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Speakers:

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François-Xavier Roger, Chief Financial Officer, Nestlé S.A.

Slide: Title slide

Good morning to everyone and I'll be actually very brief, I just have two slides, because I want to leave the floor to Chris because you don't see him probably as often as you see me, so it's a good opportunity for you to listen to him and to ask him questions as well. Actually, feel free to ask most of the questions to him if you want to.

Slide: Disclaimer

On the first slide, I'll take the disclaimer as read.

Slide: Our long-term value creation model

I just want to remind everybody about our long-term value creation model and three building blocks. You know this is about growth to start with; growth is obviously coming from managing our business and especially investing in our high growth categories. We have five of them - PetCare, Water, Infant nutrition, Coffee, and Consumer healthcare. These categories are growing by themselves mid-single-digits, and we are very well positioned with number one and number two positions in all of these categories.

Portfolio management has been and will be a key driver of growth as well. It has contributed something like 20 basis points, on average, of accelerated growth for each and every single year over the three years. What we need to do as well is to fix the base business whenever we are facing specific issues in some businesses.

The second pillar of our growth is about margin improvement. And there we shared an ambition of being between 17.5 and 18.5% operating margin by 2020. We'll actually reach that level, the bottom end of this target already this year, one year in advance, in 2019. This is very much about focusing on what we call our structural costs, which is the sum of fixed industrial costs, fixed distribution costs and G&A. Overall, these costs have been declining between 1 and 2 %, even more this year. The mere fact of growing and seeing these costs declining is contributing to a margin improvement of about 50 basis points per annum. This is what we have been doing over the last two years and what we will continue doing this year and next year. So this is very much about the increasing of operational efficiency as well. Part of it is coming from procurement, where we are leveraging on scale. We are the largest player in our industry and obviously, as such, we can leverage on scale.

The third pillar of our value creation model is about capital allocation, and this is very much about capital efficiency. First, we prefer by far to invest in our business or to invest in R&D, to invest in marketing, to invest in CapEx. We do quite a lot of it. There is not necessarily a need to do more; maybe more in marketing, though, because we are starting to reinvest a little bit more. We try to be as disciplined as we can in managing our CapEx or our working capital. And I would just mention that working capital has declined over the last six years, from formally 8.5% of sales to a little bit more than 1% now, and we aim at being probably around zero in the medium term.

We value, as well, the fact of returning cash to shareholders. We have returned a significant amount of cash as a combination of share buybacks and dividends. So this is very much about maximizing long-term shareholder value.

Slide: Strong half-year financial results

In the meantime, if we look at our performance in H1, which is quite similar to what we have achieved last year, we are actually satisfied with what we have, although we aim at doing even more. But we ticked all boxes, everything that had to go up went up, everything that had to go down, went down.

So organic growth accelerated by 80 basis points to 3.6%. We aim at being around 3.5% this year and we aim at being at mid-single digit next year. The underlying trading operating profit margin, which is before restructuring and restructuring-linked expenses, we improved by 100 basis points in H1 over the same period of last year. We don't expect to grow by the same amount for the full year; there was a phasing, a positive phasing impact, coming from the commodity cycle in the first half, but we do expect to have at least 50 basis points of margin improvement for the full year in 2019.

Our EPS grew 15.7%. That's quite a significant achievement. It comes on the back of a significant increase already last year. So it's largely a consequence of our accelerated organic growth, our improved margin, as well as the significant decline that we had in our underlying tax rate. I think we might talk about it later on.

Working capital went down, once again by 50 basis points. We aim at being at around zero. Free cash flow improved. Don't look at the percentage, because it's only for six months. But we do expect to see our free cash flow improving as well, and we returned an historical level of cash to shareholders, CHF 11.5 billion, over the last six months, once again as a combination of share buyback and dividend.

I won't say more at this stage because once again, I want to leave the floor to Chris, and anyway we have a Q and A session with Warren later on. Thank you.

Chris Johnson, CEO Zone AOA, Nestlé S.A.

