the impact for the year on sales? And then if we take it from here, if we expect currencies to stay at these levels, what could be the impact on margins for the year?

And the second question is about pricing development in Europe, do you expect positive pricing in the second half or will it still be subdued?

Wan Ling Martello:

Thank you, Alain. In terms of currency, we obviously do not guide on what the impact of currency is going to be. Having said that, assuming currency stays at the same level that we've seen in Q1, the one thing that will be going for us is the comparison will be much easier for the balance of the year, assuming currency stays where the current, at existing level in Q1. And in terms of impact to margin, we reiterated our guidance for the year. We will improve margin in a constant currency basis. And so that has not changed.

I think your second question is pricing in Europe. Europe, no surprise to anybody, the environment continues to be very deflationary. But having said that, we should expect some ability to price, especially with commodity price increases in categories like Coffee. So we should see some pickup from that – in that category specifically.

Alain Oberhuber, MainFirst :

Thank you very much.

Wan Ling Martello:

Thank you.

| | |
|----------------------|---|
| Questions on: | Full year guidance Confectionery growth for H1 |
|----------------------|---|

Patrik Schwendimann, Zürcher Kantonalbank :

Good morning, Wan Ling. First, regarding your guidance for the full year that you're expecting, organic growth acceleration in H2. Just as a best guess, I know it's now it's April, but just as a best guess, would you say it's again possible to have an organic growth of over 5% than in H2?

And the second question is regarding the Confectionery business, which was negative at the organic growth level of 0.5%. I mean it's clearly because of the late Easter, but what would you say was the growth on a normalized level excluding Easter? What shall we expect here for H1 just to have an idea. Thank you.

Wan Ling Martello:

Yes. Thank you. In terms of organic growth, our guidance is for the full year around 5% and

second half-weighted so that we're just reiterating that. In terms of the Confectionery business, it's – we do expect organic growth recovery and there will be pricing. And so that should come back in the second half.

Patrik Schwendimann, Zürcher Kantonalbank :

But overall, also in H1, than a growth of several percent?

Wan Ling Martello:

Yes. We're not, again, we do not want to go into specifics of H1 versus H2. Again, it's full year guidance H2 weighted.

Patrik Schwendimann, Zürcher Kantonalbank :

Okay. Thanks

| | |
|----------------------|---|
| Questions on: | Slowdown in Northern Europe US situation |
|----------------------|---|

John Revill, Wall Street Journal;

Good morning, Wan Ling. Like everybody else, a couple of questions. I just wondered with regards to Europe, you said that France, Germany and UK had a slower start to the year. Could you just give a bit colour on that, whether your sales declined there or just slightly slower growth? When do you see Europe, Northern Europe, markets like that picking up? That's my first point.

And secondly, with regards to the U.S., the U.S. market has been hit by the winter, you've been having problems with Frozen. I was wondering, when you see that picking up and little bit more on what's happening out in the U.S., please?

Wan Ling Martello:

Good morning, John. In terms of Zone Europe, I touched on this earlier. So the three big developed markets. UK, slow Confectionery and that's because we have a big Confectionery business in the UK, and so that's clearly affected by the timing of Easter.

So the shift in Easter affected Germany, UK and France. But Germany, in addition to Confectionery, also had a slow start in terms of Culinary. And France is again, it's confectionery.

In terms of the U.S., and I describe it again as we have to be clear. When we talk about Zone America we've got the U.S. business, and we've got [Latin America]. But when we talk about U.S. in general, and that's what we call Nestlé in the market, this is not just our Food and Beverage but also Waters, Nutrition, Professional, Nespresso.

So on the U.S. in general, we have positive RIG and organic growth. We've got 40 segments and it's a mixed bag. Some segments doing better than others and some market shares are up. Some shares are flat to down. And so, very much a mixed bag but some businesses are doing really well, and some we know, we have room to improve. And so, back to my

comment earlier, it's very encouraging, if you go back to where we have challenges, to see the improvements are being done and the kinds of innovation that are in the pipeline.

John Revill, Wall Street Journal;

Right. Okay. If we go back to France, Germany and the UK, are the sales actually down or just slower growth?