Slide: Title Slide

All right. Good morning. I just realized that I joined the company actually 36 years ago to the day. I started the day after Labor Day as a sales trainee in Chicago back in 1983. And I would have never imagined actually that that day, when I was sitting there building displays of *Carnation* Evaporated milk in a Jewel store that I'd be standing here talking to you about how to capture growth in a rapidly shifting environment in Zone AOA. So it's a pleasure to be here. Thirty-six years with the company and 12 years I've spent now working in the Zone over my career. So something close to my heart and I'm glad to be here.

Slide: My perspective after 8 months in Zone AOA

I've only been on the job now for eight months and maybe just first of all, a few perspectives on this first eight months. I mean, I feel very fortunate to be leading a very dynamic and diverse Zone, with some very favorable long-term trends.

We know with respect to urbanization, you know, two-thirds of the world's urban population currently lives in this Zone. We've got the growing middle class, we've got digitalization, not just Japan and Korea, but we see this is exploding across the across the Zone and there's nutritional challenges, of course, but also that provides us with all sorts of opportunities, as we provide products to address those.

It's an attractive portfolio; I'll talk a little bit about that later on, with some leading positions and some very strong brands.

But I think most important is the excellent team of talented people that we have. In a diverse sort of Zone like this, we have to rely on the talent in the markets to win. And I've got a great team.

And there's still significant growth opportunities. There's still opportunities for us to find efficiencies, which we'll invest in the business and we have been investing in the business.

And of course we're also evolving our business model to win in this new retail and digital environment. We had, I'd say, solid organic growth of 3.3% in the first half. We did have some negatives such as a development in Pakistan, challenges there, as you're well aware macro-economically, purchasing power, which hurt our business, and also some softness in some categories in China, which we'll talk about later.

Slide: Our business in Zone AOA

The business again, just to summarize we've got 70 percent of the world's population in Zone AOA. 95 countries which we cluster into five geographic regions and within that, we have 13 markets.

The sales in the Zone is around 23% of the group's total sales at $21.3 billion. The operating profit is around 31%, so we're accretive to the Group.

We have close to 100,000 employees in 90 factories. As you can see as well if you look at the six key categories that Nestle competes in, we do have a fairly balanced range of categories with some opportunities, which I'll talk about later

Slide: Our virtuous circle

We operate in the framework of something called the virtuous circle, where we seek to strive for efficiencies, which we did last year. 50 basis points in 2018, which we've invested into the business. Through the first half of this year we're seeing a similar sort of improvement, which again we're investing behind point two, which are our growth platforms.

Marketing investment was up last year. Marketing investment is also up around the same level in the first half of this year, which then drives market share gains.

We've been fortunate in the last year that around 60% of the cells, in other words, a product category in a geography, gained or held market share during last year. We see similar trends this year as well -- which then delivers profitable growth. Then finally, Creating Shared Value is something very close to our heart, not just for the group but of course, but for Zone AOA.

Slide: Category growth opportunities

If we focus now just on the categories and key categories, four of the six stand out, of course as big opportunities. First of all, Beverages, including Coffee, so I should also mention that Coffee is about three-quarters of that 28% of Zone sales. The other quarter is Cocoa malt beverages, primarily the *Milo* brand, which is very strong, as you know, in ASEAN, and getting also very strong in the Central West Africa region. But all sorts of opportunities, whether it be in retail or out of home. *Starbucks* is a great opportunity for us, which we launched first in Japan and Korea in April and has been really over-delivering. Launched now in China last month and further launches will be coming in the balance of the Zone. So a lot of good opportunities there.

Milk products will be the second-largest category for us. This includes milk powders, and what we're seeing also more and more is these ready-to-drink milk beverages, which are featured there, primarily for convenience and health, many targeted to children. It also includes Ice cream, which is showing some good growth in select markets as well as coffee and tea enhancers.

Nutrition is the third-largest category segment for us, at 23% of total Zone sales. Here primarily in the area of Infant formula and also in growing-up milk and in cereals. Here, China is the largest segment and represents 40% of our sales in Zone AOA, the other 60% is coming from the balance of the Zone, again, with some good potential.

The one you can see here that is clearly underweight is PetCare, where we have strong positions and today the business is concentrated in Japan and Oceania. But clearly it has big potential in China, ASEAN, and other markets as we move ahead.

I should also touch on -- I don't mention here – Food. Food for us is around 12% of the Zone sales. There we are very strong with the *Maggi* brand, whether it be in bouillon in Central West Africa region, or noodles in India. Confectionery is about 8% or so of our sales, again, showing some strong growth, particularly with the *KitKat* brand, which is our leading brand in the Zone.

Slide: Key market opportunities

If you look by markets, again, we see all sorts of opportunities by markets. Maybe I'll start in the lower corner first.

Southeast Asia, the five countries that make up Southeast Asia, the largest block basically of sales in the Zone and there are still even some white space opportunities, when you look at countries like Myanmar.

Greater China, 30% of the Zone. We've seen a bit of softness in many of the categories in China but still plenty of opportunities thanks to the breadth of the portfolio that we have.

South Asia next, and this is a bit of a split story for us this year, anyway. We have India growing double digit -- very, very strong, about two-thirds of that, and then we have Pakistan, which I mentioned earlier, is struggling. But clearly premiumization and innovation are key in that part of the world.

Sub-Saharan Africa as well. Population of 1.2 billion, 12% of the Zone sales, many, many opportunities particularly in the area of what we call PPP or Popularly Positioned Products.

Slide: Developing our business model

So premiumization, as you can see over time, has grown to account now for around 15% of the sales. I should also mention as well this idea of PPP or affordable nutrition, is something also that we're going to be focusing on, particularly in those areas like Central West Africa region, like the Philippines, where we have a large percentage of the population which has nutritional needs but yet is operating on a disposable income of less than two dollars a day.

All sorts of opportunities in digital, which we're seeing. Personalization, as I mentioned before, a lot of mobile-first markets. Then of course, we have new capabilities that we're developing across channels. E-commerce is the fastest-growing channel, but it's not just about e-commerce, it's about e-business. It's about the way we also communicate and engage with consumers. And again, it's going beyond just China and in Japan and this is something that's being developed across the Zone.

Slide: Creating shared value for society and for our shareholders

And of course, again, the heart of what we do is about Creating Shared Value. We've been doing this for years and years. We provide and touch school-age children, their caretakers, educators, parents, providing nutritional information and guidance to 13 million children over twenty-nine different countries.

We have a global youth initiative; over the last three years, we've hired 40,000 youth, provided internships and traineeships to another 11000.

Caring for what is very important, we reduced our usage of water by 29% over the past few years.

Plastic waste is an issue, which of course is key as 80% or so of the mismanaged waste occurs in in Zone AOA. And today we have a large percentage of our packaging, which is already recyclable, but we also know that there often isn't the infrastructure in place to really leverage this, so we're working closely in partnership to tackle this area.

We have then the Nescafé plan and Cocoa plan, where we work with farmers, again, to help their yields, as well as with dairy farmers in milk.

Then of course gender balance and diversity is something that is important and also looking to have more local management and leadership as we as we evolve over time.

Slide: Increasing profitability, not yet satisfied with the growth

So we've improved profitability in this last half year reporting, we have come up a bit short on growth, as I mentioned before primarily because of Pakistan and some softness in some areas in China.

Slide: Key takeaways

So to summarize, we have obviously key categories and geographies that offer us plenty of opportunities, premiumization and digital is driving, and has the potential to drive growth in the future, Creating Shared Value will always remain key to us. And while profitability is increasing, we still have more to do to accelerate growth.

So in summary, I'm very honored and very humbled to have this role. I'm very excited about the opportunities that are ahead of us, and look forward to discussing more. So thank you very much.

Fireside chat question and answer session

Question on: Changes in company since Mark Schneider became CEO

Warren Ackerman, Barclays:

Thank you, Chris. We're going to start the fireside chat now. The first question from me, and it's actually for both of you - Mark Schneider has been CEO for a couple of years now. Can you maybe walk us through how you see the company changing in terms of agility, speed to market, execution, how far down the journey are you in that last two years?