Wan Ling Martello:

We do not give specific OG in terms of our markets. Nice try, John.

| |
|---|
| Question on: Galderma Q1 performance |
|---|

Jean-Philippe Bertschy, Vontobel

Good morning, Wan Ling. I hope you're well. I have a question with regards to Galderma can you share with us the performance in the first quarter?

Wan Ling Martello:

Hi, good morning, Jean-Philippe. I hope you're well too. At this point, the transaction has not closed yet, when the transaction closes, obviously, we will report Galderma as part of our results.

Prior to that, Galderma is reported in our associate line, and we do not report sales or profits separately. And so, we will, Jean-Philippe, you will just have to wait until we close the transaction. I'll make sure that we highlight Galderma for you.

Jean-Philippe Bertschy, Vontobel

Thanks for that.

| |
|--|
| Questions on: Growth Guidance Margins for H2 |
|--|

Céline Pannuti, JPMorgan:

Yes, good morning everybody. Just two quick follow-up. The first one in your statement, you said that growth will be around the same as last year. In full-year results, sorry, you said around 5% in full-year results you said it would be around the same level at 2013 which you have not reiterated at this time. So could you just say whether you can see that or you'd rather only stick around 5%? That's my first question.

Second, in terms of the – you said your outlook on top line will be H2 weighted, is it something of the same for margin expansion? Will there be a difference H1 versus H2? The reason I'm asking that is that you've been talking about pricing rather accelerating in the second half while you're also talking about raw material increase. So I just wonder whether that would have an impact from the delivery of profitability – of margin? Thank you.

Wan Ling Martello:

Yes, I want to make sure I understand your second question. But let me answer your first one. Your question about growth being around 5%. Yes that is our guidance for the full year. I think we touched on 2013, that might have...

Céline Pannuti, JPMorgan:

Yes.

Wan Ling Martello:

I think we said that the condition is much like 2013 so, but our guidance in terms of organic growth is definitely around 5%, so that has not changed. And I think I want to make sure I understand your second question. Are you asking about the second half weighting for both...

Céline Pannuti, JPMorgan:

Yes, its margin, I want to know if margin will be second half weighted but the rationale behind that if you're talking about pricing accelerating through H2, so I'm wondering whether because of raw material inflation you see more of H2 margin delivery versus H1?

Wan Ling Martello:

Yes, Céline, our year will be second half weighted from a performance standpoint whether you look at top line or bottom line, it's growth driven. And so it's a whole host of factors. I touched on the China comparison being easier.

As we go through the second year, commodity pricing picking up, so we should be able to take some pricing. There's some innovation launches that will pick up steam. We talked about even, just to give you some specifics for instance like, *Waggin' Train*, the limited reintroduction in Q1. That should continue to roll out. So it's really a whole host of factors as we see the year progresses. So definitely, H2 driven for the year. But clearly, still around 5% is our guidance.

Céline Pannuti, JPMorgan:

Great. And then, just maybe because you just mentioned it, you keep saying that China [will have] easier comps? I'm not too sure how, is there anything specific that you can pinpoint, maybe inventory was low and that's an easy comp, because if I look at zone AOA, it has been around the 5%-6% level now for several quarters and we still do not see an acceleration, easy comps.

So I just want to understand, would there have been more specific in China?

Wan Ling Martello:

No. China slowdown in Q1 was a few things. The timing of Chinese New Year. As you know, Chinese New Year this year is quite early. There's – I talked about difficult comps. But no, in terms of – and China in general has slowed down. I mean, it's widely known that China, as a country, as a market has slowed down, so nothing beyond those broad reasons. But the good thing about China that's important for us is we continue to gain market share in across

many of the categories and that's the one thing that's important regardless of due to macroeconomic situation that's happening.

Céline Pannuti, JPMorgan:

All right. Thank you so much

Wan Ling Martello:

Thank you, Céline. Peter, I want to make sure that we answered all the questions from our investor community and I'm getting the signal that we have, that there's no more question in the queue.

Peter Warne, Nestlé S.A., Investor Relations

No more questions

Wan Ling Martello:

Okay. No more question. Okay. Well, thank you. Thank you for the questions. We believe that this solid first quarter is a great base on which we will deliver our outlook for the year. We look forward to engaging with many of you at the Nestlé's Investor Seminar to be held in Boston, just as a reminder on June 3 and 4. So until then, goodbye and thank you.

Stay well.

END OF TRANSCRIPT