Francois-Xavier Roger:

I think that we have seen quite a lot of changes. But first of all, the company was very successful before. We have 152 years of history, and probably the most dramatic changes we have seen is about speed and speed and speed again, speed of execution. We see through many things, it's not only in R&D, but it happens in marketing, it happens on the industrial side as well. It happens as well, for example, even in portfolio management, where we have been much more active. It happens in the execution of some of the restructuring program we have been seeing as well.

We just mentioned a few things in R&D, where we used to take about two years to develop a new product. I'm putting Infant nutrition aside, which is much more about science and technology. Where we used to take about two years to develop a new product, now we are targeting to do it within six months. This is a total change of mindset because it means that we are putting a product which is 100% safe on the market but the product is not necessarily fully to the level that we would like it to be but we take less time to put it on the market, and then listen to consumers. The consumer can tell us, "We like the product but maybe look at this one, or look at this aspect of the product that maybe you can you can improve." So finally, as well, there was certainly much more cost awareness. Consumers don't pay for inefficiencies. There is much more awareness on that, and I would say portfolio management has accelerated that significantly as well.

Warren Ackerman, Barclays:

And from your point of view, Chris?

Chris Johnson:

Yeah, I concur with that. I think one of the things behind that -- I mean the speed of, let's say, launches and new innovation is maybe what Nestlé did a bit more in the past was to try to make sure we had everything perfect before you go out and introduce it in the market. I think the introduction of the *Yes!* bar is a good example of that. We went out quickly with a plastic wrap packaging, got the feedback from consumers and we knew that already, actually, that that wasn't the ideal packaging but rather than wait until we had the paper packaging all set up, we launched that knowing we would come back with sort of a version 2.0. I think that is something that is well embraced then by the R&D community. But I think it's much appreciated by the markets. At the end of the day, to be able to be faster and just go out there and compete is something important.

Then the second part is also very important-- be very disciplined on cost management, whether it be restructuring or other areas that I think we’ve been able to find that balance where that hasn't crippled our ability to grow. In fact, it's been able to fuel our growth.

Question on: US performance

Warren Ackerman, Barclays:

François, for you, the main thing to stand out from the Q2 result was the RIG number. It was the best quarter since Q1 '16, so for 13 quarters, and you talked about the US being the best performance in eight years. I remember a few years ago, the US was barely growing. So that, given that it is 30% of your sales has been a huge change. How has that happened? What's driven that, and how sustainable do you think that pickup in growth is in the US?

Francois-Xavier Roger:

So, we believe it is sustainable and we are very happy with what we see in the US. Two years ago, in 2017, we were obviously worried because we had zero percent growth and basically zero percent growth in most of our categories in the US. Since it accounts for a little bit less than one third of total sales, we knew that we'd have difficulties to reach mid-single digit growth, which is what we aim at getting next year, without the US accelerating their growth. So we were very happy to see a significant acceleration last year and this year again.

We said this year it's predominantly the consequence of innovation. So we have been really pushing innovation across categories. We should look at one of the categories that experienced the highest level of growth, which is PetCare. We are very much in innovation there, so we launched organic natural products. We launch-- and we are moving a little bit further into the business of offering solutions to our consumers. For example, obesity is a problem for pets and cats, so we can offer products that. My dog is aging, and has difficulty with its movement, can you provide me with some solution? We have solutions for that. Or my dog is barking too much. So we started to market in the US a product to prevent dogs from barking, or limit their barking, which is not a sleeping pill, just to make sure you understand. No, it is a sophisticated product, which is a probiotic, so this is very much about premiumizing and so forth, and even moving, in some spaces as well, into personalization.

So innovation is about Coffee as well, what we did with *Starbucks*. Since we took it over in the US, that business has been growing mid-single-digit, but growth is absolutely fantastic, as well, with *Nespresso*. So, on *Nespresso*, we should have, the US should probably become the largest market for *Nespresso* next year. Currently it is France. So this is about innovation.

What we did different this year as well is to take pricing in the US. We were reluctant to do it in the past. I think that we have gained confidence in pricing. We have gained confidence in our pricing power. In the past maybe we were concerned that we would have negative elasticity, which we had for Water, to be fair, but we have it because we have too much in the mainstream segment. But most of our other categories, pricing did not impact negatively on our growth. We like volume as well. Volume is about share of stomach, this is about consumer shelf space as well.

Question on: DSD

Warren Ackerman, Barclays:

Just in terms of the US, obviously, briefly, you talked about the DSD change. I wonder whether you maybe give us an update on the rationale for it and the kind of financial impact we should see in the back half and how you think that will help improve the capital intensity or reduce the capital intensity of the business?

Francois-Xavier Roger:

So, we had a little bit of a strange model before, because we had part of our cold chain business, more specifically Frozen, which was in a warehouse model already. Then we had Ice cream and Pizza with the DSD, direct store delivery model, which by the way-- is a little bit peculiar because we are not like some of our competitors, delivering to the mom and pop stores. We are delivering to the large retailers, and filling their shelves. They are not necessarily happy with it because they don't like to see our employees moving into their store. So it's a model that doesn't make sense, which is very labor-intensive, because we had a few thousand employees, which is very capital intensive. We had 1,400 trucks or 1,500 trucks, so it's quite a significant activity, which is not really adding a lot of value, neither for us, nor for the trade. So we think that it makes sense that we pull out of this activity and really focus on what we are good at which is innovating, which is really marketing our products, developing new products, and this is where we will focus.

So it will have an impact, a negative impact on sales, because we will sell at a lower price level to compensate the trade for the additional activities that they will do, but we would obviously save on costs, so the benefits would be obviously positive for us. So it's really a win-win situation, both for us and for the retailers.

Question on:	**PetCare**

Warren Ackerman, Barclays:

So you touched on pet food and I saw that pet food grew over 6% organically in the first half of the year. In fact, it contributed almost a quarter of the entire organic growth for Nestlé. I saw in your slide, Chris, pet food was only 3% of Zone AOA, so it was an example of a category that's doing very well in developed markets, where there's still upside, potentially in emerging markets. Can you just talk about that number, and Chris, maybe specifically about pet food in Asia and the veterinary channel, which is an area that you've invested with IVC in Europe. I would just be interested to hear the perspective.

Francois-Xavier Roger:

I will just say a few words and then Chris will remark on it. There are two main drivers of growth. In the West, what we call the calorific coverage, which is the percentage of dogs and cats that are using processed food, is somewhat at 90%-plus; there is not much room there. So in the West, it's really about innovation and premiumization, and we are doing a good job there. But in the developing markets, that's totally different, because this is what we call the calorific coverage, so once again we have quite a lot of potential in Eastern Europe, in Latin America, in Nigeria, but Chris maybe you can elaborate on it?

Chris Johnson:

Yes, absolutely. There's a huge amount of upside and if you just look at the sheer number of dogs and cats in Zone AOA, it's around 300 million or so. And you have 200 million of that in China alone, with 100 million dogs and 100 million cats, more or less. Again we talk about this calorific coverage or their percentage of food, which is the percentage of calories a pet consumes from commercially manufactured food. In Zone AOA, you know, the levels are very low, probably averaging about 25%, 15% for example for cats in China, 9% for dogs. So that's setting a stage then for all sorts of opportunities. As I mentioned, I mean the bulk of our business today is in Japan and Oceania. We've had some long-standing businesses there; we've adjusted those portfolios to be more focused on premium. We've also then adjusted even what we had in China with a focus into a more premium portfolio, which is now showing some good results. In fact, if you look at the performance of the first half this year, across all markets in Zone AOA, we're exceeding our objectives and targets are looking good. It's one of the first years in a long time that we've seen that sort of growth, so there's a lot of upside, a lot of it depends upon, you know, the right execution making sure we hold on this correct strategy but obviously a lot of upside.

Question on:	**Margin**

Warren Ackerman, Barclays:

Francois, back to you on margin. You know the 17.5. 18.5% margin target for 2020, can you just talk a bit about the kind of cost buckets that you're looking at where you are? You showed us some examples at the CMD a few years ago. How much progress have you made on those, and maybe -- I think most people were pretty comfortable with the margin for 2020. How do you see that kind of algorithm for the company beyond 2020? Can that kind of momentum be sustained?

Francois-Xavier Rogers:

Well beyond 2020, I don't want to say too much because we are still working on it, as you can expect. But let me just tell you what we have been doing and what we continue doing this year and next year, which is to, first of all, remove inefficiencies from the system because the consumers don't pay for inefficiencies. First, we are really addressing the back end of the business, which is non-consumer facing activities: industrial footprint, supply chain, G&A in general, procurement as well. A lot of what we have done as well is to consolidate some of these activities what we call above-market, which means that we don't need to have 190 procurement team in 190 markets, or 190 teams doing their role or accounting work in the markets. We can consolidate these activities above market and generate savings as a consequence.

We can be much more efficient as well in handling our real estate, our needs for industrial purposes or for offices as well.

So we have been quite efficient. We did it very simply by the way. This is what I called earlier structural costs; fixing manufacturing costs, procurement costs, fixing distribution cost, G&A. This accounts for about 18% of sales of CHF 17 billion, so this a significant mass by itself. And we asked people, can you keep these costs flat or slightly declining in Swiss francs, which means basically spend the same or slightly less than what we spent last year. And when we leverage that against growth, let's say 3% last year, or around 3.5% this year, that brings automatically 50 to 60 points. And we protect R&D and marketing, which are ring-fenced, in order to make sure that we drive growth. By the way, now we are entering into an interesting period where we can probably, not only let the savings flow to the bottom line, but maybe start reinvesting a little bit more in marketing. Since we grow at a higher level as well, the leverage is helping us a little bit more to do that.

Post 2020, it's too early to say, but some of the programs that we have embarked upon and started will to be valid. We've already said, for example, for procurement we did 90% of what we originally thought we would do. We can do probably a little bit more. In G&A, we have achieved around 60% of what we have to do. It doesn't mean we can't do more, by the way. And on the industrial side, this is a program that will certainly continue way beyond 2020, because these are long-term programs. I mean, when we restructure, but we have done quite a lot. We used to close about two plants a year. Now we close about one plant a month, which is quite a significant acceleration. If you look at fixed industrial costs, last year they declined by 2.5 percent. So when you measure that against the sales growth of 3%, that means about 5%-plus productivity increase in one year. This year, these costs are even declining more than that, 3.5%. Again, 3.5% of growth; this is another 7% of productivity in industrial costs. But we continue looking at new ways to get savings on efficiencies. That's not something that we decided in '16 and froze in '16. That's something that we keep on pushing on a daily basis.

Question on: China

Warren Ackerman, Barclays:

Again, changing topics, Chris. I've got to ask you about China, and your vision for China, because when I look at say some acquisitions, like *Yinlu, Hsu Fu Chi*, they haven't been great. Arguably, Nestlé historically, has focused very much on the bottom end of the pyramid, the PPPs, and you've missed out on some of the aspirational Asian consumers trading up. I know your trying to address that but can you just talk about China, your capabilities in e-commerce, how you kind of see that growing, because it's holding back AOA overall, which should be doing better.

Chris Johnson:

Well, I mean, China-- China is growing. China grew mid-single digit last year, is low single digit in the first half of this year, and you know I'm very bullish on China. You know, we have-- we're fortunate to have a quite a wide range of products there, some doing very well this year - for example, our Culinary, our food business, *Totole*, which is also an acquisition, is growing at double-digit. Ice cream does well, milk powder, particularly targeted for seniors, is doing very well.

We did struggle with a tough Chinese New Year. I don't think we're the only ones to talk about this. You know, that had an impact both on *Hsu Fu Chi* and on the *Yinlu* business in the short term, I would say. Specifically, *Hsu Fu Chi*, we have now a new management team in place. We've done some reformulations of our biscuit, which is kind of the main core brand within that category. We're looking at leveraging them through good execution and also some more omni-channel work to make sure that this is a viable platform. We believe this does have some potential for us.

Yinlu is a mixed story. I mean, I just came back after spending a week with beverage distributors and Yinlu to try to understand kind of what's going on. The messages are very, very consistent -- tough for beverages this year in China. I mean exceptionally tough year across the board, struggling with peanut milk and congee, to a certain extent, but the flipside of that is that the ready-to-drink coffee, where we have leadership, where we have strong brands, is doing very, very well. So that platform, that depth of distribution, and that loyalty that we have is paying off and we're seeing their great chances for premiumization. The launch of cold brew, for example, in the major cities, priced at almost double the price of our PET Smooth latte, *Nescafé* brand, is showing good promise. So it's a mixed story there. Overall, very positive about China and the potential-

Warren Ackerman, Barclays:

--and the potential for Starbucks, obviously the priority was in developed markets, but I've seen that you've already taken the capsules into China quite quickly. When you try and size the opportunity, how do you think about that?

Chris Johnson:

It's probably bigger than we think. Of course, we get forecasts from the markets. We launched in April already into Japan and Korea and Taiwan and Hong Kong. So we got a little bit of feedback from those markets, which of course are different from China -- or mainland China, I should say. But the main point, though, is that they all oversold their estimates. We're actually airfreighting capsules to Japan in order to meet customer demand.

We just launched in August in mainland China and so far the initial offtake interest is very high. So, yeah, Starbucks has a great image, a great network of stores, you know, very premium image that I think we can leverage well across the across the Zone.

Warren Ackerman, Barclays:

I guess infant formula in China is a question that always comes up. We all know the *Illuma* brand has done amazingly well over a very long period of time but there's a lot of competition in there, from the locals and the multinational players. Some of the other brands, *S26* have done less well in China. How do you think about trying to make sure that your share gains in China over a long period of time can continue to grow?

Chris Johnson:

Yeah, you know that's very important. I mean, *Illuma* continues to do well; in the first half continues to do very well, with double-digit growth. So that's good. It's true that some of the more affordable brands we struggle. We are in the process right now of relaunching *S26*. Of course, the dynamics in China are unique. I mean, we do have I think good presence and a good platform in e-commerce, which we'll continue to leverage. In baby stores, there's opportunities still to expand, whether it be with new brands or even increasing the coverage, which is going to be important, because there is no doubt. Birth rates are going down, that's a given. Local competition is increasing, consumer's acceptability of premium or super premium local infant formulas is a reality. But again, our presence, our science-based innovations, the quality of our products, and again, the advantage of being a company which not only imports infant formula into China but also we have local production, with two factories there. So that gives us a unique hedge and a unique balance.

In addition I should also add although it's only 10 percent of our nutrition business in AOA, is baby food. Baby food is a category which is showing very strong growth and particularly the *Gerber* brand in China is outstanding.

Question on:	**India**

Warren Ackerman, Barclays:

Okay. And a question on India. When I look at India for Nestlé, it's 1% or 2% of sales; for some of your peers it's 7%, 8% of sales. When I look at your market shares in India, you have some very high market shares in some categories. It just seems like your portfolio is relatively narrow. In terms of coming into running the Zone, you look at India, it's a huge population, how do you grow that? Is it organically? Is it through M&A? Which categories should you be prioritizing in that market?

Chris Johnson:

I think the growth can potentially come from both. But I think at this point, if I just look organically at the opportunities, I mean we have a big nutrition business. We have actually the biggest. We have a big food business, with *Maggi*, and it's good to see that *Maggi* is back it gained share, and again is available in more than 4 million outlets across India. Ambient dairy also is a fairly big category for us. Big opportunities, though, and where we're seeing big growth in India-- by the way, as I mentioned, India's is firing really well across all the areas, it’s just where we are present are relatively small. Coffee, for example. I mean, the per capita consumption of coffee is even lower than in China. So big opportunities in that area. We have opportunities still in Confectionary and even in pet food, we have got them in pet food. Now these are things that are going to take some time. This isn't something that's going to be immediate, but we do have actually a lot of, let's say, breadth of portfolio in India, and so for us I see a ton of opportunity.

End of Q&A session

Warren Ackerman, Barclays:

OK. I've noticed the clock has ticked down to zero. So I think we have to cut it there. We have got a half an hour breakout session next door, so thank you for your time, and we'll move next door for questions.

End of Transcript